

National Bank of the Republic of Macedonia
Research Department



Monthly Report 8 / 2008

September, 2008

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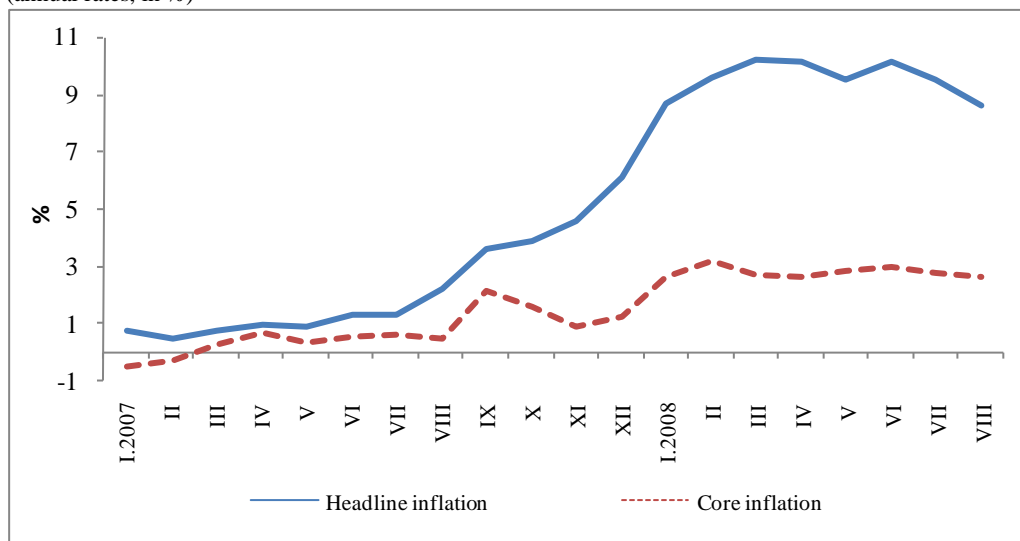
* The Monthly information includes analysis based on the available data as of September 20, 2008.

1. PRICES

In August, the price level in the Republic of Macedonia, second month in a row, registers monthly decrease (of 0.2%). In August 2008, the seasonally lower prices of the agricultural products (especially of the fresh fruits and vegetables), the fall in the prices of oil for cooking and the pastries and the fall in the price of oil derivatives (in accordance with the international developments of the crude oil) were the main reasons for the decrease in the global level of consumer prices. Such developments neutralized the effect from the increase in the prices in the category of heating and services (which was mainly due to the prices of the thermal energy), which gave positive contribution of 0.5 p.p. The annual growth in the prices equaled 8.6% in August, and it represented considerable slowing down relative to the previous month (9.5%) reflecting mainly the higher comparison basis (more intensive growth in the prices of food started in August 2007). Such changes resulted in slowing down in the cumulative growth in the prices also, which reduced to 9.5%, opposite to the level of about 9.7% in the previous period of few months. However, 74% of the cumulative growth in the prices still reflected the higher prices of food, whereas the joint contribution of the prices of food and oil derivatives to the inflation amounted to about 86%.

The annual **core inflation rate** also continued to slow down (inflation without food and energy), and in August 2008 it equaled 2.7% (opposite to 2.8% in July). The positive developments in the core inflation were mainly due to lower growth in the prices of personal articles, as well as to the fall in the prices of telecommunication services and of means of education.

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

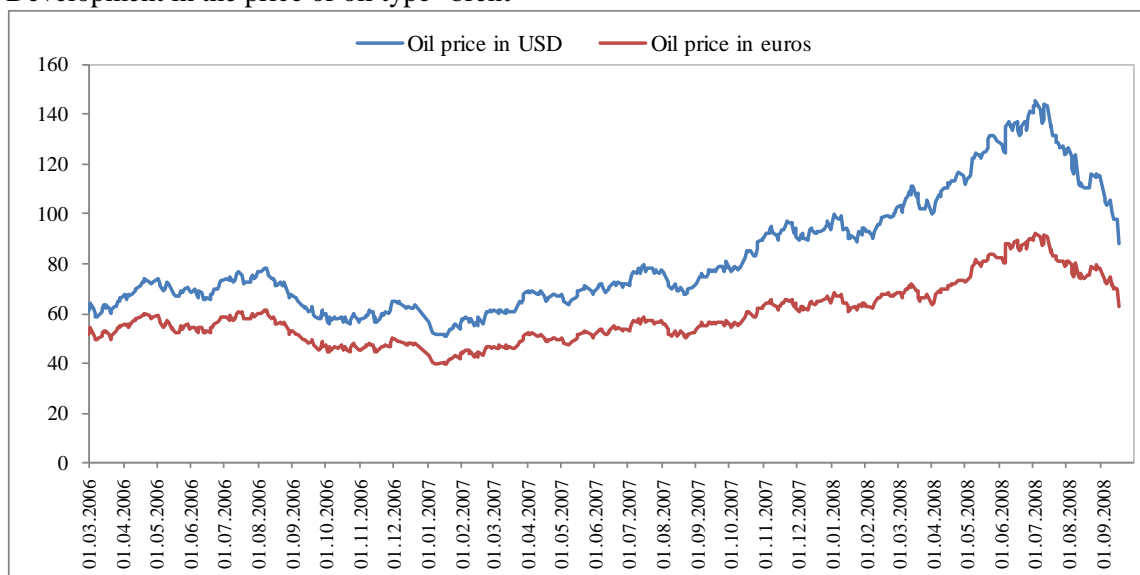


Source: State Statistical Office of the Republic of Macedonia and NBRM.

After the historically lowest level in July, **the price of the crude oil** in the international stock exchanges registered slowing down in August 2008. Thus, the average price of the oil type "brent" equaled USA Dollar 113.24 per barrel, which was by 14.7% lower than the average price

in July. The lower demand for oil derivatives in USA and in the countries of OECD, the appreciation of the USA Dollar, the assessments for increased output of OPEK (which was due to no damages occurred as a result of the hurricanes in the Mexican Gulf, typical for this period of the year¹) were the main factors for the developments in the price of the crude oil in August. The price of the oil continued to decrease and in the last two week period (September 1 - September 12, 2008), when daily price under USA Dollar 100 per barrel was registered (after six and a half months), when the average price reduced to USA Dollar 102.1 per barrel (which was by 9.8% higher level then in the previous two weeks). The newest fall in the price was due to the announcement that the refineries on the coast of the Mexican Gulf did not suffer larger damages from the hurricane, the continuous decrease in the demand for oil in USA, as well as the further strengthening of the USA Dollar. On the last meeting, OPEK adopted a decision on decreasing the daily output of oil by 520.000 barrels, and on maintaining the current level of the quotas. In accordance with such developments (with appreciation of the USA Dollar relative to the Denar by 2.8% being registered), the Energy Regulatory Committee, on the session dated September 15, 2008, adopted a decision on decreasing the retail prices of oil derivatives by 5.4%, on average.

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



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

The realized annual inflation rate in August and the average inflation rate in the first eight months of 2008 were somewhat lower than those envisaged with the revised projection (August 2008), so continuing of the initiated downward trend in the annual and average inflation rate was expected for the end of the year. The uncertainty about the further development in the prices of oil and food in the international stock exchanges and their influence on the domestic prices still represented the main external risks concerning the inflation. So far, the downward trend in the prices of oil in the international stock exchanges is still present, and the prices of food are relatively stable. Also, the uncertainty about the size of the upward correction of price of the electricity represented domestic risk factor.

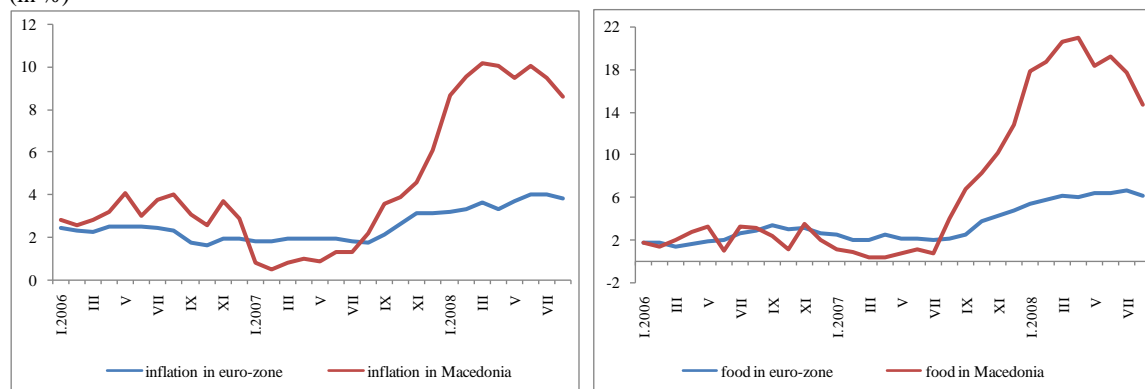
¹ The Energy Information Administration - statistical agency of the U.S. Department of Energy, Oil marketer and Oil market report.

In August 2008, slowing down in the **annual inflation rate in the Euro-zone²** was registered, which reduced to 3.8% (by 0.2 p.p. lower than the inflation in July). The slower dynamics in the annual inflation was mainly due to the relative stabilization in the price of oil in the international market. However, the growth in the prices of fuels and oil for households, the prices of food (diary products, cereals, eggs) and the prices of gas, under the influence of the global trends and the lower comparison basis, still most significantly contributed to the inflation. Deflationary influences were registered from the lower prices in the telecommunication services, wearing apparel, car vehicles and the rent.

Figure 3

Annual inflation rates and prices of food in the Euro-zone and in Macedonia

(in %)



Source: EUROSTAT and SSO.

2. WAGES

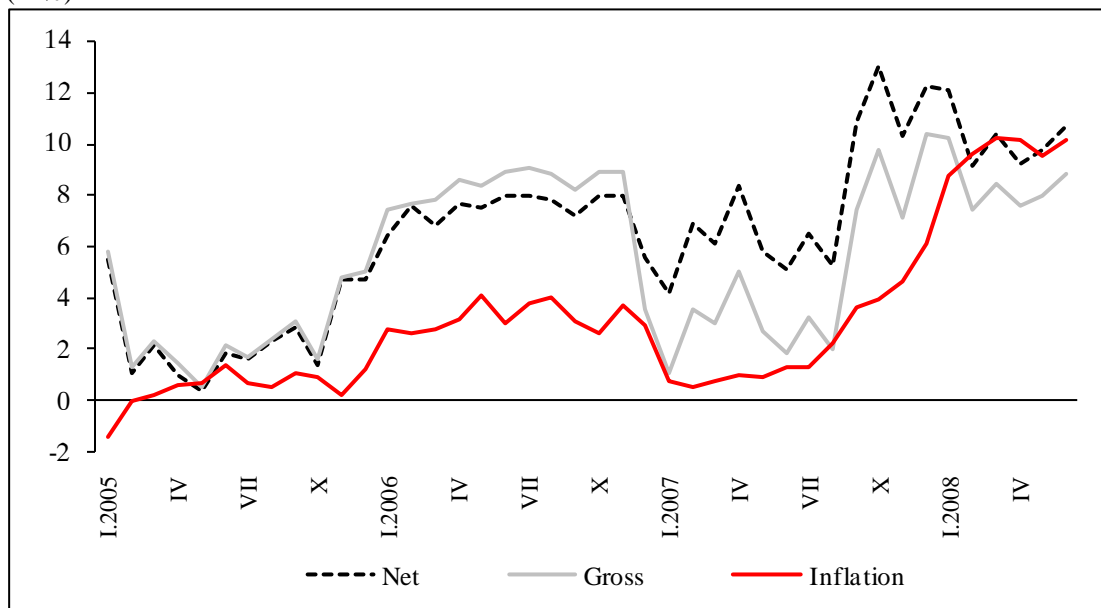
In June, the **average paid wage** (net and gross) registered small monthly nominal growth (of 0.2%). The inflation stabilization, on monthly basis, (in June 0.3%) and the low nominal growth in the wages resulted in real monthly decrease in the wages (of 0.1%). Compared to the paid average wage at the end of 2007, the net and gross wages in June went up by 1.4% and 0.9%, respectively, on nominal basis, which indicated lower growth in the wages in 2008 and lower pressure on the inflation developments. However, due to the lower comparison basis, the annual growth in the wages maintained the high level, and consequently the pressure on the annual inflation rate. Thus, in June, the nominal annual growth in the net and gross wage equaled 10.7% and 8.8%, respectively³. Corrected for the inflation, the annual real change in the net wage was positive (0.5%), whereas the real change in the gross wage maintained the trend⁴ of negative rates (real fall of 1.1%).

² Estimated data.

³ The lower growth rate in the gross wages was due to the fall in the rate of personal income tax in January 2008.

⁴ Since February 2008, the annual real change in the gross wages is negative.

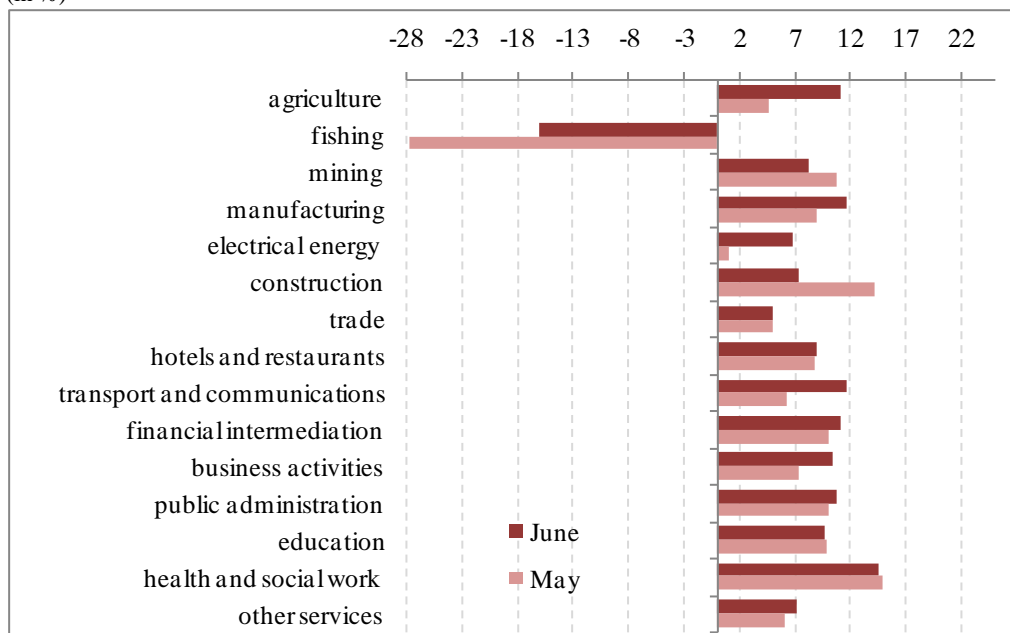
Figure 4
Annual growth rates in the wages and inflation
(in %)



Source: State Statistical Office of the Republic of Macedonia.

The analysis of the annual growth in the wages by individual activities indicated maintenance of relatively high growth rates of wages in the public sector (health care, public administration and education, as a reflection of the lower comparison basis in the first half of 2007). However, in June 2008 indications for higher annual growth in the wages were registered in individual activities of the private sector (in the industry, telecommunication sector, the sector of financial intermediation, agriculture and in the sector of business activities).

Figure 5
Annual growth in the average net wage, by sectors
 (in %)



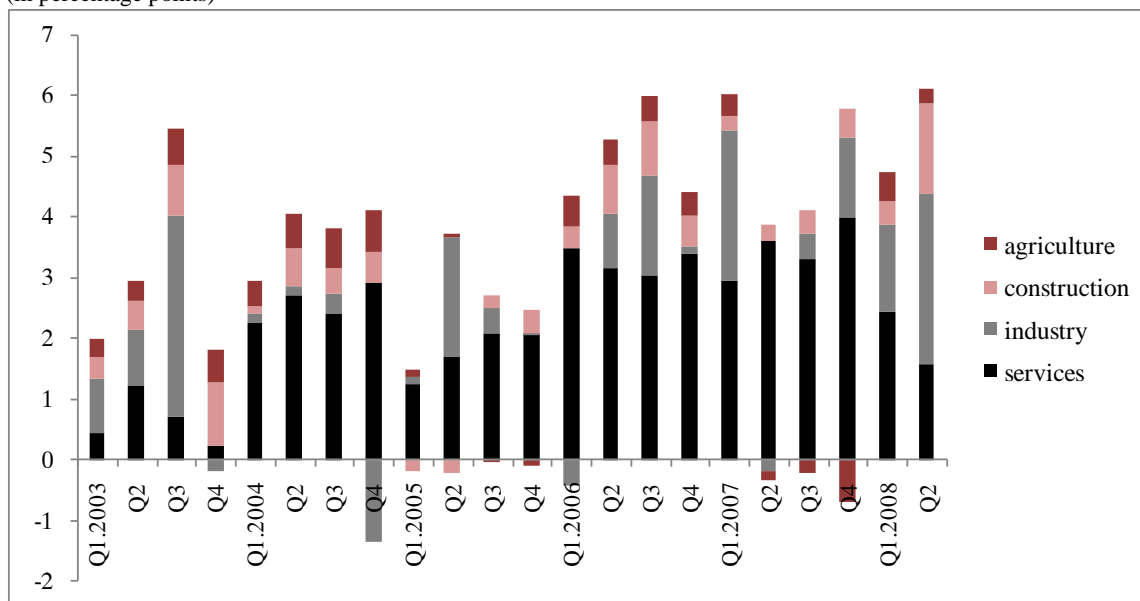
Source: State Statistical Office of the Republic of Macedonia.

3. ECONOMIC ACTIVITY

By the latest GDP data, in the second quarter of 2008⁵ the economic growth intensified, reaching 6.5% on annual basis. The realized growth rate in the second quarter exceeded the expectations (about 5.5%). The main carrier of the economic growth in the second quarter of the year was the industrial sector, where real growth in the output of 12.6% was registered (opposite to the fall of 0.8% in the same quarter of the last year), which represented contribution of 43% to the GDP growth. Besides the industry, the construction significantly contributed to the growth with 23%, where the value added rose by significant 23.2% relative to the same period of 2007. In the second quarter of 2008, the agriculture registered growth of 3%, relative to the fall in the same quarter of the previous year of 1.5%.

⁵ By the latest GDP data by SSO, in the real annual growth in the first quarter of the year upward correction from 5.2% to 5.4% was made.

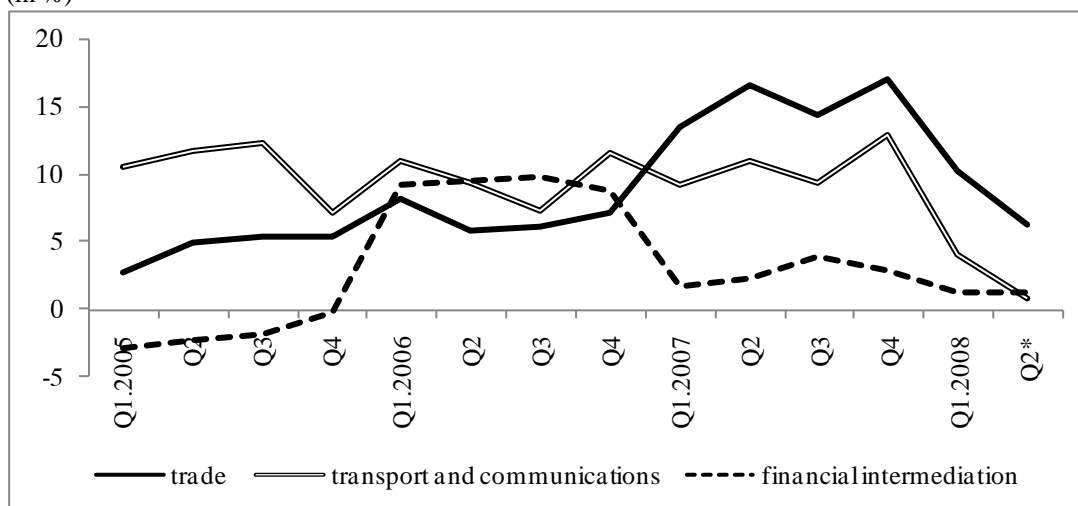
Figure 6
Contribution of individual sectors in the economy to GDP creation
(in percentage points)



Source: State Statistical Office of the Republic of Macedonia.

The solid performances of the industrial sector and construction sector, for the first time in a longer period, relativized the significance of the sector "services", which in the second quarter contributed with 22% to the total real economy growth. This came as a result of the lower level of growth in the trade, the transport and communications, as well as in the financial sector.

Figure 7
Real growth rates in individual service activities
(in %)



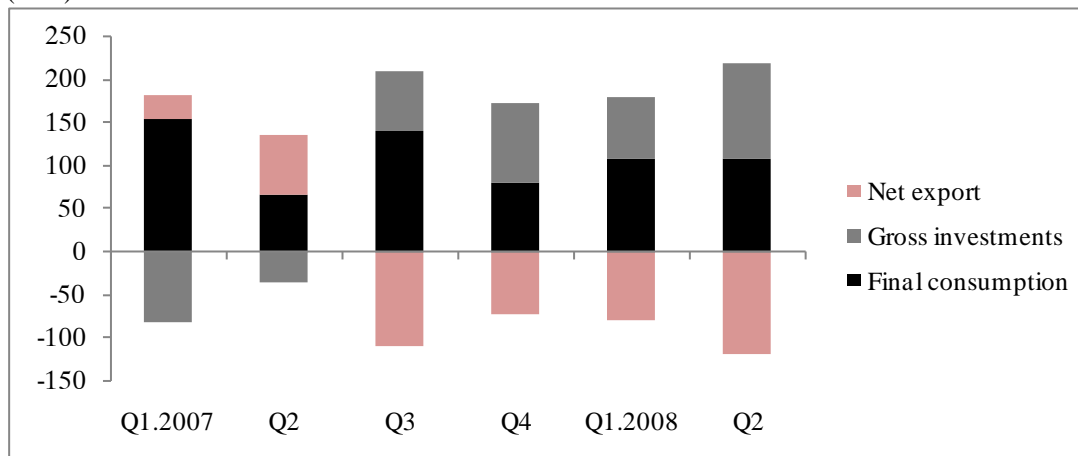
Source: State Statistical Office of the Republic of Macedonia.

With respect to the expenditure aggregates of GDP, the double increase in the gross investments in the second quarter of the year, on annual basis, was in accordance with the intensified construction activity, whereas the nominal growth in the final consumption of 18.6% corresponded with the trend in the service sector. The intensified investment activity and the

consumption reflected on the import, which in conditions of moderate growth in the export resulted in significant broadening in the trade deficit.

Figure 8

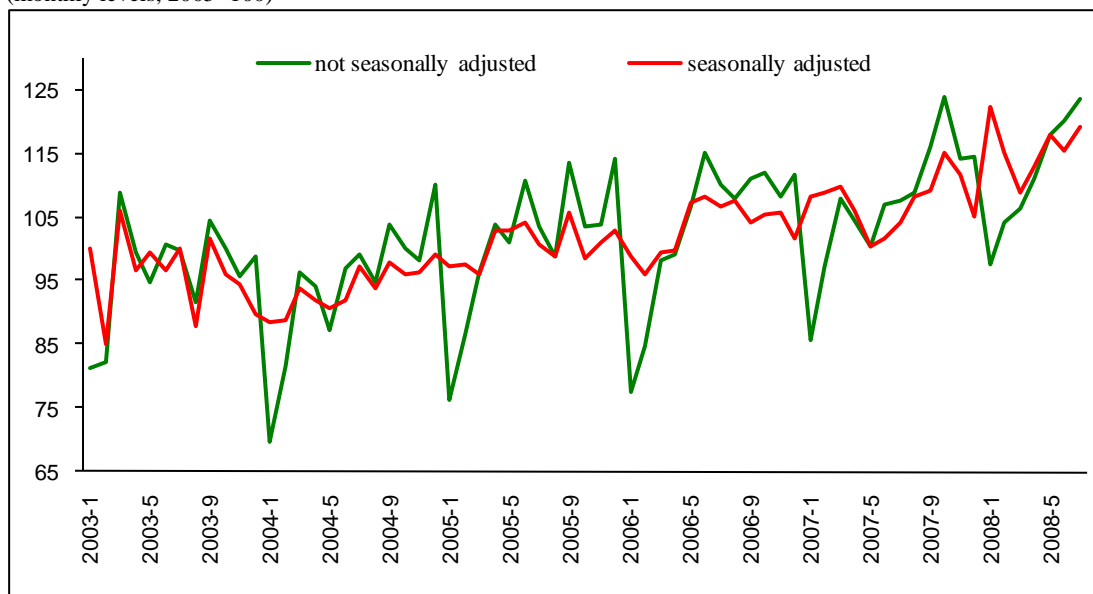
Contribution of individual expenditure aggregates to the nominal GDP growth
(in %)



Source: State Statistical Office of the Republic of Macedonia.

In July 2008, the volume of industrial output rose by 2.9% relative to June, whereas the annual growth was considerably high equaling 14.7%. The manufacturing industry was the main generator of the annual growth, and its volume of output rose by 17% which was due to the growth registered in 15 branches which created two thirds of the total industrial output. High annual growth was registered in the output of: electrical machines and apparatus, metal products in the metal manufacturing phase, furniture, publishing activity and broadcasting of recorded materials and the recycling. The industry for basic metals, for oil derivatives and the textile industry (output of textile clothing materials) registered also solid annual growth rates. The positive tendencies in the manufacturing industry were supplemented by the intensified mining activity, which is characterized with high volume of output (in July, annual growth of 10%). On the other hand, the variability in the output of the energy sector continued, and in July the output registered annual fall of 6.5% (relative to June, when growth of 11.5% was realized). The cumulative growth in the industry equaled 9.8% in the period January - July 2008.

Figure 9
Industrial output index
(monthly levels, 2005=100)



Source: SSO and NBRM calculations.

Concerning the upcoming building activity, despite the somewhat lower number of issued construction licenses in July (from 284 to 281), the total value of these projects equaled Denar 5.4 billion, which was by Denar 3.5 billion more than in June. The largest part of the facilities were buildings (84%) and they were mainly financed by natural persons (77%).

4. BALANCE OF PAYMENTS

In the first half of 2008, the current account in the balance of payments registered deficit in amount of Euro 408.3 million, relative to the surplus of Euro 92 million in the same period of 2007 which came mainly as a result of the deepened trade deficit (contribution of 82.8%), as well as of the lower net inflows from current transfers (contribution of 10.9%). Till the end of the year deficit in the current account of Euro 762.7 million is expected, which represented 12.3% of GDP.

Within the second quarter of 2008, in the current account of the balance of payments deficit of Euro 226.4 million was registered, which reflected the high trade deficit, partially neutralized by the net inflows from private transfers. In the second quarter of 2008, the realized deficit in the current account indicated small failure of the projected amount (percent of realization of 95.6%), relative to the projection in August. In the second quarter of 2008, the current transfers were the only item which registered net inflows in amount of Euro 259.7 million, which ensured coverage of 56.3% of the trade deficit. The largest share of the net inflows came as a result of the private transfers (91.4%), within which the net assets participated mostly, registering net inflows in amount of Euro 160.1 million, which represented small exceeding of the projected amount for the second quarter of 2008. By the latest data on the foreign exchange operations, in July the net inflows from the foreign exchange operations registered annual fall of 4.7%, and in August by 7.3% (by the projection in August rate of decrease of 10% for the third quarter was envisaged). On cumulative basis, in the period January - August 2008, the realized

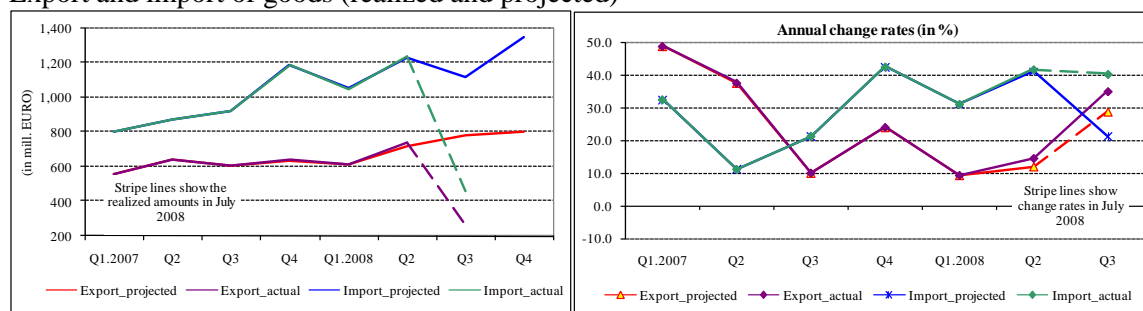
net purchase from the foreign exchange market of Euro 415.4 million was lower by 16.8% relative to the same period of 2007.

In the second quarter of 2008, the net outflows from services amounted to Euro 8.6 million, which was largely due to the net outflows based on transportation services. Concerning the projection, the realized amount was lower than the envisaged. In the income, net outflows of Euro 16.3 million were realized, which relative to the projection represented deviation because of the higher realized net outflows based on direct investments and interest.

In the second quarter of 2008, in the capital and financial account net inflows of Euro 213.9 million were registered, out of which about 68% pertains to the net inflows based on direct investments. The realized net inflows in the capital and financial account were lower relative to the projection for the second quarter, which was mainly due to the lower realized use based on long-term loans and credits (the largest part was due to the lower amount of used credits and loans by the private sector). On the other hand, the direct investments, which in the analyzed quarter equaled Euro 145.5 million, on net basis (annual growth of 2.3 times), exceeded the amount envisaged with the projection in August. The portfolio investments registered net outflow in amount of Euro 11.2 million, which was within the projection. The newest data from the Macedonian stock exchange for August 2008 indicated presence of foreign investors of 86.8% on the side of the purchase, together with the block transaction from the sale of "IK banka" to a foreign investor (on the side of the sale they participated with 18.16%). But, if on the side of purchase, the amount of the stated block transaction on net basis is subtracted, the participation of the foreign investors in purchasing will amount to 27.3%. The projection for the third quarter envisaged inflows from portfolio investments of Euro 5 million.

In July 2008, the trade deficit reached up to Euro 195.6 million, which represented annual growth of 48.5%, realized in conditions of faster growth in the import than in the export. The growth in the export of 35.2% resulted mainly from the higher export of iron and steel and oil derivatives with contribution of 38.9% and 15.5%, followed by the export of wearing apparel and textile, ores and tobacco (total contribution of 21.8%). In conditions of import dependence of the economy and higher prices of energy sources, in July the import registered growth of 40.5% on annual basis, so the higher import of mineral fuels, iron and steel and products thereof and of equipment were the main products which contributed to such growth (contribution of 26.7%, 25% and 10.6%, respectively).

Figure 10
Export and import of goods (realized and projected)



Source: NBRM.

In July 2008, the realized trade deficit represented 57% of the projected amount for the third quarter of 2008, by the revised projection of August 2008. The export was within the projection, whereas the import registered higher percent of realization, so till the end of the

quarter higher import than the envisaged would be expected. The trade deficit realized so far represented 62% of the envisaged. With respect to the conditions of trade, considering the downward trend in the prices of oil, which started in the middle of July 2008, small improvement in the terms of trade can be expected, but on the other hand, the further fall in the price of the nickel will contribute to fall in the export prices.

In the first 7 months of 2008, the foreign trade rose by 28.4%, relative to the same period of 2007, in conditions of simultaneous annual growth in the export and the import of goods (of 15.4% and 37.4%, respectively). The growth in the export resulted from the intensified domestic production and the higher foreign demand. The export of energy sources gave the largest contribution to the growth (of 31.2%), in conditions of quantity and price growth in the export of oil derivatives (of 58.5% and 34.9%, respectively). The growth in the export was determined also by the higher export of ores, wearing apparel and textile and of iron and steel and products thereof (contribution of 18.5%, 10.1% and 6.5%, respectively). On the other hand, the import dependence of the Macedonian economy, with simultaneous growth in the prices of energy sources in the international markets, determined higher import of goods. Namely, about 37% of the total growth in the import was due to the import of energy, mainly of crude oil and electricity, with simultaneous growth in the imported quantities and prices. Thus, the price and the quantity growth in the import of crude oil equaled 53.5% and 17.2%, respectively, whereas the imported amounts of electricity grew by 68.8%, and the their import price registered growth of 46.4%. The higher output of metal manufacturing industry, and consequently, the higher export of products of iron and steel, determined higher foreign demand for iron and steel and products thereof (contribution to the total growth in the import of 17.5%). Concerning other products, the higher import of vehicles, electrical machines and equipment more significantly contributed (contribution of 8%, 7.2% and 6.9%, respectively). Such developments in both components of foreign trade of goods, in the period January - July 2008, determined trade deficit of Euro 1,140.9 million, which represented deepening in the deficit by 88% on annual basis. Simultaneously, the export-import coverage ratio reduced to 58.6%, opposite to 69.8% in the same period of 2007.

Table 1
Metal prices

	2006	2007	april-june 2007	july-sept 2007	oct-dec 2007	jan-march 2008	april-june 2008	june 2008	july 2008	august 2008
<i>US dollars per ounce</i>										
Gold	604.3	696.7	667.4	681.1	788.0	926.8	896.0	889.5	939.8	839.0
<i>US cents per ounce</i>										
Silver	1,156.9	1,341.3	1,335.8	1,273.2	1,423.5	1,764.7	1,720.0	1,704.0	1,806.4	1,457.8
<i>US dollars per metric tons</i>										
Steel cr coilsheet	693.8	650.0	650.0	650.0	650.0	762.5	900.0	1,100.0	1,100.0	1,100.0
Steel hr coilsheet	600.0	550.0	550.0	550.0	550.0	700.0	833.3	1,000.0	1,000.0	1,000.0
<i>US dollars per metric tons</i>										
Nickel	24,254.4	37,229.8	48,054.8	30,205.2	29,219.2	28,956.8	25,682.4	22,549.0	20,160.2	18,927.8

Source: World Bank.

In August 2008, the prices of metals registered monthly fall which was due to the lower demand in conditions of lower economic activity, as well as to the fall in the price of oil and growth in the USA Dollar relative to other world currencies. The prices of precious metals registered the largest decrease, when the prices of silver and gold registered monthly fall of 19.3% and 10.7%, respectively. The price of the nickel still registered fall (of 6.1%), which was mainly due to the lower demand.

5. MONETARY AGGREGATES

At the end of August 2008, **the reserve money**⁶ registered increase of 11.8% on annual basis (9.1% in the previous month), as a result of the annual growth in the total liquidity assets of banks (of 23.2%), with almost unchanged level in the currency in circulation, on annual basis. On monthly basis, the reserve money went down by 7.2%, when more intensive decrease in the total liquidity assets of banks was registered relative to the decrease in the currency in circulation (of 10.8% and 2.3%, respectively). Analyzed with respect to the flows of creating and withdrawing of liquidity, in accordance with the realized high net purchase in the foreign exchange market⁷, the foreign currency transactions of NBRM acted towards creating liquidity, which was solely sterilized through the net position of the Government with NBRM and the monetary instruments (including the effect from the first allocation of compulsory deposit with NBRM). In August 2008, the category "other items, net" more significantly contributed towards decrease in the liquidity assets, which was largely due to the realized higher inflows on the accounts of the brokerage houses with NBRM⁸.

The comparison with the end of the previous year showed decrease in the reserve money, which in conditions of realized net purchase of foreign currencies in the foreign exchange market and lower level of monetary instruments, was almost solely due to the higher net position of the Government with NBRM. Namely, the realized budget surplus in the first 8 months of the year enabled growth in the deposits of the Government with NBRM and consequently, liquidity withdrawal from the banking system.

Till the end of the third quarter, the payment of the dividend by one larger enterprise to the Government and to the foreign investor, as well as the development in the net position of the Government are expected to influence dominantly over the dynamics of the reserve money, so that annual growth rate in the monetary base of 16.8% was projected for the end of September 2008.

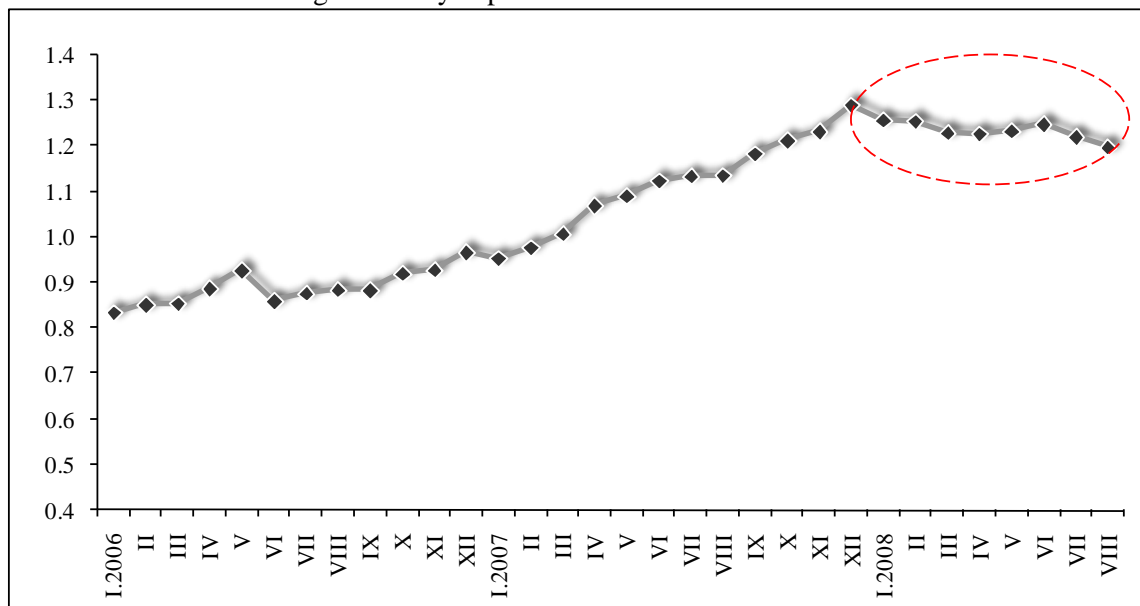
By the definite data, in August 2008, **the total deposits of banks** (without the deposit money) realized monthly growth of Denar 3.053 million, or by 2.1% (2.8% in the previous month), which was solely due to the higher saving in foreign currency. The Denar deposit outstanding, on monthly basis, remained almost unchanged. The analysis of the sector structure showed identical monthly growth in the deposits of households as in July of 1.8%, with simultaneous more intensive growth in the deposits of the corporate sector (of 2.8%) being registered. The deposits of households gave more significant contribution to the growth in the total deposits (of 54.8%) in August. In August 2008 the new saving of households was solely denominated in foreign currency, whereas the Denar deposits registered small fall on monthly basis.

⁶ Includes the reserve requirements of foreign currency deposits. Without this component, the annual growth in the reserve money in August 2008 equaled 6.7%.

⁷ In August 2008, NBRM realized net purchase of foreign currencies in total amount of Euro 36 million, out of which Euro 17 million were based on the sale of the majority package of shares of "IK banka" a.d. Skopje to foreign investor.

⁸ In August 2008, on the accounts of the brokerage houses with NBRM, inflow based on sale of majority package of shares of "IK banka" a.d. Skopje to foreign investor was realized.

Figure 11
Correlation Denar* - foreign currency deposits



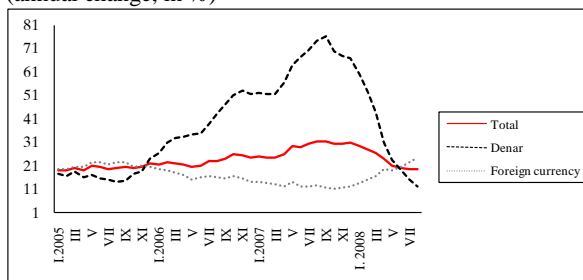
*Includes the deposit money.

Source: National Bank of the Republic of Macedonia.

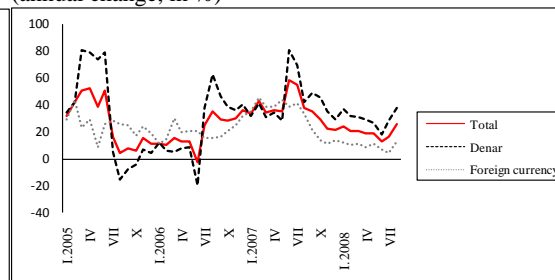
On annual basis (August 2008 / August 2007), the Denar and the foreign currency deposits rose by 23.7% and 21.2%, respectively (22% and 17.5%, respectively, in July 2008). In such conditions, in August 2008, the annual growth rate in the total deposits of the private sector with banks registered upward trend equaling 22.3% (opposite to 19.5% in the previous month), which was partially due to the lower comparison basis from August 2007⁹. With respect to the sector structure, the annual growth rates of the deposits of households and of corporate sector amounted to 19.6% and 25.9%, respectively, in August 2008.

Figure 12

Deposits of households
(annual change, in %)



Deposits of enterprises
(annual change, in %)



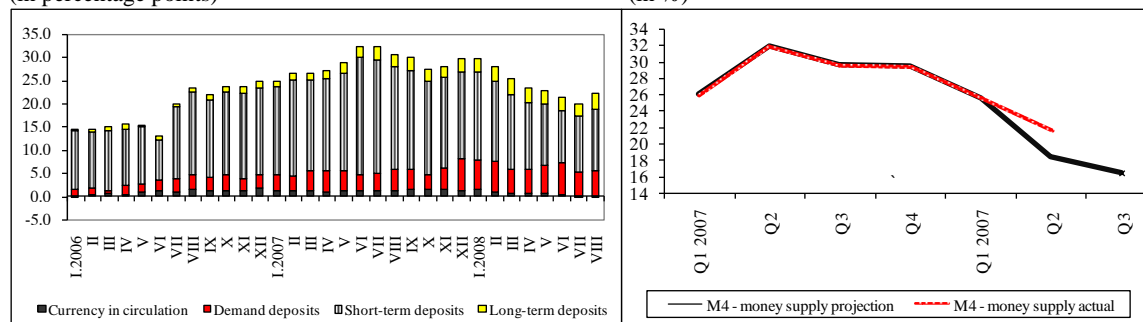
Source: National Bank of the Republic of Macedonia.

The performances in the total deposits reflected adequately on the dynamics of the **broadest money supply M4**, which in August 2008 rose by 22.2%, on annual basis (20% in the previous month). Till the end of the third quarter, in accordance with the anticipated outflow of deposits from the banking system based on the payment of dividend to the Government and to the

⁹ In August 2007, the total deposit potential of banks registered decrease by Denar 241 million, on monthly basis, when outflow of deposits for payment of dividend to the Government by "Telekom" was realized.

foreign investor by one larger enterprise, a slowing down in the monetary growth was expected, so the annual rate would amount to 16.5% in September.

Figure 13
Money supply M4
Contribution to the annual growth
(in percentage points)



Source: National Bank of the Republic of Macedonia.

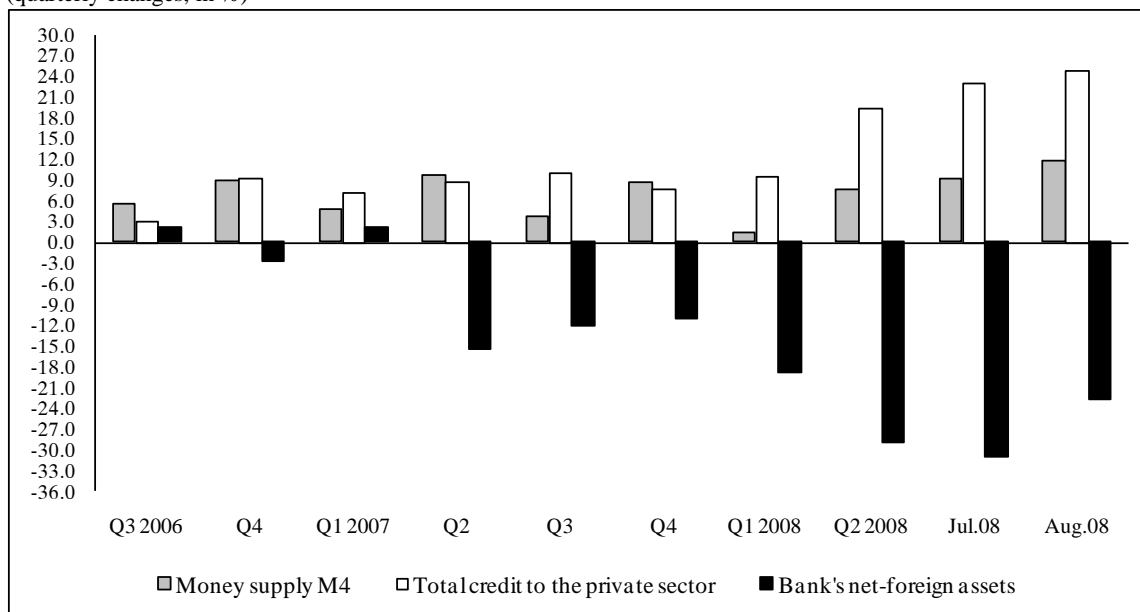
6. BANK CREDITS

In August 2008 there was a slowing down in the credit activity of banks relative to the previous month, so the **total credits of banks to the private sector**, on monthly basis, rose by Denar 2.203 million, or by 1.4% (opposite of 3.2% in the previous month). Slowing down in the credit activity was registered in the credits to the sector "enterprises", which on monthly basis went up by 0.8% (3% in the previous month). The higher interest of the enterprises for foreign currency indebtedness continued this month also (contribution of 76.2% of the foreign currency credits to the monthly growth in the total credits to the enterprises). Simultaneously, the monthly growth rate of the credits placed with the households was with lower intensity than in the previous month and it equaled 2.3% in August, opposite of 3.4% in July. Despite the measures undertaken by NBRM¹⁰, in August 2008 the credits of banks to the households exceeded the envisaged growth rate (of 8% relative to the outstanding at the end of May), so the banks placed higher amount to the households than the one envisaged in the Decision on Compulsory Deposit.

On annual basis (August 2008 / August 2007), the total credits of banks to the private sector rose by 39.9%, which indicated slowing down in the annual growth dynamics (41.9% in the previous month). The credits to households and to enterprises realized annual growth rates of 49.5% and 34.2% (51.7% and 36.1%, respectively, in the previous month), when credits to the corporate sector still most significantly contributed (53%) to the total credits. For the end of the third quarter growth rate of credits of 34.5% was envisaged, which considering the developments registered so far, can be overcome, but still the presumption about the significant slowing down in the monetary growth in September shall be considered, as it may slow down the credit growth also. With such expectations, the intensity of the credit activity of banks till the end of the year will generally depend on the possibility for using additional sources of financing.

¹⁰ On 12.06.2008, NBRM adopted Decision on Compulsory Deposit, according to which the bank and saving houses are obliged to allocate compulsory deposit with NBRM, if they register higher growth rates in the household credits. The growth rates of household credits for every month are given in the Decision on cumulative basis, compared to the outstanding amount of the household credits on May 31.

Figure 14
Sources of financing
(quarterly changes, in %)*



*The realization in the second quarter and July and August 2008 are cumulative changes relative to the end of the year.
Source: National Bank of the Republic of Macedonia.

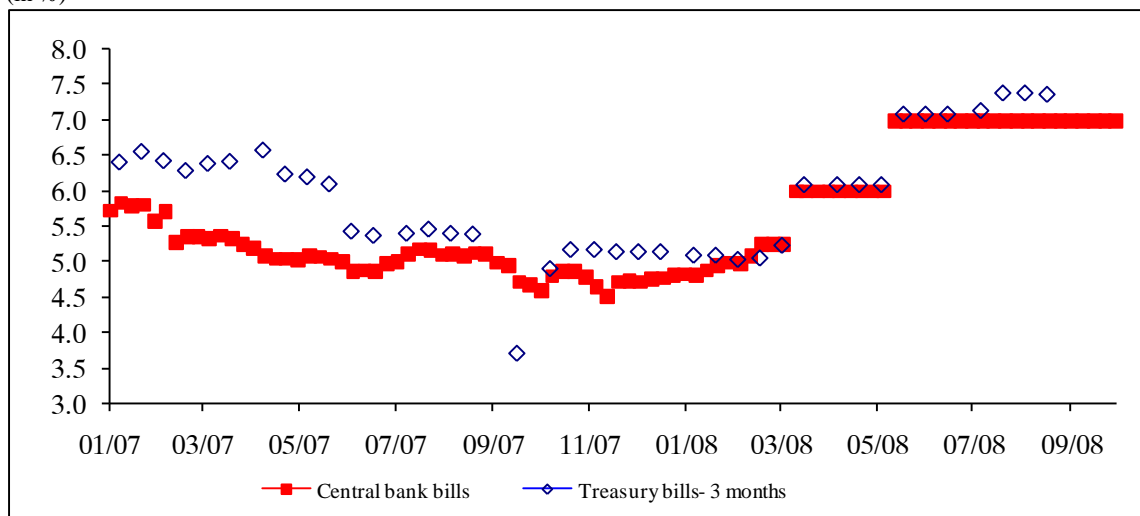
In August 2008, **the net foreign currency assets of banks** registered monthly growth of Denar 1.297 million, i.e. 12.2%, in conditions of growth in the foreign currency assets of banks (by Denar 4.100 million, or by 12.7%) and growth in their foreign currency liabilities (by Denar 2.803 million, or by 13.1%). Relative to the end of 2007, the net foreign currency assets of banks was lower by Denar 3.502 million, or by 22.7%.

7. INTEREST RATES AND FOREIGN EXCHANGE RATE

In the period September 1 - September 17, 2008, three **auctions of CB bills** were held (on September 3, 2008, September 10, 2008 and on September 17, 2008), when, with volume tender and fixed interest rate of 7%, Denar 2.705 million were withdrawn. As of September 12, 2008, **the gross foreign reserves** equaled Euro 1.628,1 million and they went up by Euro 96.7 million relative to the end of 2007, when the cumulative net purchase in the foreign exchange market by NBRM amounted to Euro 43.3 million.

On September 2, 2008 and September 16, 2008, **auctions of three month Treasury bills** were held, when in conditions of higher demand than the supply, interest rates of 7.41% and 7.44%, respectively, were realized. In the same time, on September 2, 2008, an auction of **six month Treasury bills** was held, when in conditions of higher supply than the demand, interest rate of 7.68% was realized (opposite of 7.76% on the last auction). On September 16, 2008 an auction of **twelve month Treasury bills** was held and in conditions of higher supply than the demand, interest rate of 7.99% was realized (opposite of 7.92% on the last auction). The average interbank interest rate in the bilateral trading of banks equaled 4.57%, on average, in the period September 1 - September 16, 2008, (4.77% in August 2008).

Figure 16
Interest rates
(in %)

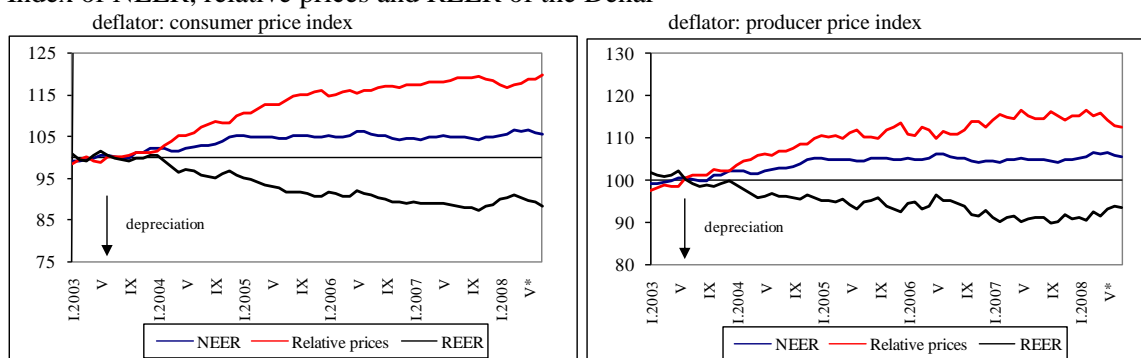


Source: National Bank of the Republic of Macedonia.

In the area of **interest policy of banks**, in July fall in the average weighted interest rate of Denar credits for all terms and sectors by 0.1 percentage point was registered, equaling 9.6%, whereas the average weighted interest rate of Denar deposits for all terms and sectors registered growth, equaling 5.9% (5.8% in the previous month). Within the Denar credits intended for **enterprises**, monthly fall in the interest rate of the long-term credits with FX clause was registered (by 0.1 percentage point), whereas the other interest rates did not registered change. In the sector of **households** growth in the interest rates of the short-term and long-term credits without FX clause was registered (by 0.1 percentage point, respectively). On the other hand, monthly decrease in the interest rates of the short-term and long-term credits with FX clause to the households was registered (by 0.3 and 0.1 percentage points, respectively). The average weighted interest rates of the foreign currency credits and deposits maintained the level of the previous month and in July 2008 they amounted to 8.1% and 2.3%, respectively.

In July 2008, the index of the **real effective foreign exchange rate of the Denar** indicated improved competency of the Macedonian economy. Namely, REER of the Denar deflated with the consumer price index, registered intensified depreciation on monthly basis (of 1.3%, relative to 0.5% in the previous month), which came as a result of the simultaneous depreciation of the nominal effective foreign exchange rate of the Denar (by 0.4%), as well as of the more intensive monthly fall in the domestic than in the foreign prices. On annual basis, REER of the Denar kept the level of July 2007, whereas on cumulative basis appreciation was registered, but with slower dynamics (of 1.1%), which was almost solely due to the lower appreciation of NEER (of 1.1%). In July 2008, the index of REER of the Denar deflated with the producer price index, after two month appreciation, registered monthly depreciation of 0.1%, which was solely due to the depreciation of NEER. On annual basis, in July 2008, REER of the Denar continued the appreciation trend, but with lower dynamics (from 3.3% in June 2008, to 2.6% in July), in conditions of appreciation of NEER and fall in the relative prices, whereas on cumulative basis, appreciation (of 1.6%) was registered, which was due to the appreciation of NEER, with simultaneous more intensive growth in the domestic than in the foreign prices being registered.

Figure 17
Index of NEER, relative prices and REER of the Denar



*The sign for depreciation is for REER and NEER. With the relative prices, the upward trend is in favor of the depreciation of REER (and opposite).

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.

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

ANNEX

Table 1
Consumer Price

	change in %			contribution to change in percentage points		
	<u>VIII.2008</u> VII.2008	<u>VIII.2008</u> VIII.2007	<u>I-VIII.2008</u> I-VIII.2008	<u>VIII.2008</u> VII.2008	<u>VIII.2008</u> VIII.2007	<u>I-VIII.2008</u> I-VIII.2008
Consumer prices	-0.2	8.6	9.5	-0.2	8.6	9.5
Food	-1.0	14.7	18.5	-0.38	5.62	7.07
Grain products	0.0	28.9	27.8	0.00	2.14	2.06
Fresh and processed vegetables	-3.0	-1.5	20.5	-0.17	-0.08	1.15
Fresh and processed fruits	-9.8	12.2	25.1	-0.30	0.37	0.76
Meat and poultry	1.5	9.2	7.7	0.11	0.70	0.59
Fresh and cooked fish	1.4	7.2	5.7	0.01	0.07	0.05
Dairy products	-0.2	20.9	20.7	-0.01	1.21	1.19
Eggs	1.2	24.2	15.9	0.01	0.30	0.20
Oils and fats	-1.7	32.6	47.9	-0.04	0.68	1.01
Tobacco and beverages	0.6	4.3	3.9	0.03	0.23	0.21
Clothing and footwear	-0.4	2.2	2.5	-0.03	0.17	0.19
Housing	3.5	7.3	4.0	0.53	1.11	0.61
Flat (rent, water and other services)	0.2	5.7	6.3	0.01	0.21	0.23
Fuel and lighting	5.8	9.6	4.1	0.52	0.85	0.37
Heating and services	15.9	28.3	10.7	0.49	0.86	0.33
Electric power	0.0	0.0	0.6	0.00	0.00	0.04
Hygiene and health	-0.4	0.9	1.2	-0.03	0.07	0.10
Culture and entertainment	0.0	-0.7	0.0	0.00	-0.04	0.00
Transport and communication services	-1.9	5.2	5.4	-0.27	0.74	0.77
Fuels and lubricants	-5.9	21.4	21.6	-0.22	0.82	0.82
Public transport services & PTT	0.1	-4.0	-4.8	0.01	-0.24	-0.29
Restaurants and hotels	0.2	14.1	12.5	0.01	0.72	0.64
Other services n.e.c.	0.0	0.9	6.8	0.00	0.00	0.02

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	Q2	Jun-08	Jul-08	Aug-08
Inflation (CPI)	3.2	2.3	0.7	1.1	2.4	4.9	9.5	9.9	10.1	9.5	8.6
Core inflation (excluding food and energy)	1.1	0.7	0.2	0.8	1.1	1.2	2.8	2.8	3.0	2.8	2.7
Regulated prices	5.7	3.3	4.2	3.0	2.0	4.1	7.4	9.2	11.0	11.4	13.2
Industrial producer prices	4.5	1.6	1.0	1.2	1.6	4.1	10.5	13.6	15.7	17.2	13.8
Productivity	-0.7	1.5	2.8	-0.2	0.6	2.7	1.3	3.4	-	-	-
Nominal net-wage	7.3	7.9	5.7	6.4	7.5	11.8	10.5	9.9	10.7	-	-
Real net-wage	4.0	5.5	5.0	5.3	5.0	6.6	0.9	0.0	0.5	-	-

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	Q2	May-08	Jun-08	Jul-08
Gross domestic product	4.0	5.0	6.7	3.9	4.4	5.1	5.4	6.5	-	-	-
Industrial output	2.5	3.7	11.6	-2.8	1.1	6.2	5.8	12.0	17.6	12.3	14.7
Construction	-12.3	7.6	9.4	-18.6	18.0	23.3	29.1	57.3	33.9	36.8	-
Retail and wholesale trade	2.5	24.2	25.1	17.2	21.2	28.6	19.1	18.4	17.4	17.1	-
Telecommunications	-1.0	15.6	11.1	17.1	15.9	18.1	12.1	7.4	8.9	6.9	-

Source: State Statistical Office of the Republic of Macedonia.

Table 4
Selected industrial branches

Selected industrial activities (annual rates, %)	2006	2007	2007				2008		Jul.08	
			Q1	Q2	Q3	Q4	Q1	Q2	% change	impact (p.p.)
Mining and quarrying	28.0	9.8	13.9	16.2	15.4	-3.3	11.9	13.6	10.0	0.4
Manufacture of food products and beverages	0.1	7.7	12.0	0.6	9.5	9.6	5.3	6.0	5.6	1.0
Manufacture of tobacco products	5.5	-0.8	19.0	-14.4	-16.8	41.1	13.8	15.4	8.1	0.6
Manufacture of wearing apparel	-3.7	-14.5	-4.6	-19.8	-17.9	-14.2	-16.5	-22.7	-21.0	-2.1
Printing	-17.9	-12.2	13.3	-11.5	-18.2	-22.9	7.8	72.2	82.6	2.1
Manufacture of refined petroleum products	12.3	-2.4	20.6	-11.1	1.3	-16.8	3.3	50.9	2.1	0.1
Manufacture of other non-metallic mineral products	14.0	3.8	51.5	4.2	-2.6	-15.9	-10.9	-3.2	1.9	0.2
Manufacture of basic metals	11.8	34.3	57.4	35.2	25.3	26.7	9.5	15.7	7.5	1.2
Manufacture of fabricated metal products	5.7	45.6	6.0	5.4	51.7	112.0	29.7	11.8	2.7 times	7.1
Manufacture of electrical machinery and equipment	3.7	-24.4	-45.1	-37.4	-12.3	1.0	45.6	64.9	1.9 times	1.8
Manufacture of other transport equipment	-6.9	33.4	128.7	-48.6	74.6	50.5	9.8	143.1	-17.3	-0.4
Recycling	12.8	-35.6	20.7	-57.5	-88.5	-4.2	105.6	262.2	101 times*	1.2
Electricity, gas, steam and hot water supply	-0.6	-9.5	-9.1	-20.8	-8.7	-1.1	-0.8	1.9	-6.5	-0.6

* high increase reflects prohibited purchase of scrap iron last year.

Source: State Statistical Office of the Republic of Macedonia.

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

	2007				2007	2008						2008		2008
	Q1	Q2	Q3	Q4		I	II	III	IV	V	VI	Q1	Q2	
I. Current account	41.0	51.0	8.4	-271.2	-170.9	-33.0	-74.0	-74.9	-65.0	-56.7	-104.7	-181.9	-226.4	-408.3
GOODS, net	-211.0	-207.7	-298.4	-455.8	-1,172.8	-115.2	-131.4	-124.8	-140.1	-141.0	-180.2	-371.4	-461.3	-832.7
Export, f.o.b	558.7	641.7	605.1	635.9	2,441.5	181.5	214.8	214.9	228.0	259.3	248.5	611.2	735.8	1,347.0
Import, f.o.b /2	-769.7	-849.4	-903.5	-1,091.7	-3,614.3	-296.7	-346.3	-339.7	-368.1	-400.3	-428.7	-982.7	-1,197.1	-2,179.7
SERVICES, net	-1.2	1.1	23.3	2.4	25.5	8.7	-5.5	-4.0	-2.5	-0.9	-5.2	-0.8	-8.6	-9.3
INCOME, net /5	29.7	-9.2	-37.7	-16.1	-33.4	13.0	4.0	-2.6	2.3	-5.4	-13.1	14.4	-16.3	-1.8
of which: interest, net	-2.0	-5.1	-2.5	-8.3	-17.9	0.3	-2.1	-5.1	-4.0	-8.4	-8.0	-7.0	-20.4	-27.4
CURRENT TRANSFERS, net	223.5	266.8	321.2	198.3	1,009.8	60.4	58.9	56.5	75.4	90.5	93.8	175.8	259.7	435.6
Official	8.6	17.1	10.7	-12.4	23.9	0.5	4.4	2.7	4.6	6.6	11.0	7.7	22.2	29.9
Private	214.9	249.7	310.5	210.7	985.8	59.9	54.5	53.8	70.8	83.9	82.8	168.1	237.5	405.6
II. Capital and financial account	-42.9	-46.9	8.9	275.2	194.3	37.1	75.3	80.3	68.2	58.8	110.5	192.7	237.4	430.1
CAPITAL ACCOUNT, net	-1.3	1.4	3.7	-2.5	1.3	-0.3	-0.3	-0.4	0.9	0.3	-3.8	-1.0	-2.7	-3.7
Capital transfers, net	-1.3	1.5	0.6	-1.9	-1.1	-0.3	-0.3	-0.4	0.9	0.3	-0.1	-1.0	1.0	0.0
Oficijalni	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	-1.3	1.5	0.6	-1.9	-1.1	-0.3	-0.3	-0.4	0.9	0.3	-0.1	-1.0	1.0	0.0
acquisition/disposal of non-produced	0.0	0.0	3.1	-0.6	2.4	0.0	0.0	0.0	0.0	0.0	-3.7	0.0	-3.7	-3.7
FINANCIAL ACCOUNT, net	-41.6	-48.3	5.2	277.7	192.9	37.5	75.6	80.6	67.3	58.5	114.3	193.7	240.2	433.9
Direct investments, net	20.1	63.9	40.4	115.7	240.1	38.5	68.8	26.6	29.7	62.6	53.2	133.9	145.5	279.4
Portfolio investments, net	20.5	45.6	24.5	20.2	110.8	-0.9	-3.4	-3.9	-4.4	-4.2	-2.6	-8.3	-11.2	-19.5
Other investments, net	-87.5	-146.7	41.7	136.1	-56.3	-6.6	22.2	44.5	22.9	13.1	93.4	60.1	129.4	189.5
Trade credits, net	-33.6	-65.0	1.7	63.4	-33.5	-6.8	0.5	-5.9	23.4	-1.6	36.6	-12.2	58.5	46.3
Loans, net	-42.3	-124.7	12.6	46.7	-107.7	-3.0	-0.3	2.2	2.0	-12.2	27.1	-1.1	16.9	15.8
Currency and deposits, net	-16.8	20.2	12.8	-10.3	5.9	-4.0	19.7	45.1	-8.3	0.0	22.5	60.8	14.2	75.0
of which : monetary authorities, net	0.0	0.0	0.0	-0.1	-0.2	7.4	0.1	3.2	-0.2	6.1	0.0	10.7	5.9	16.6
commercial banks, net	-3.8	41.2	26.9	4.2	68.4	-9.4	19.4	37.2	-8.3	-1.8	25.9	47.2	15.7	63.0
other sectors, net	-12.9	-20.9	-14.0	-14.5	-62.3	-1.9	0.1	4.7	0.2	-4.2	-3.4	2.9	-7.4	-4.5
Others, net	5.2	22.9	14.6	36.3	78.9	7.1	2.3	3.2	5.8	26.9	7.1	12.5	39.8	52.4
Gross official reserves, (- = increase) /4	5.3	-11.2	-101.4	5.6	-101.8	6.5	-11.9	13.4	19.2	-13.0	-29.7	8.0	-23.5	-15.5
III. Errors and omissions	2.0	-4.1	-17.2	-4.0	-23.4	-4.1	-1.3	-5.4	-3.2	-2.1	-5.8	-10.8	-11.1	-21.8

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

	VII.2008	I-VII.2008	VII.2008		VII.2008		I-VII.2008	
			VI.2008		VII.2007		I-VII.2007	
			amount	%	amount	%	amount	%
Total trade	727.0	4,370.8	37.7	5.5	202.2	38.5	966.4	28.4
Export	265.7	1,614.9	16.6	6.7	69.1	35.2	215.7	15.4
Import	461.3	2,755.8	21.0	4.8	133.0	40.5	750.7	37.4
Balance	-195.6	-1,140.9	-4.4	2.3	-63.9	48.5	-535.0	88.3

Source: State Statistical Office of the Republic of Macedonia.

Table 7
Monetary developments in August 2008

	31.12.2006	31.12.2007	31.03.2008	30.06.2008	31.07.2008	31.08.2008	monthly changes (31.08.2008/ 31.07.2008)		annual changes (31.08.2008/ 31.08.2007)
	actual	actual	actual	actual	actual	actual	in Denar million	in %	in %
<i>in Denar million</i>									
Brtoad money M4	135,641	175,553	178,277	189,663	192,116	196,689	4,573	2.4	22.5
Currency in circulation	16,206	17,927	15,746	16,180	16,763	16,376	-387	-2.3	0.0
Denar deposits ¹	58,997	89,077	90,102	96,889	96,886	98,788	1,902	2.0	28.3
Foreign currency deposits	60,438	68,549	72,429	76,594	78,467	81,525	3,058	3.9	21.2
Total deposits	119,435	157,626	162,531	173,483	175,353	180,313	4,960	2.8	25.0
Reserve money ²	31,264	37,586	34,223	38,854	40,115	38,363	-1,752	-4.4	15.2

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

²Including reserve requirement in foreign currency.

	31.12.2006	31.12.2007	31.03.2008	30.06.2008	31.07.2008	31.08.2008	monthly changes (31.08.2008/ 31.07.2008)		annual changes (31.08.2008/ 31.08.2007)
	actual	actual	actual	actual	actual	actual	in Denar million	in %	in %
<i>in Denar million</i>									
Credit to the private sector	89,782	124,875	137,050	149,206	153,918	156,121	2,203	1.4	39.9
In Denar	66,413	94,496	105,345	114,910	118,047	119,487	1,440	1.2	42.8
In Foreign currency	23,369	30,379	31,705	34,296	35,871	36,634	763	2.1	31.5
Banks' net foreign assets	22,926	15,459	12,550	10,991	10,649	11,946	1,297	12.2	-43.3

Source: National Bank of the Republic of Macedonia.

Table 8
Monetary aggregates
(in %)

in %	end of period to the end							y - o - y							
	2007				2008			2006	2007				2008		
	Q1	Q2	Q3	Q4	Q1	Q2	August		Q1	Q2	Q3	Q4	Q1	Q2	August
M0	-6.1	8.5	2.2	15.5	-8.9	13.5	- 4,4	21.4	18.9	18.2	18.9	20.2	16.6	22.0	15.2
M1	-1.4	6.0	8.3	16.3	-6.9	11.1	3,4	17.1	22.5	18.0	22.6	31.7	24.4	30.4	22
M4	4.7	9.7	3.7	8.8	1.3	6.3	2,4	24.9	26.4	32.2	29.9	29.5	25.3	21.4	22.2
M4-denar	5.1	14.1	5.9	12.2	-1.5	6.6	1,4	30.8	33.1	44.3	43.8	42.6	33.6	24.8	22.9

Source: National Bank of the Republic of Macedonia.

Table 9

Deposits of the private sector*
(in millions of denars)

		Balance as of 31.08.2008	monthly changes		annual changes	
			in Denar million	in %	in Denar million	in %
Total deposits		148,046	3,053	2.1	26,995	22.3
In Denar	Households	36,321	-123	-0.3	4,002	12.4
	Enterprises	26,710	100	0.4	7,367	38.1
	Total	66,521	-5	0.0	12,730	23.7
In Foreign currency	Households	60,647	1,796	3.1	11,871	24.3
	Enterprises	20,626	1,211	6.2	2,356	12.9
	Total	81,525	3,058	3.9	14,265	21.2
Total households deposits		96,968	1,673	1.8	15,873	19.6
Total enterprises deposits		47,336	1,311	2.8	9,723	25.9

* 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 31.08.2008	monthly changes		annual changes	
			in Denar million	in %	in Denar million	in %
Total credit to the private sector		156,121	2,203	1.4	44,562	39.9
In Denar	Households	58,268	1,245	2.2	18,477	46.4
	Enterprises	60,878	184	0.3	17,237	39.5
	Total	119,487	1,440	1.2	35,793	42.8
In Foreign currency	Households	4,199	176	4.4	2,202	110.3
	Enterprises	32,418	588	1.8	6,561	25.4
	Total	36,634	763	2.1	8,769	31.5
Total credit to the households		62,467	1,421	2.3	20,679	49.5
Total credit to the enterprises		93,296	772	0.8	23,798	34.2

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	Q1	Q2	July	August
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	29.9	30.2	30.1	30,5
	Long-term	75.0	75.2	75.6	74.9	73.2	72.3	70.8	70.8	70.1	69.8	69.9	69,5
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	48.4	53.3	54.0	55
	Overdrafts	63.9	68.1	84.9	103.7	125.2	136.9	131.4	112.3	89.6	72.1	64.3	60,7
	Credits for other purposes	32.6	26.8	26.0	31.0	33.9	38.8	45.5	48.7	53.2	45.8	41.8	38,5

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	Q1	Q2	July	August
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	44.9	44.6	44.5	44.2
	Long-term	45.6	46.2	49.0	51.4	52.9	54.0	53.8	56.1	55.1	55.4	55.5	55.8
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	27.0	30.7	33.5	31.6
	Long-term	36.1	34.0	30.8	41.1	45.7	44.6	45.8	41.6	38.4	38.2	38.3	36.4
	In Denar	3.4	14.3	14.2	21.3	22.6	20.2	32.9	29.9	37.4	42.2	42.4	39.5
	In Foreign currency	42.0	38.5	31.0	32.4	31.4	30.2	32.6	29.4	25.6	22.2	25.6	25.4

Source: National Bank of the Republic of Macedonia.

Table 13
Liquidity creation and withdrawal*

	31.12.2007	31.08.2008	22.09.2008	cumulatively I - VIII. 2008	22.09.2008 / 31.08.2008
<i>in millions of denars</i>	balance			flow	
Bank's liquidity (bank's account with NBRM)	10,415	9,124	9,387	-1,291	263
Autonomous factors (total)	84,009	78,521	81,134	-3,254	2,105
Currency in circulation	17,969	16,511	16,583	1,458	-72
Foreign exchange transactions of the NBRM	73,958	75,793	78,097	1,835	2,304
Government denars deposits with NBRM	-9,842	-16,048	-15,993	-6,206	55
Bank's cash in valuts	1,924	2,265	2,447	-341	-182
Monetary instruments:	-25,555	-20,693	-23,398	4,862	-2,705
CB bills auctions	-20,995	-20,693	-23,398	302	-2,705
Treasury bills for monetary policy purposes	-4,560	0	0	4,560	0
Compulsory deposit with the NBRM	0	-1,149	-1,467	-1,149	-318
Other items	-8,253	-10,003	-8,822	-1,750	1,181

* Last available data on 16.07.2008.

Source: National Bank of the Republic of Macedonia.

Table 14
Interest rates

	Aug.08	monthly changes	annual changes
	in %	in percentage points	
Average weighted interest rate on the CB bills auctions (28 days)	7.0	0.0	1.9
Average weighted interest rate on the Money Market	5.2	0.5	1.7
Interest rate on three-month treasury bills	7.4	0.1	2.0
	July	monthly changes	annual changes
	in %	in percentage points	
Banks' weighted lending interest rates	9.6	-0.1	-0.5
Banks' weighted deposit interest rates	5.9	0.1	1.2

* Pertains to bilateral trading

Source: National Bank of the Republic of Macedonia.