

National Bank of the Republic of Macedonia
Research Department



Monthly Report 2 / 2008

March, 2008

CONTENTS

1. PRICES	3
<i>1.1. Inflationary Expectations Survey in the Republic of Macedonia.....</i>	<i>6</i>
2. SALARIES	7
3. ECONOMIC ACTIVITIES.....	8
4. BALANCE OF PAYMENTS.....	10
5. MONETARY AGGREGATES	12
6. BANK CREDITS.....	13
7. INTEREST RATES AND FOREIGN EXCHNAGE RATES	14
ANNEX.....	16

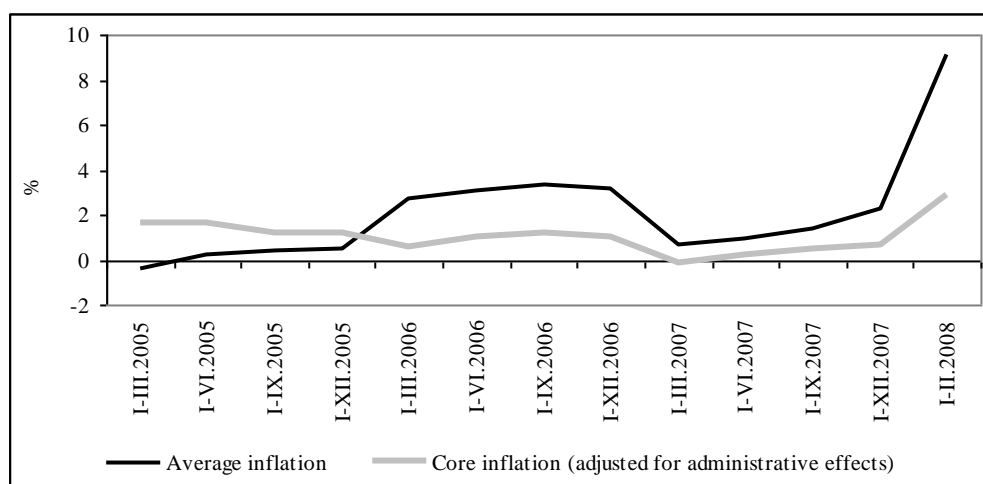
* The Monthly information includes analysis based on the available data as of March 20, 2008.

1. PRICES

Besides the expectations for stabilization of the food prices, considering the interventions of the Government of the Republic Macedonia concerning the prices of basic products, the inflationary pressures continued also in February 2008 with additional intensification in the **inflation** by 0.8% on monthly basis. Almost half of the general price growth came as a result from the growth in the food prices. Besides the lower prices of bread and pastries (by 3.9%), the food prices in February registered growth of 0.9%, which was due to the further increase in the prices of the fresh vegetables (3.9%), milk (2.3%) and the cooking oil (5.1%). In February, the increase in the prices of thermal energy from the heating plant "Toplifikacija" AD - Skopje (by 17.56%) and "Skopje Sever" AD - Skopje (by 8.92%) gave additional inflationary pressure of 0,12 p.p.

In February 2008, the annual inflation rate reached up to 9.6% registering intensification near 1 percentage point relative to the annual rate in January 2008. The largest part, i.e. 74% of the realized inflation rate was due to the higher food prices, which largely came out of the low comparison base in the first half of 2007. The annual inflation rate in the first two months of 2008 reached up to 9.1%.

Figure 1
Realized and basic inflation



*In 2006, the basic inflation was corrected for the effect of the growth in the prices of tobacco.

Source: NBRM and SSO.

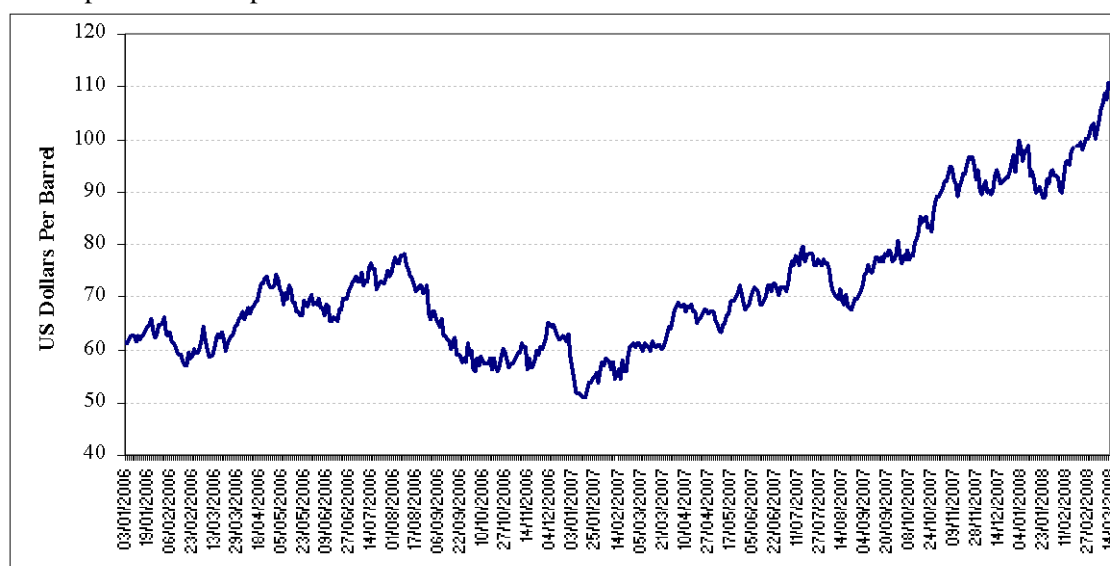
If the influence of the food and energy is excluded, the annual inflation in February 2008 equals 3.2% (in January it equaled 2.6%). The intensification of the basic inflation in the beginning of 2008 showed that the intensification in the inflation was no more a result just from the growth in the prices of food and energy, but also from the growth in the prices of the rest of the products and services. Except for the lower prices of telecommunication services, the transport services and recreational and culture services, all other categories registered price growth, where the growth in the prices of catering services, utility services, transport equipment, tobacco, beverages and footwear contributed mostly. It is to be mentioned that the contribution of the telecommunication services in decreasing the inflation was twice lower in the beginning of 2008, relative to 2007.

The Government measures undertaken for decrease in the prices of bread, flower, milk and for keeping the price of the oil for cooking on the same level in February 2008, gave small effect for slowing down the prices (contribution towards decrease in the monthly inflation of 0.16 p.p., based on the lower prices of cereal products and eggs, whereas the prices of milk and

of cooking oil were higher relative to the prices in January). It means that such decrease in some of these products which resulted from such measures was insufficient to be able to restore the prices at the level as in January, and additionally, the small positive effects with part of the products were neutralized with the further growth in the rest of the categories within the inflation index.

Regarding the last analysis, the additional growth in the prices of cooking oil, oil derivatives and building materials (indirect effect over the consumer prices), in March is expected to be neutralized through the effect from the higher comparison base in March 2007 (when the prices of water and electricity were increased), so intensification of the annual inflation rate is not expected in March, supposing that the prices will remain unchanged in the other categories of the inflation index and the seasonal changes in the food will be as usual. The eventual further increase in the prices of food and the prices of energy sources on the international stock exchanges remained the main risks, considering the global factors which influenced the food prices, the current upward trend in the oil price on the international stock exchanges, as well as the development of the price of electricity on the international markets.

Figure 2
Developments in the price of the "brent" oil



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

The continuous growth in the **price of the crude oil** on international stock exchanges continued in February 2008, when it realized monthly growth of 3% (annual growth of 65%). Such increase reflected on the domestic prices of oil derivatives, contributing with 0.7 percentage points to the annual inflation rate. The intensification which started at the end of February, when the price was more than USA Dollar 100 for a barrel, continued in the first weeks of March (03.03.-13.03.2008) and on March 13 record price of USA Dollar 110.75 per barrel was registered. The annual price of oil type "brent" in the aforementioned period of two weeks reached up to USA Dollar 105.4 per barrel¹, or by 5.7% more than in the previous two weeks. The growth in the price of the crude oil came mainly as a result of the decision brought on the last meeting of OPEK on keeping the producer quota unchanged, the political tensions which dominate in South America, mainly in the countries which are members of OPEK, as well as the fall in the value of the American Dollar to a record low value relative to the Euro². In accordance with the explained developments in the oil prices in the last two weeks, besides

¹ WTI – West Texas Intermediate, in global frameworks is used as a benchmark for the oil price and in the previous two weeks it equalled on average USA Dollars 106 for barrel (price growth by 5.7% relative to the previous two weeks).

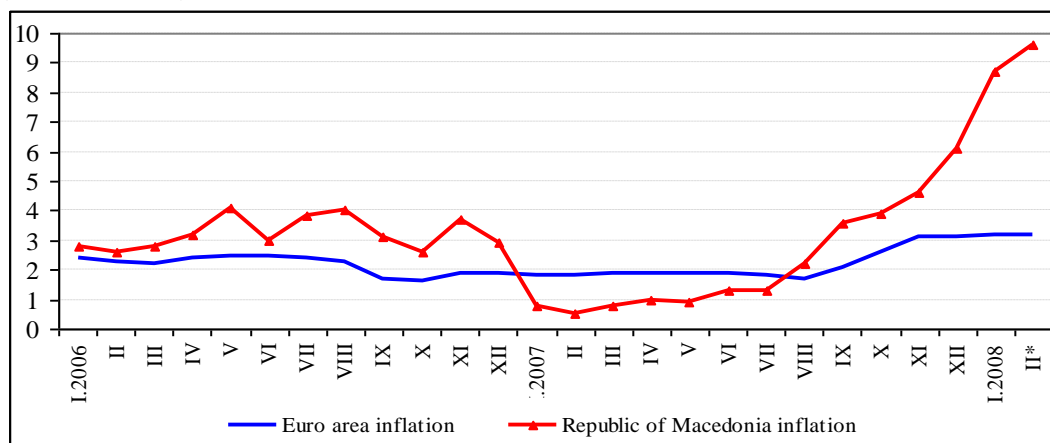
² Associated Press, AFX, Reuters, Bloomberg, AFP.

the considerable Denar appreciation relative to the USA Dollar by 3.5%, the Energy Regulatory Commission, on March 17, 2008 took a decision on increase in the refinery prices by 3.06% and on the retail prices of oil derivatives by 2.55%.

Figure 3

Inflation rate developments in the Euro-zone (the harmonized consumer price index) and in the Republic of Macedonia

(annual rates, in %)



* assessed data for the Euro-zone.

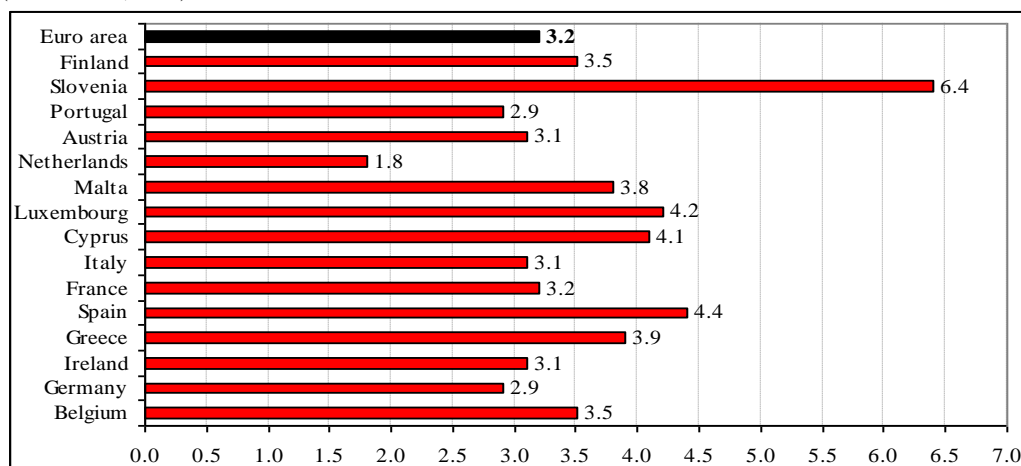
Source: EUROSTAT and SSO.

The moderate intensification of the **annual inflation rate in the Euro-zone** continued in January 2008, when it reached up to 3.2% (in December 2007 the annual inflation equaled 3.1%). Such development came as a result of the significant annual growth in the prices of transport fuels (by 15%) and of food (by 5.4%), caused by the global upward trend in the prices of this goods, as well as the effect from the lower comparison base (considering that the upward trend of this prices started in the middle of 2007). On the other hand, deflationary influences were registered in the telecommunication services, wearing apparel and lower expenses on automobile maintenance. Analyzed by countries in the Euro-zone, the largest growth in the consumer prices was registered in Slovenia (6.4%), than in Spain, Luxemburg and Cyprus, whereas lowest price growth was registered in Nederland. In accordance with the evaluations of EUROSTAT, in February 2008, the annual inflation in the Euro-zone is expected to keep the level of 3.2%.

Figure 4

Annual inflation in the countries of the Euro-zone in January 2008

(annual rates, in %)



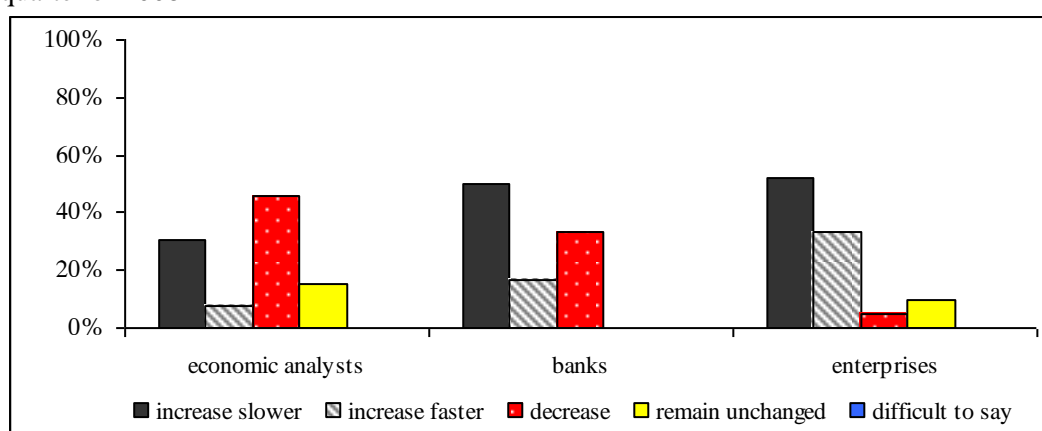
Source: EUROSTAT.

1.1. Inflationary Expectations Survey in the Republic of Macedonia

The Inflationary Expectations Survey, executed in the first quarter of 2008 characterizes with high percent of responsiveness of surveyed (85%), and 100% of responsiveness of the groups "economy analyzers" and "banks", and bit smaller, but yet high response in the group of "enterprises" (75%). Based on the analysis of the answers on expected developments of inflation *in the first quarter of 2008*, the largest part, or 67.5% of the surveyed expect inflation increase, 22.5% expect its decrease, whereas 10% of the surveyed have stable inflationary expectations, i.e. they expect for it to keep the current level of 9.1% realized as of February 2008. The largest part of the inflation expectations for the first quarter of 2008 are in the interval of 9.1% to 9.6%.

Figure 5

Distribution of the answers by groups of surveyed on the inflationary expectations in the first quarter of 2008



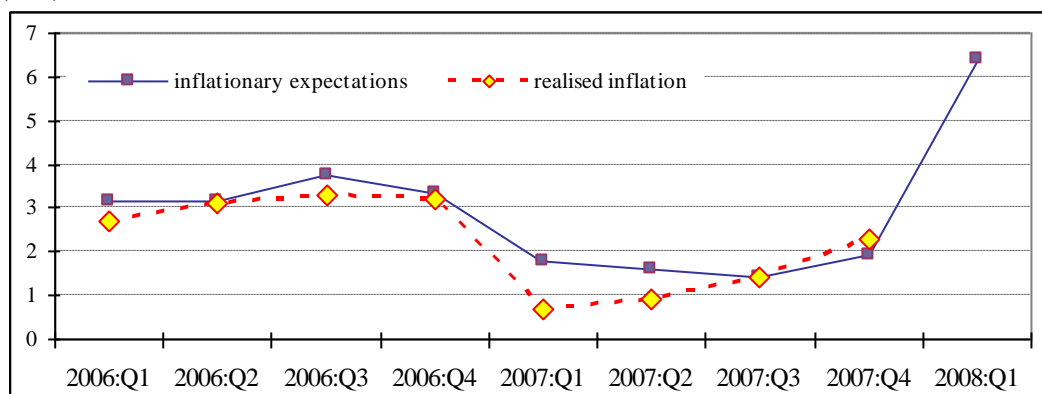
Source: NBRM, Inflationary Expectation Survey.

Relative to the expectations on the developments of the annual inflation rate *to the end of 2008*, 80% of the surveyed expect decrease in the inflation relative to the current level of 9.1%. 10% of the other surveyed claimed that they expect increase in the inflation, and only 5% expect it to keep the level of 9.1%, which is the same percent of the surveyed which claimed that can not determine the level of inflation. The expectations on decrease in the inflation largely vary between 6% and 5%. Based on the answers to the survey performed in the first quarter of 2008, the economic subjects in RM expect the inflation to reduce to the average level of about 6% by the end of 2008. This represents considerable intensification of the inflationary expectations, considering that on the survey from the last quarter of 2007 the answers on the expected inflation rate for 2008 vary in interval from 1% to 5%, and largely between 2% and 3%.

The stated factors which influenced the inflation expectations of economic subjects for 2008 are various, i.e. some subjects expect growth in the prices of food and energy (mainly the oil on the international market), and compared to others which expect their stabilization in 2008. In the group of domestic factors, the growth in the salaries and public consumption, the effect from decreasing the taxes were most significant, but on the other hand the increase in the domestic supply of agriculture products are being mentioned, in accordance with the Government measures, as well as the anti-inflationary measures undertaken by the fiscal and monetary policy, keeping stable foreign exchange rate of the Denar and credibility of the central bank in keeping the inflation on stable level.

Figure 6

Inflation expectations by the end of the year and realized average inflation in the current quarter
(in %)



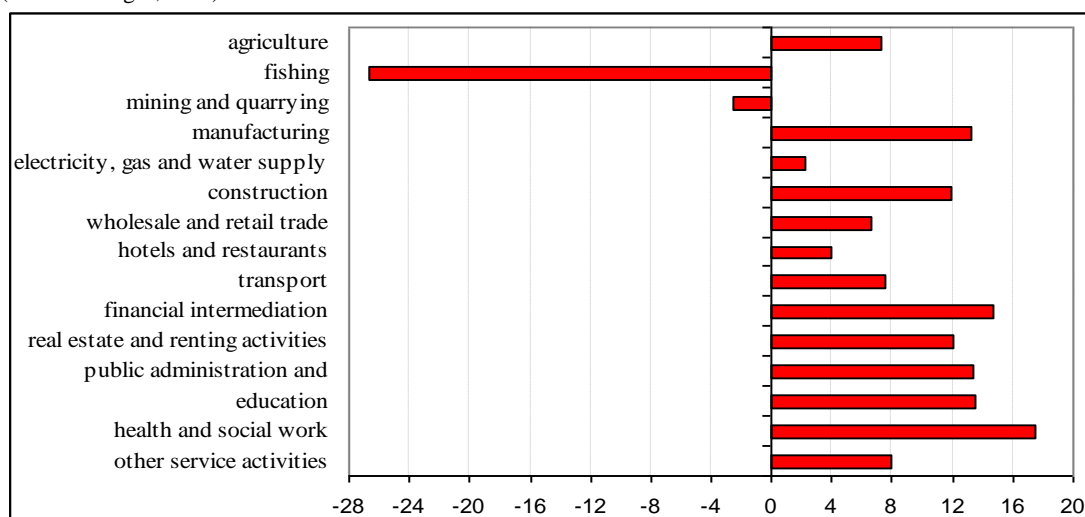
Source: Inflationary Expectation Survey and NBRM calculations; SSO.

2. SALARIES

In December 2007 monthly nominal increase in the average paid net salary by 1.5% or real growth by 0.3%, was registered. On annual basis, the average nominal net salary paid in December rose by significant 12.2%, whereas the nominal gross salaries³ registered growth of 10.3% (smaller growth because of the lower rate of income tax in the beginning of the year). The analysis of the sector structure shows that the annual growth in the net salaries in December 2007 came as a result of the higher paid salaries almost in all economic activities, except in the fishery and in mining. Thus, the highest nominal salary growth was registered in the public sector (health, education and public administration and defense), but also in the private sector, with more significant growth in the salaries in the manufacturing industry (which was most dominant making almost 1/4 of the total number of employees), and then the financial intermediation and the construction.

Figure 7

Paid net salary in December, by sectors
(annual changes, in %)

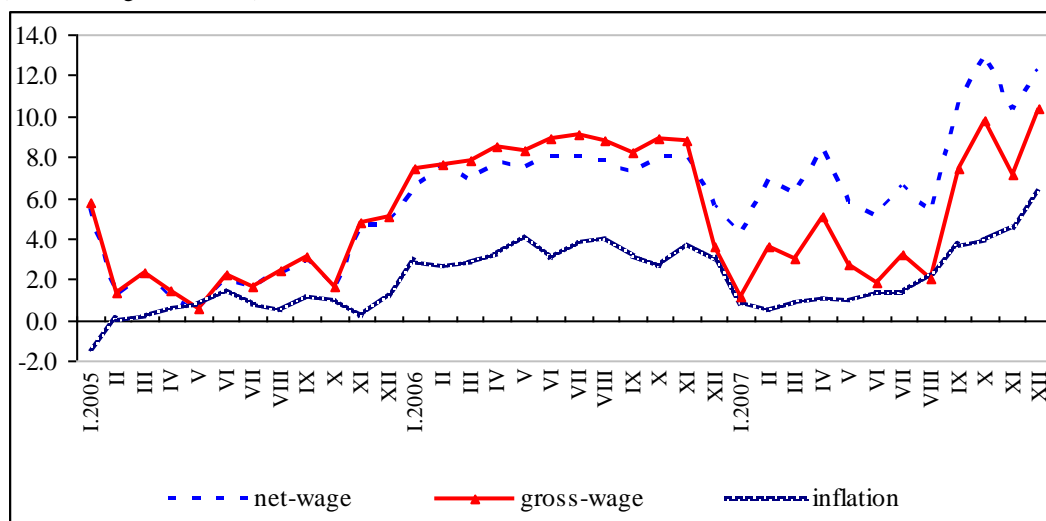


Source: State Statistical Office of the Republic of Macedonia.

³ Source: State Statistical Office. The total paid gross salaries include: paid net salaries for the reporting month, paid personal tax and paid contributions (on pension and invalid insurance, on health insurance, on employment, on occupational diseases and on water-supply).

In 2007, the average paid monthly gross and net salary per employee equaled Denar 24,136 and 14,584, respectively. The nominal growth in the average paid net salary per employee amounted to 7.9%, while the real growth was 5.5% (considering the average inflation rate of 2.3%). The average annual growth in the salaries resulted from the higher paid salaries in all economic activities (except in the fishery, which has insignificant participation in the total number of employees of 0.1%). In the last quarter of the year, intensification in the salary growth was registered, when they rose by 11.8% in nominal terms and 6.6% in real terms.

Figure 8
Paid salaries and inflation rate
(annual change rates, in %)



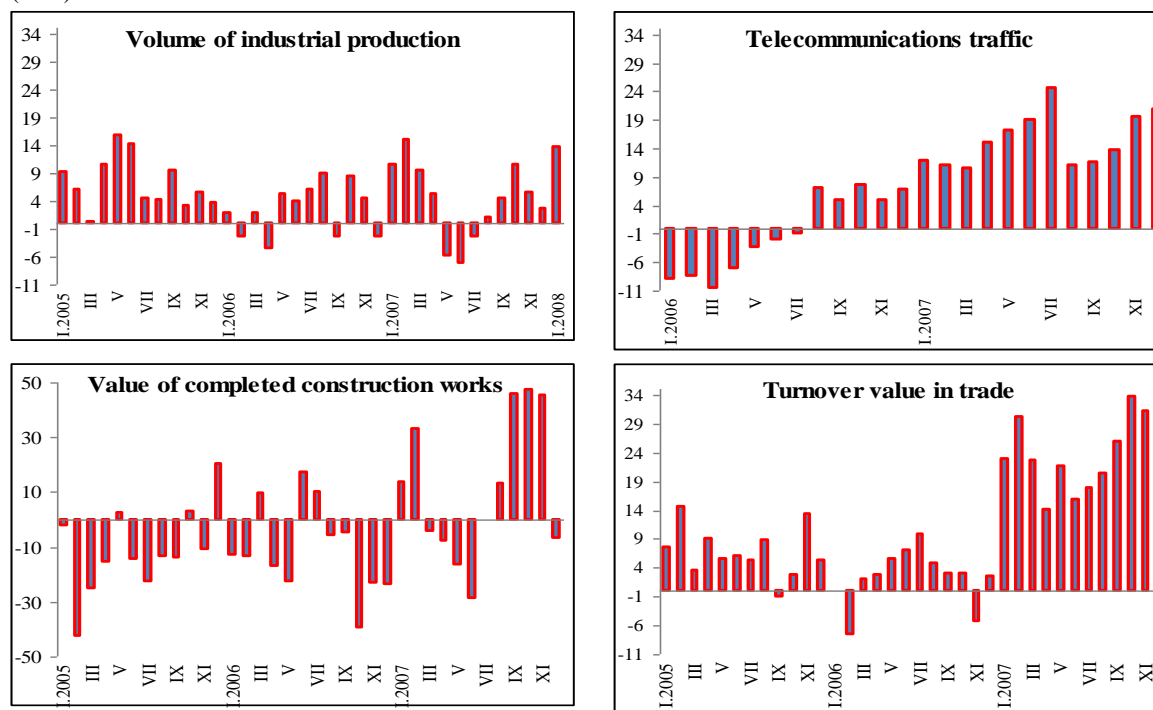
Source: State Statistical Office of the Republic of Macedonia.

3. ECONOMIC ACTIVITIES

In accordance with the last available data, in December 2007 the economic activities intensified, and the trade and communications in December, on monthly basis, went up by 1.6% and 1.5%, whereas the construction activities, after the high growth in the previous two months, registered fall of 17% (the monthly changes are adjusted by seasons). With the latest data, the annual growth rate sin the fourth quarter reached up to 32.8% in the trade turnover, 23.3% in the construction activities and 18.1% in the telecommunication. Such growth rates, highest in the last six years, supplemented by the growth in the industry of 6.2%, indicated the possibility for realization of the GDP growth rate in the fourth quarter of 2007, in accordance with the last evaluations⁴ of 5.2%.

⁴ The evaluation for the last quarter of 2007 was based on SSO evaluations for GDP real growth in 2007 of 5.1%.

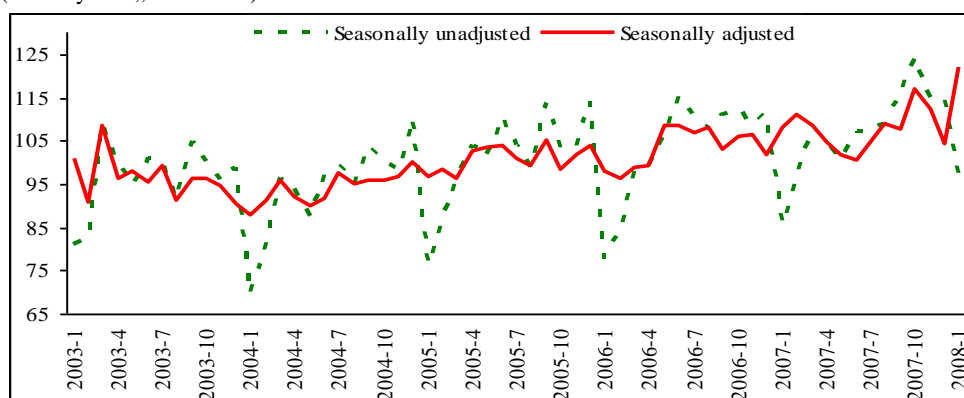
Figure 9
Annual growth rates in creating economy sectors
(in %)



Source: SSO.

The available indicators on the real sector developments are acting towards the expectations for performing of the projected annual GDP growth of about 4% in the first quarter of 2008. The industrial output, as dominant sector in the GDP creation, in January on annual basis, went up by 13.6%, so it largely exceeded the projection for the first quarter, which equaled 7.6%. All three sectors realized growth, mainly generated by the higher output of basic metals, tobacco industry (having effect from lower comparison basis, which was due to the earlier start of purchasing of tobacco), oil industry and output of electrical machines and appliances. On monthly basis, the industrial activity registered growth of 16.9% (by the data adjusted for seasonal effects). Positive effect in the production activity is expected to result also from the higher import of electrical machines and equipment by 46.7%, in January 2008 on annual basis.

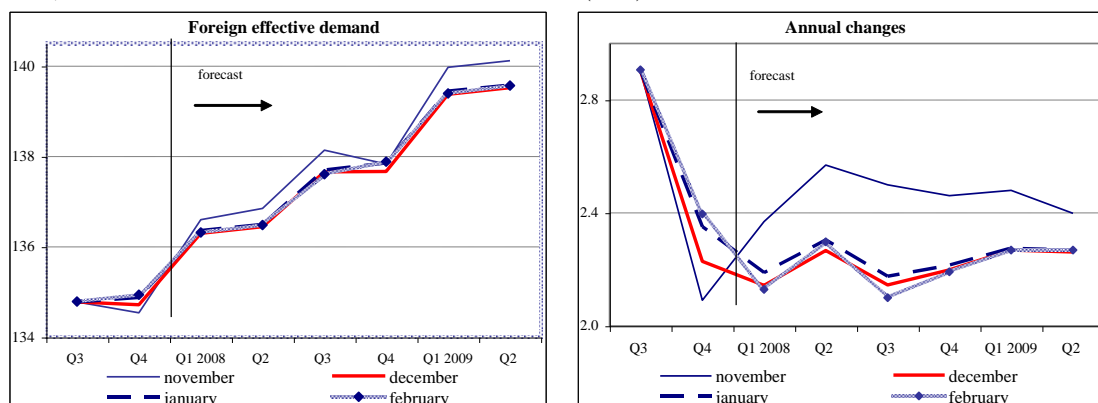
Figure 10
Industrial output index
(monthly level; 2005=100)



Source: SSO and NBRM calculations.

After the downward revision, in December 2007, in the first two months 2008, the projection of the external demand⁵ remained almost unchanged. Yet, the pessimistic expectations for the global growth still dominated, and combined with the uncertainty concerning the situation in the region, represented risk for slower domestic economic activity, relative to the projection for 2008.

Figure 11
Foreign effective demand*
index, 1995=100



* Projections of Consensus Forecast.

4. BALANCE OF PAYMENTS

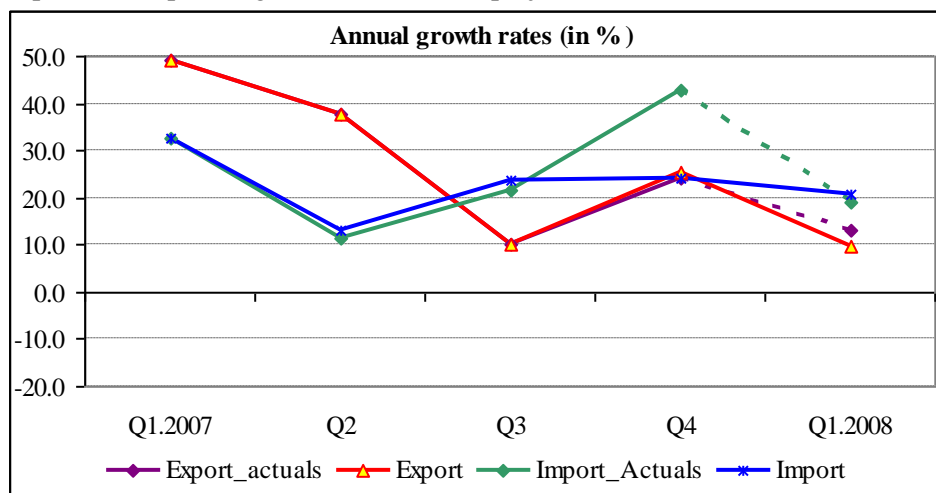
In December 2007 deficit of Euro 127.5 million was registered on the currency account of the balance of payments, which represents highest monthly deficit in the year and it was a result of the high trade deficit, the negative balance in the services and outflows with the official transfers, based on the Government payments. In December, within the capital and financial account foreign direct investments in amount of Euro 25 million were registered, and on the other hand, net outflows based on portfolio investments in amount of Euro 4.4 million were registered. Cumulatively, in 2007, on the current account deficit of Euro 164 million were registered, or 3% of the projected GDP (over the projection by 0.7 p.p.), so the trade deficit reached up to 21.4% of GDP (over the projection by 0.9 p.p.). The private transfers in 2007 rose by 6.8% (relative to the growth of 15.4% in 2006), reaching 18% of GDP (18.3% in 2006, i.e. 18.7% by the projection for 2007). In 2007, the foreign direct investments reached up to Euro 240 million, or 4.4% of the projected GDP (in the projection 4.1%), whereas the portfolio investments equaled Euro 110.8 million and relative to 2006 went up by 51%, but relative to the projection were lower by Euro 12 million.

In January 2007, the annual growth rate of the import was more intensive than the annual rate of export of goods (19% and 13.3%, respectively), which contributed for deepening the trade gap by 28.4% on annual basis. Export of ores, wearing apparel and textile, oil derivatives and electrical machines contributed with 78.8% in the total growth of the export in the first month of the year, whereas the growth in the import, was almost solely due to the import of mineral fuels and investment goods and intermediates (with contribution of 47.9% and 42.5%, respectively). The dynamics of the export and import of goods in the following two months is expected to be within the projection for the first quarter of 2008. Yet, the uncertainty

⁵ The foreign effective demand is calculated as a sum of the weighted indices of gross domestic product of the most important trade partners of Republic of Macedonia. The weights are being calculated based on the participation of these countries in the Macedonian export. The data on the gross domestic products on countries which are trade partners to Macedonia are from the database of EUROSTAT (New Cronos database), except for the data on the fourth quarter for all countries, the Greek and German data on the third quarter which are from the publication "Consensus Forecast", October 2007. The calculation of the index includes Germany, Greece, Italy, Nederland, Belgium and Spain.

about the conjuncture on the international stock exchange of basic metals, as well as about the dynamics of prices of energy sources imposed risk of realization of higher trade deficit of the projected one.

Figure 12
Export and import of goods (realized and projected)



Source: NBRM.

The influence of the dynamics on the world stock exchanges was most strongly felt in the area of oil and oil derivatives, where the continuous upward trend of the price, in January 2008 contributed for annual growth in the net import of oil and oil derivatives of 65.1%. Considering such performances in the first month of the year (47.2% of the projected amount for the first quarter of 2008), in this category higher deficit in the trade is expected for the first quarter, relative to the projected one.

In February 2008, the monthly upward trend in the prices of metals continued on the world stock exchanges. The growth in the prices of the precious metals (gold and silver), on monthly basis (by 3.7% and 10%, respectively), mainly came out of the further decrease in the value of the Dollar relative to the Euro, the possibility for fall in the interest rates of the relevant central banks (mainly the USA Central Bank), as well as the increase in the inflation guided by the record world oil prices. These factors, together with the higher demand by the developing countries, simultaneously contributed to monthly growth in the prices of basic metals. Thus, the price of the nickel in February 2008, on monthly basis, went up by 1%, and in the first two months it exceeded the price included in the calculation in the balance of payments projection (even though it is still lower on annual level).

Table 1
Metal prices

	2006	2007	jan-march 2007	april-june 2007	july-sept 2007	oct-dec 2007	december 2007	january 2008	february 2008
<i>US dollars per ounce</i>									
Gold	604.3	696.7	650.3	667.4	681.1	788.0	803.2	889.6	922.3
<i>US dollars per ounce</i>									
Silver	1156.9	1,341.3	1,332.5	1335.8	1273.2	1423.5	1431.2	1605.9	1766.6
<i>US dollars per metric tons</i>									
Steel cr coilsheet	693.8	650.0	650.0	650.0	650.0	650.0	650.0	687.5	800.0
Steel hr coilsheet	600.0	550.0	550.0	550.0	550.0	550.0	550.0	600.0	750.0
<i>US dollars per metric tons</i>									
Nickel	24,254.4	37,229.8	41,440.1	48,054.8	30,205.2	29,219.2	25,991.9	27,689.5	27,955.5

Source: World Bank.

With the last available data, on cumulative basis, in the first two months of 2008 net purchase at the foreign exchange market of Euro 69.9 million was realized, which represented annual fall of 26% (opposite of the projected one for the first quarter of 2%). Such

developments in the basic component of the private transfer indicated risk of projection failure with this item of the current account of the balance of payment.

With respect to the inflows in the capital and financial account, by the data of the Macedonian Stock Exchange, opposite of January, the non-residents in February were mostly present on the side of the purchase at the stock exchange (with 51%, and on the side of the sale with 28%), which reflected the transaction on taking over of one insurance company by a foreign investor.

5. MONETARY AGGREGATES

In February 2008, **the reserve money**⁶ registered growth of 22.3% on annual basis, with annual growth in the currency in circulation and the total liquidity assets of banks⁷ of 8.3% and 36.9%, respectively. On monthly basis, the reserve money went up by 1.8%, which was solely due to the growth in the total banks' liquidity assets (of 4.3%), with fall in the currency in circulation of 1.1% being registered. The growth in the currency in circulation was realized in conditions of growth in the net foreign currency assets and net domestic assets of NBRM. In February 2008, the net foreign currency assets of NBRM increased, reflecting the effect of the higher reserve requirements of banks in foreign currencies, in accordance with the broadening of the calculation basis by including new accounts, which become enforced as of the February accounting period (February 11, 2008). At the foreign exchange market, in February no NBRM transactions were realized with the supporting banks. Within the net domestic assets, the monetary instruments, on net basis acted towards creating liquidity, whereas the Government net position, in accordance with the insignificant monthly change, did not have any significant liquidity effect. Considering the realized changes with the basic components of the NBRM balance (mainly the NBRM net foreign exchange assets), there is a possibility for the projected dynamics of the reserve money to fail for the first quarter (24.8%). Although in February 2008 there was a stabilization at the foreign exchange market, the net foreign exchange assets of NBRM was under the projected level, in accordance with the realized net sale of foreign currencies in the first month of the year.

The total **deposit potential** of banks, in February 2008 realized moderate monthly growth of Denar 1,893 million, or by 1.4%, with more intensive growth in the deposits on corporative sector being registered. With respect to the sectors, the monthly growth was mainly due to the foreign exchange deposits, which rose by 1.9%, whereas the Denar deposits went up by 0.9%. In accordance with such developments, the annual growth rate of the **broadest money supply M4** slowed down, and in February 2008 it equaled 27.9%. Relative to the projection for the first quarter, the change in the money supply was as it was expected (growth stabilization), but that was mainly due to the lower Denar saving than the expected one, and in condition of unrealized expectation for dividend repatriation of one big company to the foreign investor. Possible explanation for such developments was the decrease in the intensity of the foreign exchange inflows from abroad, as well as the present intensification of the inflation rate, as factors which influenced the household decisions on reallocating the financial resources. The possibilities to keep such trends during March also, can result in negative deviation with the broadest money supply relative to the projection for the end of the first quarter (projected annual growth rate of the broadest money supply M4, in March 2008 equaled 28.6%).

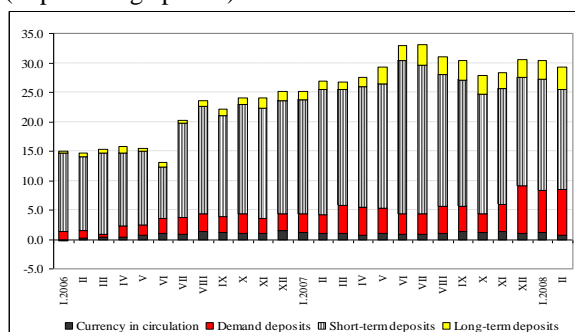
⁶ Includes the reserve requirements of foreign exchange deposits. Without this component, the annual growth in the reserve money in February 2008 equaled 20.2%.

⁷ Includes the cash in the vault and the bank accounts with NBRM.

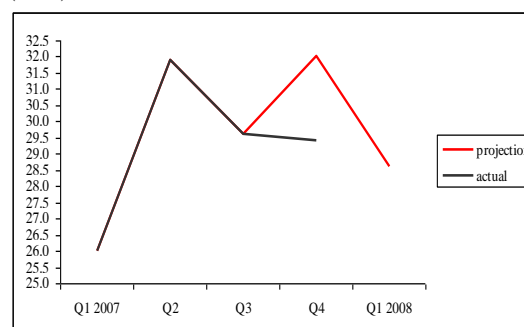
Figure 13

Money supply M4

- contribution in the annual growth
(in percentage points)



- annual growth
(in %)



Source: National Bank of the Republic of Macedonia.

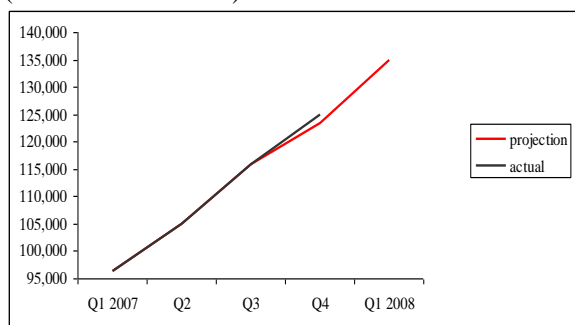
In accordance with the preliminary data for the first decade of March, the total deposits of the private sector with the banks kept almost the same level as in the end of February, so the transactional deposits rose by 2.8%, the Denar time deposits decreased by 1.3%, and the foreign deposits went up by 1.7%.

6. BANK CREDITS

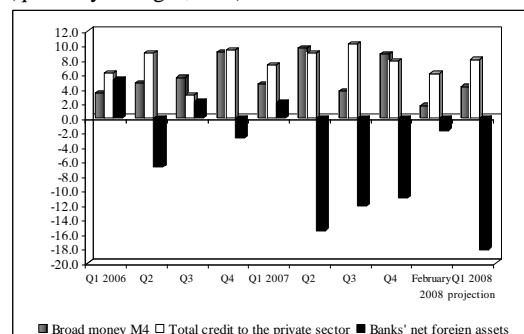
In February 2008 there was further intensification of the **credit activity** of banks, so the total bank credits to the private sector rose by Denar 4,612 million, on monthly basis, or by 3.6%. 61.2% of the granted credits were placed to the sector "enterprises", mainly as Denar credits (including the Denar credits with FX clause). In accordance with such developments, the annual growth rate of the total bank credits to the private sector, in February 2008 reached up to 41.4% (39.9% in the previous month). According the projection, the annual growth rate in the total credits is expected to amount to 40.1% by the end of March 2008.

Figure 14

Credits to the private sector
(in millions of denars)



Sources of financing
(quarterly changes, in%)



* Change: February 2008 (preliminary data) / December 2007.

Source: National bank of the Republic of Macedonia.

In accordance with the preliminary data for the first decade of March, the total bank credits to the private sector went up by 0.3%, relative to the end of February, with almost equal allocation both with the households and enterprises.

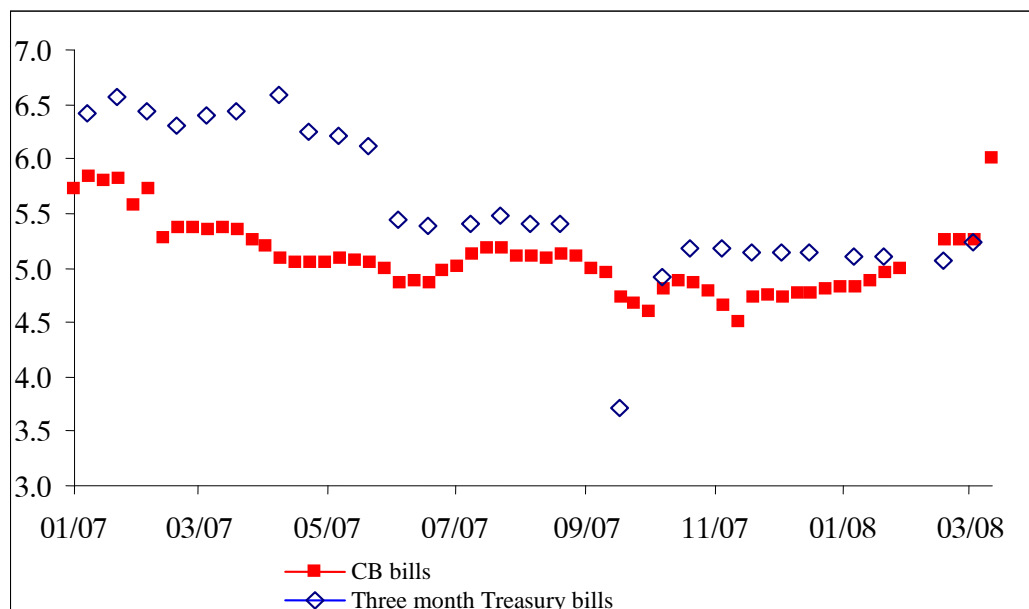
In February 2008, the **net foreign exchange assets of banks** decreased by Denar 1,079 million, on monthly basis, or by 6.6%, mainly as a result of the decrease in the foreign exchange assets of banks (by Denar 835 million, or by 2.3%), with moderate growth in the foreign exchange liabilities of banks being registered (by Denar 244 million, or by 1.2%).

7. INTEREST RATES AND FOREIGN EXCHANGE RATES

In accordance with the decision dated February, 19, 2008, NBRM, relative to the performance of the auctions of CB bills, switched to **volume tender**, which gave stronger signal for the monetary policy direction and it is expected to contribute to keep the market expectations stable. Thus, on February 20, 2008, February 27, 2008 and March 5, 2008 auctions on CB bills were held with volume tender and fixed interest rate of 5.25%, so the effect on net basis was emission in amount of Denar 565 million. Considering such performances, in conditions of higher inflationary pressures, in accordance with the data on the inflation in February, the negative developments at the foreign exchange market, as well as the intensified presence of the psychological factors which strengthens the inflationary influences, there was a need for additional **correction in the reference interest rate** of NBRM. Thus, on March 6, 2008, NBRM additionally increased the interest rate of the CB bills by 0.75 percentage points and set it to a level of 6%. At the auction dated March 13, and March 19, 2008, net withdrawal of Denar 308 million was realized.

On February 19, 2008 and March 4, 2008, on the primary market of short-term securities **auctions of three month Treasury bills** were held, where in conditions of higher supply relative to the demand, on average, average interest rates of 5.06% and 5.24%, respectively, were realized. On March 4, 2008, on the money market an auction of six month Treasury bills was held, where the weighted interest rate rose and equaled 5.61%, when the amount of the demand was lower then the amount of the supply. The average inter banking interest rate in bilateral trading of banks, in the period March 1 - March 19, 2008, equaled 3.04%, on average, for landings on a daily basis, which represented decrease relative to the average of February (3.1%).

Figure 15
Interest rates
(in %, on annual basis)



Source: National bank of the Republic of Macedonia.

In January 2007, the average weighted **interest rate on Denar credits** for all maturities and sectors equaled 9.8% and relative to the previous month it went down by 0.1 p.p., whereas the average weighted interest rate on Denar deposits for all maturities and sectors went up by 0.1 p.p. equaling 5.4%. In December 2007, the average weighted interest rate on foreign

exchange credits for all maturities, sectors and currencies equaled 8.2% (8.5% in the previous month), whereas the average weighted interest rate on foreign currency deposits for all maturities, sectors and currencies went up by 0.1 p.p. equaling 2.1%.

On March 7, 2008, the gross foreign reserves amounted to Euro 1,535.4 million and relative to the end of the previous year, it registered increase by Euro 4 million. The registered growth came as a result of the increased balance on the account of reserve requirements of banks in foreign currencies⁸, as well as the realized inflows based on interest of deposits and calculated interest of securities, in conditions of realized fall in the Government foreign currency deposits.

The real effective foreign exchange rate of the Denar, deflationated by the consumer price index, in January 2008 continued the trend of appreciation characteristic for the previous two months, realizing monthly appreciation of 1.6% (mainly as a result of the more intensive growth in the domestic prices relative to the foreign prices). Analyzed on annual basis (January 2008 / January 2007), REER for the first time registered moderate appreciation of 1%, which was mainly due to the NEER appreciation, but also to the change in the relative prices, i.e. the higher annual growth in the domestic inflation rate relative to the foreign inflation. Opposite of the REER with deflator-index of consumer prices, with REER deflationated by the producer price index, annual depreciation of 3.5% was registered, as a result of the more intensive annual growth of foreign relative to domestic prices (which indicates that there is no worsening in the competition in the Macedonian economy).

⁸ On February 11, 2008, the NBRM decision on the reserve requirements of banks inforced, which broadened the scope of the reserve requirements by including new categories of accounts from the balances of banks.

ANNEX

Table 1
Consumer Price, January 2008

	II.2008	II.2008	I-II.2008	Contributions to growth		
	I.2008	II.2007	I-II.2008	monthly	annually	cumulative
	vo %			(in percentage points)		
Consumer prices	0.8	9.6	9.1	0.8	9.7	9.2
Food	0.9	18.7	18.3	0.4	7.2	7.0
Tobacco and beverages	2.2	4.7	3.6	0.1	0.2	0.2
Clothing and footwear	-1.4	1.2	1.7	-0.1	0.1	0.1
Housing	1.4	4.5	3.8	0.2	0.7	0.6
Flat (rent, water and other services)	2.1	11.7	10.6	0.1	0.4	0.4
Fuel and lighting	1.4	2.9	2.1	0.1	0.3	0.2
Heating and services	4.1	3.8	1.7	0.1	0.1	0.1
Electric power	0.0	2.4	2.4	0.0	0.1	0.1
Hygiene and health	0.2	1.8	1.8	0.0	0.1	0.1
Culture and entertainment	0.7	-0.4	-0.6	0.0	0.0	0.0
Transport and communication services	0.7	4.7	4.0	0.1	0.7	0.6
Public transport services & PTT	2.5	10.7	10.6	0.1	0.3	0.3
Fuels and lubricants	-0.5	19.3	17.3	0.0	0.7	0.7
Restaurants and hotels	1.8	12.3	11.5	0.1	0.6	0.6
Other services n.e.c.	0.9	17.5	16.1	0.0	0.1	0.1

Source: State Statistical Office of the Republic of Macedonia.

Table 2
Basic inflation, productivity and wages

<i>(annual rates, %)</i>	2006	2007	2007				Latest months		
			Q1	Q2	Q3	Q4	Dec-07	Jan-08	Feb-08
Inflation (CPI)	3.2	2.3	0.7	1.1	2.4	4.9	8.7	9.6	10.2
Core inflation (without food and energy)	1.1	0.7	0.2	0.8	1.1	1.2	2.6	3.2	2.7
Regulated prices	5.7	3.3	4.2	3.0	2.0	4.1	5.7	8.0	9.0
Producer prices of industrial products	4.5	1.6	1.0	1.2	1.6	4.1	9.5	10.2	11.7
Productivity	0.3	-	4.3	0.8	1.2	-	-	-	-
Nominal net-wage	7.3	7.9	5.7	6.4	7.5	11.8	12.0	-	-
Real net-wage	4.0	5.5	5.0	5.3	5.0	6.6	3.1	-	-

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

Table 3
Industrial output and other economic activities

<i>(annual rates, %)</i>	2006	2007	2007				Latest months		
			Q1	Q2	Q3	Q4	Nov-07	Dec-07	Jan-08
Industrial output	2.5	3.7	11.6	-2.8	1.1	6.2	5.5	2.6	13.6
Construction	-12.3	-	9.4	-18.6	18.0	-	45.2	-	-
Retail and wholesale trade	2.5	-	25.1	17.2	21.2	-	31.3	-	-
Telecommunications	-1.0	-	11.1	17.1	15.9	-	19.6	-	-

Source: State Statistical Office of the Republic of Macedonia.

Table 4
Selected industrial branches

(annual rates, %)	2006	2007	2007				Jan.08	
			Q1	Q2	Q3	Q4	% change	contribution (p.p.)
Manufacture of food products and beverages	0.1	7.7	12.0	0.6	9.5	9.6	11.3	1.6
Manufacture of tobacco products	5.5	-0.8	19.0	-14.4	-16.8	41.1	100.0	2.6
Manufacture of wearing apparel	-3.7	-14.5	-4.6	-19.8	-17.9	-14.2	-19.6	-2.1
Manufacture of refined petroleum products	12.3	-2.4	20.6	-11.1	1.3	-16.8	36.4	1.8
Manufacture of other non-metallic minerals	14.0	3.8	51.5	4.2	-2.6	-15.9	-20.8	-1.2
Manufacture of basic metals	11.8	34.3	57.4	35.2	25.3	26.7	22.6	3.6
Manufacture of fabricated metal products	5.7	45.6	6.0	5.4	51.7	112.0	45.5	1.6
Manufacture of machinery and equipment	3.7	-24.4	-45.1	-37.4	-12.3	1.0	123.2	1.9
Recycling	12.8	-35.6	20.7	-57.5	-88.5	-4.2	274.6	1.5
Electricity, gas, steam and hot water	-0.6	-9.5	-9.1	-20.8	-8.7	-1.1	1.6	0.3

Source: State Statistical Office of the Republic of Macedonia.

Table 5
Balance of payments ^{/1}
(in millions of euros)

	2006	2007												2007
		I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	
I. Current account	-44.9	-4.4	6.0	39.4	-0.2	45.9	5.3	-21.1	67.7	-38.2	-37.2	-99.6	-127.5	-164.0
GOODS, net	-1,020.4	-81.1	-74.5	-55.5	-83.6	-56.1	-68.0	-125.1	-64.5	-108.8	-136.1	-152.5	-167.2	-1,172.8
Export, f.o.b	1,902.6	160.5	175.7	222.5	200.5	212.0	229.3	196.4	214.4	194.3	215.5	208.1	212.4	2,441.5
Import, f.o.b /2	-2,923.1	-241.6	-250.2	-277.9	-284.1	-268.1	-297.3	-321.5	-278.9	-303.1	-351.6	-360.6	-379.5	-3,614.3
SERVICES, net	22.2	-2.0	1.0	-0.1	1.3	-0.6	0.4	5.5	7.6	10.3	9.9	-0.6	-6.9	25.5
INCOME, net	-28.4	10.2	8.6	10.9	-7.3	13.2	-15.0	-21.0	11.7	-28.4	5.0	-17.0	2.8	-26.4
of which: interest, net	-19.4	-0.2	-1.7	-0.1	-1.5	0.1	-3.8	0.0	1.1	-3.6	-2.2	-0.2	-5.9	-17.9
CURRENT TRANSFERS, net	981.8	68.5	70.9	84.0	89.4	89.4	87.9	119.5	112.9	88.7	84.1	70.5	43.8	1,009.8
Official	58.7	3.2	1.5	3.9	5.4	5.9	5.8	5.2	2.2	3.3	3.1	8.1	-23.6	23.9
Private	923.1	65.3	69.5	80.1	84.0	83.5	82.2	114.3	110.7	85.5	81.0	62.3	67.4	985.8
II. Capital and financial account	38.0	3.4	-8.9	-37.5	2.8	-41.1	-8.6	30.3	-59.8	38.3	38.6	102.1	134.5	194.3
CAPITAL ACCOUNT, net	-0.8	-1.2	0.1	-0.2	0.6	0.3	0.6	4.3	-0.2	-0.3	-0.1	-0.8	-1.6	1.3
Capital transfers, net	-0.8	-1.2	0.1	-0.2	0.6	0.3	0.6	1.1	-0.2	-0.3	0.0	-0.3	-1.6	-1.1
Official	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	-0.8	-1.2	0.1	-0.2	0.6	0.3	0.6	1.1	-0.2	-0.3	0.0	-0.3	-1.6	-1.1
acquisition/disposal of non-produced	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.1	0.0	0.0	-0.1	-0.5	0.0	2.4
FINANCIAL ACCOUNT, net	38.8	4.7	-9.0	-37.3	2.3	-41.4	-9.2	26.1	-59.6	38.6	38.7	102.9	136.1	192.9
Direct investments, net	344.6	3.8	7.8	8.4	44.5	21.0	-1.6	25.2	-5.6	20.8	34.9	55.6	25.3	240.1
Portfolio investments, net	73.1	12.2	-7.6	16.0	25.9	16.7	3.0	6.2	8.8	9.5	24.3	0.3	-4.4	110.8
Other investments, net	-81.4	-38.4	-21.7	-27.3	-21.9	-69.4	-55.4	25.2	-27.5	44.0	5.2	46.4	84.5	-56.3
Trade credits, net	2.9	-3.1	6.9	-37.5	5.0	-56.9	-13.2	45.3	-34.4	-9.3	18.9	20.0	24.5	-33.5
Loans, net	-22.3	-42.3	-15.8	15.9	-23.0	-14.8	-87.0	7.0	6.4	-0.8	22.2	11.8	12.7	-107.7
Currency and deposits, net	-83.7	5.9	-14.3	-8.3	-10.7	-0.6	31.4	-29.0	-2.7	44.5	-40.0	11.9	17.9	5.9
of which : monetary authorities, net	-5.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	0.2	0.0	-0.2
commercial banks, net	-10.4	3.7	-8.2	0.7	-1.6	4.9	37.9	-22.1	-1.6	50.6	-34.2	19.8	18.6	68.4
other sectors, net	-67.6	2.2	-6.1	-9.0	-9.1	-5.4	-6.4	-6.9	-1.1	-6.0	-5.6	-8.2	-0.7	-62.3
Others, net	21.7	1.2	1.4	2.6	6.7	2.8	13.3	1.9	3.2	9.5	4.1	2.7	29.5	78.9
Gross official reserves, (- = increase) /4	-297.6	27.1	12.6	-34.4	-46.3	-9.8	44.8	-30.5	-35.3	-35.6	-25.7	0.6	30.7	-101.8
III. Errors and omissions	6.9	1.0	2.9	-1.9	-2.6	-4.8	3.3	-9.2	-7.9	-0.1	-1.5	-2.5	-6.9	-30.3

1/ Preliminary 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 4,14%

Imports for 2006 and 2007 have been additionally adjusted with time adjustments for imports of electricity.

3/ Methodological changes: The BOP data for 2007 include estimations for certain elements in the items on direct investment and income - based on actual data from the newly introduced data source (FDI Survey DI 22) available as with end 2006

4/ Excluding monetary gold and exchange rate differences

Source: National bank of the Republic of Macedonia.

Table 6
Foreign trade

	I.2008	I.2008 XII.2007		I.2008 I.2007	
	amount	amount	%	amount	%
Total trade	488.9	-112.2	-18.7	70.3	16.8
Export	182.1	-30.7	-14.4	21.3	13.3
Import	306.8	-81.5	-21.0	48.9	19.0
Balance	-124.6	50.8	-28.9	-27.6	28.4

Source: State Statistical Office of the Republic of Macedonia.

Table 7
Monetary developments in February 2008

	31.12.2006	31.12.2007	29.02.2008	monthly changes (29.02.2008/ 31.01.2008)		annual changes (29.02.2008/ 28.02.2007)
	actual	actual	actual	in Denar milluon	in %	in %
<i>in Denar million</i>						
Brtoad money M4	135,641	175,553	179,018	2,760	1.6	28.1
Currency in cirrculation	16,206	17,927	16,237	-182	-1.1	8.3
Denar deposits ¹	58,997	89,077	91,059	1,590	1.8	47.0
Foreign currency deposits	60,438	68,549	71,722	1,352	1.9	14.2
Total deposits	119,435	157,626	162,781	2,942	1.8	30.5
Reserve money ²	31,264	37,586	35,620	623	1.8	22.3

¹Including demand deposits, deposits of municipalities and public entities.

²Including reserve requirement in foreign currency.

	31.12.2006	31.12.2007	29.02.2008	monthly changes (29.02.2008/ 31.01.2008)		annual changes (29.02.2008/ 28.02.2007)
	actual	actual	actual	in Denar million	in %	in %
<i>in Denar million</i>						
Credit to the private sector	89,782	124,875	132,520	4,612	3.6	41.4
In Denar	66,413	94,496	101,008	4,186	4.3	45.2
In Foreign currency	23,369	30,379	31,512	426	1.4	30.3
Banks' net foreign assets	22,926	15,459	15,190	-1,079	-6.6	-36.5

Source: National Bank of the Republic of Macedonia.

Table 8
Monetary aggregates
(in %)

	end of period to the end of previous period					y - o - y						
	2007				2008	2006	2007				2008	
	Q1	Q2	Q3	Q4	January		Q1	Q2	Q3	Q4	January	February
M0	-6.1	8.5	2.2	15.5	-6.9	21.4	18.9	18.2	18.9	20.2	23.1	22.3
M1	-1.4	6.0	8.3	16.3	-6.0	17.1	22.5	18.0	22.6	31.7	32.0	31.3
M4	4.7	9.7	3.7	8.8	0.1	24.9	26.4	32.2	29.9	29.5	29.6	27.9
M4-denar	5.1	14.1	5.9	12.2	-1.5	30.8	33.1	44.3	43.8	42.6	42.8	39.1

Source: National Bank of the Republic of Macedonia.

Table 9

Deposits of the private sector

(in millions of denars)

		Balance as of 29.02.2008	monthly changes		annual changes	
			in Denar million	in %	in Denar million	in %
Total deposits		134,156	1,893	1.4	28,373	26.8
In Denar	Households	37,276	-270	-0.7	12,858	52.7
	Enterprises	21,845	708	3.3	5,285	31.9
	Total	62,434	541	0.9	19,452	45.3
In Foreign currency	Households	52,860	754	1.4	6,883	15.0
	Enterprises	18,316	624	3.5	1,754	10.6
	Total	71,722	1,352	1.9	8,921	14.2
Total households deposits		90,136	484	0.5	19,741	28.0
Total enterprises deposits		40,161	1,332	3.4	7,039	21.3

Source: National Bank of the Republic of Macedonia.

Table 10

Credits to the private sector

(in millions of denars)

		Balance as of 29.02.2008	monthly changes		annual changes	
			in Denar million	in %	in Denar million	in %
Total credit to the private sector		132,520	4,612	3.6	38,773	41.4
In Denar	Households	48,921	1,679	3.6	18,232	59.4
	Enterprises	51,792	2,511	5.1	13,026	33.6
	Total	101,008	4,186	4.3	31,439	45.2
In Foreign currency	Households	2,559	151	6.3	854	50.1
	Enterprises	28,936	312	1.1	6,464	28.8
	Total	31,512	426	1.4	7,334	30.3
Total credit to the households		51,480	1,830	3.7	19,086	58.9
Total credit to the enterprises		80,728	2,823	3.6	19,490	31.8

Source: National Bank of the Republic of Macedonia.

Table 11

Credits to the households

		2006				2007				2008	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	January	February
Maturity structure of households credit portfolio (in %)	Short-term	25.0	24.8	24.4	25.1	26.8	27.7	29.2	29.2	29.8	29.9
	Long-term	75.0	75.2	75.6	74.9	73.2	72.3	70.8	70.8	70.2	70.1
Credit to households, y-o-y growth rate, in %	Housing	37.1	33.5	35.4	40.1	43.4	45.7	48.2	47.7	47.8	48.4
	Overdrafts	63.9	68.1	84.9	103.7	125.2	136.9	131.4	112.3	93.1	96.1
	Credits for other purposes	32.6	26.8	26.0	31.0	33.9	38.8	45.5	48.7	51.0	53.5

Source: National Bank of the Republic of Macedonia.

Table 12
Credits to the enterprises

		2006				2007				2008	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	January	February
Maturity structure of enterprises credit portfolio (in %)	Short-term	54.4	53.8	51.0	48.6	47.1	46.0	46.2	43.9	44.5	45.3
	Long-term	45.6	46.2	49.0	51.4	52.9	54.0	53.8	56.1	55.5	54.7
Credit to enterprises, y-o-y growth rate, in %	Short-term	0.8	13.0	11.1	11.9	8.9	5.9	20.4	17.2	20.3	25.0
	Long-term	36.1	34.0	30.8	41.1	45.7	44.6	45.8	41.6	40.9	38.0
	In Denar	3.4	14.3	14.2	21.3	22.6	20.2	32.9	29.9	30.2	33.6
	In Foreign currency	42.0	38.5	31.0	32.4	31.4	30.2	32.6	29.4	32.2	28.8

Source: National Bank of the Republic of Macedonia.

Table 13
Liquidity creation and withdrawal

	31.12.2007	29.02.2008	13.03.2008	Cumulatively 31.12.2007/ 29.02.2008	13.03.2008 / 29.02.2008
<i>in millions of Denars</i>					
	balances			flows	
Bank' liquidity (banks' account with NBRM)	10.415	9.067	9.715	-1.348	648
Autonomous factors (total)	84.009	78.324	79.168	-2.147	-100
Currency in circulation	17.969	16.256	15.705	1.713	551
Foreign exchange transactions of the NBRM	73.958	72.739	72.730	-1.219	-9
Government denar deposits with NBRM	-9.842	-12.539	-12.158	-2.697	381
Banks' cash in vaults	1.924	1.868	2.891	56	-1.023
Monetary instruments	-25.555	-24.134	-23.439	1.421	695
CB bills auctions	-20.995	-22.178	-21.483	-1.183	695
Treasury bills for monetary policy purposes	-4.560	-1.956	-1.956	2.604	0
Other items	-8.253	-8.875	-8.822	-622	53

* Last available data for March.

Source: National Bank of the Republic of Macedonia.

Table 14
Interest rates

	February 2008	monthly changes	annual changes
	in %	in percentage points	
Average weighted interest rate on the CB bills auctions (28 days)	5.2	0.3	-0.3
Average weighted interest rate on the Money Market	3.1	0.0	-1.1
Interest rate on three-month treasury bills	5.1	0.0	-1.3
	January 2008	monthly changes	annual changes
	in %	in percentage points	
Banks' weighted lending interest rates	9.8	-0.1	-0.9
Banks' weighted deposit interest rates	5.4	0.1	0.9

* It pertains to the bilateral interbank trading.

Source: National Bank of the Republic of Macedonia.