

# **National Bank of the Republic of Macedonia**



## **Quarterly Report**

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## Macroeconomic Developments in the Republic of Macedonia in the first quarter of 2005

The first quarter of 2005 is a continuation of the positive quarterly dynamics of the economic activity in 2004. In line with the positive performances of certain sectors (industry, agriculture and trade) which constitute basic indicators of the economic activity, the first quarter of 2005 is expected to register positive real growth rate of GDP of 3%. The accelerated economic activity in the first quarter took place in environment of stable price expectations and respective support by the banking sector by further increase in the lending to the corporate sector.

The real sector of the economy is characterized with positive performances in the first three months of 2005. Compared to the same period of the preceding year, the actual volume of the industrial output rose by 4.8%, primarily due to the manufacturing industry and the low comparison base of the preceding year. An increase was also registered in the agriculture and the trade. The total value of the agricultural products went up by 40.8%, and the total turnover in the trade increased by 28.9%. In the first quarter of 2005, the external sector registered positive structural developments directed towards faster increase in the exports (by 30.6%) relative to the imports (of 12.8%). Such movements brought about lower trade deficit (by 13.2%) and higher export-import coverage of 68.8% (59.4% in the same period of 2004).

The favorable movements in the external sector resulted in higher foreign currency inflows. In line with the set monetary Denar exchange rate targeting strategy, the NBRM intervenes on the foreign exchange market by net purchase of foreign currency thus contributing towards maintaining the exchange rate stability and achieving the ultimate monetary goal – the price stability. As to the price movements, the trend of negative inflation rates, which started in September 2004, kept on in the first quarter of 2005. The average inflation rate (measured through the consumer price index) equaled -0.4% and almost entirely reflects the effect of the lower customs duties on agricultural and food products, in line with the admission of the Republic of Macedonia to the World Trade Organization (WTO). Considering that the negative inflation rate is due to the lower costs of food, the core inflation rate (which apart from the effect of the food excludes the effect of the energy) is positive, equaling 1.62%<sup>1</sup> in the first quarter of 2005.

In the January - March 2005 period, the monetary policy was conducted in environment of higher supply of foreign currency on the foreign exchange market and refrained fiscal policy (in accordance with the expected outflows, i.e. regular payment of the bond for the old foreign currency savings at the beginning of the second quarter). With respect to the monetary instruments, the decision of the NBRM (adopted in December 2004) on increasing the reserve requirement allocation rate (of Denar and foreign currency deposits) from 7.5% to 10% entered into force on January 11. At the beginning of March, the NBRM abolished the 7-day CB bills (introduced for the first time in February 2004) in line with the favorable developments on the foreign exchange market since December 2004.

In the first quarter of 2005, 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 6.2%). The upward trend of the deposit potential in the banking sector brought about further acceleration of the banks' credit activity. On quarterly basis, the total credits to the corporate sector went up by 5.6%, with the contribution of the Denar and the foreign currency credits being virtually identical (51.5% and 48.5%). The sector-by-sector analysis indicates that the credit to the households and corporations surged by 8.5% and 4.6%, respectively. Thus the gradual acceleration of the banking credits to the corporate sector is important, and at the same time it is a leading indicator for the relatively higher investment consumption. On annual basis (March 2005 / March 2004), the total banks' placements to the private sector went up by 25.3%. With respect to the banks' interest rate policy, the first quarter of 2005 registered no considerable changes. Thus the average weighted lending interest rate (on short-term Denar credits) equaled 11.92%, and the average weight deposit interest rate stood at 6.56%.

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<sup>1</sup> The calculation was made in the NBRM Research Department, by own methodology.



***Important economic events and amendments to the legal regulations  
in the first quarter of 2005***

- ❖ *On January 1, the customs duties of about 3,700 out of the total number of 12,000 tariff numbers decreased, with the average customs rate being reduced from 11.09% in 2004 to 10.05% in 2005. The decrease in the customs duties is contingent upon the admission of the Republic of Macedonia to the World Trade Organization (WTO). The largest decrease is expected in the prices of food and agricultural products and in the non-alcoholic beverages, and slighter decrease in the prices of the manufacturing supplies in the chemical industry.*
- ❖ *On January 1, the cigarettes excise increased by 3.3%, in accordance with the planned increase of 10% in the 2005 - 2007 period, within the gradual harmonization of the duties on cigarettes with the EU Directives.*
- ❖ *On January 11, the Decision of the NBRM on increasing the reserve requirement allocation rate (of Denar and foreign currency deposits) from 7.5% to 10% became effective (adopted in December 2004).*
- ❖ *On January 20, the NBRM adopted a Decision on abolishing the everyday auctions of CB bills with maturity of seven days, which continued to be held twice a week (as well as the CB bills with maturity of 28 days), and on March 9, 2005, the 7-day CB bills were abolished.*
- ❖ *On January 27, the NBRM Council adopted a Decision on establishing an Operational Monetary Policy Committee, as a standing working body responsible for operational conducting of the monetary policy, monitoring of the macroeconomic developments and achieving of the monetary policy objectives.*
- ❖ *On February 1, the new method of deferred payment of customs duty, VAT and excises, according to which the importers who timely and fully met the obligations for declaring a customs debt and paying the import taxes in the last two years, can pay the aforementioned duty within 30 days from the date of the customs clearance, provided that they submit a banking guarantee in the amount equal to the amount of the duty the payment of which is deferred.*
- ❖ *On February 21, the Government of the Republic of Macedonia adopted a decision on issuing the fourth issue of denationalization bonds in the amount of EUR 58 million ("Official Gazette of the Republic of Macedonia" no. 13/2005).*
- ❖ *Starting from March 16, the OPEC member-states increased the daily production of oil by 0.5 millions of barrels, so that the total production reached the level of 27.5 millions of barrels a day. This decision was made in order to prevent the further increase in the price of the crude oil on the international markets (after it had reached a price of over 55 US Dollars per barrel), under the influence of the increased global demand for oil.*
- ❖ *On March 31, the National Bank of the Republic of Macedonia Council adopted a decision on setting the manner of calculating reference interest rates of the banking sector. The new methodology enables more accurate calculation of the level of the reference interest rates of the banking sector on received deposits and extended credits, and presentation of the interest rates and interest rate spreads according to the currency of denomination and maturity structures.*
- ❖ *In the first quarter of 2005, the Regulatory Energy Committee adopted the following decisions on setting the highest prices of certain oil derivatives determined in line with the Methodology:*
  - *On January 10, Decision on reducing the refinery and the retail prices of oil derivatives by 1.8% and 0.92%, respectively, on average.*
  - *On January 24, Decision on increasing the refinery and the retail prices of oil derivatives by 12.7% and 6.8%, respectively, on average.*
  - *On February 7, Decision on increasing the refinery and the retail prices of the crude oil M-1 and M-2 by 0.12% and 0.4%, respectively, on average.*



- *On March 7, Decision on increasing the retail and the refinery prices of oil derivatives by 4.79% and 7.95%, respectively, on average.*
- *On March 21, Decision on increasing the retail and the refinery prices of oil derivatives by 3.9% and 6.9%, respectively, on average (the effect of such an increase on the general level of prices in the country will be evident in April, due to the specific procedure for statistical monitoring of the prices).*

# 1.

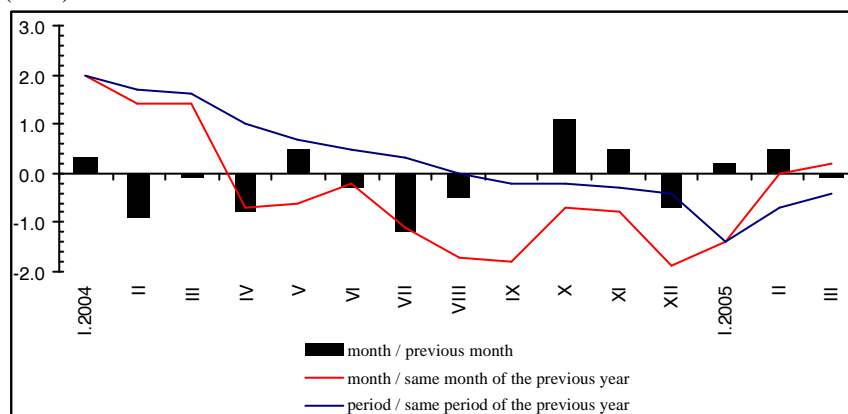
# Prices

*The average inflation rate equaled -0.4% in the first quarter of 2005...*

*...and the core inflation rate equaled 1.62%*

In the first quarter of 2005, the average inflation rate equaled -0.4%, reflecting lower consumer prices relative to the same period of 2004. Even though most of the categories within the consumer price index register deflation movements, the fall was primarily due to the costs of food, having the most significant share in the total index<sup>2</sup>, which in the first quarter of 2005 went down by 3.6%. Such movements correspond with the decrease in the customs duties on the agricultural and food products, in line with the admission of the Republic of Macedonia to the World Trade Organization (WTO). Consequently, the retail prices of the agricultural and the industrial food products fell significantly (by 5.1% and 3.2%, respectively), owing to the substantial drop in the prices of fresh vegetables, fruits and fish, as well as to the prices of grain products, processed milk and vegetable oils. These movements particularly induced the fall in the costs of goods (by 1%), which in line with their larger share in the total consumer price index, exceeded the effect of the increase in the service costs (by 2.1%). Taking into account the basic determinant of the movement of the consumer prices, the core inflation rate<sup>3</sup>, which excludes the effect of the food and the energy, was positive in the first quarter of 2005 and equaled 1.62% (only if the food is exempted from the total consumer price index, the inflation rate would equal 1.73%).

Figure 1  
Consumer prices  
(in %)



Source: State Statistical Office

The most important category that acted towards increasing the consumer prices is the rise in the cigarette excise in January 2005 (due to its compliance with the EU Directives), which was a reason for the increase in their prices and consequently, for the increase in the costs in the category of tobacco and beverages (by 5.8%). Also, the multiple increase in the retail prices of the oil derivatives, adopted by the Regulatory Energy Committee, led to higher costs of liquid fuels and transport services within the category of transport equipment and services, which surged by 3.9%.

## Oil prices on the international markets

The prices of crude oil on the international markets in 2005 registered steady growth. Thus, in the first quarter of 2005, the average price of crude oil on the international markets reached US Dollar 47.56 per barrel, which is by 49.2% more compared to the same period of 2004. Analyzing by month, the average oil

<sup>2</sup> Since January 2005, the SSO has been applying a new structure of weights and contents of the index list, which is revised every five years according to the methodology.

<sup>3</sup> The calculation was made in the NBRM Research Department, using its own methodology.



price equaled US Dollar 44.36 and US Dollar 45.22 per barrel in January and February, respectively, while in March it reached US Dollar 53.1 per barrel, which also registered the highest level ever of US Dollar 55.7 per barrel (on March 22, 2005). Main reasons for the high oil prices are the higher demand (caused by the higher needs of the developing countries, the unfavorable weather conditions in North America and parts of Europe, and also by factors of speculative nature) and the lower supply (closing down of some plants in the US refineries in Texas and California due to overhauls). Such developments made the OPEK member states increase the production of crude oil by 0.5 millions of barrels a day starting from March, with the total daily production reaching 27.5 millions of barrels (the highest level of daily production). The above contributed towards alleviating the pressures worldwide, and consequently, gradually decreased the price of the crude oil in April.

Average oil prices on the international markets  
("Brent", US Dollars per barrel)



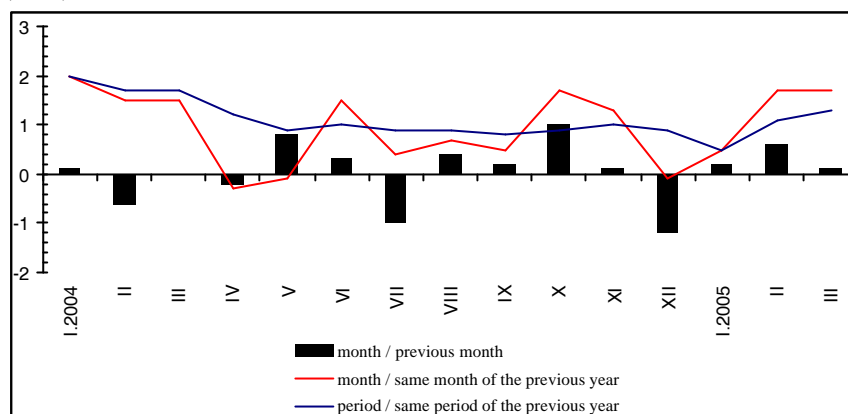
Source: The Energy Information Administration (EIA) - Statistical agency of the U.S. Department of Energy

With respect to the monthly dynamics, the first two months of 2005 registered monthly growth rates of the consumer prices, and in March they remained practically unchanged. The monthly increase in January (0.2%) corresponds with the change in the cigarette excise, and the increase in February (0.5%) is due to the common rise in the prices of agricultural products and the higher fuel prices due to seasonal factors. Identical monthly dynamics was also registered in the retail prices. Cumulatively, the retail prices register divergent movement relative to the consumer price index (average rise in the retail prices of 1.3% in the first quarter of 2005), in line with the effect of the higher service prices.

*Average increase in the retail prices of 1.3%*



Figure 2  
Retail prices  
(in %)



Source: SSO

#### Inflation movement in the Euro zone in the first three months of 2005

In the first quarter of 2005, the average inflation rate in the Euro-zone, measured through the Harmonized consumer price index (HICP), equals 2%, having a simultaneous growth in the costs of goods and services. Thus the average increase in the inflation in the Euro - zone is primarily due to the rise in the energy prices, caused by the higher oil prices on the international markets. The average increase in the prices of the fresh food products (non-processed food) is partially due to the unfavorable weather conditions in some EMU member-states. The annual inflation rate ranges from 1.9% in January to 2.1% in February and March, depending on the changes in the energy costs and the fresh (unprocessed) food costs, as the most varying categories within HICP. The core annual inflation rate in the Euro-zone, excluding the electricity and the unprocessed food ranges from 1.7% in January to 1.6% in February and March.

Inflation in the Euro-zone  
(on annual basis, in %)

	Share in %	XII.2004	I.2005	II.2005	III.2005	I-III.2005 / I-III.2004
<b>Harmonized consumer price index (HICP)</b>	<b>100</b>	<b>2.4</b>	<b>1.9</b>	<b>2.1</b>	<b>2.1</b>	<b>2</b>
<b>Goods (total)</b>	<b>59</b>	<b>2</b>	<b>1.6</b>	<b>1.8</b>	<b>1.9</b>	<b>1.8</b>
Energy	8.6	6.9	6.2	7.7	8.8	7.6
Unprocessed food	7.6	0	-0.6	0.7	1.3	0.5
Processed food	12	3.2	2.8	2.6	1.6	2.3
Industrial products other than energy	30.8	0.8	0.5	0.2	0.4	0.3
<b>Services (total)</b>	<b>41</b>	<b>2.7</b>	<b>2.4</b>	<b>2.4</b>	<b>2.5</b>	<b>2.4</b>

Source: Eurostat and European Central Bank

*The prices of producers of industrial products registered an upward trend in the first quarter of 2005 and were by 1.9% higher, on average*

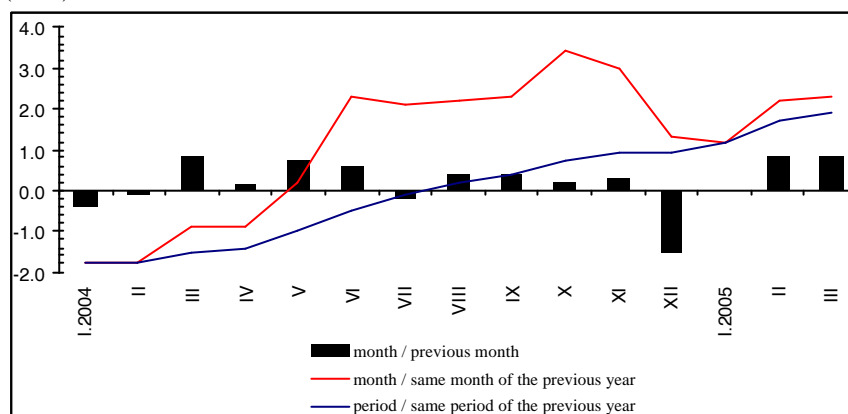
The prices of producers of industrial products are higher by 1.9%, on average, in the first quarter of 2005 compared to the same period of 2004. The increase is primarily due to the prices of the producers of oil derivatives, which are by 17% higher on average in the observed period. Such movement is due to the movement of the world prices of oil and oil derivatives, which along with the movement of the exchange rate of the Denar against the US Dollar are considered by the Regulatory Energy Committee, which regularly complies the domestic prices (once a fortnight). Thus, in the first quarter of this year, this Committee adopted a decision on increasing the refinery prices of oil derivatives

on several occasions, in line with the ongoing increase of the reference prices on the international markets. Analyzing by group of products, the increase in the prices of the producers of oil derivatives is entirely reflected in the prices of the producers of energy (growth of 5.7%), considering that the prices of the producers of energy ores and electricity remain unchanged. Also, the higher prices of the producers of electrical machinery and devices (10.1%) are also essential for the increase in the prices of the producers of industrial products, reflected in the prices of the producers of intermediary products (other than energy). The movement of the prices of the producers of food products and beverages (fall of 1.5%) was under the influence of the decrease in the customs duties, partially from the aspect of both less expensive raw materials, and the need of adjusting to the lower prices of the import competitive products.

Taking into account that the production prices in the mining and quarrying sector and the electricity, gas and water supply sector remain unchanged in the first quarter of 2005, the increment in the total index of the prices of the producers of industrial products is a result of the prices of the producers in the manufacturing industry, which is also a prevailing sector.

In the first quarter of 2005, the prices of the producers of industrial products registered a monthly increase in February and March (identical monthly growth rate in the both months of 0.8%, owing to the higher prices of the producers of oil derivatives), while in January they remained unchanged on a monthly basis.

Figure 3  
Prices of producers of industrial products  
(in %)



Source: State Statistical Office

With respect to the impact of the domestic consumption<sup>4</sup> on the inflation in the Republic of Macedonia, it should be underlined that the analysis of the correlation degree between the movement of the domestic consumption and the inflation by year indicates positive, but relatively weak correlation bond (correlation coefficient of 0.3 for the nominal rates of domestic consumption). The above is also a result of the weak correlation bond between the inflation and the individual consumption (coefficient of 0.2), also taking account of the fact that the individual consumption constitutes approximately two thirds of the domestic consumption. Such indicators make the importance of the domestic, i.e. the personal consumption relative as to the changes in the inflation in our economy and collide with the economic theory. The above could be explained

<sup>4</sup> Final consumption and gross investments. The SSO does not publish a complete data on the expenditure side of GDP on quarterly basis, i.e. data are missing on the individual (personal) consumption, the investments in construction buildings and the change in the inventory. Accordingly, the quarterly analysis made for this purpose are based on available data on other categories of indicative relevance and therefore, they should be taken with a great precaution.



with the existence of stable inflation expectations, in line with the stable Denar exchange rate.

According to the last available data from the SSO, *the public consumption* in the fourth quarter of 2004, relative to the same period of the preceding year fell by 3.7% in nominal terms. Considering that the last quarter of 2004 registered an annual increase in the wages (of 4%), the retail sale (of 9.6%), the revenues from the value-added tax (of 25.8%) and the credits to the households (of 62.1%) as relevant indicators of the *individual consumption*, it is estimated that its level will go up as well. This is also supported by the larger import of disposable goods (by 55.2%), having a lower import of capital goods (by 3.2%). Accordingly, *the final consumption* is estimated to be higher, considering that the personal consumption makes up about 80% of its structure.

In the fourth quarter of 2004, *the investments in machinery and equipment* dropped by 4.2%, on average. They account for only one third of the gross investments. The other available indicators for the gross investments, such as the import of capital goods, the domestic output of capital products and the completed construction works indicate lower investment activity in the last quarter of 2004, relative to the same period of 2003, except for the lending to the corporate sector, which register an increase.

The fourth quarter of 2004 registered net-import of goods and services, having a simultaneous annual growth in the export and the import of goods and services (of 23% and 25.9%, respectively). The higher import is partially due to the lower import prices (as a result of the reduction in the customs duties in line with the WTO and the EU Directives) and the higher domestic consumption on such basis.

Taking into account the divergent movement of the final consumption and the gross investments, it is hard to estimate the movement of the domestic consumption, since it is impossible to quantify the actual contribution of its components. Thus the average annual inflation rate equaled -1.1% in the fourth quarter of 2004.

Table 1  
Expenditure aggregates of GDP  
(nominal growth rates)

	IV Q.2004* / IV Q.2003	I-IV.Q. 2004* / I-IV.Q. 2003
Public consumption	-2.8	1.8
Investments in machinery and equipment	-4.2	4.9
Export of goods and services	23.0	12.3
Import of goods and services	25.8	16.2

\* Preliminary data of the State Statistical Office.

The personal consumption is assumed to increase in the first quarter of 2005<sup>5</sup>, compared to the same period of 2004, in line with the increment in the wages, the retail sale, the credits to the households and the import of disposable goods (only the revenues from the value added tax go down). Taking account of the movement of the current budget expenditures, the public consumption is expected to go up. The investment activity indicators register divergent movements in the observed period, due to which it is hard to estimate the movement of the gross investments (higher import of capital goods and credits to enterprises and lower completed construction works and production of capital products). Taking into account the aforementioned movements, the average deflation rate in the first quarter of 2005 is explained with the lower import prices of food products, having a net-import of goods. The higher value of the import of oil and oil derivatives and the increase in their prices did not have any

<sup>5</sup> According to the last available data on each indicator.



substantial inflation effect on the general price level in the economy, owing to their lower share in the price index relative to the share of the food products.<sup>6</sup>

## 2.

**Economic activity**

*Real GDP growth in the last quarter of 2004 of 2.2%*

The last quarter of 2004<sup>7</sup> registered larger economic activity compared to the same period of 2003. The upward trend of the GDP on annual basis in the first three quarters went on in the fourth quarter of 2004 when the GDP went up by 2.2% in real terms. It is a result of the larger activity in all sectors, except for the industry (fall of 6.3%). The increment is primarily due to the trade, transport and agriculture sectors (increase of 9.2%, 8.1% and 4.9%, respectively).

Table 2  
Production side of GDP  
(real annual rates of change, in %)

	2004				2004/2003	2003	2004
	I Q. 2004 / I Q. 2003	II Q. 2004 / II Q. 2003	III Q. 2004 / III Q. 2003	IV Q. 2004 / IV Q. 2003	(growth rates, in %)	(share, in %)	
	(stapki na rast, vo %)						
Gross Domestic Product	<b>2.4</b>	<b>3.6</b>	<b>3.4</b>	<b>2.2</b>	<b>2.9</b>		
Agriculture	3.5	4.6	4.6	4.9	4.4	9.5	9.6
Industry	-0.6	-0.7	-0.1	-6.3	-2.1	24.5	23.3
Construction	4.0	11.4	7.9	10.0	8.7	5.7	6.0
Wholesales and retail sales, mending of motor vehicles, motorbikes and personal consumption items	5.1	6.7	8.2	9.2	7.4	11.6	12.1
Hotels and restaurants	5.4	8.7	1.8	5.9	5.3	2.0	2.0
Transport, storage and communications	2.2	5.0	5.3	8.1	5.2	8.0	8.1
Financial intermediation; Real estate and business activities	2.2	3.0	2.6	2.0	2.5	12.4	12.4
Public administration and defense, obligatory social security, Education, Health and social work and Exteritorial organizations and bodies	2.4	2.1	1.1	1.6	1.8	14.6	14.4

Source: State Statistical Office. Preliminary data.

According to the available data on the activities in the industry, trade, agriculture and the construction industry, the first quarter of 2005 registers general acceleration of the economic activity compared to the same period of 2004. The activities in all aforementioned sectors go up, except for the contraction in the construction industry. According to the projection for 2005, the GDP is expected to increase by 3% in real terms in the first quarter.<sup>8</sup>

*Higher industrial output in the first quarter of 2005, by 4.8%, on average*

In the first quarter of 2005, the actual volume of the industrial output went up by 4.8%, on average. Such development is primarily due to the substantial increase in the production of basic metals, metal products in metal-processing stage and chemicals and products thereof. These activities belong to the group of intermediary products (other than the energy), which registered a monthly growth of 14%. Such movements are partially due to the low comparison base of the previous years, when one of the larger metallurgical plants was out of work. The higher output within the aforementioned industrial activities induced higher output and distribution of electricity, which resulted in

<sup>6</sup> Once the NBRM Council adopted the Quarterly Report I/2005 (on its session held on June 30, 2005), the SSO disclosed preliminary data on GDP for the first quarter of 2005, according to which the public consumption went up by 4.3%, the investments in fixed assets by 5.7%, the export of goods and services by 23.6% and the import of goods and services by 4.6% in nominal terms, compared to the first quarter of 2004.

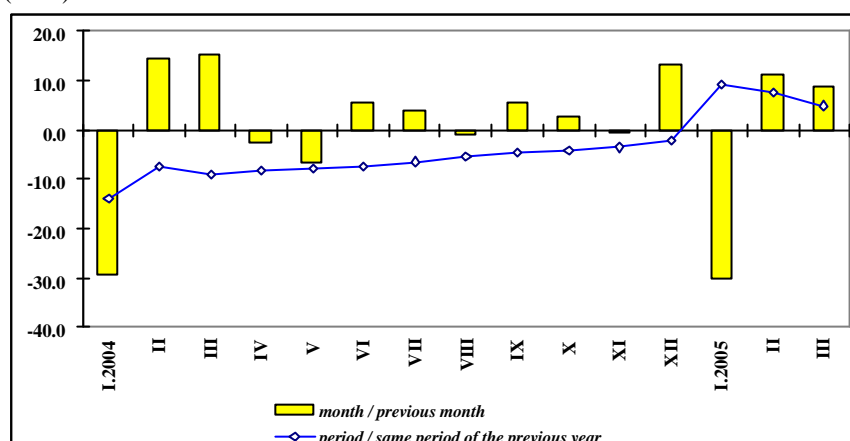
<sup>7</sup> Preliminary data of the State Statistical Office.

<sup>8</sup> According to the preliminary data of the SSO for the first quarter of 2005 (disclosed after the adoption of the Quarterly Report I/2005 by the NBRM Council on its session held on June 30, 2005), the GDP registered a growth rate of 2.7% relative to the same quarter of 2004, given the increase in the industry (4.7%), trade (6.4%), agriculture (2.5%) and the fall in the construction industry (9.6%).

an increment in the group of energy (1.9%), taking account of the lower output of oil derivatives and energy ores. The higher production of wearing apparel also contributes to the increase in the total industrial output, which is reflected in the group of non-durable goods for joint consumption (increment of 0.8%). Consequently, analyzing by sector, the manufacturing industry is mostly accountable for the higher industrial output.

In the first quarter of 2005, the industrial output registered the usual monthly dynamics, i.e. significant fall in January (lower number of working days relative to December) and increase in February and March, primarily due to the seasonal activities related to the purchase and processing of tobacco.

Figure 4  
Dynamics of the industrial output  
(in %)



Source: State Statistical Office

The accelerated output of basic metals is partially due to the steady growth in the prices of the metals on the international markets (in line with the higher demand worldwide), particularly of the nickel and the steel processed goods, the share of which in the total exports is significant.

Table 3  
Prices of metals on the international markets

	Jan.-Dec. 2004	Jan.05	Feb.05	Mar.05	Jan.-Mar. 2005
<i>US Dollars per ounce</i>					
Gold	409.2	424.0	423.4	433.9	427.1
<i>US Dollars per ounce</i>					
Silver	6.69	6.66	7.07	7.27	7.00
<i>US Dollar per dry metric tone unit</i>					
Iron ore	0.38	0.65	0.65	0.65	0.65
<i>US Dollar per metric tone</i>					
Nickel	13823.0	14505.0	15349.5	16190.7	15348.4
<i>US Dollar per metric tone unit</i>					
Hot rolling sheet steels	607.1	650.0	687.5	712.5	683.3
Cold rolling sheet steels	502.5	550.0	587.5	612.5	583.3

Source: World Bank

The accelerated activity in the industry in the first quarter was supported by larger import of mineral fuels, and particularly by the import of industrial and natural gas and electricity.

According to the survey on business tendencies in the manufacturing industry of March 2005<sup>9</sup>, the average exploitation of the facilities of the enterprises improved relative to the preceding month (60.7% of the regular exploitation, and 59.7% in February), where the enterprises subject to the survey pointed at the insufficient domestic demand as the largest hindering factor of the

<sup>9</sup> Source: State Statistical Office



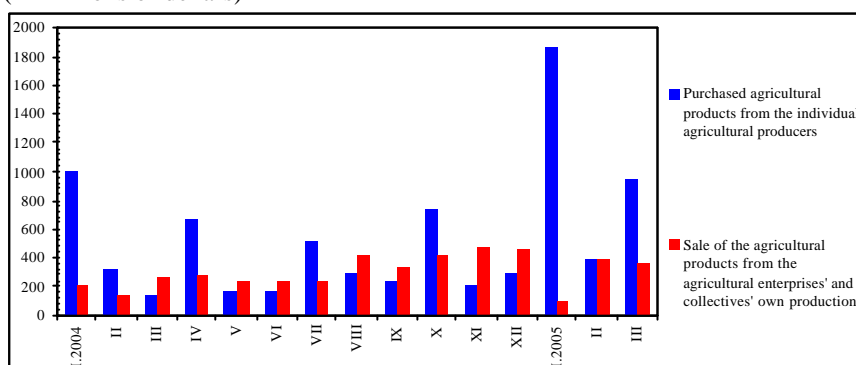
output. Also, optimistic opinions were given of the expected output and the expected number of employees in the next period.

*In the first three months of 2005, the total value of sold agricultural products was by 40.8% higher...*

*...having a simultaneous increase in the value of the purchased agricultural products of the individual agricultural producers by 2.2 times*

In the first three months of 2005, the activity in the agriculture accelerated. The total value of sold agricultural products of the own production of the agricultural enterprises and collective farms stood at Denar 847 million, which is by 40.8% higher relative to the same period of the preceding year. It was due to the higher sale of grain plants, alcoholic drinks, livestock and poultry products. In the observed period, 46.2% of the total sale was made in February. The total value of the purchased agricultural products of the individual agricultural producers in the January - March 2005 period stands at Denar 3.195 million, which is a considerable increase (of 2,2 times) compared to the same period of 2004. The increase is due to the higher purchase of grain plants, industrial plants (seasonal purchase of the tobacco), livestock and feed crops and milk and dairy products. Analyzing by month, 58.3% of the total purchase in the observed period was made in January, 89% of which are purchase of industrial plants.

Figure 5  
Sale and purchase of agricultural products  
(in millions of denars)

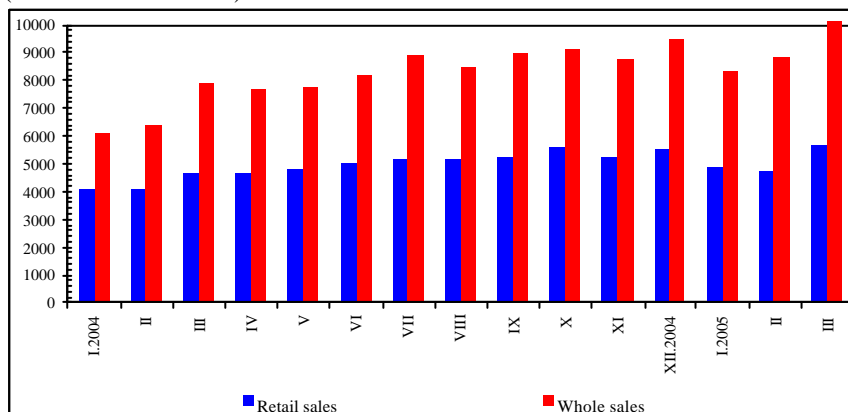


Source: State Statistical Office

*Accelerated trade activity in the first two months of 2005*

The total turnover in the trade in the January - March 2005 period amounts to Denar 42,812 million, 64.7% of which are wholesale, and the remaining percentage is retail sale. Compared to the same period of the previous year, the total turnover in the trade is by 28.9% higher, given the increase in both the wholesale and the retail sale (of 35.9% and 17.8%, respectively).

Figure 6  
Trade turnover  
(in millions of denars)

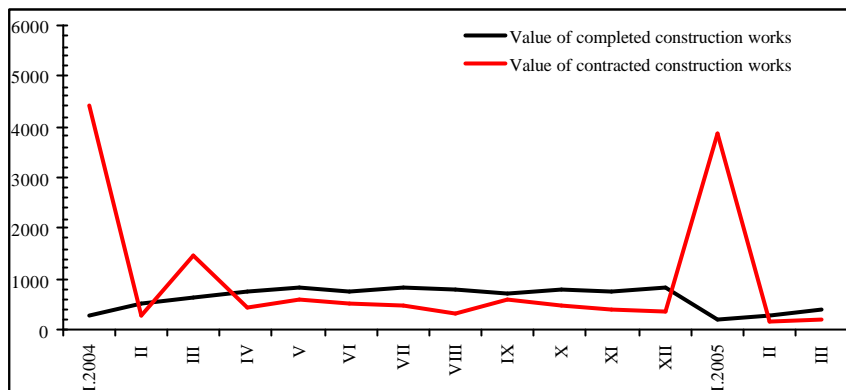


Source: State Statistical Office

### Lower activity in the construction industry

Unlike the aforementioned sectors, in the first quarter of 2005, the activities in the construction industry reduced on a cumulative basis. The value of the completed construction works dropped by 35.2% and reduced to Denar 898 million. Thus 43.8% of the total value of the construction works were completed in March.

Figure 7  
Contracted and completed construction works  
(in millions of denars)



Source: State Statistical Office

The total value of the contracted construction works in the first three months of 2005 reduced by 31.8% and stood at Denar 4,219 million. Of them, 91.8% were contracted in January, which corresponds with the usual monthly dynamics of the contracted construction works.

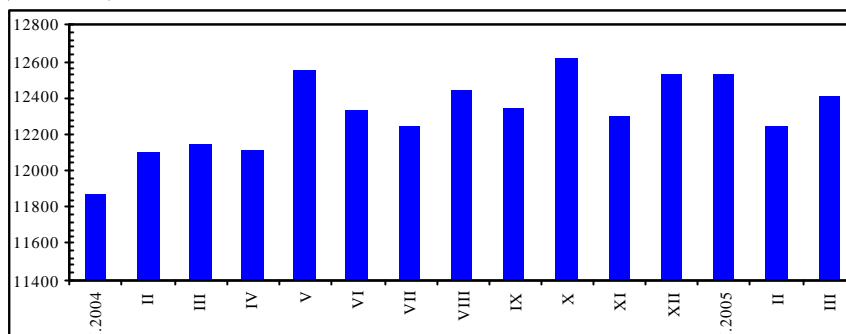
## 3.

### Wages and employment

#### Increase in the nominal average net-wage per employee in the first three months of 2005...

In the first three months of 2005, the nominal average net-wage per employee in the Republic of Macedonia went up by 3%, compared to the same period of the previous year and amounted to Denar 12,393, reflecting the increase in the wages in all three sectors. Thus in the agriculture sector, the nominal net-wage was by 14.2% higher, while in the industry and the services, the increase was more moderate (4.6% and 3.7%, respectively). The highest average growth in the nominal wage was registered in the fishing industry (of 25.3%) and in the public administration and defense, compulsory social care (of 9.5%), and the highest nominal wage was paid in the financial intermediation (Denar 25,678). In the observed period, the nominal wages were lower only in the manufacturing industry and in the activities associated with real estate, renting and business activities (of 0.6% and 1.3%, respectively). The average real increase in the average net-wage in the first quarter of the year equals 3.4%, as a result of the negative change in the consumer price index (of 0.4%).

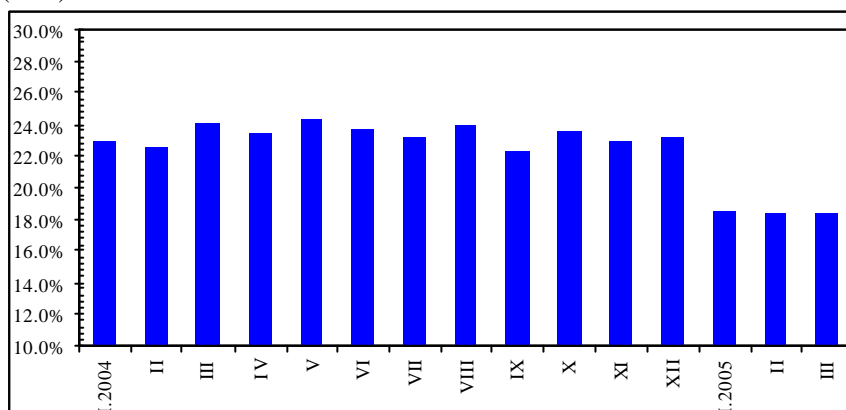
Figure 8  
Average net-wage per employee  
(in denars)



Source: State Statistical Office

In the first three months of 2005, 18.4% of the total number of employees did not receive wage for the current month, on average, which, compared to the same period of 2004 and the average of 2004, is a decrease<sup>10</sup> of 4.8 and 4.9 percentage points, respectively.

Figure 9  
Share of employees who did not receive wage compared to the total number of employees  
(in %)



Source: State Statistical Office

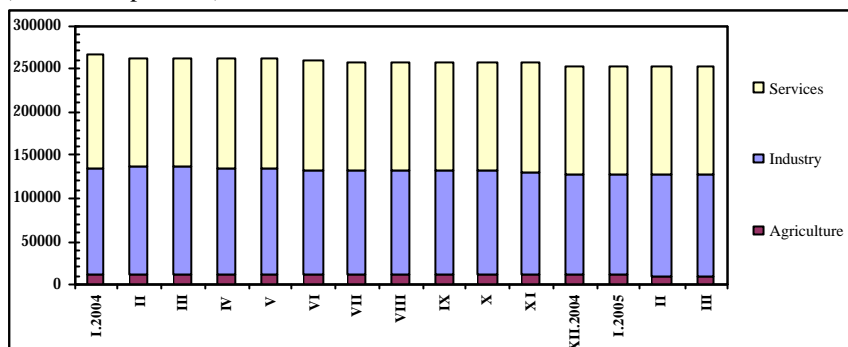
*...and simultaneous  
decrease in the employment  
of 4.2%*

The employment went down by 4.2% in the first quarter of the year (compared to the same period of 2004), thus the average number of employees being 252,349. In the January - March 2005 period, the number of employees reduced in all three sectors. The average level of employment in the industry (the structural share of which in the total employment equals 46.4%) was by 6% lower. Thus the total number of employees in the manufacturing industry (the structural share of which in the total employment equals 32.4%) was by 5.2% lower, while in the mining and quarrying sector, the fall in the employment was the fastest (by 12.2%).

<sup>10</sup> The decrease is primarily due to the change (decrease) in the sample, since the employees in already closed companies were exempted from the records, in order to improve the quality and the accurateness of the obtained data.



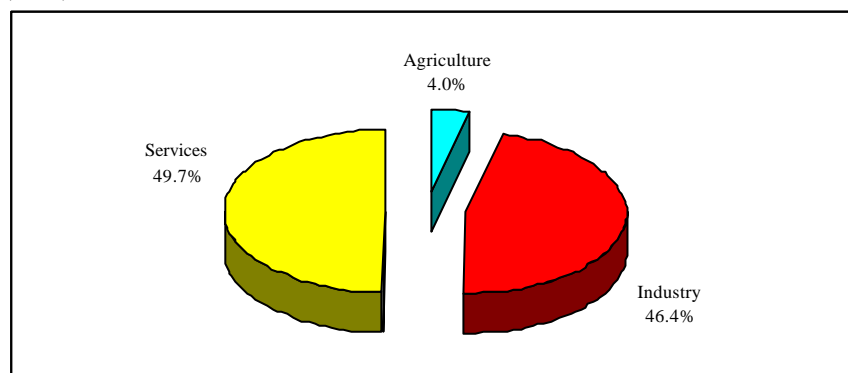
Figure 10  
Employment by sector  
(number of persons)



Source: State Statistical Office

As for the service activities (structural share of 49.7%), all sectors registered lower number of employees, except for the education sector, where the number of employees went up by 1.2%. The faster fall in the employment was registered in the transport, storage and communications sector (of 9.4%). As for the agriculture (structural share of 4%), the average number of employees moderately decreased in the agriculture, hunting and forestry sector (of 8.4%), with the faster decline in the employment being registered in the fishing sector (of 29.1%).

Figure 11  
Share of sectors in the total number of employees (I-III.2005)  
(in %)

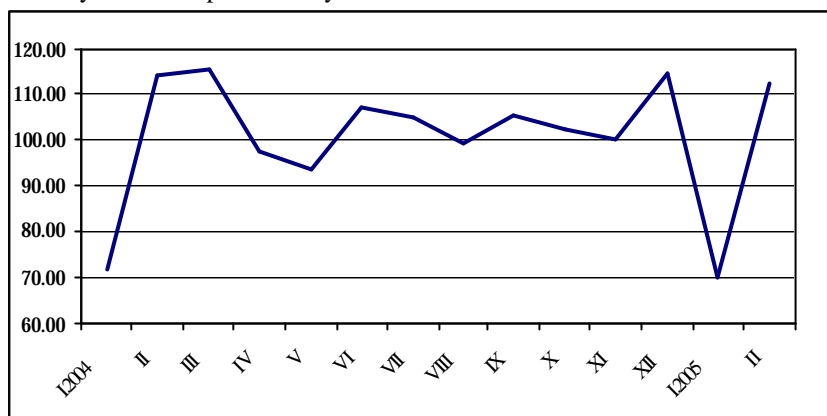


Source: State Statistical Office

The movement of the monthly index in the labor productivity in the industry<sup>11</sup> in the first quarter of 2005, on average, indicates improvement in the labor productivity in this sector of 11.8% compared to the same period of 2004. In the observed period, the actual volume of industrial output rose by 4.9%, having a decrease in the average level of employment in the industry of 6.2%. The fall in the productivity in January is common and associated with the decrease in the industrial output in the first month of the year due to seasonal factors.

<sup>11</sup> The index was constructed in the NBRM, as a ratio of the industrial output index and the index derived from the data on the monthly movement of the employment in the industry published by the State Statistical Office.

Figure 12  
Monthly industrial productivity index



#### 4.

#### Monetary policy

In the first quarter of 2005, the monetary policy was conducted in terms of favorable movements on the foreign exchange market, manifested through higher supply of foreign assets and consequently, net purchase of foreign currency by the NBRM. Such movements were primarily caused by the favorable movements in the trade balance of the country (relatively higher increase in the export relative to the import of goods, or by 30.6% and 12.8%, respectively, in comparison with the first quarter of 2004), and partially it is a reflection of the change in the monetary instrument, reserve requirement. Namely, on January 11, 2004, the NBRM Decision on increasing the reserve requirement rate (on Denar and foreign currency deposits) from 7.5% to 10% became effective. The favorable movements in the external sector, in terms of maintenance of adequate level of liquidity in the banking sector, enabled maintenance of stability of nominal Denar exchange rate relative to the Euro, which contributed to maintenance in the price stability in the first quarter of the year.

In the first three months of the year, the autonomous factors and the monetary policy instruments led to a quarterly net increase in the banking system liquidity of Denar 264 million. Thus, at the end of March 2005, the total liquidity in the banking sector reached Denar 3,847 million. The total amount of created liquidity in the banking system totaled Denar 2,270 million, while the contribution of the foreign exchange transactions and the currency in circulation (autonomous factors that acted in that direction) in the total created liquidity equals 57.9% and 42.1%. The largest part of the created liquidity was sterilized through the CB bills auctions, the share of which in the total withdrawn liquidity (of Denar 2,006 million) equaled 73.9%, as well as the higher Denar Government deposits with the NBRM (the contribution of which in the withdrawn liquidity being equal to 21%).



Table 4  
Liquidity creation and withdrawal  
(in millions of Denars)

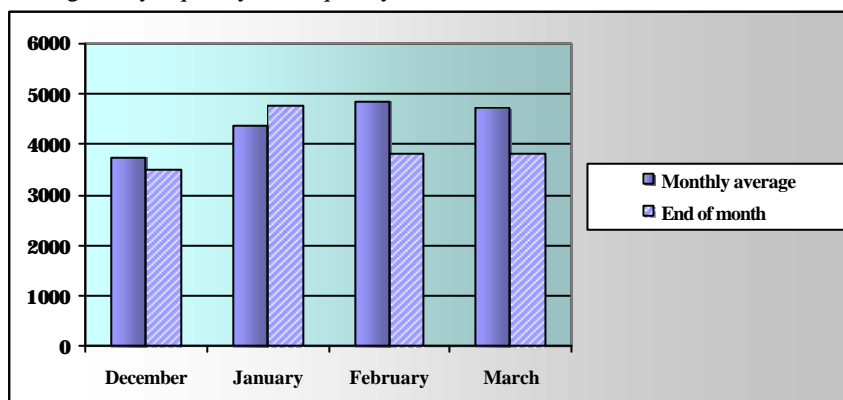
	31.12.2004	Monthly changes			Total	31.03.2005
		January	February	March		
<b>Liquidity of the banks</b>	<b>3,583</b>	1,223	-962	3	<b>264</b>	<b>3,847</b>
<i>Liquidity creation</i>					<b>2,270</b>	
1. Net foreign assets	41,824	85	834	396	1,315	43,139
2. Currency in circulation	14,162	798	2	155	955	13,207
<i>Liquidity withdrawal</i>					<b>-2,006</b>	
1. CB Bills	4,552	1,143	-2,328	-297	-1,482	6,034
2. Other	18	-85	33	-51	-103	121
3. Net domestic assets	-19,509	-718	497	-200	-421	-19,930

\*The liquidity of the bank includes the banks' account with the NBRM and the cash in vault of the banks

*Higher average daily liquidity of the banks in the first quarter of 2005 caused by the higher reserve requirement rate*

In the first quarter of 2005, the average daily liquidity of the banking system equals Denar 4,640 million, which is an increase of Denar 957.4 million, or 26% compared to the previous quarter. Such movement is primarily due to the enforcement of the obligation for allocating 10% of the reserve requirement since January 2005 (compared to 7.5% as it equaled previously). This requirement initially caused higher level of liquidity in the banking sector, which the bank provided through net sale of foreign assets on the foreign exchange market and through withdrawal of part of the CB bills. In January, the average daily level of liquidity amounts to Denar 4,371.5 million. The highest level of average liquidity in the first quarter was registered in February (4.854.8 million), as a result of the decrease in the funds of the Government Denar deposits, the net purchase of foreign currency by the NBRM and on average, the reduced demand for cash. The acting of the foreign exchange transactions towards net purchase of foreign exchange on the foreign exchange market was the main factor of creating liquidity in March 2005. The created liquidity through this factor was sterilized through sale of CB bills, which led to a monthly decrease in the average liquidity (Denar 4,693.8 million).<sup>12</sup>

Figure 13  
Average daily liquidity and liquidity of the banks at the end of the month

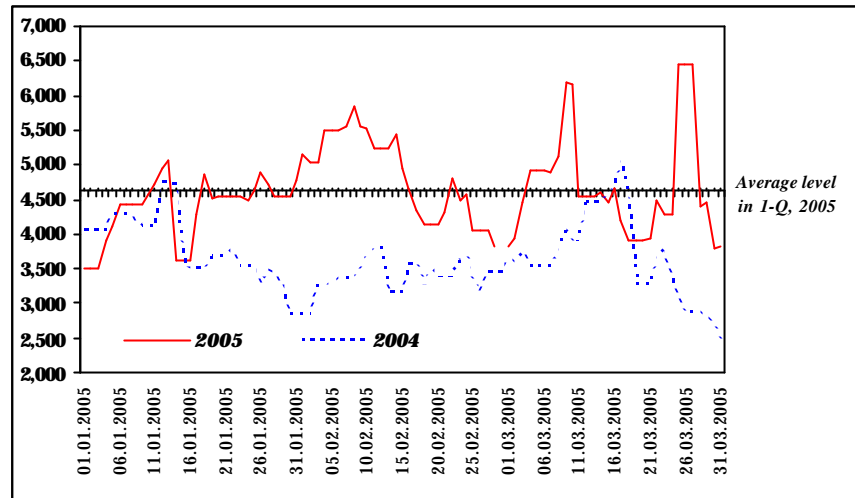


Besides the increase in the reserve requirement allocation, the banks registered excess funds over the reserve requirement (9.5%, on average, over the allocation requirement)<sup>13</sup> in the first quarter of 2005.

<sup>12</sup> The registered level of the average daily liquidity registered in March 2005 includes the effect of the extended Lombard credit to one bank in the second half of the month (short-term loan used for overcoming the liquidity needs), with the daily liquidity in the March 25, 2005 - March 27, 2005 period being equal to Denar 6,438 million. If this factor is excluded, the average liquidity level in March would be lower by 3.9%.

<sup>13</sup> The period for maintaining (fulfilling) the banks' reserve requirement covers the period from the 11<sup>th</sup> in the current month to the 10<sup>th</sup> in the following month

Figure 14  
Daily dynamics of the liquidity of the banks  
(in millions of Denars)



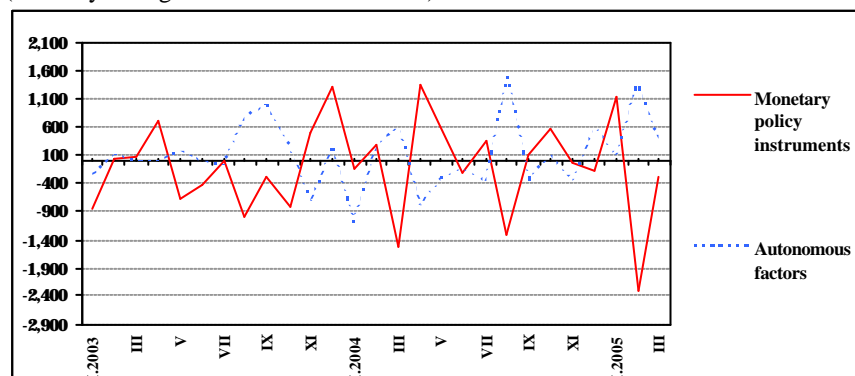
*Liquidity creation through  
NBRM interventions on the  
foreign exchange market*

The favorable movements in the balance of payments, in combination with the need of higher Denar liquidity with certain banks (for the purpose of meeting higher reserve requirement rate), in the first quarter of 2005 led to continuing higher supply than demand for foreign exchange on the foreign exchange market. Consequently, the NBRM realized net purchase of foreign exchange on the foreign exchange market, which is directed towards liquidity creation. It contributed to maintenance of the stability of the nominal exchange rate of the Denar relative to the Euro, as an intermediary objective of the monetary policy.

*In the first quarter, the  
Government Denar deposits with  
the NBRM were directed towards  
liquidity withdrawal...*

At the end of March 2005, compared to the end of the previous quarter, the Government Denar deposits with the NBRM went up by 7.8%. The registered accumulation of funds by the Government at the end of the month, partially corresponds with the higher amount of outflows envisaged for the beginning of the following quarter (payment of the regular rate of the Government bonds for the old foreign exchange savings). During the quarter, additional funds were mobilized through auctions of short-term Government securities (the cumulative realization in the first quarter totals Denar 2,411 million).

Figure 15  
Monetary regulation instruments and autonomous factors of liquidity creation and withdrawal\*  
(monthly changes in millions of Denars)



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



*... as well as the CB bills  
auctions*

In the first quarter of 2005, the CB bills auctions acted towards liquidity withdrawal, in the total amount of Denar 1,482 million. Analyzed by the dynamics, the deviation from this trend was registered only in January, when the CB bills acted towards liquidity creation (a decrease in the level by Denar 1,143 million). Namely, in this month, the banks settled the partially increased liquidity need (in accordance with the higher reserve requirement rate) through withdrawal of part of the CB bills. From the monetary policy aspect, after stabilizing the movement of the autonomous factors, primarily the public consumption<sup>14</sup>, on January 20, 2005 the NBRM cancelled the every day CB bills auctions with maturity of up to seven days, continuing with the auctions twice a week instead (as well as the CB bills with 28-day maturity). In February and March, the CB bills acted in accordance with their basic function, i.e. liquidity sterilization. Namely, the level of the CB bills increased by Denar 2,328 million in February<sup>15</sup>, and in March it increased by Denar 297 million. In accordance with the favorable movements on the foreign exchange market since December 2004, at the beginning of March the NBRM cancelled the CB bills with 7-day maturity (introduced in February 2004 for the first time). The average weighted interest rate in the first quarter equaled 8.7%.

*Intensified activity on the non-  
institutionalized Money  
Market*

In the first quarter of 2005, the downward trend of the turnover realized through the institutionalized Money Market (that commenced in August 2004) maintained, which is mainly due to the higher transaction costs. Thus during the analyzed period the average monthly turnover on this market totaled Denar 309.1 million, which is a decrease of 22.6% on a quarterly basis. Simultaneously, the immediate bilateral trading of the banks intensified, with the monthly turnover registered in the first quarter being equal to Denar 1,625.6 million, on average (quarterly increase of 9.1%). The average weighted interest rate on the Money Market (on both institutionalized and non-institutionalized) in the first quarter equaled 8.1%, on average (increase of 0.5 percentage points relative to the preceding quarter).

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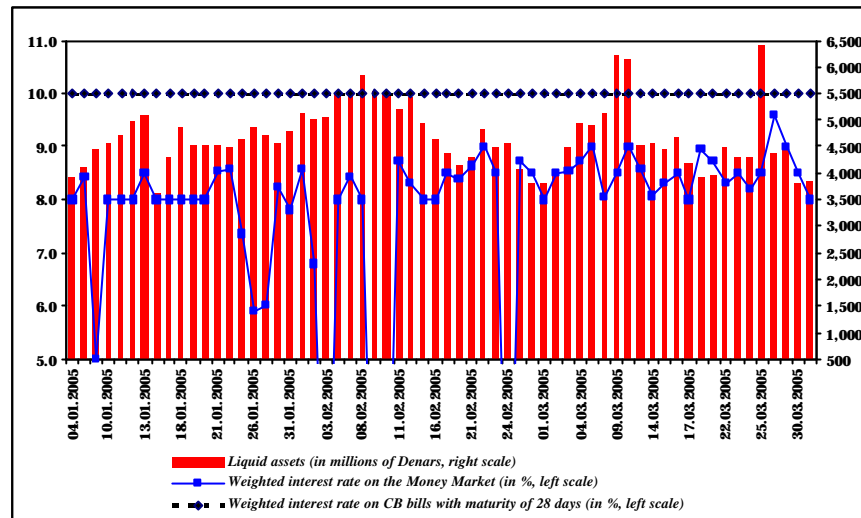
<sup>14</sup> The every day trading with CB bills with 7-day maturity was introduced at the end of December 2004, due to withdrawal of the possibly high liquidity in the banking sector created from the higher spending of the Government at the end of the budget year.

<sup>15</sup> The higher amount of CB bills in February mainly reflects the temporary investment of funds of one bank on the basis of deposits of one company, until the payment of dividend.



Figure 16

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



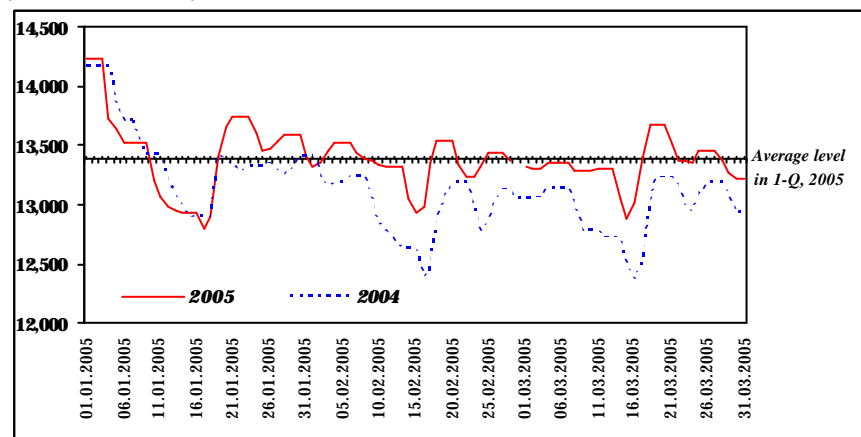
\*In some days of the month, the Money Market registers no transactions and interest rate.

*Stabilized demand for currency in circulation in the first quarter of 2005*

In the first quarter of 2005, the currency in circulation went down by 6.7%, reflecting the common seasonal stabilization of the demand for currency in circulation (after the high seasonal increment at the end of the year). During the quarter, the demand for currency in circulation was in continuous decrease. From the aspect of the average daily amount, in accordance with the present seasonal effect, the highest level of the currency in circulation is registered in January (Denar 13,464.8 million), while in February and March, the average level of the currency in circulation was almost identical (Denar 13,356.1 million and Denar 13,338.7 million, respectively). The daily dynamics of the currency in circulation was under the influence of the common factors.

Figure 17

Daily dynamics of the currency in circulation  
(in millions of Denars)

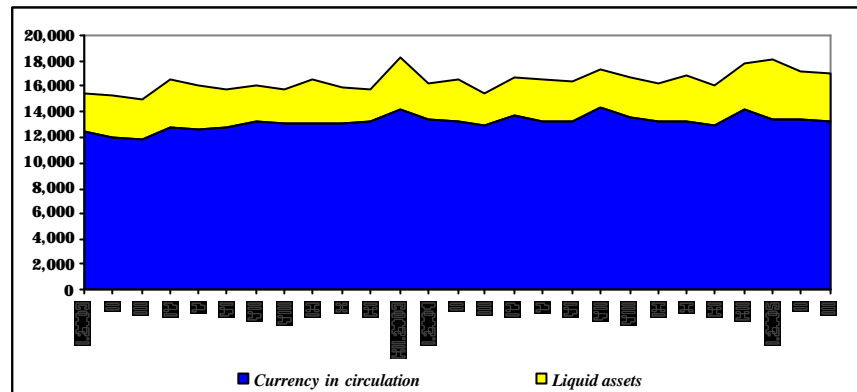


*Decrease in the reserve money compared to the previous quarter*

At the end of March 2005, compared to the previous year, the reserve money went down by 3.9%. In terms of higher liquidity in the banking system, the negative dynamics of the reserve money is completely caused by the lower demand for cash. On annual basis, the reserve money augmented by 10.5%.



Figure 18  
Reserve money  
(in millions of Denars, end of period)



\*The banks' liquid funds include the banks' account with the NBRM and the cash in the vault of the banks.

## 5.

## Banking sector

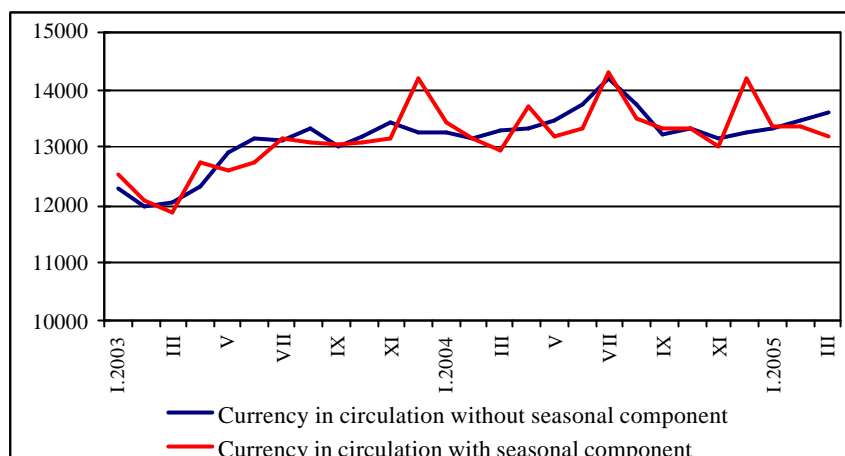
### 5.1. Deposits with banks

In the first quarter of 2005, the dynamics of the monetary aggregates was influenced by the common seasonal normalizing of the demand for currency in circulation, as well as the increase in the total deposit potential of the banking system.

The monetary aggregate M1 is lower by 2.3% on quarterly basis, which corresponds to the negative dynamics of the currency in circulation. Namely, the first three months of 2005 were characteristic with lower demand for cash (after the seasonally higher level registered at the end of the previous year), because of which the level of the currency in circulation decreased by 6.7% at the end of March compared to the end of the previous year. On the other hand, the accumulation of funds on the enterprises' transactions account was the reason for the quarterly increase in the demand deposits of 2.3%. From the aspect of the annual dynamics, in terms of simultaneous increase in the currency in circulation and the demand deposits (of 2% and 9.3%, respectively), the annual growth rate of the monetary aggregate M1 equals 5.6%.

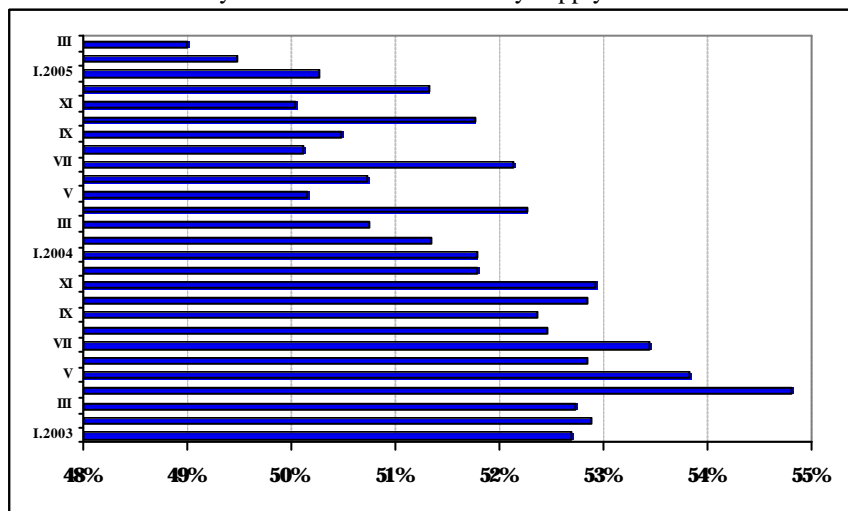
*Quarterly decrease in the  
money supply M1*

Figure 19  
Currency in circulation with and without seasonal component  
(in millions of Denars)



Favorable movements in the structure of the money supply M1 are registered, given the higher level of the transaction deposits and lower demand for cash. Thus the average share of the currency in circulation in the money supply M1 equals 49.6% in the first quarter of 2005, which is a decline of 1.4 percentage points in comparison with the previous quarter. Compared to the same quarter of the previous year, the share of the currency in circulation is lower by 1.7 percentage points. In accordance with such movements, in March 2005, the monetary multiplier of the money supply M1 equals 1.58 compared to 1.56 registered at the end of the previous month.

Figure 20  
Share of the currency in circulation in the money supply M1



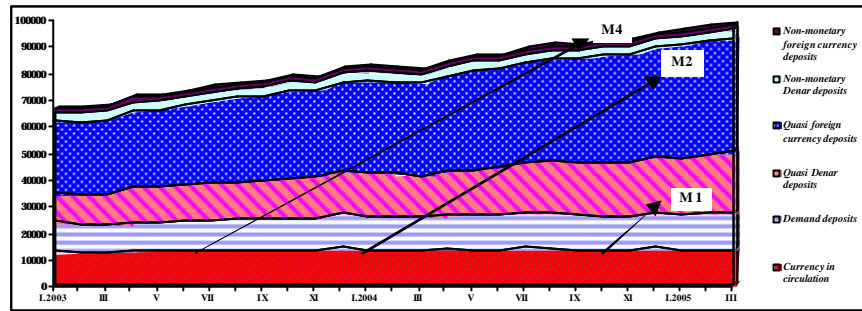
*Higher level of the broad monetary aggregates on quarterly basis*

Despite the reduced monetary supply M1, the broad monetary aggregates M2 and M4 registered a quarterly increase of 4.4% and 3.7%, respectively. The positive dynamics of the broad monetary aggregates is caused by the increase in the banks' total deposit potential. Namely, in terms of a continuous increase during the first quarter, the banks' total deposits<sup>16</sup> reached Denar 70,475 million at the end of March 2005, which is a quarterly increase of 6.2%.

<sup>16</sup> The total deposits of the non-Government sector encompass short-term and long-term (Denar and foreign currency) deposits of the economic agents (without the demand deposits).



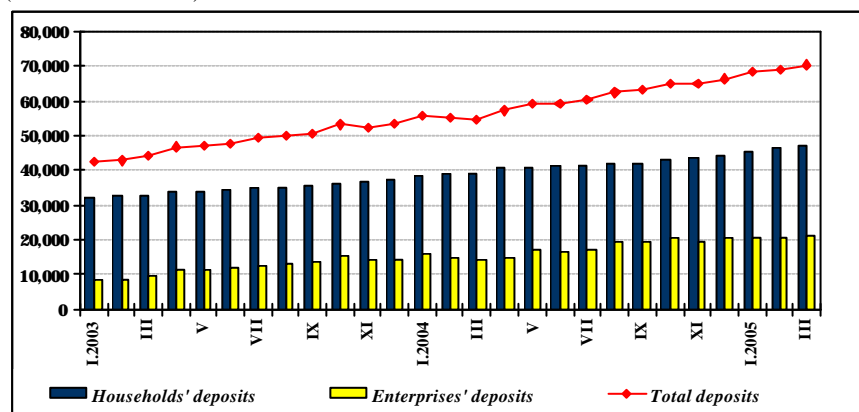
Figure 21  
Monetary aggregates' components  
(in millions of Denars)



*Increase in the total deposit potential of the banks on a quarterly basis*

From the aspect of the maturity, the widening of the banks' deposit base on a quarterly basis is completely due to the higher level of short-term deposits (by 7.4%), given the simultaneous increase in their Denar and foreign exchange component (of 13.9% and 4.1%, respectively). On the other hand, quarterly decrease was registered in the long-term deposits of the non-Government sector (of 7.4% with the Denar and 9.9% with the foreign currency deposits). The improved propensity for saving in domestic currency reflected in the quarterly increase in the Denar deposits of 10.9%, with their contribution in the increase in the total deposits being equal to 63.2%. The foreign currency deposits augmented with more moderate dynamics and they were higher by 3.6% at the end of March 2005, in comparison with the previous year. In accordance with such movements, quarterly decrease in the share of the foreign currency deposits in the total deposits of 1.5 percentage points was recorded. On annual basis, the total deposits of the non-Government sector went up by 28.4%, due to the increase in the short-term deposits (32.1%).

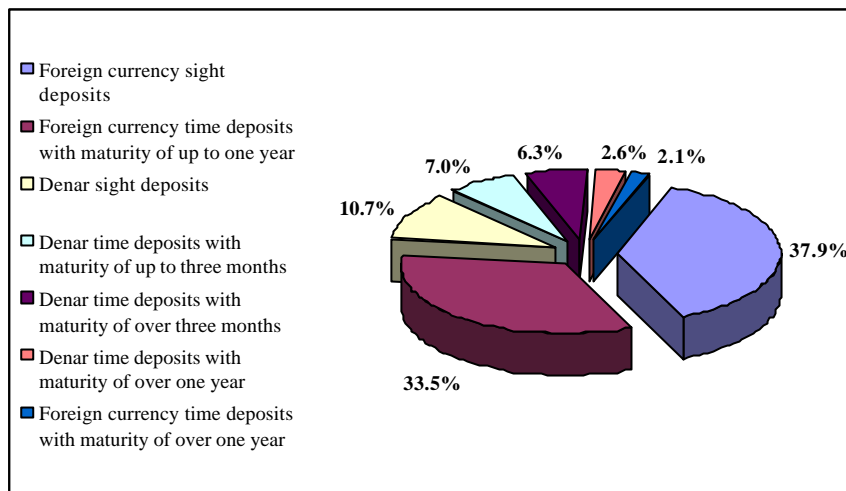
Figure 22  
Deposit timeframes  
(in millions of Denars)



*Quarterly increase in the households' deposits of 5.9% ...*

The total deposits of the sector "households" rose by 5.9% (on a quarterly basis). The increase in the total households' deposits is primarily caused by the higher level of Denar time deposits with maturity over six months and the short-term time foreign currency deposits with maturity of up to one year (the total households' time deposits with short-term maturity increased by 7.9% on a quarterly basis). On the other hand, quarterly drop of 23.6% was registered in the long-term deposits, which led to a decrease in their share in the total deposits of the sector "households" (4.6% in March 2005, compared to 6.4% in December 2004). With respect to the currency structure, the households' Denar and foreign currency deposits augmented by 5.4% and 6.1%, respectively. The annual growth rate of the households' deposits equals 20.2%.

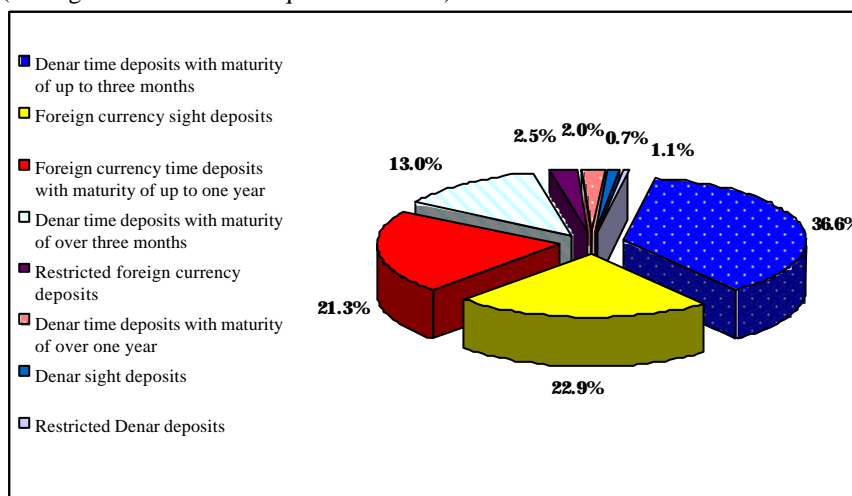
Figure 23  
Structure of households' deposits  
(average share in the first quarter of 2005)



*...given a simultaneous increase in the enterprises' deposits*

The first quarter of 2005 is characteristic with the evident preferences of the corporate sector for short-term time depositing in both domestic and foreign currency (quarterly increase in the short-term deposits of 6%). Consequently, the total enterprises' deposits registered a quarterly increase of 5.5%. With respect to the currency, intensive quarterly dynamics was registered in the enterprises' Denar deposits (increase of 15.5%), while the foreign currency deposits recorded a decrease (of 5.4%) caused primarily by the lower level of sight deposits. From the aspect of maturity, the short-term deposits remained dominant category in the total deposit potential of the enterprises, the share of which equaled 94.9% in March 2005. The enterprises' deposits registered significant annual increase of 50.6%, which is generally in line with the intensified economic activity, the increased inflows based on export and unlimited availability to foreign currency inflows in accordance with the liberalization of the foreign exchange regime, also reflecting the lower comparison base registered in the previous year due to non-functioning of certain large facilities.

Figure 24  
Structure of the enterprises' deposits  
(average share in the first quarter of 2005)



*Higher level of the broad monetary aggregates on annual basis*

In the first quarter of 2005, the strengthened process of monetary multiplication also acted in favor of the increase in the broad aggregates. Namely, the monetary multiplier of the money supply M2 equaled 5.44 in



March, in comparison with 5.01 in December 2004 and 4.88 in March 2004. The monetary multiplier of the money supply M4 reached 5.71 at the end of the first quarter, compared to 5.29 as it equaled at the end of the previous quarter and 5.21 in March 2004. On annual basis, the monetary aggregates M2 and M4 rose by 23.1% and 21.1%, respectively, which is primarily due to the increase in the short-term deposit potential of the banks.

### Payment operations in the Republic of Macedonia

The data on the value of the transactions realized through the payment operations of a national economy represent special indicator for the volume and the dynamics of the economic activity. They can be used for calculating the velocity of circulation<sup>1</sup>, which is a significant indicator in the implementation of the monetary policy.

$$V = T / M, \text{ where}$$

V = velocity of circulation;

T = value of the total transactions in the payment operations in certain economy;

M = money supply

The time series of the data on the payment operations pertaining to the period since 2002 indicate that there is a positive correlation between the annual change in the transactions realized in the payment operations and the direction of the annual change of the economic activity measured through the GDP (accelerated or delayed increase). Thus the total transactions realized in the payment system of the Republic of Macedonia (MIPS, KIBS, the interbank payment system) augmented by 1.1% in 2004, with a simultaneous nominal increase in the GDP at current prices of 5.2% being registered. In 2003, the total transactions realized in the payment system decreased by 0.8%, with the GDP at current prices registering growth rate of 3.1% (delayed increase in comparison with the previous year, when the nominal growth rate of the GDP equaled 4.3%). The determining of the correlation between the value of the transactions in the payment operations and the GDP within the quarter can be harder<sup>2</sup>, but having in mind that in the first quarter of 2005 the total transactions in the payment operations went up by 9.2%, compared to the same quarter of the previous year, positive change with the GDP can also be expected in the same period.

Table 5

Value of the executed transactions, velocity of circulation and nominal growth rates of the GDP

	Interbank payment operations 1	KIBS 2	MIPS 3	Total transactions 4=1+2+3	M2-Denar share 5	M4-Denar share 6	Velocity of circulation (M2-Denar share) 7=4/5	Velocity of circulation (M4-Denar share) 8=4/6	GDP (nominal change on annual basis)
	(in millions of Denars)								
2002	597997.1	190889.6	676169.8	1465056.5	35815.7	39364.4	40.91	37.22	4.3
2003	735270.7	157597.4	559983.6	1452851.7	37746.8	41138.9	38.49	35.32	3.1
2004	687517.6	150535.5	630868.3	1468921.4	44400.9	47681.4	33.08	30.81	5.2*
Q1 - 2005	149038.7	31649.3	177334.0	358022.0	48937.0	52009.0	7.32	6.88	

\* Estimated data

The velocity of circulation measured through the payment operations transactions - money supply correlation (only Denar share), analyzed in the 2002 - 2004 period registers a decrease. Thus the velocity of circulation according to the broad money supply (Denar share) in 2004 equaled 30.81, compared to 35.32 in 2003, which, in terms of a significant increase in the money supply and simultaneous moderate increase in the payment operations transactions, point to a sufficient quantity of money required for the payment operations, i.e. for performing smooth economic activity. Also, the reduced velocity of circulation points to a higher level of economy monetization. In the first quarter of 2005, lower velocity of circulation according to broad monetary aggregates was

registered (with M2 and M4 velocity of circulation equaling 7,32 and 6,88 compared to 7,90 and 7,29 in the first quarter of 2004, respectively), which once again points to a satisfactory level of money supply required for performing payment operations.

<sup>1</sup> Velocity of circulation is also calculated as  $M \cdot V = P \cdot Y$ , where M is the money supply, V is velocity of circulation, P is the price level, while Y is the real GDP.

<sup>2</sup> Mainly due to the fact that the State Statistical Office of the Republic of Macedonia does not publish nominal growth rates of the GDP on a quarterly basis.

Source: National Bank of the Republic of Macedonia

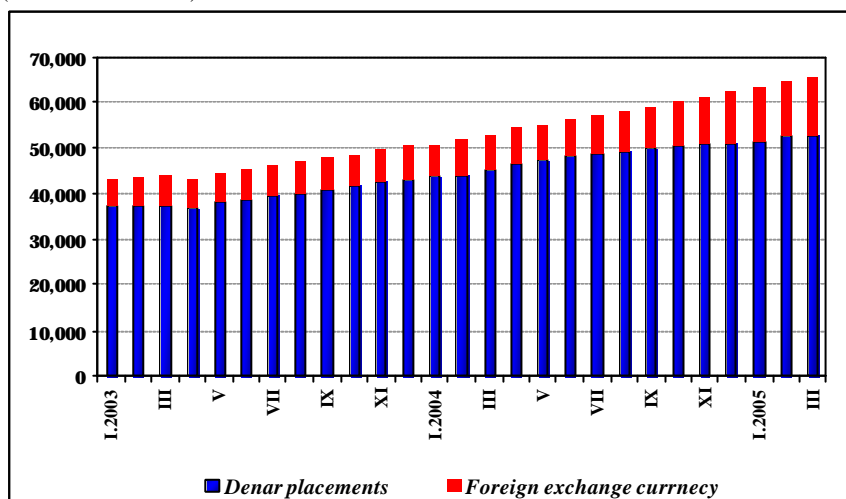
## 5.2. Placements and interest rates of the banks

The further broadening of the banks' deposit base, as the main cause for the level of their credit potential, led to an increased crediting of the private sector by the banks also in the first quarter of 2005. Partial effect on the increased credit activity (especially in foreign currency) also accounted for the banks' intensified use of foreign currency potential for crediting in the country. Namely, the share of the accounts with foreign banks in the total assets of the banking sector decreased from 28.2% to 27.7% on a quarterly basis. As a result of such movements, the total banks' placements augmented by 5.6% on a quarterly basis, and they equaled Denar 60,320 million at the end of March.

*Preserved upward trend of the banks' placements*

Figure 25

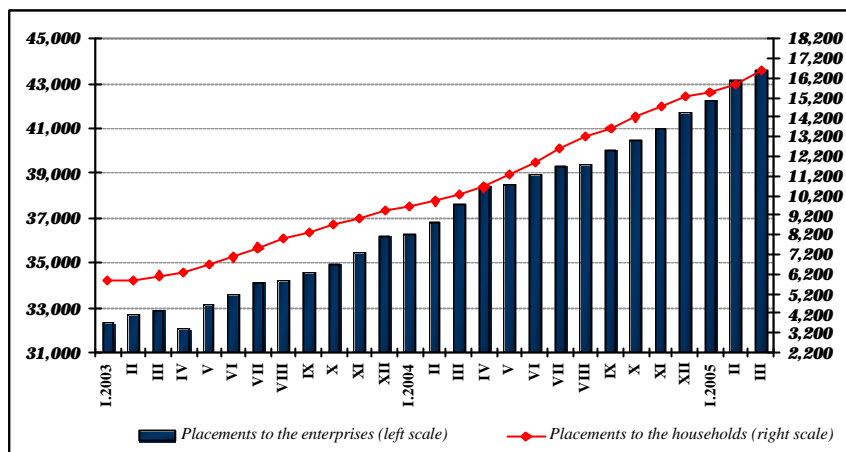
Structure of the currency of denomination of the banks' placements  
(in millions of Denars)



Observed from currency structure, quarterly increase was registered in the Denar<sup>17</sup> and the foreign currency credits (of 3.6% and 13.5%, respectively), and their contribution in the increase in the total placements was almost identical (51.5% and 48.5%, respectively). The analysis of the maturity structure shows intensified increase in the long-term placements (7.3%), given the simultaneous increase in the Denar and foreign currency credits in their frames (of 5.1% and 13.6%, respectively). An increment on quarterly basis was also registered in the short-term credits (4.1%), with their share in the total placements being equal to 51.4% (compared to 52.1% in December 2004). Within the short-term credits, a quarterly rise was recorded in their Denar and foreign currency component (of 2.4% and 14.1%, respectively).

<sup>17</sup> The index loans are also included.

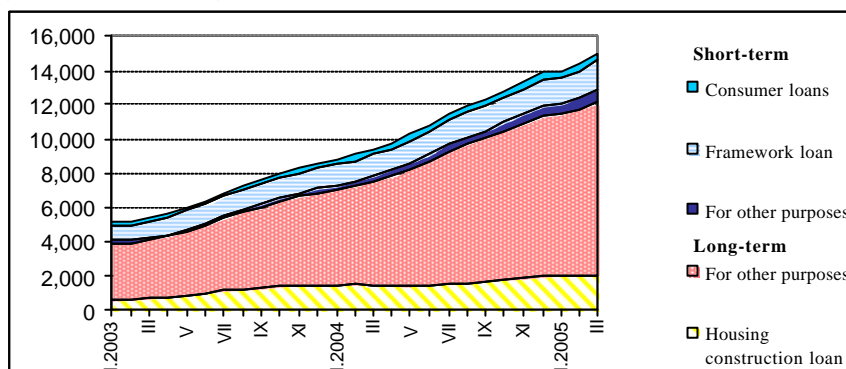
Figure 26  
Sector structure of the banks' placements  
(in Denar million)



*Higher lending to the households and enterprises*

The total amount of credits extended to the sector "households" went up by 8.5% at the end of the first quarter of 2005 relative to the previous quarter, reflecting the increment in the Denar and foreign exchange placements (of 7.9% and 29.5%, respectively). From the aspect of the maturity structure the lending to the households is the dominant one (in March, the share of the long-term credits in the total households' credits equals 75.6%).

Figure 27  
Distribution of the households' Denar credits by types of credits  
(in millions of Denars)



Although the growth rates of the placements with the sector "households" is still relatively high, the gradual intensification of the corporate sector crediting is also significant. Namely, the crediting of the enterprises, on quarterly basis went up by 4.6%, while their share in the increase in the total credits equals 59.7%. Main generator of the increase in the total loans of the corporate sector is the foreign currency loans (with their share in the total increase being equal to 76.8%). The larger contribution of the credits extended to the corporate sector represents key indicator for the relatively higher investment consumption. On annual basis, the placements with the enterprises and the households increased by 15.8% and 61.7%, respectively. In terms of contemporaneous increase in the Denar and foreign currency placement, the annual growth rate of the total placements (March 2005 / March 2004) equals 25.3%.

### Payment cards in the Republic of Macedonia

The electronic payment cards, representing one of the segments of the e-banking and financial innovations, are becoming more significant mean of payment, which simultaneously leads to an extraction of the traditional payment instruments (cash, checks, giro account turnover). Their use in the payment operations contributes to reduction of the transaction costs, simplification of the trade of goods and services and improvement of the resources allocation.

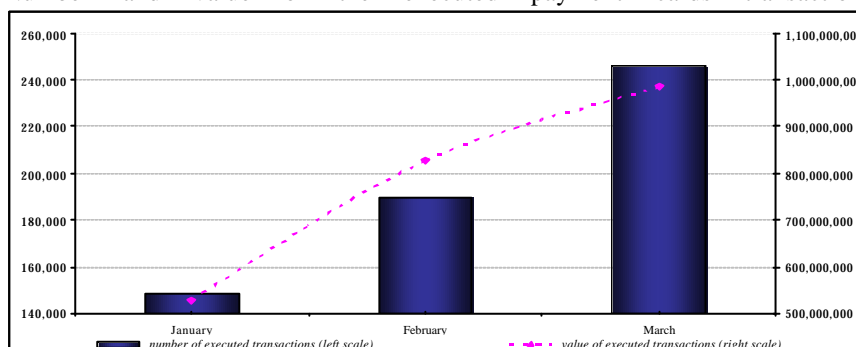
In the last few years, an upward trend in the use of payment cards is evident in the Republic of Macedonia. The role of authorized institutions, issuers of payment cards, accounts for the banks<sup>1</sup>, which in the Republic of Macedonia are included in the following card network: VISA, MasterCard, American Express, NPK, Diners and Procredit card.

In the January<sup>2</sup> - March 2005 period, 133,697 cards, on average, were circulating in the payment operations, through which total of 584,294 transactions in the amount of Denar 2,344.1 million were executed. The participation of the payment cards transactions in the total transactions in the payment operations is very small (0.7%). However, analyzed by months, their share shows tendency of increase, i.e. in March it is higher by 0.2 percentage points compared to January 2005.

Analyzed by structure, the dominant payment cards are the debit ones (with their share in the total number of card in circulation being equal to 57%), and 52.2% of the total realized transactions are those executed with debit cards (in the amount of Denar 1,222.7 million).

Figure 28

Number and value of the executed payment cards transactions



Source: National Bank of the Republic of Macedonia

In March 2005, the number of cards participating in the payment operations totaled 137,912, which is an increase of 6.3% relative to the first month of the year. Also, the number of executed transactions is higher by 65.1% (in comparison with January 2005), given the simultaneous intensive increment in the value of the executed transactions (of 86.5%). The higher use of alternative payment non-cash instruments, as well as the higher value of the executed transactions is a positive signal in direction of decrease in the high percentage of cash use in the payment operations, which will have positive reflection on the financial intermediation of the banking sector.

<sup>1</sup> With exception to Diners Club International, non-banking financial company, the main activity of which is cards issuance.

<sup>2</sup> Since January 2005, NBRM has started collecting and publishing regular monthly reports on the payment cards utilization and their equipment are used on in the country, on the basis of the data on the payment operations submitted by the institutions responsible for the payment operations.

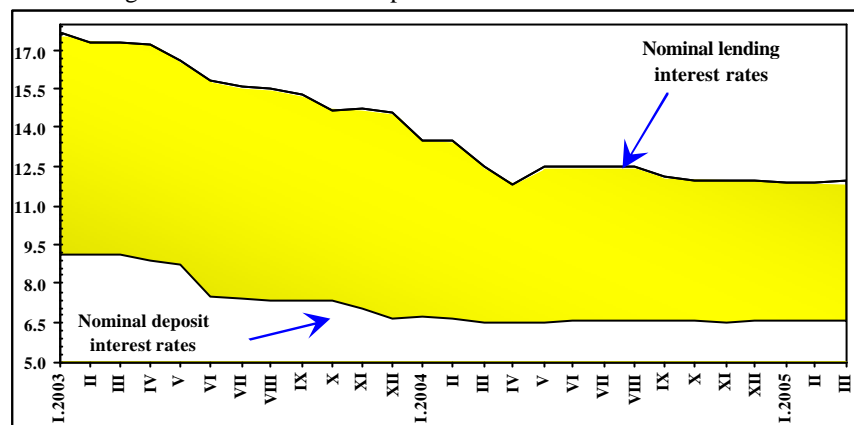
Source: National Bank of the Republic of Macedonia, Payment Systems Department.



*Consistent interest rate policy  
of the banks in the first quarter*

In terms of consistent reference interest rate<sup>18</sup> of the NBRM in the first quarter of 2005, the banks' interest rate policy remained almost unchanged. Thus the average weighted interest rate on the short-term Denar loans equaled 11.92% in March 2005, which is almost the same level as that registered in December 2004. The average weighted deposit interest rate (on the three-month Denar deposits) registered an insignificant increase compared to the previous quarter and it equaled 6.56% (6.52% in December 2004). Such movements led to positive change with the interest rate spread, i.e. its narrowing by 0.1 percentage point. The average weighted interest rate on short-term foreign currency loans dropped by 0.6 percentage points on a quarterly basis, and in March it equaled 7.28%. In March, the interest rate on the three-month time deposits in Euro ranged within 1% to 3.30%, while the movement interval of the interest rate on the three-month deposits in US Dollars varied from 0.90% to 2.50%.

Figure 29  
Banks' weighted interest rates and spreads\*



\* Pertain to Denar loans and deposits.

### 6.1. Stock Exchange

**The total turnover on the stock exchanges** (including the block transactions and the Government segment) realized on the Macedonian Stock Exchange in the first quarter of 2005 amounts to Denar 2,939.4 million, which is by 16.7% less compared to the fourth quarter of 2004. The turnover on the official market segment comprises 58.7% of the total turnover on the stock exchange, within which the shares of companies listed on the Macedonian Stock Exchange and the trade with Government bonds on the official listing of the Stock Exchange represent 39.9% and 18.9%, respectively of the total turnover on the stock exchange. Shares in the amount of Denar 931.3 million, or 31.7% of the total trade on the stock exchange was traded on the unofficial market segment. However, no trading with convertible Government certificates issued for indemnification of the depositors of the collapsed savings houses was registered on the unofficial market segment. Denar 891.8 million were traded in the block transactions on the Stock Exchange, while on the Government stock exchange segment Government-owned shares and parts in the amount of Denar 281.3 million were traded.

Since the beginning of 2005, higher inflow of foreign portfolio investments was registered on the Macedonian securities market, which is an indicator for gradual integration of the Macedonian financial market into the

<sup>18</sup> On the basis of empirical analysis, the interest rate of the CB bills with 28-day maturity is ascertained to represent a reference interest rate for the banks.

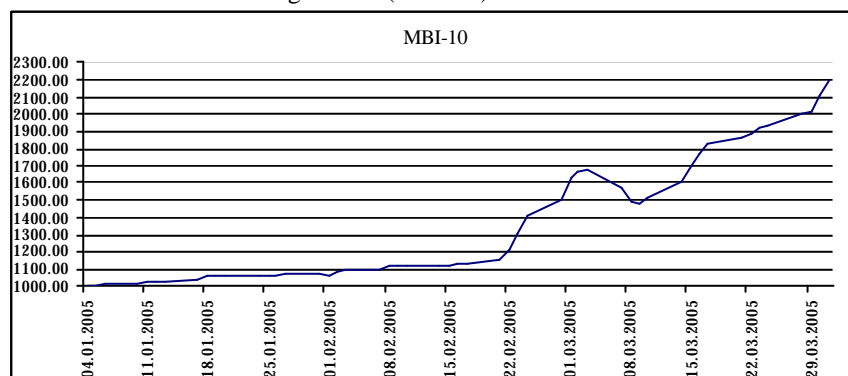


regional financial flows. Namely, in the first quarter, increased share of numerous categories of foreign investors in the stock exchange trading was registered (brokerage houses, banks, investment funds and individuals), mainly coming from the region.

The higher interest of the foreign investors in the shares of certain large domestic companies is partially due to the shown interest of certain foreign investors for entering in some of these Macedonian companies, as well as due to the expected gain before the issuance of the income statement for 2004 of these companies. However, the main objective of the foreign institutional investors is rather accomplishment of capital gain, than the ownership part. One of the motives for the interest of the foreign institutional investors for trading on the Macedonian Stock Exchange (besides the lower transaction expenses) is the expected initiation of the private pension funds in 2006, which will be placed on the side of the demand, which the foreign investors see as a possibility for selling the shares at higher price. Also, having in mind the preference of these investment funds for investment in shares of companies having better development potential and which are expected to register higher return in the following period, the concern of the investors for the companies' profit indicators is evident. The higher share of the foreign investors in the main principal of the companies (as of March 31, 2005 according to the data received from the Central Securities Depository) also supports the statement that the foreign investors are more interested in investing in the ownership structure of the domestic banks. Thus at the end of March, the total share of foreign investors in the shareholders' capital of all listed companies on the official Stock Exchange market equals 15.41% (compared to 12.04% in January 2005). 14.74% of them pertain to foreign legal entities, and 0.67% are owned by foreign natural persons.

The higher trade volume on the Macedonian Stock Exchange in this period has positive effects with regard to future revitalization of the capital market and strengthening of the investors' confidence.

Figure 30  
Macedonian Stock Exchange Index (MBI-10)



Source: Macedonian Stock Exchange of Long-term Securities

The stock exchange index MBI-10<sup>19,2</sup> in the first quarter, with exception to certain period of stagnation, there was a continuing upward trend, and on March 31, 2005 the value of the index equals 2,197.22, i.e. by 2.2 times higher compared to January 04, 2005. Its increase is mainly due to the higher market capitalization of the ten most liquid companies on the official market, comprising the index (market capitalization of Denar 19,539.0 million in March, compared to 8,910.4 in January 2005).

<sup>19</sup> Since January 4th, the Macedonian Stock Exchange started with the official use of the new stock exchange index MBI-10 instead of the current MBI, the calculation of which terminated on December 30, 2004. The new stock exchange index represents price index weighted with the market capitalization which is composed of the common shares of ten listed companies.



## 6.2. Government securities market

From the aspect of the **Government bonds trading**, in March, Government bonds in the amount of Denar 408.4 million were traded on the Stock Exchange official market, the largest share of which refers to denationalization bonds (fourth issuance). In March, the Government securities were traded at price of 59 - 77% of the face value.

In the first three months of 2005, in accordance with the previously set calendar, seven auctions<sup>20</sup> of three-month Treasury bills were held, with the supply of Treasury bills being in the amount of Denar 2,800, while the total value of demand for Treasury bills equaled Denar 2,325.9 million. The total realization (Denar 2,325.9 million) was lower than the demand by Denar 144.7 million, which is mainly due to the implementation of the rule enabling exclusion of the transaction suspected as speculative. During the quarter, the supply, on average, exceeded the demand by significant 13.3%, with the realized average weighted interest rate being equal to 10.1%.

Analyzed by months, the supply of short-term securities was permanently higher than the demand, thus leading to a continuing monthly increase in the average weighted interest rate. Thus, the highest average interest rate was realized in March, when Treasury Bills in the amount of Denar 1,140 million were sold.

Table 6  
Supply, demand and interest rate of Treasury bills  
(in millions of Denars)

Treasury bills with maturity of three months	supply	demand	turnover	average weighted interest rate (in %)
January	730.0	695.8	574.1	9.34
February	700.0	611.8	611.8	9.95
March	1370.0	1163.0	1140.0	10.50
<b>I quarter</b>	<b>2800.0</b>	<b>2470.5</b>	<b>2325.9</b>	<b>10.07</b>
Treasury bills with maturity of six months	supply	demand	turnover	average weighted interest rate (in %)
January	50.0	83.5	50.0	10.79
February	100.0	24.3	24.3	10.84
March	100.0	10.8	10.8	11.21
<b>I quarter</b>	<b>250.0</b>	<b>118.6</b>	<b>85.1</b>	<b>10.86</b>

Three auctions of Treasury bills with maturity of six months were held during the quarter. The total supply equaled Denar 250 million, which is an increase of 2.1 times than the demand (Denar 118.6 million), while the realization totaled Denar 85.1 million. Average weighted interest rate of 10.9% was reached. The average weighted interest rate during the quarter moved upwards, i.e. it registered the highest value in March (11.2%), mainly as a result of the significantly higher supply than demand registered in March 2005.

## 7.

## Balance of payments

The movements registered in the external sector in the first quarter of 2005 point to improved performances of the Macedonian economy, mainly initiated from the accomplishments of the foreign trade. The significant decrease in the deficit registered in the trade of goods and services, given higher foreign currency inflows of private transfers, led to a significant reduction of the deficit on the balance of payments' current account.

<sup>20</sup> The auction of three-month Treasury bills held on March 29, 2005 was extraordinary one.



## A) Current account

*Lower deficit on the balance of payments' current account in the first quarter of 2005*

After the significant widening of the deficit on the balance of payments' current account registered in the fourth quarter of 2004, mainly caused by the high import of goods<sup>21</sup>, significant decrease in the deficit was registered in the first quarter of 2005, which is result of the improved results in the foreign trade of goods and services. Namely, in the first quarter of 2005, in comparison with the previous year, the deficit on the balance of payments' current account in the amount of US Dollar 21.5 million is lower by US Dollar 85.1 million, mainly due to the lower deficit in the trade of goods and services (decrease of US 63.6 million). The share of the deficit on the current account in the estimated gross domestic product declined in the first quarter of 2005<sup>22</sup> and it equaled 1.6% (compared to 8.7% in the first quarter of 2004).

Table 7

Current account of the balance of payments \*  
(in millions of U Dollars)

	2004				2005	Q1-2005/ Q1-2004
	Q1	Q2	Q3	Q4	Q1	difference
Goods, net	-225.0	-319.2	-235.8	-332.2	-190.9	34.1
Services, net	-33.3	-14.0	0.4	-7.6	-3.7	29.6
Income, net	1.2	-36.8	-12.0	8.3	0.3	-0.9
Current transfers, net	150.5	196.1	242.6	201.8	172.8	22.4
<b>Current account</b>	<b>-106.6</b>	<b>-173.9</b>	<b>-4.8</b>	<b>-129.6</b>	<b>-21.5</b>	<b>85.1</b>
<b>Current account, % of GDP</b>	<b>-8.7</b>	<b>-13.4</b>	<b>-0.4</b>	<b>-9.3</b>	<b>-1.6</b>	<b>7.1</b>

\* Preliminary data.

Source: National Bank of the Republic of Macedonia.

*Higher level of openness of the Macedonian economy towards the world*

The trend of intensification of the export activity (initiated in the second half of 2004) continued also in the first quarter of 2005. The higher export of goods, which depends on the imports to a great extent, led to higher volume of *foreign trade of goods*. Thus in the first quarter of 2005 the total foreign trade of goods reached US Dollar 1,175.3 million<sup>23</sup>, i.e. increase of 19.7%.

*High quarterly increase in the export of goods of 30.6% ...*

In the first quarter of 2005, the export of goods amounted to US Dollar 478 million, which is an increase of 30.6% compared to the first quarter of 2004. The analysis by product categories shows that 75.6% of the total increase in the export of goods is due to the higher export of iron and steel and their products, followed by both oil and food products (contributing to the total increase in the export of 14.3% and 8.4%, respectively). This points to the effect of restartation of one of the large metallurgic facilities, which was not functioning in the first half of 2004. After the import of raw materials in the second half of 2004, this capacity had significant contribution for the Macedonian export in the first quarter of 2005.

<sup>21</sup> In the fourth quarter of 2004, high import of motor cars was registered (as a result of the announcement of the Government for re-introduction of excises at the beginning of 2005), iron and steel (higher import for the needs of production) and oil (increase in the price on the international stock exchanges).

<sup>22</sup> Estimated data on the nominal gross domestic product converted in US Dollars according to average exchange rate of the US Dollar for the first quarter of 2005.

<sup>23</sup> Preliminary data of the State Statistical Office of the Republic of Macedonia. The export of goods is presented on f.o.b basis, while the import of goods on c.i.f. basis.



Table 8  
Export by groups of products according to SITC<sup>24</sup>

groups of products	change in absolute amount		
	Q1 - 2004	Q1 - 2005	
	in millions of US Dollars		
<b>Total export of goods</b>	<b>366.1</b>	<b>478.0</b>	<b>111.9</b>
<i>Food products</i>	<i>22.0</i>	<i>31.4</i>	<i>9.4</i>
<i>Beverages and tobacco</i>	<i>41.1</i>	<i>46.4</i>	<i>5.3</i>
tobacco and tobacco products	26.6	31.8	5.2
<i>Mineral fuels, lubricants, etc.</i>	<i>10.3</i>	<i>25.9</i>	<i>15.5</i>
oil and oil products	9.6	25.5	16.0
<i>Products classified by materials</i>	<i>100.1</i>	<i>182.2</i>	<i>82.1</i>
iron and steel	70.7	155.2	84.6
	share in the total import (in %)	contribution to the total increase (in %)	
oil and oil products	2.6	5.3	14.3
iron and steel	19.3	32.5	75.6
<b>Total</b>	<b>21.9</b>	<b>37.8</b>	<b>89.8</b>

Source: State Statistical Office of the Republic of Macedonia; the NBRM calculations

...and moderate increase in the import of goods of 13.2%

The dependence of the Macedonian economy on the import, the reduced customs duties, as well as the increase in the price of oil on the international markets led to an increase in the import of goods in the first quarter of 2005 of 13.2% compared to the same period of the previous year.

Table 9  
Import by group of products according to SITC<sup>25</sup>

groups of products	change in absolute amount		
	Q1 - 2004	Q 1 - 2005	
	in millions of US Dollars		
Total import of goods	616.1	697.3	81.2
Mineral fuels, lubricants, etc.	97.9	121.5	23.6
oil and oil products	73.8	90.1	16.3
Products classified by materials	165.0	216.0	51.0
iron and steel	34.8	82.8	48.0
	share in the total import (in %)	contribution to the total increase (in %)	
oil and oil products	12.0	12.9	20.1
iron and steel	5.6	11.9	59.1
Total	17.6	24.8	79.2

Source: State Statistical Office of the Republic of Macedonia; NBRM calculations

Analyzed by group of products, 59,1% of the total increase in the import is due to the import of iron and steel, while 20.1% to the import of oil and oil products. The higher value of the import of oil in the first quarter of 2005 completely represents price effect, while the imported quantities register a decrease.

Table 10  
Import of crude oil in the Republic of Macedonia

	Q1-2004	Q1-2005	change in absolute amount
crude oil (in millions of US Dollars)	59.7	67.9	8.3
quantities (in tons)	253,720.0	204,135.0	-49,585
average price (US Dollars per 1 kg)	0.24	0.33	0.10

Source: National Bank of the Republic of Macedonia.

From the aspect of the monthly dynamics, in January and February moderate movements in both components of foreign trade were registered. On the other hand, the highest monthly foreign trade in the amount of US Dollar 437.2 million was registered in March, which is due to the monthly increase in the exports and

<sup>24</sup> Standard International Trade Classification

<sup>25</sup> Standard International Trade Classification



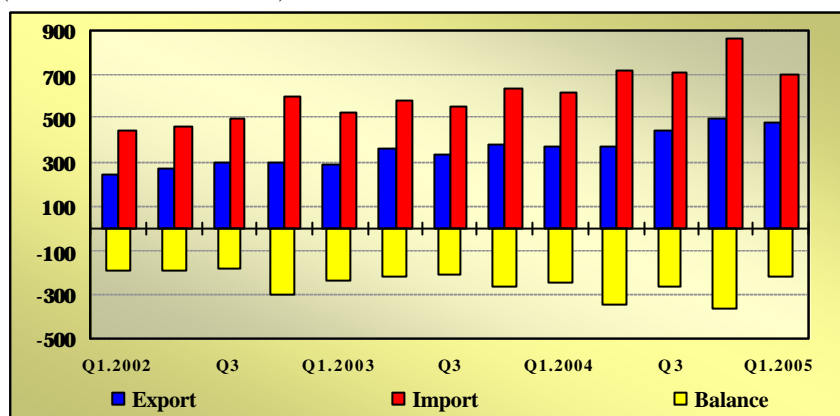
*The highest monthly foreign trade in March 2005*

the imports of goods (higher than the average monthly amount in the first quarter by US Dollar 14.2 million and US Dollar 31.2 million, respectively). The higher exports in March are partly a result of seasonal factors (exports of meat, primarily lamb), as well as the increased exports of iron and steel and products thereof, clothing and textile and mineral fuels, while the high imports in March are primarily due to the increased monthly imports of iron and steel, vehicles<sup>13</sup>, mineral fuels, plastic and pharmaceutical products.

*Reduced trade deficit...*

In the first quarter of 2005, given the higher increase in the exports relative to the imports of goods, trade deficit in the amount of US Dollar 219.3 million was registered, which is a decrease of US Dollar 30.7 million (or 12.3%), relative to the first quarter of 2004.

Figure 31  
Exports, imports and trade deficit  
(in millions of US Dollars)



Source: State Statistical Office of the Republic of Macedonia

*...and higher import - export coverage ratio*

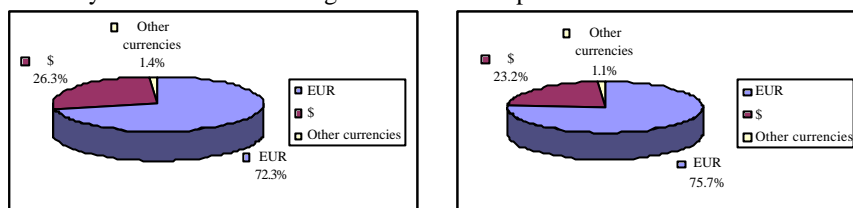
Simultaneously, such developments in the foreign trade led to an increase in the import - export coverage ratio of 9.1 percentage points (68.5% in the first quarter of 2005, vs. 59.4% in the first quarter of the previous year).

*Increased share of the Euro in the foreign trade in the first quarter of 2005*

The analysis of the foreign trade according to the currency structure in the first quarter of 2005 indicates share of the Euro increased by 3.4 percentage points relative to the same period of 2004. Simultaneously, the share of the US Dollar and the other currencies registers a decline of 3.1 percentage points and 0.3 percentage points, respectively. The Euro has a dominant share in the exports and in the imports, which equalled 78.7% and 73.6%, respectively, in the first quarter of 2005. Relative to the first quarter of 2004, the share of the Euro in the exports and in the imports registered an increase (of 6.1 percentage points and 1.5 percentage points, respectively).

<sup>13</sup> After the excises were reintroduced in the beginning of 2005, the average imports of vehicles in the first two months of 2005 stood at US Dollar 8.3 million, while in March 2005 they reached US Dollar 14.1 million, which is identical with the average amount registered in 2004 (excluding December), but exceeded the average amount registered in 2003.

Figure 32  
Currency structure of the foreign trade of the Republic of Macedonia



### Projection and realization of the exports and the imports of goods

a) *The projection of the exports and the imports of goods according to the Survey on the business plans of the more significant participants in the foreign trade of the Republic of Macedonia*

With the aim of revising the projection of the balance of payments of the Republic of Macedonia for 2005 and the medium-term projection by 2008, in February 2005 NBRM conducted a Survey on the business plans of the more significant participants in the foreign trade of the Republic of Macedonia for the period 2005 - 2008. Questionnaires were submitted to thirty-three enterprises of different branches, and thirty<sup>1</sup> or 90.9% of the enterprises responded. Almost all enterprises submitted a projection for the production, investment and export-import activities on annual and quarterly level for 2005, and only part of them had a medium-term projection for the period by 2008 (on annual and quarterly level). On the basis of the obtained medium-term projections (assuming that the enterprises that did not submit a medium-term projection will maintain the level registered in the last year for which a projection was submitted), it may be concluded that the enterprises have optimistic expectations for the forthcoming period. More intensive increase is expected in the exports, which points to a decline in the trade deficit in the forthcoming period. The analysis from the viewpoint of the currency in which the projected exports and imports are presented, shows that 87% of the enterprises that participated in the survey presented the projection in Euros, which corresponds with the currency structure of the foreign trade of the Republic of Macedonia (in 2004, 75% of the trade was carried out in Euros) and points to the need of official statistics expressed in Euros.

Table 11

Projection of the exports and the imports of goods for the period 2005 - 2008 on the basis of the responses of the enterprises in the survey

groups of products	amounts (in millions of Euros)								rates of change (in %)							
	2005		2006		2007		2008		2006		2007		2008			
	exports	imports	exports	imports	exports	imports	exports	imports	exports	imports	exports	imports	exports	imports	exports	imports
<b>Total</b>	<b>758.1</b>	<b>675.6</b>	<b>786.4</b>	<b>678.5</b>	<b>808.6</b>	<b>696.0</b>	<b>828.2</b>	<b>706.9</b>	<b>3.7</b>	<b>0.4</b>	<b>2.8</b>	<b>2.6</b>	<b>2.4</b>	<b>1.6</b>		
Beverages	16.4	5.2	17.3	6.1	17.9	6.6	18.3	7.0	5.9	17.1	3.3	8.1	2.2	6.1		
Tobacco	42.6	13.2	51.1	13.7	55.0	14.7	58.5	15.7	20.0	3.8	7.5	7.3	6.4	6.9		
Clothing and textile	34.5	6.8	37.4	7.3	40.0	8.5	41.6	9.2	8.2	7.7	7.1	15.1	4.1	9.0		
Iron and steel and products thereof	528.0	339.9	529.1	339.9	530.1	339.9	532.1	339.9	0.2	0.0	0.2	0.0	0.4	0.0		
Other products	136.6	310.5	151.5	311.5	165.7	326.4	177.8	335.1	10.9	0.3	9.3	4.8	7.3	2.7		

Source: Summarized data from the surveyed enterprises; calculations made in the National Bank of the Republic of Macedonia

On the basis of the Survey and of other assumptions (planned gross domestic product of the Republic of Macedonia and of the developed countries, which are important trading partners, as well as projections of certain macroeconomic variables conducted by international institutions) in February 2005, a projection of the balance of payments on annual and on quarterly level was prepared, for the first time expressed in millions of Euros. The analysis of the degree of participation of the responses of the Survey in the projection of the exports and the imports shows that the degree of participation of the responses of the Survey in the projected exports for 2005 equals 45.9% (in the case of iron and steel it is



as much as 86.2%), which points to high level of usability of the Survey when preparing the future export projections<sup>2</sup>.

Table 12  
Projection of the exports of goods for 2005

groups of products	official projection	projection on the basis of the conducted Survey	degree of participation of the responses of the Survey in the projection ( in % ) /1
<b>Total exports of goods</b>	<b>1650.7</b>	<b>758.1</b>	<b>45.9</b>
Food	60.3	0.0	0.0
Beverages	45.5	16.4	36.0
Tobacco	59.0	42.6	72.1
Clothing and textile	417.4	34.5	8.3
Iron and steel and products thereof	612.7	528.0	86.2
Other products	455.8	136.6	30.0

Source: Summarized data from the surveyed enterprises; calculations made in the National Bank of the Republic of Macedonia, official projection from February 2005.

1/ The degree of participation of the responses of the Survey in the projection of the exports of food is 0, having in mind the fact that no questionnaires were submitted to enterprises from this area. The degree of participation of the responses of the Survey in clothing and textile is low, having in mind that the surveyed enterprises (which are primarily engaged in tolling manufacturing activities) presented only the planned net-exports. If we consider the gross exports, the share of the surveyed enterprises in the total exports of clothing and textile in 2004 is 26%, while the surveyed enterprises are ranked among the top ten most important exporters of clothing and textile (out of the total number of 400) in 2004.

*b) Deviation of the realized exports and imports of goods from the projection for the first quarter of 2005*

The exports and imports realized in the first quarter of 2005 (Eur 365.5 million and Eur 530.1 million, respectively) show that the exports are within the projection for the first quarter of 2005 (it is lower by only Eur 7.5 million), while in the imports there were larger deviations from the projection, however in positive direction (lower by Eur 73.2 million).

The analysis from the viewpoint of separate groups of products on the side of the exports shows that the deviation from the projection in the first quarter of 2005 is mainly due to the lower exports of textile and clothing (by Eur 11.2 million), while on the side of the imports more significant deviation was registered in the investment and intermediary products and in consumption goods (lower by Eur 57.4 million and 16.4 million, respectively).

Table 13

Realized and projected exports and imports of goods by groups of products in the first quarter of 2005

(in millions of Euros)

	realized	projection	difference
<b>Export of goods</b>	<b>364.5</b>	<b>372.0</b>	<b>-7.5</b>
Food	8.5	6.9	1.6
Beverages	11.2	12.0	-0.8
Tobacco	24.2	21.7	2.5
Clothing and textile	97.3	108.6	-11.2
Iron and steel and products thereof	122.1	120.9	1.2
Other products	101.3	101.9	-0.7
<b>Import of goods, cif</b>	<b>530.1</b>	<b>603.3</b>	<b>-73.2</b>
Tobacco	2.0	3.4	-1.3
Iron and steel - for further processing	5.0	8.5	-3.5
Textile - for further processing	62.1	66.2	-4.2
Other - goods for further processing	10.0	8.1	1.9
Consumption goods	83.0	99.3	-16.4
Investment goods and raw materials	277.3	334.7	-57.4
Mineral fuels	90.8	83.1	7.7

Source: State Statistical Office; calculations made in the National Bank of the Republic of Macedonia

Note: the official data on the foreign trade are presented in US Dollars, while for the purpose of monitoring the achievements relative to the projections, the calculations are presented in Euros and they are made in the NBRM.

<sup>1</sup> The cooperation of the enterprises is appreciated

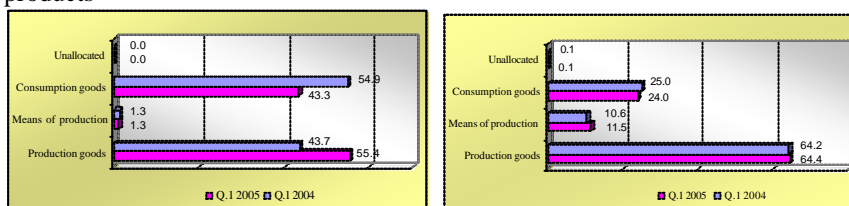
<sup>2</sup> Due to the higher degree of diversification and the low coverage of the surveyed enterprises, the projection of the imports is not primarily based on the Survey.

*Dominant share of the production goods in the exports and imports of goods*

The analysis of the foreign trade according to the economic use of products in the first quarter of 2005 shows that production goods<sup>14</sup> have a dominant share in the exports and the imports of 55.4% and 64.4%, respectively.

Figure 33

Foreign trade of the Republic of Macedonia according to the economic use of the products



Source: State Statistical Office

*The European Union dominates the total foreign trade*

Analysed by the geographical distribution of the foreign trade, the dominant share in the total foreign trade in the first quarter of 2005 accounts for the European Union (51.9%). This group of countries has the largest share in the total exports and imports of goods (62.2% and 44.9%, respectively). The increased imports of oil from Russia and Bulgaria, as well as the high imports of iron and steel from Romania and Poland, increased the share of the countries from Central and Eastern Europe in the total foreign trade by 1.1. percentage point (17.4% in the first quarter of 2005). The share of the Republics of the former SFRY in the foreign trade is still high and it equals 15.1%. Republic of Macedonia registered the highest surplus in the trade with Germany (import -

<sup>14</sup> Production goods include raw materials and intermediary products, machine fuel and finished production materials.





export coverage ratio of 153.6%), while the largest deficit was registered in the trade with Russia (import -export coverage ratio of 6.5%).

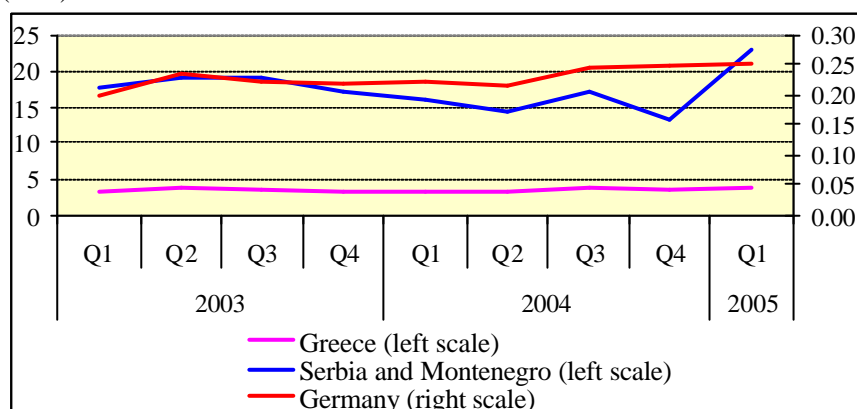
Table 14  
Geographical distribution of the foreign trade of the Republic of Macedonia

	Exports		Imports		Total trade		Trade balance	
	Q1.2004	Q1.2005	Q1.2004	Q1.2005	Q1.2004	Q1.2005	Q1.2004	Q1.2005
<b>European Union</b>	<b>225.1</b>	<b>297.3</b>	<b>314.4</b>	<b>313.2</b>	<b>539.5</b>	<b>610.5</b>	<b>-89.4</b>	<b>-15.8</b>
Germany	82.1	112.0	84.1	72.9	166.2	184.9	-1.9	39.1
Greece	52.7	73.5	64.0	65.9	116.8	139.5	-11.3	7.6
Italy	24.5	43.3	31.6	37.0	56.2	80.3	-7.1	6.3
Other	65.7	68.5	134.7	137.3	200.4	205.8	-69.0	-68.8
<b>Central and Eastern Europe</b>		<b>23.6</b>	<b>136.7</b>	<b>181.3</b>	<b>136.7</b>	<b>204.8</b>	<b>-136.7</b>	<b>-157.7</b>
Russia	3.9	5.0	68.7	77.4	72.7	82.4	-64.8	-72.4
Bulgaria	13.7	12.6	47.6	53.9	61.2	66.5	-33.9	-41.3
Romania	0.7	0.8	3.6	23.3	4.3	24.1	-2.9	-22.5
Poland	0.3	0.8	6.4	22.3	6.8	23.1	-6.1	-21.5
Other	-18.6	4.4	10.4	4.4	-8.3	8.8	-29.0	-0.1
<b>Republics of the former SFRY</b>	<b>80.1</b>	<b>90.9</b>	<b>62.9</b>	<b>77.8</b>	<b>143.6</b>	<b>177.7</b>	<b>17.2</b>	<b>22.1</b>
Serbia and Montenegro	57.9	73.7	48.3	58.5	106.2	132.2	9.6	15.2
Other	22.2	26.2	14.6	19.3	36.8	45.5	7.6	6.9
<b>Other countries</b>	<b>60.9</b>	<b>57.2</b>	<b>102.1</b>	<b>125.1</b>	<b>163.0</b>	<b>182.2</b>	<b>-41.1</b>	<b>-67.9</b>
<b>Total</b>	<b>366.1</b>	<b>478.0</b>	<b>616.1</b>	<b>697.3</b>	<b>982.1</b>	<b>1,175.3</b>	<b>-250.0</b>	<b>-219.3</b>

Source: State Statistical Office

The analysis from the viewpoint of the ten most important trading partners shows that in the first quarter of 2005, the Republic of Macedonia registered the largest trade with Germany, Greece, and Serbia and Montenegro, with their share in the total trade equalling 38.8%. Starting from the second half of 2004, the share of the total exports of the Republic of Macedonia in the total imports of the three most important trading partners registers a constant upward trend, which points to an increased demand and larger participation of the Macedonian products in the markets of these countries.

Figure 34  
Share of the exports of the Republic of Macedonia in the imports of the three most important trading partners  
(in %)



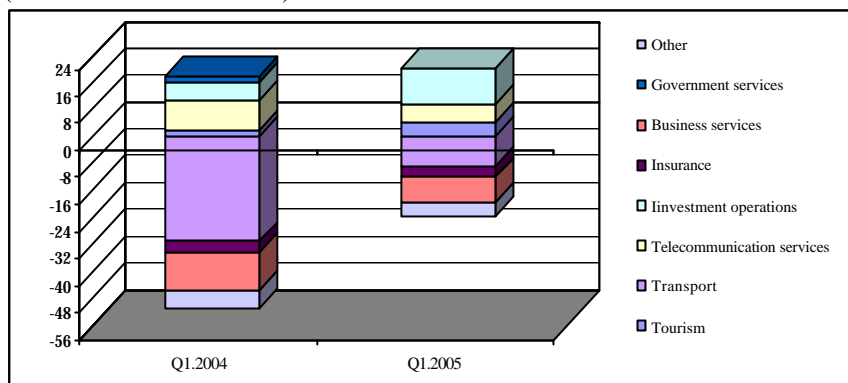
Source: State Statistical Office; central banks of the respective countries; calculations made in the NBRM

*In the first quarter of 2005, reduced deficit in services was registered*

In the category *services*, which is to a large extent determined by the transactions related to the foreign trade of goods, a significant reduction of the deficit was registered. Thus in the first quarter of 2005, deficit in the amount of US Dollar 3.7 million was registered (US Dollar 33.3 million in the same period of 2004). From the viewpoint of the separate categories of services, largest decline in the deficit was registered in the transport services (deficit lower by US Dollar 22.2 million p.a.), primarily as a result of the moderate increase in the imports of goods. On the other hand, increased inflows are registered in the other services (higher by US Dollar 6.4 million), especially due to the larger volume of realized investment operations abroad.



Figure 35  
Balance of the separate categories of services  
(in millions of US Dollars)

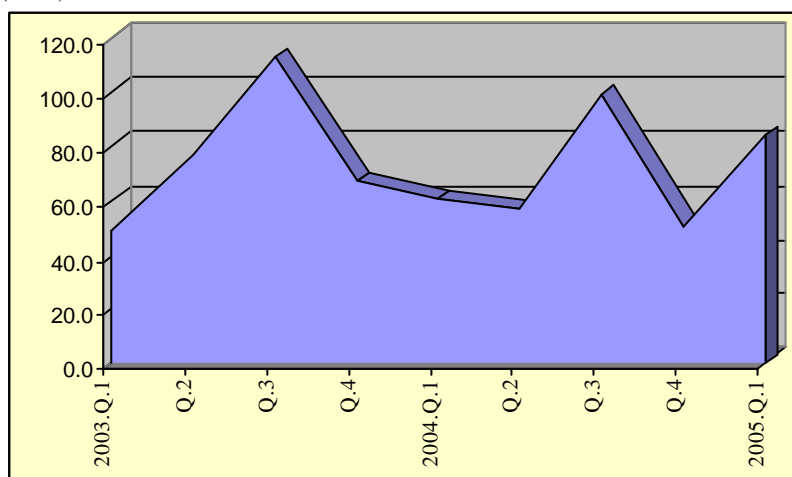


Source: National Bank of the Republic of Macedonia

Transactions realized in the first quarter of 2005 in the category *income* were characterized by moderate movements and led to a surplus in the amount of US Dollar 0.3 million, which is a decline relative to the same period of 2004 (US Dollar 1.2 million).

In the first quarter of 2005, the inflows from current transfers amounted to US Dollar 172.8 million, which represents an increase of US Dollar 22.4 million, relative to the same period of 2004. When there is a decline in the inflows from official transfers, the increase in the current transfers is completely a result of the increased inflows of private transfers. The largest portion of the increase in the private transfers (90.2%) is due to the increased inflows on the basis of currency exchange operations, which have the largest structural share in the total private transfers (60.2%). In the first quarter of 2005, the increased foreign exchange inflows on the basis of transfers financed 84.4% of the trade deficit (60.5% in the same period of the previous year).

Figure 36  
Coverage of the trade deficit with private transfers  
(in %)



Source: National Bank of the Republic of Macedonia

Expressed in Euros<sup>15</sup> in the first quarter of 2005, the deficit in the balance of payments current account stood at 16.4 million, which is a decline of Euro 69.2 million, or 80.8% relative to the same quarter of 2004. In the first three months of 2005, the trade deficit totalled Euro 145.7 million, and it dropped by Euro

<sup>15</sup> Calculation of the NBRM.



34.7 million or 19.2% relative to the same period of 2004. The deficit in the balance of services reduced by Euro 23.8 million, or 89.3% and it amounted to Euro 2.8 million. In the January - March 2005 period, the net-inflow of current transfers stood at Euro 132 million and increased by Euro 11.4 million (9.5%) relative to the same period of 2004, which is completely due to the increased net-inflow on the basis of private transfers (increase of Euro 13.9 million, or 12.7%), which reached Euro 123 million.

*b) Capital and financial account*

*Reduced net foreign  
exchange inflows in the  
capital and financial  
account*

In the first quarter of 2005, lower capital and financial foreign exchange inflows were registered, which is partially due to the reduced balance of payments current account deficit. Thus, in the first quarter of 2005, the balance on the capital and financial account stood at US Dollar 51.5 million (US Dollar 109.6 million were registered in the same period of the previous year).

Table 15  
Capital and financial account of the balance of payments\*  
(in millions of US Dollars)

	2004				2005	Q1-2005/ Q1-2004
	Q1	Q2	Q3	Q4	Q1	difference
<i>Capital account, net</i>	<b>-1.4</b>	<b>-1.8</b>	<b>-1.7</b>	<b>0.3</b>	<b>0.0</b>	<b>1.4</b>
<i>Financial account, net</i>	<b>111.0</b>	<b>138.9</b>	<b>41.8</b>	<b>139.4</b>	<b>51.5</b>	<b>-59.5</b>
Direct investments, net	42.1	50.2	16.7	46.9	36.1	-5.9
Portfolio investments, net	0.7	-1.0	1.0	14.1	16.5	15.8
Trade credits, net	27.3	79.6	8.5	54.7	-58.4	-85.6
Loans, net	-12.7	19.7	19.2	33.7	12.6	25.3
Currencies and deposits, net /1	46.6	-18.3	-14.6	-17.4	37.0	-9.7
Other, net	7.1	8.8	11.0	7.4	7.6	0.6
<b>Capital and financial account</b>	<b>109.6</b>	<b>137.1</b>	<b>40.1</b>	<b>139.7</b>	<b>51.5</b>	<b>-58.1</b>

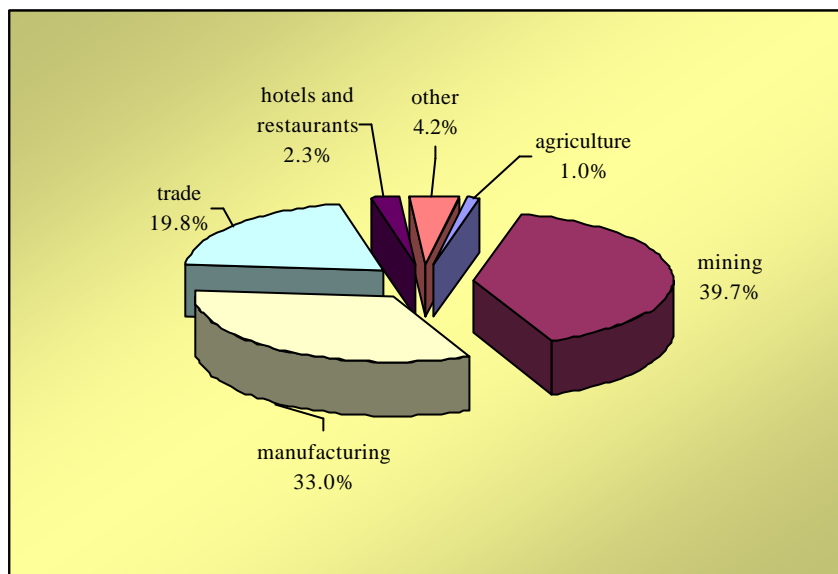
\*preliminary data

1/ "++" denotes a decline

Source: National Bank of the Republic of Macedonia

In the first quarter of 2005, direct investments in the amount of US Dollar 36.1 million were registered, primarily in mining, production of metal products and retail trade and wholesale trade, coming from investors from Russia (38.5%), Italy (10.9%) and Bulgaria (9.1%). In the first quarter of 2005, portfolio investments in the amount of US Dollar 16.5 million were registered (US Dollar 0.7 million in the first quarter of 2004), which is in line with the increased trading of the foreign investors on the Stock Exchange since the beginning of 2005.

Figure 37  
Foreign direct investments in the Republic of Macedonia by activities in the first quarter of 2005  
(in %)



Source: National Bank of the Republic of Macedonia

After the high imports of goods for further processing in the last quarter of 2004, which caused high positive balance in the trade credits (US Dollar 54.7 million), in the first quarter of 2005, these credits registered high negative balance (US Dollar 58.4 million), due to the increased payments of the imports of goods realized in the previous year. Given the outflows on the basis of trade credits, the deficit in the balance of payments current account was primarily financed by direct and portfolio investments.

In the first quarter of 2005, the category "currency and deposits" registered a decline in the funds in the amount of US Dollar 37 million, given the drop in the net-assets of the commercial banks and households.

Expressed in Euros, in the first quarter of 2005, the net-inflow in the capital and financial account of the balance of payments stood at 29.2 million and relative to the same period of 2004 it was lower by Euro 48.4 million, or by 62.5%. Analysed by separate components, in the January - March 2005 period, relative to the same period of the previous year, foreign direct investments dropped by Euro 6 million, or by 17.7%, equalling Euro 27.7 million, while the portfolio investments registered a significant increase and reached Euro 12.5 million (Euro 0.5 million in the same period of 2004). *Trade credits* registered a negative balance of Euro 44.5 million, contrary to the net-inflow of Euro 22.4 million, registered in the same period of 2004. In the analysed period, the category loans registered net-inflow of Euro 10.2 million, vs. the net-outflow of Euro 10.3 million registered in 2004.

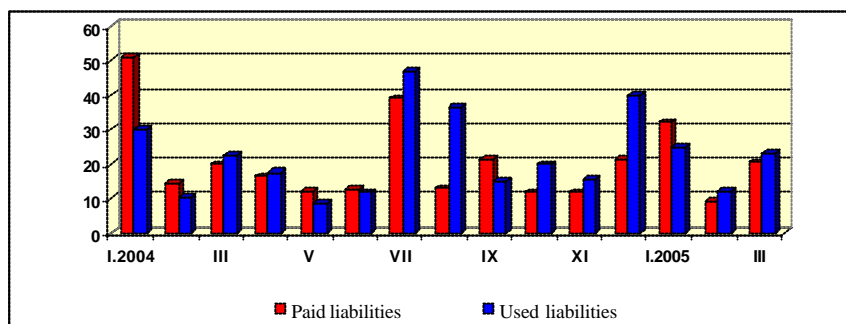
*In the first quarter of 2005, funds in the amount of US Dollar 60 million were borrowed...*

In the first quarter of 2005, the financial inflows realized on the basis of borrowing of residents from foreign creditors, stood at US Dollar 60 million. The analysis of the debtors shows that 85.4% of the used medium-term and long-term funds (in the amount of US Dollar 51.2 million) account for the private sector (of which US Dollar 24.1 million were funds used by the financial sector - banks, while US Dollar 27.1 million were used by the non-banking private sector), which points to the effect of the liberalization of credit transactions with abroad. The remaining portion in the amount of US Dollar 8.8 million (14.6%) are funds withdrawn by the public sector. From the viewpoint of the creditors, US Dollar 30.2 million come from official creditors (US Dollar 28.8 million from

multilateral and US Dollar 1.4 million from bilateral creditors), while US Dollar 29.7 million are withdrawals from private creditors.

Analysed by months, the largest amount of funds (US Dollar 24.8 million) was withdrawn in January, most of which (73.3%) are from private creditors. During February and March, funds in the amount of US Dollar 12.2 million and US Dollar 23 million, respectively, were withdrawn, where most of the funds originated from the multilateral creditors.

Figure 38  
Used credits and paid liabilities  
(in millions of US Dollars)



Source: National Bank of the Republic of Macedonia

...and liabilities were settled  
in the amount of US Dollar  
62 million

In the first quarter of 2005, liabilities on the basis of used long-term credits totalling US Dollar 62 million were paid to the foreign creditors (principal in the amount of US Dollar 46.1 million and interest in the amount of US Dollar 15.9 million). From the viewpoint of the foreign creditors, funds in the amount of US Dollar 39.5 million were paid to the official creditors, while US Dollar 22.4 million were paid to the private creditors. The analysis of the debtors shows that the largest portion of the liabilities in the amount of US Dollar 44.5 million were paid by the public sector, while the private sector settled liabilities in the amount of US Dollar 17.5 million.

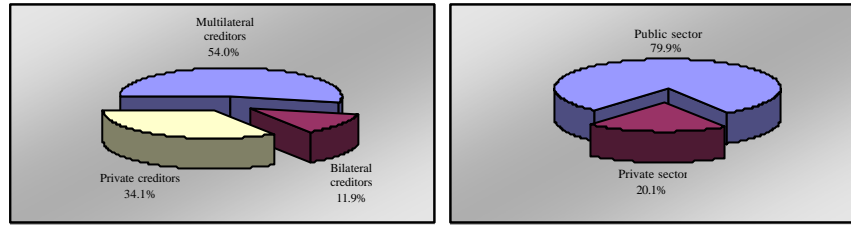
Analysed by months, the highest payments were registered in the first month of 2005, in the amount of US Dollar 32.2 million (payment of the first annual liability on the basis of the reschedule from 1995 to the Paris Club and the London Club of creditors), while in February and March paid liabilities were in the amount of US Dollar 9.3 million, and US Dollar 20.5 million, respectively.

Quarterly decline in the  
long-term external debt of  
1.8%...

At the end of March 2004, **the external debt** of the Republic of Macedonia stood at US Dollar 1,926.4 million, which is a decline of US Dollar 36.2 million, or of 1.8% relative to end-2004. Given the higher amount of borrowed funds relative to the paid principal, the reduction of the long-term credit is entirely due to the foreign exchange gains. In the first quarter of 2005, new medium-term and long-term loans and credits with private creditors were concluded in the amount of US Dollar 24.7 million.

The structure of the total long-term debt with regard to the creditors indicates greater share of the official relative to the private creditors (65.9% and 34.1%, respectively). The structural analysis from the aspect of the debtors shows that 79.9% of the long-term debt pertain to the public sector, while the share of the private sector is 20.1%.

Figure 39  
Structure of the long-term debt as of 31.03.2005



Source: National Bank of the Republic of Macedonia

...and a quarterly increase  
in the short-term debt of 3%

At the end of the first quarter of 2005, the short-term debt, which entirely pertains to the private sector, totals US Dollar 75.4 million, which is an increase of US Dollar 2.2 million relative to end-2004. In the first quarter of 2005, the private sector used short-term foreign credits in the amount of US Dollar 6 million, while the paid liabilities (principal and interest) were in the amount of US Dollar 0.6 million.

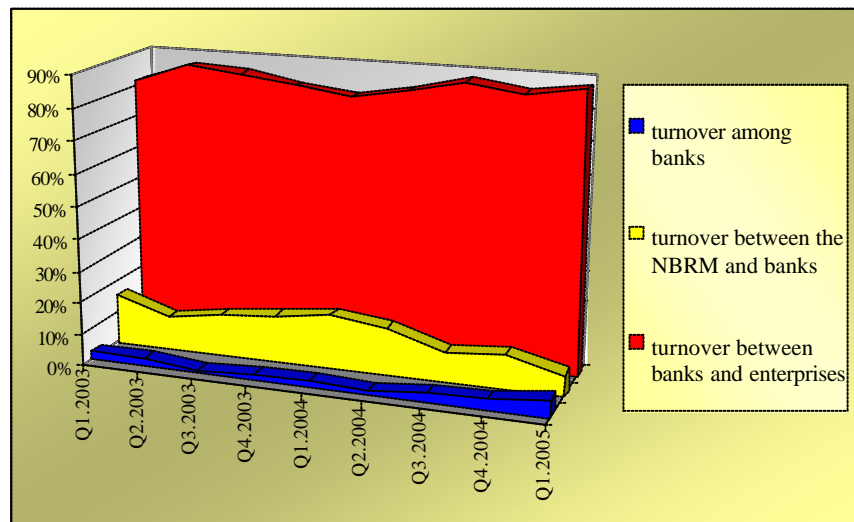
## 8.

## Foreign exchange developments

Quarterly decline in the  
turnover on the foreign  
exchange market of 19.1%

The favourable movements in the external current and capital transactions of the Republic of Macedonia in the first quarter of 2005 reflected on the supply of and the demand for foreign exchange on the **foreign exchange market**. The reduced demand for foreign exchange caused by the stable movements in the imports led to a quarterly decline in the overall turnover on the foreign exchange market of 19.1%, where the turnover totalled US Dollar 979.8 million. The decline in the turnover on the foreign exchange market is mainly due to the reduced turnover between the banks and the enterprises and the turnover made by the NBRM (share of 72.5% and 27.5%, respectively, in the change of the total turnover). The structural analysis of the turnover on the foreign exchange market in the first quarter of 2005 shows that the share of the segment banks - enterprises in the total turnover on the foreign exchange market increases, still having a dominant share of 87.6% (85.2% in the fourth quarter of 2004).

Figure 40  
Share of the separate segments in the total turnover on the foreign exchange market  
(in %)



Source: National Bank of the Republic of Macedonia



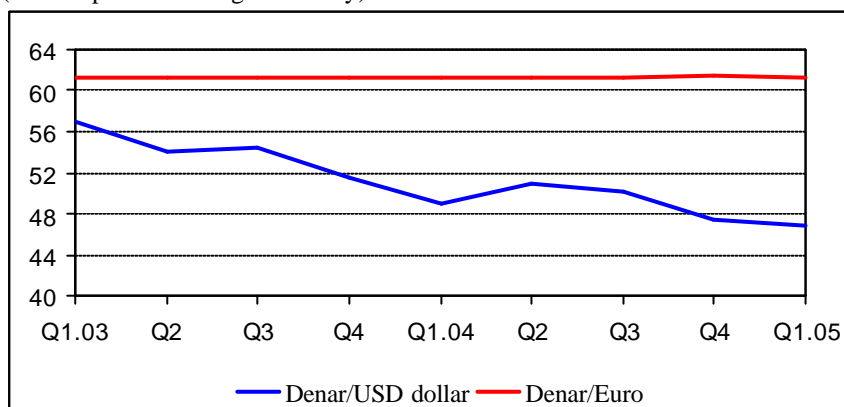
From the viewpoint of the monthly dynamics, the highest turnover on the foreign exchange market during the first quarter was realized in March, in the amount of US Dollar 374.1 million, which coincides with the higher volume of the foreign trade. The turnover registered in this month was by US Dollar 47.5 million higher relative to the quarterly average amount.

*The Denar exchange rate against the Euro in the first quarter of 2005 remained stable...*

The increase in the exports in the first quarter of 2005, as well as the decision on increasing the reserve requirement rate from 7.5% to 10% (in force since January 11, 2005), led to higher supply of foreign exchange on the foreign exchange market. In line with the monetary strategy of the NBRM of exchange rate targeting, in the first quarter of 2005, NBRM intervened by a net-purchase of foreign exchange from the commercial banks. Regarding the monthly dynamics of the supply of and the demand for foreign exchange on the foreign exchange market, stable movements were registered in the first quarter. In February, given the significant monthly increase of the supply of foreign exchange, NBRM registered the highest net-purchase of foreign exchange. In line with the NBRM interventions, the exchange rate of the Denar relative to the Euro on the foreign exchange market remained stable, with Denar 61.43 being traded per one Euro on average. In the first quarter, the exchange rate of the Denar relative to the US Dollar equalled Denar 46.86 per one US Dollar, on average, with the Denar registering a quarterly appreciation of 1.4% (Denar 47.52 per one US Dollar, on average, were traded in the last quarter of 2004).

Figure 41

Average exchange rate of the Denar relative to the US Dollar and the Euro on the foreign exchange market  
(Denars per unit foreign currency)



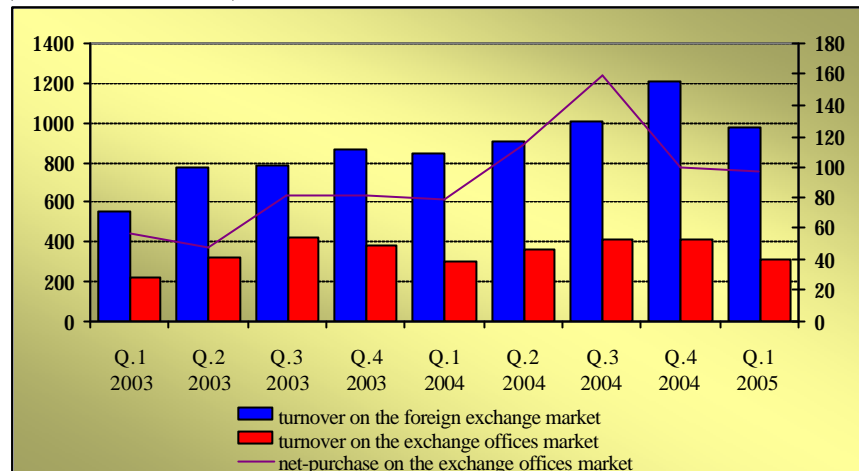
Source: National Bank of the Republic of Macedonia

*The turnover on the exchange offices market decreased by 25% on a quarterly basis*

In the first quarter of 2005, the overall turnover on the exchange offices market equaled US Dollar 305 million, which is a decrease of 25% compared to the last quarter of the previous year. Both the supply of and the demand for foreign exchange registered a decline (20.3% and 32.7%, respectively), with a net purchase on the exchange offices market in the amount of US Dollar 97.7 million being registered (US Dollar 98.7 million in the last quarter of 2004). Relative to the first quarter of 2004, the total turnover on the foreign exchange market in the first quarter of 2005 increased by 0.6%, with the supply being higher by 5.4%, while the demand being lower by 7.6%.

Figure 42

Movements in the total turnover on the foreign exchange and the exchange offices market  
(in millions of US Dollars)

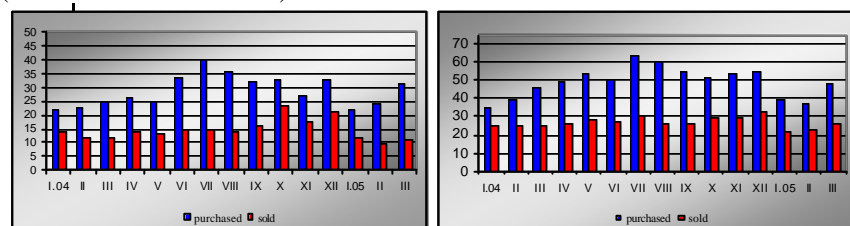


Source: National Bank of the Republic of Macedonia

Analysed by months, the demand for foreign exchange on the exchange offices market was relatively stable, while on the side of the supply of foreign exchange larger oscillations were registered. The highest monthly net-purchase of foreign exchange was registered in March, in the amount of US Dollar 41.7 million. The structural analysis reveals that most of the turnover on the exchange offices market (64.1%) was realised through private exchange offices, while the remaining 35.9% were carried out through the commercial banks. The currency structure of the supply shows high share of the Euro, the Swiss Frank, and the US Dollar of 58.6%, 25.8%, and 10.7%, respectively. Dominant currency on the demand side was the Euro (81.3%), while the demand for the Swiss Frank and the US Dollar is lower (10.2% and 5.7%, respectively).

Figure 43

Turnover on the exchange offices market  
(in millions of US Dollars)



In the first quarter of 2005, the average Denar exchange rate relative to the Euro on the exchange offices market equaled Denar 61.63 per one Euro, which is a minimum depreciation of 0.1% (Denar 61.58 per one Euro, on average in the previous quarter). Relative to the US Dollar, the Denar appreciated by 1.9%, with Denar 46.8 being traded on average per one US Dollar (Denar 47.72 per one US Dollar, on average, in the previous quarter).

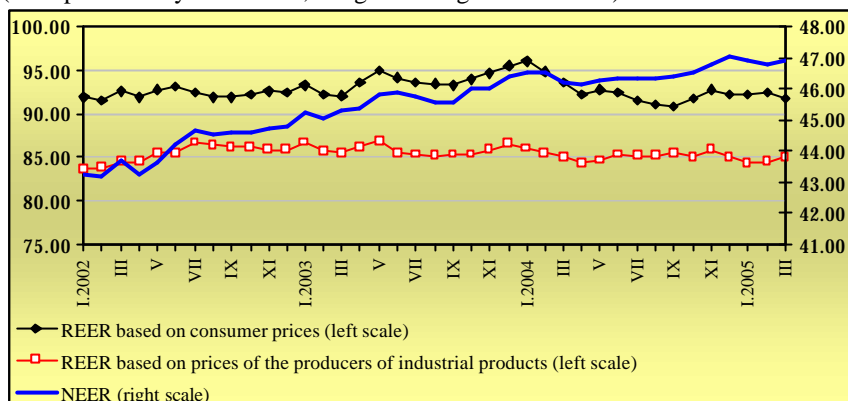
*Minimum depreciation of the real effective exchange rate of the Denar*

**In the first quarter of 2005, the real effective exchange rate of the Denar (REER),** as an indicator of the external competitiveness of the economy, shows an increased competitiveness of the Republic of Macedonia at the foreign markets, compared with the last quarter of 2004. The average quarterly REER in the first quarter of 2005, measured by the consumer prices and by the prices of the producers of industrial products, registered moderate depreciation relative to the average quarterly REER in the last quarter of 2004. Given the minimum appreciation of the nominal effective exchange rate (of 0.1%), the minimum



depreciation of the REER of 0.1%, measured by the consumer prices, is primarily due to the higher inflationary movements with the foreign partners (increase of 0.5%), with a simultaneous slight increase in the domestic consumer prices of 0.2%. According to the price index of the producers of industrial products, REER depreciated by 0.8%, which is a result of the increase in the foreign prices (of 0.8%), when the domestic prices registered a decline (of 0.1%).

Figure 44  
Index of the REER\* and NEER of the Denar  
(base period May 1993=100, weights foreign trade=1998)

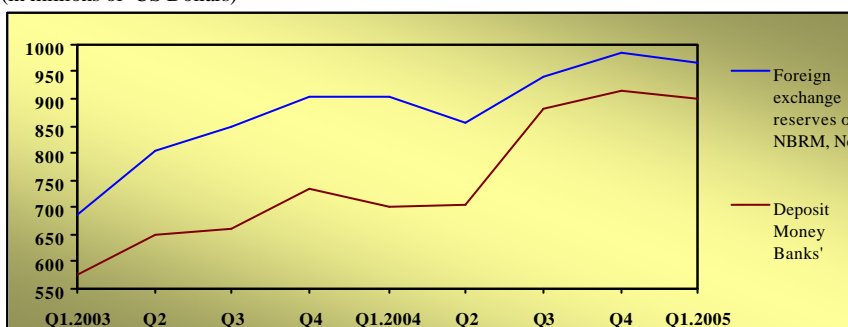


\*Index below 100 denotes an increased export competitiveness.

Source: National Bank of the Republic of Macedonia

In line with the favourable movements in the external sector, at the end of the first quarter, the **gross foreign reserves** increased by US Dollar 13.4 million. This increase was offset by the negative foreign exchange gains (US Dollar 35 million). Accordingly, at the end of March, gross foreign reserves stood at US Dollar 964.1 million, which is a decline of 2.2% relative to the end of the previous year<sup>16</sup>. At the end of the first quarter of 2005, the gross foreign reserves cover 3.8 months of imports of goods (fob) and services realized in the first quarter of the year (3.1 months of imports in the previous quarter).

Figure 45  
Foreign assets of the NBRM and foreign assets with banks  
(in millions of US Dollars)



Source: National Bank of the Republic of Macedonia

At the end of the quarter, the total foreign assets with the deposit money banks amounted to US Dollar 899.5 million, and relative to the end of the previous year they dropped by US Dollar 15 million. Such a movement in the foreign assets of banks is entirely a result of the reduced foreign exchange deposits of the enterprises.

<sup>16</sup> At the end of the first quarter of 2005, gross foreign reserves, expressed in Euros, totaled 744.8 million, which is an increase of Euro 20.3 million relative to the end of 2004.



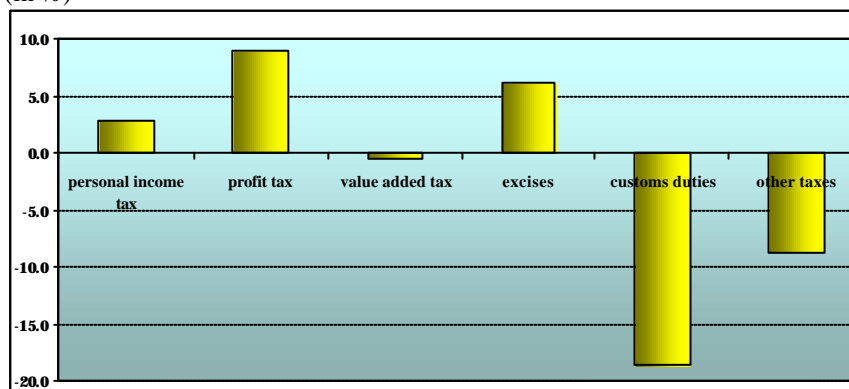
*Decline of 8.9% in the revenues of the central government in the first quarter of 2005, relative to the same period of 2004...*

In the first quarter of 2005, the total public revenues equalled Denar 20.112 million and on annual basis (first quarter of 2005 / first quarter of 2004), they were by 5.2% lower, reflecting, primarily, the lower revenues of the central government budget by 8.9% (Denar 12.844 million). A decline was registered in all three categories of budget revenues. Thus, in the first quarter, tax revenues (structural share of 94.8%) registered a decline of 3.1% on annual basis, mainly as a result of the lower amount of revenues from the collection of VAT and excises (by 5.9% and 1.4%, respectively), while the revenues from customs duties, as well as other taxes, registered a decline. On the other hand, an increase was registered in the revenues from the collection of the personal income tax and the profit tax (of 5.5% and 12.7%). In the first quarter, 42% of the revenues from the profit tax projected for 2005 were realized, which is the best accomplishment within the budget revenues during the analysed period.

#### Tax revenues for 2005 (projected 2005/realized 2004)

Budget revenues for 2005 are projected at the level of Denar 56,502 million, which is by 0.8% less relative to the total revenues of the central government realized in 2004. Tax revenues, as the most important component of the budget revenues (structural share of 92.6%) are projected at Denar 52,321 million, which is an amount by 0.4% lower relative to the tax revenues realized in the previous year. The lower expected level of tax revenues for 2005 is mainly due to the planned revenues from the value added tax (the share of which in the total tax revenues is 49%), and from the customs duties. Thus, the revenues from collection of the value added tax are lower by 0.4%, while the expected amount of revenues from customs duties for 2005, compared with those realized in 2004, is significantly lower (by 18.6%), due to the commenced process of reduction of the customs duties, deriving from the membership of the Republic of Macedonia in the WTO, as well as the further liberalization of the trade with countries with which the Republic of Macedonia has concluded free trade agreements.

Figure 46  
Tax revenues (projected 2005/realized 2004)  
(in %)



On the other hand, the revenues obtained from the personal income tax were projected at a higher level (by 2.9%) in 2005, relative to the realization of the budget for 2004, in line with the expected increase in the average wages per employee, in the employment (by restarting some of the companies), as well as due to the effect of the implementation of the Law on financing the local government units, which will lead to obtaining additional revenues on this basis.

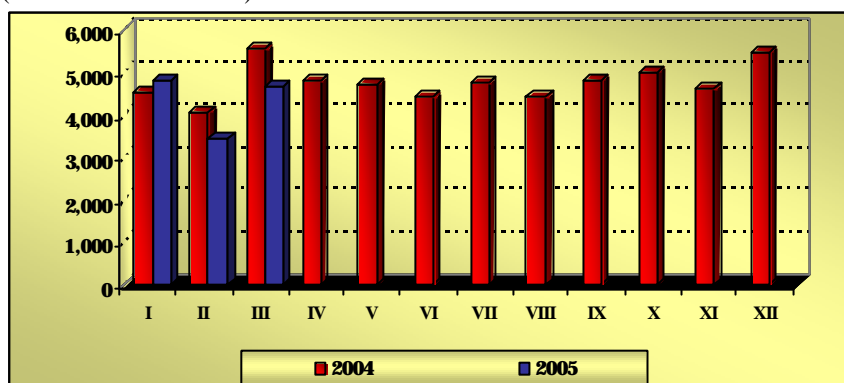
Higher revenues in 2005 are also expected from the collection of the profit tax, which corresponds with the expectations for accelerating the economic activity,

as well on the basis of the excises, according to the expected increase in the consumption of excise products (oil derivatives, alcohol beverages, and tobacco products). This amount includes the effect of the commenced process of reconciliation of the excise rates on domestic and imported cigarettes, that will end up with their unification in 2007.

Source: Ministry of Finance of the Republic of Macedonia

The non-tax revenues were significantly lower in the first three months of 2005, relative to the same period of the previous year (by 59%), with a simultaneous fast decline being registered in the capital revenues (of 36%). The decline in the non-tax revenues is primarily due to the expected, still not yet collected, dividend from the government shares in "Telecom". On the other hand, the reduction in the capital revenues reflects the decline in the revenues from the sale of state-owned construction site and the revenues from the sale of the state-owned flats.

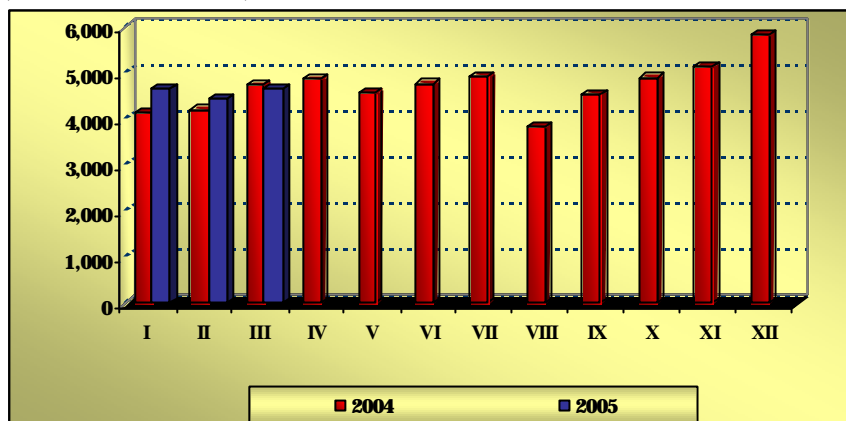
Figure 47  
Total revenues of the central budget  
(in millions of Denars)



*...while budget expenditures increased by 5.5% in the first three months of 2005.*

In the first quarter of 2005, the total public expenditures equalled Denar 21,349 million, Denar 13,815 of which are expenditures of the central government budget. On annual level (first quarter of 2005 / first quarter of 2004), budget expenditures were higher by 5.5%, reflecting the simultaneous increase in current and capital expenditures (by 3.4% and 42.2%, respectively). Higher current expenditures are mainly a result of the higher expenditures for payment of wages and salaries by 4.6% and higher transfers by 2.2%, whose joint structural share in the total budget expenditures is 75.3%. On the other hand, capital expenditures also register quarterly increase. The registered intensification of the public investments in fixed assets is an impetus for increasing the economic activity.

Figure 48  
Total expenditures of the central budget  
(in millions of Denars)



In the first three months of 2005, the total revenues and expenditures of the social funds stood at Denar 12,184 million, and Denar 12,530 million, respectively, which is an increase of 0.9% and 1.2%, respectively, relative to the same period of the previous year. The increase in the revenues of the social funds in the first quarter of 2005, is a result of the increased revenues of the Pension Fund and of the Employment Fund (by 1.5% and 0.4%, respectively). The increase in the expenditures is caused by the higher spending of the Health Insurance Fund and of the Employment Fund (by 4% and 0.8%, respectively). In the first quarter of 2005, the revenues and the expenditures of the Road Fund totalled Denar 554 and 457 million, respectively (a decline of 8.7% and 27.6%, respectively).

As of March 31, 2005, the total internal debt of the central government<sup>17</sup> amounted to Euro 613.26 million<sup>18</sup> (Denar 37,668.2 million), while at the end of 2004 it totalled Euro 557.4 million<sup>19</sup> (Denar 34,247.2 million). In the first quarter of 2005, the bond from the fourth issue of the denationalization bond was issued, in the amount of Euro 58 million, with repayment period of ten years, and the first repayment of principal and interest due on June 1, 2006. In the first quarter, Denar 116 million were repaid on the basis of interests for the internal debt of the government, according to the schedule for repayment of interest on the basis of the issued government bonds.

#### Liberalization of Maastricht Criteria ("Stability and Growth Pact")

At the end of March 2005, at the conference of the EU member-countries held in Brussels, for the first time a change in the main principles of the Stability and Growth Pact\* was made, which simultaneously denotes a de facto change in two of the five Maastricht criteria, budget deficit and public debt. Permitted deviations from the initial criteria in precisely specified cases were defined - budget deficit of 3% of GDP and public debt of 60% of GDP. The reasons behind such changes were the permanently growing budget deficits in the member-countries, a trend which commenced in 2001) and their inability to reduce those deficits to the previously set limits. Therefore, the European Council, on proposal of individual member-countries has defined the conditions, tolerating higher budget deficits and higher public debt. Instead of a period of

<sup>17</sup> On the basis of the bond issued for rehabilitation of Stopanska Banka; the bond for credits for selected purposes; the bond for frozen foreign currency deposits; the bond for privatization of Stopanska Banka, as well as the first, the second, the third and the fourth issue of the denationalization bond.

<sup>18</sup> The Euro conversion was made at the exchange rate of Denar 61.4229 per one Euro.

<sup>19</sup> The Euro conversion was made at the exchange rate of Denar 61.4410 per one Euro.

one year for reducing the budget deficit to the defined limit, the country facing economic problems (recession), is permitted to do it within five years. Also, higher deficit will be tolerated if it derives from higher expenditures for education, research and development, defence, structural reforms or expenditures for achieving the objectives of the European policy.

Figure 1  
Deficit in the member-countries, 2004  
(% of GDP)

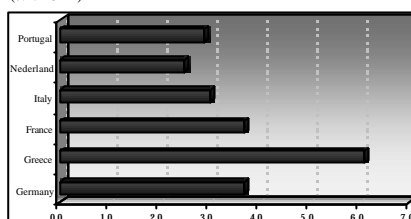
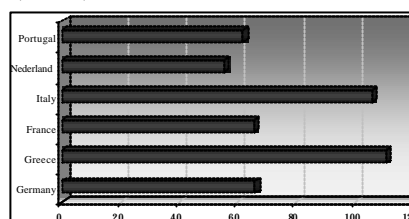


Figure 2  
Public debt of the member countries, 2004  
(% of GDP)



Source: ECB, "Monthly Bulletin", April 2005

The institutional structure of the Euro-system, which is characterized by a centralized monetary policy and decentralized fiscal policies in the period so far, generates, in certain countries, chronically high fiscal deficits and hence, high public debt. The negative budget balances (which is a negative fiscal externality) could reflect on the value of the Euro, the long-term interest rates and the inflationary expectations at the level of the Union, and consequently, on the single monetary policy of the ECB. In order to minimize such potential risks, in 1997, the Stability and Growth Pact was established, as a framework for coordinating the decentralized fiscal policies of the member countries and providing short-term flexibility and medium-term fiscal discipline.

Having in mind the fact that by entering the EMU, the member-countries gave up their autonomous monetary policy and hence, the possibility to influence the economic cycle by changing the interest rates, the only instrument available is the fiscal policy. Therefore, the latest "liberalization" of the Maastricht criteria within the Stability and Growth Pact allows for further increase in the budget deficits. At the moment, three EU member-countries (Greece, Germany and France) still have deficits higher than 3% of GDP, with the highest deviation registered in Greece, whose deficit in 2004 reached 6.1% of GDP. The potential risk from a complementary influence of the decentralized fiscal policies on the centralized monetary policy is the possible increase in the long-term interest rates. Further challenge for the Euro-area is the trend of aging of the population and the pension system reforms in certain countries, which given the already high budget deficits, presume even higher expenditures in the future. The situation may become even more complicated with the admission of the new members to the Union, which will be primarily obliged to meet the initially set convergence criteria, including those that pertain to the budget deficit and public debt, at a time when the existing members do not adhere to those criteria.

\*The Stability and Growth Pact was established as a fiscal framework for reconciliation of the decentralized budget policies of the EU member-countries.

Source:

Anthony Annett and Albert Jaeger, "Europe's Quest for Fiscal Discipline", *Finance & Development*, June, 2004;

David Walton, Angel Ubide and Mark Hallerberg, "How should the Stability and Growth Pact be reformed? - three points of view on the future of Europe's fiscal pact", *Finance & Development*, June 2004;

Feldstein Martin, "The euro and the stability pact", *NBER working paper 11249*, April 2005;

"Debasing the currency", *Economist*, March, 23rd, 2005;

"Dodging the difficult stuff", *Economist*, March, 29th, 2005;

Monthly Bulletin, *ECB*, April, 2005.



## Statistical appendix

### 1. Prices

**Table 1**

Costs of living and retail prices

	III.2005 II.2005	III.2005 III.2004	I-III.2005 I-III.2004
	in %		
<b>Costs of living</b>	<b>-0.1</b>	<b>0.2</b>	<b>-0.4</b>
Food	0	-2.4	-3.6
Tobacco and beverages	0	6.4	5.8
Clothing and footwear	-0.7	4.1	3.9
Housing	0.2	0.3	-0.2
Flat (rent, water, services)	-0.2	1.1	-1
Fuel and lighting	0.3	0.7	0.4
Hygiene	-0.5	-3.3	-2.8
Culture and entertainment	-0.8	-1.1	-0.6
Transport, communications, services	0.1	3.9	3.9
<i>Goods</i>	<i>0</i>	<i>-0.3</i>	<i>-1</i>
<i>Services</i>	<i>-0.3</i>	<i>2</i>	<i>2.1</i>
<b>Retail prices</b>	<b>0.1</b>	<b>1.7</b>	<b>1.3</b>
Agricultural products	-0.5	-2.9	-5.1
Non-food industrial products	0.4	2.2	1.7
Processed food products	-0.1	-2.7	-3.2
Beverages	0	3.5	2
<i>Goods</i>	<i>0.2</i>	<i>0.6</i>	<i>0</i>
<i>Services</i>	<i>0</i>	<i>3.3</i>	<i>3.4</i>

Source: State Statistical Office of the Republic of Macedonia



**Table 2**

Prices of producers of industrial products

	III.2005	III.2005	I-III.2005
	II.2005	III.2004	I-III.2004
	in %		
<b>Prices of producers of industrial products</b>	<b>0.8</b>	<b>2.3</b>	<b>1.9</b>
Energy	3.6	7.6	5.7
Intermediary goods (except Energy)	-0.1	1.8	2.2
Capital goods	0	0	0
Durable consumer goods	0	3	3
Non durable consumer goods	0	-0.4	-0.8
<i>Mining and quarrying</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Manufacturing industry</i>	<i>1</i>	<i>2.8</i>	<i>2.3</i>
Manufacture of food products and beverages	-0.1	-1.1	-1.5
Manufacture of tobacco products	0	0.4	0.4
Manufacture of textiles	0	-1.6	-1.6
Manufacture of wearing apparel; dressing and dyeing of fur	0	0	0
Publishing, printing and reproduction of recorded media	0	0	0
Manufacture of coke, refined petroleum products and nuclear fuel	9.6	21.6	17
Manufacture of chemicals and chemical products	0	0.1	0
Manufacture of rubber and plastic products	0	0	0
Manufacture of other non-metallic mineral products	0	-0.3	-0.3
Manufacture of basic metals	0	0	0
Manufacture of fabricated metal products, except machinery and equipment	0	0	0
Manufacture of electrical machinery and apparatus n.e.c.	0	8.5	10.1
<i>Electricity, gas and water supply</i>	<i>0</i>	<i>0</i>	<i>0</i>

\* Previous data

Source: State Statistical Office of the Republic of Macedonia



**Table 3**

Consumers' basket for food and beverages\*

	Amounts			Monthly changes			Annual changes		
	I.2005	II.2005	III.2005	I.2005 XII.2004	II.2005 I.2005	III.2005 II.2005	I.2005 I.2004	II.2005 II.2004	III.2005 III.2004
	in Denar			in %			in %		
<b>Total</b>	<b>9,838</b>	<b>9,971</b>	<b>9,895</b>	<b>-0.1</b>	<b>1.4</b>	<b>-0.8</b>	<b>-6.0</b>	<b>-3.0</b>	<b>-3.3</b>
Cereal and cereal products	1,821	1,822	1,821	-0.6	0.1	-0.1	-8.9	-8.3	-7.6
Vegetables, fresh and processed	1,312	1,426	1,349	0.5	8.7	-5.4	-15.3	-8.1	-9.5
Fruit, fresh and processed	641	653	656	-2.7	1.9	0.5	-10.7	-6.7	-8.3
Meat, fresh and processed	2,370	2,373	2,369	1.4	0.1	-0.2	-1.2	2.5	2.4
Fats	374	371	371	0.0	-0.8	0.0	-7.7	-6.3	-6.1
Milk and dairy products	1,609	1,613	1,616	-1.4	0.2	0.2	-2.4	-1.0	-2.2
Other food products	1,711	1,713	1,713	0.3	0.1	0.0	-1.5	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



## 2. Economic activity

**Table 4**  
Industrial output

	Structure in %	<u>III.2005</u> <u>II.2005</u>	<u>III.2005</u> <u>III.2004</u>	<u>I-III.2005</u> <u>I-III.2004</u>
		in %		
<b>Total</b>	<b>100.0</b>	<b>8.7</b>	<b>0.3</b>	<b>4.8</b>
Energy	<b>21.8</b>	-2.7	-6.7	1.9
Intermediary goods (except Energy)	<b>33.8</b>	23.7	11.2	14.0
Capital goods	<b>4.8</b>	-28.7	-1.3	-1.4
Durable consumer goods	<b>1.4</b>	15.8	-27.4	-19.2
Non durable consumer goods	<b>38.1</b>	9.0	-3.4	0.8
<i>Mining and quarrying</i>	<b>1.8</b>	<b>44.1</b>	<b>-26.1</b>	<b>-21.4</b>
<i>Manufacturing industry</i>	<b>79.4</b>	<b>10.0</b>	<b>1.5</b>	<b>5.8</b>
Manufacture of food products and beverages	20.0	17.1	-5.2	-4.9
Manufacture of tobacco products	3.9	63.3	-28.7	-26.4
Manufacture of textiles	2.5	-19.9	-27.8	-11.9
Manufacture of wearing apparel; dressing and dyeing of fur	8.6	7.9	2.2	9.4
Publishing, printing and reproduction of recorded media	3.9	2.9	11.1	3.3
Manufacture of coke, refined petroleum products and nuclear fuel	3.0	-36.3	-40.2	-9.5
Manufacture of chemicals and chemical products	5.9	2.7	1.5	10.6
Manufacture of rubber and plastic products	2.6	70.8	10.8	-10.4
Manufacture of other non-metallic mineral products	8.1	2,1 times	5.4	5.1
Manufacture of basic metals	6.0	1.1	73.9	82.0
Manufacture of fabricated metal products, except machinery and equipment	3.8	-12.5	44.8	30.0
Manufacture of electrical machinery and apparatus n.e.c.	3.2	-0.4	1.3	-4.4
<i>Electricity, gas and water supply</i>	<b>18.8</b>	<b>2.7</b>	<b>-1.2</b>	<b>3.6</b>

Source: State Statistical Office of the Republic of Macedonia





**Table 5**

Trade turnover

	Amounts				Monthly changes			Annual changes			Average changes
	I.2005	II.2005	III.2005	I-III.2005	<u>I.2005</u>	<u>II.2005</u>	<u>III.2005</u>	<u>I.2005</u>	<u>II.2005</u>	<u>III.2005</u>	<u>I-III.2005</u>
	in Denar million				XII.2004	I.2005	II.2005	I.2004	II.2004	III.2004	I-III.2004
					in %			in %			in %
Trade turnover - total	<b>13,112</b>	<b>13,501</b>	<b>16,199</b>	<b>42,812</b>	<b>-12.3</b>	<b>30</b>	<b>20.0</b>	<b>28.5</b>	<b>28.5</b>	<b>29.6</b>	<b>28.9</b>
Retail sales	4,820	4,670	5,628	15,118	-12.6	-3.1	20.1	17.9	14.1	21.1	17.8
Whole sales	8,292	8,831	10,571	27,694	-12.1	6.5	19.7	35.6	37.7	34.6	35.9

Source: State Statistical Office of the Republic of Macedonia

**Table 6**

Contracted and completed construction works

	Amounts				Monthly changes			Annual changes			Average changes
	I.2005	II.2005	III.2005	I-III.2005	<u>I.2005</u>	<u>II.2005</u>	<u>III.2005</u>	<u>I.2005</u>	<u>II.2005</u>	<u>III.2005</u>	<u>I-III.2005</u>
	in Denar million				XII.2004	I.2005	II.2005	I.2004	II.2004	III.2004	I-III.2004
					in %			in %			in %
Value of contracted construction works	3,871	139	209	4,219	11 times	-96.4	50.7	-12.5	-52.7	-85.7	-31.8
Value of completed construction works	219	286	393	898	-73.7	30.3	37.7	-21.4	-41.5	-36.5	-35.2

Source: State Statistical Office of the Republic of Macedonia



### 3. Wages and employment

**Table 7**

Employment by activities and sectors \*

	I.2005	II.2005	III.2005	I-III.2005	
	Number of employed			Average number of employed	Structure in %
<b>Total</b>	<b>252,719</b>	<b>251,930</b>	<b>252,394</b>	<b>252,349</b>	<b>100.0</b>
<b>Agriculture</b>	<b>10,056</b>	<b>10,006</b>	<b>9,967</b>	<b>10,010</b>	<b>4.0</b>
Agriculture, hunting and forestry	9,900	9,850	9,811	9,854	3.9
Fishing	156	156	156	156	0.1
<b>Industry</b>	<b>117,574</b>	<b>116,529</b>	<b>116,918</b>	<b>117,007</b>	<b>46.4</b>
Minerals and stone mining	2,310	2,298	2,296	2,301	0.9
Manufacturing	82,131	81,474	81,963	81,856	32.4
Electricity, gas and water supply	14,112	14,098	14,112	14,107	5.6
Construction	19,021	18,659	18,547	18,743	7.4
<b>Services</b>	<b>125,089</b>	<b>125,395</b>	<b>125,509</b>	<b>125,331</b>	<b>49.7</b>
Wholesales and retail sales, mending of motor vehicles, motorbikes and personal consumption items	12,263	12,324	12,275	12,287	4.9
Hotels and restaurants	4,127	4,098	4,094	4,107	1.6
Transport, storage and communications	15,934	15,855	15,807	15,866	6.3
Financial intermediation	5,604	5,570	5,581	5,585	2.2
Real estate and business activities	6,289	6,364	6,460	6,371	2.5
Public authorities and defense, compulsory social welfare	14,563	14,767	14,826	14,719	5.8
Education	29,388	29,565	29,653	29,535	11.7
Health and social work	28,102	28,130	28,074	28,102	11.1
Other public utility services, general and personal services	8,819	8,722	8,739	8,760	3.5

\* The monthly data on the employment of the State Statistical Office of the Republic of Macedonia do not correspond to the data of the Labour Force Survey due to the different methodology.

Source: State Statistical Office of the Republic of Macedonia

**Table 8**

Average net wages

	III.2005	I-III.2005	III.2005 II.2005	III.2005 III.2004	I-III.2005 I-III.2004
	in denars		in %		
<b>Nominal average net wage per worker</b>	<b>12,413</b>	<b>12,393</b>	<b>1.4</b>	<b>2.2</b>	<b>3.0</b>
Costs of living			-0.1	0.2	-0.4
<b>Real average net wage per worker</b>			<b>1.5</b>	<b>2.0</b>	<b>3.4</b>
<b>Nominal average net wage by sectors</b>					
Agriculture	11,454	11,131	7.4	1.1	14.2
Industry	12,786	12,535	6.5	5.8	4.6
Services	14,335	14,244	1.0	3.3	3.7

Source: State Statistical Office of the Republic of Macedonia



## 4. Monetary policy

**Table 9**

Reserve money  
(in Denar million)

	<b>31.12.2004</b>	<b>Monthly changes</b>			<b>Total</b>	<b>31.03.2005</b>
		January	February	March		
Reserve money	<b>17,745</b>	<b>425</b>	<b>-964</b>	<b>-152</b>	<b>-691</b>	<b>17,054</b>
Currency in circulation	14,162	-798	-2	-155	-955	13,207
Banks liquidity	3,583	1,223	-962	3	264	3,847

Source: National Bank of the Republic of Macedonia

## 5. Banking sector

**Table 10**

Money supply M1 and its components  
(in Denar million)

	<b>31.12.2004</b>	<b>Monthly changes</b>			<b>Total</b>	<b>31.03.2005</b>
		January	February	March		
Money supply M1	27,595	-1,011	422	-58	-647	26,948
Currency in circulation	14,162	-798	-2	-155	-955	13,207
Demand deposits	13,433	-213	424	97	308	13,741
- Demand deposits of households	2,710	-89	195	-121	-15	2,695
- Demand deposits of enterprises	8,988	-174	269	131	226	9,214

Source: National Bank of the Republic of Macedonia

**Table 11**

Broader monetary aggregates and their components  
(in Denar million)

	<b>31.12.2004</b>	<b>Monthly changes</b>			<b>Total</b>	<b>31.03.2005</b>
		January	February	March		
Money supply M1	27,595	-1,011	422	-58	-647	26,948
Denar short - term deposits	20,483	506	959	1,388	2,853	23,336
Monetary aggregate M2 - denar component	48,078	-505	1,381	1,330	2,206	50,284
Foreign currency short - term deposits	40,808	1,682	169	-164	1,687	42,495
Monetary aggregate M2	88,886	1,177	1,550	1,166	3,893	92,779
Non - monetary deposits	5,061	-269	-194	46	-417	4,644
- In Denar	3,360	-329	43	37	-249	3,111
- In foreign currency	1,701	60	-237	9	-168	1,533
Monetary aggregate M4	93,947	908	1,356	1,212	3,476	97,423

Source: National Bank of the Republic of Macedonia



**Table 12**

Total deposits of the non-government sector  
(in Denar million)

	<b>31.12.2004</b>	<b>Monthly changes</b>			<b>Total</b>	<b>31.03.2005</b>
		January	February	March		
<b>Total deposits</b>	<b>66,352</b>	<b>1,919</b>	<b>934</b>	<b>1,270</b>	<b>4,123</b>	<b>70,475</b>
<b>1. According to maturity</b>						
- short-term	61,291	2,188	1,128	1,224	4,540	65,831
- long-term	5,061	-269	-194	46	-417	4,644
<b>2. According to currency of denomination</b>						
- In denar	23,843	177	1,002	1,425	2,604	26,447
- In foreign currency	42,509	1,742	-68	-155	1,519	44,028

Source: National Bank of the Republic of Macedonia

**Table 13**

Households and enterprises deposits  
(in Denar million)

	<b>31.12.2004</b>	<b>Monthly changes</b>			<b>Total</b>	<b>31.03.2005</b>
		January	February	March		
<b>Total households deposits</b>	<b>44,437</b>	<b>1,207</b>	<b>600</b>	<b>825</b>	<b>2,632</b>	<b>47,069</b>
<b>1. According to maturity</b>						
- short-term	41,582	1,543	957	805	3,305	44,887
- long-term	2,855	-336	-357	20	-673	2,182
<b>2. According to currency of denomination</b>						
- In denar	11,881	251	148	240	639	12,520
- In foreign currency	32,556	956	452	585	1,993	34,549
<b>Total enterprises deposits</b>	<b>20,206</b>	<b>664</b>	<b>27</b>	<b>424</b>	<b>1,115</b>	<b>21,321</b>
<b>1. According to maturity</b>						
- short-term	19,085	642	112	388	1,142	20,227
- long-term	1,121	22	-85	36	-27	1,094
<b>2. According to currency of denomination</b>						
- In denar	10,537	-77	545	1,169	1,637	12,174
- In foreign currency	9,669	741	-518	-745	-522	9,147

Source: National Bank of the Republic of Macedonia

**Table 14**

Banks' placements and overdue claims  
(in Denar million)

	<b>31.12.2004</b>	<b>Monthly changes</b>			<b>Total</b>	<b>31.03.2005</b>
		January	February	March		
<b>Total banks' placements</b>	<b>57,097</b>	<b>735</b>	<b>1,473</b>	<b>1,015</b>	<b>3,223</b>	<b>60,320</b>
<i>Denar placements</i>	45,750	274	1,047	339	1,660	47,410
<i>Foreign currency placements</i>	11,347	461	426	676	1,563	12,910

Source: National Bank of the Republic of Macedonia



**Table 15**

Structure of total placements  
(in Denar million)

	<b>31.12.2004</b>	<b>Monthly changes</b>			<b>Total</b>	<b>31.03.2005</b>
		January	February	March		
<b>Maturity structure</b>						
- short-term	29,767	416	967	-150	1,233	31,000
- long-term	27,330	319	506	1,165	1,990	29,320
<b>Structure of currency of denomination</b>						
- Denar	45,750	274	1,047	339	1,660	47,410
- Foreign currency	11,347	461	426	676	1,563	12,910
<b>Structure by sectors</b>						
- enterprises	41,681	539	993	393	1,925	43,606
- households	15,276	205	455	631	1,291	16,567
- other	140	-9	25	-9	7	147

Source: National Bank of the Republic of Macedonia

**Table 16**

Maturity and sector structure of Denar and foreign currency placements

	<b>31.03.2005</b>	<b>Quarterly change</b>	<b>Annual change</b>
	(in %)	(in percentage points)	(in percentage points)
<b>Denar placements</b>			
maturity structure			
- short-term	54.9	-0.6	-7.5
- long-term	45.1	0.6	7.5
structure by sectors		0.0	0.0
- enterprises	65.9	-1.4	-8.6
- households	34.0	1.4	8.6
- other	0.1	0.1	0.0
<b>Foreign currency placements</b>			
maturity structure			
- short-term	38.5	0.1	-4.0
- long-term	61.5	-0.1	4.0
structure by sectors			
- enterprises	95.8	-0.2	-1.2
- households	3.6	0.4	3.2
- other	0.6	-0.3	-2.0

Source: National Bank of the Republic of Macedonia



## 6. Financial markets

**Table 17**

Stock exchange indicators

	January-March 2004	January-March 2005	change in %
<b>Turnover (denars)</b>			
<b>Trading in BEST*</b>	<b>549,313,865</b>	<b>1,766,297,095</b>	<b>221.55</b>
Shares	214,690,735	1,211,514,912	464.31
Bonds	334,623,130	554,782,183	65.79
Average daily turnover (denars)	10,986,277	34,633,276	215.24
Average daily number of transactions	86	148	72.09
<b>Block transactions</b>	<b>309,064,463</b>	<b>891,783,057</b>	<b>188.54</b>
<b>Government segment</b>	<b>67,739</b>	<b>281,331,641</b>	<b>-</b>
Shares	67,739	-	-
Stakes	-	281,331,641	-
Other securities	2,952,092	-	-
<b>Total</b>	<b>861,398,159</b>	<b>2,939,411,793</b>	<b>241.24</b>
<b>Market capitalization (denars)</b>			
<b>Market capitalization of shares - quoted companies</b>	<b>17,625,922,248</b>	<b>29,207,414,164</b>	<b>65.71</b>
<b>Market capitalization of bonds</b>	<b>22,000,060,168</b>	<b>24,205,266,540</b>	<b>10.02</b>
<b>Total market capitalization</b>	<b>39,625,982,416</b>	<b>53,412,680,714</b>	<b>34.79</b>
<b>Mbi/mbi-10</b>	<b>1,238</b>	<b>2,197</b>	<b>-</b>
<b>Number of quoted companies</b>	<b>92</b>	<b>64</b>	<b>-30.43</b>

\* Bourse electronic system for trading

Source: Macedonian Stock Exchange

**Table 18**

Turnover structure

Market segment	Turnover (denars)	Turnover (euros)	%	Number of transactions
Official market	1,726,796,020	28,119,804	58.75	7,206
Unofficial market	931,284,132	15,161,384	31.68	377
Government segment	281,331,641	4,586,374	9.57	15
<b>Total</b>	<b>2,939,411,793</b>	<b>47,867,562</b>	<b>100.00</b>	<b>7,598</b>

## 7. Balance of payments

**Table 19**

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

	III.2005	I-III.2005	III.2005 II.2005	%	III.2005 III.2004	%	I-III.2005 I-III.2004	%
	Amount		Amount		Amount		Amount	
<b>Foreign trade</b>	<b>437.2</b>	<b>1,175.3</b>	<b>56.8</b>	<b>14.9</b>	<b>65.3</b>	<b>17.6</b>	<b>193.2</b>	<b>19.7</b>
Exports	173.5	478.0	16.9	10.8	41.9	31.8	111.9	30.6
Imports	263.7	697.3	39.8	17.8	23.4	9.7	81.2	13.2
<b>Balance</b>	<b>-90.1</b>	<b>-219.3</b>	<b>-22.9</b>	<b>34.0</b>	<b>18.5</b>	<b>-17.0</b>	<b>30.7</b>	<b>-12.3</b>

Source: State Statistical Office of the Republic of Macedonia



**Table 20**

Ten most important trading partners of the Republic of Macedonia, I-III, 2005  
(at current exchange rate)

	Foreign trade		Exports		Imports		Import-export coverage ratio (in %)
	(in US Dollar million)	Share	(in US Dollar million)	Share	(in US Dollar million)	Share	
<b>Republic of MACEDONIA</b>	<b>1,175.3</b>	<b>100.0</b>	478.0	<b>100.0</b>	697.3	<b>100.0</b>	<b>68.5</b>
<i>out of which:</i>							
Germany	184.9	15.7	112.0	23.4	72.9	10.5	153.6
Greece	139.5	11.9	73.5	15.4	65.9	9.5	111.5
Serbia and Montenegro	132.2	11.2	73.7	15.4	58.5	8.4	126.0
Italy	80.3	6.8	43.3	9.1	37.0	5.3	117.1
Russia	82.4	7.0	5.0	1.1	77.4	11.1	6.5
Bulgaria	66.5	5.7	12.6	2.6	53.9	7.7	23.4
Turkey	39.2	3.3	14.8	3.1	24.4	3.5	60.8
Slovenia	36.8	3.1	8.0	1.7	28.8	4.1	27.8
Croatia	33.7	2.9	18.8	3.9	14.9	2.1	125.8
China	32.9	2.8	6.1	1.3	26.8	3.8	22.6
Total (10 largest trading partners)	828.3	70.5	367.8	76.9	460.5	66.0	79.9

Source: State Statistical Office of the Republic of Macedonia

**Table 21**

Foreign trade of the Republic of Macedonia with economic groups of countries  
(at current exchange rate)

	Exports			Imports			Structure	
	US Dollar million	index		US Dollar million	index		exports	imports
	I-III.2004	I-III.2005	I-III.2005 I-III.2004	I-III.2004	I-III.2005	I-III.2005 I-III.2004	(%) I-III.2005	(%) I-III.2005
<b>TOTAL</b>	<b>366.1</b>	<b>478.0</b>	<b>130.6</b>	<b>616.1</b>	<b>697.3</b>	<b>113.2</b>	<b>100.0</b>	<b>100.0</b>
Developed countries	256.6	338.9	132.0	367.1	380.1	103.5	70.9	54.5
EU	225.1	297.3	132.1	314.4	313.2	99.6	62.2	44.9
EFTA	1.8	1.9	106.1	9.4	12.4	132.1	0.4	1.8
Other developed countries	29.8	39.6	133.0	43.3	54.5	126.0	8.3	7.8
Countries of Centr. and East. Europe	23.4	23.6	100.5	136.7	181.3	132.6	4.9	26.0
Undeveloped countries	0.0	0.5	1,245.9	0.4	0.3	79.5	0.1	0.0
Developing countries	5.8	15.1	259.4	49.0	57.8	118.0	3.2	8.3
Republics of the former SFRY	80.1	99.9	124.7	62.9	77.8	123.7	20.9	11.2
Other countries	0.0	0.1	233.3	0.0	0.0	0.0	0.0	0.0

Source: State Statistical Office of the Republic of Macedonia

**Table 22**

Foreign trade of the Republic of Macedonia according to the economic use of the products  
(at current exchange rate)

	I-III 2005			
	Export		Import	
	US Dollar million	Share	US Dollar million	Share
<b>TOTAL</b>	<b>478.0</b>	<b>100.0</b>	<b>697.3</b>	<b>100.0</b>
Reproduction materials	264.7	55.4	449.2	64.4
Means of production	6.1	1.3	80.3	11.5
Consumption goods	207.1	43.3	167.4	24.0
Undistributed	0.1	0.0	0.4	0.1

Source: State Statistical Office of the Republic of Macedonia



**Table 23**

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

	Debt outstanding			Used credits				Paid liabilities			
	31.01.2005	28.02.2005	31.03.2005	I-2005	II-2005	III-2005	Q1.2005	I-2005	II-2005	III-2005	Q1.2005
<b>Official creditors</b>	<b>1,269.5</b>	<b>1,285.4</b>	<b>1,270.2</b>	<b>66</b>	<b>95</b>	<b>141</b>	<b>30.2</b>	<b>19.3</b>	<b>5.5</b>	<b>14.7</b>	<b>39.6</b>
out of which:											
<b>Multilateral</b>	<b>1,034.2</b>	<b>1,049.8</b>	<b>1,040.7</b>	<b>66</b>	<b>90</b>	<b>13.2</b>	<b>28.8</b>	<b>5.0</b>	<b>3.7</b>	<b>9.8</b>	<b>18.4</b>
MMF	61.2	61.7	60.8	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.3
IBRD	216.5	216.2	214.5	0.0	0.4	0.5	0.9	2.1	2.6	0.0	4.8
IFC	9.0	9.1	8.1	0.0	0.0	0.0	0.0	0.0	0.0	1.1	1.1
IDA	380.6	383.6	378.5	1.2	0.2	0.2	1.6	0.7	0.5	0.0	1.2
EIB	141.9	143.3	143.0	0.0	0.0	3.8	3.8	0.0	0.0	2.7	2.7
EUROFIMA	8.0	8.1	7.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Council of EDB	22.0	22.3	21.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
EBRD	66.6	75.5	77.7	5.4	7.8	8.5	21.8	1.7	0.2	5.5	7.4
EU	117.3	118.5	116.5	0.0	0.0	0.0	0.0	0.3	0.2	0.4	0.9
IFAD	10.5	11.2	11.2	0.0	0.6	0.2	0.8	0.0	0.0	0.0	0.0
European Agency for Reconstruction	0.5	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Bilateral</b>	<b>235.2</b>	<b>235.6</b>	<b>229.6</b>	<b>0.0</b>	<b>0.5</b>	<b>0.9</b>	<b>1.4</b>	<b>14.4</b>	<b>1.7</b>	<b>5.0</b>	<b>21.1</b>
Paris club (rescheduled 1995)	137.7	138.3	137.2	0.00	0.00	0.00	0.0	14.0	0.0	0.0	14.0
Non-rescheduled debt	8.6	8.7	8.6	0.00	0.00	0.00	0.0	0.0	0.0	0.0	0.0
Paris club (rescheduled 2000)	9.3	9.3	4.6	0.00	0.00	0.00	0.0	0.0	0.0	4.8	4.8
New credits	79.6	79.2	79.2	0.0	0.5	0.9	1.4	0.4	1.7	0.2	2.3
<b>Private creditors</b>	<b>649.1</b>	<b>651.4</b>	<b>656.1</b>	<b>18.1</b>	<b>2.7</b>	<b>8.9</b>	<b>29.7</b>	<b>12.9</b>	<b>3.8</b>	<b>5.7</b>	<b>22.4</b>
out of which:											
London Club of Creditors	227.6	227.6	227.6	0.0	0.0	0.0	0.0	8.4	0.0	0.0	8.4
Other	421.4	423.8	428.5	18.1	2.7	8.9	29.7	4.5	3.8	5.7	14.0
<b>TOTAL</b>	<b>1,918.5</b>	<b>1,936.8</b>	<b>1,926.4</b>	<b>24.8</b>	<b>12.2</b>	<b>23.0</b>	<b>60.0</b>	<b>32.2</b>	<b>9.3</b>	<b>20.5</b>	<b>62.0</b>

Source: National Bank of the Republic of Macedonia

## 8. Public finances

**Table 24**

Central Government Budget

	March 2005			January-March 2005			
	in Denar million	monthly changes in %	structure in %	in Denar million	realized amounts in the total projection for 2005 (in %)	cumulative changes (2005/2004) in %	structure in %
<b>Total budget revenues</b>	<b>4,658</b>	<b>36.1</b>	<b>100.0</b>	<b>12,844</b>	<b>22.7</b>	<b>-8.9</b>	<b>100.0</b>
<i>Tax revenues:</i>	4,397	35.8	94.4	12,170	23.3	-3.1	94.8
- personal income tax	660	1.9	14.2	1,834	23.1	5.5	14.3
- profit tax	633	2,1 pati	13.6	1,080	42.0	12.7	8.4
- value added tax	1,965	48.9	42.2	5,745	22.4	-5.9	44.7
- excises	668	10.4	14.3	2,317	21.1	-1.4	18.0
- custom duties	422	34.0	9.1	1,026	21.7	-16.4	8.0
- other	49	2.1	1.1	168	33.6	-5.6	1.3
<i>Non-tax revenues:</i>	225	43.3	4.8	562	15.8	-59.0	4.4
- inflows from state property dividends	42	-	0.9	100	6.0	-87.4	0.8
- administrative taxes and fees	156	21.9	3.3	387	27.8	8.1	3.0
- other administrative taxes	24	41.2	0.5	58	19.3	-9.4	0.5
- other non-tax revenues	3	-75.0	0.1	17	8.1	-89.1	0.1
<i>Capital revenues</i>	36	33.3	0.8	112	18.1	-36.0	0.9
<b>Total budget expenditures</b>	<b>4,676</b>	<b>4.8</b>	<b>100.0</b>	<b>13,815</b>	<b>23.3</b>	<b>5.5</b>	<b>100.0</b>
<i>Current expenditures</i>	4,447	5.5	95.1	12,841	24.0	3.4	92.9
- wages and salaries	1,805	0.8	38.6	5,373	24.7	4.6	38.9
- goods and services	741	14.5	15.8	1,898	25.8	5.6	13.7
- transfers	1,767	3.3	37.8	5,031	23.0	2.2	36.4
- interest	134	2 pati	2.9	539	21.6	1.5	3.9
<i>Capital expenditures</i>	229	-7.3	4.9	974	17.0	42.2	7.1
<b>Budget balance</b>	<b>-18</b>			<b>-971</b>			
<b>Financing</b>	<b>18</b>			<b>971</b>			
<i>Inflows</i>	483			2,289			
<i>Outflows</i>	465			1,318			

Source: Ministry of Finance





**Table 25**

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

	March 2005				January-March 2005			
	Total revenues		Total expenditures		Total revenues		Total expenditures	
	Amount	monthly changes in %	Amount	monthly changes in %	Amount	cumulative changes in %	Amount	cumulative changes in %
<b>Social Funds</b>	<b>4,344</b>	<b>3.2</b>	<b>4,603</b>	<b>12.1</b>	<b>12,184</b>	<b>0.9</b>	<b>12,530</b>	<b>1.2</b>
- pension and disability insurance	2,413	-1.0	2,543	6.9	6,948	1.5	7,127	-0.1
- health insurance	1,327	12.5	1,436	27.3	3,454	-0.1	3,593	4.0
- employment	604	2.0	624	3.8	1,782	0.4	1,810	0.8
<b>Road Fund</b>	<b>236</b>	<b>16.3</b>	<b>226</b>	<b>62.6</b>	<b>554</b>	<b>-8.7</b>	<b>475</b>	<b>27.6</b>

Source: Ministry of Finance

**Table 26**

NBRM Balance sheet on March 31, 2005  
(in million Denars)

<b>Assets</b>	<b>Amount</b>	<b>Liabilities</b>	<b>Amount</b>
Foreign assets	46,026	Reserve money	17,054
Claims on Government	3,467	NBRM instruments	6,034
Claims on banks and other financial institutions	51	Restricted deposits	234
Other assets	2,461	Foreign liabilities	2,887
		Government deposits	11,185
		Capital accounts	7,619
		Other liabilities	6,992
<b>Total</b>	<b>52,005</b>	<b>Total</b>	<b>52,005</b>

Source: National Bank of the Republic of Macedonia