

National Bank of the Republic of Macedonia



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Macroeconomic Developments in the Republic of Macedonia in the second quarter of 2005

In the second quarter of 2005, the positive performances of the industry, trade and the agriculture, as well as the higher value of the transactions executed in the payment operations indicate further acceleration of the economic activity. The economic activity is proportionately supported by additional quantity of funds for smooth conduct of the payment operations and by the further increase in the credit support of the private sector by the banks. In line with the movements of the available macroeconomic indicators, the second quarter of the year is expected to achieve 4.4% annual growth rate of the GDP in real terms.

The upward trend of the output activity registered in the first quarter of 2005 went on in the second quarter of the year. Thus in the first half of 2005, the actual volume of the industrial output went up by 9.3%, primarily owing to the enhanced output of basic metals, metal products in the metalworking stage and other non-metal minerals. The accelerated economic activity in the second quarter took place in an environment of stable price expectations. The second quarter of the year registered average inflation rate of 0.9%, which fully offsets the effect of the deflation rate in the first quarter. Consequently, in the first half of 2005, the average inflation rate was positive and equaled 0.2%. It was due to the increase in the costs in the category of transport equipment and services (in line with the increase in the refinery and retail prices of the oil derivatives) and in the category of tobacco and beverages, which fully offset the fall in the costs of food. The core inflation rate, which does not take account of the effect of the food and the energy, was higher in the first half of 2005 and equaled 1.66%¹.

In the second quarter of 2005, relative to the same period of the previous year, the external sector registered favorable performances reflected through the relatively higher annual increase in the export relative to the import of goods (by 37.8% and 20.8%, respectively). These movements led to net-purchase of foreign currency by the NBRM and contributed to the maintenance of stable Denar exchange rate in the second quarter of 2005.

On April 25, 2005, the establishment of the regulatory framework and the set of the technical and institutional preconditions made the over the counter market operational. The establishment of the over the counter market will be aimed at improving the liquidity management and reducing the transaction costs in the system, which will eventually lead to larger efficiency of the monetary policy transmission through the interest rate channel.

The positive developments in the banking system manifested through the increase in the deposit potential in the banking system and the faster credit activity remained in the second quarter of 2005. Thus the total deposit potential of the banking system was higher by 8.8% on quarterly basis, reflecting the higher level of short-term and long-term deposits (by 9.1% and 5.5%, respectively). The upward trend of the deposit potential in the banking sector, in the environment of virtually unchanged interest rate policy of the banks, led to further acceleration of the credit activity of the banks in domestic and foreign currency. Thus at the end of June, the banks' total placements to the private sector picked up by 4.5% relative to the end of March, while on annual basis (June 2005 / June 2004), the total banks' placements to the corporate sector surged by 23.2%. The sector-by-sector analysis indicates that the second quarter of 2005 is characterized by the accelerated credit support of the households by the banks. The banks' total placements to the households rose by 12.8% on quarterly basis, with the most intensive being the long-term lending to the households in domestic currency (quarterly growth of 14%), as an additional trigger for the demand and indirectly, for the investment activity in the economy.

¹ The calculation was made in the NBRM Research Department, by own methodology.



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

- ❖ *On April 8, the banking group Prva Pokojninska Druzba a.d. Ljubljana together with Komercijalna Banka a.d. Skopje, as well as the banking group Nova Ljubljanska Banka a.d. Ljubljana together with Tutunska Banka a.d. Skopje were officially granted a license for founding companies for managing both private pension funds for mandatory fully funded pension insurance, which is expected to become operational in 2006.*
- ❖ *On April 8, the company for production of natural juice "Fructal-mak" launched the new production line for filling fruit syrups worth Euro 2 million.*
- ❖ *On April 11, the first annual Conference on Export Promotion of the Republic of Macedonia was held within the WTO Compliance Activity Project organized by the Ministry of Economy and the US Agency for International Development (USAID) for the purpose of stimulating and accelerating the export.*
- ❖ *On April 25, the OTC market - secondary market of securities commenced its operations in the Republic of Macedonia, once the legal framework was established and the necessary technical and institutional preconditions set. Treasury bills will be traded in the initial stage of the development of the OTC market.*
- ❖ *On April 27, the Governments of the Republic of Macedonia and Turkey signed a Protocol on Cooperation in order to develop the economic and the trade cooperation between the two countries.*
- ❖ *On April 28, the Government of the Republic of Macedonia and the Netherlands signed a Memorandum for Economic Cooperation aimed at stimulating the contacts between the companies from the both countries for the purpose of launching joint production in the Republic of Macedonia intended for export to the European markets.*
- ❖ *On May 4, the Government of the Republic of Macedonia and the World Bank Mission commenced the official negotiations for conclusion of a new three-year Programmatic Development Policy Loan (PDPL), aimed at carrying out reforms of the judiciary, labor market and the financial sector, as well as improving the business environment, worth US Dollar 90 million.*
- ❖ *On May 6, Bucim copper mine resumed operating after a two-year standstill, after being taken over by a foreign investor.*
- ❖ *On May 20, the NBRM adopted instructions according to which the listing and the purchase and sale of foreign currency among the authorized banks will be carried out through the Tenfore Banking Package information system. These instructions entered into force on June 1, 2005 ("Official Gazette of the Republic of Macedonia" no. 36/2005).*
- ❖ *On May 25, the Government of the Republic of Macedonia and the IMF Mission completed the negotiations for the three-year Stand By Arrangement, having an emphasized structural nature. The IMF Board is expected to extend the arrangement in August.*
- ❖ *On May 27, the NBRM revoked the funding and operating license of Radobank a.d. Skopje.*
- ❖ *On June 1, Eurostandard Bank became majority shareholder with 66.66% in "Postenska Banka", on the basis of collection of the claims from the companies "Noel" and "Evropa 92", as dominant shareholders by that time.*
- ❖ *On June 2, Macedonia and Serbia and Montenegro signed the Free Trade Agreement, which envisages full liberalization of the trade between the two countries. The Agreement is expected to enter into force by end 2005.*
- ❖ *On June 14, the Government of the Republic of Macedonia and the Russian oil company "Lukoil" signed a Cooperation and Investment Agreement, which commits "Lukoil" to invest US Dollar 50 million in the construction of a network of 40 gas stations and oil reservoirs throughout Macedonia. The Agreement will*



strengthen the economic cooperation between the Republic of Macedonia and the Russian Federation and it is expected to contribute to the attraction of foreign investors.

- ❖ *On June 15, the Slovenian company “Turboinstitut” and the Ministry of Economy, signed a Protocol on the project for construction of twenty small hydroelectric power stations on the smaller rivers in the Republic of Macedonia (in the amount of Euro 100 million), which will be given under concession for a period of 30 years, when they will be given to the state without any compensation.*
- ❖ *On June 21, in the light of further development of the Treasury bills market, the first auction of twelve-month Treasury bills was held, where the demand was twice higher than the supply, with the weighted interest rate equaling 11.08%.*
- ❖ *On June 21, the Board of Directors of the World Bank approved a loan in the amount of Euro 8.8 million for the Business Environment Reform and Institutional Strengthening Project (BERIS) for Macedonia. The Project is aimed at improving the business climate and facilitating domestic and foreign investments.*
- ❖ *On June 22, the Government of the Republic of Macedonia passed a Decision on abolishing the customs duties on raw materials for the agriculture, textile industry and machines that are not produced in the country (“Official Gazette of RM” No. 53/2005), in order to improve the economic environment in the country and increase competition of the domestic producers. The Decision will be effective from July 1, 2005 until December 31, 2005, i.e. in the interim period until the new Customs Law, which envisages a large number of customs exemptions, becomes effective (starting from the beginning of 2006).*
- ❖ *In the second 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 April 4, Decision according to which the retail and the refinery prices of oil derivatives increase by 0.5% and 1.06%, respectively, on average, as a result of the increment in the referent prices of oil derivatives on the international market (“Official Gazette of RM” no. 21/2005).*
 - *On April 18, Decision on decreasing the retail prices of oil derivatives by 0.23% on average, and increasing the refinery prices of oil derivatives by 0.2%, on average (“Official Gazette of RM” no. 25/2005).*
 - *On May 4, Decision according to which the retail and the refinery prices of oil derivatives decrease by 2.52% and 2.61%, respectively (“Official Gazette of the Republic of Macedonia” no. 29/2005)*
 - *On May 16, Decision on decreasing the retail and the refinery prices of oil derivatives by 1.73% and 3.46%, respectively, on average (“Official Gazette of the Republic of Macedonia” no. 34/2005).*
 - *On June 13, Decision according to which the retail and the refinery prices of oil derivatives increase by 9.05% and 5.36%, on average, respectively (“Official Gazette of the Republic of Macedonia” no. 44/2005).*
 - *On June 27, Decision on increasing the refinery and the retail prices of oil derivatives by 9.57 % and 5.53%, respectively (“Official Gazette of RM” No. 50/2005). The effect of this Decision on the general level of prices will be evident in the first month of the following quarter, in line with the nature of the statistical screening of the prices.*

1.

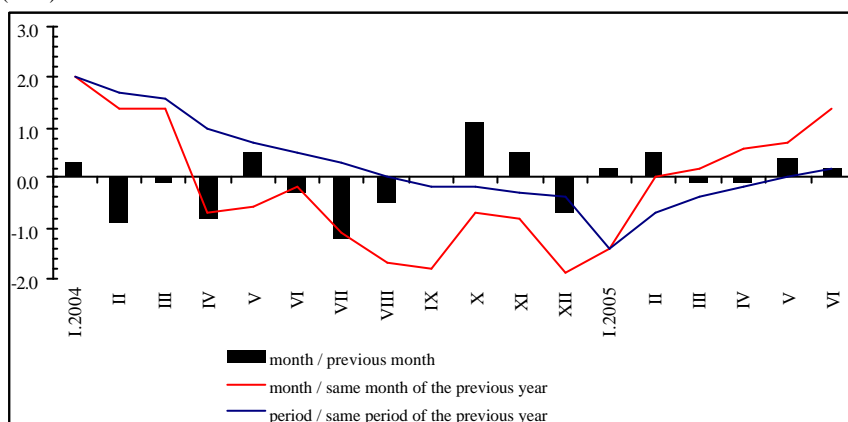
Prices

In the first half of 2005, the average inflation rate equaled 0.2%...

...and the core inflation rate equaled 1.66%

In the first half of 2005, the average inflation rate equaled 0.2%. It should be noted that in the second quarter of 2005, the economy gradually abandoned the zone of low negative inflation rates, due to the divergent movements of the categories in the consumer price index structure². The increase in the category of transport equipment and services and in the category of tobacco and beverages fully offset the fall in the costs of food³, as a prevailing category causing the deflation in the January - April 2005 period. The increase in the category of transport equipment and services (4.4%) was particularly due to the higher prices of PTT services, due to the low comparison base of the preceding year (in the first half of 2005, the PTT services remained at the level registered in July 2004 when they increased) and the higher prices of liquid fuels, in line with the multiple increment in the retail prices of the oil derivatives by the Regulatory Energy Committee (due to the increase in the prices of crude oil on the international markets). The increase in the category of tobacco and beverages (6.1%) results from the higher price of cigarettes, in line with the increment in the excise (in January 2005, due to its adjustment to the EU Directives). The increase in the category of wearing apparel and footwear (3.1%) also contributed to the average inflation rate, resulting from the higher prices of footwear. The divergent movement of the costs by category resulted in higher costs of services (by 2.4%, particularly owing to the prices of PTT services) and lower costs of goods (by 0.3%). The core inflation rate, which excludes the effect of the food and the energy, equaled 1.66%⁴ in the first half of 2005.

Figure 1
Consumer prices
(in %)



Source: State Statistical Office

Developments on the international oil markets

As a response to the steady increase in the world prices of crude oil in the first quarter of 2005, in mid-March, the OPEK member states increased the daily production of crude oil, thus contributing to alleviation of the pressures worldwide and gradual reduction in the price of crude oil. Thus in April, the average price of crude oil on the international markets amounted to US Dollar 52.1 per barrel (US Dollar 53.1 in March). The downward trend went on in May, when the average price of crude oil reduced to US Dollar 48.5 per barrel.

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

³ The fall in the costs of food reflects the effect of the decrease in the customs duties of the agricultural and food products, in line with the membership of the Republic of Macedonia in the WTO.

⁴ The calculation was made in the NBRM Research Department, by own methodology.

Figure 2
Average prices of oil on the international markets
(„Brent“, US Dollars per barrel)



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

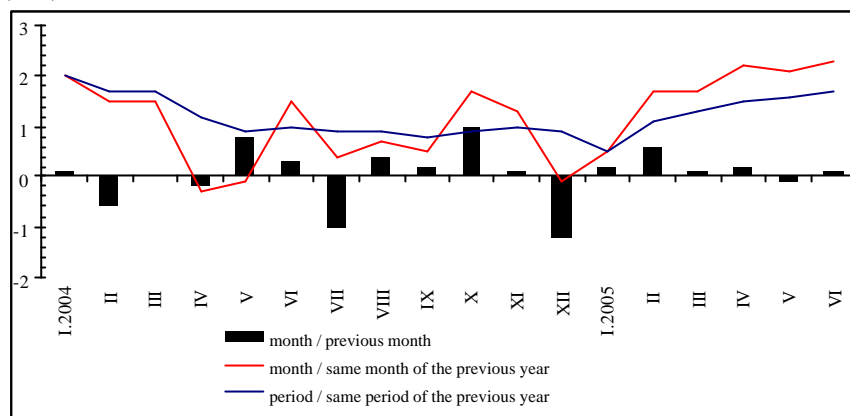
Nevertheless, in June, the oil prices steeply rose, reaching an average level of US Dollar 54.8 per barrel (the record level of US Dollar 58.5 per barrel was registered on June 27, 2005). The upward trend of the prices remained, although on June 15 the OPEK member states decided to increase the daily production quota by additional 0.5 millions of barrels (thus reaching 28 millions of barrels a day, starting from July 1).

Owing to such developments, the average crude oil price reached US Dollar 51.8 per barrel in the second quarter of 2005, which is by 46.1% higher compared to the same period of 2004. The increase in the oil price is due to a) the lower supply of oil (reduction in the level of oil reserves in the USA due to the seasonal increase in the production of motor gas in the US oil refineries and decrease in the daily production of oil by one third in Norway, due to the strike of the oil workers) and b) the speculative factors (threat of onset of the hurricane season in the Mexican Gulf and preventive evacuation of the workers hired by the US oil companies in the Gulf zone, and fear of terrorist attacks in Nigeria, as the largest oil producer in Africa).

With respect to the monthly dynamics, the second quarter of 2005 registered low monthly growth rates of the consumer prices, except in April when they were virtually unchanged. The monthly increase in May (0.4%) corresponds with the higher prices of fresh vegetables, while the increase in June (0.2%) is primarily due to the higher prices of fresh fruits. Identical monthly pace was registered in the retail prices, except for May (-0.1%), when the retail prices were under the major influence of the effect of lower oil derivative prices. On average, in the first half of 2005, the retail prices registered faster increase relative to the consumer prices (1.7%), owing to the evident effect of the higher fuel prices housed in the category of non-food industrial products.

*Average increase in retail prices
in the first half of 2005 of 1.7%*

Figure 3
Consumer prices
(in %)



Source: State Statistical Office

Inflation in the Euro-zone in the second quarter of 2005

The average inflation rate in the Euro-zone, measured through the Harmonized Index of Consumer Prices (HICP), equaled 2% in the second quarter of 2005, having more evident increase in the service prices relative to the prices of goods. Within the category of goods, the rise in the energy prices, which is a result of the movement of the world oil prices, had the largest contribution to the inflation rate.

Table 1
Inflation in the Euro-zone
(on annual basis, in %)

	Share in %	2004	Q.1 2005 / Q.1 2004	IV.2005	V.2005	VI.2005	Q.2 2005 / Q.2 2004
Harmonized consumer price index (HICP)	100	21	20	21	20	21	20
Goods (total)	59	23	18	21	16	19	18
Energy	8.6	4.5	7.6	10.2	6.9	9.4	8.8
Unprocessed food	7.6	0.6	0.5	0.8	1.0	0.6	0.8
Processed food	12	3.4	2.4	1.7	1.5	1.5	1.6
Industrial products other than energy	30.8	0.8	0.3	0.3	0.4	0.3	0.3
Services (total)	41	26	24	22	25	22	23

Source: Eurostat and European Central Bank

Observed by month, the annual inflation rate in the second quarter was relatively stable, preserving at the level of about 2%. Thus the largest variability was registered in the energy prices and the prices of fresh (unprocessed) food, while the prices in the other categories within the HICP remained relatively stable.

In the second quarter of 2005, the annual core inflation rate in the Euro-zone, excluding the energy and unprocessed food prices, ranged from 1.4% (in April and June) to 1.6% (in May), depending on the movement of the service prices.

The average annual inflation rate in the Euro-zone equaled 2% in the first half of 2005.



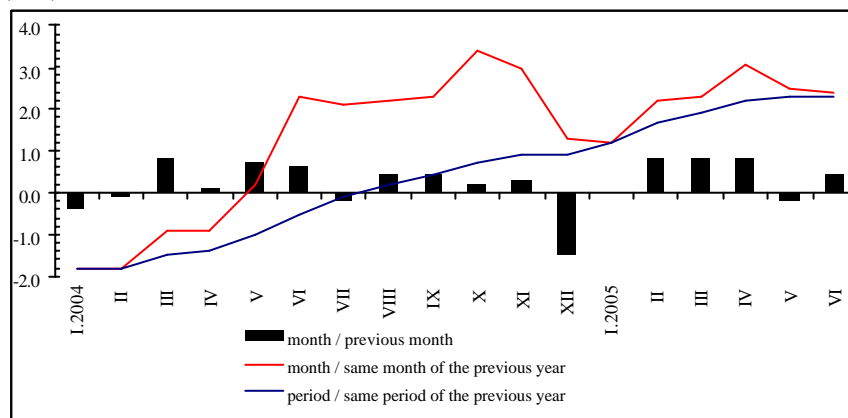
The prices of producers of industrial products are by 2.3% higher, on average, in the first half of 2005

The price of producers of industrial products in the first half of 2005 registered an average increase of 2.3%, which mostly results from the increment in the prices of producers of oil derivatives (21.6%). Their increase corresponds with the multiple rise in the refinery prices of oil derivatives by the Regulatory Energy Committee in the first half of 2005, in line with the steady increase in the oil prices on the international markets. The higher prices of the producers of electrical machinery and devices (6.3%) have greater contribution to the increase in the prices of producers of industrial products. The decrease in the prices of producers of food products and beverages (of 0.7%) has an opposing effect on the general level of the production prices, in line with the decline in the customs duties after the admission to the WTO (less expensive raw materials and lower import prices of the competitive products). Analyzing by group of products, the increase in the prices of producers of oil derivatives results in higher level of prices of the producers of energy (by 7.5%), while the increase in the prices of producers of electrical machinery and devices is reflected in the prices of producers of intermediary products, other than energy (by 1.5%).

Analyzing by sector, the increase in the total index of prices of the producers of industrial products in the first half of 2005 corresponds with the increase in the prices of producers in the manufacturing industry, as a prevailing sector, taking into account the unchanged level of prices in the electricity, gas and water supply sector and the minimum increase in the mining and quarrying sector.

The monthly dynamics of the production prices in the second quarter of 2005 was due to the change in the refinery prices of oil derivatives: monthly increase was registered in April (0.8%) and in June (0.4%), while in May they dropped on a monthly basis.

Figure 4
Prices of producers of industrial products
(in %)



Source: State Statistical Office

The analysis of the effect of the domestic consumption⁵ on the inflation in the Republic of Macedonia does not show clear affiliation with the inflation rate registered in the first quarter of 2005.

The public consumption in the first quarter of 2005⁶, relative to the same period of the preceding year registered a nominal increase of 4.3%. *The*

⁵ 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 estimations made on the basis of available data on other categories of indicative relevance and therefore, they should be taken with a great precaution.

⁶ Last available data of the SSO.

individual consumption also goes up in the observed period due to the annual increase in the indicative categories: wages (by 2.9%), retail trade (by 17.8%), credits to households (by 61.3%) and import of disposable goods (by 9.31%), while the income on value-added tax registered an annual fall of 5.9%. The increase in the public consumption and the estimation for the growth in the individual consumption underlies the assumption that the *final consumption* also rose.

Gross-investments in the first quarter of 2005 due to the divergent movement of the indicative categories. *The investments in machinery and equipment* (constituting one third of the gross-investments) in the first quarter of 2005 are by 5.7% higher, given the simultaneous increment in the import of capital goods (by 21.3%) and lending to the corporate sector (by 16.5%). On the other hand, the domestic output of capital products and completed construction works went down (by 1.4% and 35.2%, respectively), indicating lower investment activity. The net change in the gross-investments in the analyzed period is contingent upon the degree of offsetting the divergent movements in the above categories. The gross-investments are assumed to remain unchanged in the observed quarter.

In the absence of appropriate data, the contribution of each component to the movement of the domestic consumption cannot be quantified precisely. Nonetheless, in line with the estimations for increase in the final consumption and the unchanged level of gross-investments, the *domestic consumption* is assumed to increase in the first quarter of 2005 (considering that most of the domestic consumption or about 80% make up the final consumption). The estimated increase in the domestic consumption does not account for the registered average rate of deflation in the observed period (-0.4%), which still leads to the conclusion for the possible more evident effect of the stable inflation expectations, in line with the stable Denar exchange rate.

In the first quarter of 2005 the net-import of goods and services was considerably lower compared to the net -import in the same period of 2004 (by 28.1%). It a result of the faster growth of the export of goods and services (23.6%) compared to the growth in the import of goods and services (4.6%). Nevertheless, the net-import, having lower import prices of larger number of agricultural and food products (due to the lower customs duties in line with the WTO requirements and the EU directives) and significant share of their prices in the consumer price index, largely accounts for the deflation in the first quarter of 2005.

Table 2
Expenditure aggregates of GDP
(nominal growth rates)

	I Q.2005* / I Q.2004
Public consumption	4.3
Investments in machinery and equipment	5.7
Export of goods and services	23.6
Import of goods and services	4.6

* Preliminary data of the State Statistical Office.

In the second quarter of 2005, the average inflation rate equaled 0.9%. The increase in the wages and the higher amount of loans made to the households, and the higher turnover in the retail sale, the higher income on value-added tax and the growth in the import of disposable goods indicate an increase in the *personal consumption* in the second quarter of 2005, relative to the same period of 2004. On the other hand, the lower current budget expenditures in the analyzed period indicate lower *public consumption*. The



divergent movements of the indicators of the investment activity in the second quarter of 2005 (higher import of capital goods and lending to the corporate sector and lower completed construction works and production of capital goods) do not give a clear picture of the development of the gross-investments and their influence on the inflation. Thus the downward trend of the import prices continues, having a net import of goods and favorable trends of faster increase in the exports compared to the increase in the imports. Taking into account the positive inflation rate, it should be noted that the effect of the lower import prices of the food products does not fade away in this period, but it is offset by the influence of the factors of domestic nature (higher PTT services) and the higher import prices of oil and oil derivatives in line with the unfavorable developments on the international markets.⁷

2.

Economic activity

Real GDP growth in the first quarter of 2005 of 2.7%

The first quarter of 2005⁸, the real annual increase in the gross domestic product (GDP) equaled 2.7%, as a result of the continuation of the positive trends, and consequently, the higher economic activity compared to the same period of 2004. Also, all sectors registered an increase, except for the construction sector (fall of 9.6%), without more remarkable structural changes. The economic growth is mostly a result of the accelerated activity in the industry, trade, transport and the agriculture (an increase of 4.7%, 6.4%, 5.6% and 2.5%, respectively). The economic growth in the first quarter is within the framework of the projected 3% GDP real growth rate.

Table 3
Production side of GDP
(real annual rates of change, in %)

Year	Annual Rates of Change, in %							
					2004/ 2003	2005 I Q. 2005/ I Q. 2004	I Q. 2004 2004	I Q. 2005 2005
	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 %)	
Gross Domestic Product	2.4	3.6	3.4	2.2	2.9	2.7		
Agriculture	3.5	4.6	4.6	4.9	4.4	2.5	10.0	10.0
Industry	-0.6	-0.7	-0.1	-6.3	-2.1	4.7	22.5	23.0
Construction	4.0	11.4	7.9	10.0	8.7	-9.6	4.3	3.8
Wholesales and retail sales, mending of motor vehicles, motorbikes and personal consumption items	5.1	6.7	8.2	9.2	7.4	6.4	11.9	12.3
Hotels and restaurants	5.4	8.7	1.8	5.9	5.3	2.5	1.9	1.9
Transport, storage and communications	2.2	5.0	5.3	8.1	5.2	5.6	8.1	8.3
Financial intermediation; Real estate and business activities	2.2	3.0	2.6	2.0	2.5	0.2	13.4	13.1
Public administration and defense, obligatory social security, Education, Health and social work and Exterioritorial organizations and bodies	2.4	2.1	1.1	1.6	1.8	0.5	15.7	15.3

Source: State Statistical Office. Preliminary data.

The available indicators of the economic activity show expectation of a real GDP growth in the second quarter of 2005 compared to the same period of 2004, in line with the growth in the industry, trade and the agriculture (the lower activity in the construction is an exception). The higher value of the transactions in the payment operations in the second quarter of 2005 compared to the same period of 2004 (by 2.8%) are also in favor of the expectations for growth in the GDP. The higher economic activity was respectively supported by sufficient amount of funds for smooth conduct of the payment operations, in line with the slower velocity of money (from 7.6 in the second quarter of 2004 to 6.5 in the

⁷ According to the last available data on each indicator.

⁸ Preliminary data of the State Statistical Office. The GDP analysis pertains to the previous quarter due to the usual delay in the disclosing of this data by the SSO, while in the current quarter the GDP estimation relies upon the movements of the indicative categories.



same period of 2005). In line with the projections for 2005, the second quarter of 2005 is expected to register a 4.4% GDP real annual growth rate.

Analysis of the production side of GDP

Typical for the Macedonian economy is the high degree of output concentration, leading to high concentration of export of goods. In order to understand the relevance of certain activities to the movement of the GDP in the Republic of Macedonia, statistical and econometric analyses of the production side were made for 1997 - 2004 period, by using quarterly data.

Statistical analysis of business cycles

The statistical analysis includes the calculations of the basic statistical indicators for the GDP components on the production side, with the variables being analyzed individually in order to emphasize their features⁹. In the analyzed period, the gross domestic product showed real growth of about 1% with considerable standard deviation (5.95), indicating that, on quarterly level, the fluctuations of the business cycles in Macedonia are largely contingent upon the seasonal and other economic and non-economic factors. This can be observed in more details by analyzing the output components. The industry, as a sector with largest share, registered a real increase of 1.7% showing relatively large standard deviation (13.14), with the rationale behind such dynamics being located in the non-consistent operations of the manufacturing facilities and the mining (restructuring and reforms in the period of transition). The high correlation coefficient (0.87) indicates that the industry is the most relevant factor influencing the development of the business cycles.

According to the structural share in the GDP, the public administration and defense is among the most influential branches, registering an average real growth of 0.44% and relatively low standard deviation (2.47). The finance sector indicates a relatively minor medium growth of 0.03%, and also the lowest standard deviation (1.17). Even though its share in the GDP structure is significant, the uncompleted process of structuring and reform contributes to the low correlation (-0.06) and the absent cyclical pattern with the business cycles. On the other hand, the trade registers high correlation to the GDP (of 0.84), thus distinguishing itself as a relevant variable in the movement of the economic activity. The mean value of the real growth equals 1.87% with relatively considerable standard deviation (9.75), with the trade turnover being important indicator for the consumers. The agriculture registers average increase of 0.14% with a slight standard deviation (of 2.58) thus being characterized by weak cyclical pattern to the GDP (the inconsiderable changes in the real prices and the output).

Table 4

Basic statistical indicators of the real changes in the GDP and its components on the production side

GDP with the components	Number of observations	Average value of the real change rates	Standard deviation relative to the average value	Correlation relative to GDP	Cyclical pattern relative to GDP
1. GDP	31	0.98	5.95	/	/
2. Agriculture, hunting, forestry and fishing	31	0.14	2.58	0.22	Weak cyclical pattern
3. Quarrying and mining, manufacturing industry and electricity, gas and water supply	31	1.70	13.41	0.87	Cyclical movement in same direction
4. Construction	31	6.67	33.12	0.64	Cyclical movement in same direction
5. Wholesale and retail sale	31	1.87	9.75	0.84	Cyclical movement in same direction
6. Hotels and restaurants	31	3.14	14.62	0.27	Weak cyclical pattern
7. Transport, storage and communications	31	2.06	5.92	0.63	Cyclical movement in same direction
8. Financial intermediation	31	0.03	1.17	-0.06	Non-existent cyclical pattern
9. Public administration and defense	31	0.44	2.47	0.25	Weak cyclical pattern

⁹ The analysis uses available quarterly data on GDP.

Econometric analysis of elasticity¹⁰

The analysis of elasticity of the production side of the GDP shows the effect of the proportionate change in the components on the GDP in line with the obtained results, so that if the industry increases by 1%, the gross domestic product will increase by 0,24%. The industry has the largest contribution to the GDP, once again illustrating its importance to the overall economic activity. The high concentration of certain industrial branches is of special concern, i.e. the existence of one or several large facilities in the prevailing branches (metal industry of oil and oil derivatives etc.), the performances of which considerably affect the performances in the industry and its contribution to the GDP.

0.19% GDP growth), the coefficients of the activities of financial intermediation (1% change results in 0.14% GDP growth), transport and communications (1% increase results in 0.12% GDP growth), wholesale and retail sale (1% increase results in 0.16% GDP growth) are also essential, indicating the importance of the service sector to the economy (table 4).

Table 5

Regression analysis of elasticity of the components to the GDP

GDP regressors	Regression coefficient	Standard error	t-statistics	Probability (p-value)
1. Agriculture, hunting, forestry and fishing	0.08	0.04	1.85	0.078
2. Quarrying and mining, manufacturing industry and electricity, gas and water supply	0.24	0.01	24.22	0.000
3. Construction	0.05	0.00	10.82	0.000
4. Wholesale and retail sale	0.16	0.01	12.03	0.000
5. Hotels and restaurants	0.03	0.01	4.29	0.000
6. Transport, storage and communications	0.12	0.02	6.95	0.000
7. Financial intermediation	0.14	0.08	1.87	0.075
8. Public administration and defense	0.19	0.03	5.70	0.000
			Number of observations = 31 $R^2=0.99$	

¹⁰ The elasticity analysis uses the OLS (Ordinary Least Squares) method with a 95% confidence level.



Table 6
Contribution of each category to the increase in the industrial output in the first half of 2005

	Structure	I-VI.2005 I-VI.2004 in %	Contribution to the
Total	100.0	9.3	100
Energy	21.8	3.5	8.24
Intermediary goods (except Energy)	33.8	20.0	72.58
Capital goods	4.8	-1.9	-0.99
Durable consumer goods	1.4	-5.8	-0.87
Non durable consumer goods	38.1	5.1	21.04
<i>Mining and quarrying</i>	1.8	1.2	0.24
<i>Manufacturing industry</i>	79.4	11.5	97.98
Manufacture of food products and beverages	20.0	2.2	4.66
Manufacture of wearing apparel; dressing and dyeing of fur	8.6	8.3	7.69
Manufacture of coke, refined petroleum products and nuclear fuel	3.0	13.8	4.44
Manufacture of other non-metallic mineral products	8.1	15.6	13.61
Manufacture of basic metals	6.0	87.9	56.74
Manufacture of fabricated metal products, except machinery and equipment	3.8	30.3	12.37
Manufacture of electrical machinery and apparatus n.e.c.	3.2	22.0	7.58
<i>Electricity, gas and water supply</i>	18.8	2.0	4.00

Source: State Statistical Office

Faster increase in the industrial output in the second quarter of 2005...

The upward trend of the output activity in the first quarter of 2005, continued in the second quarter of the year in considerably stronger intensity. Consequently, in the first half of 2005, the actual volume of the industrial output registered cumulative increase of 9.3% relative to the same period of 2004. The increase results from the higher output of basic metals, metal products in the metalworking stage, other non-metal minerals and electrical machinery and devices having the largest share in the increase in the overall output. Consequently, the group of intermediary products (other than energy), which accommodates the aforementioned industrial activities registered a cumulative increase of 20%, thus contributing the most to the growth in the total industrial output. Thus one should take into account that the registered movements in the production of basic metals (56.74% share in the growth) partially result from the low comparison base of the first half of the preceding year, when one of the larger metallurgical facilities was out of operation. On the other side, the further rise in the nickel prices on the international markets, caused by the higher global demand had positive effect on the intensity of the output of basic metals and the total exports.

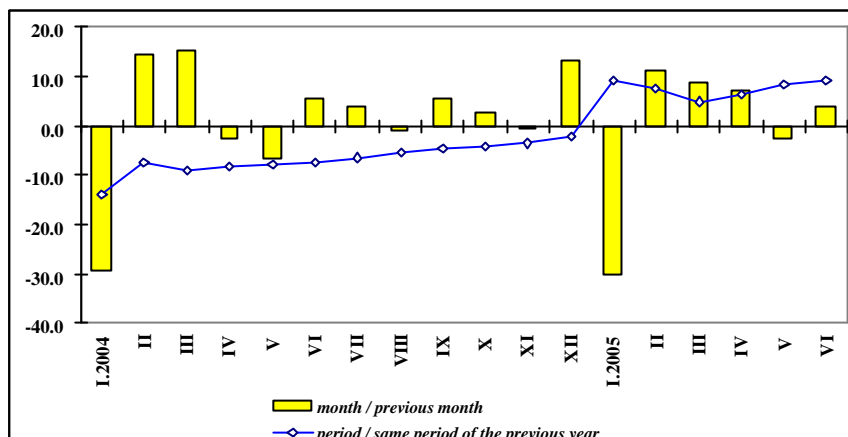
Table 7
Prices of metals on the international markets

	Jan.-Dec. 2004	Jan.-Mar. 2005	Apr.2005	May.2005	Jun.2005	Apr.-Jun. 2005
<i>US Dollars per ounce</i>						
Gold	409.2	427.1	427.3	421.9	430.7	427.3
<i>US Dollars per ounce</i>						
Silver	6.69	7.00	7.18	7.05	7.34	7.18
<i>US Dollar per dry metric tone unit</i>						
Iron ore	0.38	0.65	0.65	0.65	0.65	0.65
<i>US Dollar per metric tone</i>						
Nickel	13823	15348.4	16411.0	16931.5	16159.5	16411.0

Source: World Bank

The higher production of wearing apparel and food products and beverages resulted in considerable increment in the group of disposable goods for joint consumption (5.1%). The higher production of energy (power generation and distribution and production of oil derivatives) also has its share in the growth of the industrial output, due to the accelerated output activity in the observed period. Analyzing by sector, the manufacturing industry, as a prevailing sector, has the most considerable contribution to the increase in the industrial output.

Figure 5
Dynamics of the industrial output
(in %)



Source: State Statistical Office

In the second quarter of 2005, the monthly developments of the industrial output did not diverged from the common pace, registering an increase in April and June, and fall in May (the fall is fully determined by the lower volume of output in the electricity, gas and water supply sector). The higher import of oil, oil derivatives and electricity was an indicator of the accelerated industrial activity in the second quarter.

According to the business tendency survey in the manufacturing industry in June 2005¹¹, the average exploitation of the capacities of the companies equals 63% of the regular level, which is an improvement relative to the end of the first quarter (60.7%). With respect to the hindering factors for increasing the output, the insufficient domestic demand remains the largest concern. The survey gives optimistic expectations for the output volume and pessimistic expectations for the movement of the selling prices of the ready-made products in the next quarter.

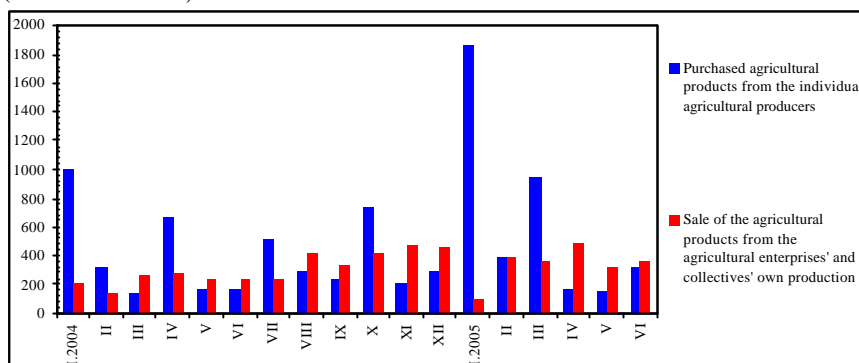
...accompanied by positive trends
in the agriculture...

The positive trends in the agriculture continued in the second quarter of 2005, which led to faster agricultural activity in the first half of the year. Thus the total value of sold agricultural products of the own production of the agricultural companies and collective farms in January - June 2005 period stood at Denar 2,003 million, which is an increase of 47.6% relative to the same period of the preceding year. It is a result of the higher sale of grain and garden plants, alcoholic drinks and livestock. Thus 57.7% of the total sale in the observed period was conducted in the second quarter. The total value of the agricultural products purchased from the individual agricultural producers in the first half of 2005 totals Denar 3,840 million, which is by 57.7% more compared to the same period of 2004. The increase was mostly due to the higher purchase of industrial plants (purchase of tobacco), grain plants and milk and dairy products. Also, an insignificant portion, i.e. only 16.8% of the total purchase in the observed period was made in the second quarter due to the lower purchase of industrial plants in

¹¹ Source: State Statistical Office.

line with its seasonal nature and concentration in the first three months of the year.

Figure 6
Sale and purchase of agricultural products
(in millions of denars)

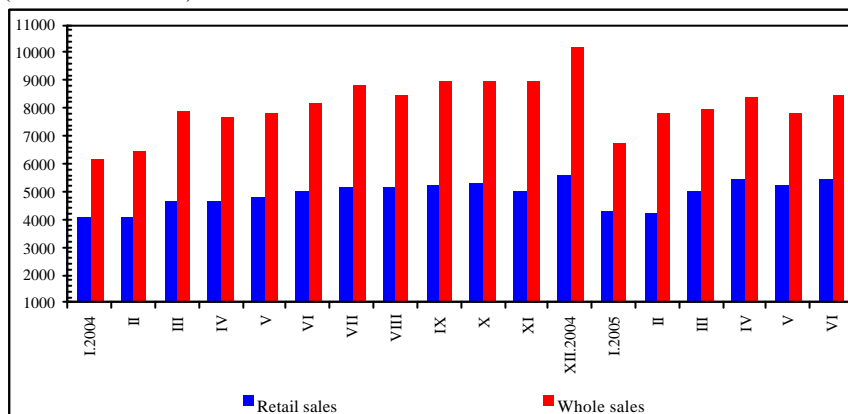


Source: State Statistical Office.

...and faster trade activity

The total turnover in the trade in the second quarter of 2005 amounted to Denar 40,726 million, with the larger portion (60.5%) pertaining to the wholesale. Relative to the same period of 2004, the total trade turnover went up by 7.2%, with the increase in the retail sale being faster (11.8%) relative to the increase in the wholesale (by 4.5%). The total trade turnover registered cumulative growth of 7.8% in the first half of 2005 relative to the same period of 2004, having a simultaneous increment in both the retail and the wholesale (8.7% and 7.2%, respectively).

Figure 7
Trade turnover
(in millions of denars)

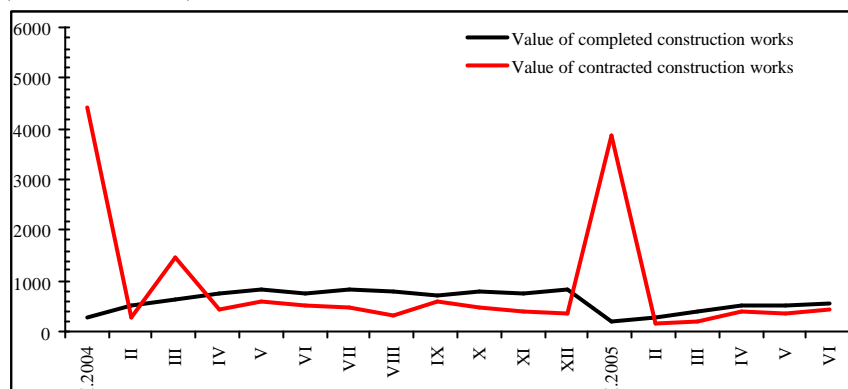


Source: State Statistical Office.

Contraction of construction activities

As a continuity of the developments in the first quarter, the construction activities reregistered cumulative decline in the second quarter of 2005. The value of completed construction works in April - June 2005 period was by 29.7% lower compared to the same period of 2004 and amounted to Denar 1,604 million. The amount of construction works completed in the three months of the observed period is virtually the same. The value of the contracted construction works in the same period of the year dropped by 25.7% and stood at Denar 1,175 million (most of the works were contracted in June). In the first half of 2005, the value of the completed and the contracted construction works dropped by 31.8% and 30.5%, respectively, relative to the same period of the preceding year.

Figure 8
Contracted and completed construction works
(in millions of denars)



Source: State Statistical Office.

3.

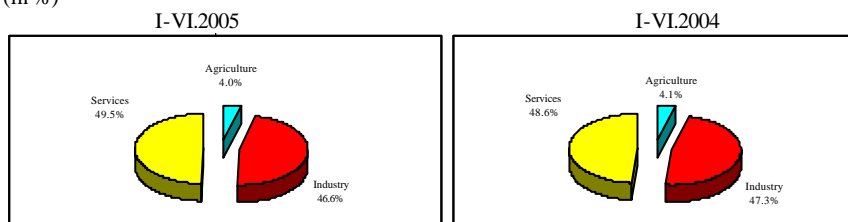
Employment and wages

The employment reduced by 3.7%

In the first six months of 2005, the number of employees equaled 252,455¹², i.e. compared to the same period of the preceding year, the employment dropped by 3.7%, reflecting the decline in the employment in all three sectors. The decrease in the employment was more intensive in the agriculture and the industry (by 7.4% and 5.2%, respectively), while in the service sector, the number of employees dropped by 1.9%.

In the industrial sector, in the first six months of the year, the average number of employees in the manufacturing industry went down by 3.9%. In the service sector, the January - June period registered decline in the employment in all sub-groups, except for the activities related to real estate, renting and business and in the education (increase of 1% and 0.8%, respectively). The employment in the wholesales and the retail sales and in the transport, storage and communications, public administration and defense, compulsory social care and health and social works (joint structural share of 28.1% of the total employment) dropped by 0.3%, 10%, 0.2% and 2.3%, respectively. The decline in the employment in the agriculture was due to the lower number of employees in the agriculture, hunting and forestry and the fishing (by 7% and 26.1%, respectively).

Figure 9
Share of sectors in the total number of employees
(in %)



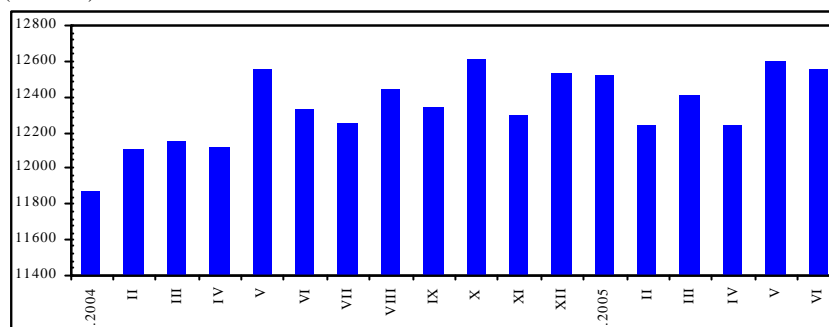
Nominal and real growth in the average net-wage per employee in the first six months of 2005...

The nominal average net wage paid per worker in the Republic of Macedonia equals Denar 12,427 in the first six months of 2005, which is a 2% increase compared to the same period of the preceding year. Having a higher average inflation rate (0.2% in the January - June period), the average increase in

¹² Source: State Statistical Office.

the real net-wage equaled 1.8%. The faster increase in the nominal average net-wage was registered in the agriculture (by 20.1%), having a more moderate increase in the industry and service sectors (by 3% and 3.8%, respectively). Analyzing by activities, the highest average increase in the nominal wage was registered in the fishing (by 36.7%), while in the other activities, the nominal average net-wage goes up at a more moderate pace. The highest average wage was paid in the financial intermediation (Denar 25,767). The nominal wages in the January - June period dropped only in the manufacturing industry (by 2.5%), employing 32.7% of the total number of employees.

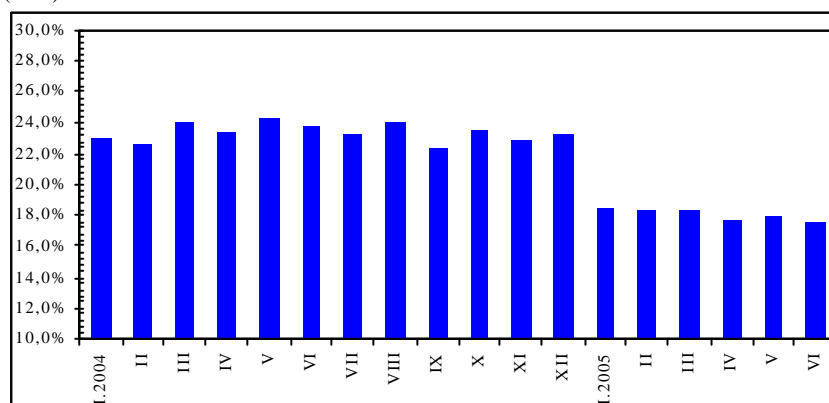
Figure 10
Average net-wage per worker
(in denars)



Source: State Statistical Office.

In the first six months of 2005, 18.1% of the total number of employees did not receive wage for the current month, which is a decrease¹³ of 5.4 percentage points relative to the same period of 2004.

Figure 11
Share of employees who did not receive wage in the total number of employees
(in %)



Source: State Statistical Office.

4.

Monetary policy

The improved performances in the external sector which induced the net-purchase of foreign currency by the NBRM, in combination with the monetary policy instruments, contributed to the maintenance of a stable Denar exchange rate and low inflation rate in the second quarter of 2005. As to the conduct of the monetary policy, on April 25, 2005, the establishment of the regulatory framework and the set of the technical and institutional preconditions

¹³ 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.



made the over the counter market operational for the first time. The establishment of the over the counter market will be aimed at improving the liquidity management and reducing the transactions costs in the system, which will eventually bring about higher efficiency of the monetary policy transmission through the interest rate channel.

In the second quarter of 2005, the autonomous factors and the monetary policy instruments brought about quarterly net-growth in the liquidity in the banking system of Denar 844 million. Prevailing factor that acted towards liquidity creation were the NBRM foreign exchange transactions, making up 97.2% of the total created liquidity (Denar 2,755 million). Most of the created liquidity was sterilized through the net domestic assets (constituting 89.4% of the total withdrawn liquidity). Given the decrease in the Denar government deposits and liquidity creation on such basis, the liquidity was withdrawn through the other components of the net domestic assets (primarily exchange rate differentials). The currency in circulation and the CB bills auctions were also directed towards liquidity withdrawal, accounting for 9.6% and 1%, respectively of the total withdrawn liquidity in the second quarter (of Denar 1,911 million).

Table 8
Liquidity creation and withdrawal
(in millions of denars)

	31.03.2005	Monthly changes				30.06.2005	Contribution to the creation / withdrawal in %
		April	May	June	Total		
Liquidity of the banks*	3,847	-4	1,524	-676	844	4,691	
Liquidity creation					2,755		
1. Net foreign assets	43,139	408	528	1,742	2,678	45,817	97.2
2. Other	121	72	3	2	77	44	2.8
Liquidity withdrawal					-1,911		
1. Net domestic assets	-19,930	-148	-561	-1,000	-1,709	-21,639	89.4
of which: Government deposits (in denars)	-5,060	138	-230	278	186	-4,874	
Other items, net	-8,503	-76	-512	-568	-1,156	-9,659	
2. CB Bills	6,034	648	449	-1,116	-19	6,053	1.0
3. Currency in circulation	13,207	-984	1,105	-304	-183	13,390	9.6

* Includes account of banks with the NBRM and cash in the vault of the banks.

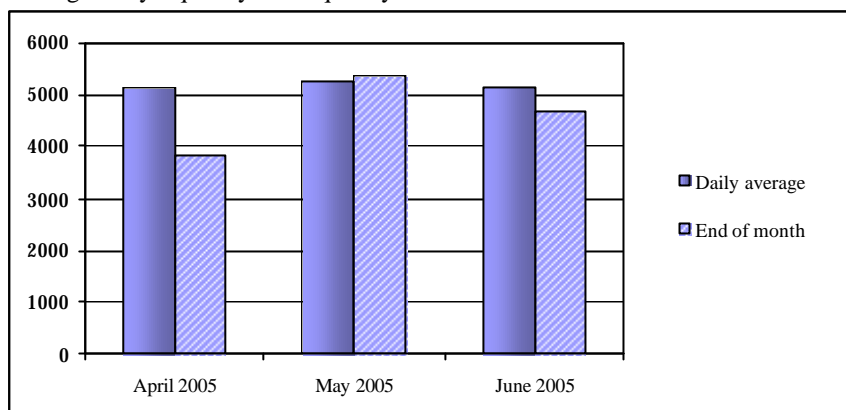
Source: National Bank of the Republic of Macedonia.

Higher average daily liquidity of the banks in the second quarter of 2005

The average daily liquidity¹⁴ of the banking system in the second quarter of 2005 totals Denar 5,183 million, which is by Denar 543 million, or 11.7% higher relative to the preceding quarter. The increase was induced by the autonomous factors (the foreign exchange transactions, in particular). The liquidity created through the autonomous factors was adequately sterilized through the monetary policy instruments - CB bills, which remained at a higher average level in the observed period. Analyzing the dynamics, in April 2005, the average daily level of liquidity went up by 9.4% and reached Denar 5,134 million, reflecting the effect of the net-purchase of foreign currency from the foreign exchange market and the CB bills the level of which is lower on average. The highest level of average liquidity in the second quarter was registered in May (Denar 5,272.9 million), owing to the net-purchase of foreign currency by the NBRM, the demand for currency in circulation which is lower on average (depletion of the effect of the Easter and Labor Day holidays) and the demand for CB bills which is lower on average. In June 2005, even though the autonomous factors acted towards creating liquidity, the level of CB bills which was higher on average resulted in monthly fall in the liquidity, thus standing at Denar 5,138.9 million. Compared to the second quarter of 2004, the banks' funds on the accounts with the NBRM and the cash in the vault surged by 46.8% owing to the effect of the higher reserve requirement rate introduced in early-2005.

¹⁴ Includes the average daily balance on the account of the banks with the NBRM and cash in the vaults of the banks.

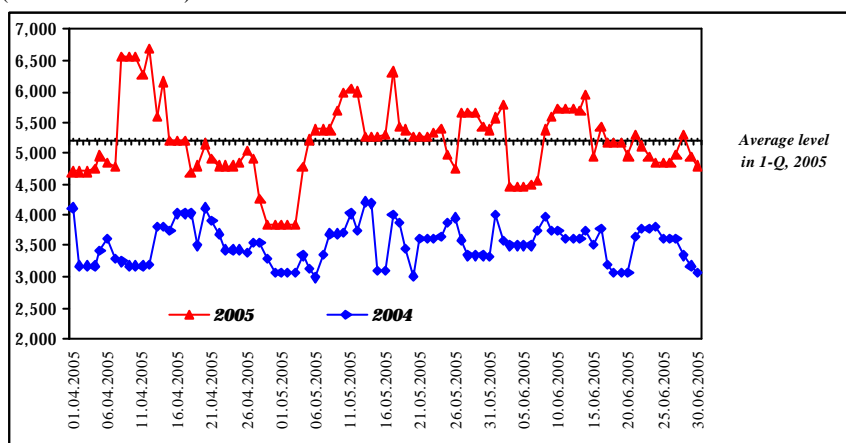
Figure 12
Average daily liquidity and liquidity of the banks at the end of the month



Source: National Bank of the Republic of Macedonia.

In the second quarter of 2005, the excess liquid funds over the reserve requirement allocation (in Denars)¹⁵ equals 8.6%, on average, which is by one percentage point lower relative to the first quarter of 2005. In May, the level of liquid funds was higher than the average (11.6% over the requirement), and in April and June, the excess liquidity was below the average and equaled 8% and 6.1%, respectively.

Figure 13
Daily dynamics of the banks' liquidity
(in millions of denars)



Source: National Bank of the Republic of Macedonia.

Creation of liquidity through the net-purchase of foreign currency by the NBRM on the foreign exchange market...

The change in the monetary instruments at the beginning of the year (higher reserve requirement rate) and the improved performances in the foreign trade enabled the onset of favorable movements on the foreign exchange market from the end of 2004. The favorable movements from the beginning of the year kept on in the second quarter of 2005. Given the constantly higher supply of relative to the demand for foreign currency on the bank segment - NBRM, the Central Bank made a net-purchase of foreign currency on the foreign exchange market, which is directed towards creating liquidity.

¹⁵ The period for maintaining (fulfilling) the banks' reserve requirement covers the period from the 11th in the current month to the 10th in the following month.

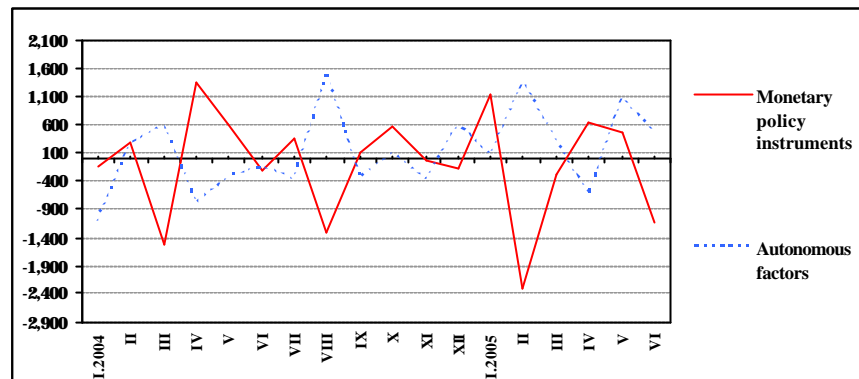


...and lower Denar government deposits with the NBRM

In the second quarter of 2005, the Denar government deposits with the NBRM dropped by 3.7% on quarterly basis, which is directed towards creating liquidity in the banking system. Seven Treasury bills auctions were conducted in this quarter, additionally attracting Denar 940 million. Twelve-month Treasury bills were traded for the first time on June 21, 2005. The demand for these securities exceeded the supply by 2.7 times, and the interest rate equaled 11.08%.

Figure 14

Monetary regulation instruments and autonomous factors for liquidity creation and withdrawal*
(monthly changes in millions of denars)



*Positive change - liquidity creation; negative change - liquidity withdrawal.

Source: National Bank of the Republic of Macedonia.

The CB bills auctions acted towards liquidity withdrawal

In the second quarter of 2005, the CB bills auctions acted towards liquidity withdrawal in the amount of Denar 19 million, which is solely due to the higher level of CB bills registered in June 2005 (increase in the CB bills of Denar 1,116 million¹⁶). Liquidity was created in April and May on the basis of withdrawing CB bills, with their level being lower by Denar 648 million and Denar 449 million, respectively, on a monthly basis. The interest rates and the maturity of the CB bills remained unchanged in the second quarter (interest rate of 10% and maturity of 28 days).

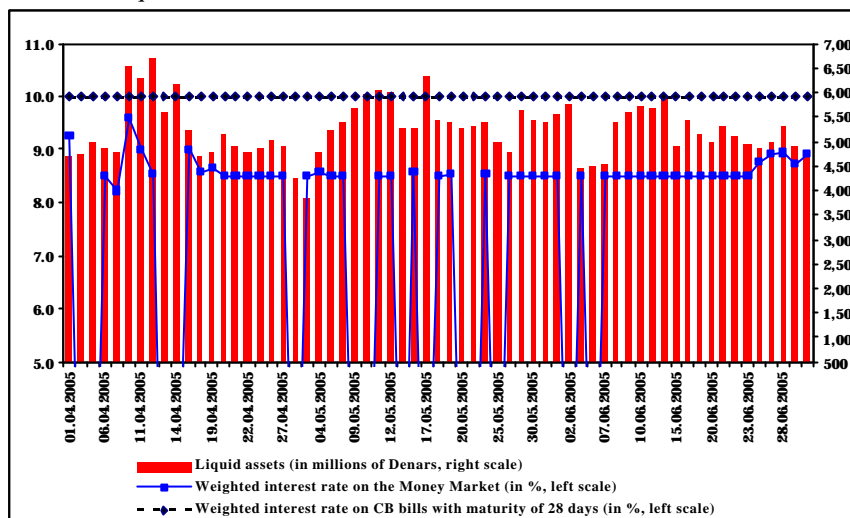
Accelerated activity on the institutionalized money market

In the second quarter of the year, the institutional money market registered average monthly turnover of Denar 470.6 million, which is an increase of 1.5 times on quarterly basis. The demand which is higher, on average, relative to the supply in the second quarter, resulted in a mild increase in the average interest rate, which equaled 8.6% (8.2% in the first quarter of the year). At the same time, the bilateral trade of the banks declined (non-institutional money market), so the monthly turnover in the second quarter totaled Denar 900.7 million, on average (quarterly fall of 1.8 times). The average weighted interest rate on the money market on the both market segments equaled 8.3%, on average, in the second quarter (increase of 0.2 percentage points relative to the preceding quarter).

¹⁶ The higher amount of CB bills in June mainly reflects the temporary investment of one bank on the basis of a deposit of one company, till the payment of the dividend.

Figure 15

Movement of the interest rates on the money market, the CB bills auctions and the banks' liquid funds*



*In certain days of the month, the money market registers no transactions and interest rate.

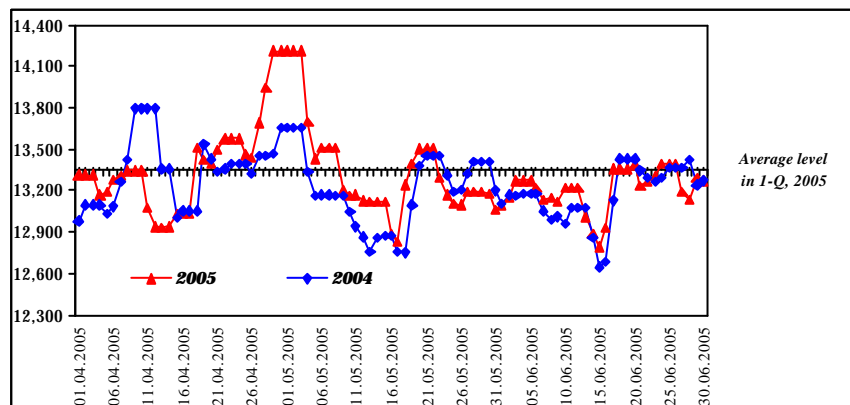
Source: National Bank of the Republic of Macedonia.

Higher demand for currency in circulation

In the second quarter of 2005, the currency in circulation was by 1.4% higher, reaching Denar 13,390 million at the end of June. In the quarter, the demand for currency in circulation registered divergent movements. In April, the currency in circulation registered substantial monthly growth of Denar 984 million, in the eve of the Easter and Labor Day holidays. The significant increase in April was offset in May, when this effect was depleted, and in June the demand for currency in circulation re-intensified. With respect to the average daily balance, the level of currency in circulation was relatively stable in the second quarter, registering common daily fluctuations. Thus, in line with the present seasonal effect, April registered the highest average daily level of the currency in circulation (Denar 13,385 million).

Figure 16

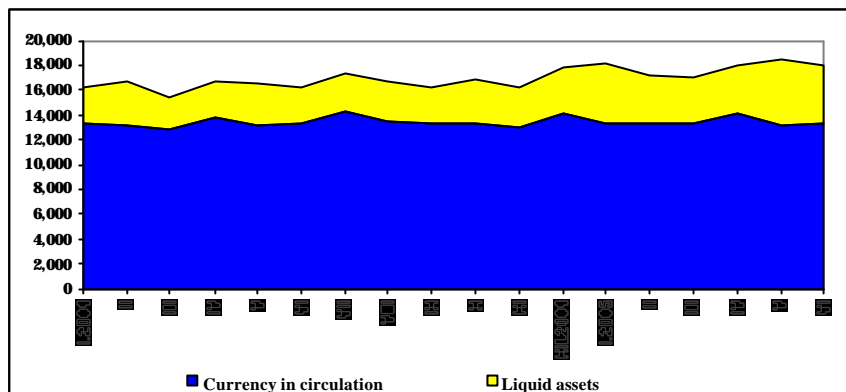
Daily dynamics of the currency in circulation
(in millions of denars)



Source: National Bank of the Republic of Macedonia.

The higher liquidity in the banking system and the intensified demand for currency in circulation resulted in higher level of reserve money in the second quarter of 2005 in comparison with the first quarter. Thus at the end of June 2005, the reserve money amounted to Denar 18,081 million, which is an increase of 6% compared to the previous quarter. On annual basis, the reserve money went up by 10.7%.

Figure 17
Reserve money
(in millions of Denars, end of period)



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

Source: National Bank of the Republic of Macedonia

5.

Banking sector

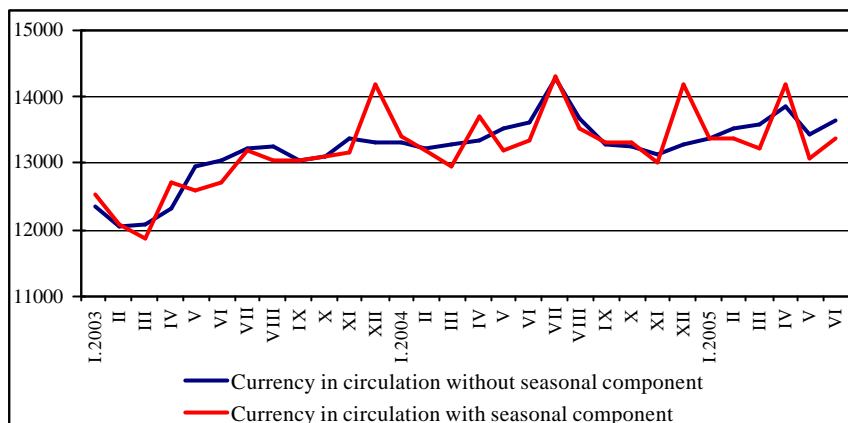
5.1. Deposits with banks

In the second quarter of 2005, having in mind the increased demand for currency in circulation, almost unchanged level of transaction deposits and increase in the savings in the banking system, the monetary aggregates registered an increase.

At the end of the second quarter of 2005, the currency in circulation augmented by 1.4% compared to the previous quarter. Analyzed by months, after the seasonal increase in the currency in circulation at the end of April 2005 (caused by the households' preferences to have cash on their disposal before Easter and First of May Holidays), the level was normalized in May, when its severest seasonal drop was recorded. After the seasonal effects were exhausted, the currency in circulation increased again in June 2005. The level of transaction deposits remained almost unchanged on a quarterly basis (increase of 0.1%), having in mind the increase in the households' transaction deposits, given their simultaneous decrease with the corporate sector. In accordance with such movements, the monetary aggregate M1 registered moderate quarterly increase of 0.7%. From the aspect of the annual dynamics (June 2005 / June 2004), in terms of insignificant change in the currency in circulation, the monetary aggregate M1 registered an annual increase of 3.4% as a result of the increment in the demand deposits (6.3%).

Quarterly increase in the money supply M1

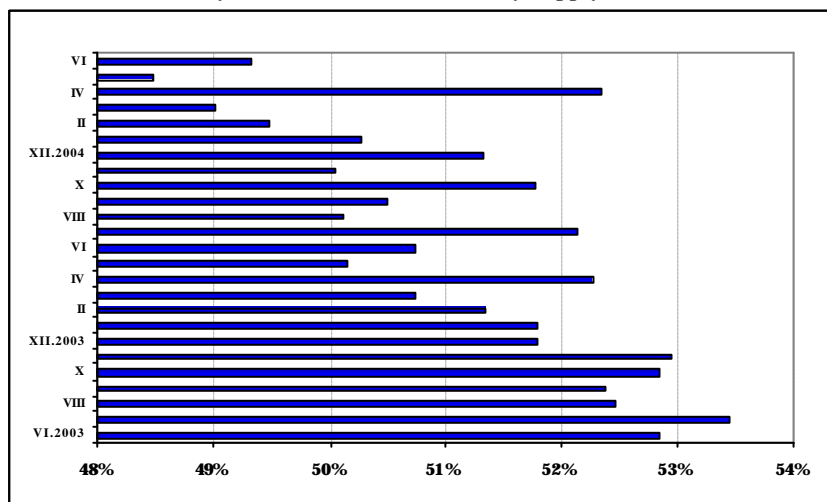
Figure 18
Currency in circulation with and without seasonal component
(in millions of Denars)



Source: National Bank of the Republic of Macedonia

In the second quarter of 2005, the average share of the currency in circulation in the money supply M1 equaled 50.1%, which is an increase of 0.5 percentage points compared to the previous quarter. In comparison with the same quarter of 2004, the average share of the currency in circulation declined by 1 percentage point. More intensified increase in the reserve money against the increase in the money supply M1 caused the monetary multiplication process to slow down, with the average monetary multiplier of the money supply M1 being equal to 1.49 in the second quarter of 2005 (compared to 1.54 in the previous quarter and 1.59 in the second quarter of 2004).

Figure 19
Share of the currency in circulation in the money supply M1



Source: National Bank of the Republic of Macedonia

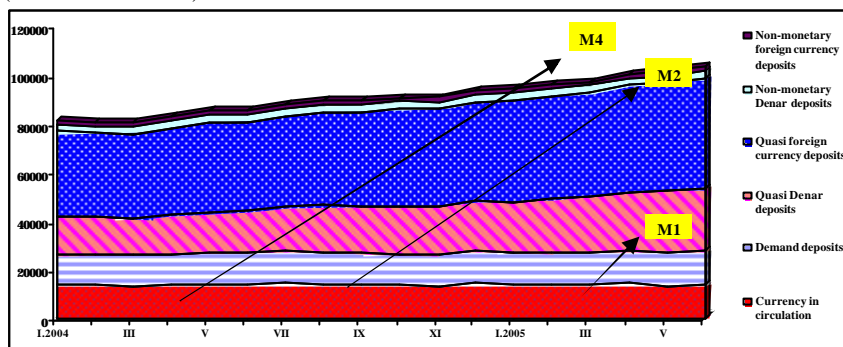
Higher level of the broad monetary aggregates on both quarterly and annual basis

In the second quarter of 2005, the broad monetary aggregates M2 and M4 registered identical quarterly increase (of 6.6%), generated primarily from the significant broadening of the banks' deposit base. Namely, during the quarter, the total bank deposits¹⁷ registered continuous increase and at the end of 2005, in comparison with the end of March, they were higher by 8.8%. Also, the monetary aggregates M1 and M4 registered positive annual dynamics (increase of 22.1% and 21.4%, respectively) in terms of intensified increase in the short-

¹⁷ 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).

term savings (31.1%) and moderate increase in the long-term deposit potential (8.2%). The significant widening of the banks' deposit base, as main cause for the monetary growth in the second quarter of 2005, contributed to the strengthening of the monetary multiplication process. Thus the average monetary multipliers of the money supply M2 and M4 equaled 5.34 and 5.61, respectively in the second quarter, in comparison with 5.24 and 5.51, respectively in the previous quarter (in the second quarter of 2004 they equaled 4.84 and 5.13, respectively).

Figure 20
Monetary aggregates' components
(in millions of Denars)



Source: National Bank of the Republic of Macedonia

Effect of the Treasury bills investments on the money supply

In accordance with the standard definition¹⁸, the money supply encompasses the liabilities of the financial institutions (banks) to the non-financial sector in the economy. The following categories are mostly being discussed: currency in circulation (as liability of the monetary authorities to the non-financial sector), transaction deposits, time deposits and other types of deposits of the non-financial sector with banks, as well as other types of securities, issued by the banks (commercial securities, deposit certificates). However, besides the aforementioned instruments which are part of the banks' balances, there are also other investment alternatives in which the economic agents may invest other available assets, such as: securities issued by the Government, shares and other type of securities issued by private financial and non-financial institutions. Consequently, with the development of the financial markets, the alternatives for investment of the available funds of the non-financial entities that are not encompassed in the money supply are also widening.

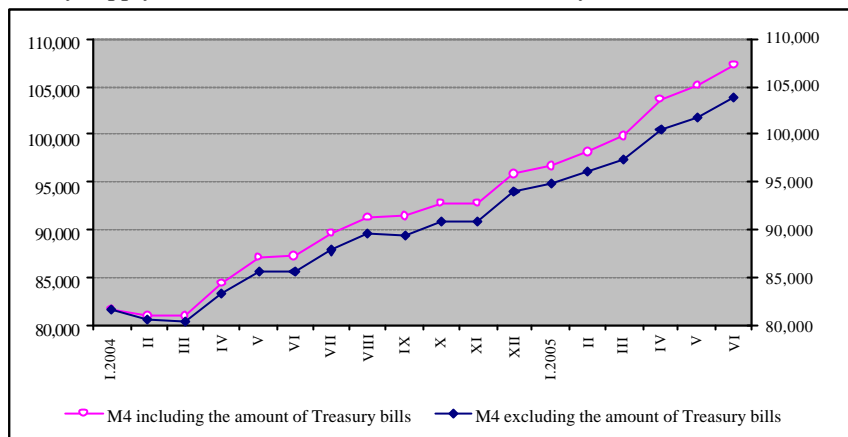
The NBRM monetary statistics' definition of the broadest money supply M4 is harmonized with the standard definition and it includes: currency in circulation, transaction deposits and time deposits in both, domestic and foreign currency. Besides these basic components, the monetary supply included also deposit certificates issued by one bank, but only in 2000. In addition, the shares and the Government securities traded on the stock exchange can also be deemed alternative investment possibilities for the economic agents¹⁹. The fact that the investment in shares and the manner it is invested in (during the privatization process or later) can hardly be followed, and the Government securities are mostly issued for the purpose of payment of old Government liabilities on different bases (old foreign exchange savings, denationalization, collapsed

¹⁸ IMF Monetary and Financial Statistics Manual

¹⁹ As an exemption, during the crisis period in 2001, the non-financial entities were allowed to purchase CB bills, due to the extraordinary circumstances and the needs of liquidity sterilization in the economy. With the situation being normalized, that possibility was cancelled.

savings houses). Only the Treasury bills, the issuance of which commenced at the beginning of 2004 are intended for financing of the Budget's short-term needs, representing as such alternative financial instrument. Consequently, the investments of the non-financial sector in short-term Treasury bills may be used as corrective factor in order to obtain more complete data on the available funds with the non-financial sector.

Figure 21
Money supply corrected for the amount of the Treasury bills



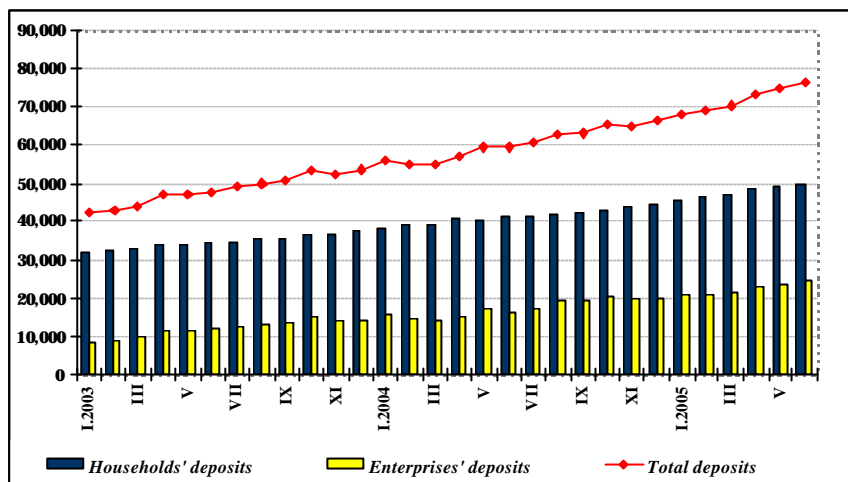
Source: NBRM and Ministry of Finance.

In accordance with the continuing increase in the amount of the issued short-term Treasury bills, the money supply M4 "corrected" for the amount invested in these Government securities, is continuously higher than the money supply according to the official monetary statistics. On June 30, 2005, these two categories differentiated by Denar 3,435 million, or by 3.3%. The corrected amount of the money supply represents more precise indicator of the available funds with the non-financial sector.

Dominant contribution of the short-term deposits to the increase in the total deposits

The analysis of the deposits' maturity structure points to dominant contribution of the short-term deposits to the quarterly increase in the total deposits of 95.8%, having in mind their average structural share of 93.5% during the quarter. Namely, the short-term deposits raised by 9.1% on a quarterly basis, given simultaneous increase in both Denar and foreign currency deposits (of 12.9% and 7%, respectively). On the other hand, the positive dynamics of the long-term deposits (increase of 5.6%) is completely determined by the increase in their foreign exchange component (of 18%). From the aspect of the currency structure, the deposits in domestic and in foreign currency registered a significant quarterly increase (of 1.3% and 7.4%, respectively), which is a reason for almost identical contribution of the Denar and foreign currency deposits to the increase in the total deposits (47.8% and 52.1%, respectively). At the end of June 2005, compared to the same month of the previous year, the total deposits augmented by 29.4%, which is mainly due to the high increase in the short-term deposits (31.1%).

Figure 22
Deposit timeframes
(in millions of Denars)

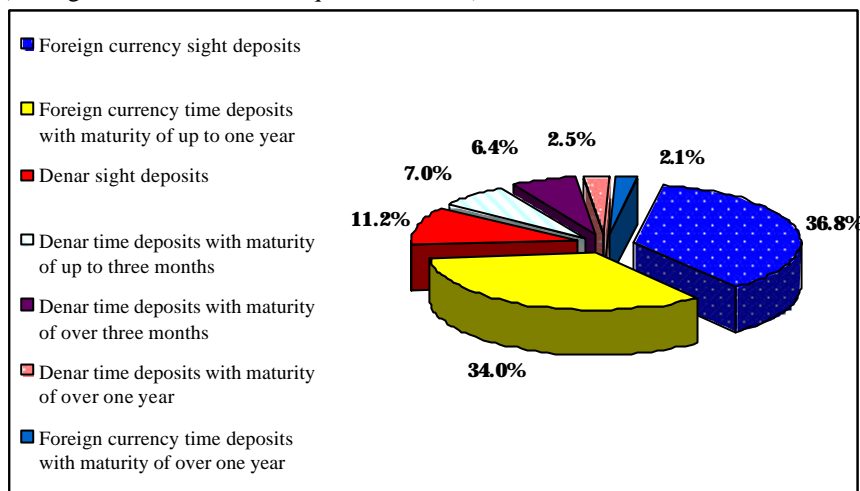


Source: National Bank of the Republic of Macedonia

Quarterly increase in the households' deposits ...

At the end of June, the households' deposits rose by 6% compared to the previous quarter, as a result of the increase in the short-term and long-term deposits in both, domestic and foreign currency. The positive change in the total deposits with the sector "households" is partially generated from the additional inflows in the households' accounts originating from the payment of the Government liabilities on the basis of the bond for the old foreign exchange savings in April. From the aspect of the maturity, the households' short-term deposits rised by 6%, reflecting the increase in the sight deposits in both, domestic and foreign currency. The households' long-term savings (the average share of which in the total households' deposits in the second quarter equals 4.6%) augmented by 4.9% and it is mainly due to the higher foreign currency deposits. Observed from the currency aspect, the households' Denar and foreign currency deposits went higher by 8.3% and 5.1%, respectively, with the most intensive increase being registered in the foreign currency time deposits with maturity of up to one year. On annual basis, the total households' deposits increased by 20.5%.

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

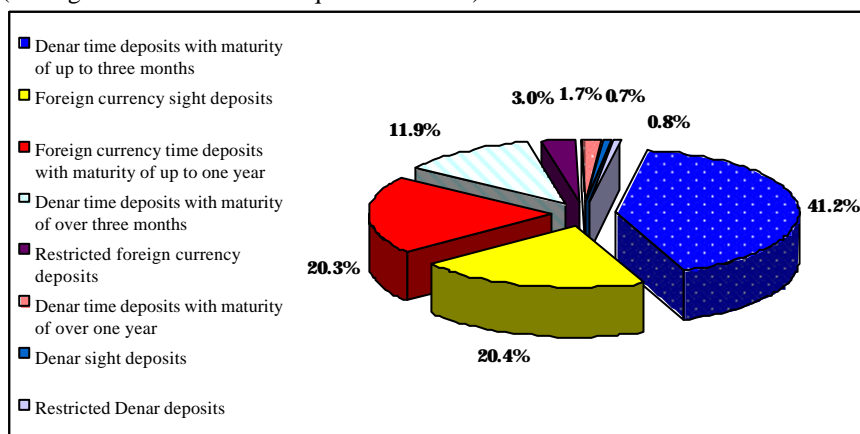


Source: National Bank of the Republic of Macedonia

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

Quarterly increase was registered also in the enterprises' deposits, which augmented by 16% at the end of the second quarter compared to the previous quarter. From the aspect of maturity, the short-term deposits (as dominant category in the total enterprises' deposits with their average share being equal to 94.5% in the second quarter) went up by 15.7% on a quarterly basis. Such a dynamics of the short-term deposits originates from the higher amount of Denar deposits with maturity of up to three months, foreign currency sight deposits and foreign currency deposits with maturity of up to one year. The long-term deposits augmented by significant 22.2% as a result of the increase in the restricted foreign currency deposits. From the aspect of the currency structure, quarterly increase was registered in both, Denar and foreign currency deposits (of 15.5% and 16.8%, respectively). The annual growth rate of the enterprises' deposits equals 51.3%.

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



Source: National Bank of the Republic of Macedonia

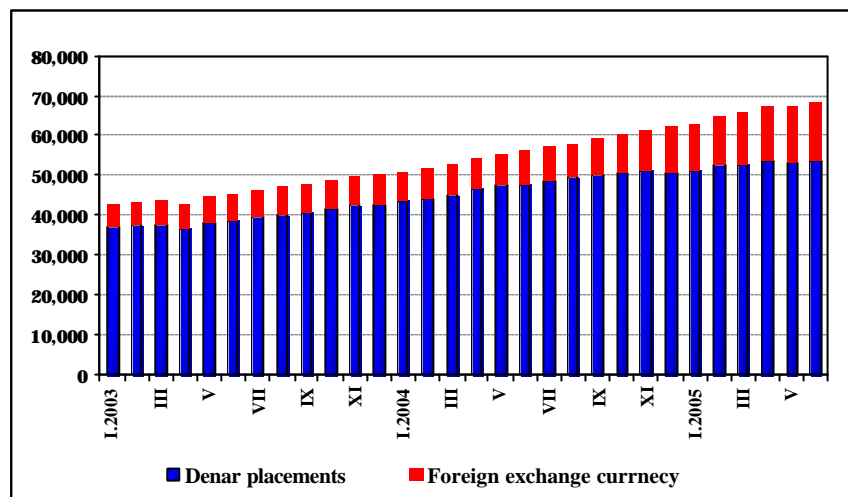


*Preserved upward trend of
the banks' placements*

5.2. Placements and interest rates of the banks

Continuing intensification of the private sector crediting by the banks in both, domestic and foreign currency was registered in the second quarter of 2005. At the end of June 2005, the total placements of the banks reached Denar 63,007 million, which is an increase of 4.5% compared to the previous quarter.

Figure 25
Banks' placements by currency
(in millions of Denars)

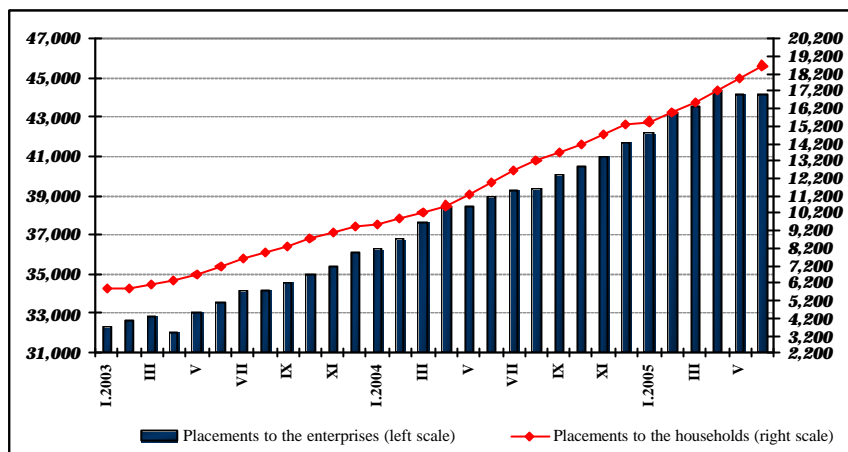


Source: National Bank of the Republic of Macedonia

The quarterly increase in the Denar placements²⁰, as dominant category of the total placements (with an average share of 77.6% in the second quarter being registered), equals 2.4%, reflecting the higher amount of extended long-term Denar credits (quarterly increase of 10.3%), the average share of which in the second quarter equals 47.2%. The loans extended in foreign currency registered a significant quarterly increase of 11.9%, with the average share of the long-term credits in their structure being higher by 3.1 percentage points compared to the previous quarter. From the aspect of maturity, the second quarter is characteristic for the evident preferences for long-term crediting, which led to a quarterly increase in the long-term credits of 12.3%, given the simultaneous decrease in the credits extended on short-term basis (of 3%). On annual basis, the total banks' placements are higher by 23.2%.

²⁰ The indexed loans are also included

Figure 26
Sector structure of the banks' placements
(in millions of Denars)

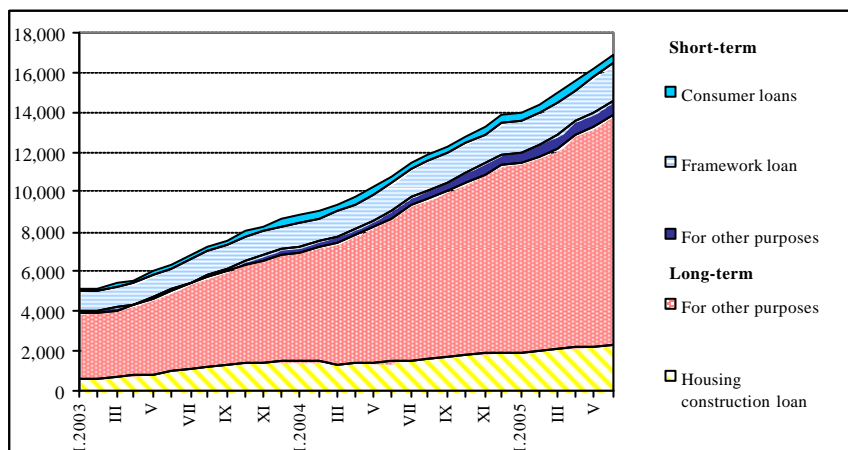


Source: National Bank of the Republic of Macedonia

Higher lending to the households and enterprises

Analyzed by sectors, intensified credit support to the households by the banks through extending consumer, housing and other credits were registered in the second quarter of 2005. Thus in terms of simultaneous increase in the Denar and foreign currency credits (of 12.7% and 15.7%, respectively), the total placements of the banks with the households went up by 12.8% on a quarterly basis. During the quarter, the most intensive lending was the long-term one extended to households in domestic currency (quarterly increase of 14%), thus additionally stimulating the demand and indirectly, the investment activity in the economy. The main cause for the increase in the foreign currency placements with households was the long-term credits for payments in the country (quarterly increase of 22.3%), the share of which in the total households' placements equaled 2.4% in the second quarter (on average). On annual basis, the households' placements went up by 56.6%.

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

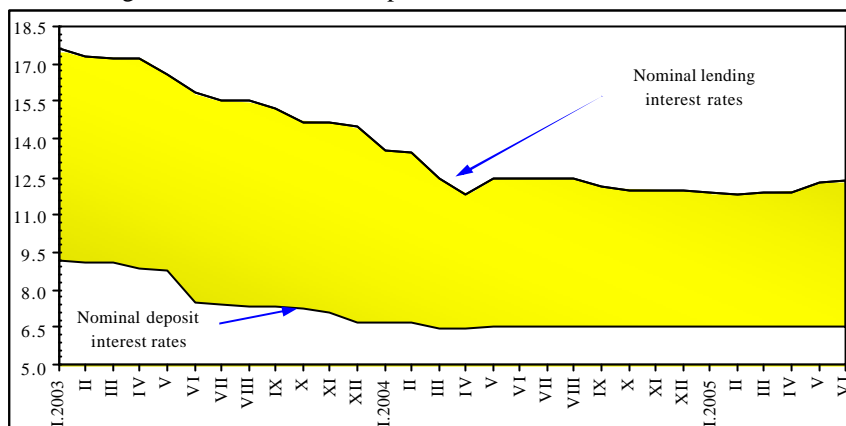


Source: National Bank of the Republic of Macedonia

The quarterly increase in the enterprises' placements of 1.4% is completely generated from the higher level of approved foreign currency loans (increase of 12.3%). Part of these funds is intended for payment of due liabilities abroad. Observed from structural aspect, despite the negative quarterly dynamics (drop of 2.9%), the enterprises' Denar placements registered positive movements. Namely, the decrease is primarily due to the reduced amount of due uncollected claims based on short-term credits, which signalizes more appropriate credit

portfolio management by the banks and improved financial discipline. In accordance with such movements, quarterly decrease (of 4.7%) is also registered with the credits extended on a short-term basis. On the other hand, the long-term credits to the corporate sector registered a significant quarterly increase of 11.2%, caused primarily from the quarterly increment of the foreign currency loans of 18.4%. The annual increase in the total enterprises' credits equals 13.5%.

Figure 28
Banks' weighted interest rates and spreads*



* Pertain to Denar loans and deposits.

Source: National Bank of the Republic of Macedonia

Insignificant changes in the interest rate policy of the banks in the second quarter

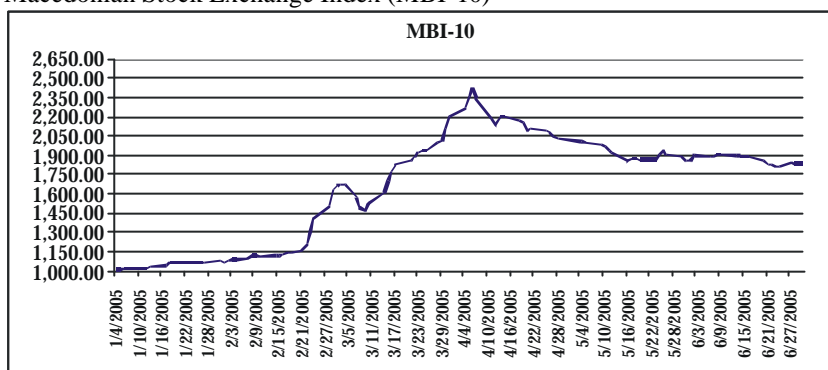
In the second quarter of 2005, the interest rates of the banks registered tendencies of increase, which resulted in broadening of the interest rate spreads. Thus the average weighted interest rate on the short-term Denar loans equaled 12.36% in June 2005, which is an increase of 0.4 percentage points compared to the end of the previous quarter, while the average weighted interest rate on the three-month Denar deposits maintained the level of the previous quarter (6.6%). The average weighted interest rate on the short-term foreign currency loans went up by 0.2 percentage points on quarterly basis and in June it reached 7.49%. The interest rate on the three-month time deposits in Euros ranged within 1% and 3.24%, while the interest rate on the three-month deposits in US Dollars varied from 0.86% to 2.60%.

6.1. Stock Exchange

The total stock exchange turnover (including the block transactions and the Government segment) realized on the Macedonian Stock Exchange a.d. Skopje in the second quarter of 2005 amounts to Denar 1,771.7 million. The turnover realized on the official market segment comprises 77.7% of the total stock exchange turnover, within which the shares of companies listed on the Macedonian Stock Exchange and the trade with Government bonds represent 48.2% and 29.6%, respectively. Hence, 15.2% of the total trade on the Stock Exchange was traded on the unofficial market segment where no trading with convertible certificates issued by the Government aimed at indemnification of the savers of the collapsed savings houses was registered. The block transactions comprise 15.2% of the total turnover on the Stock Exchange, while on the Government stock exchange segment, the concluded transactions with the Government-owned shares and stakes participate with 7.1% of the total on the stock exchange turnover.

Compared to the previous quarter, the stock exchange turnover registered in the second quarter of 2005 went down by 39.7%, which is mainly due to the high comparison base. Namely, since the beginning of 2005, the Macedonian Stock Exchange has been registering higher inflow of foreign portfolio investments. The foreign investors mainly invested in shares without acquiring majority of shares in the companies' ownership structure. At the end of June, compared to end of March 2005 (according to the data received by the Central Securities Depository), the participation of the foreign investors in the total capital of all listed companies on the Stock Exchange's market and in the total face value of the listed bonds augmented (11.69% in June compared to 10.96 in March 2005). Also, the share of the foreign investors in the stock exchange turnover realized on the official market segment in June equals 46.71% on the side of the purchases and 6.59% on the side of the sales. The interest of the foreign investors to invest in the ownership structure of the joint stock companies which are integral part of the Macedonian Stock Exchange Index MBI-10 was preserved also in the second quarter. Namely, at the end of June, the shares of the foreign investors in the capital of the three most liquid companies²¹ of the MBI-10 (as of June 30, 2005, according to the data of the Central Securities Depository) equal 7.44%, 17.31% and 23.55%, respectively, compared to 6.57%, 15.25% and 22.35%, respectively in March 2005.

Figure 29
Macedonian Stock Exchange Index (MBI-10)



Source: Macedonian Stock Exchange a.d. Skopje

In accordance with the Methodology for Calculating the Macedonian Stock Exchange Index MBI-10, on June 15, 2005 the Stock Exchange Index Commission performed its first regular audit on MBI-10, with the common shares of the ten listed companies²², which were also included in the index until now, being further determined as elements of MBI-10,.

In the second quarter of 2005, the Macedonian Stock Exchange Index MBI-10²³ was continually registering a downward trend, with exception to certain period of stagnation in June. On June 30, 2005, the value of the index equals 1,834.28 compared to 2,197.22, registered at the end of the first quarter of 2005. The lower value of MBI-10 (by 16.5%) reflects the average decrease in the prices of the ten most traded common shares on the Stock Exchange. In line with such trend, the market capitalization of the then most liquid companies listed on the official market segment at the end of the second quarter of 2005

²¹ In the first six months of 2005, the three most liquid companies on the Stock Exchange are the following: Alkaloid a.d. Skopje, Komercijalna Banka a.d. Skopje and Toplifikacija a.d. Skopje. The stocks of these three companies register the highest share in the turnover realized on the official Stock Exchange market in the first half of 2005 (27.66%, 21.64% and 12.01%, respectively).

²² Alkaloid a.d. Skopje, Toplifikacija a.d. Skopje, Komercijalna Banka a.d. Skopje, Makpetrol a.d. Skopje, Skopski pazar a.d. Skopje, Stopanska Banka a.d. Bitola, Granit a.d. Skopje, Makedonijaturist a.d. Skopje, Evropa a.d. Skopje and Ohridska Banka a.d. Ohrid.

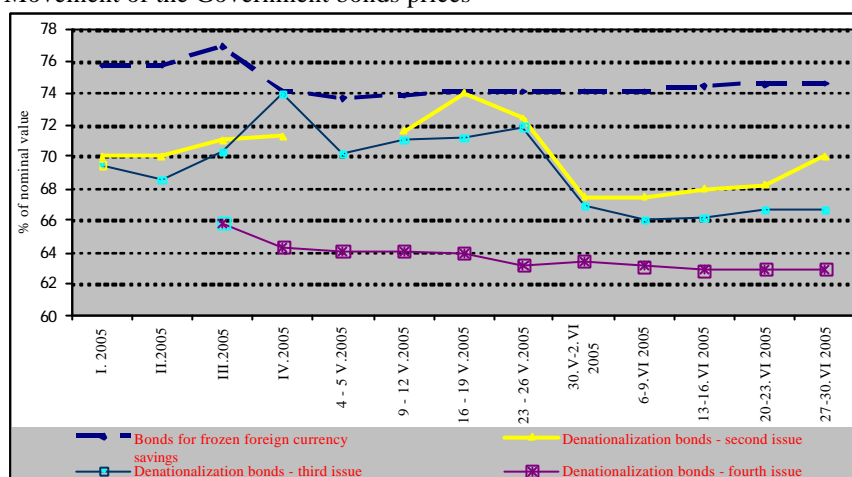
²³ Price index weighted with the market capitalization, created on the basis of the common shares of the ten listed companies on the official market.

equaled Denar 7,153 million, compared to Denar 19,539.5 million as it equaled at the end of the previous quarter.

6.2. Government securities market

In June 2005, **Government bonds** in the amount of Denar 152.2 million were traded on the official market, the largest share of which refers to denationalization bonds (fourth issue). On June 30, 2005, the return up to maturity of the fourth issue denationalization bonds of the RM equals 12.2%, calculated according to the last average trade price of the bond. In June, the price of the securities varied from 62.69% to 75% of the face value.

Figure 30
Movement of the Government bonds prices



Source: Macedonian Stock Exchange a.d. Skopje

In the second quarter of 2005, in accordance with the previously set securities issue calendar²⁴, six auctions of three-month Treasury bills were held, with the total supply of and demand for Treasury bills being in the amount of Denar 3,450 and Denar 3411.2 million, respectively, while the total realization amounted to Denar 3,109.6 million. On the auctions held during the quarter, the average weighted interest rate on the Treasury bills with maturity of three months equaled 10.59%

Analyzed by months, the supply of three-month securities exceeded the demand only in April, compared to May and June when higher demand than supply was registered. However, the realized amount, as percentage of the total demand, ranges from 83.5% in June to 99.5% of the demanded amount of three-month Treasury bills in April. The highest average weighted interest rate was realized in May, when Treasury bills in the amount of Denar 1,200 million were sold.

²⁴ The Government securities auctions' calendar is announced six months in advance, with the precise amount for each auction being announced four days before the auction is held.



Table 9
Supply, demand and interest rate of Treasury bills

Three-month Treasury bills		Supply	Demand	Realization	Average weighted interest rate
		(in Denars)			
IV 2005		1,150,000,000	813,460,000	809,540,000	10.55
V 2005		1,200,000,000	1,281,020,000	1,200,000,000	10.76
VI 2005		1,100,000,000	1,316,710,000	1,100,010,000	10.44
Total for the quarter:		3,450,000,000	3,411,190,000	3,109,550,000	10.59
Six-month Treasury bills		Supply	Demand	Realization	Average weighted interest rate
		(in Denars)			
IV 2005		50,000,000	47,780,000	47,780,000	9.77
V 2005		95,000,000	55,600,000	55,600,000	10.53
VI 2005		100,000,000	86,930,000	86,930,000	10.52
Total for the quarter:		245,000,000	190,310,000	190,310,000	10.33
One-year Treasury bills		Ponuda	Pobaruva~ka	Realizacija	Prose~na ponderirana kamatna stapka
		(in Denars)			
IV 2005					
V 2005					
VI 2005		50,000,000	133,910,000	50,000,000	11.08
Total for the quarter:		50,000,000	133,910,000	50,000,000	11.08

* On April 08, 2005, an extraordinary auction of one-month Treasury bills was held, which represents reopening of a previously held auction (two month before the performed reopening). With the reopening of the already held auction of three-month Treasury bills, the realized amount of Treasury bills increased by Denar 450 million, and the maturity remained as agreed initially, i.e. May 11, 2005.

Three auctions of Treasury bills with maturity of six months were held during the quarter. The total supply equaled Denar 245 million (Denar 250 million in the first quarter of 2005). The stability of the supply is significant for maintaining the interest of the potential investors in Government securities, as well as for the efficiency in the management with the public internal short-term debt. On the other hand, the supply is higher than the demand by 28.7% (Denar 190.3 million, which was completely realized. The average weighted interest rate on the six-month Treasury bills on the auctions held during the quarter reached 10.33%.

The issuance of the Government securities with maturity of twelve months commenced at the auction held on June 21, 2005, with the Government portfolio of short-term securities, except three-month and six-month ones, including securities with longer maturity. From the aspect of Budget liquidity management, it means extending of the maturity of the instruments intended for overcoming the short-term misbalance between the Budget revenues and the expenditures. During the auction, the interest for purchasing Treasury bills with maturity of twelve months exceeded the supply by 2.7 times, while the average weighted interest rate equaled 11.8%.

The issuance of twelve-month Treasury bills and the appropriately set auction frequency on the Treasury bills primary market are expected to extend the secondary market (OTC Market), i.e. increase the trade volume. The Over the Counter Market was officially opened on April 25, 2005, and the first transaction was concluded on May 18, 2005. Purchase/sale transactions with securities are concluded on the Over the Counter Market out of the Stock Exchange and the Money and Short-Term Securities Market. All short-term securities issued by the Republic of Macedonia are traded on the Market, except the CB bills.



Establishment of the Over the Counter Market in the Republic of Macedonia

The main role in the concentration and allocation of the savings in every market economy accounts for the financial markets. The existence of efficient market mechanism is significant precondition for accelerating the economic growth. The Republic of Macedonia is still characteristic for underdeveloped financial infrastructure, shallow financial market and undiversified structure of the financial institutions. Thus in the last decade, the stock exchange was the only place for trading with securities, because of which the market infrastructure was supplemented by the establishment of the Over the Counter Market - OTC). Namely, the transactions on the Over the Counter Market are commonly concluded in direct buyer - seller relation, without mediators, thus overcoming the high transaction expenses, which are the main disadvantage of the stock exchange trading. Simultaneously, the Over the Counter Markets enable settlement in real time during the same day, thus shortening the settlement period, which usually equals T+3 for the stock exchange transactions. Thus the Over the Counter Market, with its features, acts in direction of creating an environment for more efficient liquidity management, not only with the banks and the remaining financial institutions, but with the entities from the non-financial sector, as well.

After the establishment of the legal framework and the providing the necessary technical and institutional preconditions, on April 25, 2005²⁵, the Over the Counter Market and officially become part of the financial system of the Republic of Macedonia. Initially, short-term Treasury bills are traded on the Over the Counter Market.

By definition, the Over the Counter Market in the Republic of Macedonia can be reviewed from the aspect of both its segments: trading and settlement. In accordance with the legal framework, the trading will be conducted with banks in relation with their clients, as well as among the banks themselves. The banks are expected to be the main participants on the Over the Counter Market, taking into consideration their dominant position in the financial system of the Republic of Macedonia. However, their role consists of providing services to clients through their permanent presence and readiness for trading on the Over the Counter Market, which will increase the liquidity of the Treasury bills.

In terms of trade dispersion with separate banks in order to provide better transparency in the creating of prices at which the banks are ready to purchase/sell Treasury bills, an electronic system was established (the current web application of the NBRM for carrying out CB bills auctions and Treasury bills auctions), enabling everyday purchase/sale price listings. The listings of the banks are published on the web site of the NBRM, thus making the information available to all interested legal entities and natural persons.

The banks are participants in the transactions settlement process, submitting orders for both, their and settlement of their clients (natural persons and legal entities). The agreement concluded between the Ministry of Finance and the Central Securities Depository envisages exclusion of the CSD from paying transactions fees in the following two years, with a possibility of reviewing the agreement during the second year. Simultaneously, the NBRM made a decision not to charge commission for settlement of Treasury bills transactions on the secondary market. Thus the transaction expenses regarding the settlement are practically reduced to zero.

The banks' interest in Treasury bills trading is due to the difference between the purchasing and the selling prices of the Treasury bills the banks are prepared to

²⁵ The Book of Rules for the Over the Counter Market was enforced on April 23, 2005, while the Over the Counter Market began operating officially on April 25, 2005.



trade at with larger companies. In comparison with them, the banks sometimes charge additional commission for transactions with smaller clients. In case of Macedonia, the transaction expenses will depend on the banks' conduct. If the banks decide to charge additional commissions, transparency of these commissions will be desirable, as in case of the Treasury bills primary market, where the Ministry of Finance collects and publishes the data on the banks' commissions.

The establishment of the Over the Counter Market is expected to influence on the improvement in the liquidity management with the banks and the non-financial institutions. The everyday listings of the banks will enable writing of the yield curve from non-risk financial instruments, which serve as a basis for determining the yield of other macroeconomic indicators. The listings of the Treasury bills on the Over the Counter Market are expected to have stimulating influence on the occurrence and development of other financial instruments.

The functioning of the Over the Counter Market should have favorable impact on the fiscal and monetary policy in the country. Namely, the increase in the Treasury bills liquidity, and thus in their demand, is expected to lead to decrease in the yield, i.e. decrease in the expenses for financing the budget deficit. From the aspect of the monetary policy, the expected increase in the Treasury bills attractiveness will contribute to increasing the number of alternative forms for placing unrestricted funds, strengthening in the relationship and mutual conditionality of the interest rates of certain financial instruments, which at the end should enable more successful monetary policy transmission through the interest rate channel.

The introduction of market makers that will be required to list purchasing and selling prices on everyday basis, and to be ready to trade at them with the other market participants will be of great importance with the development of the Over the Counter Markets. The selection of the market makers will be made by the Ministry of Finance in coordination with the NBRM after previously announced criteria at the end of 2005, i.e. during 2006, depending on the interest of the banks for performing this function.

Since the introduction of the Over the Counter Market until the end of the second quarter of 2005, a total of six transactions was realized (in three of which participants are natural persons, while the remaining three are realized among banks) in the total amount of Denar 2.53 million, with the minimal interest rate reaching 11.08%.

7.

Balance of payments

In the second quarter of 2005, compared to the same period of the previous year, the external sector registered positive movements reflected through a decrease in the deficit on the balance of payments' current account, increase in the gross foreign reserves and decrease in the external debt. Having in mind the seasonal high supply of foreign exchange on both, foreign exchange and currency exchange market, and for the purpose of maintaining the stability of the Denar relative to the Euro, the NBRM registered significant net purchase of foreign currency in the second quarter of 2005.

A) Current account

The trend of improving the balance on the balance of payments' current account commenced since the beginning of the year was preserved in the second quarter of 2005²⁶. In comparison with the first quarter (when the improvement in

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

²⁶ The analyses are made relative to the second quarter of 2004.



the balance on the current account was mainly caused by the reduced deficit in the trade of goods and services), in the second quarter of 2005, the lower deficit is primarily caused by the augmented inflows based on private transfers and lower outflows on the basis of income.

In the second quarter of 2005, the current account deficit amounts to US Dollar 95.6 million, which is lower by US Dollar 78.3 million compared to the same period of the previous year, due to the higher inflows of private transfers (by US Dollar 72.9 million) and lower outflows based on income (by US Dollar 15 million). The participation of the current account deficit in the estimated gross domestic product is significantly lower in the second quarter of 2005²⁷ and it equals 6.2% (compared to 13.4% in the second quarter of 2004).

Table 10
Current account of the balance of payments *
(in millions of US Dollars)

	2004				2005		2005-2004		2005/2004	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.1	Q.2	Q.1	Q.2
							difference		changes in (%)	
Goods, net (f.o.b.)*	-225.0	-319.2	-235.8	-332.2	-189.6	-325.9	35.4	-6.8	-15.7	2.1
Services, net	-33.3	-14.0	0.4	-7.6	-3.7	-16.8	29.6	-2.8	-88.9	20.1
Income, net	1.2	-36.8	-12.0	8.3	0.4	-21.8	-0.8	15.0	-63.4	-40.7
Current transfers, net	150.5	196.1	242.6	201.8	172.8	269.0	22.4	72.9	14.9	37.2
Current account	-106.6	-173.9	-4.8	-129.6	-20.0	-95.6	86.6	78.3	-81.2	-45.0

1/ Preliminary data.

*c.i.f. - f.o.b. factor equals 4.06%

Source: National Bank of the Republic of Macedonia.

The total foreign trade of goods in the second quarter of 2005 reached US Dollar 1,370.5 million²⁸, which is an annual increase of 26.6%. Namely, the augmented export of goods, which is significantly caused by the import, leads to higher volume of *foreign trade*.

High annual increase in the export of goods of 37.8% in the second quarter of 2005...

In the second quarter of 2005, the export of goods amounted to US Dollar 506.8 million, which is an increase of 37.8% on annual basis.

Analyzed by the Standard International Trade Classification (SITC), the share of iron and steel in the exports equals 30% in the second quarter of 2005. Simultaneously, the export of clothing comprises 23.3% of the total export registered during the quarter, the oil products participate with 7.4%, while the categories fruit and vegetable and meat and meat products participate with 4.6% and 1.2%, respectively.

²⁷ Estimated data on the nominal gross domestic product converted in US Dollars according to average exchange rate of the US Dollar for the second quarter of 2005.

²⁸ 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 11
Export by groups of products according to SITC

groups of products	change in absolute amount		
	Q.2 2004	Q.2 2005	
	in millions of US Dollars		
Total export of goods	367.7	506.8	139.1
Food products	35.0	43.2	8.3
fruit and vegetable	17.2	23.3	6.0
Mineral fuels, lubricants, etc.	14.1	38.4	24.3
oil and oil products	13.7	37.3	23.7
Products classified by materials	111.0	191.1	80.0
iron and steel	76.2	152.3	76.1
Various finished products	129.5	138.8	9.3
clothing	110.4	118.0	7.6
	share in the total import	contribution to the	
	(in %)	total increase (in %)	
iron and steel	20.7	30.0	54.7
oil and oil products	3.7	7.4	17.0
Total	24.5	37.4	71.7

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

Analyzed by activities, 32.2% of the value of the total export realized in the first half of 2005 originate from the production of basic metals, 24.2% from the production of wearing apparel and textile processing and 8.5% originate from the production of food products and beverages. The share of the production of basic metals, representing almost one third of the Macedonian export registered in the first half of the year points to a strategic importance of both, metallurgic industry and intensity of the effect from the restartation of one of the largest facilities in this industry on the export (at the beginning of the second half of the previous year).

Effect of the cancellation of the quotas under the Multifiber Agreement (MFA) ²⁹ on the export of clothing and textile from the Republic of Macedonia

The low level of diversification of the supply of goods intended for export is the main characteristic of the Macedonian export. The analysis from the aspect of the most significant export products indicates that in the 1997 - 2004 period, the clothing and the textile are the dominant Macedonian export products, with their average share in the total export of goods of the Republic of Macedonia being equal to 26.9%. The need for assessment of the effects of the cancellation of the quotas arises thereof, especially having in mind the influence of China, as a country having high competitive advantage relative to these products.

Table 12
Total export and export of clothing and textile of the Republic of Macedonia
(in millions of US Dollars)

	2002				2003				2004				2005	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2
Total export of goods of RM	244.0	264.3	305.3	301.9	294.6	356.9	338.9	376.6	366.1	367.7	442.6	497.1	482.0	506.8
Clothing and textile	77.9	74.6	97.6	93.1	101.8	95.6	110.2	111.7	131.5	114.1	127.2	131.0	127.5	121.9
Share of the export of clothing and textile in the total export, in %	31.9	28.2	32.0	30.9	34.6	26.8	32.5	29.7	35.9	31.0	28.7	26.3	26.5	24.0

Source: State Statistical Office of the Republic of Macedonia

²⁹ MFA is trade agreement adopted in 1973 (enforced in 1974) by the USA, Canada and EU, which limits the free trade of textile and clothing. The trade is performed according to principle of determined quotas with certain underdeveloped countries and it represents protection measure for defending the textile industry in the developed countries.

The liberalization of the import of textile products commenced on January 01, 2005. In accordance with the expectations, the effects of the cancellation of the Agreement primarily refer to the high increase in the Chinese exports. Thus in the first half of 2005, the export of clothing and textile raw materials from China registered an increase of 20% and 18%, respectively, with the highest increase in the export of these two products being recorded in the USA (the most significant trading partner of China regarding the export) of 119% and 65%, respectively. In Germany (the fifth most important trading partner of China), besides the higher import of Chinese products, the clothing and textile are not among the five products registering the highest import growth rates³⁰.

Having in mind that Germany is dominant importer of Macedonian clothing and textile, with its average share of 44.8%, while the share of the exports to USA in 2004 equals 10.3%, an analysis of the effects of the indirect competition of the Chinese products relative to the Macedonian ones on these markets was made. The analysis of the dynamics of the Macedonian export in Germany shows increase in the first and the second quarter of 2005, compared to the same period of 2004 (of 11% and 18.2%, respectively). Such movements in the export of clothing and textile in Germany in the first quarter of 2005 point to an absence of negative effects of the cancellation of the Agreement on the Macedonian export. On the other hand, in the first two quarters of 2005, compared to the same period of 2004, the Macedonian export in the USA registered a decrease of 40.6% and 18.2%, respectively, reflecting the reduced competitiveness of the Macedonian relative to the Chinese products on this market (especially in the first quarter of 2005).

Table 13
Distribution of the export of clothing and textile from the Republic of Macedonia by countries
(in millions of US Dollars)

	2004				2005		2005-2004		
	Kv.1	Kv.2	Kv.3	Kv.4	Kv.1	Kv.2	Kv.1	Kv.2	Kv.1 i Kv.2
Export of clothing and textile	131.5	114.1	127.2	131.0	127.5	121.9	-4.0	7.7	3.7
European Union	117.1	97.2	107.2	113.2	117.7	106.3	0.6	9.1	9.7
Germany	60.4	46.6	57.6	61.3	67.0	55.1	6.6	8.5	15.1
Greece	31.4	28.2	22.7	26.2	28.4	30.2	-3.0	2.0	-1.0
Other countries	25.3	22.3	26.9	25.8	22.2	21.0	-3.1	-1.4	-4.4
USA	10.7	12.7	16.1	12.4	6.3	10.4	-4.3	-2.3	-6.6
<i>share in total export of clothing and textile in %</i>									
European Union	89.1	85.2	84.3	86.5	92.3	87.2	3.2	2.1	5.3
Germany	45.9	40.9	45.3	46.8	52.6	45.2	6.7	4.4	11.0
Greece	23.9	24.7	17.9	20.0	22.3	24.8	-1.6	0.1	-1.5
Other countries	19.2	19.6	21.1	19.7	17.4	17.2	-1.8	-2.4	-4.2
USA	8.1	11.1	12.6	9.5	5.0	8.5	-3.1	-2.6	-5.7

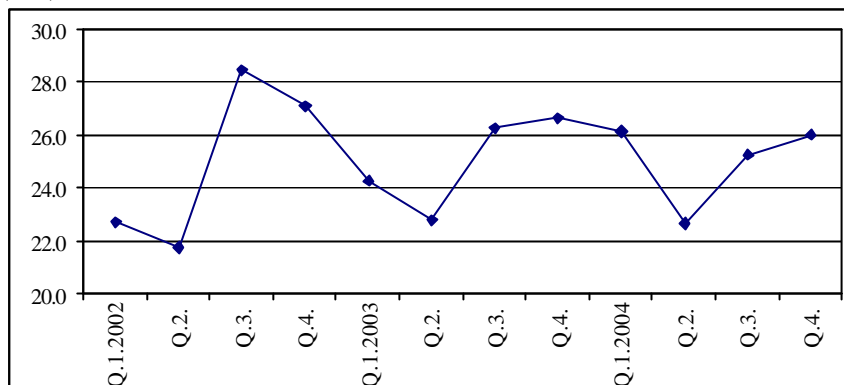
Source: State Statistical Office of the Republic of Macedonia.

This is proved also by the analysis of the distribution of the export of clothing and textile on a quarterly basis. From the aspect of the dynamics, having in mind that the export of these products is traditionally lower in the second quarter relative to the remaining ones, the negative effect of the cancellation of the Agreement is evident only in the first quarter of 2005, which is due mainly to the lower export to the USA.

³⁰ China Customs Statistics.

Figure 31

Share of the quarterly export of textile and clothing of the Republic of Macedonia in the total export in the 2002 - 2004 period
(in %)



Source: State Statistical Office of the Republic of Macedonia

These results are in accordance with the answers to the survey pertaining to the business plans of the most important entities responsible for conducting foreign trade of the Republic of Macedonia (carried out by the NBRM in February 2005). Namely, the surveyed textile enterprises stated that they expect appropriate negative influence of the Agreement on their products in the USA, without influence of higher significance to the export to the European Union.

...and increase in the
import of goods
of 20.8%

The total import of goods registered in the second quarter of 2005 equals US Dollar 863 million, which is an annual increase of 20.8%, mainly reflecting the dependence of the Macedonian economy on the import, the effect of the reduced the customs duties, as well as the increase in the price of oil on the international markets.

Table 14

Import by group of products according to SITC ³¹

groups of products	change in absolute amount		
	Q.2 2004	Q.2 2005	
in millions of US Dollars			
Total export of goods	715.2	863.6	148.5
<i>Food products</i>	81.1	88.5	7.4
<i>Mineral fuels, lubricants, etc.</i>	89.9	152.6	62.7
oil and oil products	63.6	112.7	49.1
electricity	17.4	25.9	8.6
<i>Chemical products</i>	76.8	91.1	14.3
<i>Products classified by materials</i>	128.6	269.5	140.9
textile, yarn , etc.	8.5	84.4	75.9
iron and steel	47.3	93.1	45.8
<i>Various finished products</i>	39.4	68.3	28.9
clothing	4.2	18.9	14.7
	share in the total import	contribution to the	
	(in %)	total increase (in %)	
textile, yarn , etc.	1.2	9.8	51.1
oil and oil products	8.9	13.0	33.0
iron and steel	6.6	10.8	30.9
Total	16.7	33.6	115.1

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

Analyzed by group of products, 51.1% of the total increase in the import of goods is due to the import of textile and yarn, while 33% are caused by the higher import of oil and oil products. The higher value of the import of oil in the second quarter of 2005, compared to the same period of the previous year,

³¹ Standard International Trade Classification



represents a combined price effect and higher volume of imported quantities. Namely, the average price of the imported crude oil in the second quarter of 2005 went up by 48.3% compared to the second quarter of 2004, while the imported quantity of crude oil during the quarter increased by 44.4%, compared to the same period of the previous year.

Analyzed by activities, in the first half of 2005, 13.25% of the total import is realized for the needs of the production of basic metals, 10% account for the production of chemicals and chemical products, 9.9% of the import are registered within the production of textile clothing activity and 2.7% refer to the import of electricity.

The highest amount of foreign trade was registered in April 2005

From the aspect of the monthly dynamics, the highest volume of the foreign trade of the Republic of Macedonia was registered in April 2005 (US Dollar 486.9 million), which is a monthly increase of 9.7%. The increase in the foreign trade in April reflects the high monthly increase in the import of goods (of 17.9%), having in mind the decrease in the export component of the trade (by 1.6%). The monthly decrease in the export in April is mainly due to the reduced export of clothing, textile, pharmaceutical products, as well as tobacco and meat (seasonal high export in the previous month), while regarding the import, the monthly increase is caused by the higher import of iron and steel, mineral fuels and aircrafts³². Favorable movements with both trade components were registered in May. Namely, the export of goods registered increase of 2.2% compared to the previous month, primarily as a result of the incremented export of iron and steel, as well as the export of vegetables and tobacco. On the other hand, the import of goods in May, relative to the previous month, went down by 9%, which is primarily due to the lower import of oil, other transportation equipment³³, iron and steel and their products and fertilizers. In June 2005, the foreign trade of the Republic of Macedonia declined by 9% on a monthly basis, given registered monthly drop with both its components. Namely, in June 2005, the export of goods was lower by 13.8% compared to the previous month (mainly due to the lower export of iron and steel), while the decrease in the import equals 6.1% (primarily due to the lower import of iron and steel and chemical industry products).

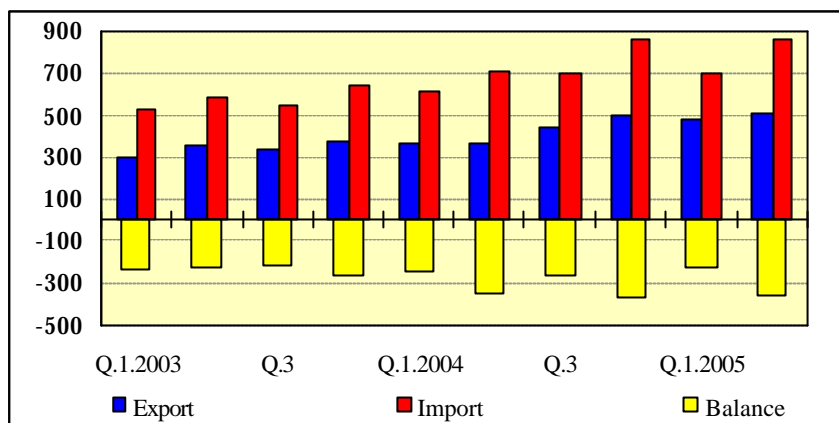
Increased trade deficit...

Trade deficit in the amount of US Dollar 356.8 million is registered in the second quarter of 2005, which means increase of US Dollar 138.7 million (or 63.6%) compared to the first quarter of 2005.

³² The import of aircrafts is due to the onetime import of an airplane for the needs of the Government of the Republic of Macedonia.

³³ In April, the imported airplane for the needs of the Government of the Republic of Macedonia was included in this category.

Figure 32
Export, import and trade deficit



Source: State Statistical Office of the Republic of Macedonia.

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

Such movements in the foreign trade caused decrease in the export - import coverage rate of 10.1 percentage points (58.7% in the second quarter of 2005, compared to 68.8% in the first quarter of the same year).

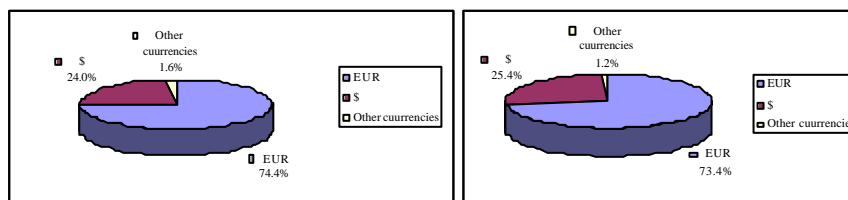
In the first half of 2005, the total volume of the foreign trade amounted to US Dollar 2,552.4 million, (increase of 23.7% compared to the same period of 2004), given a simultaneous increase in both, import and export of 17.5% and 34.7%, respectively.

Denominated in Euros, the total foreign trade of the Republic of Macedonia in the first six months of 2005 equals Euro 1,987.2 million (increase in the cumulative basis of 28.6% and 12.0%, respectively).

*Lower share of the Euro in the
foreign trade in the first half
of 2005*

The analysis of the foreign trade according to the currency structure in the first half of 2005 indicates share of the Euro lower by 1 percentage point relative to the same period of 2004. Simultaneously, the share of the other currencies registered a decline of 0.4 percentage points, while the share of the US Dollar increased by 1.4 percentage points. The Euro has a dominant share in the exports and in the imports, which equaled 75.8% and 71.8%, respectively, in the first half of 2005. Relative to the same period of 2004, the share of the Euro in the exports registered an increase (of 0.8 percentage points), while on the side of the imports the share of the Euro reduced by 2.2 percentage points.

Figure 33
Currency structure of the foreign trade of the Republic of Macedonia
I-VI. 2004 I-VI. 2005

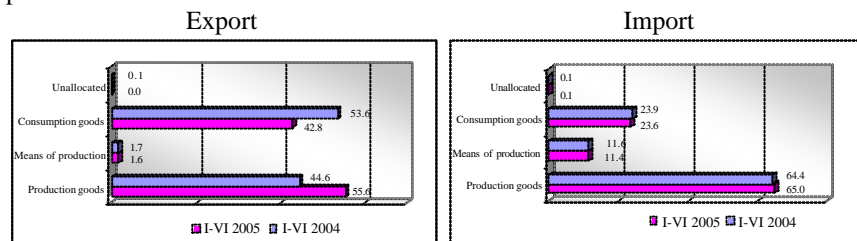


Source: State Statistical Office

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 six months of 2005 shows that production goods³⁴ have a dominant share in the exports and in the imports of 55.6% and 65%, respectively. Simultaneously, the share of consumption goods in the exports is 42.8%, while their share in the imports equals 23.6%. In the same analyzed period, according to the classification of goods by the degree of processing, products with high degree of processing explain 46.8% of the total exports, 44.3% account for products with regular processing, while 8.9% are unprocessed goods. On the side of the imports, products with high degree of processing explain 53.3% of the total imports registered in the first half of the year, 30.8% account for products with regular processing, and 15.7% are unprocessed products.

Figure 34
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

The geographical distribution of the foreign trade in the first six months of 2005, points to the dominant share of the European Union in the total foreign trade (49.3%, which represents a decline of 4.3 percentage points relative to the same period of the previous year). From the viewpoint of the trade components, this group of countries has a share in the total exports and imports of goods of 55.2% and 45.6%, respectively. Yet, relative to the first half of the previous year, the structural share of the European Union in the Macedonian exports and imports reduced by 2.9 and 5.6 percentage points, respectively. The increased imports of oil from Russia and Bulgaria, as well as the high imports of iron and steel from Romania, increased the share of the countries from Central and Eastern Europe in the total foreign trade by 2.1 percentage points (17.6% in the first half of 2005). The share of the Republics of the former SFRY in the foreign trade equals 16.9%, which is a moderate increase of 0.3 percentage points relative to the first half of the last year.

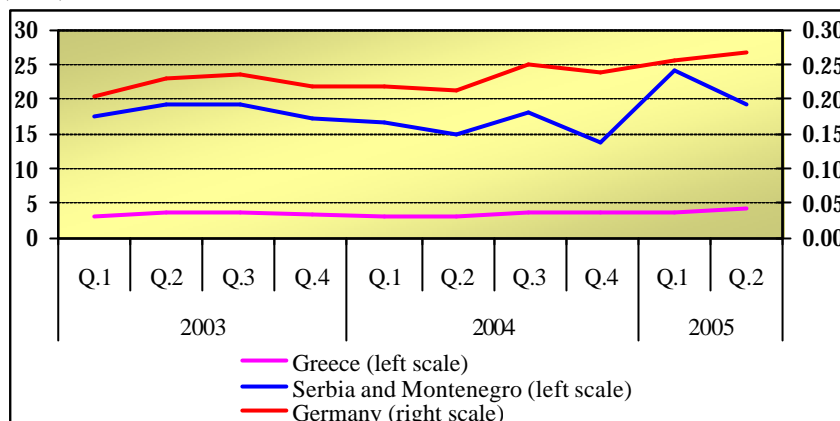
The analysis from the viewpoint of the ten most important trading partners shows that in the first half of 2005, the Republic of Macedonia registered the largest trade with Germany, Serbia and Montenegro, and Greece, with their share in the total trade equaling 38.2%. The import-export coverage of the three most important trading partners in the first six months of 2005, relative to the same period of the previous year, registered an increase of 31.1, 34.5, and 27.6 percentage points, respectively, which points to larger participation of the Macedonian products in the markets of these countries. The Republic of Macedonia registered the highest surplus in the trade with Serbia and Montenegro (import-export coverage ratio of 154.6%), while the highest deficit was registered in the trade with Russia (import-export coverage ratio of 6.0%)

³⁴ Production goods include raw materials and intermediary products, machine fuel and finished production materials.

Figure 35

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

Summary of the last round of negotiations with the World Trade Organization

The last round of negotiations of the World Trade Organization - Doha Development Agenda (DDA) started in November, 2001 in Doha, Qatar. The increased number of participating countries (144) in this round of negotiations points to the involvement of the small and less developed economies in the process of multilateral trade negotiations, which would enable convergence of the points of discussion of the countries, as well as faster liberalization of the world trade by eliminating customs and non-customs barriers. Therefore, this round of negotiations is significant for the small economies which cannot independently influence the developments on the world market, such as the Republic of Macedonia.

Table 15

Rounds of negotiations within the World Trade Organization (WTO)*

year	place/name	subject	number of countries
1947	Geneva	customs duties	12
1949	Annecy	customs duties	13
1951	Torquay	customs duties	38
1956	Geneva	customs duties	26
1960-61	Geneva (Dillon Round)	customs duties	26
1964-67	Geneva (Kennedy Round)	customs duties and antidumping measures	62
1973-79	Geneva (Tokyo Round)	customs and non-customs barriers	102
1986-95	Geneva (Uruguay Round)	customs and non-customs barriers, rules, trade in services, intellectual property, sanctioning mechanism, textile, agriculture, creating the WTO	123
2001-	Doha	all goods and services, non-customs barriers, antidumping and subsidies, regional trade agreements, intellectual property, environment, sanctioning mechanism, Singapore issues (trade and investments, trade policy and policy of competition, government mechanism transparency and trade facilitation)	144

Source: World Trade Organization, 2001, "Trading into the future".

*WTO has been functioning since January 01, 1995, when GATT (General Agreement on Tariffs and Trade from 1947) ceased to be effective.

The negotiations of DDA started in the area of trade with agricultural goods and services, with an intention to cover also other segments of trade.

Nevertheless, despite the optimistic initial approach, a package of measures and reforms comprising of four annexes were adopted as late as in July 2004.

The trade in agricultural products was a disputable issue at the Uruguay round (1986 -1995) and one of the reasons for falling apart of the GATT. In the area of agricultural production, most of the countries are still applying high degree of protectionism, as well as export subsidies. This is the reason for the great significance of the new round of negotiations, which again initiates the problem of trade in the so-called “sensitive products” and makes attempts to solve it. Central subject of the DDA, covered in the first annex, were the questions related to customs duties and non-customs protection when importing, as well as stimulations and grants in the export of agricultural products. At the conference in Paris³⁵ in May 2005, an agreement was reached for conversion of the so-called specific customs duties³⁶ for the agricultural products to ad valorem customs duties³⁷, according to the AVE formula (*ad valorem equivalents*). This conversion is aimed at increasing the control of the import of agricultural products and increasing the quality of the imported goods. Subsequent negotiations (June 2005) are aimed at improving export competitiveness (especially in the area of public trade companies and export crediting), reduction of the domestic support of the protected industries, “Blue box” domestic support of the agriculture (which causes minimum distortions in the trade and is therefore subjected to certain restrictions), and of the rule for preferential treatment, which leads to a higher degree of convergence of the domestic support of the protected industries among countries.

The agricultural sector is still very important for the Macedonian economy, i.e. this sector is one of the areas where Macedonia could accomplish comparative advantage. Therefore, the negotiations directed toward further liberalization of the adoption of procedures on the exports and the imports, specification of customs tariffs and subsidizing will lead to positive effects on our foreign trade, having in mind that agriculture is one of our main sectors that realizes exports. Implicitly, the free trade of agricultural products will enable penetrating new markets. To that end, the Ministry of Economy of the Republic of Macedonia actively follows the negotiations held within the DDA. After completion of the round³⁸, Macedonia, as a WTO member, is obliged to accept all decisions adopted during the negotiations, which would allow the country to be part of the international developments.

The other three annexes pertain to the trade in non-agricultural products, trade in services, and trade relieves. Despite the intensive negotiations on these issues, however, no actual solutions were reached, mainly as a result of the confronted viewpoints between the developing and the developed countries. The promotion of the services sector, from the aspect of its share in the total trade among the countries, as well as the trade relieves will be subject to negotiation at the forthcoming DDA conferences.

The latest conference (mid-June, 2005) ended up with actual proposals directed towards increasing the transparency, simplification of the export-import procedures and documentation, risk management and increased freedom in the movement of goods and services, whose implementation is expected by the end of the current year.

³⁵ Countries that participated in this conference are USA, EU countries, Brazil, India and Australia.

³⁶ Specific customs duties are calculated as an amount depending on the quantity of a certain type of goods, where the amount increases in proportion with the increase in the imported quantity.

³⁷ Ad valorem customs duties are calculated as a percentage of the value (price) of the goods imported, using the customs rate determined by the Law on Customs and the customs tariff of the particular national economy.

³⁸ The negotiations within the DDA are expected to finish in 2006.

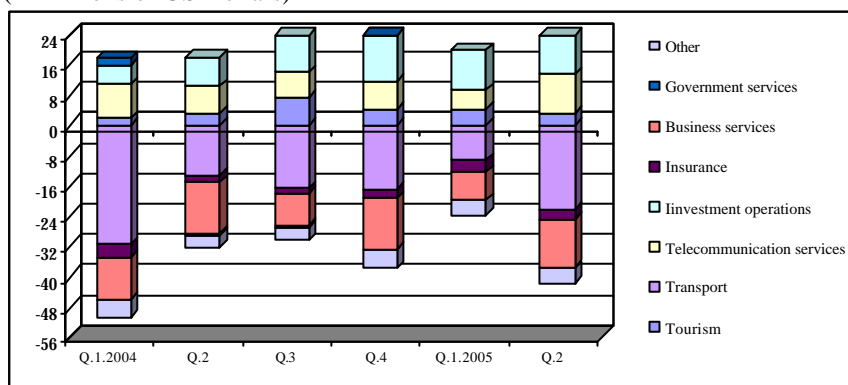
The reached consent in the area of trade in “sensitive” (agricultural) products, by reconciliation of the viewpoints of the industrially developed countries and the less developed countries and their inclusion in the multilateral system of negotiation is enough of an indicator of the DDA significance. On the other hand, this round of negotiations is important also from the aspect of the development, since the free trade among the countries of the world will positively influence the economic development, relaxation of the political relations and reduction of poverty in the world.

Australian Government Department of Foreign Affairs and Trade, June, 2005;
 "Development since the Cancun Ministerial Conference - Overview of the July Package", *The International Centre for Trade and Sustainable Development (ICTSD) and the International Institute for Sustainable Development (IISD)*, December, 2004;
Finance & Development, March, 2005;
Finance & Development, September, 2002

Increased deficit in services...

In the exchange of *services*, which is to a large extent determined by the transactions related to the foreign trade of goods, a moderate increase in the deficit was registered. Thus in the second quarter of 2005, deficit in the amount of US Dollar 16.8 million was registered (US Dollar 14 million in the same period of 2004). From the viewpoint of the separate categories of services, largest increase in the deficit was registered in the transport services (deficit higher by US Dollar 8.9 million relative to the second quarter of 2004), as a result of the increase in the imports of goods. On the other hand, increased inflows are registered in the investment operations and telecommunication services (higher by US Dollar 3.5 million, and US Dollar 3.2 million, respectively, relative to the second quarter of 2004).

Figure 36
 Balance of the separate categories of services
 (in millions of US Dollars)



Source: National Bank of the Republic of Macedonia

...given the reduced deficit in the category income

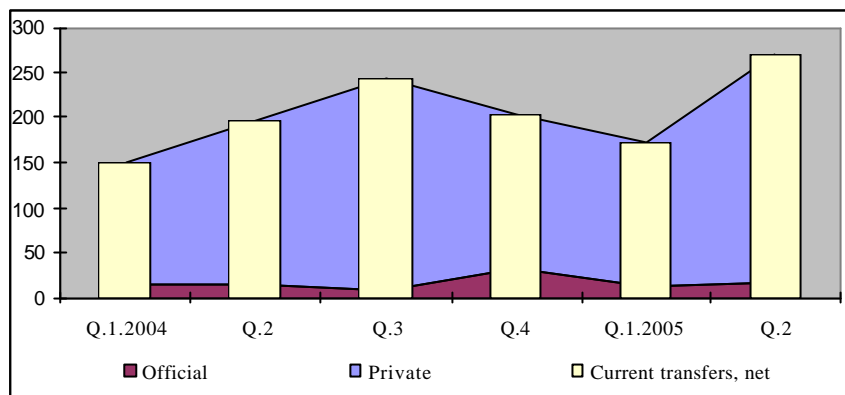
In the second quarter of 2005, the category *income* registered deficit in the amount of US Dollar 21.8 million, which is a decline of US Dollar 15 million relative to the same period of 2004. Having in mind that the income on the basis of interest and compensations for employees was stable, the reduction of the deficit was a result of the lower amount of paid dividends (by US Dollar 16.9 million), due to the deferred payment in the forthcoming quarter.

Increased inflows of private transfers in the second quarter of 2005

In the second quarter of 2005, the net inflows from current transfers amounted to US Dollar 269 million, which represents an increase of US Dollar 72.9 million, relative to the same period of 2004. With a moderate increase in the net inflows from official transfers (of US Dollar 1.4 million), the increase in the current transfers is primarily a result of the increased inflows from private transfers. The largest portion of the increase in the private transfers (82.9%) is due to the increased inflows on the basis of currency exchange operations (by US Dollar 59.3 million, relative to the second quarter of 2004). Consequently, their

share in the total private transfers increased by 6 percentage points, and equaled 67.5% in the second quarter of 2005.

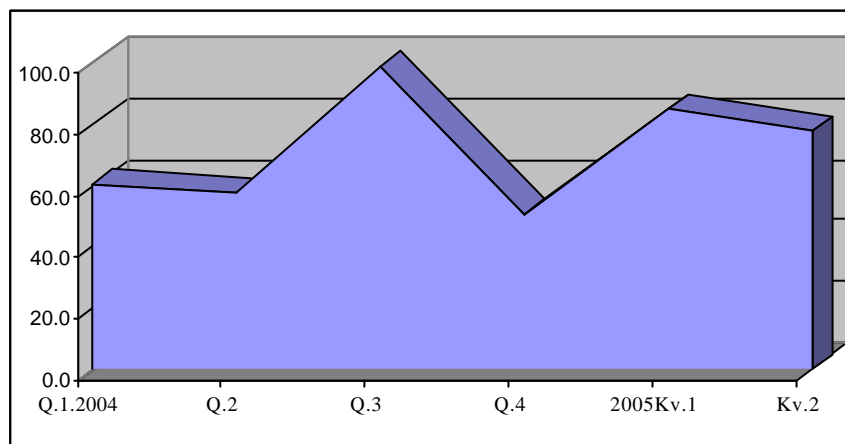
Figure 37
Current transfers, net
(in millions of US Dollars)



Source: National Bank of the Republic of Macedonia

Increased foreign exchange inflows on the basis of private transfers in the second quarter of 2005, finance 77.8% of the trade deficit (57.1% in the same period of the previous year).

Figure 38
Coverage of the trade deficit with private transfers
(in %)



Source: National Bank of the Republic of Macedonia

Expressed in Euros³⁹ in the second quarter of 2005, the deficit in the balance of payments current account stood at 74.1 million, which is a decline of Euro 70.4 million, or 48.7% relative to the same quarter of 2004. In the second quarter of 2005, the trade deficit totaled Euro 257.9 million, and it dropped by Euro 6.9 million or 2.6% relative to the same period of 2004. The deficit in the balance of services registered a moderate increase of Euro 1.3 million, and amounted to Euro 12.9 million, while the deficit in the income reduced by Euro 13.3 million and stood at Euro 17.4 million. In the second quarter of 2005, the net-inflow of current transfers totaled Euro 214.1 million and increased by Euro 51.4 million (31.6%) relative to the same period of 2004. The increase is a result of the increased net-inflow on the basis of private transfers (increase of Euro 50.7 million, or 33.5%), which reached Euro 201.9 million in the second quarter.

³⁹ Calculation of the NBRM.

b) Capital and financial account

Increased net foreign exchange inflows in the capital and financial account

The transactions in the capital and financial account of the balance of payments led to increased foreign exchange inflows (by US Dollar 2.9 million) in the second quarter of 2005, relative to the same period of 2004. Dominant share within financial inflows is that of trade credits and loans (of 45.2% and 30.6%, respectively), which financed 45.1% of the trade deficit registered in the second quarter of 2005 (31.1% in the same period of the previous year).

Table 16

Capital and financial account of the balance of payments¹
(in millions of US Dollars)

	2004				2005		2005-2004		2005/2004	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.1	Q.2	Q.1	Q.2
							difference		changes in %	
Capital account, net	-1.4	-1.8	-1.7	0.3	0.0	-0.2	1.4	1.6	-99.7	-91.3
Financial account, net	111.0	138.9	41.8	139.4	51.2	140.2	-59.8	1.3	-53.9	0.9
Direct investments, net	42.1	50.2	16.7	46.9	36.1	33.6	-5.9	-16.5	-14.1	-33.0
Portfolio investments, net	0.7	-1.0	1.0	14.1	16.5	4.8	15.8	5.8	2347.4	-573.4
Trade credits, net	27.3	79.6	8.5	54.7	-60.1	87.6	-87.4	8.0	-320.5	10.1
Loans, net	-12.7	19.7	19.2	33.7	16.4	59.3	29.1	39.6	-228.9	201.7
Currencies and deposits, net*	46.6	-18.3	-14.6	-17.4	37.0	-53.5	-9.7	-35.2	-20.7	192.3
Other, net**	7.1	8.8	11.0	7.4	5.4	8.3	-1.7	-0.4	-24.0	-4.9
Capital and financial account	109.6	137.1	40.1	139.7	51.2	140.0	-58.4	2.9	-53.3	2.1

1/ preliminary data

*/ "++" denotes a decline

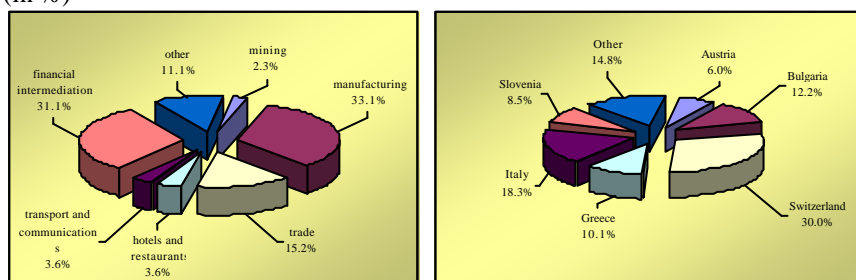
**/ Overdue claims

Source: National Bank of the Republic of Macedonia

In the second quarter of 2005, net inflows on the basis of foreign direct investments in the country amounted to US Dollar 33.6 million, whose share in the total financial inflows equals 17.4%. Analyzed by activities, it is evident that the largest portion of the foreign direct investments in the country is allocated in production, financial intermediation, and trade. From the point of view of individual countries, the largest part of the investments is from Switzerland, Italy, Bulgaria, Greece, Slovenia and Austria. In the second quarter of 2005, portfolio investments in the amount of US Dollar 4.8 million were registered, as a result of the increased participation of foreign investors in the stock exchange (trend which started in the beginning of 2005).

Figure 39

Foreign direct investments in the Republic of Macedonia in the second quarter of 2005
(in %)



Source: National Bank of the Republic of Macedonia

In the second quarter of 2005, an increased import of goods was registered, which along with the received advance collections on the basis of exports is the reason for the high positive balance in the trade credits (US Dollar 87.6 million). In the second quarter of 2005, trade credits financed 26.9% of the trade deficit (24.9% in the same period of the previous year).

In the second quarter of 2005, the category “currency and deposits” registered an increase in the funds in the amount of US Dollar 53.5 million. Given the drop in the net foreign assets of households, the increase was caused by the increased net foreign assets of the commercial banks.

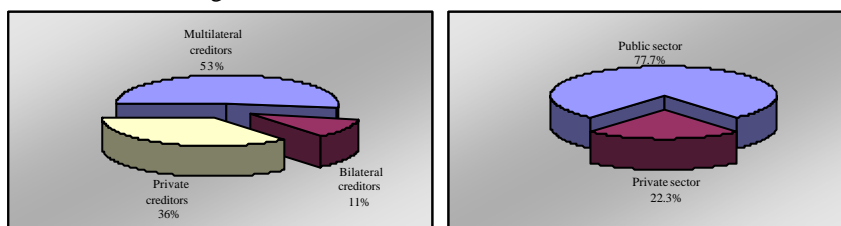
Expressed in Euros, in the second quarter of 2005, the net-inflow in the capital and financial account of the balance of payments stood at 109.7 million and relative to the same period of 2004 it was lower by Euro 4.3 million. Analyzed by separate components, in the second quarter of 2005, net inflows from direct and portfolio investments totaled Euro 27 million and Euro 3.8 million, respectively. *Trade credits* registered a positive balance of Euro 68.6 million. In the analyzed period, the net inflows on the basis of loans increased by Euro 30.6 million, and totaled Euro 47 million.

Quarterly decline in the external debt

At the end of June 2005, *the external debt* of the Republic of Macedonia stood at US Dollar 1,926.5 million, which is a decline of US Dollar 25.5 million, or of 1.3% relative to March 31, 2005. Given the higher amount of borrowed funds relative to the paid principal, the reduction of the long-term debt is entirely due to the foreign exchange gains. In the second quarter of 2005, new long-term credits and loans in the amount of US Dollar 82.7 million were concluded, which are almost entirely coming from private creditors (exception is the amount of US Dollar 2.4 million of new credits with the bilateral creditors concluded in June).

The structural analysis shows that the share of the official and of the private creditors in the total long-term debt as of June 30, 2005, equals 63.9% and 36.1%, respectively.

Figure 40
Structure of the long-term debt as of 30.06.2005



Source: National Bank of the Republic of Macedonia

As of June 30, 2005, the amount of the short-term debt, which entirely pertains to the private sector, totals US Dollar 52.7 million, which is a decline of US Dollar 19.2 million relative to end-2004. In the second quarter of 2005, the private sector used short-term foreign credits in the amount of US Dollar 9.8 million (entirely financial credits), while the paid liabilities (principal and interest) were in the amount of US Dollar 8.9 million.

The external debt of the Republic of Macedonia as of June 30, 2005, expressed in Euro, amounted to 1,598.2 million, which represents an increase of Euro 90 million, or 6%, relative to March 31, 2005.

Assessment of the external debt sustainability by application of the analytical framework prepared by the IMF

The assessment of the external debt sustainability is an integral part of the initiatives of the International Monetary Fund (IMF) for financial crises prevention and resolution. The assessment whether the external debt of the Republic of Macedonia could be serviced without problems and without the need of its restructuring is the essential part of the IMF decisions in the context of the program. The framework for analysis of the external debt sustainability points to

the salient factors for explaining the dynamics of the external debt of the country, simultaneously explaining whether the projections of the future movement of the debt are based on assumptions that are substantially different from the country's historical experience⁴⁰. Simultaneously, in order to cover some of the liquidity aspects of the external debt sustainability, the baseline scenario contains a projection of the **gross financing needs of the country**⁴¹. To assess the sustainability, the framework subjects the baseline scenario to numerous sensitivity tests (stress-tests).

The baseline scenario envisages the share of the external debt in the GDP⁴² of the Republic of Macedonia to shrink from 43.7% in 2004 to 36.5% of GDP by 2010. The decline in the level of indebtedness is based on the assumption that the Macedonian Government will issue a Eurobond, the amount of which will be used for refinancing the external debt and the projected real GDP growth rates. Also, it is assumed that in the 2005 - 2010 period, the average real GDP growth rate would equal 4.3%, while the nominal effective interest rate⁴³ on the external debt would be 1%. Capital inflows, which do not create debt (foreign direct and portfolio investments) are expected to act toward reduction of the share of the external debt in GDP by 4.8 percentage points, on average, simultaneously preserving the primary deficit in the current account at the level of 4.4% of GDP. According to the baseline scenario, the indebtedness level of 36.5% in 2010 would be sustainable on a longer run with a level of **primary deficit in the balance of payments current account of 5.8% of GDP**, only if the factors acting towards an increase in the indebtedness (except for the current account deficit) are completely offset with the factors acting towards a decline in the indebtedness, and such are the effects arising from the dynamics of the indebtedness level, i.e. the key macroeconomic variables⁴⁴ and the inflow of foreign direct investments. Contemporaneously, the level of 5.8% of GDP of the balance of payments current account primary deficit presumes neutral effects from the other residual factors.

To assess the appropriateness or the overambitiousness of the baseline scenario, a stress-test was made based on the presumption that in 2005 and 2006 the key variables would be maintained at the level of the historical average from the past ten years (average from 1995 - 2004), while in the rest of the period (2007 - 2010) the variables would move in line with the projections contained in the baseline scenario. It means that if in 2005 and 2006 the average real GDP growth rate is retained at the level of 2.3% (instead of 3.7% in 2005 and 4.0% in 2006 as in the baseline scenario) and if the average nominal effective interest rate on the external debt in 2005 and 2006 is retained at the level of 5% (instead of the projected 0.8% and 1.1%, respectively in 2005 and in 2006, on the basis of the baseline scenario), then in 2010, instead of 36.5%, as it is generated in the

⁴⁰ This means to what extent the results in the baseline scenario are different from the results obtained after the conducted stress-test analyses by using the assumption that in individual years of the projection period, the key variables (real GDP growth rate, nominal effective interest rate on the debt, changes in the GDP deflator and primary balance of payments current account deficit) are maintained at the level of the historical average.

⁴¹ Gross financing needs of the country are defined as a balance of payments current account deficit, excluding the interest payments (primary deficit), plus the repayments of interest and principal on the basis of the external long-term debt, along with the amount of the short-term debt at the end of the previous period.

⁴² The category external debt presented in the analysis is an *implicit external debt*, as besides the amount of the long-term and of the short-term debt it includes the amount of trade credits. According to the methodology of the World Bank, at the end of 2004, the external debt, as percentage of GDP equals 44.37%, positioning the Republic of Macedonia among the moderately indebted countries. In this calculation, the external debt does not include trade credits, and the amount of the external debt and the GDP is taken as an average of three previous years.

⁴³ In the framework, the nominal effective interest rate is calculated as a ratio of the total repaid amount of interest on medium-term, long-term and short-term debt in the current year and the amount of the total external debt at the end of the previous year.

⁴⁴ The analysis presumes that the key macroeconomic variables (real GDP growth rate, GDP deflator, and nominal effective interest rate on the external debt) in the future would be maintained at the level from 2010.

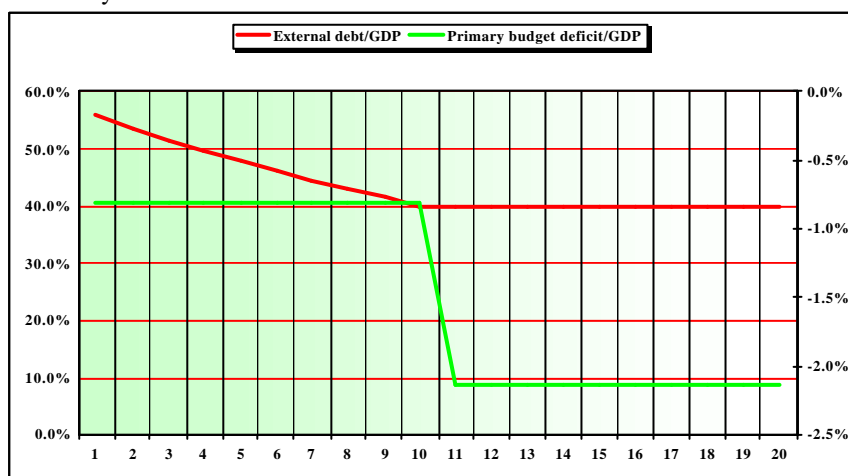
baseline scenario, **the indebtedness will be 58.1%**. Actually, if the effective interest rate on the external debt does not decrease, and if the optimism⁴⁵ about achieving higher real GDP growth rates is postponed for 2007, by 2010 the indebtedness will increase.

According to the results of the stress-test of the baseline scenario, the indebtedness level of 58.1% in 2010 would be sustainable on a longer run if the level of the **balance of payments current account primary deficit is 7.0% of GDP**, only if the factors acting towards an increase in the indebtedness (except for the current account deficit) are offset by the factors acting towards a reduction of the indebtedness. The analysis presumes that in the forthcoming period, the key macroeconomic variables (real GDP growth rate, GDP deflator and nominal effective interest rate on the external debt) would be maintained at the level from 2010, and that other residual factors would produce neutral effects.

If the assumptions from the presented stress-test analysis materialize, we want to find out in how many years and with what magnitude of primary budget surplus the indebtedness level of 58.1% in 2010 would be restored to the level of 40% (as it is, on average, in the 1995 - 2004 period). At the same time, according to the IMF criteria, the Republic of Macedonia with a historical average of the indebtedness level at around 40% and prudential credit history belongs to the group of moderately indebted countries.

If the real GDP growth rate from 2010 (4.5%) would be achieved successively each year in the period after 2010, and if the nominal effective interest rate on the external debt and the GDP deflator are also maintained at the level from 2010 (i.e. 0.9% and 2%, respectively), then **after five years, i.e. in 2015, with a primary budget surplus of 0.9% of GDP, the indebtedness level of 58.1% would drop to 40%**. If instead of five, we allow ten years for reducing the indebtedness level, then in 2020 one may expect stabilization of the indebtedness at the level of 40%, with the primary budget deficit being maintained at 0.8% of GDP. Simultaneously, the achieved level of 40% in 2020 could be maintained in the following ten years, i.e. by 2030, with a primary budget deficit of 2.1% of GDP (if the same presumptions for the real GDP growth rate, the nominal effective interest rate on the external debt and the GDP deflator remain).

Figure 41
Annual dynamics of stabilization of the indebtedness level



⁴⁵ Postponing the optimism about achieving higher real GDP growth rates is a technical assumption arising from the stress-test, which envisages lower real GDP growth rates in 2005 and in 2006 relative to the baseline scenario.

The next alternative scenario envisages a shock of two standard deviations from the ten-year historical average of the nominal effective interest rate on the total external debt, where the shock would take place in the first two years of the forecasting period, i.e. in 2005 and in 2006. That would mean an increase in the interest rate from the average 5% in the last ten years to 8.8% and its maintaining at this level successively in 2005 and in 2006. All other variables follow the baseline scenario. In that case, **in the first year of the shock, the share of the external debt in GDP would increase from 43.7% in 2004 to 51.3%, and after the shock, it would stabilize, and stand at the level of 47.3% of GDP in 2010.** The indebtedness level of 47.3% in 2010 would be sustainable on a longer run if **the level of balance of payments current account primary deficit would equal 6.4% of GDP.** It should be emphasized that the interest rate on the debt is an endogenous variable, as, inter alia, it depends also on the level of indebtedness of the country (the higher indebtedness, the higher interest rate, due to a higher risk). The interest rate on the debt to the private creditors could rapidly increase if the level of the debt increases, while the interest rate on the debt to the official creditors (international financial institutions) usually does not change.

The third scenario assesses the implications from a negative shock of two standard deviations from the ten-year historical average of the real GDP growth rate (which would take place in 2005 and in 2006) on the share of the external debt in the GDP, and how extensive deviation from the baseline scenario would such a shock cause. If in 2005 and in 2006 the Macedonian economy registers rates of real decline of the output of 6.7%, **under the influence of the shock, the indebtedness increases from 43.7%, as it was in 2004, to 51.5% and 52.7% in 2005 and in 2006, respectively,** while after the shock disappears by 2010, the indebtedness would drop to 49.5%. This is due to the assumption in the baseline scenario that in the 2007 - 2010 period, the economy would register growth in real terms at a rate of 4.5% p.a. In line with the results from the stress-test of the baseline scenario, the indebtedness level of 49.5% in 2010 would be sustainable in a longer run with a **level of balance of payments current account primary deficit of 6.5% of GDP.**

In accordance with the empirical research⁴⁶, when assessing the sensitivity of the country to the level of indebtedness, other factors such as the dollarization level, debt indexation with the inflation rate, interest rates and the debt maturity structure, are also of great importance. All these factors are a reflection of the institutional setup of the country. Hence, the adequate assessment of the tolerable level of indebtedness should also incorporate the country's credit history, the institutional setup, as well as the assessment of the quality of the macroeconomic management. Thus, the specifics of individual countries significantly influence the interpretation of the indicators of indebtedness and the assessment of the threshold of tolerance of the indebtedness level.

8.

Foreign exchange developments

Quarterly increase in the turnover on the foreign exchange market of 11.3%

In the second quarter of 2005, the turnover on the *foreign exchange market*⁴⁷ stood at US Dollar 1,090.8 million, which is an increase of 11.3% relative to the previous quarter. Such quarterly dynamics of the turnover on the foreign exchange market was mainly caused by the increased volume of the foreign trade. Given the more intensive dynamics of the imports relative to the

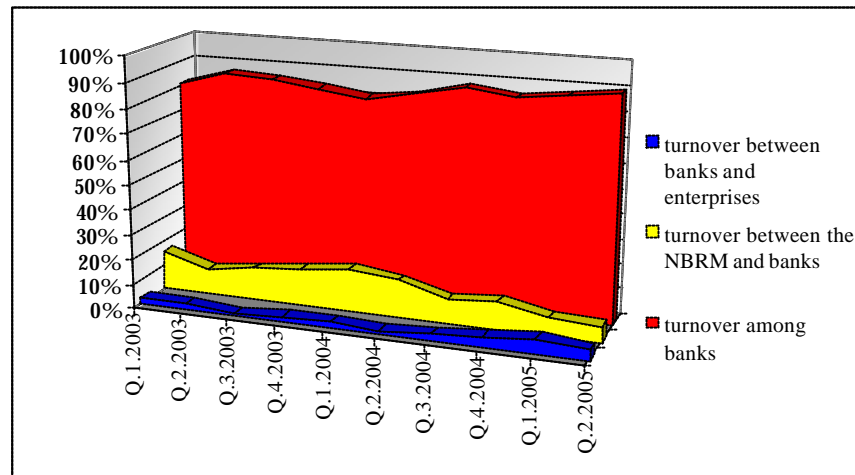
⁴⁶ Source: Brookings Papers on Economic Activity, I:2003, *Debt Intolerance*, Carmen M. Reinhart, Kenneth S. Rogoff and Miguel A. Savastano.

⁴⁷ Since June 01, 2005, the quoting and the purchases and sales of foreign currency among the banks on the foreign exchange market is conducted via the Tenfore Banking Package, which is introduced in order to increase the transparency in trade.

exports of goods, an increased demand for foreign exchange by the enterprises was registered on the foreign exchange market, which was met by the increased net-sale of foreign assets by the banks (an increase of 7.4% relative to the previous quarter). The structural analysis of the turnover on the foreign exchange market shows that the share of the segment banks - enterprises increases, having the historically highest share in the total turnover of 89.9% (87.6% in the first quarter of 2005).

Figure 42

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



Source: National Bank of the Republic of Macedonia

The average monthly turnover on the foreign exchange market during the second quarter of 2005, totalled US Dollar 363.6 million, and it is by US Dollar 37 million higher relative to the previous quarter. The monthly analysis of the turnover shows that the highest turnover on the foreign exchange market during the second quarter of 2005, in the amount of US Dollar 379.1 million, was registered in June.

The Denar exchange rate against the Euro remained stable...

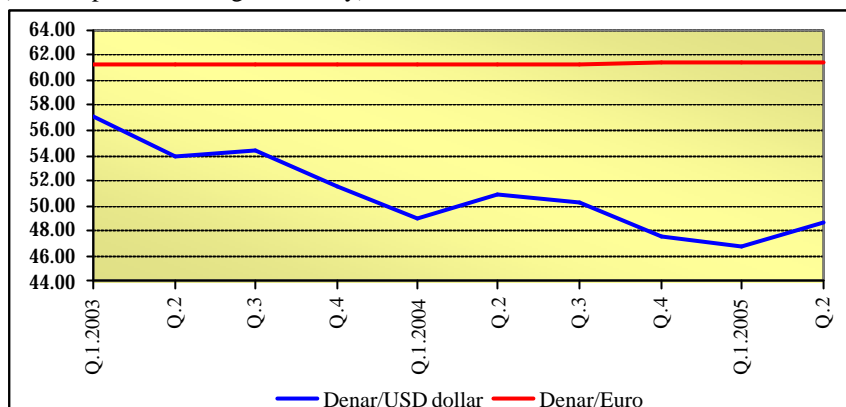
...while there was a depreciation of the Denar against the US Dollar in the second quarter of 2005

In line with the determined monetary strategy of the NBRM for exchange rate targeting, in the second quarter of 2005, the stability of the exchange rate of the Denar against the Euro was maintained, with Denar 61.38 being traded per one Euro, on average. NBRM realized a net purchase of foreign assets from the banks. The exchange rate of the Denar relative to the US Dollar followed the movements on the international markets, so that in the second quarter of 2005, Denar 48.72 were traded per one US Dollar, on average, with the Denar registering a depreciation of 4% (Denar 46.86 were traded per one US Dollar, on average, in the first quarter of 2005).

Figure 43

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

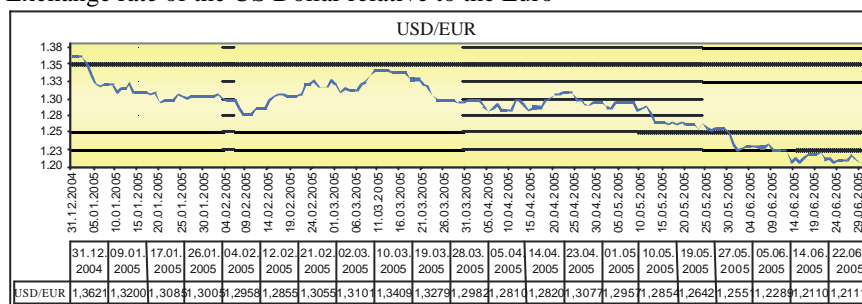
Appreciation of the US Dollar on the international stock exchanges

Following the significant drop of the US Dollar relative to the Euro in the last quarter of 2004, when it reached its minimum (as of December 28, 2004 their exchange rate stood at US Dollar 1.3633 per one Euro), as early as in the beginning of 2005, the US Dollar improved its position on the international markets and started to appreciate. The increase in the value of the US Dollar relative to the Euro was especially evident in the second quarter of 2005, which is considered to be the most favorable period for the US Dollar since 2001 (as of July 6, 2001, US Dollar 0.8384 were traded per one Euro).

Thus, in the beginning of April 2005, the appreciation of the US Dollar, which commenced in mid-March 2005, continued, while towards the middle of the month it registered a moderate depreciation. In the second half of April 2005, the Dollar increased in value again, as a result of publishing data on a twice higher growth rate of the US economy of 3.8% in the first quarter of 2005, compared with 1.3%, as it is in the countries of the euro-area (the projected growth rate of the euro-area for 2005 equalled 1.6%, which ECB revised to 1.4% on June 2, 2005) Starting from May 11, 2005, when USA announced results in the balance of payments better than the expected, the value of the US Dollar started to increase rapidly and at the end of May 2005, it equalled US Dollar 1.2472 per one Euro. During June 2005, the appreciation of the US Dollar on the international markets continued, however at a slower pace. Thus, as of June 30, 2005, the US Dollar / Euro exchange rate reached US Dollar 1.2054 per one Euro, with the US Dollar registering a quarterly appreciation of 6.7%, while relative to December 31, 2004, its value appreciated by 11.2% (as of December 31, 2004, US Dollar 1.3621 were traded per one Euro). Such movements of the US Dollar are in line with the policy of the FED, which increased the reference interest rate nine times during the year, and as of June 30, 2005, it reached 3.25%, while the reference interest rate of the ECB has been unchanged since June 6, 2003 and equals 2%. The appreciation of the Dollar intensified as a result of the speculations for further increase of the interest rates in the USA, while they simultaneously decreased in the euro-area, with the potential interest rate differential being for the benefit of the US Dollar. The gap between the yields on the two-year treasury bills of the USA and the government bonds of Germany with similar maturity, also has an influence. On the other hand, the rejection of the Draft EU Constitution in the referendums in France (in May 2005) and in Holland (in June 2005), had an impact on the movement of the Euro, which additionally contributed to the decrease in the value of the Euro relative to the US Dollar.



Figure 44
Exchange rate of the US Dollar relative to the Euro



Source: European Central Bank

The forecasts about the future movements of the exchange rates are divergent. According to some forecasts, the US Dollar will continue to appreciate, and arguments for that are the positive developments in the US economy (faster economic growth relative to the EU countries, speculations for further increase in the interest rates, as well as for creation of new jobs). On the other hand, their opponents are of an opinion that in the forthcoming period the depreciation of the Euro will stop as a result of the fact that the ECB left the interest rates unchanged (decided at the meeting of July 7, 2005), the fact that Luxembourg accepted the Draft EU Constitution (in July 2005), while France announced data on an increase in the industrial output in May 2005.

In line with the strategy of targeting the Denar exchange rate against the Euro (preserving its stability), all changes in the exchange rate between the US Dollar and the Euro will adequately reflect on the exchange rate of the Denar against the US Dollar.

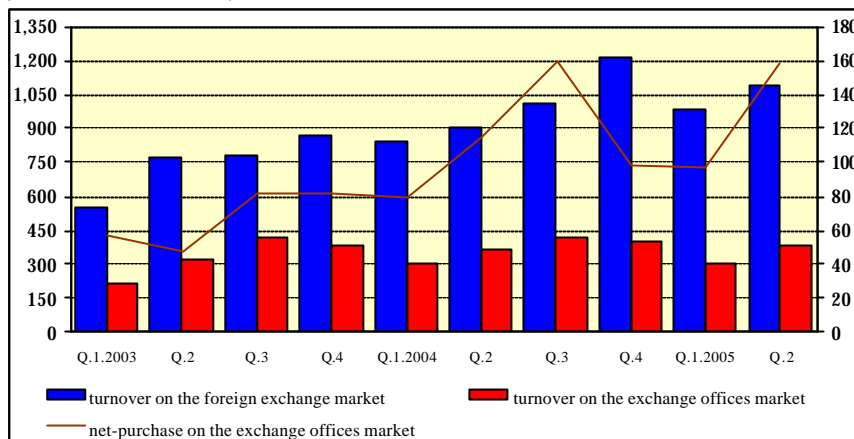
Source: European Central Bank: Monthly Bulletin (May 2005, June 2005); Bloomberg.com.

The turnover on the currency exchange market increased by 27.2% relative to the previous quarter

In the second quarter of 2005, the overall turnover on the **currency exchange market** equaled US Dollar 387.9 million, which is an increase of 27.2% compared to the previous quarter. Given the more intensive quarterly increase of the supply of relative to the demand for foreign exchange (35.5% and 11%, respectively) an increased net-purchase in the amount of US Dollar 157.8 million on the foreign exchange market was registered, which is an increase of 61.5% relative to the previous quarter (an increase of 37.5% relative to the same quarter of 2004).

Figure 45

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

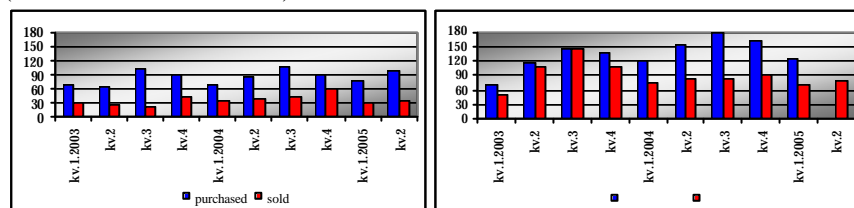


Source: National Bank of the Republic of Macedonia

Analyzed by months, the demand for foreign exchange on the currency exchange market was relatively stable, while on the side of the supply, a continuous increase was registered (as a result of the visits of the Macedonians working abroad during the Labor Day and the summer holidays), so that the highest monthly net purchase of the foreign exchange in the amount of US Dollar 59.7 million was registered in June. The structural analysis reveals that most of the turnover on the currency exchange market (64.9%) was realized through private exchange offices, while the remaining 35.1% were carried out through the commercial banks. The currency structure of the supply shows a dominant share of the Euro, with 55.9%, followed by the Swiss Frank, and the US Dollar with a share of 25.8%, and 11.7%, respectively. Dominant currency on the demand side was the Euro (78.7%), while the demand for the US Dollar and the Swiss Frank is significantly lower (10.6% and 7.5%, respectively).

Figure 46

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



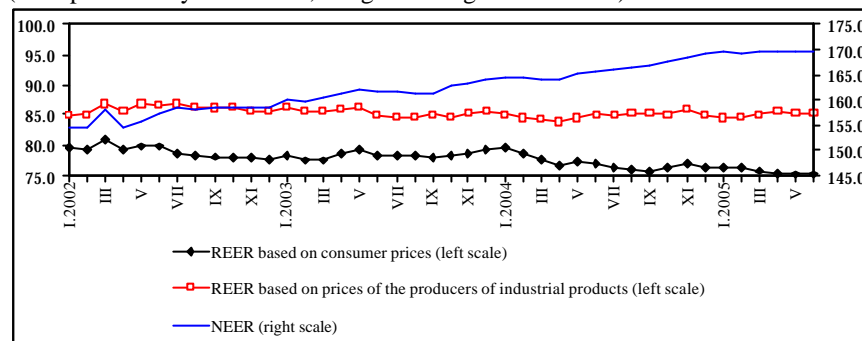
In the second quarter of 2005, the average Denar exchange rate relative to the Euro on the currency exchange market equaled Denar 61.61 per one Euro (Denar 61.63 per one Euro, on average, in the previous quarter). The average bid rate amounted to Denar 61.48 per one Euro, while the average ask rate was Denar 61.74 per one Euro. The exchange rate of the Denar relative to the US Dollar equaled Denar 48.62 per one US Dollar, which is a depreciation of the Denar of 3.9% on a quarterly basis (Denar 46.8 per one US Dollar, on average in the previous quarter). The average bid rate equaled Denar 48.25 per one US Dollar, while the average ask interest rate was Denar 49 per one US Dollar.



Quarterly depreciation of the real effective exchange rate of the Denar measured by the consumer prices

In the second quarter of 2005, *the real effective exchange rate of the Denar* (REER), measured by the consumer prices, continued the positive trend from the previous quarter towards further depreciation, which points to an increased competitiveness of the Republic of Macedonia at the foreign markets. In the second quarter of 2005, the average quarterly REER registered depreciation of 1.2% relative to the previous quarter, which given the small appreciation of the nominal effective exchange rate (NEER) of 0.1%, is solely due to the higher foreign relative to the domestic prices (an increase of 1.7% and 0.3%, respectively, compared with the first quarter of 2005). Among the most important trading partners, the highest inflation rate was registered in Serbia, Greece and in Turkey. In the second quarter of 2005, the average quarterly REER calculated according to the price index of the producers of industrial products, registered mild appreciation of 0.7% relative to the previous quarter, which is a result of the faster increase in the domestic relative to the foreign prices (increase of 1.6% and 1%, respectively, relative to the previous quarter).

Figure 47
Index of the REER* and NEER of the Denar ¹⁾
(base period May 1993=100, weights foreign trade=1998)



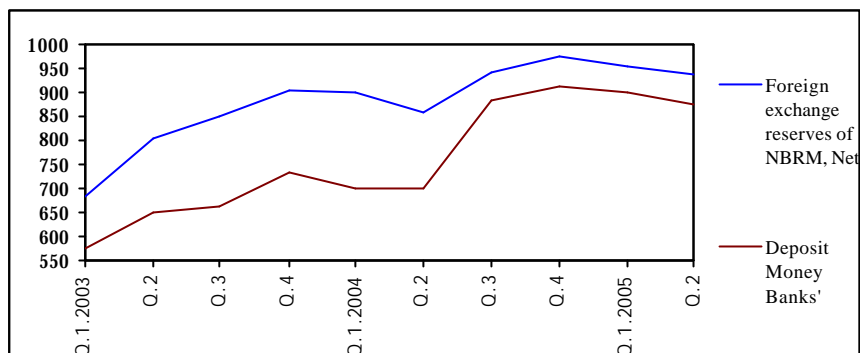
*Index below 100 denotes an increased export competitiveness.

1) Preliminary data on foreign prices for June 2005.

Source: National Bank of the Republic of Macedonia; IFS-database: August 2005; National Bank of Serbia

The favourable movements in the foreign exchange market enabled an increase in the *gross foreign reserves* of US Dollar 29.4 million at the end of the second quarter of 2005, compared with the end of the previous quarter, which was offset by the negative foreign exchange gains (US Dollar 45.7 million). At the end of the second quarter, gross foreign reserves stood at US Dollar 937.8 million, which is a moderate decline of 1.7% relative to the end of the first quarter of 2005. Expressed in Euros, at the end of the second quarter of 2005, the gross foreign reserves totalled 778 million, which is an increase of Euro 41 million relative to the end of the previous quarter. On cumulative basis, the gross foreign reserves expressed in Euros cover 3.4 months of imports of goods, (f.o.b.) and services realized in the first half of 2005, on average.

Figure 48
Foreign assets of the NBRM and foreign assets with banks
(in millions of US Dollars)



Source: National Bank of the Republic of Macedonia

Foreign assets with the deposit money banks declined relative to the first quarter of 2005

At the end of the second quarter of 2005, the total foreign assets with the deposit money banks amounted to US Dollar 871.9 million, and relative to the end of the previous quarter they dropped by US Dollar 27.6 million, however, having in mind the effect from the negative foreign exchange gains. From a viewpoint of the sectors, given the increase in the foreign currency deposits of the enterprises, the decline in the foreign assets of banks is a result of the reduced foreign currency deposits of the households and other foreign currency deposits.

9.

Public finances

The revenues of the central government increase by 14.5% in the second quarter of 2005, relative to the previous quarter...

In the second quarter of 2005, the total public revenues equalled Denar 22.612 million and compared with the first three months of the year they were by 12.5% higher, while on annual level (second quarter of 2005 / second quarter of 2004) they increased by 4.4%. The quarterly increase in the public revenues is caused by the higher amount of revenues from the collection of taxes and contributions, as well as from the increase in the non-tax revenues.

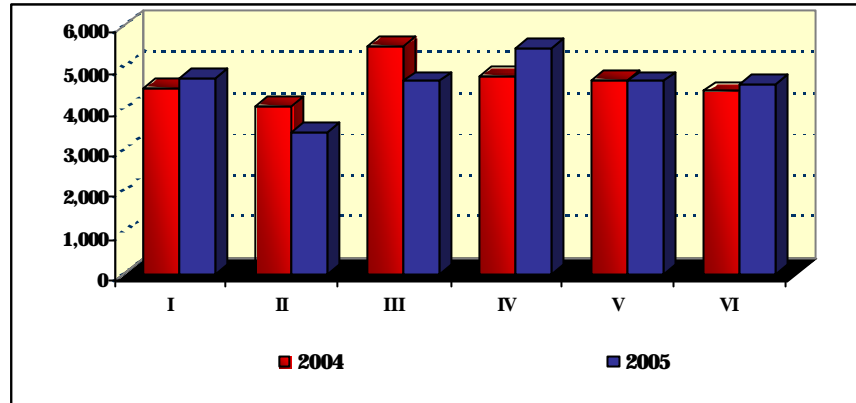
The revenues of the central government are higher also in the second quarter (by 14.5%, relative to the first quarter of 2005), and amount to Denar 14,690 million, reflecting the increase in the tax and non-tax revenues (of 13.3% and 47.1%, respectively). On annual basis (second quarter of 2005 / second quarter of 2004), the total budget revenues were by 5.8% higher.

Within tax revenues, which have the highest structural share in the total budget revenues (93.8%), the highest amount of revenues was realized from the collection of the value added tax (Denar 6,767 million, which is a quarterly increase of 17.8%), with a simultaneous increase in the realized revenues from the collection of the personal income tax, excises and customs duties (by 11.9%, 19.8% and 40.4%, respectively) On the other hand, in the second quarter of 2005 revenues from the profit tax lower by 44.4% were registered, compared with the previous quarter, due to the lower comparison basis⁴⁸.

In the second quarter of 2005, an increase was registered in all categories of non-tax revenues, with the total non-tax revenues registering a quarterly increase of 47.1%. The revenues from the profit from public and financial institutions and from administrative taxes and compensations (the joint share of which in the total non-tax revenues equals 88.9%) are by 3.1 times and 18.6%, respectively higher on a quarterly basis. Capital revenues, in the April - June 2005 period, registered a decline of 4.5% relative to the previous quarter.

⁴⁸ The largest inflow from the profit tax was realized in the first quarter of the year (according to the final statements), while in the remaining part of the year only advance payments are made.

Figure 49
Total revenues of the central budget
(in millions of Denars)

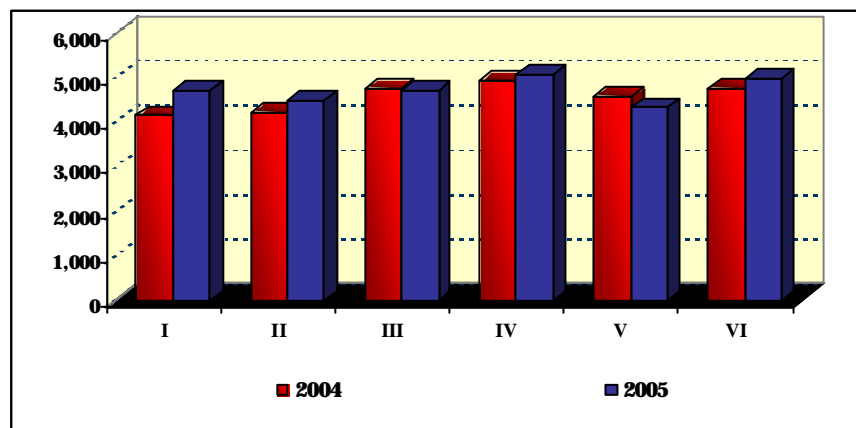


...while the budget expenditures registered more moderate increase of 3.6%

In the second quarter of 2005, the total public expenditures (Denar 21,973 million) registered a more moderate increase relative to the budget revenues, i.e. relative to the first three months of the year they were by 2.9% higher, reflecting the increase in the budget expenditures of 3.6%. On the other hand, on annual level (second quarter of 2005 / second quarter of 2004), public expenditures registered a decline of 1.4%.

The increased spending of the central government in the second quarter, relative to the previous quarter of the year is due to the higher current and capital expenditures. In the April - June 2005 period, current expenditures, whose share in the total budget expenditures is 90.1%, increased by 0.4% relative to the first three months of the year, as a result of the higher expenditures for payment of wages and salaries, and higher transfers. Capital expenditures (with a share of 9.9% in the total budget expenditures) registered a significant increase of 46.3%, mainly on the basis of the increased investments in fixed assets and the larger amount of capital transfers.

Figure 50
Total expenditures of the central budget
(in millions of Denars)



In the second quarter of 2005, the total revenues and expenditures of the social funds stood at Denar 12,705 million, and Denar 12,616 million, respectively, which is a quarterly increase of 4.3% and 0.7%, respectively. The increase in the revenues of the social funds is a result of the increased revenues of the Pension Fund, the Health Insurance Fund and of the Employment Fund (by 3.7%, 7% and 1.1%, respectively). The increase in the expenditures of the



social funds is caused by the higher spending of the Pension Fund and of the Health Insurance Fund (by 0.5% and 3.5%, respectively), while the expenditures of the Employment Fund dropped (by 4%). Simultaneously, the revenues and the expenditures of the Road Fund registered a quarterly increase (of 62.8% and 50.3%, respectively) and totaled Denar 902 and 714 million, respectively.

Compared with the same period of the previous year, the revenues and the expenditures of the social funds declined (by 0.5% and 3.4%, respectively), mainly due to the reduced inflows and expenditures of the Employment Fund, as well as due to the lower expenditures of the Health Insurance Fund. The Road Fund also registered lower revenues on annual basis (by 16.6%), while its expenditures declined more rapidly (by 32.4%).



Statistical appendix

1. Prices

Table 1

Costs of living and retail prices

	VI.2005 V.2005	VI.2005 VI.2004	I-VI.2005 I-VI.2004
	in %		
Costs of living	0.2	1.4	0.2
Food	0.5	0.9	-2.1
Tobacco and beverages	0.1	6.0	6.1
Clothing and footwear	0.1	1.4	3.1
Housing	0.1	0.5	0.1
Flat (rent, water, services)	0.1	1.4	0.1
Fuel and lighting	0.3	0.9	0.6
Hygiene	-0.4	-4.0	-3.4
Culture and entertainment	0.8	-0.2	-0.6
Transport, communications, services	-0.1	5.0	4.4
<i>Goods</i>	<i>0.4</i>	<i>1.0</i>	<i>-0.3</i>
<i>Services</i>	<i>-0.3</i>	<i>3.2</i>	<i>2.4</i>
Retail prices	0.1	2.3	1.7
Agricultural products	2.1	6.8	-2.5
Non-food industrial products	0.4	2.0	2.0
Processed food products	-0.1	-0.9	-2.1
Beverages	0.1	2.2	2.7
<i>Goods</i>	<i>0.4</i>	<i>1.6</i>	<i>0.7</i>
<i>Services</i>	<i>-0.4</i>	<i>3.4</i>	<i>3.4</i>

Source: State Statistical Office of the Republic of Macedonia



Table 2

Prices of producers of industrial products

	VI.2005	VI.2005	I-VI.2005
	V.2005	VI.2004	I-VI.2004
	in %		
Prices of producers of industrial products	0.4	2.4	2.3
Energy	1.9	8.9	7.5
Intermediary goods (except Energy)	-0.1	0.1	1.5
Capital goods	0.0	0.0	0.0
Durable consumer goods	0.0	3.0	3.0
Non durable consumer goods	0.0	0.7	-0.1
<i>Mining and quarrying</i>	<i>-0.8</i>	<i>0.0</i>	<i>0.2</i>
<i>Manufacturing industry</i>	<i>0.5</i>	<i>2.9</i>	<i>2.8</i>
Manufacture of food products and beverages	0.0	0.2	-0.7
Manufacture of tobacco products	0.0	0.2	0.3
Manufacture of textiles	0.0	0.0	-0.8
Manufacture of wearing apparel; dressing and dyeing of fur	0.0	0.0	0.0
Publishing, printing and reproduction of recorded media	0.0	0.0	0.0
Manufacture of coke, refined petroleum products and nuclear fuel	4.6	23.9	21.6
Manufacture of chemicals and chemical products	0.0	0.1	0.1
Manufacture of rubber and plastic products	0.0	0.0	0.0
Manufacture of other non-metallic mineral products	0.0	0.4	0.0
Manufacture of basic metals	0.0	-0.1	0.0
Manufacture of fabricated metal products, except machinery and equipment	0.0	0.0	0.0
Manufacture of electrical machinery and apparatus n.e.c.	0.0	0.0	6.3
<i>Electricity, gas and water supply</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</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		
	IV.2005	V.2005	VI.2005	<u>IV.2005</u>	<u>V.2005</u>	<u>VI.2005</u>	<u>IV.2005</u>	<u>V.2005</u>	<u>VI.2005</u>
	in Denar			III.2005	IV.2005	V.2005	IV.2004	V.2004	VI.2004
				in %			in %		
Total	9,857	10,045	10,108	-0.4	1.9	0.6	-2.2	-1.2	1.2
Cereal and cereal products	1,817	1,813	1,811	-0.2	-0.2	-0.1	-4.4	-4.1	-4.0
Vegetables, fresh and processed	1,281	1,453	1,308	-5.0	13.4	-10.0	-11.8	-7.3	-3.1
Fruit, fresh and processed	693	722	952	5.6	4.2	31.9	-2.7	0.4	28.3
Meat, fresh and processed	2,364	2,374	2,369	-0.2	0.4	-0.2	3.6	4.4	3.5
Fats	368	365	365	-0.8	-0.8	0.0	-5.9	-6.6	-6.2
Milk and dairy products	1,623	1,615	1,597	0.4	-0.5	-1.1	-1.8	-1.7	-2.4
Other food products	1,711	1,703	1,706	-0.1	-0.5	0.2	1.4	1.4	0.6

* 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>VI.2005</u> <u>V.2005</u>	<u>VI.2005</u> <u>VI.2004</u>	<u>I-VI.2005</u> <u>I-VI.2004</u>
		in %		
Total	100.0	4.1	14.2	9.3
Energy	21.8	9.4	9.5	3.5
Intermediary goods (except Energy)	33.8	3.0	23.2	20.0
Capital goods	4.8	-0.2	15.3	-1.9
Durable consumer goods	1.4	-36.5	-8.1	-5.8
Non durable consumer goods	38.1	5.2	8.6	5.1
Mining and quarrying	1.8	32.5	44.7	1.2
Manufacturing industry	79.4	3.9	16.0	11.5
Manufacture of food products and beverages	20.0	7.3	12.8	2.2
Manufacture of tobacco products	3.9	5.1	26.1	0.1
Manufacture of textiles	2.5	-15.5	-4.2	-6.2
Manufacture of wearing apparel; dressing and dyeing of fur	8.6	0.5	0.8	8.3
Publishing, printing and reproduction of recorded media	3.9	16.6	12.5	5.5
Manufacture of coke, refined petroleum products and nuclear fuel	3.0	57.1	59.7	13.8
Manufacture of chemicals and chemical products	5.9	37.1	6.3	2.5
Manufacture of rubber and plastic products	2.6	0.4	-19.3	-6.9
Manufacture of other non-metallic mineral products	8.1	-12.7	21.6	15.6
Manufacture of basic metals	6.0	-15.0	63.7	87.9
Manufacture of fabricated metal products, except machinery and equipment	3.8	7.6	27.7	30.3
Manufacture of electrical machinery and apparatus n.e.c.	3.2	16.5	55.3	22.0
Electricity, gas and water supply	18.8	0.5	0.1	2.0

Source: State Statistical Office of the Republic of Macedonia



Table 5
Trade turnover

	Amounts				Monthly changes			Annual changes			Average changes
	IV.2005	V.2005	VI.2005	I-VI.2005	<u>IV.2005</u>	<u>V.2005</u>	<u>VI.2005</u>	<u>IV.2005</u>	<u>V.2005</u>	<u>VI.2005</u>	<u>I-VI.2005</u>
	in Denar million				III.2005	IV.2004	V.2005	IV.2004	V.2004	VI.2005	I-VI.2005
					in %			in %			in %
Trade turnover - total*	13,814	13,016	13,896	76,715	6.6	-5.8	6.8	12.0	3.7	6.1	7.8
Retail sales*	5,434	5,206	5,445	29,588	8.7	-4.2	4.6	16.8	8.9	9.8	8.7
Whole sales*	8,380	7,811	8,451	47,127	5.3	-6.8	8.2	9.0	0.5	3.9	7.2

* Estimated

Source: State Statistical Office of the Republic of Macedonia

Table 6
Contracted and completed construction works

	Amounts				Monthly changes			Annual changes			Average changes
	IV.2005	V.2005	VI.2005	I-VI.2005	<u>IV.2005</u>	<u>V.2005</u>	<u>VI.2005</u>	<u>IV.2005</u>	<u>V.2005</u>	<u>VI.2005</u>	<u>I-VI.2005</u>
	in Denar million				III.2005	IV.2005	V.2005	IV.2004	V.2004	VI.2004	I-VI.2004
					in %			in %			in %
Value of contracted construction works	381	342	451	5,393	82.1	-10.2	31.7	-15.3	-42.5	-15.8	-30.5
Value of completed construction works	527	518	559	2,502	34.0	-1.6	7.8	-28.3	-36.6	-23.3	-31.8

Source: State Statistical Office of the Republic of Macedonia

3. Wages and employment

Table 7
Average net wages

	VI.2005	I-VI.2005	<u>VI.2005</u>	<u>VI.2005</u>	<u>I-VI.2005</u>
	in denars		V.2005	VI.2004	I-VI.2004
			in %		
Nominal average net wage per worker	12,556	12,427	-0.3	1.9	2.0
Costs of living			0.2	1.4	0.2
Real average net wage per worker			-0.5	0.5	1.8
Nominal average net wage by sectors					
Agriculture	11,502	11,295	-0.8	20.1	20.1
Industry	12,554	12,494	-2.6	2.2	3.0
Services	14,526	14,345	0.6	5.3	3.8

Source: State Statistical Office of the Republic of Macedonia



4. Monetary policy

Table 8

Reserve money
(in Denar million)

	31.03.2005	Monthly changes			Total	30.06.2005
		April	May	June		
Reserve money	17,054	980	419	-372	1,027	18,081
Currency in circulation	13,207	984	-1,105	304	183	13,390
Banks liquidity	3,847	-4	1,524	-676	844	4,691

Source: National Bank of the Republic of Macedonia

5. Banking sector

Table 9

Money supply M1 and its components
(in Denar million)

	31.03.2005	Monthly changes			Total	30.06.2005
		April	May	June		
Money supply M1	26,948	163	-118	149	194	27,142
Currency in circulation	13,207	984	-1,105	304	183	13,390
Demand deposits	13,741	-821	987	-155	11	13,752
- Demand deposits of households	2,695	268	-138	42	172	2,867
- Demand deposits of enterprises	9,214	-939	893	15	-31	9,183

Source: National Bank of the Republic of Macedonia

Table 10

Broader monetary aggregates and their components
(in Denar million)

	31.03.2005	Monthly changes			Total	30.06.2005
		April	May	June		
Money supply M1	26,948	163	-118	149	194	27,142
Denar short - term deposits	23,336	1,181	1,076	742	2,999	26,335
<i>Monetary aggregate M2 - denar component</i>	<i>50,284</i>	<i>1,344</i>	<i>958</i>	<i>891</i>	<i>3,193</i>	<i>53,477</i>
Foreign currency short - term deposits	42,495	1,690	-3	1,280	2,967	45,462
Monetary aggregate M2	92,779	3,034	955	2,171	6,160	98,939
Non - monetary deposits	4,644	-40	436	-138	258	4,902
- In Denar	3,111	-4	-32	18	-18	3,093
- In foreign currency	1,533	-36	468	-156	276	1,809
Monetary aggregate M4	97,423	2,994	1,391	2,033	6,418	103,841

Source: National Bank of the Republic of Macedonia



Table 11

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

	31.03.2005	Monthly changes			Total	30.06.2005
		April	May	June		
Total deposits	70,475	2,831	1,509	1,884	6,224	76,699
1. According to maturity						
- short-term	65,831	2,871	1,073	2,022	5,966	71,797
- long-term	4,644	-40	436	-138	258	4,902
2. According to currency of denomination						
- In denar	26,447	1,177	1,044	760	2,981	29,428
- In foreign currency	44,028	1,654	465	1,124	3,243	47,271

Source: National Bank of the Republic of Macedonia

Table 12

Households and enterprises deposits
(in Denar million)

	31.03.2005	Monthly changes			Total	30.06.2005
		April	May	June		
Total households deposits	47,069	1,412	588	811	2,811	49,880
1. According to maturity						
- short-term	44,887	1,375	544	784	2,703	47,590
- long-term	2,182	37	44	27	108	2,290
2. According to currency of denomination						
- In denar	12,520	821	-24	237	1,034	13,554
- In foreign currency	34,549	591	612	574	1,777	36,326
Total enterprises deposits	21,321	1,459	936	1,026	3,421	24,742
1. According to maturity						
- short-term	20,227	1,450	534	1,194	3,178	23,405
- long-term	1,094	9	402	-168	243	1,337
2. According to currency of denomination						
- In denar	12,174	330	1,050	506	1,886	14,060
- In foreign currency	9,147	1,129	-114	520	1,535	10,682

Source: National Bank of the Republic of Macedonia

Table 13

Banks' placements and overdue claims
(in Denar million)

	31.03.2005	Monthly changes			Total	30.06.2005
		April	May	June		
Total banks' placements	60,320	1,440	453	794	2,687	63,007
<i>Denar placements</i>	47,410	868	-115	404	1,157	48,567
<i>Foreign currency placements</i>	12,910	572	568	390	1,530	14,440

Source: National Bank of the Republic of Macedonia



Table 14

Structure of total placements
(in Denar million)

	31.03.2005	Monthly changes			Total	30.06.2005
		April	May	June		
Maturity structure						
- short-term	31,000	178	-710	-383	-915	30,085
- long-term	29,320	1,262	1,163	1,177	3,602	32,922
Structure of currency of denomination						
- Denar	47,410	868	-115	404	1,157	48,567
- Foreign currency	12,910	572	568	390	1,530	14,440
Structure by sectors						
- enterprises	43,606	743	-170	29	602	44,208
- households	16,567	670	684	761	2,115	18,682
- other	147	27	-61	4	-30	117

Source: National Bank of the Republic of Macedonia

Table 15

Maturity and sector structure of Denar and foreign currency placements

	31.03.2005	Quarterly change	Annual change
	(in %)	(in percentage points)	(in percentage points)
Denar placements			
maturity structure			
- short-term	51.5	-3.4	-8.5
- long-term	48.5	3.4	8.5
structure by sectors		0.0	0.0
- enterprises	62.4	-3.5	-10.0
- households	37.4	3.4	9.9
- other	0.2	0.1	0.1
Foreign currency placements			
maturity structure			
- short-term	35.3	-3.3	-4.9
- long-term	64.7	3.3	4.9
structure by sectors			
- enterprises	96.1	0.4	0.1
- households	3.7	0.1	2.3
- other	0.2	-0.5	-2.4

Source: National Bank of the Republic of Macedonia



6. Financial markets

Table 16

Stock exchange indicators

	January-March 2005	January-April 2005	change in %
Turnover (denars)			
Trading in BEST	1,766,297,095	1,377,650,971	-22.00
Shares	1,211,514,912	853,189,252	-29.58
Bonds	554,782,183	524,461,719	-5.47
Average daily turnover (denars)	34,633,276	27,938,976	-19.33
Average daily number of transactions	148	163	9.91
Block transactions	891,783,057	268,690,472	-69.87
Government segment	281,331,641	125,396,469	-55.43
Shares	-	870,764	
Stakes	281,331,641	124,525,705	-55.74
Other securities	-	-	
Total	2,939,411,793	1,771,737,912	-39.72
Market capitalization (denars)			
Market capitalization of shares - quoted companies	29,207,414,164	26,634,520,498	-8.81
Market capitalization of bonds	24,205,266,540	22,072,252,009	-8.81
Mbi/mbi-10	2,197	1,834	-16.52
Number of quoted companies	64	60	-6.25

Source: Macedonian Stock Exchange

Table 17

Turnover structure

Market segment	Turnover (denars)	Turnover (euros)	%	Number of transactions
Official market	1,377,400,188	22,439,865	77.74	7,530
Unofficial market	268,941,255	4,380,219	15.18	543
Government segment	125,396,469	2,042,133	7.08	10
Total	1,771,737,912	28,862,217	100.00	8,083



7. Balance of payments

Table 18

Balance of payments of the Republic of Macedonia
(in US Dollar million)

	2005					2005			2005
	I	II	III	IV	V	VI	Q1	Q2	
I. Current Account	-8.3	2.7	-14.4	-62.2	-24.8	-8.6	-20.0	-95.6	-115.6
GOODS, net	-53.6	-58.1	-77.8	-125.0	-94.1	-106.9	-189.6	-325.9	-515.5
Exports, f.o.b.	147.8	156.5	177.4	174.6	178.5	153.8	481.7	507.0	988.7
Imports, f.o.b. /2	-201.5	-214.6	-255.2	-299.6	-272.6	-260.7	-671.3	-832.9	-1504.2
SERVICES, net	1.4	-1.0	-4.1	-8.6	-9.4	1.3	-3.7	-16.8	-20.5
INCOME, net	-2.1	3.3	-0.8	-5.5	-9.7	-6.6	0.4	-21.8	-21.4
o/w: Interest, net	-5.0	-0.8	-4.4	-3.1	-0.7	-2.1	-10.2	-6.0	-16.1
CURRENT TRANSFERS, net	46.1	58.4	68.3	76.9	88.4	103.7	172.8	269.0	441.8
Official	1.5	7.4	2.9	3.1	4.2	8.0	11.7	15.2	27.0
Private	44.6	51.1	65.4	73.8	84.2	95.7	161.1	253.7	414.8
II. Capital & Financial Account	14.8	3.7	19.2	70.1	30.9	9.5	37.8	110.5	148.2
CAPITAL ACCOUNT, net	0.0	0.1	-0.1	0.3	0.2	-0.6	0.0	-0.2	-0.2
Capital transfers, net	0.0	0.1	-0.1	0.3	0.2	-0.6	0.0	-0.2	-0.2
Official	0.0	0.1	-0.1	0.3	0.2	-0.6	0.0	-0.2	-0.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisition/disposal of non-produced, non-finan. assets									
FINANCIAL ACCOUNT, net	14.9	3.6	19.2	69.8	30.7	10.1	37.8	110.6	148.4
Direct investment, net	15.7	9.3	11.1	7.1	8.9	17.6	36.1	33.6	69.8
Portfolio investment, net	1.5	3.3	11.7	2.8	1.1	0.9	16.5	4.8	21.3
Other investment, net	-11.2	8.7	1.1	67.1	20.8	13.8	-1.4	101.7	100.3
Trade credits, net	-26.9	-25.2	-8.1	40.6	23.7	23.4	-60.1	87.6	27.5
Loans, net	3.8	4.9	7.7	29.7	11.7	17.9	16.4	59.3	75.7
Currency and deposits, net	10.8	27.9	-1.7	-7.0	-16.0	-30.5	37.0	-53.5	-16.5
o/w: Monetary Authorities, net	0.0	0.0	0.0	0.0	-0.4	0.0	0.0	-0.4	-0.4
o/w: Commercial Banks, net	2.1	24.8	-5.2	-13.1	-17.4	-30.5	21.7	-61.0	-39.3
o/w: Individuals, net	8.7	3.1	3.5	6.1	1.7	0.0	15.3	7.9	23.2
Other, net	1.2	1.0	3.2	3.8	1.5	3.0	5.4	8.3	13.7
Gross official reserve assets, (- = increase) /3	8.9	-17.6	-4.7	-7.2	-0.1	-22.2	-13.4	-29.5	-43.0
III. Errors & Omissions	-6.6	-6.4	-4.8	-7.9	-6.1	-0.8	-17.8	-14.9	-32.7

Source: National Bank of the Republic of Macedonia

1/ Previous data.

2/ Imports data are on fob basis in accordance with IMF V Balance of Payments Manual.

Calculation of cif / fob factor as % of imports cif is 4.06%.

3/ Excluding monetary gold and exchange rate differences.

Table 19

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

	VI.2005	I-VI.2005	VI.2005		VI.2005		I-VI.2005	
			V.2005		VI.2004		I-VI.2004	
	Amount		Amount	%	Amount	%	Amount	%
Foreign trade	420.9	2,552.4	-41.8	-9.0	43.1	11.4	487.4	23.6
Exports	153.8	988.8	-24.6	-13.8	29.3	23.5	255.0	34.7
Imports	267.0	1,563.7	-17.3	-6.1	13.8	5.4	232.4	17.5
Balance	-113.2	-574.9	-7.3	6.9	15.5	-12.1	22.6	-3.8

Source: State Statistical Office of the Republic of Macedonia



Table 20

Foreign trade of the Republic of Macedonia
(in EURO million)

	VI.2005	I-VI.2005	VI.2005		VI.2005		I-VI.2005	
			V.2005		VI.2004		I-VI.2004	
	Amount		Amount	%	Amount	%	Amount	%
Foreign trade	345.4	1,987.2	-18.6	-5.1	34.0	10.9	301.9	17.9
Exports	126.3	769.3	-14.2	-10.1	23.6	23.0	171.0	28.6
Imports	219.1	1,217.9	-4.4	-2.0	10.4	5.0	130.9	12.0
Balance	-92.8	-448.6	-9.8	11.9	13.2	-12.4	40.1	-8.2

Source: State Statistical Office of the Republic of Macedonia

Table 21

Ten most important trading partners of the Republic of Macedonia, I-VI, 2005

	Foreign trade		Exports		Imports		Import-export coverage ratio (in %)
	(in US Dollar million)	Share	(in US Dollar million)	Share	(in US Dollar million)	Share	
Republic of MACEDONIA	2,552.4	100.0	988.8	100.0	1,563.7	100.0	63.2
<i>out of which:</i>							
Germany	353.3	13.8	192.1	19.4	161.2	10.3	119.1
Serbia and Montenegro	325.0	12.7	197.4	20.0	127.7	8.2	154.6
Greece	297.7	11.7	154.5	15.6	143.2	9.2	107.9
Italy	182.8	7.2	10.3	1.0	172.4	11.0	6.0
Russia	174.8	6.8	83.0	8.4	91.8	5.9	90.4
Bulgaria	151.8	5.9	30.8	3.1	121.0	7.7	25.4
Turkey	82.5	3.2	26.3	2.7	56.2	3.6	46.8
Slovenia	79.8	3.1	17.0	1.7	62.8	4.0	27.1
Croatia	75.9	3.0	41.9	4.2	34.0	2.2	123.4
China	67.6	2.6	9.7	1.0	57.9	3.7	16.8
Total (10 largest trading partners)	1,791.2	70.2	763.0	77.2	1,028.2	65.8	74.2

Source: State Statistical Office of the Republic of Macedonia



Table 22

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

	Export		Import		Total trade		Trade balance	
	Q.1.2005	Q.2.2005	Q.1.2005	Q.2.2005	Q.1.2005	Q.2.2005	Q.1.2005	Q.2.2005
European Union	298.7	247.1	315.0	397.4	613.7	644.5	-16.3	-150.3
Germany	112.0	80.0	84.1	87.7	196.1	167.7	27.9	-7.6
Greece	74.1	80.5	64.0	76.8	138.1	157.2	10.0	3.7
Italy	43.7	39.4	31.6	54.7	75.3	94.0	12.0	-15.3
Other	69.0	47.3	135.3	178.3	204.2	225.6	-66.3	-131.0
Countries of Central and Eastern Europe and of former USSR	24.1	31.5	181.4	212.1	205.5	243.6	-157.3	-180.6
Russia	5.3	5.1	68.7	95.1	74.0	100.1	-63.5	-90.0
Bulgaria	12.8	18.0	47.6	67.1	60.4	85.0	-34.8	-49.1
Romania	0.8	0.9	3.6	15.3	4.4	16.3	-2.8	-14.4
Other	5.2	7.5	61.5	34.6	66.7	42.1	-56.3	-27.1
Former SFRY republics	102.0	156.9	78.1	94.3	180.0	251.2	23.9	62.7
Serbia and Montenegro	75.1	122.3	48.3	69.1	123.4	191.4	26.8	53.2
Other	26.9	34.6	29.8	25.2	56.7	59.8	-2.9	9.4
Other countries	57.2	71.3	125.6	159.9	182.8	231.2	-68.4	-88.6
TOTAL	482.0	506.8	700.0	863.6	1,182.0	1,370.5	-218.1	-356.8

Source: State Statistical Office of the Republic of Macedonia

Table 23

Foreign trade of the Republic of Macedonia with economic groups of countries

	Exports			Imports			Structure	
	US Dollar million		index	US Dollar million		index	exports	imports
	I-VI.2004	I-VI.2005	I-VI.2005 I-VI.2004	I-VI.2004	I-VI.2005	I-VI.2005 I-VI.2004	(%)	(%)
							I-VI.2005	
TOTAL	733.8	988.8	134.8	1,331.2	1,563.7	117.5	100.0	100.0
Developed countries	485.8	643.5	132.5	803.5	870.9	108.4	65.1	55.7
EU	426.1	545.8	128.1	681.5	712.4	104.5	55.2	45.6
EFTA	3.1	3.9	128.6	25.6	34.0	132.6	0.4	2.2
Other developed countries	56.6	93.7	165.5	96.4	124.6	129.2	9.5	8.0
Countries of Centr. and East. Europe	43.1	55.6	129.1	276.4	393.5	142.3	5.6	25.2
Undeveloped countries	1.5	0.9	62.2	0.6	0.8	120.7	0.1	0.1
Developing countries	7.9	29.8	375.4	103.6	126.1	121.8	3.0	8.1
Republics of the former SFRY	195.4	258.9	132.5	147.0	172.3	117.2	26.2	11.0
Other countries	0.1	0.1	127.8	0.0	0.1	0.0	0.0	0.0

Source: State Statistical Office of the Republic of Macedonia



Table 24

Long-term external debt of the Republic of Macedonia, used credits and paid liabilities
(in US Dollar million)

	Debt outstanding		Used credits		Paid liabilities	
	31.05.2005	30.06.2005	V-2005	VI-2005	V-2005	VI-2005
Official creditors	1,239.2	1,233.9	4.1	25.4	5.6	7.7
out of which:						
Multilateral	1,013.0	1,013.3	3.5	24.9	5.2	5.1
MMF	54.9	52.9	0.0	0.0	3.5	1.4
IBRD	210.0	224.9	0.4	20.6	1.2	2.8
IFC	7.2	7.1	0.0	0.0	0.0	0.0
IDA	370.4	366.5	0.8	0.7	0.2	0.3
EIB	135.0	130.5	0.0	0.0	0.3	0.0
EUROFIMA	7.6	7.4	0.0	0.0	0.0	0.0
Council of EDB	21.1	20.4	0.0	0.0	0.1	0.0
EBRD	82.2	82.8	1.6	3.3	0.0	0.1
EU	112.2	108.5	0.0	0.0	0.0	0.4
IFAD	12.0	12.1	0.8	0.3	0.0	0.0
European Agency for Reconstruction	0.3	0.2	0.0	0.0	0.0	0.0
Bilateral	226.2	220.6	0.5	0.4	0.4	2.7
Paris club (rescheduled 1995)	135.0	133.0	0.0	0.0	0.0	0.0
Non-rescheduled debt	8.3	8.0	0.0	0.0	0.0	0.0
Paris club (rescheduled 2000)	4.5	4.4	0.0	0.0	0.0	0.0
New credits	78.4	75.2	0.5	0.4	0.4	2.4
Private creditors	708.2	692.6	11.2	1.5	1.6	8.6
out of which:						
London Club of Creditors	227.6	227.6	0.0	0.0	0.0	0.0
Other private creditors	480.6	465.0	11.2	1.5	1.6	8.6
Banks and financial institutions	263.8	255.9	9.6	1.4	1.1	5.7
Private non-financial sector	216.8	209.1	1.6	0.1	0.6	2.9
TOTAL	1,947.3	1,926.5	15.2	26.8	7.3	16.3

Source: State Statistical Office of the Republic of Macedonia



8. Public finances

Table 25

Central Government Budget

	2004		2005			2005		
	Q.2	Q.1+Q.2	Q.1	Q.2	Q.1+Q.2	Q.2/Q.1	Q.2/Q.2	Q.1+Q.2
	amount		amount			changes in %		
Total budget revenues	13,889	27,991	12,826	14,690	27,516	14.5	5.8	-1.7
<i>Tax revenues:</i>	<i>12,979</i>	<i>25,535</i>	<i>12,170</i>	<i>13,783</i>	<i>25,953</i>	<i>13.3</i>	<i>6.2</i>	<i>1.6</i>
- personal income tax	1,923	3,661	1,834	2,052	3,886	11.9	6.7	6.1
- profit tax	506	1,464	1,080	600	1,680	-44.4	18.6	14.8
- value added tax	6,479	12,582	5,745	6,767	12,512	17.8	4.4	-0.6
- excises	2,458	4,807	2,317	2,776	5,093	19.8	12.9	5.9
- custom duties	1,496	2,724	1,026	1,441	2,467	40.4	-3.7	-9.4
- other	112	290	168	147	315	-12.5	31.3	8.6
<i>Non-tax revenues:</i>	<i>751</i>	<i>2,122</i>	<i>544</i>	<i>800</i>	<i>1,344</i>	<i>47.1</i>	<i>6.5</i>	<i>-36.7</i>
- inflows from state property dividends	294	1,087	82	252	334	3.1	-14.3	-69.3
- administrative taxes and fees	375	733	387	459	846	18.6	22.4	15.4
- other administrative taxes	69	133	58	69	127	19.0	0.0	-4.5
- other non-tax revenues	13	169	17	20	37	17.6	53.8	-78.1
<i>Capital revenues</i>	<i>158</i>	<i>333</i>	<i>112</i>	<i>107</i>	<i>219</i>	<i>-4.5</i>	<i>-32.3</i>	<i>-34.2</i>
Total budget expenditures	14,253	27,353	13,831	14,333	28,164	3.6	0.6	3.0
<i>Current expenditures</i>	<i>12,974</i>	<i>25,389</i>	<i>12,857</i>	<i>12,908</i>	<i>25,765</i>	<i>0.4</i>	<i>-0.5</i>	<i>1.5</i>
- wages and salaries	5,349	10,484	5,373	5,437	10,810	1.2	1.6	3.1
- goods and services	1,714	3,511	1,903	1,657	3,560	-12.9	-3.3	1.4
- transfers	5,432	10,356	5,026	5,264	10,290	4.7	-3.1	-0.6
- interest	479	1,010	555	550	1,105	-0.9	14.8	9.4
<i>Capital expenditures</i>	<i>1,279</i>	<i>1,964</i>	<i>974</i>	<i>1,425</i>	<i>2,399</i>	<i>46.3</i>	<i>11.4</i>	<i>22.1</i>
Budget balance	-364	637	-1,005	357	-648			
Financing	364	-637	1,005	-357	648			
<i>Inflows</i>	<i>2,701</i>	<i>3,115</i>	<i>2,386</i>	<i>2,150</i>	<i>4,536</i>			
<i>Outflows</i>	<i>2,336</i>	<i>3,752</i>	<i>1,381</i>	<i>2,507</i>	<i>3,888</i>			

Source: Ministry of Finance

Table 26

Total revenues and expenditures of the budget funds

April-June 2005						
	Total revenues			Total expenditures		
	Amount	quarterly	annual	Amount	quarterly	annual
	(in Denar million)	changes (Q.2/Q.1)	changes (2005/2004)	(in Denar million)	changes (Q.2/Q.1)	changes (2005/2004)
		in %			in %	
Social Funds	12,705	4.3	-0.5	12,616	0.7	-3.4
- pension and disability insurance	7,207	3.7	0.8	7,161	0.5	0.0
- health insurance	3,697	7.0	1.6	3,718	3.5	-6.6
- employment	1,801	1.1	-8.9	1,737	-4.0	-9.5
Road Fund	902	62.8	-16.6	714	50.3	-32.4

Source: Ministry of Finance

**Table 27**NBRM Balance sheet on June 30, 2005
(in million Denars)

Assets	Amount	Liabilities	Amount
Foreign assets	48,508	Reserve money	18,081
Claims on Government	3,160	NBRM instruments	6,053
Claims on banks and other financial institutions	58	Restricted deposits	356
Other assets	2,541	Foreign liabilities	2,691
		Government deposits	11,484
		Capital accounts	8,634
		Other liabilities	6,968
Total	54,267	Total	54,267

Source: National Bank of the Republic of Macedonia