

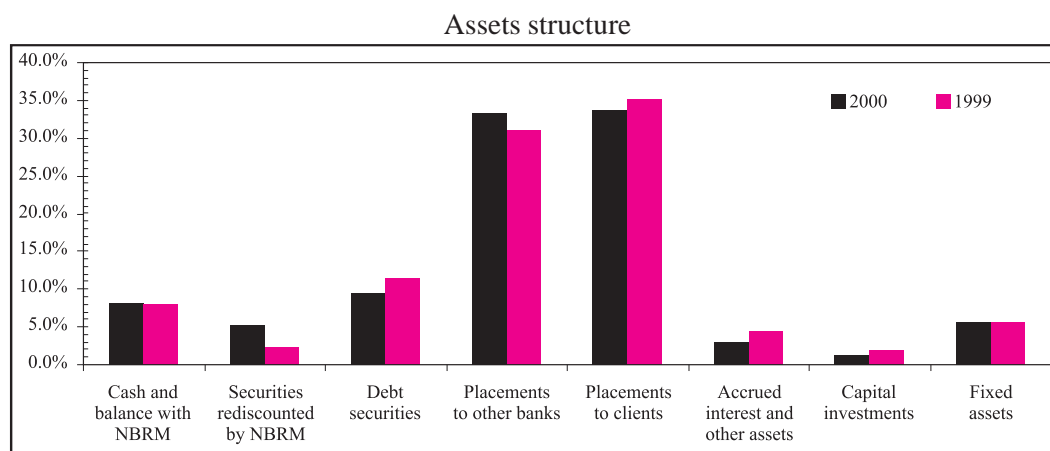
3. ANALYSIS OF THE BALANCE SHEET OF THE BANKS IN THE REPUBLIC OF MACEDONIA

3.1. Assets

The upward trend of the total assets of the banks in the Republic of Macedonia registered in the previous years continued in 2000. As a result, the total net assets of the banks reached Denar 81,999 million on December 31, 2000 and compared to the same period of the previous year, it is an increase in nominal and real terms of 13.5% and 9.5%,¹ respectively. The higher growth rate of the total banks' assets relative to the increase in the gross domestic product (GDP) in 2000 increased the ratio total assets /GDP by 1.2 percentage points, thus reaching 38.2% at the end of 2000. Such a share in the total banks' assets in the GDP is still considerably low, thus indicating the insufficiency of the banks in performing their intermediary function in the economy.

The basic factors, which increased the banks' assets in the Republic of Macedonia in 2000, are the growth of deposits and capital, primarily due to several significant foreign investments. Out of 22 banks operating in the Republic of Macedonia at the end of 2000, 18 banks registered increase in their assets, ranging from 0.7% to 102.4%.

Chart 5



The increase in the total banks' assets in 2000 is primarily manifested through the growth in the placements to clients, placements to other banks and securities rediscounted by the NBRM (Balance Sheet – Annex 1). As of December 31, 2000, these three items comprise slightly more than 2/3 of the total aggregated assets of the Macedonian banks. Due to the significant increase in the total assets compared to the Placements to clients, their structural share in the total assets decreases.

¹ The increase in real terms is a result of the funds of the banking system deflated by the growth rate of the costs of living which equaled 6.1% in 2000.

3.1.1. Banks' Credit Operations

In 2000, the credit operations of the banks in the Republic of Macedonia intensified. As of December 31, 2000, the gross placements to clients (non-financial legal entities and households) amounted to Denar 36,744 million, which is an increase of Denar 3,493 million, or 10.5% relative to the same period of the previous year. The most important factors contributing to the upward trend of the credits to economic sector and households extended by the banks in the Republic of Macedonia in 2000 are the following: improvement of the surrounding conditions, increased foreign investments and banks' deposit potential, abolishment of the credit ceilings of the Denar placements, as well as decrease in the compulsory reserve for the foreign exchange savings deposits of the households.

The maturity structure of the placements to clients (credit placements) in 2000 does not indicate significant changes compared to 1999. The short-term credit placements continue to have the highest share (39.6%), followed by the long-term credits with structural share of 32.32% in the gross credits. The categories "overdue credits and non-performing placements increased their share, thus accounting for 7.6% and 20.42% respectively, in the structure of gross credits.

The structural analysis of the credits by beneficiaries indicates dominant share of the credits to enterprises (85.3%), which on a gross basis at the end of 2000, amounted to Denar 31,328 million, which is an increase of Denar 2,936 million or 10.3% compared to the previous year. At the end of 2000 compared to the end of 1999, the credits to households increased by Denar 1,108 million or by 42.5%, thus amounting to Denar 3,713 million. Thus, in 2000 their share in the credits to non-financial entities increased by 2.9 percentage points, reaching 10.1% at the end of 2000.

Table 3

Structure of Credits Extended to Non-financial Entities

(in thousand Denar)

Period	Beneficiaries	Enterprises		Other clients		Households		
	Maturity	Denar	Foreign exchange	Denar	Foreign exchange	Denar	Foreign exchange	Total
2000	Over due	2,259,943	165,119	44,529	281,858	43,721	0	2,795,170
	Short-term	11,078,827	1,592,056	257,651	409,514	1,229,254	0	14,567,302
	Long-term	6,033,536	3,237,372	317,542	213,383	2,075,403		11,877,236
	Non-performing	5,516,623	1,444,090	134,755	44,235	362,900	2,322	7,504,925
	Gross credits	24,888,929	6,438,637	754,477	948,990	3,711,278	2,322	36,744,633
	Provisions for potential losses							-9,019,692
	Net credits							27,724,941
	Beneficiaries	Enterprises		Other clients		Households		
1999	Maturity	Denar	Foreign exchange	Denar	Foreign exchange	Denar	Foreign exchange	Total
	Over due	1,793,453	351,601	4,711	25,475	40,401	0	2,215,641
	Short-term	9,345,329	2,723,822	915,544	631,097	1,074,062	0	14,689,854
	Long-term	5,791,048	3,501,804	295,659	65,716	1,216,579		10,870,806
	Non-performing	3,389,714	1,495,477	308,565	7,608	271,921	1,758	5,475,043
	Gross credits	20,319,544	8,072,704	1,524,479	729,896	2,602,963	1,758	33,251,344
	Provisions for potential losses							-7,825,096
	Net credits							25,426,248

The structure of the currency of denomination of the credits at the end of 2000 indicates that 53.1% of the total credits extended by banks are Denar credits, 26.8% are Denar credits with foreign exchange clause, while the remainder of 20.1% are foreign exchange credits extended based on withdrawn international credit lines. The share of the foreign

exchange credits in the total credits relative to the previous year registered a decline of 6.4 percentage points.

The upward trend of intensifying the banks' credit activities in 2000 can also be noted from the movements in the credit placements shown in Table 4. Out of the total extended credits in the amount of Denar 55,904 million, 94.8% are newly extended and prolonged credits in the year, while only 5.5% are placements based on off-balance sheet items covered by the banks. In 2000, Denar 50,386 million were collected, whereas Denar 2,024 million were write-offs, thus increasing the provisions for potential losses by Denar 1,194 million.

Table 4

Movements in the Credits in 2000

(in thousand Denar)	
As of January 1, 2000	25,426,248
Increase during the year	55,904,572
- Extended credits	52,987,630
- Placements based on off-balance sheet items covered by banks	2,916,942
Decrease during the year	-52,411,283
- Collections in the year	50,386,691
- Write offs	2,024,592
Increase in the provisions for potential losses	-1,194,596
As of December 31, 2000	27,724,941

3.1.2. Placements to banks

The share of placements to domestic and foreign banks equals 33.3%, which according to the size is second item in the assets of the aggregated balance as of December 31, 2000. Compared to the end of 1999, the placements to banks increased by Denar 4,919 million or by 22%, thus amounting to Denar 27,285 million at the end of December 2000. Thus, this balance sheet item registered the most significant increase in 2000. Structurally observed, the category "accounts with foreign banks" has dominant share within the framework of placements to banks (88.5%), which bears the overall increase of placements to banks in 2000. Hence, it can be concluded that a considerable amount of the effects of further capitalization of the banks in 2000, achieved primarily through foreign investments, is placed on accounts with foreign banks. This indicates that the banks in the Republic of Macedonia are capable of further intensification of the financial support to the economic sector and household crediting.

The largest portion of the placements to domestic and foreign banks is with up to 3 months maturity. Analyzing by currency in denomination, the largest portion or 95% of the placements are denominated in foreign currency.

The analysis of the credits placed to other banks indicates that the banks in 2000 placed Denar 33,013 million, 99.7% of which are credits extended to domestic banks directly or through the Money Market, while the remainder is off-balance sheet items covered by banks based on guarantees or sureties issued by other banks. Out of the total amount of credits placed to other banks at the end of 2000, 40.51% are credits extended by the Macedonian Bank for Development Promotion, which performs its credit activity by placing funds through the commercial banks in the Republic of Macedonia.

Table 5

**Structure of Placements to Domestic and Foreign Banks and
Movements of the Credits Extended to Other Banks in 2000**

(in thousand Denar)

2000	Denar	Foreign exchange	Total	
Accounts with other banks	0	25,859,667	25,859,667	As of January 1, 2000 1,915,178
Over due	277		277	Increase during the year 33,013,446
Short-term	1,036,091	67,166	1,103,257	- Extended credits 32,927,603
Long-term	316,592		316,592	- Placements based on off-balance sheet items covered by banks 85,843
Non-performing	5,130	311	5,441	
Gross credits extended to other banks	1,358,090	67,477	1,425,567	Decrease during the year -33,503,057
Provisions for potential losses	0	0	0	- Collections in the year -33,503,057
Net credits extended to other banks	1,358,090	67,477	1,425,567	- Write offs
Total placements to other banks	1,358,090	25,927,144	27,285,234	

1999	Denar	Foreign exchange	Total	
Accounts with other banks	0	20,450,871	20,450,871	Increase in the provisions for potential losses 0
Over due	8,991		8,991	
Short-term	1,537,848	49,429	1,587,277	As of December 31, 2000 1,425,567
Long-term	308,480		308,480	
Non-performing	10,419	11	10,430	
Gross credits extended to other banks	1,865,738	49,440	1,915,178	
Provisions for potential losses	0	0	0	
Net credits extended to other banks	1,865,738	49,440	1,915,178	
Total placements to other banks	1,865,738	20,500,311	22,366,049	

3.1.3. Placements in Securities Rediscounted by the NBRM and Placements in Debt Securities

The largest portion of securities in the balances of the Macedonian banks is securities rediscounted by the NBRM and government bonds issued by the Republic of Macedonia on various bases.

At the end of 2000, the securities rediscounted by the National Bank of the Republic of Macedonia i.e. the CB bills, amounted to Denar 4,377 million or 5.3% of the net assets of the banking system, which is a 154.8% increase compared to the same period of the previous year. Most of them (Denar 2,667 million or 60.9%) were subscribed in December 2000 by Stopanska Banka a.d. Skopje, based on funds received by the Budget of the Republic of Macedonia, which should be used for settlement of the liabilities of the Republic of Macedonia based on the old foreign exchange savings.

At the end of 2000, the share of the debt securities in the structure of the total assets of the banking system equaled 9.4%. The largest portion of these funds or 90.6% was government securities. Most of them or 97.6% were government bonds issued on a basis of restructuring of Stopanska Banka a.d. Skopje, in accordance with the Law on Guarantee of the Investment of Strategic Investors and for overtaking certain claims on end beneficiaries by the Republic of Macedonia in Stopanska Banka a.d. Skopje. (Official Gazette of the Republic of Macedonia no.86/99) with 15-year maturity. The remaining part is bonds issued by the Bank Rehabilitation Agency. Small portion of the debt securities refers to debt securities issued by other banks and checks issued by domestic and foreign banks.

3.2.1. Primary sources of funds – Deposits of non-financial legal entities and households

At the end of 2000, the total amount of deposits of non-financial legal entities and households amounted to Denar 46,644 million or 17.5% more compared to the previous year.

Table 6

Structure of Deposits of Non-financial Legal Entities and Households

(in thousand Denar)

Period	Beneficiaries	Enterprises		Public sector		Other clients		Households		Total
		Denar	Foreign exchange	Denar	Foreign exchange	Denar	Foreign exchange	Denar	Foreign exchange	
2000	Maturity									
	Sight deposits	8,362,296	8,903,519	3,287,949		1,279,290		3,161,256	497,085	29,965,161
	Restricted deposits	306,454	1,324,724	971,915		117,930				2,721,023
	Short-term deposits up to 1 year	5,442,469		684,306		191,726	2,012,212	653,615	190,781	10,892,145
	Long-term deposits over 1 year	72,545	0	90,515	4,899	65,166	2,332	1,954,380	876,218	3,066,055
	Total	14,183,764	10,228,243	5,034,685	4,899	1,654,112	2,014,544	5,769,251	7,754,886	46,644,384
1999	Maturity									
	Sight deposits	7,481,743	10,001,133	1,259,171		1,088,615		2,392,401	312,504	25,348,103
	Restricted deposits	310,165	1,174,373	805,458		84,538				2,374,534
	Short-term deposits up to 1 year	4,433,783		569,617		173,528	1,615,557	559,326	927,116	8,278,927
	Long-term deposits over 1 year	786,159	0	281,563	0	74,613	2,114	2,036,770	532,026	3,713,245
	Total	13,011,850	11,175,506	2,915,809	0	1,421,294	1,617,671	4,988,497	4,584,182	39,714,809
	Deposit growth rate	9.01%	-8.48%	72.67%		16.38%	24.53%	15.65%	69.17%	17.45%

The structural analysis of the balance sheet indicates that the sight and short-term deposits up to 1-year maturity remained dominant in 2000. These deposits account for 87.6% of the total deposits, while the sight deposits, individually, account for 64.2% of the total

In 2000, the households' deposits registered significant increase due to the gradual return of confidence of the citizens in the banks in the Republic of Macedonia. At the end of 2000 compared to the previous year, the total households' deposits increased by Denar 3,952 million or by 41.28%, thus reaching Denar 13.524 million. At the end of 2000 compared to the previous year, the Denar and foreign exchange deposits were higher by 15.6% and 69.2%, respectively. Analyzing the maturity structure of the households' deposits, in 2000 compared to the previous year, the most remarkable increase of 72.3% was registered in the short-term deposits with maturity of up to 1 year, followed by the sight deposits which increased by 47.4%, while the long-term deposits with maturity of more than 1 year increased by 10.2%. This indicates that the households prefer short-term foreign exchange saving.

At the end of 2000 compared to the previous year, considerable increase of 72.7% was also registered in the deposits of public sector. The significant increase in this category of deposits was primarily due to the payment of liabilities based on old foreign exchange savings from the Budget of the Republic of Macedonia, where the funds for this purpose were deposited in Stopanska Banka a.d Skopje at the end of the year. The special account

where these funds were deposited serve as an account from where the coupons from the bonds issued by the Republic of Macedonia for the liabilities based on old savings are paid.

Although the share of enterprises' deposits in the structure of the total deposits of non-financial legal entities decreased in 2000, they remained dominant in the structure of total deposits with 52.4%. Approximately 99.5% of enterprises' deposits are sight and short-term deposits, while analyzing the structure of currency in denomination, 57.7% are Denar deposits.

3.2.2. Secondary Sources of Funds – Deposits and Borrowings from Banks

Table 7

Structure of Deposits of Banks

(in thousand Denar)

2000			
Maturity	Denar	Foreign exchange	Total deposits of banks
Sight deposits	1,175	3,637,062	3,638,237
Restricted deposits	435,688	832,687	1,268,375
Short-term deposits up to 1 year	20,857		20,857
Long-term deposits over 1 year	47,292		47,292
Total	505,012	4,469,749	4,974,761
1999			
Maturity	Denar	Foreign exchange	Total deposits of banks
Sight deposits		2,442,502	2,442,502
Restricted deposits	199,830	376,370	576,200
Short-term deposits up to 1 year	15,922		15,922
Long-term deposits over 1 year	42,679		42,679
Total	258,431	2,818,872	3,077,303
Growth rate	95.41%	58.57%	61.66%

At the end of 2000 compared to the previous year, the total deposits and credits extended by banks decreased by 7.3%, thus reducing to Denar 12,796 million. The share of borrowings from banks and deposits of banks in the structure of secondary sources of funds equaled 61.1% and 38.9%, respectively.

At the end of 2000, compared to the previous year, the deposits of banks increased by 61.7%. It is typical that, regardless of the maturity, all deposits of banks registered an

increase. Thus, most considerable increase was registered in sight deposits (49%) and short-term deposits (120.1%). Analyzing the currency in denomination, the foreign exchange deposits dominate the total deposits of banks with 89.8%.

In 2000, the borrowings from banks registered on-going downward trend. All borrowings, other than borrowings from other clients, decreased compared to the same period of the previous year. Accordingly, the liquidity position of the banks in the Republic of Macedonia registered upward trend in 2000.

Table 8

Structure of Borrowings

(in thousand Denar)

2000		NBRM		Domestic banks		Foreign banks		Enterprises		Other		Total
Maturity		Denar	Foreign exchange	Denar	Foreign exchange	Denar	Foreign exchange	Denar	Foreign exchange	Denar	Foreign exchange	
Short-term	1			640,088	-		1,621,279		-	85,800	-	2,347,168
Long-term		641,782		209,556	-		3,822,224	23,078		777,764	-	5,474,404
Total		641,783	-	849,644	-	-	5,443,503	23,078	-	863,564	-	7,821,572
1999												
Maturity		Denar	Foreign exchange	Denar	Foreign exchange	Denar	Foreign exchange	Denar	Foreign exchange	Denar	Foreign exchange	Total
Short-term		680,301		1,185,439	54,063		2,702,563	210,813		139,721	-	4,972,900
Long-term		599,584		163,273	-		4,278,248	64,728		655,506	-	5,761,339
Total		1,279,885	-	1,348,712	54,063	-	6,980,811	275,541	-	795,227	-	10,734,239
Growth rate		-49.86%		-37.00%	-100.00%		-22.02%	-91.62%		8.59%		-27.13%

3.2.3. Own Funds

At the end of 2000 compared to the previous year, banks' own funds increased by 27.89%, thus amounting to Denar 19,102 million. Major reasons for the growth of this category "sources of funds" are several remarkable capital investments by foreign investors, among which the most important are the strategic investments of National Bank of Greece in Stopanska Banka a.d. Skopje, Alpha Credit Bank Athens in Kreditna Banka a.d. Skopje and the group Nova Ljubljanska Banka a.d. Ljubljana and LHB Internationale Handelsbank am Main in Tutunska Banka a.d. Skopje. These transactions resulted in both further capitalizations of the banks and qualitative change in the shareholder structure i.e. purchase of shareholder capital from the current shareholders.

In 2000, the total equity capital of the Macedonian banks increased by Denar 3,376 million, 90% of which were foreign direct investments, while the remaining 10% were new capital investment of domestic shareholders, capitalization of part of the income in 1999, as well as transfer of part of the reserve funds into shareholder capital.

In 2000, the foreign investors paid in a capital in the amount of Denar 3,960 million in order to purchase shareholder capital from current shareholders in the banks. This was particularly favorable for banks whose shareholders simultaneously were credit-beneficiaries with high credit risk. These banks were enabled to execute debt to equity swap transactions, which resulted in decline in the non-performing placements in the banks' credit portfolio and improvement of the qualitative structure of the shareholder capital.