

National Bank of the Republic of Macedonia
Research Department



Monthly Report 9 / 2008

October, 2008

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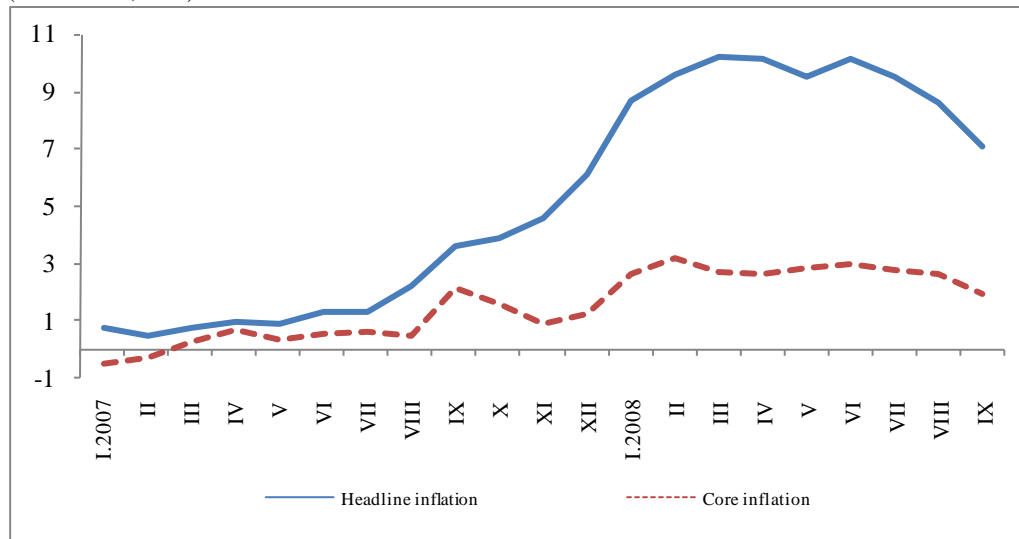
* The Monthly information includes analysis based on the available data as of October 20, 2008.

1. PRICES

The continuous fall in the global level of the consumer prices, which started in July, continued also in September 2008, with monthly fall of 0.2%. The drop was mainly due to the lower domestic prices of oil derivatives, in accordance with the development in the price of the crude oil in the international stock exchanges and of the lower prices of costs for motor vehicles maintenance (which was due to the fall in the compulsory vehicle insurance). Seasonally lower prices of the fresh vegetables, as well as the fall in the prices of oil for cooking gave additional deflationary influence, neutralizing the increase in the prices of the bread and the pastries and of the fresh vegetables. The exhaustion of the effect from the lower comparison basis, together with the usual seasonal decrease in certain agriculture products reduced the annual inflation at the level of 7.1%, which represented the lowest registered rate since the beginning of the year. Such developments contributed to slowing down also in the cumulative price growth, which equaled 9.3%, opposite of 9.5% in August 2008. About 73% of the cumulative price growth realized so far was due to the higher prices of food, whereas the joint contribution of the food and energy amounted to about 86%.

The decrease continued also in the annual **core inflation rate**, which in September 2008 equaled 1.9% and it went down by 0.8 p.p. relative to level of August, which was due to the lower prices of costs for motor vehicles maintenance and of wearing apparel, as well to the slower growth in the prices of food and beverages in the restaurants (core inflation rate for the first nine months equaled 2.7% and it went down by 0.1 p.p. relative to previous month).

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



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

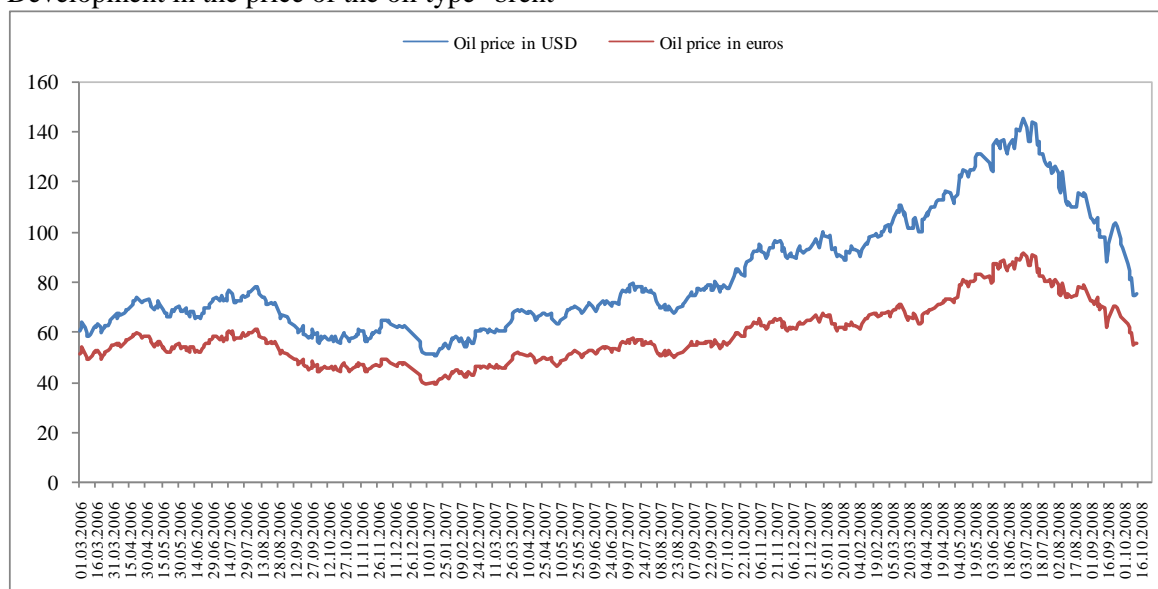
After the historically highest level in the middle of July (USA Dollar 143.54 per barrel), the price of the crude oil in the international stock exchanges started to decrease. Thus, the average price of the oil type "brent" equaled USA Dollar 97.23 in September per barrel and it was by 14.1% lower than the average price in August. Namely, the crises which the world financial sector was facing with, especially USA, transferred quickly on the real sector also, which resulted in fall in the

demand of oil, and consequently with fall in the its price¹. In the first two decades of September, the drop in the price was due to the announcement that the refineries on the coast of the Mexican Gulf did not suffer some serious damages from the hurricane, the continuous fall in the demand of oil in USA, as well as the further strengthening of the USA Dollar.

As a protection from further decline in the oil price, the member countries of OPEK on their last meeting decided to decrease the daily output of oil by 500.000 barrels per day. However, the global supply of the crude oil plunged by 1 million barrels per day, which was due to the fall in the supply of oil by OPEK as well as to the leak of oil from the oil-pipeline in Iraq, Angola, Libya and Nigeria, as well as to the storm in the area of the Mexican Gulf, where large number of oil field and plants for processing of oil are located.

In the largest part of the last decade of September the increased optimism in the market, resulting from the interventions plan of the Federal reserves and the USA Government, resulted in higher demand of oil derivatives, which finally resulted in raise in the pressures for growth in the crude oil price. The weakening of the USA Dollar in this period, also contributed to growth in the price of the crude oil.

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



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

In the first decade of October the price of the crude oil equaled USA Dollar 85.13 per barrel, on average, and relative to the average in September it registered fall of 12.4%. Such developments may be explained with the USA announcement on increase in the USA reserves of crude oil, opposite of the expected fall, but also with the worry of further fall in the demand, after China's announcements on decrease in the import of gas in October (second month in a row). In accordance with such developments, the Regulatory Energy Commission, on the session held on October 13, 2008 adopted a decision on decrease in the refinery and retail prices of oil derivatives by 4.16%, i.e. by 3.21%, on average.

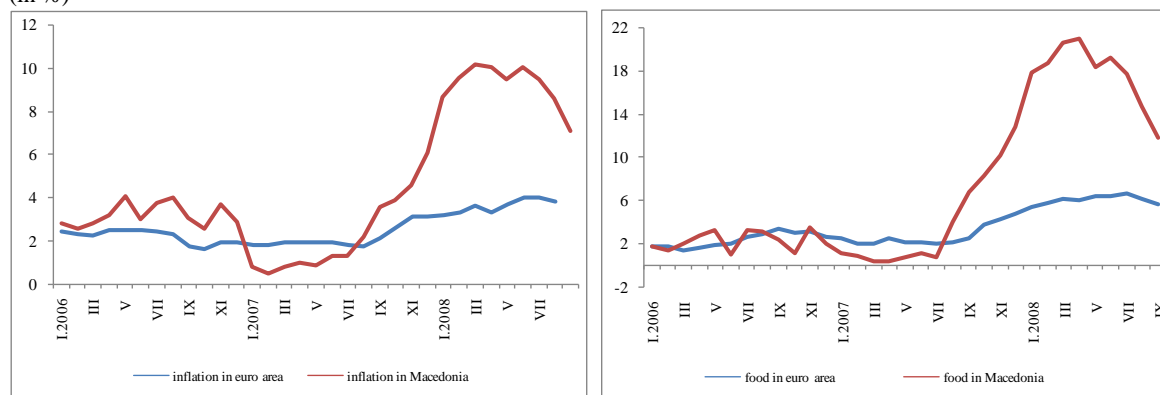
¹ Statistical Agency data on the USA oil, Energy Information Administration, Oil marketer and Oil market report.

The realized annual and average inflation in September was still lower than the projected developments², and it indicated the possibility for realizing higher inflation than the projected one in 2008. However, the announcement on growth in the prices of electricity till the end of the year represented significant domestic risk factor, the realization of which may result in considerably higher annual inflation rate, compared with the projection.

The slowing down in the **annual inflation rate in the Euro-zone**³, which started in August, continued also in September 2008, when it equaled 3.6% (3.8% in August). The lower dynamics of the annual inflation was mainly due to the stabilization of the price of oil and food in the international market. However, the growth in the prices of fuels and oil for cooking, the prices of food (diary products, cereal products and eggs) and the gas prices, under the influence of the global trends and the lower comparison basis, still contributed mostly to the inflation. The deflationary influences resulted also from the lower prices of the telecommunication services, wearing apparel, motor vehicles and 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 July 2008 the **average paid net and gross-wage** (includes the late payments) registered nominal monthly growth of 0.3%, which when monthly deflation of 0.9% was registered, represented minimal real wage growth in July by 1.2%, relative to June. Compared with the paid average wage at the end of 2007, the net and the gross-wage in July rose by 1.7% and 1.2%, respectively, on nominal basis, which indicated slower growth in the wages in 2008 and lower pressure on the inflation developments. On annual basis, the nominal average net and gross-wage still registered high growth rate (mainly because of the lower comparison basis), which in July equaled 10.5% and 8.6%, respectively⁴. Deflated with the consumer prices, the annual real change in the net-wages was positive (1%), whereas the real change in the gross wages maintained the trend⁵ of negative rates (real drop of 0.8%).

² Pertains to the projection in August.

³ Estimated data.

⁴ The lower growth rate in the gross-wages was due to the fall in the personal income tax rate in January 2008.

⁵ Since February 2008, the annual real change in the gross-wages was negative.

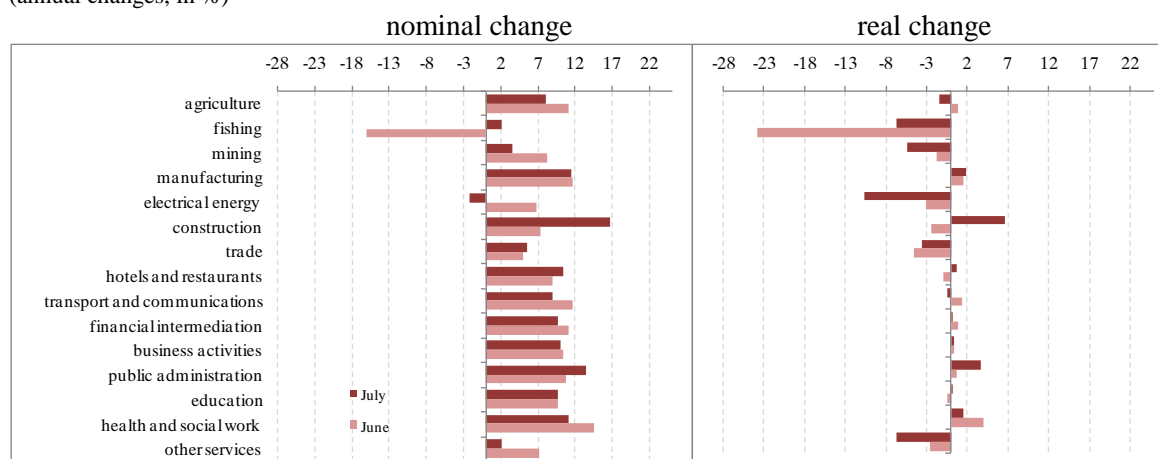
Figure 4
Annual growth rates in the wages and inflation
(in %)



Source: State Statistical Office of the Republic of Macedonia.

Analyzed by individual activities, annual *nominal* fall in the wages in July 2008 was registered only in the energy sector, and highest annual growth in the wages was registered in the construction and the services (mainly in the public administration and defense and in the healthcare), as well as in the manufacturing industry. On the other hand, within half of the activities *real* fall in the wages was registered, whereas the other activities registered moderate real positive changes (excluding the construction, where the real change was more intensive).

Figure 5
Average net-wage by sectors
(annual changes, in %)



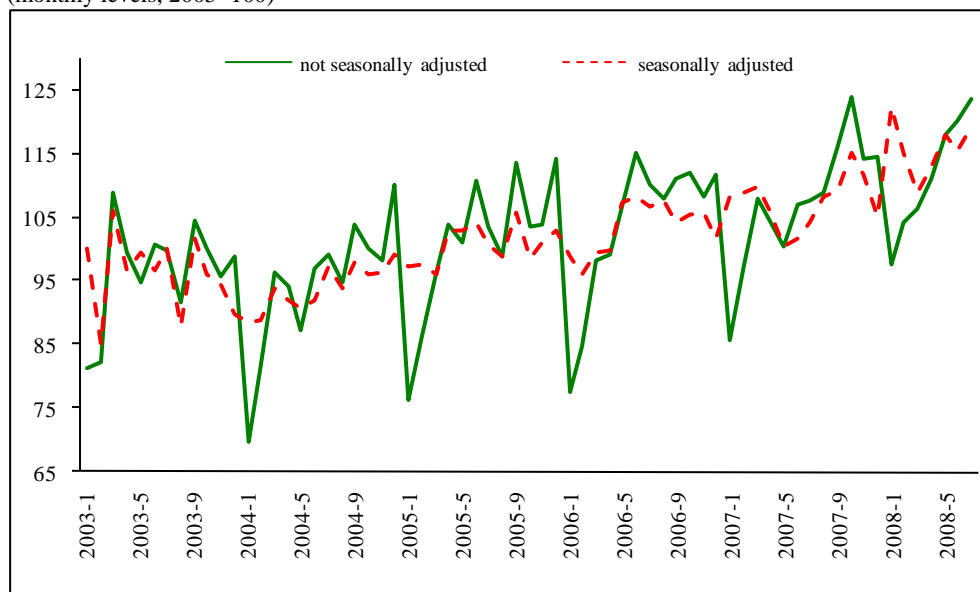
Source: State Statistical Office of the Republic of Macedonia.

3. ECONOMIC ACTIVITY

In August, the volume of the industrial output registered monthly fall of 4.3% (3% according to the data adjusted for seasonal effects) relative to July. The monthly fall in the output partially corresponded with the growth in the reserves of manufactured articles in the industry, the average of which in the last three months was higher than the average in the first five months of the year by 7%. The monthly dynamics of the industrial output reflected mostly the fall in the output of wearing apparel, the output of basic metals and other non-metal minerals, as well as the extraction of ores and quarrying. The negative performances in the metal industry represented mainly a result of the negative conjuncture in the global market, i.e. of the fall in the prices of metals which directly reflected with lower output of domestic products. The lower activity in this sector was confirmed also with the data on fall in the consumed electricity in August relative to July with some larger producers.

The monthly changes generated also fall in the annual growth in the volume of the industrial output, which in August reduced to 8.6% (opposite to the previous month when it equaled 14.7%), as a result of the lower output of building materials (by 16%), of basic metals (by 7.3%) and of electrical machines and apparatus (by 28.9%), which were the industrial branches that created about 1/4 of the total output and the annual growth of which was one of the main generators in the previous months. In the manufacturing sector, the output of metal products in the manufacturing phase still was the main career of the growth (annual growth by 3.1 times). In August, the output of oil derivatives also positively contributed (annual growth of 20.8% and it is a branch the output of which significantly fluctuated since the beginning of the year). The mining activity in August registered annual fall in the output of 5.2%, (which was due to the lower extraction of other ore and quarrying), whereas in the energy sector, the annual growth in the output was moderate equaling 1.4%. The cumulative growth in the industry equaled 9.7% in the period January - August 2008.

Figure 6
Industrial output index
(monthly levels, 2005=100)



Source: SSO and NBRM calculations.

In July the wholesale and retail trade registered growth of 13.6%, the telecommunications of 2.4%, and the construction of 9.2%⁶, relative to June 2008. Observed on annual basis, the growth in all three activities continued - the trade grew with rate of 20.8%, the telecommunications with 7.8%, and the performed building activities with 10.3%.

Concerning the upcoming building activity, the number of issued construction licenses by the Ministry of Urban Planning in August went from 281 in July up to 317 in August, but the total value of these projects was considerably lower equaling Denar 2.5 billion, which is by Denar 2.9 billion less than in July. Most of the facilities were buildings (81.4%) and simultaneously, for 84.5% of the projects natural persons were investors.

The high annual growth in the volume of industrial output in July and August, together with the positive tendencies in the domestic trade and in the telecommunication sector indicated positive tendencies in the real economy sector also in the third quarter of the year. The construction sector was an exception, where the annual growth in the value of the performed construction activities slowed down. Still, the negative conjuncture in the international metal market and the expectations on its further worsening represented significant risk till the end of the year, which may result in further drop in the industrial output and slowing down in the economic growth.

4. BALANCE OF PAYMENTS

In the first 7 months of 2008, on the current account of the balance of payments net outflows of Euro 456 million were realized, different from the same period of 2007 when surplus of Euro 70.8 million was realized. The considerable worsening in the current account was due to the deepened trade deficit (contribution of 88.3%) and to the lower net inflows from private transfers (contribution of 11.1%). Relative to the projection for the first three quarters, 95.6% of the projected amount was already realized in the first 7 months, when the trade deficit and net outflows from services were the basic factors for such exceeding. The realized deficit on the current account in July was almost at the projected level for the third quarter in 2008, in conditions when the assumption on repatriation of the dividend of one larger enterprise to the foreign investor in the third quarter of 2008 was not realized.

The dynamics of the private transfers was better than the projected one, which corresponds with the slowing down in the inflation growth. Thus, in July 2008 net inflows from foreign exchange operations of Euro 87 million were realized, which relative to the projection indicated realization of 41.4% of the envisaged. The exceeding of the projection was confirmed by the latest data on the realized net purchase in the foreign exchange market in the third quarter of 2008 (Euro 230.8 million), as well as on cumulative basis, so for the first three quarters of 2008 net purchase in amount of Euro 483 million was realized, opposite of the projected net inflows of about Euro 468 million. In September for the first time after a longer period, annual growth in the net inflows from the foreign exchange operations was realized. The summer season gave positive effect also on the services, so in July 2008 net inflows of Euro 4.3 million were realized as a result of the net inflows from traveling and investment activities, the effect of which was partially neutralized by the net outflows based on transportation services. However, relative to the projection for the third quarter, low percent of realization was registered, which was due to the higher realized outflows. In the income sub-balance, surplus of Euro 2.9 million was realized (relative to the deficit in July 2007), which resulted mainly from the lower payments of dividend based on foreign direct investments.

⁶ The data adjusted for seasonal effects indicated growth in the trade volume of 4.4%, in the telecommunications of 4%, whereas the construction registered fall of 1.6%.

The comparison of the realized with the projection for the third quarter showed considerable deviation from the projection, considering that in the third quarter a payment of dividend by one company was envisaged but it was not realized.

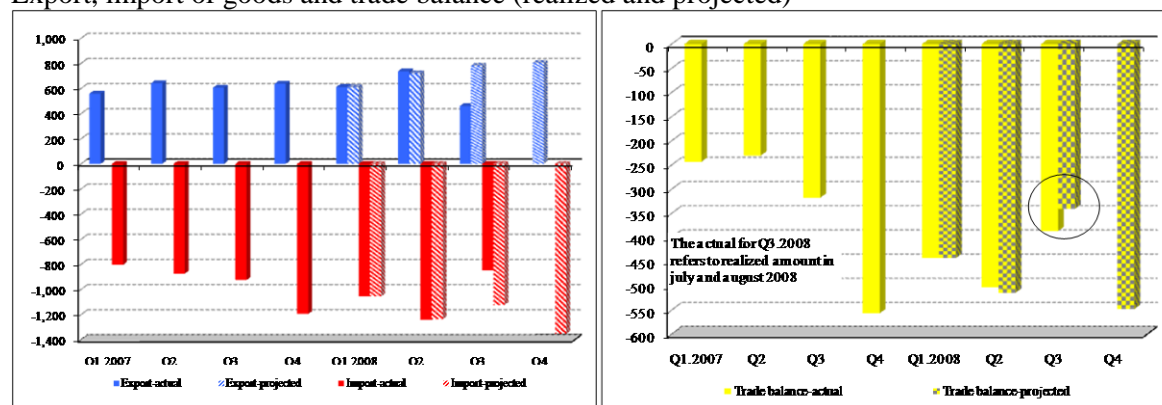
In July 2008, in the capital and financial account net inflows of Euro 67.2 million were realized, the largest part of which (73.8%) resulted from the foreign direct investments and the trade credits. Relative to the projection in August on the third quarter, the realized net inflows in the capital and financial account exceeded the envisaged amount, mainly because of the considerably higher realized trade credits than the envisaged. On cumulative basis, in the period January-July 2008 net inflows of Euro 518.1 million were realized, which relative to the projection for the first 9 months indicated exceeding of the projected amount, mainly as a result of the due unpaid liabilities, the exceeding of the projection in the trade credits and the currencies and deposits, as well to the higher percent of realization of direct investments.

Although the direct investments, net, in July 2008 registered small slowing down relative to the previous two months, still the realized amount represented 37% of the envisaged amount for the third quarter, which indicated to possibility for exceeding the projection. In the portfolio investments, positive trend was registered, i.e. for the first time in 2008 net inflows of Euro 3.1 million were realized (sale of equity securities), relative to the envisaged amount of Euro 5 million for the third quarter. However, the data from the Macedonian stock exchange showed variability in this area, so according to the data for September 2008, the participation of the foreign investors on the purchase side equaled 25.31%, and on the side of the sale - 38.08%.

In August 2008, in the foreign trade, the negative gap in the trade balance additionally deepened by 2.6 times on annual basis, mainly under influence of worsened trading conditions, with annual growth in the import of goods by 33.6% and decline in the export of goods by 9.9% being registered. On the side of the import, the higher import of mineral fuels, iron and steel and products thereof and ores was the basic factor for the realized growth, and they jointly contributed to the total growth with 83.9%. On the other hand, within the export of goods, the annual fall resulted mainly of the lower export of iron and steel and products thereof (contributing with 85.5% to the total change), which was mainly due to the fall in the prices of some of these products in the international stock exchanges and the lower demand.

Figure 7

Export, import of goods and trade balance (realized and projected)



Source: NBRM.

The negative trade balance (Euro 387 million), realized in the period July-August 2008 exceeded the projected amount for the third quarter by Euro 46 million. The realized export of

goods was under the projection (with percent of realization of 58.8%), with almost all export products, excluding the tobacco, the export of ferronickel (where the fall in the nickel price in the international stock exchanges was expected and included within the projection) and other iron and steel exporters. On the other hand, the realized import of goods exceeded the expected amount (with realization percent of 75.4%), which was mainly due to the exceeding of the projection on the import of investment and intermediary goods (higher import of iron and steel and vehicles), as well as the higher import of oil and oil derivatives (combined effect from the higher prices and quantities).

In the period January-August 2008, the trade deficit in the foreign trade registered worsening of 95.8% on annual basis, realized in conditions of intensified annual growth in the import than in the export of goods (36.9% and 12.1%, respectively). Within the import of goods, the largest part (38.6% of the overall growth) pertains to higher import of energy sources, which confirms the energy dependence of the domestic economy. The higher import of oil and oil derivatives, to a large extent, resulted from the growth in the world oil prices, whereas the quantity effect was lower. On the other hand, the growth in the import of electricity reflected the higher demand of electricity by 72.9%, as well as the import price which registered growth of 44.9%. Out of the other imported products, the iron and steel and products thereof gave more significant contribution to the total growth of 17.8% together with the contribution of the equipment and machines of 12.4% and the vehicles of 7.6%. On the side of the export, the oil derivatives dominantly participated in the higher total export (with 36.7%) which resulted from the raise in the price of the oil in the international stock exchanges and the higher foreign demand. The growth in the export was supported by the increase in the export of ores and wearing apparel and textile contributing with 21.8% and 12.3%, respectively. On the other hand, the continuous fall in the prices of the nickel in the international stock exchanges resulted in fall in the export of one of our largest metal manufacturing facilities, which negatively influenced on the overall export of iron and steel and products thereof resulting in annual fall in this category of 0.5%. Such developments in the both foreign trade components determined fall of 12.8 percentage points in the export-import coverage ratio on annual basis and it equaled 57.6%.

Relative to the revised projection in August 2008, the trade deficit realized in the first 8 months of 2008 exceeded the projected amount for the first quarters of 2008. Such deviations resulted from the lower value of the export relative to the projection with some more significant products (food, iron and steel and wearing apparel and textile), whereas the realized import was higher relative to the projection, which was mainly due to the higher import of mineral fuels (mostly the oil and oil derivatives) and of investment and intermediary products.

Table 1
Metal prices

	2006	2007	jul-sep 2007	oct-dec 2007	jan-march 2008	april-june 2008	july-sep 2008	july 2008	august 2008	september 2008
<i>US dollars per ounce</i>										
Gold	604.3	696.7	681.1	788.0	926.8	896.0	869.6	939.8	839.0	829.9
<i>US cents per ounce</i>										
Silver	1156.9	1,341.3	1,273.2	1423.5	1764.7	1720.0	1494.5	1806.4	1457.8	1219.3
<i>US dollars per metric tons</i>										
Steel cr coil sheet	693.8	650.0	650.0	650.0	762.5	900.0	1100.0	1100.0	1100.0	1100.0
Steel hr coil sheet	600.0	550.0	550.0	550.0	700.0	833.3	1000.0	1000.0	1000.0	1000.0
<i>US dollars per metric tons</i>										
Nickel	24,254.4	37,229.8	30,205.2	29,219.2	28,956.8	25,682.4	18,960.8	20,160.2	18,927.8	17,794.5

Source: World Bank.

In September 2008, the metal prices continued to fall mainly as a result of the lower global demand and the USA Dollar appreciation relative to the Euro (by about 4%). The silver registered largest decrease within the prices of precious metals in amount of 16.4%, whereas the gold minimally decreased by 1.1%. Out of the basic metals, the price of the nickel still registers fall (of

6%), which was mainly due to the low demand, whereas the prices of hot rolled sheet metals (which are important for most of the other enterprises in this sector) developed positively.

5. MONETARY AGGREGATES

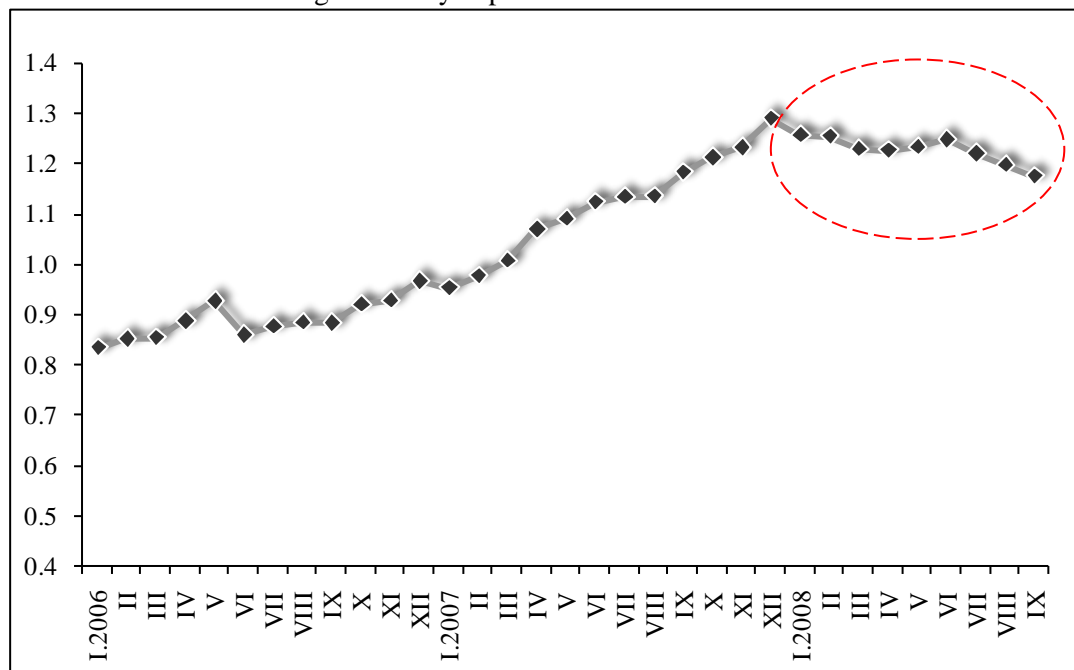
At the end of **September 2008, the reserve money**⁷ on annual basis, rose by 19.4% (11.8% in the previous month), which was solely due to the intensive annual growth in the total liquid assets of banks (of 41.2%), in conditions of fall in the level of the currency in circulation (of 1.2%). On monthly basis, the reserve money went up by 4.4%, when growth in the both components was registered. Thus, the currency in circulation on monthly basis rose by 1.1%, whereas the monthly growth in the total liquidity assets of banks equaled 6.9%. Analyzed with respect to the flows of creating and withdrawing liquidity, the monthly growth in the reserve money was mostly due to the realized high net purchase of foreign currencies in the foreign exchange market by NBRM. Creating liquidity was performed also through the monetary instruments (including the effect from the compulsory deposit in NBRM), whereas the net position of the Government with NBRM, in accordance with the realized high non-tax income in the budget based on dividend of one enterprise, contributed significantly towards withdrawal of liquid assets.

On cumulative basis (January - September 2008), the foreign currency transactions of NBRM and the monetary instruments acted towards creating reserve money. About 65% of such created liquidity was withdrawn through the net position of the Government with NBRM, so the reserve money realized growth relative to the end of the previous year. With respect to the projection for the end of the third quarter, the more intensive growth in the net foreign assets of NBRM (when the assumption on the repatriation of dividend of one company to the foreign investor did not realize), was mostly compensated through the stronger net position of the Government with NBRM relative to the projected one, which contributed for the level of the monetary instruments to be in accordance with the projected one. In such conditions, the reserve money registered moderate positive deviation relative to their level projected for the end of September (by 6.1%). Till the end of the year, the incorporated assumptions for considerable intensification in the budget expenditure (the projection implies realization of the projected budget deficit of 1.5% of GDP), with simultaneous fall in the current cumulating of foreign currency reserves being registered, created need for sterilization through the monetary instruments in the last quarter, when the annual growth rate of the reserve money in December 2008 would equal 10.2%.

In September 2008, **the total banks' deposit potential (without the deposit money)**, on monthly basis rose by Denar 387 million, or by 0.3%. The payment of a dividend of one company to the Government dominantly influenced the dynamics of the deposit base of the banks in this month and it resulted in single outflow of deposits of the corporative sector from the banking system. Still, the fall in the deposits of enterprises (by 3.2% on monthly basis) was largely neutralized through the growth in the new saving of the households in the banking sector, which on monthly basis rose by 1.7% (1.8% in the previous month) and it fully compensated the realized outflows. The higher level of foreign currency deposits created 77.5% of the monthly growth in the total household deposits in September.

⁷ Includes the compulsory reserve of foreign currency deposits. Without this component, the annual growth in the reserve money in September 2008 equaled 14.9%.

Figure 8
Correlation Denar* - foreign currency deposits

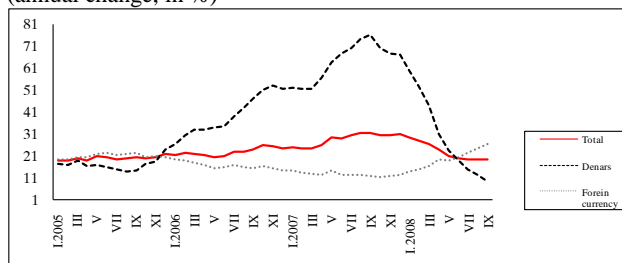


*Includes the deposit money.

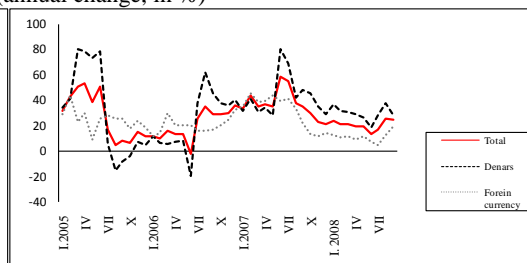
Source: National Bank of the Republic of Macedonia.

On annual basis (September 2008 / September 2007), the total deposits of the private sector with the banks went up by 22.2% (22.3% in the previous month), when annual growth in the Denar and foreign currency deposits was registered in amount of 18.8% and 25%, respectively (opposite of 23.7% and 21.2%, respectively, in August 2008). With respect to the sector structure, in September 2008 the annual growth rates of the deposits of household and of enterprises equaled 19.7% and 24.7%, respectively. The annual growth in the total deposits, including the deposit money amounted to 24.6% in September.

Figure 9
Deposits of households
(annual change, in %)



Deposits of enterprises
(annual change, in %)



Source: National Bank of the Republic of Macedonia.

In such conditions, in September 2008 **the broadest money supply M4** increased by 21.9% relative to the same month of the previous year (22.2% in the previous month), exceeding the projected rate of annual growth for the end of the third quarter by 5.4 percentage points. Such deviation of the money supply from the projected dynamics was largely due to the unrealized assumption on repatriation of the dividend of one large enterprise to foreign investor (of about Euro 70 million). With respect to the expectations till the end of the year, if this assumption is not

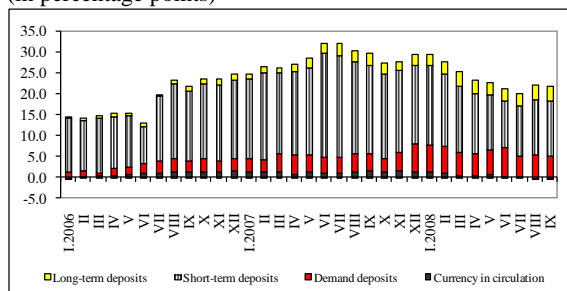
realized during the fourth quarter, realization of higher annual rate of the monetary growth than the projected one can be expected, which in December 2008 equaled 16.3%.

Figure 10

Money supply M4

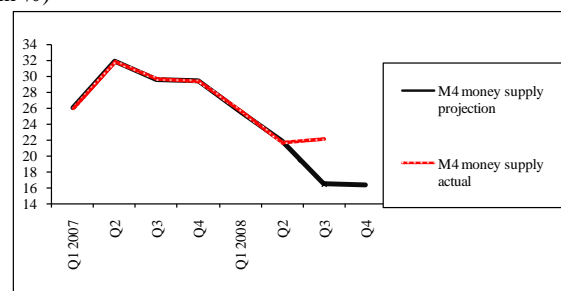
Contribution to the annual growth

(in percentage points)



Annual growth rates

(in %)



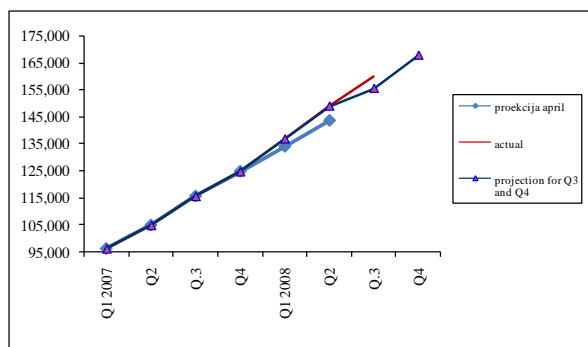
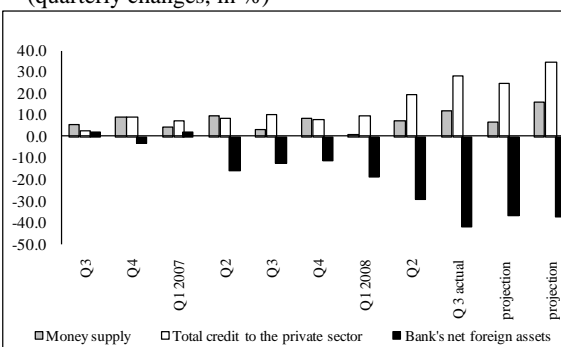
Source: National Bank of the Republic of Macedonia.

6. BANK CREDITS

In September 2008, the banks continued their credit activity with intensified dynamics relative to the previous month. Thus, **the total banks credits to the private sector** on monthly basis rose by Denar 4.101 million, or by 2.6% (relative to the growth of 1.4% in August), so the growth was largely determined by the Denar component (contribution of 71.1%). With respect to the sectors, different from August, when 64.5% of the growth in the total credits was oriented to the sector "households", in September, the banks mostly oriented towards crediting the corporative sector (contribution of 66.8%). Consequently, the credits to enterprises registered more intensified monthly growth (of 2.9% relative to 0.8% in August), whereas the placements to the households grew with almost identical dynamics as in the previous month (2.2% in September, opposite of the growth of 2.3% in August).

Figure 11

Credits to the private sector

Sources of financing
(quarterly changes, in %)*

* The realization for the third quarter, as well as the projections for the third and the fourth quarter of 2008 are cumulative changes relative to the end of 2007.

Source: National Bank of the Republic of Macedonia.

On annual basis, continuous slowing down in the growth rates with the placements to the household was registered, so in September 2008 it reduced to 47.6%. But, despite the lower

intensity of crediting to the household, the banks exceeded the set growth rate for September⁸ (cumulative growth relative to May of 10.3%), i.e. they placed 1.4 percentage points over the level determined in the Decision. Simultaneously, the credit placements with the corporative sector grew with annual growth rate of 33%. Such developments with the sector distribution resulted in slowing down in the growth rate of the total placements of banks to the private sector on annual basis of 1.5 percentage points. Thus, in September 2008, the growth in the total credit activity equaled 38.4%, which relative to the projection indicated exceeding of the expected level for the third quarter (by 3.9 percentage points). Still, if the same dynamics of the growth continues also in the last quarter, the annual growth in the credits to the private sector may be expected to be close to the projected value for the end of the year of 34.6%.

In September 2008, the **net foreign currency assets of banks** registered monthly fall of Denar 2.990 million, i.e. 25%, in conditions of simultaneous fall in the foreign currency assets of banks (by Denar 3.710 million, or by 10.2%) and the foreign currency liabilities (by Denar 720 million, or by 3%). Relative to the end of 2007, the net foreign currency assets of banks went down by Denar 6.492 million, or by 42%.

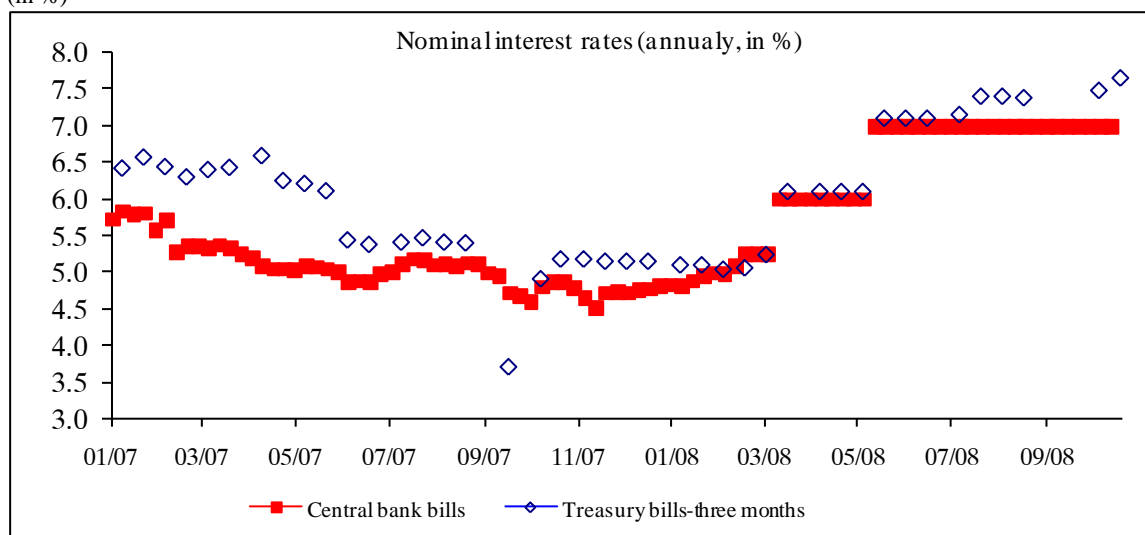
7. INTEREST RATES AND FOREIGN EXCHANGE RATE

In the period October 1 - October 21, 2008 three **auctions of CB bills** were held (on 01.10.2008, 08.10.2008 and on 15.10.2008), with volume tender and fixed interest rate of 7% being applied, Denar 2.876 million were withdrawn. As of October 10, 2008, the gross foreign reserves amounted to Euro 1.710 million and relative to the end of 2007 they rose by Euro 178.6 million.

On October 7, 2008 and on October 21, 2008 auctions on **three-month Treasury bills** were held, where in conditions of higher supply than the demand, interest rates of 7.48% and 7.65%, respectively, were realized. On October 7, 2008 an **auction of six-month Treasury bills** was held, when in conditions of higher supply than the demand, interest rate of 7.86% was realized (relative to 7.68% on the last auction). The average interbank interest rate in the bilateral trading of banks in the period October 1 - October 20, 2008 amounted to 4.74% on average (4.62% in September 2008).

⁸ Decision on Compulsory Deposit with NBRM.

Figure 12
Interest rates
(in %)

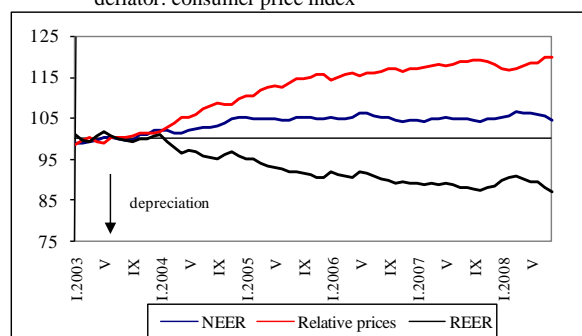


Source: National Bank of the Republic of Macedonia.

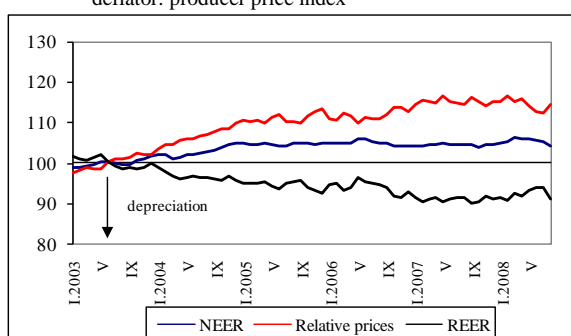
In the area of the **interest policy of banks**, in August the average weighted interest rate of the Denar credits for all maturities and sectors kept the level of the previous month equaling 9.6%, while the average weighted interest rate of the Denar deposits for all maturities and sectors registered growth equaling 6% (opposite of 5.9%). Within the Denar credits intended for the enterprises, monthly growth in the interest rate of the short-term credits without FX clause by 0.1 percentage point was registered, when the interest rate of the long-term credits with FX clause registered decrease by 0.1 percentage point, whereas with the other interest rates no changes were registered. In the sector "households" growth in the short-term credits without FX clause by 0.2 percentage points was registered, when the interest rate of the long-term credits with FX clause registered fall by 0.1 percentage point. Within the foreign currency interest rates, monthly drop in the interest rate of the foreign currency credits by 0.1 percentage point was registered, when it equaled 8%, whereas the deposit foreign currency interest rate registered monthly growth equaling 2.4% (opposite of 2.3%).

In August 2008, the index of the **real effective foreign exchange rate of the Denar** deflated with the consumer price index depreciated by 1.1% on monthly basis (so the trend which started this year in May continued), which was almost solely due to the depreciation of the nominal effective foreign exchange rate of the Denar by 1%. In the same time, this indicator also registered depreciation of 1.1% on annual basis (which was mainly due to the intensified monthly growth in the foreign than in the domestic prices), whereas on cumulative basis appreciation of 0.8% was realized, which was mainly due to the lower appreciation of NEER (of 0.9%). The index of REER of the Denar deflated with the producer price index in August 2008 realized intensified depreciation of 2.9%, in conditions of depreciation of NEER and more dynamic fall in the domestic prices relative to the foreign prices. In the same time, observed on annual basis, after appreciation of six months, it depreciated by 0.3%, as a result of the depreciation of NEER (by 0.3%), whereas on cumulative basis, it realized depreciation (of 1.4%), which was due to the appreciation of NEER, with simultaneous more intensive growth in the domestic than in the foreign prices. Such dynamics of REER deflated with both indices, the consumer price index and the producer price index, indicated improved competitiveness in the domestic products on the foreign markets.

Figure 13
Index of NEER, relative prices and REER of the Denar
deflator: consumer price index



deflator: producer price index



Source: NBRM, IMF-IFS for July 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

	change in %			contribution to change in percentage points		
	<u>IX.2008</u> VIII.2008	<u>IX.2008</u> IX.2007	<u>I-IX.2008</u> I-IX.2008	<u>IX.2008</u> VIII.2008	<u>IX.2008</u> IX.2007	<u>I-IX.2008</u> I-IX.2008
Consumer prices	-0.2	7.1	9.3	-0.2	7.1	9.3
Food	0.1	11.8	17.7	0.05	4.51	6.78
Grain products	2.0	27.4	27.7	0.15	2.04	2.06
Fresh and processed vegetables	2.5	-5.4	17.6	0.14	-0.30	0.99
Fresh and processed fruits	-6.2	7.6	23.1	-0.19	0.23	0.70
Meat and poultry	0.7	8.6	7.8	0.05	0.66	0.59
Fresh and cooked fish	1.9	8.6	6.0	0.02	0.08	0.06
Dairy products	0.1	20.2	20.6	0.00	1.17	1.19
Eggs	0.6	16.8	16.0	0.01	0.21	0.20
Oils and fats	-4.3	10.0	42.5	-0.09	0.21	0.89
Tobacco and beverages	0.1	4.3	3.9	0.00	0.22	0.21
Clothing and footwear	-0.2	1.1	2.3	-0.02	0.08	0.18
Housing	0.5	7.7	4.5	0.07	1.17	0.67
Flat (rent, water and other services)	0.4	5.7	6.2	0.01	0.21	0.23
Fuel and lighting	0.5	10.2	4.8	0.05	0.91	0.42
Heating and services	1.3	30.0	12.8	0.04	0.92	0.39
Electric power	0.0	0.0	0.5	0.00	0.00	0.03
Hygiene and health	0.7	1.3	1.3	0.05	0.11	0.10
Culture and entertainment	1.0	0.4	0.0	0.06	0.02	0.00
Transport and communication services	-2.8	2.8	5.1	-0.39	0.40	0.73
Fuels and lubricants	-4.6	18.9	21.3	-0.18	0.72	0.81
Public transport services & PTT	-0.4	-4.1	-4.7	-0.02	-0.25	-0.28
Restaurants and hotels	0.0	11.2	12.3	0.00	0.57	0.63
Other services n.e.c.	-6.9	-6.1	5.3	-0.02	-0.02	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	Q3	Jul-08	Aug-08	Sep-08
Inflation (CPI)	3.2	2.3	0.7	1.1	2.4	4.9	9.5	9.9	8.4	9.5	8.6	7.1
Core inflation (excluding food and energy)	1.1	0.7	0.2	0.8	1.1	1.2	2.8	2.8	2.5	2.8	2.7	1.9
Regulated prices	5.7	3.3	4.2	3.0	2.0	4.1	7.4	9.2	12.5	11.4	13.2	12.8
Industrial producer prices	4.5	1.6	1.0	1.2	1.6	4.1	10.5	13.6	15.1	17.2	13.8	14.5
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	-	10.5	-	-
Real net-wage	4.0	5.5	5.0	5.3	5.0	6.6	0.9	0.0	-	1.0	-	-

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	Jun-08	Jul-08	Aug-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	12.3	14.7	8.6
Construction	-12.3	7.6	9.4	-18.6	18.0	23.3	29.1	57.3	36.8	10.3	-
Retail and wholesale trade	2.5	24.2	25.1	17.2	21.2	28.6	19.1	18.4	17.1	20.8	-
Telecommunications	-1.0	15.6	11.1	17.1	15.9	18.1	12.1	7.4	6.9	7.8	-

Source: State Statistical Office of the Republic of Macedonia.

Table 4
Selected industrial branches

Selected industrial activities (annual rates, %)	2006	2007	2007				2008		Aug.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	-5.2	-0.2
Manufacture of food products and beverages	0.1	7.7	12.0	0.6	9.5	9.6	5.3	6.0	3.0	0.5
Manufacture of tobacco products	5.5	-0.8	19.0	-14.4	-16.8	41.1	13.8	15.4	6.4	0.4
Manufacture of wearing apparel	-3.7	-14.5	-4.6	-19.8	-17.9	-14.2	-16.5	-22.7	-23.2	-2.0
Printing	-17.9	-12.2	13.3	-11.5	-18.2	-22.9	7.8	72.2	48.3	1.5
Manufacture of refined petroleum products	12.3	-2.4	20.6	-11.1	1.3	-16.8	3.3	50.9	20.8	1.0
Manufacture of other non-metallic mineral products	14.0	3.8	51.5	4.2	-2.6	-15.9	-10.9	-3.2	-16.0	-1.5
Manufacture of basic metals	11.8	34.3	57.4	35.2	25.3	26.7	9.5	15.7	-7.3	-1.2
Manufacture of fabricated metal products	5.7	45.6	6.0	5.4	51.7	112.0	29.7	11.8	2.1 times	9.0
Manufacture of electrical machinery and equipment	3.7	-24.4	-45.1	-37.4	-12.3	1.0	45.6	64.9	-28.9	-1.0
Manufacture of other transport equipment	-6.9	33.4	128.7	-48.6	74.6	50.5	9.8	143.1	-45.9	-0.7
Recycling	12.8	-35.6	20.7	-57.5	-88.5	-4.2	105.6	262.2	58.1 times*	0.8
Electricity, gas, steam and hot water supply	-0.6	-9.5	-9.1	-20.8	-8.7	-1.1	-0.8	1.9	1.4	0.1

* 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
	Q1	Q2	Q3	Q4		I	II	III	IV	V	VI	VII	Q1	Q2		
I. Current Account	41.0	51.0	8.4	-271.2	-170.9	-32.9	-73.8	-74.8	-64.8	-56.6	-104.4	-48.7	-181.5	-225.8	-456.0	
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	-176.2	-371.4	-461.3	-1,008.9	
Exports, 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	264.9	611.2	735.8	1,611.9	
Imports, 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	-441.1	-982.7	-1,197.1	-2,620.8	
SERVICES, net	-1.2	1.1	23.3	2.4	25.5	8.7	-5.5	-4.0	-2.5	-0.9	-5.2	4.3	-0.8	-8.6	-5.0	
INCOME, net /5	29.7	-9.2	-37.7	-16.1	-33.4	13.1	4.2	-2.5	2.4	-5.2	-12.9	2.9	14.9	-15.7	2.1	
o/w: interest, net	-2.0	-5.1	-2.5	-8.3	-17.9	0.3	-2.0	-5.1	-4.0	-8.4	-7.8	-4.8	-6.8	-20.2	-31.7	
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	120.2	175.8	259.7	555.8	
Official	8.6	17.1	10.7	-12.4	23.9	0.5	4.4	2.7	4.6	6.6	11.0	5.2	7.7	22.2	35.1	
Private	214.9	249.7	310.5	210.7	985.8	59.9	54.5	53.8	70.8	83.9	82.8	115.0	168.1	237.5	520.6	
II. Capital and Financial Account	-42.9	-46.9	8.9	275.2	194.3	38.0	75.2	80.8	68.3	59.1	113.8	53.2	194.1	241.3	488.6	
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	0.1	-1.0	-2.7	-3.6	
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	0.2	-1.0	1.0	0.1	
Official	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other	-1.3	1.5	0.6	-1.9	-1.1	-0.3	-0.3	-0.4	0.9	0.3	-0.1	0.2	-1.0	1.0	0.1	
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	0.0	-3.7	-3.7	
FINANCIAL ACCOUNT, net	-41.6	-48.3	5.2	277.7	192.9	38.4	75.6	81.2	67.5	58.9	117.7	53.0	195.1	244.0	492.2	
Direct investment, net	20.1	63.9	40.4	115.7	240.1	40.2	69.2	28.0	29.9	63.0	52.0	28.5	137.3	144.9	310.7	
Portfolio investment, net	20.5	45.6	24.5	20.2	110.8	-0.9	-3.4	-3.9	-4.4	-4.2	-2.6	3.1	-8.3	-11.2	-16.3	
Other investment, net	-87.5	-146.7	41.7	136.1	-56.3	-7.4	21.7	43.7	22.8	13.1	97.9	35.4	58.0	133.8	227.3	
Trade credits, net	-33.6	-65.0	1.7	63.4	-33.5	-6.8	0.5	-5.9	23.4	-1.7	36.5	21.1	-12.2	58.2	67.1	
Loans, net	-42.3	-124.7	12.6	46.7	-107.7	-3.7	-0.7	1.4	1.9	-12.1	38.8	3.8	-3.0	28.6	29.4	
Currency and deposits, net	-16.8	20.2	12.8	-10.3	5.9	-4.0	19.7	45.1	-8.3	0.0	16.0	7.0	60.8	7.7	75.6	
o/w: 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	0.0	10.7	5.9	16.6	
o/w: Commercial Banks, net	-3.8	41.2	26.9	4.2	68.4	-9.4	19.4	37.2	-8.3	-1.8	19.4	2.7	47.2	9.2	59.2	
o/w: Individuals, net	-12.9	-20.9	-14.0	-14.5	-62.3	-1.9	0.1	4.7	0.2	-4.2	-3.4	4.3	2.9	-7.4	-0.2	
Other, net	5.2	22.9	14.6	36.3	78.9	7.1	2.1	3.2	5.8	26.9	6.6	3.5	12.4	39.3	55.2	
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	-14.0	8.0	-23.5	-29.5	
III. Errors and Omissions	2.0	-4.1	-17.2	-4.0	-23.4	-5.1	-1.5	-6.1	-3.5	-2.5	-9.4	-4.4	-12.6	-15.5	-32.5	

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, 2007 and 2008 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.

Table 6
Foreign trade

	VIII.2008	I-VIII.2008	VIII.2008		VIII.2008		I-VIII.2008	
			VII.2008		VIII.2007		I-VIII.2007	
			amount	%	amount	%	amount	%
Total trade	580.7	4,950.6	-145.0	-20.0	76.0	15.1	1,041.5	26.6
Export	194.0	1,809.4	-71.8	-27.0	-21.2	-9.9	194.9	12.1
Import	386.7	3,141.2	-73.1	-15.9	97.3	33.6	846.6	36.9
Balance	-192.7	-1,331.8	1.3	-0.7	-118.5	159.7	-651.7	95.8

Source: State Statistical Office of the Republic of Macedonia.

Table 7
Monetary developments in September 2008

	31.12.2006	31.12.2007	31.03.2008	30.06.2008	31.07.2008	31.08.2008	30.09.2008	monthly changes (31.08.2008/ 31.07.2008)		annual changes (31.08.2008/ 31.08.2007)
	actual	actual	actual	actual	actual	actual	actual	in Denar million	in %	in %
<i>in Denar million</i>										
Broad money M4	135,641	175,553	178,277	189,663	192,116	196,689	197,053	364	0.2	22.1
Currency in circulation	16,206	17,927	15,746	16,180	16,763	16,376	16,552	176	1.1	-1.2
Denar deposits ¹	58,997	89,077	90,102	96,889	96,886	98,788	98,037	-751	-0.8	24.6
Foreign currency deposits	60,438	68,549	72,429	76,594	78,467	81,525	82,464	939	1.2	25.0
Total deposits	119,435	157,626	162,531	173,483	175,353	180,313	180,501	188	0.1	24.8
Reserve money ²	31,264	37,586	34,223	38,854	40,115	37,214	38,844	1,630	4.4	19.4

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	30.06.2008	31.07.2008	31.08.2008	30.09.2008	monthly changes (31.08.2008/ 31.07.2008)		annual changes (31.08.2008/ 31.08.2007)
	actual	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	160,222	4,101	2.6	38.4
In Denar	66,413	94,496	105,345	114,910	118,047	119,487	122,402	2,915	2.4	40.8
In Foreign currency	23,369	30,379	31,705	34,296	35,871	36,634	37,820	1,186	3.2	31.1
Banks' net foreign assets	22,926	15,459	12,550	10,991	10,649	11,946	8,956	-2,990	-25.0	-48.4

Source: National Bank of the Republic of Macedonia.

Table 8
Monetary aggregates
(in %)

in %	end of period to the end of previous period							y - o - y							
	2007				2008			2006	2007				2008		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3		Q1	Q2	Q3	Q4	Q1	Q2	Q3
M0	-6.1	8.5	2.2	15.5	-8.9	13.5	-0.02	21.4	18.9	18.2	18.9	20.2	16.6	22.0	19.4
M1	-1.4	6.0	8.3	16.3	-6.9	11.1	0.50	17.1	22.5	18.0	22.6	31.7	24.4	30.4	21
M4	4.7	9.7	3.7	8.8	1.3	6.3	4.0	24.9	26.4	32.2	29.9	29.5	25.3	21.4	21.9
M4-denar	5.1	14.1	5.9	12.2	-1.5	6.6	1.6	30.8	33.1	44.3	43.8	42.6	33.6	24.8	19.7

Source: National Bank of the Republic of Macedonia.

Table 9

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

		Balance as of 30.09.2008	monthly changes		annual changes	
			in Denar million	in %	in Denar million	in %
Total deposits		148,433	387	0.3	26,920	22.2
In Denar	Households	36,699	378	1.0	3,198	9.5
	Enterprises	25,614	-1,096	-4.1	5,728	28.8
	Total	65,969	-552	-0.8	10,426	18.8
In Foreign currency	Households	61,953	1,306	2.2	13,016	26.6
	Enterprises	20,188	-438	-2.1	3,348	19.9
	Total	82,464	939	1.2	16,494	25.0
Total households deposits		98,652	1,684	1.7	16,214	19.7
Total enterprises deposits		45,802	-1,534	-3.2	9,076	24.7

* 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 30.09.2008	monthly changes		annual changes	
			in Denar million	in %	in Denar million	in %
Total credit to the private sector		160,222	4,101	2.6	44,468	38.4
In Denar	Households	59,498	1,230	2.1	18,282	44.4
	Enterprises	62,570	1,692	2.8	17,142	37.7
	Total	122,402	2,915	2.4	35,494	40.8
In Foreign currency	Households	4,333	134	3.2	2,295	112.6
	Enterprises	33,468	1,050	3.2	6,670	24.9
	Total	37,820	1,186	3.2	8,974	31.1
Total credit to the households		63,831	1,364	2.2	20,577	47.6
Total credit to the enterprises		96,038	2,742	2.9	23,812	33.0

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	Q1	Q2	Q3
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	30.5
	Long-term	75.0	75.2	75.6	74.9	73.2	72.3	70.8	70.8	70.1	69.8	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	55.7
	Overdrafts	63.9	68.1	84.9	103.7	125.2	136.9	131.4	112.3	89.6	72.1	56.2
	Credits for other purposes	32.6	26.8	26.0	31.0	33.9	38.8	45.5	48.7	53.2	45.8	36.6

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	Q1	Q2	Q3
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	44.9
	Long-term	45.6	46.2	49.0	51.4	52.9	54.0	53.8	56.1	55.1	55.4	55.1
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	29.2
	Long-term	36.1	34.0	30.8	41.1	45.7	44.6	45.8	41.6	38.4	38.2	36.2
	In Denar	3.4	14.3	14.2	21.3	22.6	20.2	32.9	29.9	37.4	42.2	37.7
	In Foreign currency	42.0	38.5	31.0	32.4	31.4	30.2	32.6	29.4	25.6	22.2	24.9

Source: National Bank of the Republic of Macedonia.

Table 13
Liquidity creation and withdrawal*

	31.12.2007	31.08.2008	20.10.2008	cumulatively I - IX. 2008	20.10.2008 / 30.09.2008
<i>in millions of denars</i>	balance			flow	
Bank's liquidity (bank's account with NBRM)	10,415	10,191	7,834	-224	-2,357
Autonomous factors (total)	84,009	78,238	81,623	-3,771	1,229
Currency in circulation	17,969	16,702	17,320	1,267	-618
Foreign exchange transactions of the NBRM	73,958	79,568	80,253	5,610	685
Government denars deposits with NBRM	-9,842	-20,223	-18,601	-10,381	1,622
Bank's cash in valuts	1,924	2,191	2,651	-267	-460
Monetary instruments:	-25,555	-21,483	-24,665	4,072	-3,182
CB bills auctions	-20,995	-20,016	-22,892	979	-2,876
Treasury bills for monetary policy purposes	-4,560	0	0	4,560	0
Compulsory deposit with the NBRM	0	-1,467	-1,773	-1,467	-306
Other items	-8,253	-8,778	-9,182	-525	-404

* Last available data on 16.07.2008.

Source: National Bank of the Republic of Macedonia.

Table 14
Interest rates

	Sep.08	monthly changes	annual changes
	in %	in percentage points	
Average weighted interest rate on the CB bills auctions (28 days)	7.0	0.0	2.2
Average weighted interest rate on the Money Market*	5.03	-0.1	1.8
Interest rate on three-month treasury bills	7.4	0.0	3.7
	Aug.08	monthly changes	annual changes
	in %	in percentage points	
Banks' weighted lending interest rates	9.6	0.0	-0.4
Banks' weighted deposit interest rates	6.0	0.1	1.0

* Pertains to bilateral trading

Source: National Bank of the Republic of Macedonia.