

National Bank of the Republic of Macedonia
Research Department



Monthly Report 5 / 2008

June, 2008

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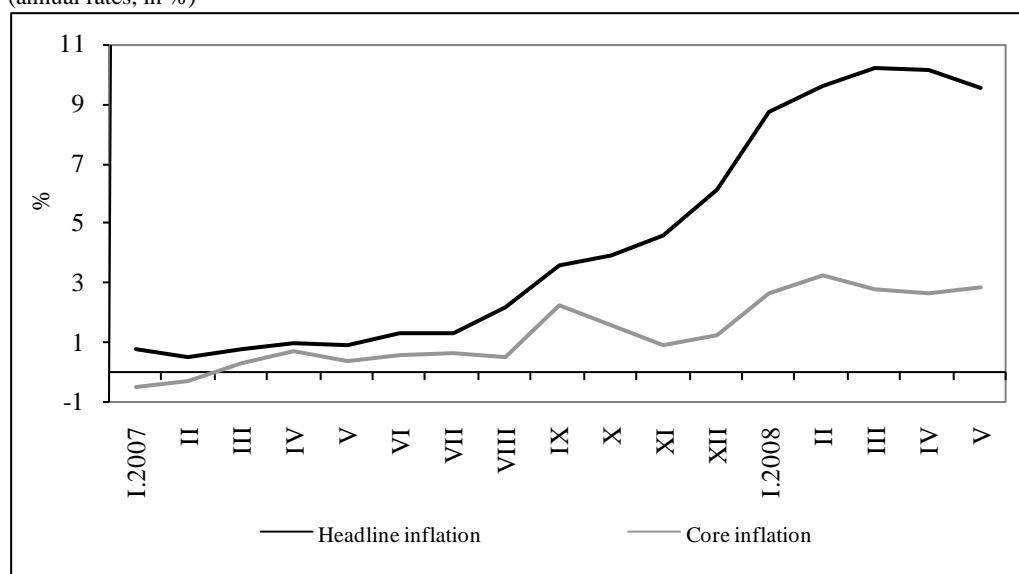
* The Monthly information includes analysis based on the available data as of June 20, 2008.

1. PRICES

The consumer price index in May, **relative to the previous month**, registered growth of 0.2%, which was largely due to the growth in the prices of fuels and footwear. Simultaneously, the prices of food after longer period registered fall, caused by the fall in the prices of fresh vegetables (due to seasonal influences), despite the growth in the prices of all other categories of food. With that, the downward trend of the **annual inflation rate**, which started in April, continued also in May 2008, when the annual rate equaled 9.5% (in April it amounted to 10.1%). Such developments determined also for the **cumulative annual inflation rate**, which in May amounted to 9.6%, to register decrease relative the rate of April (9.7%). About 74% of the annual growth in the prices in May was due to the higher prices of food (79% in April).

In May, the annual **basic inflation rate** registered small growth of 0.2 p.p. relative to the level of April, reaching 2.8%. The higher prices of footwear in May were the main reason for the intensification, but still the high prices of food in the catering facilities, the beverages and the means of transport dominated.

Figure 1
Realized and basic inflation
(annual rates, in %)



Source: SSO and NBRM.

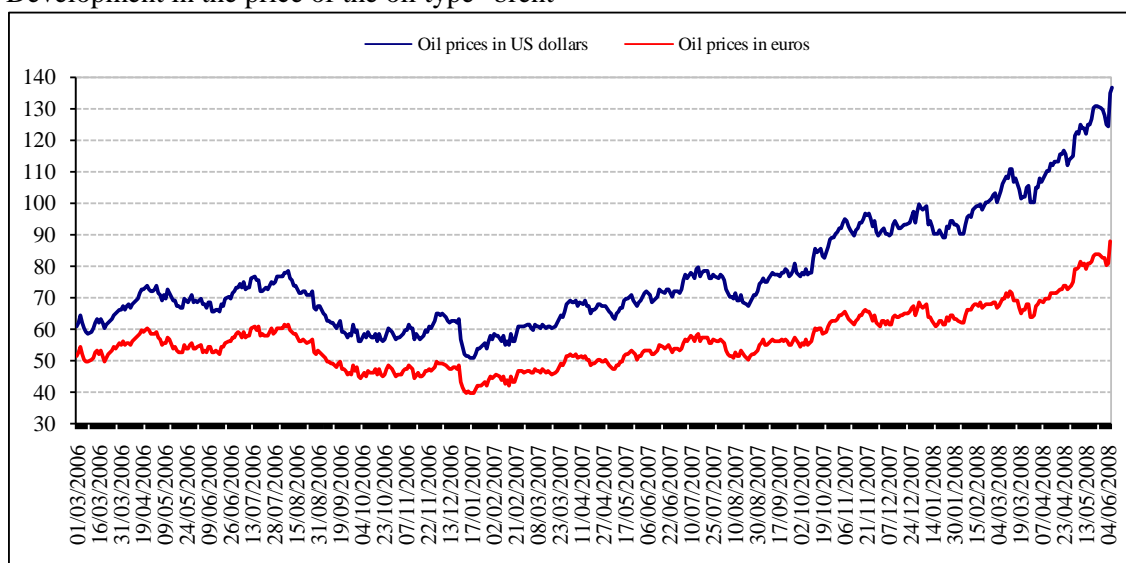
The realized inflation rate in May was lower than the projected one (by the simulation in April¹), which was due to the lower performances with the food, despite the realized prices of oil which were higher relative to the projection. In the following months a fall in the level of prices of food is expected, on monthly basis, which would reflect with gradual decrease in the annual inflation. The uncertainty on the further growth in the price of oil in the international stock exchanges and its influence over the domestic prices remained the main risk concerning the inflation.

The growth in the price of oil in the international stock exchanges in May was intensive, and the average price of the oil of type "brent" reached up to USA Dollar 123.7 per barrel in May, which was by 12.5% more than the average price in April, and by 84.1% more than the

¹ In April 2008, the macroeconomic projections from November 2007 included the latest macroeconomic data, in order to perceive their possible influences till the end of the year.

one in May 2007. Such developments with the price of oil determined annual growth in the domestic prices of oil derivatives by 21.8%, which contributed with 0.8 percentage points to the inflation rate. The growth in the price of oil continued with similar tempo also in June, when the average price for the period 26.05 - 06.06.2008 was by 2.5% higher than in the previous two weeks. The geopolitical tensions, the absence of the usual increase in the reserves in the second quarter of the year (meeting the higher consumption in the summer period), as well as the repeated depreciation of the Dollar, were the factors which caused the latest growth. Thus, the higher price of the crude oil, despite the depreciation of the Dollar in this period by 0.4% relative to the Denar, was the reason why the Regulatory Energy Committee increased the refinery prices of the derivatives by 3.63%, and the retail prices by 1.69% (on the session held on June 9, 2008).

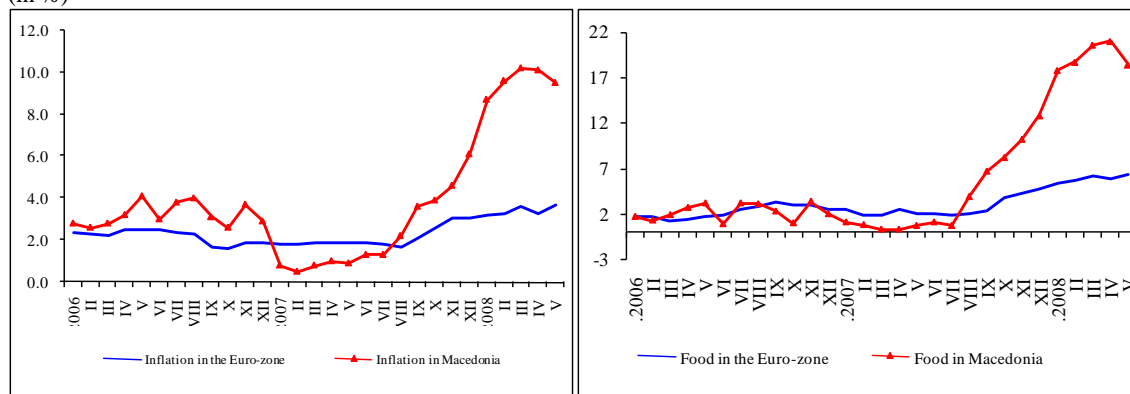
Figure 2
Development in the price of the oil type "brent"



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

After the slowing down in April, the **annual inflation rate in the Euro-zone**, in May 2008, reached the highest level since introducing the joint European currency equaling 3.7%, in conditions of intensified annual growth in the prices with most of the countries in the Euro-zone. The growth in the prices of the oil derivatives and oil for cooking, as well as the higher prices of food (diary products, cereal products, eggs and fruits) caused by the global upward trend in the prices of these goods, gave the higher contribution to the annual inflation in the Euro-zone. Different from this, deflationary influences were registered with the costs for maintenance of motor cars, telecommunication services and with the reduced prices of wearing apparel. In the first five months of 2008, the cumulative inflation rate equaled 3.4%.

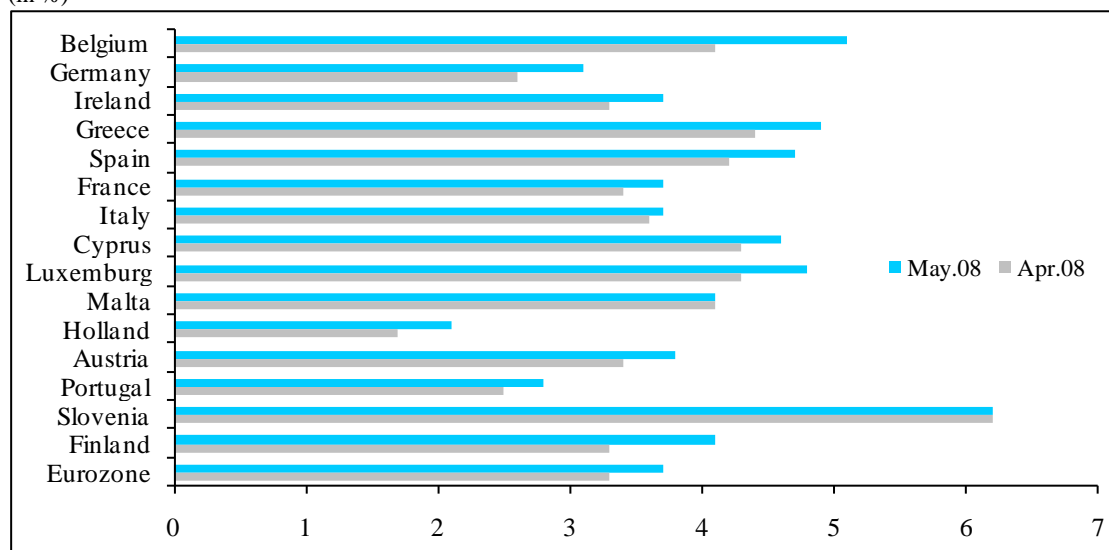
Figure 3
Annual inflation rate and food in the Euro-zone and in Macedonia
(in %)



Source: EUROSTAT and SSO.

Analyzed by countries from the Euro-zone, Slovenia still registers the highest inflation rate, whereas Nederland registered the lowest growth in the prices. In May 2008, Belgium and Finland registered most significant increase in the annual inflation, relative to the realized inflation in April 2008.

Figure 4
Annual inflation rates, by countries
(in %)

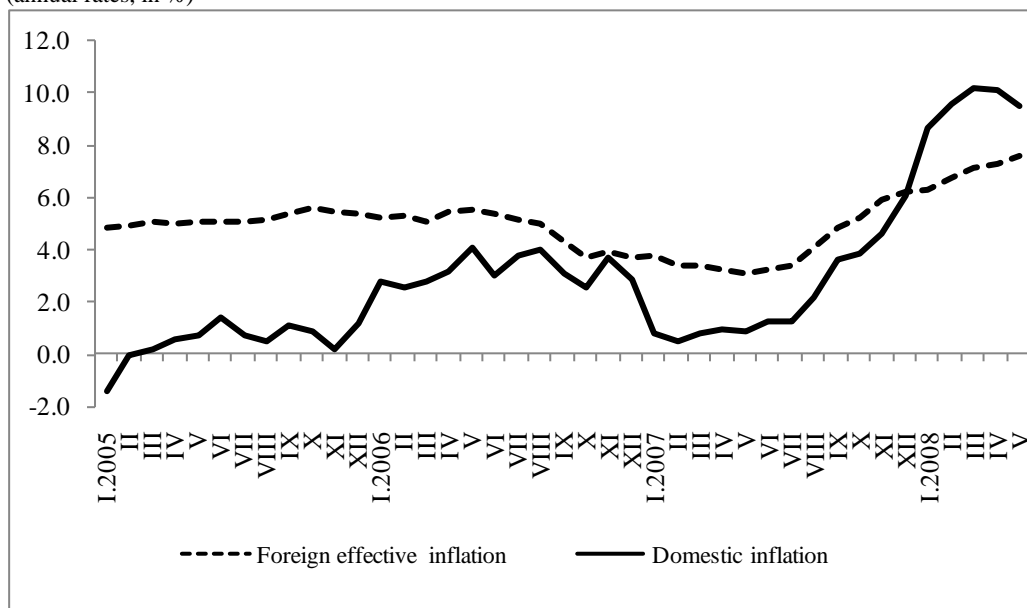


Source: EUROSTAT.

The effective foreign inflation² (calculated as a sum of the price levels, weighted with the participations of our most significant trade partners at the side of the import) registered further growth. Despite the considerable participation of the import component in determining the domestic inflation, the downward trend in the domestic inflation, which was registered in the last few months, was related with the current situation in the domestic market (mainly the increased domestic supply of agricultural products).

² Within the calculation of the effective foreign inflation, as most significant trade partners of RM on the side of the import the following countries were considered: Germany, Serbia, Greece, Italy, Bulgaria, Turkey, Poland, Slovenia, Austria, France and Nederland.

Figure 5
Effective foreign inflation and domestic inflation
(annual rates, in %)



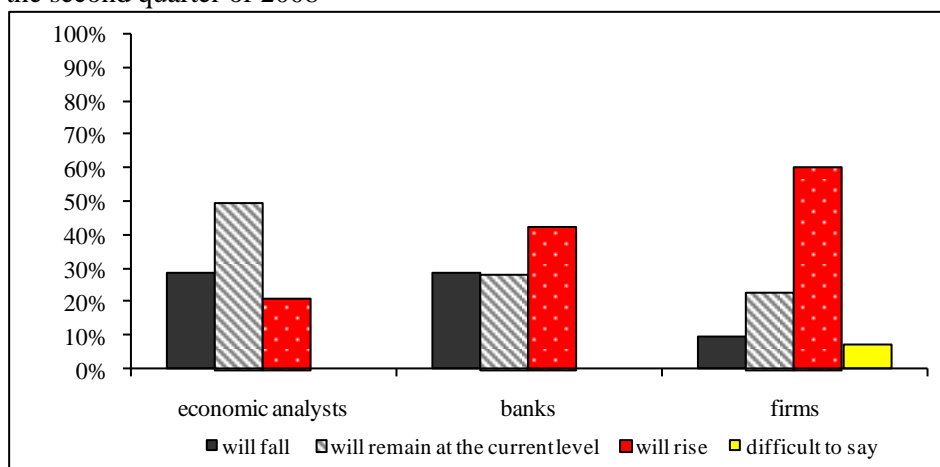
Source: EUROSTAT, State Statistical Office of Serbia, SSO and NBRM calculations.

1.1. Inflation expectations survey

The respond on the inflation expectations survey realized in the second quarter (number of entities which answered the survey) was relatively high (86.5%), with full respond with the banks and the economic analysts, as well as with 81.1% of the enterprises.

Relative to the expectations for *the second quarter*, the largest part of the surveyed (50%) expected increase in the price level, 29.7% had stable expectations, while 15.6% considered that the price level will reduce. Most of the surveyed which considered that the prices will grow, expected for the annual inflation at the end of the quarter to reach up to 10.5%.

Figure 6
Distribution of answers by groups of surveyed on the expectations for the price development in the second quarter of 2008



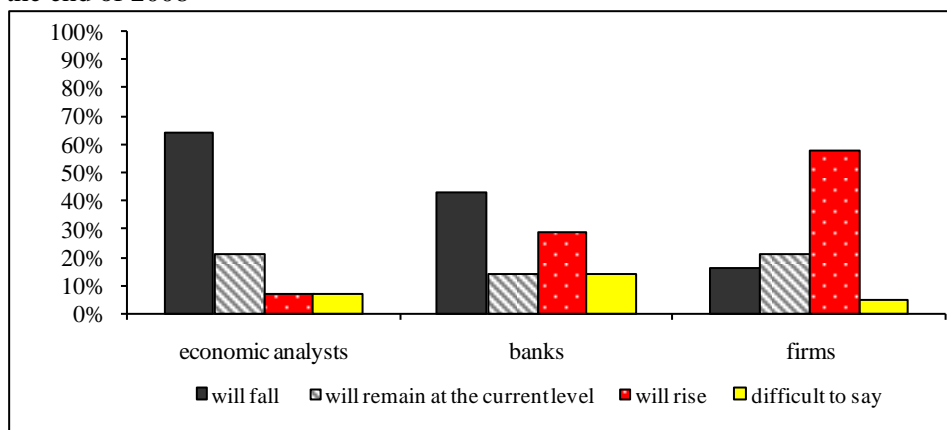
Source: NBRM, Inflationary Expectations Survey.

Relative to the expectations *till the end of 2008* the largest part of the surveyed stated that they expect for the prices to grow till the end of the year (43.8%), 29.7% expected their

decrease, whereas 20.3% expected for them to remain at the current level. Based on the answers of the survey from the second quarter of 2008, the economic entities in the RM expected for the inflation to equal between 9% and 10% on average, till the end of 2008 (the survey realized in the previous quarter, the anticipated inflation rate for 2008 equaled about 6%).

Figure 7

Distribution of answers by groups of surveyed for the expectations for the price development till the end of 2008

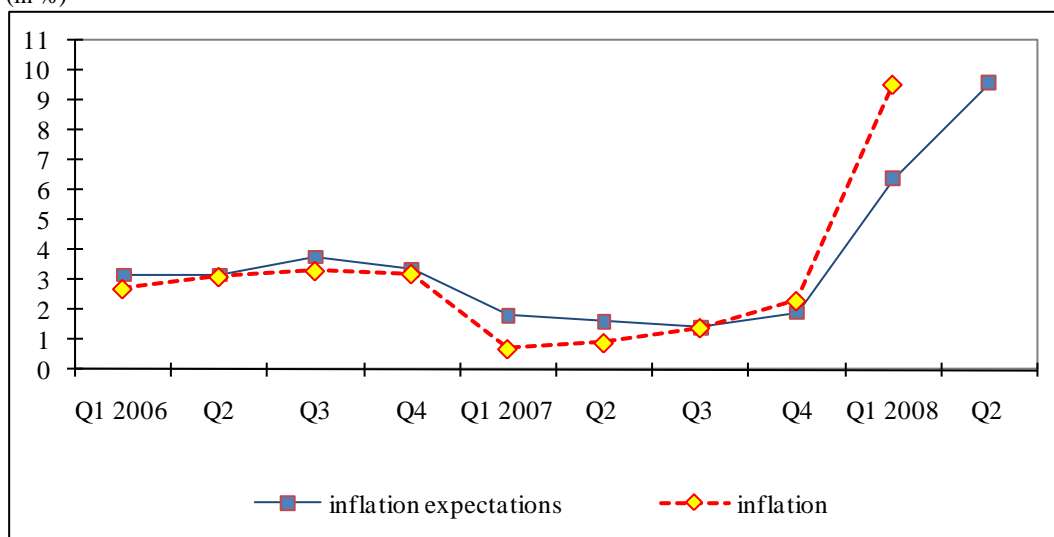


Source: NBRM, Inflationary Expectations Survey.

The entities which considered that the inflation will grow further stated the prices of energy sources as factors for such expectations, and to lower extent the prices of food and the higher public consumption. The expectations for fall in the inflation were mostly based on the measures undertaken by the National Bank, the continuing of the policy for stable foreign exchange rate of the Denar, the expectations on fall in the prices of food with the new yield, as well as the higher comparison basis at the end of 2007.

Figure 8

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

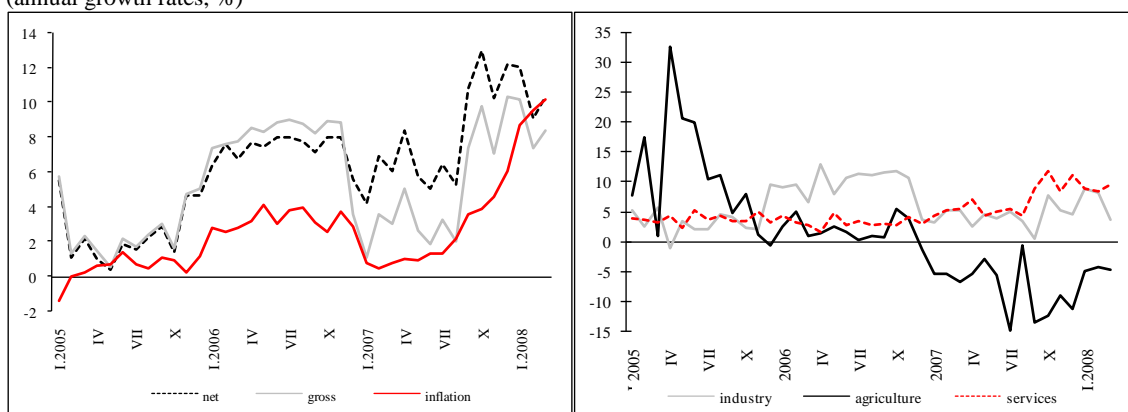


Source: Inflationary Expectations Survey and NBRM calculation; SSO.

2. WAGES

The average paid³ *net and gross wage* by employee in March had identical change rates, on monthly basis, i.e. they registered growth of 2% (growth in all activities, except in the agriculture, mining and energy), which when monthly inflation of 0.8% being registered in March, represented *real* growth in the wages of 1.2%. The monthly growth in the wages in March contributed for repeated increase in the annual growth (after the registered slowing down in the previous month). Thus, the annual growth in the average paid salary in March equaled 10.4% per net wage and 8.4% per gross wage⁴ and mainly, it reflected the lower comparison basis relative to the previous year. Considering the annual inflation rate of 10.2%, there was a minimal *real* growth with the net wage of 0.2% and fall in the gross wage by 1.6%.

Figure 9
Wage development
(annual growth rates, %)



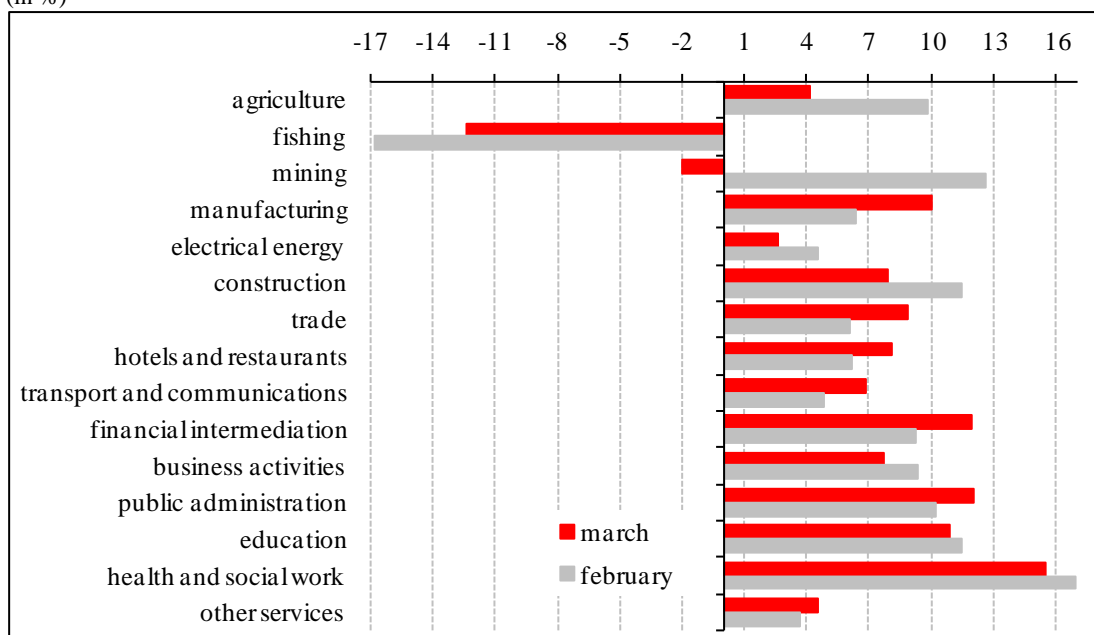
Source: State Statistical Office of the Republic of Macedonia.

Observed by activities, in March also, the annual growth in the average paid wage was highest in the health care, public administration and education, as well as in the financial intermediation and manufacturing industry. The fall in the fishery continued, and there was a considerable fall also in the mining.

³ The SSO records pertain to *paid* wages in the month, regardless of the month they refer to.

⁴ The difference in the growth rates of the net and the gross wage was due to the decrease in the rate of the personal income tax, from 12% to 10%, in January 2008.

Figure 10
Annual growth in the average net wage, by sectors
(in %)



Source: State Statistical Office of the Republic of Macedonia.

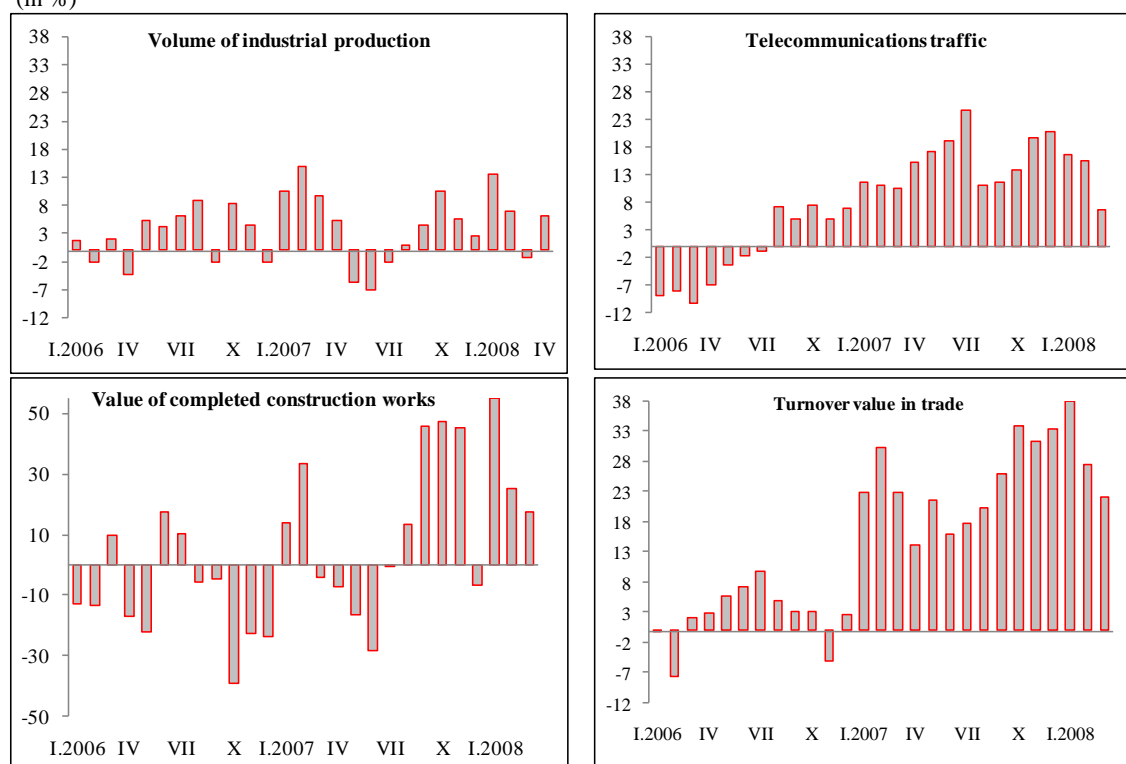
3. ECONOMIC ACTIVITY

In March 2008, the individual economic activities registered growth relative to the previous months, as follows: 7.4% in the trade, 3.4% in communications and 41.3% in the construction⁵. Yet, *the annual growth rates*, although still high (22.1% in the trade, 6.5% in the telecommunications and 17.6% in construction), they were considerably low relative to the previous months.

Yet, the results **on the first quarter of 2008** were exceptionally positive. Thus, the growth in the trade of 26.9%, in communications of 12.7%, in construction of 29.1% and in the industry of 5.8% were acting towards realization of growth rate of the gross domestic product in amount of about 4% projected for the first quarter of 2008.

⁵ Adjusted for the seasonal effects, the turnover in the trade reduced by 0.1%, in the transport and telecommunication by 7.8%, and in the performed construction activities by 13.3%, relative to the previous month.

Figure 11
Annual growth rates in certain economy sectors
(in %)

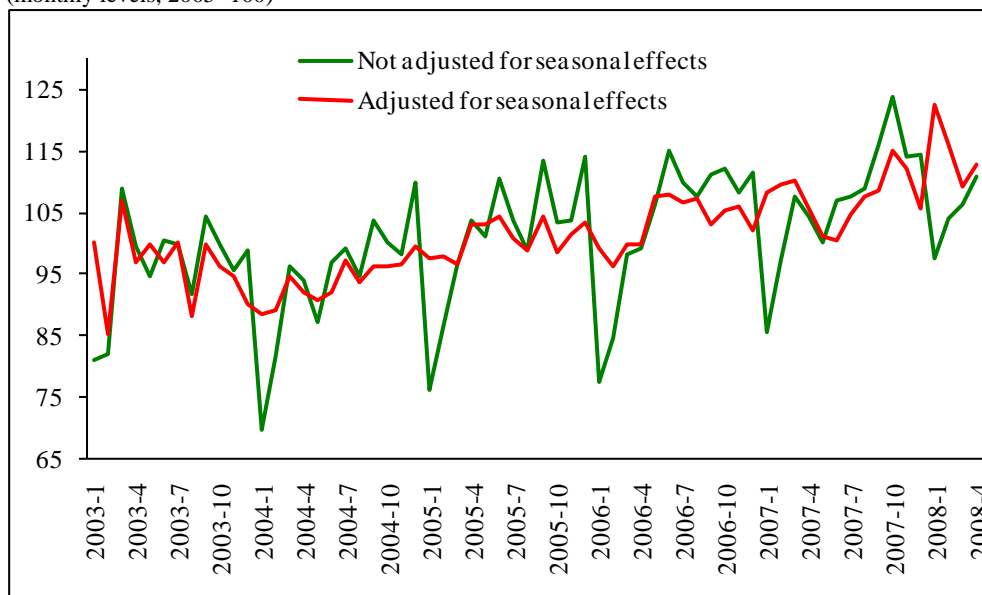


Source: State Statistical Office of the Republic of Macedonia.

The industrial activity in April intensified again, after the small slowing down in the previous month. Thus, the volume of the industrial output in April 2008 rose by 4.5% *relative to the one in March* (growth in the data adjusted for seasonal effects equaled 3.2%), and by 6.2% *than the volume realized in April 2007*. The growth on annual basis resulted mainly from the growth in the manufacturing activities (growth of 7.5%), when growth of 9% was registered in the mining (mostly because of the higher extraction of metal ores) and fall of 5.2% in the energy (which was mainly due to the further decrease in the hydro-potential)⁶. The growth in the manufacturing activities resulted from the growth in 13 branches (63% of the output volume). The higher volume of production in the metal industry, the industry for electrical machines and apparatus and for furniture continued, and in April, the printing, tobacco industry (mostly due to the time mismatch of the manufacturing of the unprocessed tobacco) and the recycling registered significant growth. Only 7 branches registered decrease in the output, among which were the production of wearing apparel and of building materials again, but also the oil industry. The cumulative growth in the industrial output in the period January-April was 5.9%.

⁶ The registered defects in the most significant energy facility did not reflected considerably on the production.

Figure 12
Industrial output index
(monthly levels, 2005=100)



Source: SSO and NBRM calculations.

By the **construction licenses**, issued in April 2008, by the Ministry of Transport and Communications, building of 321 facilities was envisaged, with estimated value of Denar 1.9 billion. Relative to the previous months, when the usual upward trend in the number of issued construction licenses was registered, the number of licenses in April was almost at the same level of the number of issued licenses in March, but the value of the facilities for which a license is issued in April was lower than the value of facilities with license issued in March by 29.5%. The largest part, i.e. 83% of the facilities was buildings, and for 87% of the facilities the investors were natural persons⁷.

4. BALANCE OF PAYMENTS

In the first quarter of 2008, the current account of the balance of payments registered negative balance of Euro 188.1 million, which mainly resulted from the deepening in the deficit in the trade balance. Concerning the projections (the projection in November 2007 and the simulation in April 2008), the realized deficit in the current account was higher than the projected amounts by Euro 75 million and by Euro 65 million, respectively.

The deficit in the trade account was partially neutralized with the net inflows based on private transfers, which in the first quarter of 2008 amounted to Euro 168.1 million, as they were envisaged with the simulation in April. These net inflows registered annual fall of 21.8%, which almost solely resulted from the lower net inflows from foreign exchange operations (fall of 30.5% on annual basis). Relative to the projection in November, the private transfers registered failure which was due to the lower realized inflow (small annual growth was envisaged).

In the first three months, the sub-balance of services realized small deficit of Euro 1 million, which was due to the realized net outflows based on transport services, acting towards increase in the deficit on the current account. Concerning the projections (projection in

⁷ The data are from the news report "Issued building permits by SSO", which is issued from the beginning of 2008. The construction of the buildings on which the permit is issued shall start in the following six months, so the data may be considered as an indicator on the construction activity.

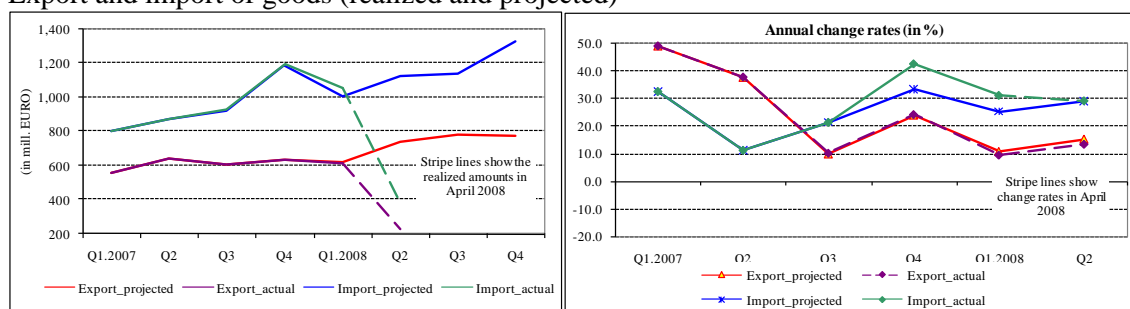
November 2007 and the simulation in April 2008), with such developments, the services registered failure of the projection, which envisaged realization of surplus of Euro 5 million. In the category "income", positive balance of Euro 7 million was registered, which resulted from the net inflows based on compensation for employees. Relative to the simulation in April 2008, the failure under the projection was due mainly to the high net outflow in the income of direct investments (Euro 23.5 million), whereas relative to the projection on November, the exceeding was due to the envisaged, but unpaid dividend of "Telecom".

In the capital and financial account net inflows of Euro 180 million were realized, which resulted mostly from the net inflows based on the direct investments (Euro 128 million). Relative to the projections, the performances to a lower extent exceeded the amount envisaged with the simulation in April, whereas relative to the projection in November, the exceeding was more considerable. In the portfolio investments, net outflows of Euro 8 million were realized (relative to the anticipated net inflow envisaged with the projection in November), which was due to the sale of equity securities by non-residents, in conditions of uncertainty. The negative dynamics continued in April also, but the latest data from the Macedonian Stock Exchange for May 2008, indicated positive developments, i.e. the trade of non-residents was a bit higher on the side of the purchase of securities, relative to their sale (31.45% and 30.46%, respectively).

In April 2008, the trade deficit equaled Euro 151.9 million and on annual basis, it deepened by 63.9%, in conditions of more intensified growth in the import relative to the export (annual growth of 29.3% and 13.4%, respectively). In conditions of import dependence and considerable growth in the prices of energy sources, almost 30% of the growth in the value of the import was determined by the higher import of energy sources. In the other categories of products, the higher import of electrical machines, vehicles, equipment, iron and steel and products thereof and oils registered most significant contribution (total contribution of 43.7%). On the side of the export, the annual growth was determined mainly of the higher export of mineral fuels, products of iron and steel and ores (total contribution of 74.8%), whereas the export of iron and steel registered more significant decrease, which was due to the lower export of ferro-nickel relative to the same month of the previous year.

Such dynamics of the export and the import of goods were within the anticipations for the second quarter of 2008, by the simulation in April, so with the both components of exchange, the performances in April 2008 were about 1/3 of the projected level (31% on the side of the export and 34% on the side of the import). The comparison of the realized amounts relative to the projection of November 2007 also indicated the developments in the performances within the projection. If the upward trend in the price of the oil in the international stock exchanges continues and if the fall in the price of the nickel, registered in May, maintains, further negative effects on the trade balance can be expected.

Figure 13
Export and import of goods (realized and projected)



Source: National Bank of the Republic of Macedonia.

On cumulative basis, in the first 4 months of 2008, the total foreign trade rose by 22.4% relative to the same period in 2007. The export registered annual growth of 10.5%, and the

higher export of ores, in conditions of higher producer activity in the mining as a result of the reopened mines, contributed for about 1/3 of the total growth, followed by the export of oil derivatives, wearing apparel and textile and products of iron and steel. At the side of the import, the growth of 30.7% was determined largely from the higher import of energy sources (contribution of 38.9%), electrical machines, vehicles, iron and steel and products thereof and equipment. Concerning the import of energy sources, the import of crude oil registered small increase in the quantities (by 1.4%) and high growth in the price of the imported oil (by 44.6%).

Table 1
Metal prices

	2006	2007	jan-march 2007	april-june 2007	july-sept 2007	oct-dec 2007	jan-march 2008	april 2008	may 2008
<i>US dollars per ounce</i>									
Gold	604.3	696.7	650.3	667.4	681.1	788.0	926.8	909.7	888.7
<i>US dollars per ounce</i>									
Silver	1,156.9	1,341.3	1,332.5	1,335.8	1,273.2	1,423.5	1764.7	1751.1	1704.9
<i>US dollars per metric tons</i>									
Steel cr coil sheet	693.8	650.0	650.0	650.0	650.0	650.0	762.5	800.0	800.0
Steel hr coil sheet	600.0	550.0	550.0	550.0	550.0	550.0	700.0	750.0	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	28,956.8	28,763.2	25,735.0

Source: World Bank.

In May 2008, the prices of metals in the international stock exchanges registered monthly fall, mainly as a result of the Dollar appreciation relative to the Euro and the Yen, as well as the expectations for increase in the interest rates in USA, for struggle with the inflation in global dimensions. The prices of precious metals, gold and silver, realized decrease on monthly basis of 2.3% and 2.6%, respectively. In the same time, with the decrease in the prices of precious metals, the price of the nickel also decreased, and in May 2008 it registered fall of 10.5% relative to the previous month.

By the latest available data, in the first 5 months of 2008 net inflows from the foreign exchange operations were realized in amount of Euro 197.3 million, which represented fall of 26.5% relative to the first 5 months in the previous year. Relative to the simulations for the second quarter, in the period April-May 2008, 70% of the anticipated level were realized, which indicated that at the end of the second quarter a fulfillment of this assessment may be expected (by the projection of November, 54% of the projected level were realized). It should be emphasized that in May 2008 the foreign exchange market registered considerable improvement relative to the previous months (for the first time, growth rate of the purchased assets of 0.5% was registered, with simultaneous decrease in the growth rate of the sold assets of 14.6%), and the net purchase went down by 7.2% in May on annual basis (relative to the annual fall in April of 29.3%).

5. MONETARY AGGREGATES

In May 2008, the reserve money⁸ registered growth of 16% on annual basis (14.1% in the previous month), with annual growth in the currency in circulation and the total liquidity assets of banks of 6.8% and 20.9%, respectively. On monthly basis, the reserve money went down by 0.7%, which in conditions of growth in the currency in circulation (0.4%), was solely due to the decrease in the total banks' liquidity assets (of 4.1%). Analyzed with respect to the flows of creating and withdrawing liquidity, the monthly decrease in the reserve money was almost solely due to the withdrawn liquidity through the CB bills. Namely, in conditions of higher reference interest rate of NBRM⁹, higher demand for CB bills by the banks was

⁸ Includes the reserve requirements of foreign currency deposits. Without this component, the annual growth in the reserve money in May 2008 equaled 11.8%.

⁹ On May 7, 2008, NBRM increased the interest rate on CB bills from 6% to 7%. Considering the changes in the reference interest rate of NBRM, on June 12, 2008, the Council of NBRM adopted a Decision with which an adequate change has been made in the interest rate of the Lombard credit from 7.5% to 8.5%.

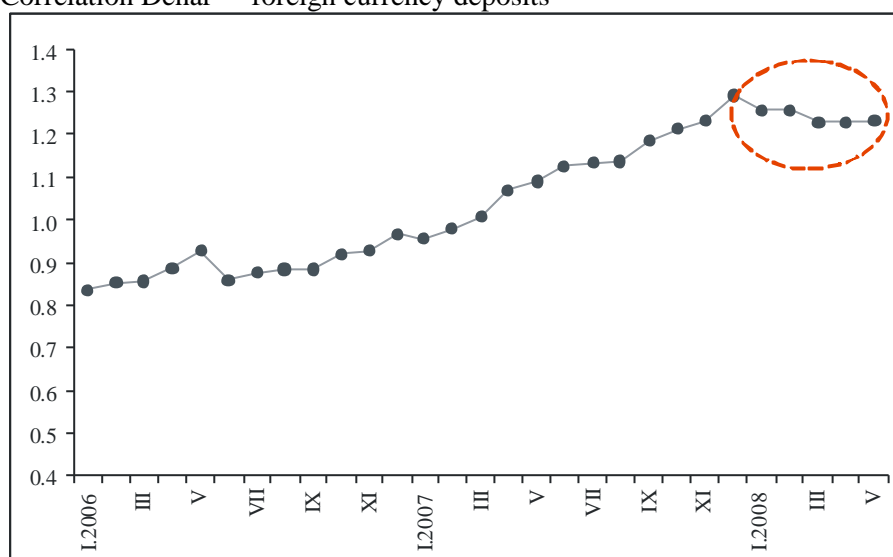
registered (by 18.5% on average, relative to the previous month), when total Denar 2,582 million were sterilized through this monetary instrument. The withdrawn liquidity on this basis was partially compensated with the Treasury bills for monetary purposes and the net position of the Government with NBRM. In the same time, in this month, for the first time since the beginning of the year, NBRM realized net purchase of foreign currencies in the foreign exchange market, acting towards creating reserve money.

On cumulative basis (January-May 2008), the foreign exchange transactions of NBRM and the net position of the Government with NBRM acted towards withdrawal of reserve money. Considering that only 47% of such withdrawn liquidity assets were compensated with emission through the monetary instruments, the reserve money decreased relative to the end of the previous year.

Relative to the projection on November for the end of the second quarter, the reserve money went down by 9%, as a combined effect of the lower net foreign exchange assets of NBRM (projected net purchase of foreign currencies in the first half of the year), as well as the higher net position of the Government with NBRM than the projected one. Such development adequately reflected on the dynamics of the monetary instruments, which acted towards emission of liquidity assets, opposite of the anticipated liquidity withdrawal. According to the simulation in April, the deviation in the reserve money was lower.

In May 2008, **the total banks' deposit potential** (excluding the deposit money) realized monthly growth of Denar 2,168 million, or by 1.6%, which was almost solely due to the higher saving of the corporative sector (monthly growth in the deposits of enterprises of 3.5%). The deposits of households realized growth of 0.5% on monthly basis, which was under the average growth in the first four months (1.1%). The new savings of households were solely denominated in foreign currency, whereas the Denar deposits registered fall on monthly basis. Characteristic for this month was that besides the households, the corporate sector also registered significant tendencies for saving in foreign currency (59.9% of the growth in the total deposits of households was due to the higher level of foreign currency deposits).

Figure 14
Correlation Denar* - foreign currency deposits



* Includes the deposit money.

Source: National Bank of the Republic of Macedonia.

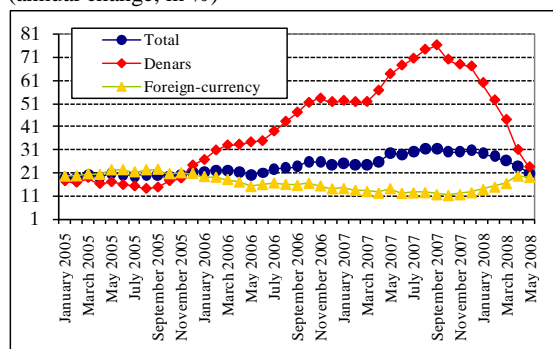
In accordance with such development, a considerable slowing down in the annual growth rate of the Denar deposit potential was registered, and in May 2008 it reduced to 26.8% (relative to 54.7%, on average in 2007), whereas the foreign currency deposits went up by

16.8% on annual basis (17.1% on average in 2007). With respect to the sectors, the annual growth in the deposits of households and of the corporate sector continued (of 20.8% and 19.3%, respectively), resulting in annual growth in the total deposit banks' potential of 21.2% (23.1% in the previous month).

Figure 15

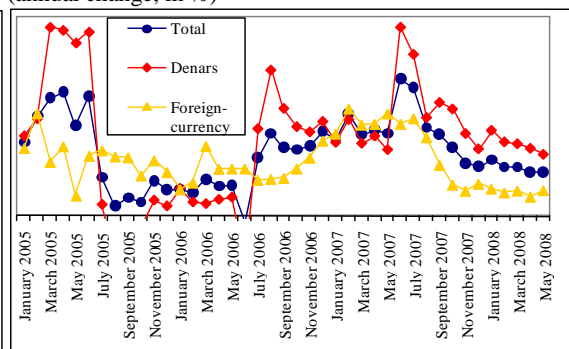
Deposits of household

(annual change, in %)



Deposits of enterprises

(annual change, in %)

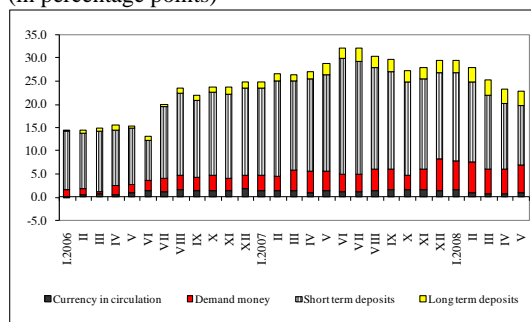
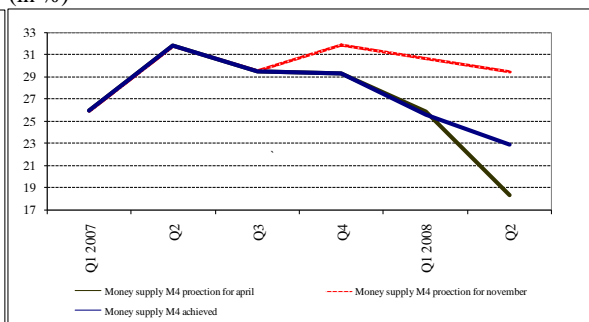


Source: National Bank of the Republic of Macedonia.

The performances with the total deposits adequately reflected on the dynamics of the **broadest money supply M4**. Thus, in May 2008, this monetary aggregate on annual basis rose by 22.9% (23.3% in the previous month) and relative to the projection in November for the second quarter registered negative deviation of 6.6 percentage points. With respect to the simulation in April, in conditions of unrealized assumption for payment of dividend of "Telecom" to the Government and repatriation of unpaid dividend to foreign investor, the annual growth rate of the broadest money supply in May 2008 was higher than the rate projected for the end of the second quarter by 4.5 percentage points. Under assumption of maintaining the current growth dynamics of the deposit of households and of enterprises and of realizing the payments based on the abovementioned dividends in June, it is possible for the money supply to be lower than the anticipations for June.

Figure 16

Money supply M4

Contribution to the annual growth
(in percentage points)Annual growth rates*
(in %)

* The realization in the second quarter pertains to May 2008.

Source: National Bank of the Republic of Macedonia.

6. BANK CREDITS

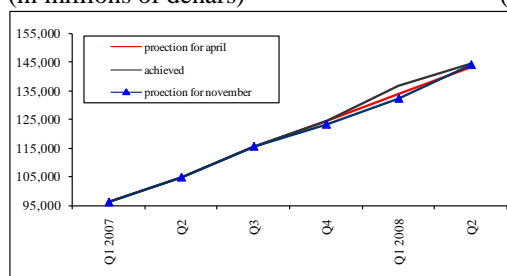
In May 2008, slowing down in the dynamics of the credit growth was registered. Thus, **the total banks' credits to the private sector** on monthly basis rose by 2.1%, relative to the growth by 3.5% from the previous month. Such developments resulted from the lower volume of placed credits to the corporate sector, whereas the demand for credits by households still

maintains the high level. Namely, 61.9% of the monthly growth in the total credits in May was due to the higher level of credits to households, which on monthly basis realized growth of 3.4% (3.5% in the previous month). In May 2008, the monthly growth rate of the total credits to the enterprises equaled 1.3% and it was considerably under the monthly growth registered in the previous month (3.5%).

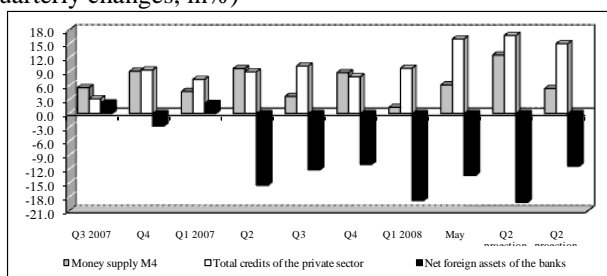
In such conditions, the annual growth rate of the total banks' credits to the private sector in May 2008 amounted to 43.4% (44.1% in April 2008), with registered growth in the credits to the households and to enterprises of 56% and 36%, respectively. The credits to enterprises gave more significant contribution of 52.8% to the annual growth in the total credits. Relative to the projection for the second quarter (in November 2007), the level of overall credits registered positive deviation of 0.5%, and relative to the simulation in April they rose by 0.9%, which mainly indicated fast credit growth and exceeding the expectations for the end of June.

Figure 17

Credits to the private sectors*
(in millions of denars)



Sources of financing
(quarterly changes, in%)* *



* The realization in the second quarter pertains to May 2008.

* * The realization in May and the projections for the second quarter are cumulative changes registered in the beginning of the year.

Source: National Bank of the Republic of Macedonia.

Considering the fast growth in the credits to the households and its influence on the deepening in the trade deficit, on 12.06.2008, the NBRM Council adopted a Decision which restricted the credit growth in the households, so the banks which would exceed the limits shall allocate a compulsory deposit with NBRM in the exceeding amount. This measure is expected to reduce the pressures of crediting the sector "households" on the worsening in the external position of the economy, and the slowing down in the growth certainly creates room for more adequate management of the credit risk within this credit segment.

In May 2008, **the net foreign exchange assets of banks** registered growth, on monthly basis, by Denar 100 million, or by 0.8%, which in conditions of decrease in the foreign exchange assets of banks (by Denar 980 million, or by 2.8%), was due to the lower level of foreign exchange liabilities of banks (by Denar 1,080 million, or by 5%). Relative to the end of 2007, the net foreign exchange assets of banks went down by Denar 2,060 million, or by 13.3%. By the projection in November, its level was higher by 5.6% than the projected level for June, and it was close to the level envisaged for June with the simulation for April.

7. INTEREST RATES AND FOREIGN EXCHANGE RATE

On June 11, 2008 and June 18, 2008, the auctions of CB bills were held, with volume tender and reference rate 7%, so liquidity assets in amount of Denar 55 million were created in the banking sector. On 31.05.2008, **the gross foreign reserves** amounted to Euro 1,509.9 million. Since the beginning of 2008, net purchase of foreign currencies was realized by NBRM in amount of Euro 7 million in May.

On 17.06.2008, an auction of twelve month Treasury bills was held, with volume tender (restricted price), when the interest rate rose to 7.3% (by 0.8 percentage points relative to the previous auction). In the same time, an auction of three month Treasury bills was held, when the demand was lower than the supply, in conditions of determined interest rate at the level of 7.1%. On the last auction on six month Treasury bills (dated 03.06.2008) with volume tender (restricted price), the interest rate rose to 7.2% (by 0.9 percentage points relative to the previous auction). The average **inter-bank interest rate** in the bilateral trading of banks in the period 01-11.06.2008 equaled 4.3% on average for landings on a daily basis, which represented growth relative to the average in May (of 4.1%).

Figure 18
Interest rates
(in %)

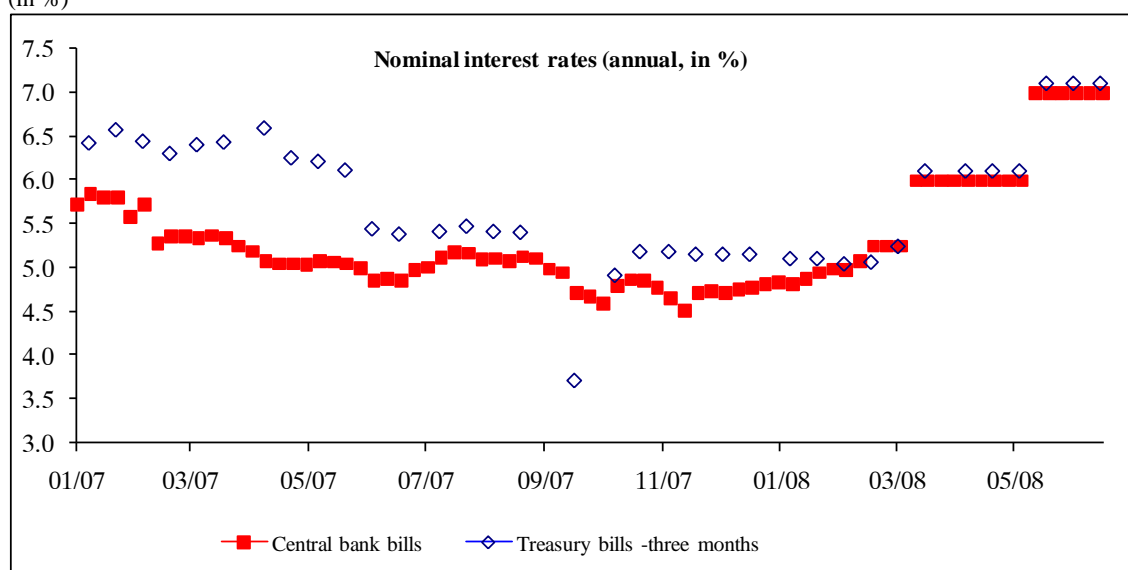
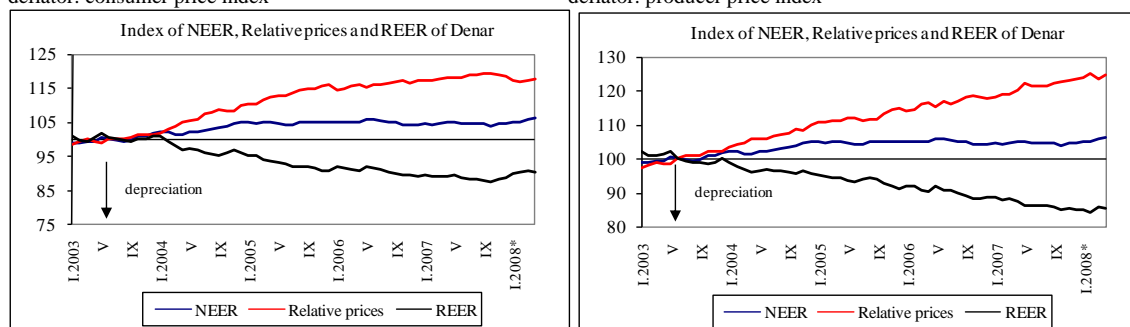


Figure 19

Index of NEER, relative prices and index of REER of the Denar

deflator: consumer price index

deflator: producer price index



Source: NBRM, IMF-IFS for April 2008 and SSO of the Republic of Macedonia.

For those countries for which there are no IFS data, the information are from the web sites of the adequate central banks, statistical offices and EUROSTAT.

ANNEX

Table 1
Consumer Price, May 2008

	change in %			contribution to change in percentage points		
	<u>V.2008</u> IV.2008	<u>V.2008</u> V.2007	<u>I-V.2008</u> I-V.2008	<u>V.2008</u> IV.2008	<u>V.2008</u> V.2007	<u>I-V.2008</u> I-V.2008
Consumer prices	0.2	9.5	9.6	0.2	9.5	9.6
Food	-0.3	18.4	19.3	-0.11	7.04	7.38
Grain products	0.4	26.8	26.9	0.03	1.99	2.00
Fresh and processed vegetables	-7.5	12.1	28.8	-0.42	0.68	1.62
Fresh and processed fruits	4.2	34.6	26.6	0.13	1.05	0.81
Meat and poultry	0.2	7.4	7.0	0.01	0.56	0.53
Fresh and cooked fish	0.9	6.4	5.1	0.01	0.06	0.05
Dairy products	1.2	22.6	20.3	0.07	1.30	1.17
Eggs	1.6	17.6	12.0	0.02	0.22	0.15
Oils and fats	1.9	56.5	48.5	0.04	1.19	1.02
Tobacco and beverages	0.2	3.6	3.9	0.01	0.19	0.21
Clothing and footwear	1.5	4.1	2.3	0.12	0.32	0.18
Housing	0.0	3.3	3.5	0.00	0.50	0.53
Flat (rent, water and other services)	0.5	4.6	6.8	0.02	0.17	0.25
Fuel and lighting	-0.2	3.5	3.1	-0.02	0.31	0.28
Heating and services	-0.7	10.5	7.1	-0.02	0.32	0.22
Electric power	0.0	0.0	1.0	0.00	0.00	0.06
Hygiene and health	-0.1	1.1	1.3	-0.01	0.09	0.11
Culture and entertainment	-1.0	0.0	0.1	-0.06	0.00	0.01
Transport and communication services	1.7	5.7	4.6	0.24	0.81	0.66
Public transport services & PTT	5.3	21.8	18.7	0.20	0.83	0.71
Fuels and lubricants	0.3	-4.4	-5.3	0.02	-0.27	-0.32
Restaurants and hotels	0.5	11.9	11.8	0.03	0.61	0.60
	0.4	2.0	10.2	0.00	0.01	0.03

Source: State Statistical Office of the Republic of Macedonia.

Table 2
Basic inflation, productivity and wages

(annual rates, %)	2006	2007	2007				2008	Latest months		
			Q1	Q2	Q3	Q4	Q1	Mar-08	Apr-08	May-08
Inflation (CPI)	3.2	2.3	0.7	1.1	2.4	4.9	9.5	10.2	10.1	9.5
Core inflation (excluding food and energy)	1.1	0.7	0.2	0.8	1.1	1.2	2.8	2.7	2.6	2.8
Regulated prices	5.7	3.3	4.2	3.0	2.0	4.1	7.4	8.7	7.6	9.0
Producer prices of industrial products	4.5	1.6	1.0	1.2	1.6	4.1	10.5	11.7	10.7	14.4
Productivity	0.5	2.4	4.3	0.8	1.2	3.4	-	-	-	-
Nominal net-wage	7.3	7.9	5.7	6.4	7.5	11.8	10.5	10.4	-	-
Real net-wage	4.0	5.5	5.0	5.3	5.0	6.6	1.0	0.2	-	-

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

Table 3
Industrial output and other economic activities

(annual rates, %)	2006	2007	2007				2008	Latest months		
			Q1	Q2	Q3	Q4	Q1	feb.08	mar.08	apr.08
Gross domestic product	4.0	5.1	6.8	4.3	4.2	5.2	-	-	-	-
Industrial output	2.5	3.7	11.6	-2.8	1.1	6.2	5.8	6.9	-1.4	6.2
Construction	-12.3	7.6	9.4	-18.6	18.0	23.3	32.5	25.0	17.6	-
Retail and wholesale trade	2.5	24.2	25.1	17.2	21.2	32.8	29.2	27.4	22.1	-
Telecommunications	-1.0	15.6	11.1	17.1	15.9	18.1	12.8	15.4	6.5	-

Source: State Statistical Office of the Republic of Macedonia.

Table 4
Selected industrial branches

(годишни промени, %)	2006	2007	2007				2008	Apr.08	
			Q1	Q2	Q3	Q4		% change	impact (p.p.)
Minig and quarrying	28.0	9.8	13.9	16.2	15.4	-3.3	11.9	9.0	0.4
Manufacture of food products and beverages	0.1	7.7	12.0	0.6	9.5	9.6	5.3	4.4	0.7
Manufacture of tobacco products	5.5	-0.8	19.0	-14.4	-16.8	41.1	13.8	34.2	1.4
Manufacture of wearing apparel	-3.7	-14.5	-4.6	-19.8	-17.9	-14.2	-16.5	-17.8	-1.6
Manufacture of refined petroleum products	12.3	-2.4	20.6	-11.1	1.3	-16.8	3.3	-16.6	-0.9
Manufacture of other non-metallic minerals	14.0	3.8	51.5	4.2	-2.6	-15.9	-10.9	-7.1	-0.8
Manufacture of basic metals	11.8	34.3	57.4	35.2	25.3	26.7	9.5	7.1	1.2
Manufacture of fabricated metal products	5.7	45.6	6.0	5.4	51.7	112.0	29.7	5.6	0.2
Manufacture of machinery and equipment	3.7	-24.4	-45.1	-37.4	-12.3	1.0	45.6	93.2	1.2
Recycling	12.8	-35.6	20.7	-57.5	-88.5	-4.2	105.6	233.4	1.2
Electricity, gas, steam and hot water	-0.6	-9.5	-9.1	-20.8	-8.7	-1.1	-0.8	-5.2	-0.6

Source: State Statistical Office of the Republic of Macedonia.

Table 5
Balance of payments ^{1/3}
(in millions of euros)

in millions of euros)																				
	2007												2007	2007	2008				2008	2008
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	Q1	Q2	I	II	III	Q1	Q2	
I. Current account	-4.4	6.0	39.4	-0.2	45.9	5.3	-21.1	67.7	-38.2	-37.2	-99.6	-134.5	41.0	-170.9	-35.3	-76.3	-76.5	-188.1	-188.1	
GOODS, net	-81.1	-74.5	-55.5	-83.6	-56.1	-68.0	-125.1	-64.5	-108.8	-136.1	-152.5	-167.2	-211.0	-1,172.8	-115.1	-131.3	-124.2	-370.7	-370.7	
Export, f.o.b	160.5	175.7	222.5	200.5	212.0	229.3	196.4	214.4	194.3	215.5	208.1	212.4	558.7	2,441.5	181.7	214.9	214.8	611.5	611.5	
Import, f.o.b /2	-241.6	-250.2	-277.9	-284.1	-268.1	-297.3	-321.5	-278.9	-303.1	-351.6	-360.6	-379.5	-769.7	-3,614.3	-296.9	-346.3	-339.0	-982.2	-982.2	
SERVICES, net	-2.0	1.0	-0.1	1.3	-0.6	0.4	5.5	7.6	10.3	9.9	-0.6	-6.9	-1.2	25.5	8.7	-6.5	-3.9	-0.6	-0.6	
INCOME, net /5	10.2	8.6	10.9	-7.3	13.2	-15.0	-21.0	11.7	-28.4	5.0	-17.0	-4.2	29.7	-33.4	10.7	1.6	-4.9	7.4	7.4	
of which: interest, net	-0.2	-1.7	-0.1	-1.5	0.1	-3.8	0.0	1.1	-3.6	-2.2	-0.2	-5.9	-2.0	-17.9	0.3	-2.2	-5.1	-7.0	-7.0	
CURRENT TRANSFERS, net	68.5	70.9	84.0	89.4	87.9	119.5	112.9	88.7	84.1	70.5	43.8	223.5	1,009.8	60.4	58.9	56.5	175.8	175.8	175.8	
Official	3.2	1.5	3.9	5.4	5.9	5.8	5.2	2.2	3.3	3.1	8.1	-23.6	8.6	23.9	0.5	4.4	2.7	7.7	7.7	
Private	65.3	69.5	80.1	84.0	83.5	114.3	110.7	85.5	81.0	67.3	35.7	247.1	985.8	59.9	58.4	54.5	153.8	168.1	168.1	
II. Capital and financial account	3.4	-8.9	-37.5	2.8	-41.1	-8.6	30.3	-59.8	38.3	38.6	102.1	134.5	-42.9	194.3	39.4	77.9	83.5	200.8	200.8	
CAPITAL ACCOUNT, net	-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	1.3	-0.3	-0.3	-0.3	-1.0	-1.0	
Capital transfers, net	-1.2	0.1	-0.2	0.6	0.3	0.6	1.1	-0.2	-0.3	0.0	-0.3	-1.6	-1.3	-1.1	-0.3	-0.3	-0.3	-1.0	-1.0	
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	0.0	0.0	0.0	0.0	0.0	
Drugi	-1.2	0.1	-0.2	0.6	0.3	0.6	1.1	-0.2	-0.3	0.0	-0.3	-1.6	-1.3	-1.1	-0.3	-0.3	-0.3	-1.0	-1.0	
acquisition/disposal of non-produced	0.0	0.0	0.0	0.0	0.0	0.0	3.1	0.0	0.0	-0.1	-0.5	0.0	0.0	2.4	0.0	0.0	0.0	0.0	0.0	
FINANCIAL ACCOUNT, net	4.7	-9.0	-37.3	2.3	-41.4	-9.2	26.1	-59.6	38.6	38.7	102.9	136.1	-41.6	192.9	39.7	78.2	83.8	201.8	201.8	
Direct investments, net	3.8	7.8	8.4	44.5	21.0	-1.6	25.2	-5.6	20.8	34.9	55.6	25.3	20.1	240.1	35.6	61.4	31.1	128.0	128.0	
Portfolio investments, net	12.2	-7.6	16.0	25.9	16.7	3.0	6.2	8.8	9.5	24.3	0.3	-4.4	20.5	110.8	-0.9	-3.4	-3.9	-8.3	-8.3	
Other investments, net	-38.4	-21.7	-27.3	-21.9	-69.4	-55.4	25.2	-27.5	44.0	5.2	46.4	84.5	-87.5	-56.3	-1.4	32.2	43.3	74.0	74.0	
Trade credits, net	-3.1	6.9	-37.5	5.0	-56.9	-13.2	45.3	-34.4	-9.3	18.9	20.0	24.5	-33.6	-33.5	-4.9	1.3	2.7	-0.9	-0.9	
Loans, net	-42.3	-15.8	15.9	-23.0	-14.8	-87.0	7.0	6.4	-0.8	22.2	11.8	12.7	-42.3	-107.7	0.1	8.9	-8.3	0.7	0.7	
Currency and deposits, net	5.9	-14.3	-8.3	-10.7	-0.6	31.4	-29.0	-2.7	44.5	-40.0	11.9	17.9	-16.8	5.9	-4.0	19.7	45.3	61.0	61.0	
of which : monetary authorities, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	0.2	0.0	0.0	-0.2	7.4	0.1	3.2	10.7	10.7	
commercial banks, net	3.7	-8.2	0.7	-1.6	4.9	37.9	-22.1	-1.6	50.6	-34.2	19.8	18.6	-3.8	68.4	-9.4	19.4	37.4	47.4	47.4	
other sectors, net	2.2	-6.1	-9.0	-9.1	-5.4	-6.4	-6.9	-1.1	-6.0	-5.6	-8.2	-0.7	-12.9	-62.3	-1.9	0.1	4.7	2.9	2.9	
Others, net	1.2	1.4	2.6	6.7	2.8	13.3	1.9	3.2	9.5	4.1	2.7	29.5	5.2	78.9	7.3	2.3	3.5	13.2	13.2	
Gross official reserves, (- = increase) /4	27.1	12.6	-34.4	-46.3	-9.8	44.8	-30.5	-35.3	-35.6	-25.7	0.6	30.7	5.3	-101.8	6.5	-11.9	13.4	8.0	8.0	
III. Errors and omissions	1.0	2.9	-1.9	-2.6	-4.8	3.3	-9.2	-7.9	-0.1	-1.5	-2.5	0.0	2.0	-23.4	-4.1	-1.7	-7.0	-12.8	-12.8	

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

5/ Accrued interest on foreign securities is included under income since January 2008.

Source: National bank of the Republic of Macedonia.

Table 6
Foreign trade

	IV.2008		I-IV.2008		IV.2008		IV.2008		I-IV.2008	
					III.2008		IV.2007		I-IV.2007	
	amount		amount	%	amount	%	amount	%	amount	%
Total trade	608.8	2,275.2	22.6	3.8	113.1	22.8	417.1	22.4		
Export	228.4	840.6	13.6	6.3	26.9	13.4	79.7	10.5		
Import	380.4	1,434.6	9.0	2.4	86.2	29.3	337.4	30.7		
Balance	-151.9	-593.9	4.6	-2.9	-59.3	63.9	-257.7	76.6		

Source: State Statistical Office of the Republic of Macedonia.

Table 7
Monetary developments in May 2008

	31.12.2006	31.12.2007	31.03.2008	30.04.2008	31.05.2008	monthly changes (31.05.2008/ 30.04.2008)		annual changes (31.05.2008/ 30.04.2008)
<i>in Denar million</i>	actual	actual	actual	actual	actual	in Denar million	in %	in %
Brtoad money M4	135,641	175,553	178,277	182,847	186,789	3,942	2.2	23.1
Currency in circulation	16,206	17,927	15,746	16,347	16,408	61	0.4	6.8
Denar deposits ¹	58,997	89,077	90,102	92,226	94,482	2,256	2.4	32.2
Foreign currency deposits	60,438	68,549	72,429	74,274	75,899	1,625	2.2	16.8
Total deposits	119,435	157,626	162,531	166,500	170,381	3,881	2.3	24.9
Reserve money ²	31,264	37,586	34,223	35,769	35,504	-265	-0.7	16.0

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

² Including reserve requirement in foreign currency.

	31.12.2006	31.12.2007	31.03.2008	30.04.2008	31.05.2008	monthly changes (31.05.2008/ 30.04.2008)		annual changes (31.05.2008/ 30.04.2008)
<i>in Denar million</i>	actual	actual	actual	actual	actual	in Denar million	in %	in %
Credit to the private sector	89,782	124,875	137,050	141,870	144,910	3,040	2.1	43.4
In Denar	66,413	94,496	105,345	108,946	111,484	2,538	2.3	48.1
In Foreign currency	23,369	30,379	31,705	32,924	33,426	502	1.5	29.7
Banks' net foreign assets	22,926	15,459	12,550	13,288	13,388	100	0.8	-36.2

Source: National Bank of the Republic of Macedonia.

Table 8
Monetary aggregates
(in %)

<i>in %</i>	end of period to the end of previous period					y - o - y							
	2007				2008	2006	2007				2008		
	Q1	Q2	Q3	Q4	Q1		Q1	Q2	Q3	Q4	Q1	April	May
M0	-6.1	8.5	2.2	15.5	-8.9	21.4	18.9	18.2	18.9	20.2	16.6	14.1	16
M1	-1.4	6.0	8.3	16.3	-6.9	17.1	22.5	18.0	22.6	31.7	24.4	24.1	28.2
M4	4.7	9.7	3.7	8.8	1.3	24.9	26.4	32.2	29.9	29.5	25.3	23.3	22.9
M4-denar	5.1	14.1	5.9	12.2	-1.5	30.8	33.1	44.3	43.8	42.6	33.6	28.5	27.4

Source: National Bank of the Republic of Macedonia.

Table 9
Deposits of the private sector
(in millions of denars)

in millions of denars)

		Balance as of 31.05.2008	monthly changes		annual changes	
			in Denar million	in %	in Denar million	in %
Total deposits		139,697	2,168	1.6	24,409	21.2
In Denar	Households	36,304	-309	-0.8	6,943	23.6
	Enterprises	23,946	597	2.6	5,033	26.6
	Total	63,798	543	0.9	13,466	26.8
In Foreign currency	Households	56,031	739	1.3	8,969	19.1
	Enterprises	19,687	891	4.7	2,037	11.5
	Total	75,899	1,625	2.2	10,943	16.8
Total households deposits		92,335	430	0.5	15,912	20.8
Total enterprises deposits		43,633	1,488	3.5	7,070	19.3

* the Denar deposits do not include the deposit money.

Source: National Bank of the Republic of Macedonia.

Table 10
Credits to the private sector
(in millions of denars)

		Balance as of 31.05.2008	monthly changes		annual changes	
			in Denar million	in %	in Denar million	in %
Total credit to the private sector		144,910	3,040	2.1	43,853	43.4
In Denar	Households	53,825	1,547	3.0	19,068	54.9
	Enterprises	57,363	989	1.8	16,947	41.9
	Total	111,484	2,538	2.3	36,196	48.1
In Foreign currency	Households	3,315	335	11.2	1,446	77.4
	Enterprises	30,092	168	0.6	6,198	25.9
	Total	33,426	502	1.5	7,657	29.7
Total credit to the households		57,140	1,882	3.4	20,514	56.0
Total credit to the enterprises		87,455	1,157	1.3	23,145	36.0

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	March	April	May
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	29.9	29.6	29.9
	Long-term	75.0	75.2	75.6	74.9	73.2	72.3	70.8	70.8	70.2	70.1	70.1	70.4	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	48.4	49.1	51.2
	Overdrafts	63.9	68.1	84.9	103.7	125.2	136.9	131.4	112.3	93.1	96.1	89.6	82.1	75.8
	Credits for other purposes	32.6	26.8	26.0	31.0	33.9	38.8	45.5	48.7	51.0	53.5	53.2	52.3	49.6

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	March	April	May
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	44.9	45.0	44.7
	Long-term	45.6	46.2	49.0	51.4	52.9	54.0	53.8	56.1	55.5	54.7	55.1	55.0	55.3
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	27.0	31.5	30.7
	Long-term	36.1	34.0	30.8	41.1	45.7	44.6	45.8	41.6	40.9	38.0	38.4	40.5	40.6
	In Denar	3.4	14.3	14.2	21.3	22.6	20.2	32.9	29.9	30.2	33.6	37.4	40.7	41.9
	In Foreign currency	42.0	38.5	31.0	32.4	31.4	30.2	32.6	29.4	32.2	28.8	25.6	28.8	25.9

Source: National Bank of the Republic of Macedonia.

Table 13
Liquidity creation and withdrawal

	31.12.2007	31.05.2008	19.06.2008	cumulatively I - V, 2008	19.06.2008 / 31.05.2008
<i>in millions of denars</i>	balance			flow	
Bank's liquidity (bank's account with NBRM)	10,415	8,267	9,306	-2,148	1,039
Autonomous factors (total)	84,009	76,463	78,702	-4,600	929
Currency in circulation	17,969	16,456	16,819	1,513	-363
Foreign exchange transactions of the NBRM	73,958	71,909	72,119	-2,049	210
Government denars deposits with NBRM	-9,842	-13,866	-12,492	-4,024	1,374
Bank's cash in valuts	1,924	1,964	2,256	-40	-292
Monetary instruments:	-25,555	-23,324	-23,138	2,231	186
CB bills auctions	-20,995	-23,193	-23,138	-2,198	55
Treasury bills for monetary policy purposes	-4,560	-131	0	4,429	131
Other items	-8,253	-8,032	-8,108	221	-76

* Last available data on 19.06.2008.

Source: National Bank of the Republic of Macedonia.

Table 14
Interest rates

	May 2008	monthly changes	annual changes
	in %	in percentage points	
Average weighted interest rate on the CB bills auctions (28 days)	6.8	0.8	1.8
Average weighted interest rate on the Money Market	4.2	0.5	0.5
Interest rate on three-month treasury bills	6.7	0.6	0.5
	April 2008	monthly changes	annual changes
	in %	in percentage points	
Banks' weighted lending interest rates	9.7	0.0	-0.8
Banks' weighted deposit interest rates	5.5	-0.1	0.8

Source: National Bank of the Republic of Macedonia.