

1. Economic Movements in January – June 2000 Period

Due to the extended revival of the Macedonian economy in the second half of 1999, the first half of 2000 was characterized by enhanced economic activity in the Republic of Macedonia.

Table 1

Major Economic Indicators

	XII.1999	I.2000	II.2000	III.2000	IV.2000	V.2000	VI.2000	I-VI.2000/ I-VI.1999
Dynamics of movement of the industrial output (month/same month of the previous year, in %)	7,9	7,6	12,1	10,8	9,0	15,6	9,0	10,6
means of production	42,3	-21,3	8,9	1,4	-3,5	-1,0	33,0	2,8
reproduction materials	9,4	19,0	17,1	10,6	12,0	25,5	32,8	19,0
consumption goods	1,6	-4,5	5,0	12,6	5,6	1,9	-19,5	-0,8
								VI.2000/ XII.1999 (in %)
Number of employees (in absolute number)	315.092	313.500	315.453	315.341	315.069	315.074	314.512	-0,2
economic sector	226.608	225.753	227.539	227.317	226.858	226.703	226.254	-0,2
non-economic sector	88.484	87.747	87.914	88.024	88.211	88.371	88.258	-0,2
								I-VI.2000 (total)
Public revenues (by months, in million Denar)	9.304	6.641	6.839	8.673	8.914	9.399		
total budget revenues	5.320	3.837	3.821	5.268	5.603	6.333	5.389	30.251
total social funds revenues	3.984	2.804	3.018	3.405	3.311	3.066		
								I-VI.2000 (total)
Public expenditures (by months, in million Denar)	8.911	5.646	6.785	7.218	8.742	6.846		
total budget expenditures	5.655	2.833	3.675	3.968	5.448	3.592	4.578	24.094
total social funds expenditures	3.256	2.813	3.110	3.250	3.294	3.254		
								I-VI.2000 (total)
Investments in fixed assets (by months, in million Denar)	368	488	476	614	506	450	583	3.118
								I-VI.2000 (total)
Trade turnover (by months, in million Denar)	8.714	10.240	12.546	17.502	17.841	18.732	19.550	96.410
retail sales	4.250	3.624	3.932	5.304	5.680	5.902	6.091	30.531
whole sales	4.464	6.616	8.614	12.198	12.161	12.830	13.459	65.879
								I-VI.2000 (average)
Denar)	10.029	9.947	9.761	10.001	9.947	10.108	10.236	10.000
economic sector	10.126	9.973	9.714	10.083	9.998	10.190	10.414	10.061
non-economic sector	9.833	9.895	9.857	9.831	9.848	9.934	9.890	9.876
								I-VI.2000/ I-VI.1999
Retail prices (month / previous month, in %)	1,5	0,4	1,1	0,4	4,8	0,2	0,3	8,8
agricultural products	2,7	3,1	0,6	-3,2	1,5	4,3	-15,6	9,0
industrial products	1,8	0,0	1,5	0,9	5,2	-0,3	1,4	10,6
services	0,8	0,5	0,3	0,1	4,7	0,5	1,2	5,2
								I-VI.2000/ I-VI.1999
Prices of producers of industrial products (month / previous month, in %)	1,3	-0,1	2,4	0,4	-0,4	0,7	2,0	9,0
								I-VI.2000/ I-VI.1999
Costs of living (month / previous month, in %)	0,8	0,3	0,9	-0,8	4,1	0,4	-1,2	4,8
Nominal exchange rate of the Denar against the Deutsche Mark (average exchange rate, end of month)	30,99	31,00	31,01	31,03	31,04	31,05	31,06	
Nominal exchange rate of the Denar against the US Dollar (average exchange rate, end of month)	60,34	61,57	62,93	63,51	66,26	64,89	63,92	

The trade, services and industrial output were major generators of the expansive movements in January – June 2000 period. Thus, the enhanced export demand and the introduction of the value-added tax positively affected the economic activities.

The retail prices in the first half of 2000 registered an increase, primarily due to: a. permanent growth in the oil price at the world stock exchange; b. increase in the prices of electricity, i.e. there was no switch from higher winter to lower summer tariff for calculation of the price of electricity and c. one-time general increase in the retail prices, as a result of the introduction of value added tax in April 2000. Also, the increase in the retail prices was influenced by the low comparison base from the first half of 1999, as well as the increased export demand for agricultural and certain industrial products, which resulted in lower supply of these products at the domestic market, and since the demand remained unchanged, their prices increased. However, the increment in the retail prices is temporary, due to the absence of disturbances in the fundamental factors, potential inflation generators. In the first half of 2000, the movements in the costs of living were identical to those in the retail prices.

The enhanced economic activity in the first half of 2000 did not result in increased demand for labor force. Namely, in the first six months of 2000 compared to the end of 1999, the total number of employees decreased. Therefore, the problem of high unemployment continues to exist in the Macedonian economy. The growth in the industrial output achieved under circumstances of decreased number of employees resulted in increased labor productivity in industry. As a result, the unit labor costs registered a decrease, whereas the competitiveness of the Macedonian products at the world market improved.

In the first half of 2000, the introduction of value added tax in April 2000 was the most significant change in the fiscal area. The marked increase in the trade turnover (primarily with excise goods) in the period immediately prior to the introduction of value-added tax, as well as more efficient collection of revenues resulted in high growth of the budget revenues and generation of budget surplus. It resulted in increased domestic savings and investment activity of the private sector.

1.1. Industrial Output

The acceleration of the economic activity in the Republic of Macedonia in the first half of 2000 was influenced by several factors: a. favorable economic environment for the economic entities following the reestablished access to the international markets, which on one hand, had a positive impact upon the supply, through increased import of raw materials and increased output, as well as upon the demand (domestic and export), on another; b. enforcement of part of the structural reforms in the real and fiscal area, primarily due to the introduction of value-added tax in April 2000. The psychological effects on the households and enterprises prior to the introduction of value-added tax caused significantly increased activity, especially noticeable through the growth of trade, foreign trade, personal and investment consumption; and c. low comparison base from the first quarter of 1999, when the economic activity was significantly lower due to the uncertainty regarding the onset of the military activities in FR Yugoslavia.

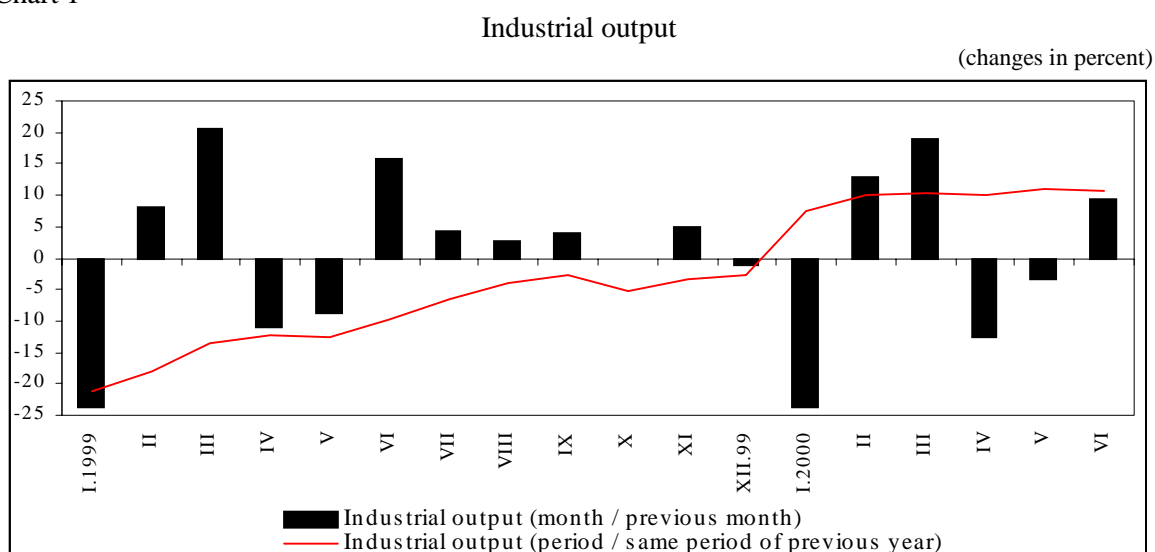
Usually, one of the basic forces of the economic activity in the Republic of Macedonia is the industrial output, with the largest share in the Gross Domestic Product (20.7% in 1999, 19,6 in the first quarter of 2000). The Macedonian producers took advantage of certain improvements of the macroeconomic environment, demonstrated through the incremented general liquidity in the economy, regular supply of raw materials and access to foreign markets. Consequently, they began using the production lines in more efficient manner and enhancing the output, thus responding adequately to the increased export demand. This particularly refers to the industries (production of construction materials, production of chemical products, production of non-ferrous metals and

metal processing industry), producing products which are primarily exported to foreign markets, which on the other hand, in the first half of 1999 almost terminated their activities due to the war in FR Yugoslavia.

In January – June 2000 period compared to the same period from the previous year, the volume of industrial output increased by 10.6%, which, since 1996, excluding 1999, is considered to be the highest growth registered in the first half of the year.

Structurally observed, in the first six months of 2000, the increase was a result of the increased production of reproduction material by 19.0% and production of means of production by 2.8%. On the other hand, the production of consumption goods in the analyzed period decreased by 0.8%.

Chart 1



The acceleration of the production activity in the first half of 2000, was high in both intensity and scope. Thus in this period compared to the same period of 1999, increment was registered in 23 out of 32 industrial branches, covering 62.1% of the total industrial output. Among the branches having the largest share in the total industrial output, the fastest increase was registered in the ferrous metal processing (by 107.8%), which corresponds to the enhanced export of products of this branch. In addition, the process of restoration in FR Yugoslavia (Kosovo) resulted in 94.5% increase in the export demand of construction materials. Faster growth in the output was also registered in the production of base chemical products (by 38.5%), production of non-ferrous metals (22.9%) and production of electrical appliances (by 19.5%).

Table 2

Production of the most important industrial branches

	Structure (in %)	VI 2000 / VI 1999	I - VI 2000 / I - VI 1999
Total	100.0	109.0	110.6
Means of production		133.0	102.8
Reproduction materials		132.8	119.0
Consumption goods		80.5	99.2
Electricity supply	17.4	140.0	103.1
Coal production	2.1	151.1	112.7
Iron and steel industry	4.3	268.9	207.8
Production of non-ferrous metals ores	1.8	112.8	117.8
Non-ferrous metals production	3.0	140.1	122.9
Metal processing industry	3.2	76.5	90.0
Production of electrical appliances	5.1	139.0	119.5
Production of base chemical products	5.5	124.2	138.5
Chemical products processing	6.1	60.0	107.4
Production of construction material	5.1	169.8	194.5
Production of textile yarn and cloth	2.3	99.2	105.6
Production of final textile products	6.0	92.5	95.9
Production of foods products	11.9	83.2	95.4
Production of beverages	5.9	104.2	98.1
Tobacco production and processing	6.8	96.9	92.2

In regard to the timeframes, in three out of six months in the first half of 2000, the industrial output registered an increase on monthly basis. The fastest growth was registered in March (by 19.1%), due to the increased production and processing of the purchased tobacco. Also, significant monthly growth (by 12.8%) was registered in February, primarily as a result of the increased production of construction materials and food products, which corresponded to their increased export. Furthermore, monthly growth was registered in June (by 9.3%), which was primarily due to the growth in the production of electricity supply. On the other hand, negative monthly growth rates in the industrial output were registered in January, April and May, due to the influence of seasonal factors.

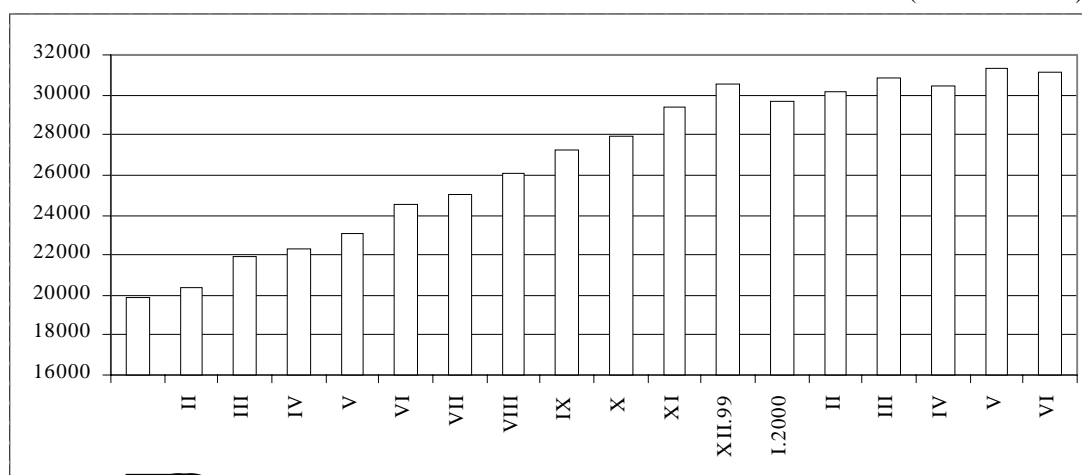
The expansion of the industrial output and achieved high growth rates, had positive impact upon the labor productivity in industry. The minimum fluctuations in the number of employees in the industry resulted in the movements in the industrial output being major force of the movement in the labor productivity in the industry. Thus, the labor productivity in industry in the first half of 2000, compared to the same period of 1999 was higher by 6.8%. The high labor productivity, in conditions of increased nominal and real wages, resulted in lower real unit labor costs by 7.0%, having positive influence on competitiveness of the Macedonian producers.

Contrary to the positive developments industrial output and enhanced labor productivity in industry, some of the Macedonian enterprises continue facing the problem of liquidity. Thus, at the end of June 2000, the enterprises' arrears reached Denar 31.127 million, which is by Denar 585 million, or by 1.9% more compared to the end of 1999. Compared to the end of June 1999, they increased by Denar 6.591 million, or by 26.9%, which is an increase of Denar 549 million, or 2.2% on monthly basis.

Chart 2

Enterprises' arrears

(in Denar million)



The structural analysis indicated that in the first half of 2000 the level of enterprises' arrears was primarily influenced by 584 legal entities with blocked giro-accounts in the amount exceeding Denar 5 million. At the end of June 2000, their arrears amounted to Denar 27.581 million, or 88.6% of the total arrears. The giro-accounts of 59 legal entities were blocked with arrears exceeding Denar 100 million each. This group of enterprises accounts for 53.4% of the total arrears. On annual basis (June 2000 / June 1999), their arrears are by 14.5% higher.

1.2. Prices

Major feature of the retail price movement in the Republic of Macedonia in the first six months of 2000 was the acceleration of their upward trend which commenced in the second half of 1999. Thus, in the January - June 2000 period compared to the same period of the previous year, the retail prices were by 8.8% higher, on average. The annual inflation rate (June 2000 / June 1999) reached 15.1%.

The high increase in the retail prices resulted from the combination of several factors, as follows:

- Continuous growth in the price of crude oil at the world market, supplemented with the strengthened U.S. Dollar, increased the prices of imported inputs of the producers of oil derivatives. It resulted in higher prices of producers of industrial products which is reflected through an increase in retail prices in a certain time lag;
- In the first half of 2000, the price of electricity increased twice, with more significant increase being registered in April, since there was no switch from higher winter to lower summer tariff for calculation of the price of electricity. The increase in the price of electricity surged the costs of producers that influenced their prices and also, indirectly, resulted in increase in the retail prices;
- The introduction of value-added tax as part of the structural reforms in the Republic of Macedonia resulted in expected one-time increment in the retail prices;
- The low level of prices at the beginning of 2000, visible through the negative average inflation rate (deflation) in 1999, as a result of the lower energy prices at the world markets.

In addition, the increased export demand for agricultural products, beverages, construction materials, iron and steel industry products and tobacco industry products, (particularly at the Yugoslav market) that enhanced the export at the foreign markets, resulted in higher growth rate of the retail prices in the first half of 2000.

However the increase in the retail prices in the first half of 2000 was not a result of the disturbances in the fundamental factors. The major indicator was the movement in the permanent inflation rate. The fixed inflation rate, which does not include the changes in the prices of food products and electricity (covering the oil and oil derivatives) as well as the one-time impact of the introduction of the value-added tax upon the retail prices, equaled 3.8% at the end of the first half of the year.

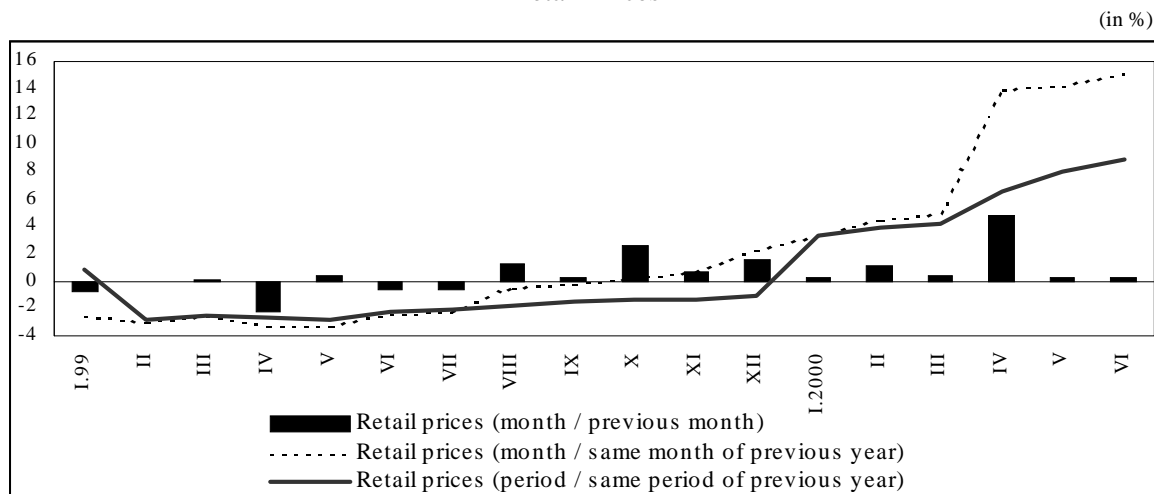
In the first six months of 2000, the strategy of targeting of the foreign exchange rate of the Denar against the Deutsche mark was used for successful coordination of the macroeconomic policies, i.e. monetary, fiscal and wage policy. Thus, the temporary factors that were generating inflation in the first half of 2000 were prevented from acting on a long run. From that aspect, it can be concluded that the increase in the retail prices in the analyzed period was temporary and it is expected that the price stability will be preserved in the second half of the year.

Structurally observed, the increase in the retail prices in January - June 2000 period compared to the same period of the previous year was due to the significant increase in the prices of non-food industrial products (by 17.8%), goods (by 10.5%) and agricultural products (by 9.3%).

In regard to the timeframe, in each of the six months of 2000, the retail prices registered positive monthly growth rates. The fastest increase in the retail prices was registered in April, when they increased by 4.8%, on monthly basis, due to the combined influence of several factors. The increase was primary due to the introduction of the value-added tax and preservation of higher tariff for calculation of the electricity price, instead of the expected switch to the lower one. In May and June, the retail prices registered monthly growth rates of 0.2% and 0.3%, respectively. This indicates a slowdown in the growth of retail prices, caused by the fall in the prices of agricultural products, in conditions of stable prices of oil derivatives at the domestic market.

Chart 3

Retail Prices

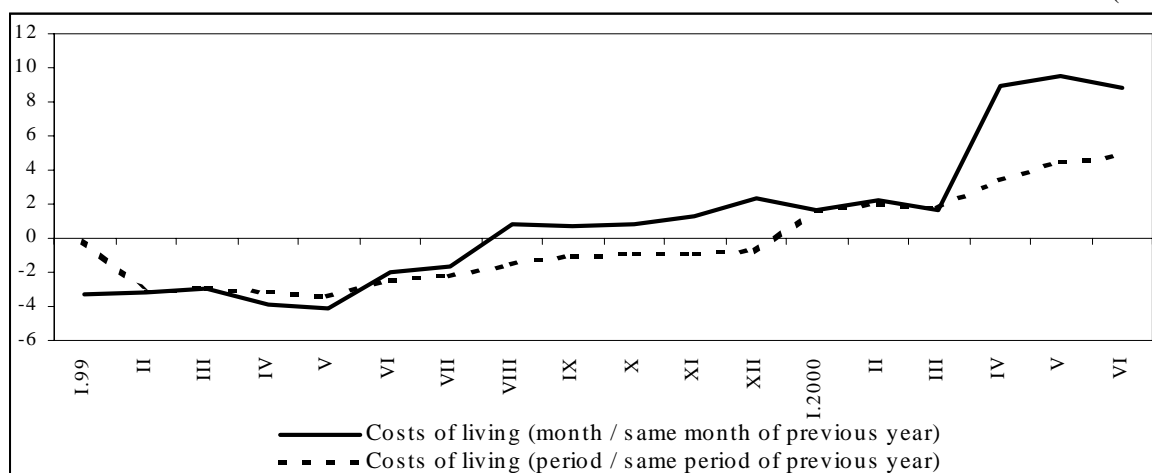


The factors that caused the retail prices movement also influenced the movement in the costs of living. Thus, the fluctuations in the retail prices in the first six months of 2000 were accompanied by almost identical fluctuations in the costs of living. The costs of living were by 4.8% higher, on average relative to the first half of 1999. The increase was primary due to the higher costs for housing (by 17.9%, due to the increase in the costs for heating and lighting by 25.8%), means of transportation and services (by 17.8%) and tobacco and beverages (by 12.0%). On annual basis (June 2000 / June 1999), the costs of living were by 8.8% higher.

Chart 4

Costs of living

(in %)



In regard to the timeframes, in four out of six months in the first half of 2000, the costs of living registered an increase on monthly basis. They registered the fastest increase in April (by 4.1%), primarily due to the introduction of the value-added tax and maintenance of higher tariff for calculation of the electricity price. On the other hand, the fastest monthly fall in the costs of living was registered in June (by 1.2%) due to the lower prices of agricultural products resulting in decline in the expenditures for food (by 3.8%).

In June 2000, the value of the consumers' baskets¹ for food and beverages equaled Denar 9,486, and compared to the same month of the previous years increased by 0.6%. This was primary due to the increase in the value of products belonging to the groups of "other food products" (by 38.9%), "fresh and processed fruit" (by 7.6%) and "fresh and processed vegetable" (by 5.9%). On the other hand, the largest decrease was registered in the categories of grain and grain products (by 16.5%) and fats (by 13.9%).

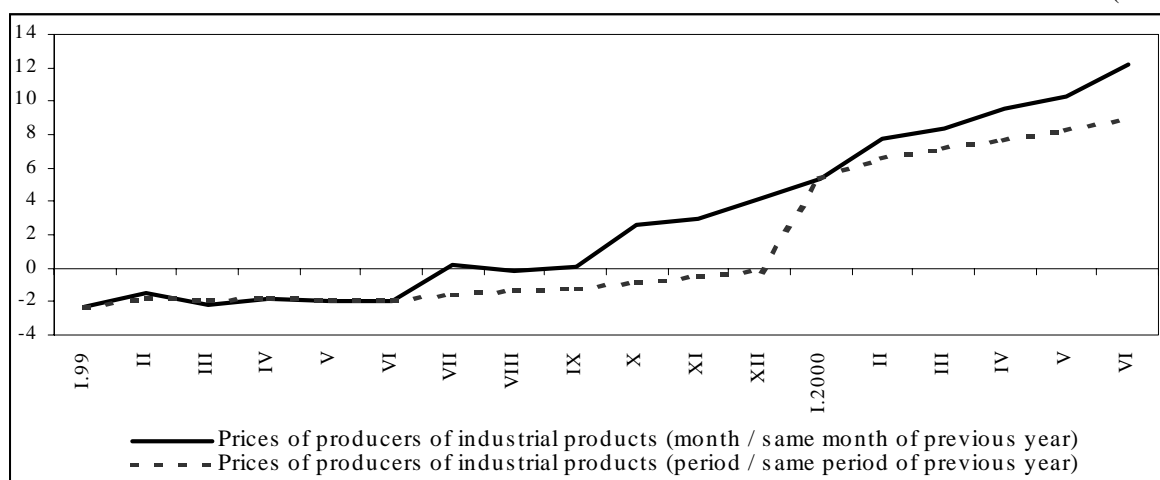
The movements in the prices of producers of industrial products in the first six months of 2000 were adversely affected by the changes in the prices of crude oil at the world markets. Consequently, the dynamics of movements in the prices of producers of industrial products was primarily depending on the movements in the prices of producers of oil derivatives. In the second quarter of the year, the prices of producers of electricity were important factors for their movement. In January - June 2000 period, relative to the same period of the previous year, the prices of producers of industrial products were by 9.0% higher. Analyzing by the economic use, the most significant increase was registered in the prices of producers of reproduction materials (by 16.2%), while the prices of producers of consumption goods registered more moderate increase (by 1.2%). On the other hand, the prices of producers of means of production declined by 0.3%). Among the most important industrial branches, the fastest increase was registers in the prices of producers of oil derivatives (by a 103.0%), electricity supply (by 30.0%), production of non-ferrous metals (by 12.3%) and iron and steel industry (by 7.9%). On the other hand, the fastest decline was registered in the prices of producers of food products (by 4.0%) and the producers of electric appliances (by 3.8%). On annual basis (June 2000 / June 1999), the prices of producers of industrial products registered an increase of 12.2%.

¹ All products in "food and beverages" category, which compose the basket, are taken as average monthly needs of a four-member non-agricultural household, and that list of products is constant (same products – same quantities), during a one year period.

Chart 5

Prices of Producers of Industrial Products

(in %)



In regard to the timeframes, the fastest monthly growth in the prices of producers of industrial products was registered in February (by 2.4%) and in June (by 2.0%), which entirely resulted from the high growth in the prices of producers of oil derivatives of 15.9% and 17.1%, respectively. On the other hand, the monthly decline in the prices of producers of oil derivatives of 12.4% in April, contributed to the fastest monthly decline in the prices to producers of industrial products in the same month, in the first half of 2000 (by 0.4%).

1.3. Labor market

The acceleration of the economic activity in the first half of 2000 failed to mitigate the problem of high unemployment in the Republic of Macedonia. The acceleration of the economic activity resulted from the more efficient utilization of the existing capacities and enhanced labor productivity in the industry. As a result, the high unemployment remained the largest problem Macedonian economy is facing with. This is a serious problem, primarily resulting from the so-called structural unemployment, which justifies its duration. Accordingly, there is a need of solving this problem along with the restructuring of the Macedonian economy.

Table 3

Employment by sectors in the Republic of Macedonia

	31.12.99	31.01.00	29.02.00	31.03.00	30.04.00	31.05.00	30.06.00
Total	315.092	313.500	315.453	315.341	315.069	315.074	314.512
Economic sector	226.608	225.753	227.539	227.317	226.858	226.703	226.254
o/w:							
industry and mining	118.984	118.746	120.610	120.622	120.284	120.260	119.875
Non-economic sector	88.484	87.747	87.914	88.024	88.211	88.371	88.258

As of June 2000, the number of employees in the Republic of Macedonia equaled 314.512², 226.254 (71.9%) of which were employed in the economic sector, while 88.258 (28.1%) in the non-economic sector. Compared to the end of December 1999, the total number of employees was by 580 persons lower, or by 0.2% as a result of the decline in the number of employees in both economic and non-economic sector by 0.2%. In addition, at the end of the first

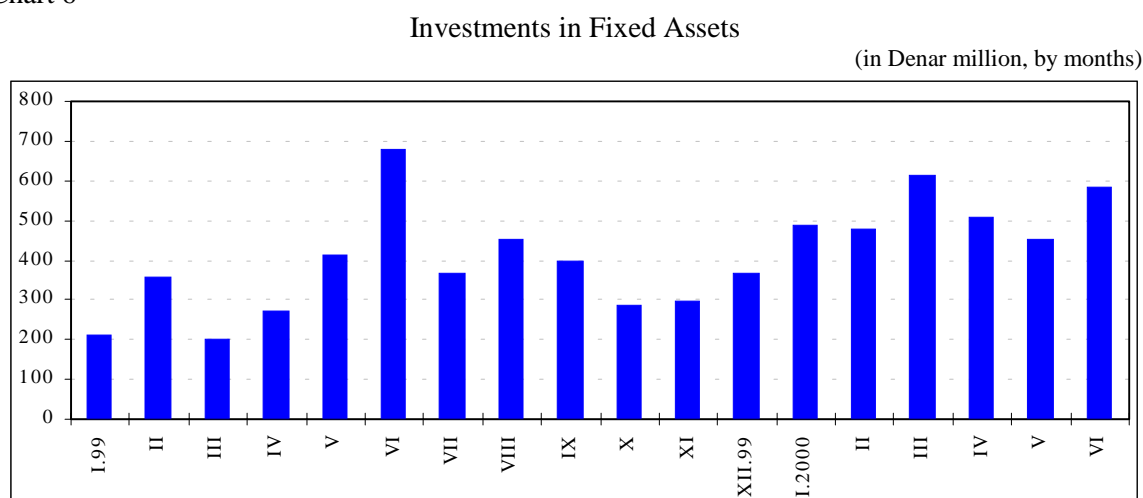
² Regular monthly data from the Statistical Office of the Republic of Macedonia, developed according to methodology different from the one used by the Bureau during preparation of the annual survey on labor force in the Republic of Macedonia

half of 2000, the number of employees in the industry and mining was 119.875 (or 38.1% of the total number of employees), which is by 891 persons, or by 0.7% more compared to the end of 1999.

1. 4. Investments in fixed assets³

The intensified economic activity in the first half of 2000 was accompanied by increased investment activity. Extremely high growth in investments in fixed assets was registered in both economic and non-economic sector, contrary to the investment activity of the funds of material production and communal utility which was significantly reduced. The increase in investments was primary due to increased investment consumption of passenger and freight vehicles immediately prior to the introduction of value-added tax, as well as the low comparison base from the first half of 1999, as a result of the war in FR Yugoslavia.

Chart 6



In January - June 2000 period, total of Denar 3.118 million were invested in fixed assets, which is by 46.3% more compared to the same period of the previous year. In real terms, the increase in investments in fixed assets equaled 34.2%. In the first six months of 2000, Denar 520 million were invested on average, on monthly basis, which is by 46.3% more compared to the average of the same period of the previous year. In regard to the timeframes, in the first and second quarter of 2000, Denar 1,578 million, or Denar 1,539 million, respectively, were invested in fixed assets.

Structurally observed, in the first half of 2000 the investment in fixed assets in the economic sector equaled Denar 2.171 million, which is by 96.0% more relative to the same period of the previous year. As a result, they increased their share in the total investment in fixed assets from 52.0% (in the first six months of 1999), to 69.6% (in the same period of 2000). The revival of the investment activity in the economic sector is comprehensive considering the fact that the investments in assets registered growth in all branches of the economic sector. Among the most important branches, the fastest growth of the investment was registered in the trade, with investment of Denar 343 million in the first six months of 2000, which is 5.4 times more relative to the same period of the previous year. However, the largest portion of the investments in the economic sector (37.0%) resulted from transport and communications. In January - June 2000 period, the investors invested Denar 804 million in this branch, or by 77.6% more compared to the

³ Data from the Payment Operations Bureau. These data are incomplete, because they comprise only investments through giro-account of the legal entities, and investments through bank credits are missing. In the information system of the Republic of Macedonia final data for the previous year may be obtained at the end of the next year.

same period of the previous year. In the analyzed period, the investors in the industry and mining invested Denar 572 million in fixed assets, which is by 3.0% more relative to the first half of 1999. The largest portion (Denar 259 million) resulted from the electricity supply industry.

Table 4

Investments in Fixed Assets

(in Denar million)

	January - June		Index 00/99	Structure in %	
	1999	2000		1999	2000
TOTAL INVESTMENTS	2,130.9	3,117.7	146.3	100.0	100.0
I. Economy	1,108.0	2,171.4	196.0	52.0	69.6
II. Funds of material production and communal utilities	997.4	452.7	45.4	46.8	14.5
III. Non-economy (education, culture, health and social care, government bodies)	25.4	493.7	1,944.1	1.2	15.8
I. Economy	1,108.0	2,171.4	196.0	100.0	100.0
- industry and mining	555.3	571.9	103.0	50.1	26.3
- transport and communication	452.5	803.6	177.6	40.8	37.0
- trade	63.0	342.7	543.5	5.7	15.8
- financial and other services	17.7	205.5	1,158.4	1.6	9.5
- other	19.5	247.7	1,270.3	1.8	11.4

In January - June 2000 period, Denar 494 million were invested in the non-economic sector, which is 19.4 times more compared to the same period of the previous year. Their share in the total investments increased by 14.6% percentage points, thus reaching 15.8%. Structurally observed, extremely high growth was registered in all three components. The investments in fixed assets in the health and social welfare sector were 6.3 times higher, in the education and culture sector 13.8 times, and in the government bodies 34.0 times.

The investments of the Material Production and Communal Utilities Funds in the first six months of 2000 were halved and their share in the total investments equaled 14.5%, compared to 46.8% in the same period of the previous year. Thus, these funds invested total of Denar 453 million in fixed assets, which is 54.6% decline. The largest portion of the investments (Denar 411 million or 90.8%) resulted from the Transport and Communications Fund.

1. 5. Trade Turnover

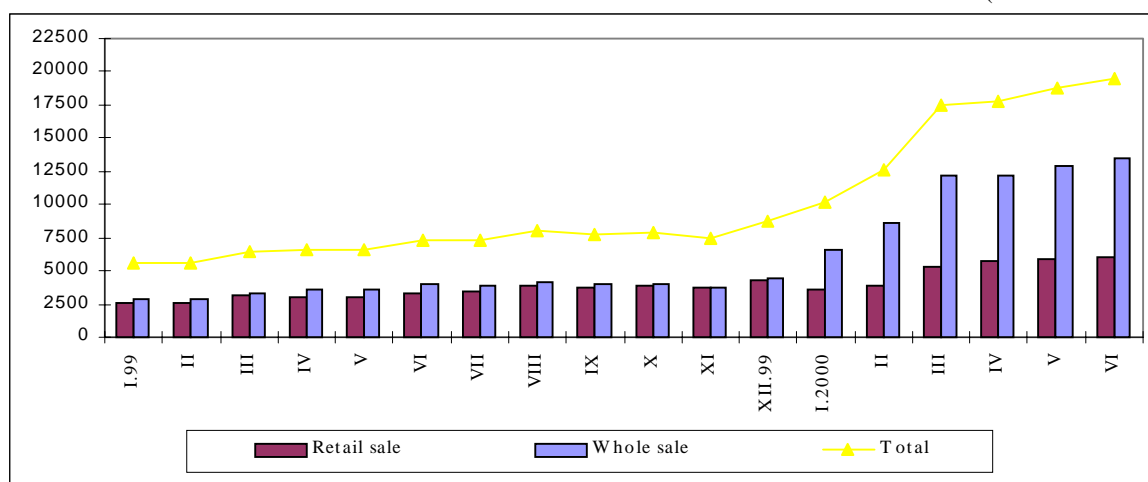
Since the beginning of 2000, the retail and wholesales trade has been the most expansive branch in the Republic of Macedonia. In January - June 2000 period, the continuous monthly growth in the trade turnover contributed to generation of turnover totaling Denar 96,410.9 million⁴. Compared to the same period of 1999, it is a nominal increase of 144.4%. The growth was due to the following: a. Increased consumption of the economic entities in the period prior to the introduction of value-added tax; b. Extension of the scope of recording the enterprises turnover (including "Okta" refinery in the records from March 2000); and c. low comparison base from the first half of 1999.

⁴ According to estimated data from the Statistical Office of the Republic of Macedonia

Chart 7

Trade Turnover

(in Denar million)



In regard to the timeframes, an increase in the trade turnover was registered in both quarters of 2000. Thus, comparing to the same period of 1999, the trade turnover increased by 98.5% in the first quarter, while in the second quarter the increase was significantly higher and equaled 192.9%. The fastest monthly growth in the trade turnover was registered in March 2000 (39.5%), which corresponded to the exceptionally high turnover (primarily with excise goods) immediately prior to the introduction of the value-added tax.

Structurally observed, the enhanced trade turnover was a result of the growth in both retail sales and wholesales trade turnover, with faster growth being registered in the wholesales trade. Thus, in the first half of six months of 2000, the retail sales turnover amounted to Denar 30,531.5 million and compared to the same period of the year it was by 71.5% higher. The whole sales trade, registered a turnover of Denar 65,879.4 million, which is by 225.6% more compared to the first half of 1999.

In real terms, in the first half of 2000 compared to the same period of 1999 the total trade turnover registered an increase, equaling 130.7%. In real terms, the growth in retail sales and wholesales trade turnover equaled 57.1% and 197.1%, respectively.

1. 6. Fiscal policy⁵

1. 6. 1. Budget Revenues

In the first half of 2000, there were two crucial moments in the fiscal area: a. reduced tax evasion, or improved collection, resulting in faster increase in the budget revenues; b. generation of budget surplus. In the first six months of 2000, the total budget revenues equaled Denar 30,252 million, which is by Denar 9,238 million, or by 44.0% more compared to the same period of the previous year. The increase was more significant in the second half of the year. Thus, in April - June 2000 period, the collected budget revenues amounted to Denar 17,326 million, which is by 34.0% more compared to the first three months. This corresponds to the introduction of value-added tax in April 2000, which in the first months following its introduction resulted in significant increase in the budget revenues. Besides, the budget revenues increased also as a result of the received foreign grant intended for support of the macroeconomic policy and planned reforms in the amount of USD 22.0 million (in May 2000).

⁵According to data from the Ministry of Finance.

Table 5

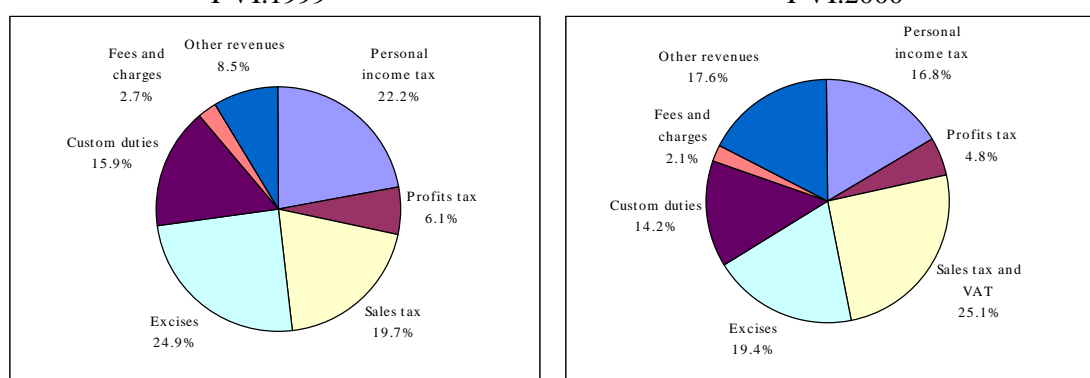
Total budget revenues

(in Denar million)

	January - June		Index 2000/1999	Structure in %	
	1999	2000		1999	2000
Total Budget revenues	21,014	30,252	144.0	100.0	100.0
1. Primary revenues	20,231	26,225	129.6	96.3	86.7
out of which:					
Tax revenues	18,771	24,313	129.5	92.8	80.4
- personal income tax	4,659	5,079	109.0	22.2	16.8
- profits tax	1,289	1,452	112.6	6.1	4.8
- sales tax	4,149	7,586	182.8	19.7	25.1
- excises	5,23	5,877	112.4	24.9	19.4
- customs duties	3,343	4,292	128.4	15.9	14.2
Non-tax revenues	1,46	1,912	131.0	6.9	6.3
- entrepreneurship income	315	663	210.5	1.5	2.2
- fees and charges	570	637	111.8	2.7	2.1
2. Transfers and donations	55	1,656	3,010.9	0.3	5.5
3. Borrowing from abroad	696	1,654	237.6	3.3	5.5
4. Transferred surplus from the previous year	32	717	2,240.6	0.1	2.3

In the first half of 2000 compared to the same period of the previous year, the primary budget revenues, composed of tax and non-tax revenues, increased by Denar 5.994 million, or by 29.6%, thus reaching Denar 26,225 million. This was due to increase in the collection of both tax revenues (by 29.5%), and non-tax revenues (by 31.0%). However, the share of the primary revenues in the total budget revenues declined by 9.6% percentage points, thus reducing to 86.7%. This decline resulted in an increase in the share of transfers and donations of 5.2 percentage points, thus reaching 5.5% of the total budget revenues. Namely, in the first half of 2000 compared to the same period of 1999, the transfers and donations registered fast increase (30.1 times), due to the large inflow of foreign donations in May 2000, as well as due to the low comparison base. At the same time, the transferred surplus from the previous year in the amount of Denar 717 million (compared to only Denar 32 million in 1999) contributed to the significant increase in the total budget revenues in the first six months of 2000.

Chart 8

Structural share of the components of the total budget revenues
I-VI.1999 I-VI.2000

In the first half of 2000, the collection of all more important tax and non-tax revenues improved. However, the fastest growth was registered in the sales tax and value added tax revenues. In January – June 2000 period compared to the same period from the previous year they were by 82.8% higher, thus reaching Denar 7.586 million. It resulted in increase of their share in the total budget revenues by 5.4 percentage points, thus reaching 25.1%. As a result of significantly

enhanced import of excise goods prior to the introduction of value added tax, in the first six months of 2000 the excise and customs duty revenues are significantly higher compared to the revenues collected in the same period of 1999. Thus, the customs duty revenues rose by 28.4% and amounted to Denar 4,292 million. Simultaneously, the excise revenues increased by 12.4% and amounted to Denar 5,877 million.

In the first six months of 2000, the total revenues of the social funds (Pension and Disability Insurance Fund, Health Insurance Fund and Employment Fund) equaled Denar 17.931 million⁶, which is an increase of Denar 328 million, or 1.9% compared to the same period of the previous year. The largest portion of the social funds revenues, or 62.7% are revenues of the Pension and Disability Insurance Fund. Thus, in the first half of 2000, the revenues of this fund increased by 11.5%, thus, equaling Denar 11.248 million⁷.

1. 6. 2. Budget expenditures

In the first half of 2000, the increase in the budget revenues was accompanied by increase in the budget expenditures, although with significantly slower dynamics. Since the revenues were not adjusted to the increased expenditures, the budget registered a surplus in the first half of 2000. This contributed to increase in the domestic savings, creating enhanced credit expansion and increased investment activity of the private sector. The surplus of funds in the budget was held in the government giro-account with the NBRM.

In January - June 2000 period, the total budget expenditures amounted to Denar 24,095million, which is by Denar 3,158 million, or 15.1% more compared to the same period of the previous year. In regard to the timeframes, the budget expenditures were higher in the second quarter compared to the first quarter of the current year. The budget expenditures in the second quarter amounted to Denar 13,618 million, which is by 30.0% more compared to the first quarter.

Table 6

Total Budget Expenditures

	January - June		Index 2000/1999	(in Denar million) Structure in %	
	1999	2000		1999	2000
Total Budget expenditures	20,937	24,095	115.1	100.0	100.0
1. Current expenditure	19,284	20,655	107.1	92.1	85.7
- goods and services	10,287	10,838	105.4		
- transfers	8,201	8,974	109.4		
- interest	796	843	105.9		
2. Capital expenditures and net lending	1,114	1,877	168.5	5.3	7.8
3. Reserves	38	43	113.2	0.2	0.2
4. Payment of principal (amortization)	0	820	-	0.0	3.4
5. Deposits in the NBRM	500	700	140.0	2.4	2.9
6. Arrears clearance	0	0	0.0	0.0	0.0

The largest portion of the total budget expenditures refers to current expenditures. In the first half of 2000, Denar 20,655 million were spent on current budget expenditures, which is by Denar 1,371 million, or by 7.1% more compared to the same period of the previous year. The share of the current expenditures in the total budget expenditures was lower by 6.4 percentage points, thus reducing to 85.7%. Structurally observed, the fastest increase was registered in transfer

⁶ The latest available data on the Health Insurance Fund revenues pertains to January – June 2000 period. The Pension and Disability Insurance Fund revenues were estimated by the Ministry of Finance.

⁷ According to data estimated by the Ministry of Finance.

expenditures. In the first half of 2000, Denar 8,974 million were spent on transfer expenditures, which is by 9.4% more compared to same period of 1999.

Other important item in the total budget expenditure structure is capital expenditures and net lending. In the first six months of 2000, compared to the same period of 1999, the capital expenditures and net lending registered fast increase of 68.5%, thus reaching Denar 1,877 million. Accordingly, their share in the total budget expenditures increased by 2.5 percentage points, thus reaching 7.8%. The largest portion of the funds (Denar 993 million, or 52.9%) were spent on capital transfers in the railway transportation.

In January – June 2000 period, the budget deposited Denar 700 million in the Monetary Policy Support Fund with the NBRM. The payment entirely corresponds to the projections for the first half of 2000.

In the first half of 2000, the social funds' expenditures (Pension and Disability Insurance Fund, Health Insurance Fund and Employment Fund) equaled Denar 17.881 million⁸. Compared to the first six months of 1999, they were by 2.2% lower. The funds spent by the social funds were entirely covered with the revenues of these funds. The largest portion of the social funds' expenditures was expenditures of the Pension and Disability Insurance Fund, which spent Denar 11.078 million in the first half of 2000. Compared to the same period of the previous year, they were by 9.9% higher.

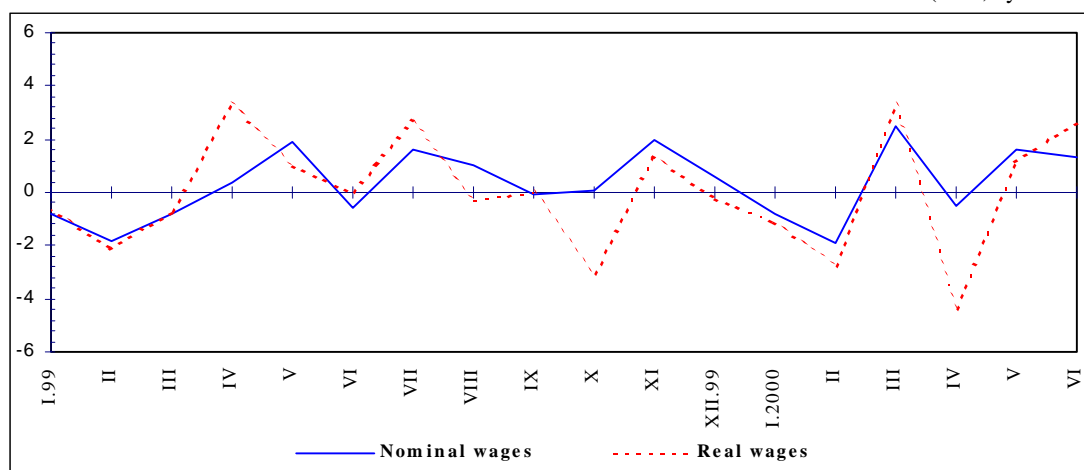
1.7. Wage Policy

In the first half of 2000, the successful coordination of the payroll policy with the fiscal and monetary policy continued, aimed at preserving the established macroeconomic stability. The enforcement of the law limiting the increase in wages of the economic entities that have not been entirely privatized continued. The restrictive increase in wages is aimed at controlling the personal consumption, as an element of the aggregate consumption, in order to prevent pressures on the retail prices. On the other hand, at micro level, the wage policy should prevent increase in operating costs of the economic entities and deterioration of the competitiveness of their products at world markets.

Chart 9

Average paid net wages

(in %, by months)



⁸ The latest available data on the Health Insurance Fund revenues pertains to January – June 2000 period.

However, the intensified economic activity in the first half of 2000 in conditions of improved general liquidity, resulted in moderate increase in the nominal average paid net wage per employee in the Republic of Macedonia. Thus, in January – June 2000 period, the average nominal paid wage amounted to Denar 10,000, and compared to the same period of the previous year it was by 5.3% higher. The increase in the wages was primarily due to the increase in wages in both economic and non-economic sector by 7.1%, and by 1.7% respectively. Thus, the nominal average net wage in the economic and non-economic sector reached Denar 10,061, and Denar 9,876, respectively. On annual basis (June 2000 / June 1999), the nominal average paid net wage was by 7.4% higher.

In the first six months of 2000 compared to the same period of 1999, the average net wage registered minimum increase of 0.5%, in real terms, as a result of the increased cost of living. The real net wage in the economic sector increased by 2.3%, whereas the wage in the non-economic sector registered a decline of 3.0%. In June 2000, the real average net wage in the Republic of Macedonia was by 1.3% lower compared to the same month of the year previous year.