

III. EXTERNAL SECTOR

3.1. Balance of payments¹²

One of the objectives of the monetary policy in the Republic of Macedonia is achieving long-term sustainable balance of payments. As a result of the need of restructuring of the economy and acceleration of the economic growth, taking into account the low level of domestic savings, the Republic of Macedonia is facing the need to import foreign accumulation, which results in balance of payment deficit. However, the restructuring of the economy should increase the profitability of the business entities, in other words, increase in the domestic savings, which should result in elimination of the balance of payments deficit, on a medium-term.

The revival of the economic activity in the first six months of 2000, including the enhanced imports of excise goods immediately prior to the introduction of value-added tax resulted in increased deficit on the current account of the balance of payments. In this period, the negative balance of the current account equaled USD 127 million, which is by USD 81 million, or almost 2.8 times more compared to the same period of 1999. The inadequacy in the comparison base should be taken into account, resulting from the extremely depreciated import of goods in the Republic of Macedonia in the first half of 1999, caused by crisis in SR Yugoslavia. In January – June 2000 period compared to the same period of 1998, the deficit in the current account of balance of payments is by USD 18 million lower. The deficit was a result of the movements registered in the first quarter of the year (deficit of USD 131 million), whereas in the second quarter, the current account registered a surplus of USD 4 million.

The deficit in the current account of the balance of payment in the first half of 2000 was due to the extremely high trade deficit in the amount of USD 323 million. In addition, the trade deficit was by USD 201 million, or 2.6 times higher compared to the same period of the previous year, as a result of the enhanced import of excise goods immediately prior to the introduction of value-added tax (first quarter of the year) and the low comparison base, due to the regional crisis in the first half of 1999. In the first six months of 2000 compared to the same period of 1998, as more relevant comparison base than 1999, the trade deficit was by USD 151 million, or by 87.9% higher. The detailed analysis of the trade balance of the current account of the balance of payment indicated fast increase in the deficit item “goods in general f.o.b.” in the first six months of 2000, thus reaching USD 386 million (USD 132 million in the same period of 1999, and USD 224 million in January – June 1998 period). On the other hand, the item “goods for processing” registered surplus in the amount of USD 61 million (USD 42 million in the same period of 1999, and USD 50 million in the first half of 1998).

In the first half of 2000, the deficit in the item “services” in the current account of the balance of payment, reduced to USD 25 million, and compared to the same period of the previous year, it was by USD 26 million lower. The decline in the deficit in this category was due to the increased inflow of funds based on services provided in the telecommunications, business services and government services. On the other hand, the largest outflow of funds was as a result of the received transport, insurance and business services.

The developments in the item “income” in the current account of the balance of payment of the Republic of Macedonia, were primarily a result of the inflow and outflow of funds, based on received and paid interest. In the first six months of 2000, this item registered a deficit in the amount of USD 28 million (USD 16 million in the same period of the previous year), with USD 22 million being net-outflow of funds based on interest.

¹² Previous data.

Table 16

Balance of payments of the Republic of Macedonia

(in USD million)

	1999						2000		
	Q.1	Q.2	Q.1+Q.2	Q.3	Q.4	1999	Q.1	Q.2	Q.1+Q.2
I. Current Account	-55	9	-46	18	-107	-135	-131	4	-127
GOODS, net	-57	-66	-122	-88	-198	-409	-214	-110	-323
Exports	253	250	504	346	343	1.192	330	318	648
Imports	-310	-316	-626	-434	-541	-1.601	-544	-428	-971
SERVICES, net	-34	-17	-51	-12	-12	-75	-11	-15	-25
INCOME, net	-13	-2	-15	-22	-6	-44	-24	-4	-28
o/w interest, net	-13	-2	-15	-21	-6	-43	-21	-1	-22
CURRENT TRANSFERS, net	49	94	144	140	110	394	117	133	249
Official	15	36	52	5	11	67	4	32	35
Other	34	58	92	135	99	327	113	101	214
II. Capital & Financial Account	27	-53	-26	35	-72	-63	113	-23	90
CAPITAL ACCOUNT, net	0	0	0	0	0	0	0	0	0
Capital transfers, net	0	0	0	0	0	0	0	0	0
Official	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0
Acquisition/disposal of nonproduced, nonfinancial assets, net	0	0	0	0	0	0	0	0	0
FINANCIAL ACCOUNT, net	27	-53	-26	35	-72	-63	113	-23	90
Direct investment, net	12	8	20	4	6	30	30	58	88
Portfolio investment, net	0	0	0	0	0	0	0	0	0
Other investment, net	12	-33	-21	0	61	39	79	18	97
Trade credits, net	-23	-13	-36	-21	55	-2	66	10	76
Loans, net	-3	-1	-4	63	-4	55	-6	8	2
o/w: Repayment of Arrears	-4	-2	-6	-1	-1	-8	-1	-1	-2
Currency and deposits, net	33	-25	9	-67	3	-55	-7	-7	-15
o/w: Commercial Banks, net	33	-15	18	-62	3	-40	-7	-22	-29
Other, net	4	5	9	25	7	41	26	8	34
Reserve assets, (- = increase)	4	-27	-24	-86	-32	-141	5	-100	-95
III. Errors & Omissions	28	43	72	64	71	207	18	19	37

The only category in the current account of the balance of payment of the Republic of Macedonia which usually register surplus, is the category of transfers, which, in the first half of 2000 registered surplus in the amount of USD 249 million. Compared to the same period of 1999, they were by USD 106 million, or by 73.6% higher. The higher surplus was primarily due to the large inflow of private transfers (USD 382 million), i.e. purchased foreign currency (USD 243 million). On net-basis, the inflow of funds from private transfers reached USD 214 million, and USD 35 million from **official** transfers.

Chart 22

Components of current account of the balance of payment

(in USD million)

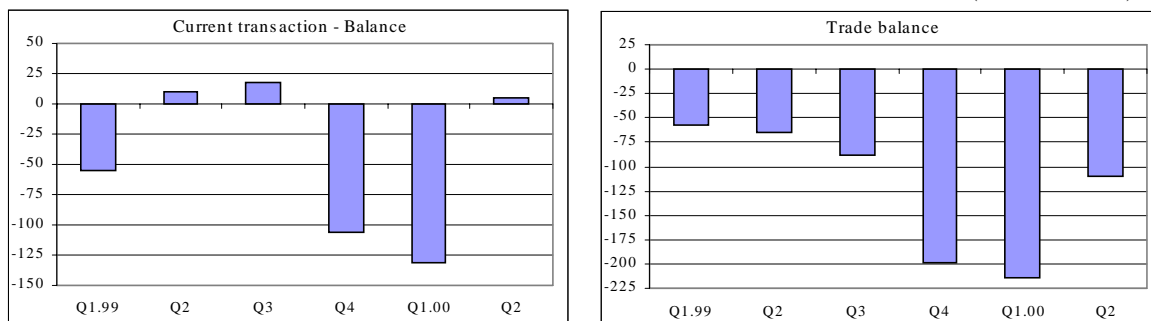
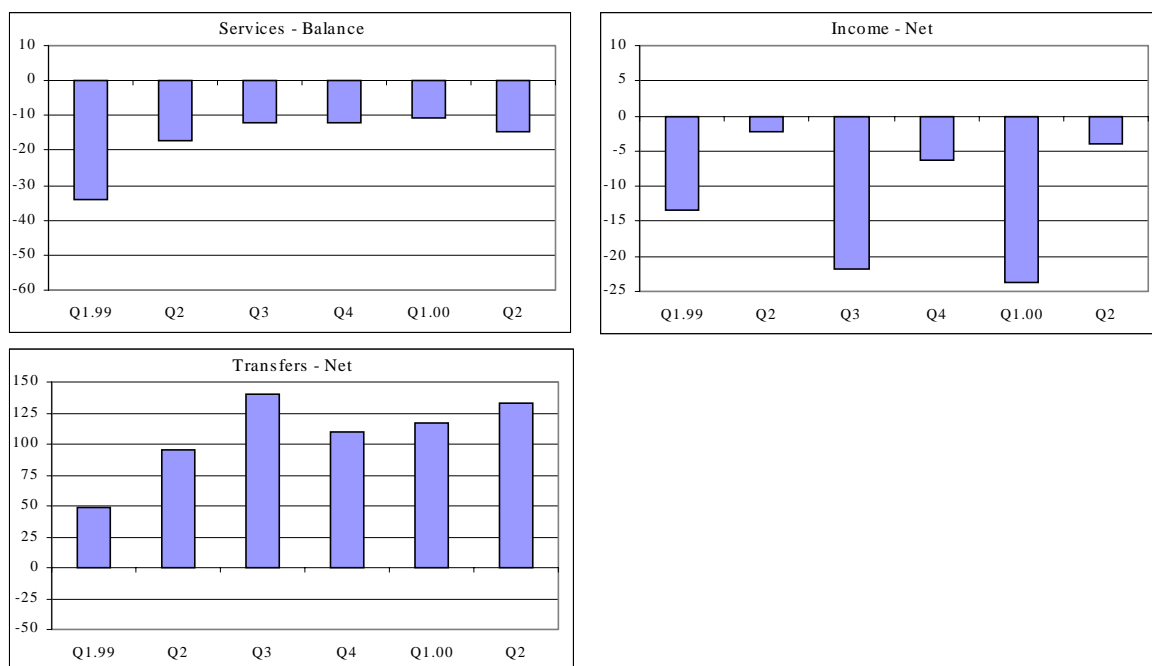


Chart 22

Components of current account of the balance of payment

(in USD million)



In the first six months of 2000, on the basis of capital and financial transactions, net inflow of funds in the amount of USD 90 million was registered in the Republic of Macedonia, contrary to the same period of 1999, when net-outflow of funds was registered in this item. Similar to the previous period, the entire inflow was a result of the financial transaction.

The inflow of funds registered in the financial transactions was due to the increased foreign direct investments, as well as to the positive balance in the category “other investments”. In January – June 2000 period, the net foreign direct investments in the Republic of Macedonia amounted to Denar 88 million, due to the sale of several large economic entities to strategic investors (“Stopanska Banka” a.d. Skopje, ADOR “Makedonija”, etc.). In 2000 compared to the same period of 1999, the foreign direct investments were by USD 69 million, or 4.5 times higher, which was primarily due to the low level of foreign investments in the period during the Kosovo crisis. In January – June 2000 period, compared to the same period of 1998 when the foreign direct investments in the Republic of Macedonia registered the highest level, they are by USD 66 million, of 4.0 times higher.

In the first half of 2000, the category “other investments, net” registered surplus in the amount of USD 97 million, contrary to the same period in 1999, when it registered a deficit in the amount of USD 21 million, primarily as a result of the inflow of funds based on received trade credits (net-inflow in the amount of USD 76 million). Inflow of funds in the amount of USD 34 million was registered in the first months of 2000 based on the so-called “other” investments, the declared moratorium of the debt towards the Paris Club of Creditors and rescheduling.

In the first months of 2000, the category “loans, net” of the balance of payment of the Republic of Macedonia registered inflow of USD 2 million, i.e. the used medium-term and long-term credits exceeded the paid liabilities by USD 2 million. The paid liabilities of the Republic of Macedonia equaled USD 59 million, USD 2 million out of which were spent on repayment of overdue liabilities.

Simultaneously, the foreign exchange liabilities of the commercial banks fell by USD 29 million, which resulted in net-outflow of funds in the amount of USD 15 million from the category “currencies and deposits”. The official foreign exchange reserves of the NBRM increased by USD 95 million, due to the NBRM operations at the foreign exchange market.

3.2. Foreign trade

In the first six months of 2000, the foreign trade of the Republic of Macedonia registered rapid outbreak, due to the introduction of the value added tax and the accelerated economic activity. In this period, the foreign trade the Republic of Macedonia equaled USD 1,727.5 million, which is by USD 513.2 million, or by 42.3% more compared to the same period of the previous year. Such a high growth rate was partially due to the low comparison basis from the same period of 1999 as a result of the Kosovo crisis.

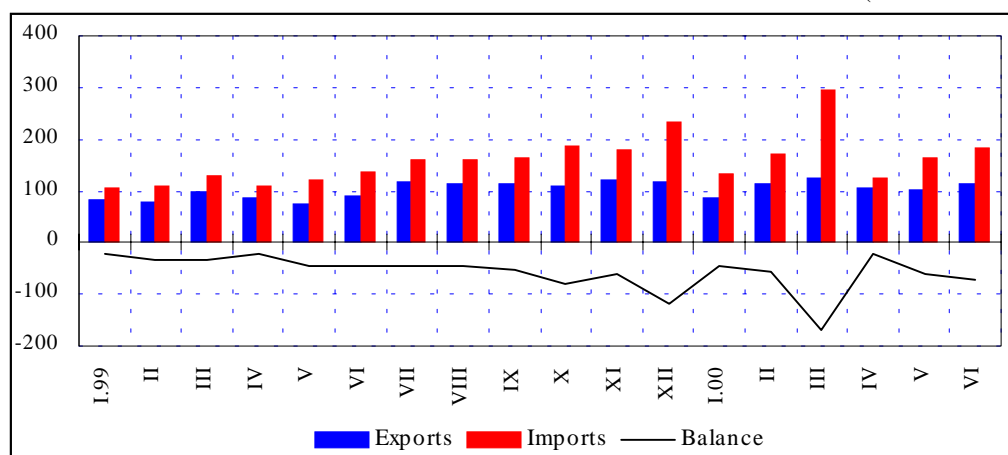
In January – June 2000 period, the export of goods reached USD 647.9 million, which compared to the same period of 1999 is by USD 143.6 million, or by 28.5% higher. In the first quarter of the year, the value of the exported goods reached USD 330.4 million, while in the second quarter of the year, the export of goods equaled USD 317.5 million. The increased export was due to the renewal of the contracts for export of products of textile industry, iron and steel industry and production of non-ferrous metals, the increased price of these products at the world markets and the high demand for goods in Kosovo.

Analyzing by products, in January – June 2000 period, the largest portion of the exported goods was rolled products (USD 137.6 million or 21.2% of the total exports). In the first six months of 2000, “textile products” worth USD 90.2 million were exported, out of which male cotton shirts (USD 25.8 million) and female blouses and shirts (USD 21.7 million). In this period, the export of non-alloyed zinc reached USD 33.6 million, which is 5.2% of the total export.

Chart 23

Export, import and foreign trade balance

(in USD million)



The accelerated economic activity in the first six months of 2000 (increase in the industrial output by 10.6% compared to the same period of 1999, incremented export of 28.5%), corresponds to the increased import of goods and products for processing. Simultaneously, the increase in the price of oil at the world markets, as well as the effect of the value-added tax, immediately prior to its introduction on the excise goods resulted in a significant increase in the value of imported goods. In the first six months of 2000, the import of goods in the Republic of Macedonia amounted to USD 1,079.7 million, which is by USD 369.6 million, or by 52.1% more compared to the same period of the previous year. In the first quarter of 2000, the import of goods equaled USD 604.9

million, and in March, prior to the introduction of value-added tax it reached USD 300.2 million. Although it was expected that following the introduction of value-added tax, the import would decline significantly, the imports remained high in the second quarter of 2000, excluding April, primarily due to the intensification of the agreements based on so-called “loan” principle in the textile and iron and steel industry.

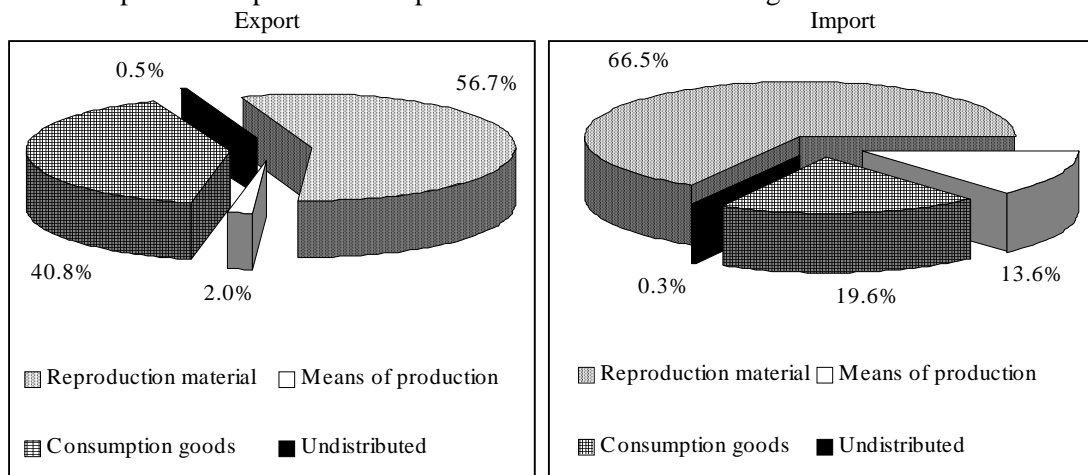
As a result of the increase in the price of oil, the share of this product in the total import in the Republic of Macedonia registered a fast increase, thus reaching USD 81.2 million, or 7.5% of the total import. In January – June 2000 period, as a result of the extremely high import in the first three months, the import of passenger cars and other vehicles reached USD 53.4 million (4.9% of the total import) and USD 14.7 million (1.4% of the total import), respectively, due to the introduction of value-added tax and effects thereof on the prices of excise goods, such as vehicles. The products included in the list of mostly imported goods are as follows: wheat (USD 12.3 million), other medicines intended for retail sales (USD 11.6 million), etc.

The fast increase in the foreign trade of the Republic of Macedonia in conditions of significantly higher increment in the import of goods compared to the export, resulted in unfavorable movements in the trade balance of the Republic of Macedonia. In the first six months of 2000, The negative balance in the foreign trade of the Republic of Macedonia amounted to USD 432.0 million. In 2000 compared to the same period of 1999, the trade deficit was by USD 226.4 million, or by 110.1% higher. Except for April, when relatively low deficit in the amount of USD 22.7 million was registered, the other months registered high negative balances in the foreign trade, with the import of goods exceeding the export in March only by USD 174.0 million.

Regarding the economic use of the traded goods, the expansion of the foreign trade was a result of the increased import and export of all products (except for the export of means of production). However, considering the structure of the foreign trade, the reproduction materials dominated in the first six months of 2000, with 56.7% on the side of export and 66.5% on the side of import. Compared to the same period of 1999, their share in total imports and exports increased by 9.3 percentage points and 4.0 percentage points, respectively, for the account of the decline in the share of consumption goods by 7.3 percentage points on the side of export and by 4.7 percentage points on the side of import. Thus, the share of the export of consumption goods in the total export fell to 40.8%, and to 19.6% on the side of import. The means of production in this period accounted for 2.0% of total exports and 13.6% of total import.

Chart 24

Import and export of the Republic of Macedonia according to the economic use



In the first six months of 2000, certain changes were registered in the structure of foreign trade of the Republic of Macedonia, according to the economic groups of countries. Apart from the fact that the developed countries still dominate the exports (64.5% of total export), primarily the

European Union countries (44.0% of the total export), the export of Macedonian goods to the states of the former SFRY rapidly increased, as a result of the reestablished transportation routes throughout Yugoslavia and the opening of the Yugoslav market. Thus, the share of this group of countries in the total export of the Republic of Macedonia reached 30.1%. The countries of Central and Eastern Europe follows, in which 4.6% of the total Macedonian export were sold in this period.

Table 17

Foreign trade of the Republic of Macedonia with the economic groups of countries

	Exports			Imports			Structure	
	US Dollar million		index	US Dollar million		index	exports	imports
			I-VI 2000			I-VI 2000	(%)	(%)
	I-VI 1999	I-VI 2000	I-VI 1999	I-VI 1999	I-VI 2000	I-VI 1999	I-VI 2000	
TOTAL	504.3	647.9	128.5	710.0	1079.7	152.1	100.0	100.0
Developed countries	358.2	417.6	116.6	376.7	502.1	133.3	64.5	46.5
EU	272.7	284.7	104.4	300.2	401.5	133.8	44.0	37.2
EFTA	11.0	20.1	182.2	10.0	16.2	162.8	3.1	1.5
Other developed countries	74.5	112.8	151.4	66.6	84.3	126.7	17.4	7.8
Countries of Centr. and East. Europe	38.2	0.5	73.2	33.5	322.5	241.6	4.3	29.9
Undeveloped countries	0.7	5.9	70.1	0.7	0.8	115.8	0.1	0.1
Developing countries	11.6	195.1	50.3	44.2	53.1	120.0	0.9	4.9
Republics of the former SFRY	92.4	0.9	211.1	154.9	201.1	129.9	30.1	18.6
Other countries	3.1	0.7	27.4	-	-	0.0	0.1	0.0

On the other hand, the accelerated economic activity in industries for iron and steel production and processing, which at large extent depend on the import of raw materials from Ukraine and Russia, resulted in intensified imports from the Central and Eastern European countries. Thus, the share of this group of countries reached 29.9% of total import, taking the second place, immediately after the developed countries with share of 46.5% in the total imports (37.2% of which imports from the European Union). In the first six months of 2000, the share of the former SFRY countries in the total import of the Republic of Macedonia fell to 18.6%.

Table 18

Ten largest trading partners of the Republic of Macedonia
in January – June 2000 period

	Foreign trade (in US Dollar million)	Share	Exports (in US Dollar million)	Share	Imports (in US Dollar million)	Share	Import - export coverage ratio
	I-VI, 2000						
REPUBLIC OF MACEDONIA	1,431.0	100.0	536.5	100.0	894.5	100.0	60.0
out of which:							
Germany	212.9	14.9	100.0	18.6	112.9	12.6	88.6
FR Yugoslavia	207.4	14.5	127.8	23.8	79.6	8.9	160.6
Ukraine	109.4	7.6	0.2	0.0	109.2	12.2	0.2
USA	107.7	7.5	81.8	15.3	25.9	2.9	316.6
Greece	101.1	7.1	30.9	5.8	70.2	7.8	44.1
Russia	90.9	6.3	4.5	0.8	86.4	9.7	5.2
Italy	85.7	6.0	41.9	7.8	43.8	4.9	95.6
Slovenia	70.0	4.9	10.9	2.0	59.1	6.6	18.4
Bulgaria	51.9	3.6	12.2	2.3	39.7	4.4	30.9
Croatia	36.2	2.5	13.9	2.6	22.3	2.5	62.5
Total (10 largest trading partners)	1,073.2	74.9	424.1	79.0	649.1	72.5	65.3

In the first six months of 2000, the foreign trade between the Republic of Macedonia and its more important trading partners registered an increase, which was the most intensive in the

foreign trade with SR Yugoslavia, Ukraine and Russia. However, Germany is still the most important trading partner of the Republic of Macedonia, with exchange of goods in the amount of USD 255.7 million (14.8% of the total foreign trade), which is by USD 20.4 million more compared to the same period of 1999. Unfavorable movements in the trade structure with this country were registered, with the export decreasing by USD 5.1 million, thus reducing to USD 122.9 million, or 19.0% of total exports. As a result of increased import of vehicles and medical products, the import of goods from Germany increased by USD 25.4 million, thus reaching USD 132.9 million, or 12.3% of the total import in the Republic of Macedonia. In the first six months of 2000, as a result of such unfavorable movements, negative balance in the amount of USD 10.0 million was registered in the foreign trade between the Republic of Macedonia and Germany, corresponding to an import-export coverage ratio of 92.5%.

In January – June 2000 period, the trade between the Republic of Macedonia and FR Yugoslavia reached USD 248.4 million (14.4% of the total foreign trade), and is 2.1 times more compared to the same period of the previous year. The export increased by USD 106.7 million, which is 3.2 times more, as a result of the expansion in the export of all categories of products to Kosovo, in particular, thus reaching USD 153.6 million. At the same time, the import of goods from this country incremented by USD 26.6 million, or by 39.0%, thus reaching USD 94.8 million. Such movements resulted in surplus in the trade with FR Yugoslavia in the amount of USD 58.8 million, and an import-export coverage ratio of 162.1%.

As a result of the accelerated export of textile and iron and steel products in the first half of 2000, the USA became the third largest trading partner of the Republic of Macedonia. The total trade amounted to USD 130.6 million (7.6 of the total foreign trade). The export of goods from the Republic of Macedonia equaled USD 98.2 million, while the import of goods from the USA amounted to USA 32.4 million. In the first six months of 2000, the surplus in the foreign trade with the USA equaled USA 65.8 million, which is an import-export coverage ratio of 302.6%.

The Macedonian import-export coverage ratio rapidly decreased as a result of the markedly increased imports in the first six months of 2000, thus reducing to 60.2% during this period, compared to 72.1% in the same period of 1999. In January – June 2000 period, in the trade with its ten most important trading partners, the Republic of Macedonia registered positive balance only in the foreign trade with FR Yugoslavia (162.1%) and USA (302.6%). On the other hand, the Republic of Macedonia registered the lowest import-export coverage ratio in the foreign trade with Ukraine (0.2%), Russia (5.5%) and Slovenia (19.4%).

3.3. Denar exchange rate

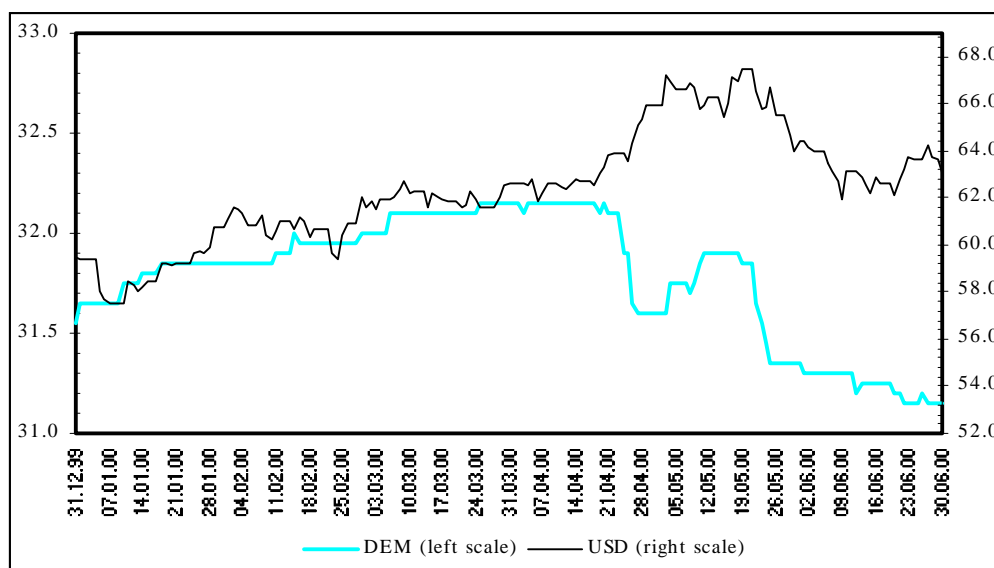
In the first half of 2000, the National Bank of the Republic of Macedonia continued to successfully implement the monetary strategy of targeting the nominal foreign exchange rate of the Denar against the Deutsche mark. In the first six months of 2000, the foreign exchange market did not register larger oscillations. Thus, the Denar foreign exchange rate was preserved at the targeted level of Denar 31.0 per one Deutsche mark.

Contrary to the developments on the foreign exchange market, in the first half of 2000, certain fluctuations in the foreign rate of the Denar against the Deutsche mark were registered on the exchange offices market. Thus, in different periods it fluctuated between Denar 31.15 and 32.15 per Deutsche mark. In the period immediately prior the introduction of value-added tax, i.e. before April 1, 2000, there was an increase in the import of excise goods which resulted in increased demand for foreign currency at the exchange offices market. Consequently, the Denar foreign exchange rate depreciated, thus reaching Denar 32.15 per one Deutsche mark at the end of March 2000, and compared to the end of 1999, it depreciated by 1.9%. The increased inflow of foreign currency in April – June 2000 period resulted in appreciation of the exchange rate of the Denar against the Deutsche mark, and on June 30, 2000, Denar 31.15 were traded for one Deutsche mark.

The increased supply of foreign currency in this period was absorbed by the National Bank of the Republic of Macedonia through the net-purchase of foreign currency, which resulted in maintenance of the stability of the exchange rate of the Denar against the Deutsche mark.

Chart 25

Average daily Denar foreign exchange rate at the exchange offices market



The strategy of targeting of the exchange rate of the Denar against the Deutsche mark requires the exchange rate of the Denar against other world currencies to be determined in accordance with the rate between the Deutsche mark and other currencies at the world markets. In the first six months of 2000, the position of the US Dollar against the Deutsche mark was permanently strengthening. On June 30, 2000, one US Dollar was traded for DEM 2.06, compared to DEM 1.95 on December 31, 1999. As a result, the exchange rate of the Denar against the US Dollar depreciated by 5.9%, thus amounting to Denar 63.9 per one US Dollar on June 30, 2000.

In the first six months of 2000¹³, the real effective Denar exchange rate¹⁴, estimated according to the movements in retail prices appreciated by 4.8%, whereas compared to June 1999, it appreciated by 8.8%. Calculated according to the prices of the producers of industrial products, in June 2000 compared to December 1999, the real effective Denar exchange rate appreciated by 1.7%, while compared to June 1999, it appreciated by 6.2%. The appreciation of the Denar exchange rate was due to the unchanged nominal exchange rate in conditions of more intensive increase in the domestic retail prices and prices of producers of industrial products compared to the countries – trading partners of the Republic of Macedonia.

3.4. Foreign exchange reserves of the Republic of Macedonia

At the end of June 2000 compared to December 31, 1999, the total foreign exchange potential¹⁵ of the Republic of Macedonia increased by USD 134.5 million, or by 16.1%. In regard to the timeframes, in the first two months of the year it declined by USD 6.1 million, thus reducing to USD 827.4 million at the end of February. However, in March – June 2000 period, the total foreign exchange potential registered an increase, thus reaching USD 968.0 million at the end of

¹³ Previous data used for June 2000.

¹⁴ NBRM estimations.

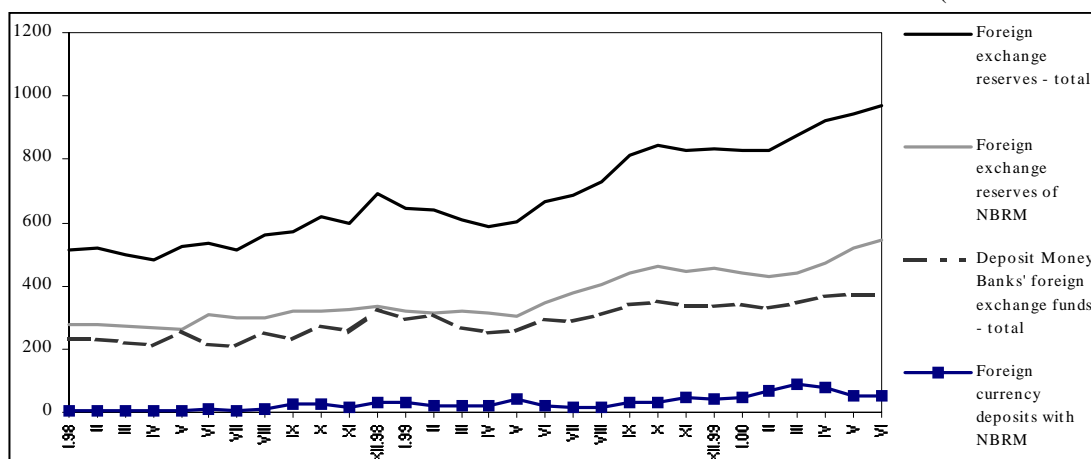
¹⁵ The foreign exchange reserves of the National Bank of the Republic of Macedonia and foreign currency with the deposit money banks.

June. The increase was due to the increase in the NBRM foreign currency and the foreign currency of the deposit money banks.

Chart 26

Movement in the foreign exchange potential of the Republic of Macedonia

(in USD million)



In January – June 2000 period, the NBRM gross foreign exchange reserves increased by USD 85.1 million, thus reaching USD 543.5 million on June 30, 2000. In regard to the timeframes, in the first three months of 2000 compared to December 31, 1999, they registered a decline of USD 16.6 million, thus reducing to USD 441.8 million at the end of March. The decline was primarily due to the need of NBRM to sell foreign currency at the foreign exchange market, as a result of the increased demand for foreign currency due to the increased imports of excise goods, prior to the introduction of the value-added tax. However, in April 2000, the fall was not only interrupted, but entirely compensated, with the NBRM gross foreign exchange reserves reaching the highest level so far, and at the end of June 2000, they equaled USD 543.5 million.

The increase in the NBRM gross foreign exchange reserves was primarily due to the net-purchase of foreign currency at the foreign exchange market in the amount of USD 70.3 million. In the first half of 2000, an inflow in the amount of USD 10.7 million was registered based on collected interest on foreign currency deposited abroad. Net inflow of USD 16.1 million was registered from external financing. On the side of inflows, USD 23.7 million were acquired from foreign credits and donations, as part of the inflow of funds from the privatization of Stopanska Banka in the amount of USD 17.5 million. On the side of outflows, repayment of foreign credits (USD 13.2 million) and servicing of the debt of the Republic of Macedonia to IMF in the amount of USD 11.9 million, were registered. There was a change in the cross-currency ratios resulting in USD 12.0 million fall of the NBRM gross foreign exchange reserves, as a result of the depreciation of the Deutsche mark against the US Dollar and the fall in the price of gold at the world stock exchange.

On June 30, 2000, the foreign currency deposits with the National Bank of the Republic of Macedonia, primarily composed of government foreign currency deposits and credits from the Bank for International Settlement (BIS), equaled USD 54.7 million. Compared to the end of 1999, they were by USD 13.8 million higher, primarily as a result of the credit extended by BIS.

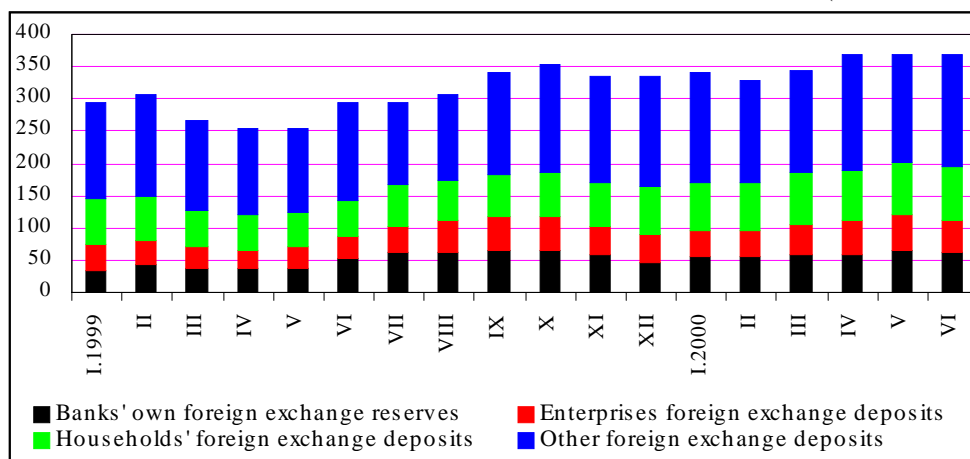
Taking into consideration the increase in the NBRM gross foreign exchange reserves, non-concluding of the arrangement with IMF and regular servicing of the liabilities to this organization, the NBRM net foreign exchange reserves, calculated as gross foreign exchange reserves decreased by the liabilities of the NBRM to IMF, in the first half of 2000 compared to December 31, 1999, increased by USD 96.8 million. Thus, at the end of June 2000, the NBRM net foreign exchange

reserves reached USD 454.2 million, whereas the liabilities to IMF were reduced to USD 89.3 million.

Chart 27

Structure of the foreign currency with banks

(in USD million)



At the end of June 2000, the total foreign currency of the banks licensed for international operations amounted to USD 369.8 million, thus increasing by USD 35.6 million relative to December 31, 1999, as a result of the increase in the foreign currency deposits of the economic agents and the banks' own foreign exchange funds¹⁶ by USD 21.1 million and USD 14.5 million, respectively.

3.5. Foreign exchange and exchange offices market

3.5.1. Foreign exchange market

The increased foreign trade of the Republic of Macedonia in the first half of 2000, caused by the accelerated economic activity and the introduction of value-added tax, resulted in fast increase in the foreign exchange market turnover (market at which banks and enterprises trade). In this period, the total turnover equaled USD 793.4 million, which is by USD 205.8 million, or by 35.0% more compared to the same period of 1999.

The largest portion of the transactions was conducted among the banks and enterprises (USD 521.4 million, or 65.7% of the total turnover). In the first six months of 2000, the turnover registered in the transactions between enterprises equaled USD 136.4 million, equaling 17.2% of the total turnover, while the inter-bank transactions registered a turnover of USD 26.1 million, equaling 3.3% of the total turnover of the foreign exchange market.

3.5.2. Exchange offices market

In the first six months of 2000, the total turnover at the exchange offices market amounted to USD 303.1 million, which is by USD 113.8 million, or by 60.1% more compared to the same

¹⁶ Difference between the foreign exchange assets and foreign exchange liabilities, not covering the long-term liabilities of the deposit money banks based on foreign credits and short-term liabilities based on foreign credit, where the bank itself is not a final beneficiary. The amount of banks' foreign exchange assets does not incorporate the portion of the households' foreign currency savings deposits, which according to the existing regulation, is available to the banks.

period of the previous year. During the whole period, the foreign currency supply at the exchange offices market was exceeding the demand, thus the net foreign currency purchased by the exchange offices amounted to USD 183.3 million (by USD 99.5 million, or by 118.7% more compared to the previous year).

In the first half of 2000 compared to the same period of 1999, the total foreign currency supply at the exchange offices market was by USD 106.6 million, or by 78.1% higher, thus reaching USD 243.2 million. On the other hand, in this period there was no divergence in the foreign currency demand than usual, and in January – June 2000 period it reached USD 59.9 million, which is by USD 7.1 million, or by 13.5% more compared to the same period of the previous year.

3.5.3. NBRM operations at the foreign exchange and exchange offices market

According to the macroeconomic projections for 2000, in the first half of the year, the NBRM was to purchase net amount of USD 17.0 million from the foreign exchange and exchange offices market. Contrary to the projections, in January – June 2000 period, NBRM purchased net amount of USD 70.3 million from the foreign exchange and exchange offices market, which is more compared to the purchase projections for the entire 2000.

Chart 28

Net-purchase of foreign currency by NBRM at the foreign exchange and exchange offices market



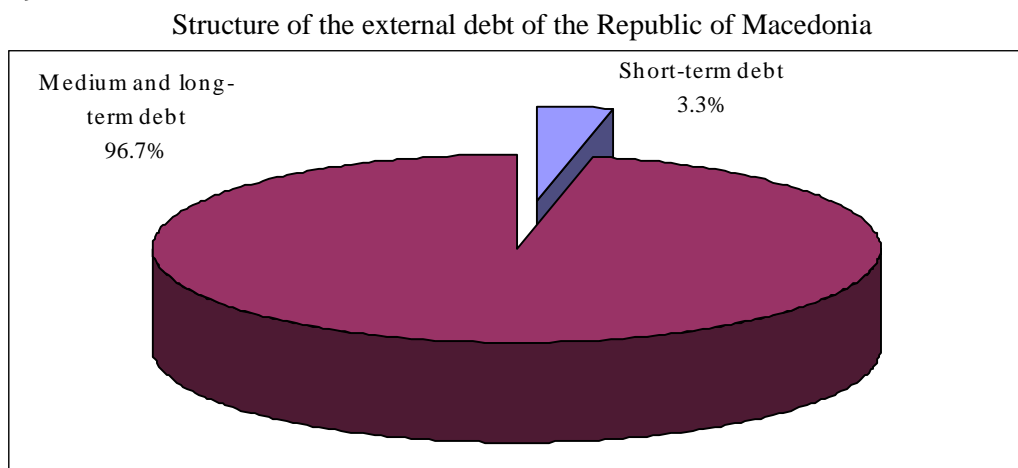
Structurally observed, in the first half of 2000, the NBRM purchased net amount of USD 25.5 million from the deposit money banks. In this period, USD 15.8 million were purchased from the Government, solely due to the purchase of the grant in the amount of USD 22.0 million which the United States Agency for International Development extended to the Ministry of Finance in May this year, intended for compensation of the adverse economic effects of the regional crisis in the previous year. NBRM purchased USD 27.4 million from the exchange offices market. In the other transactions, including the monetary gold transactions, the NBRM purchased additional USD 1.6 million.

3.6. External debt of the Republic of Macedonia¹⁷

3.6.1. External debt and developments in January – June 2000 period

On June 30, 2000, the total external debt of the Republic of Macedonia equaled USD 1,508.4 million, USD 1,480.9 million, or 98.2% of which was principal, and USD 27.5 million, or 1.8% was due interest. Compared to December 31, 1999, the total external debt of the Republic of Macedonia was by USD 14.8 million, or by 1.0% higher, due to the increase in the debt based on used medium-term and long-term credits, whereas the debt based on used short-term credits decreased.

Chart 29



At the end of June 2000, the short-term debt of the Republic of Macedonia equaled USD 49.1 million, USD 48.8 million of which was principal. Compared to the end of 1999, it decreased by USD 6.0 million, or 10.9%. In the first half of 2000, total amount of USD 17.0 million was withdrawn based on short-term crediting, the largest portion of which (USD 13.3 million) were financial credits. In the first half of 2000 compared to the same period of 1999, the amount of used credits was by USD 3.4 million lower.

In January – June 2000 period, USD 15.5 million was paid for servicing of the liabilities of the Republic of Macedonia based on used short-term credits, USD 14.2 million of which was principal and USD 1.3 million was interest. Considering that the amount of used credits exceeds the amount of repaid ones, the decrease of the debt of the Republic of Macedonia based on used short-term credits was due to exchange rate differentials.

In the first half of 2000, the medium-term and long-term debt of the Republic of Macedonia increased by USD 20.8 million, or by 1.4%, thus reaching USD 1,459.3 million on June 30, 2000. Regarding the structure of the medium-term and long-term debts¹⁸, USD 1,432.1 million (98.1%) was principal, USD 21.6 million (1.5%) was due interest, while USD 5.6 million (0.4%) was estimated back interest.

In the first half of 2000, the external debt of the Republic of Macedonia increased by USD 61.0 million, as a result of new withdrawn medium-term and long-term credits. USD 42.7 million was withdrawn from the multilateral creditors, as follows: USD 27.1 million from the International Development Agency (IDA), USD 13.6 million from the European Bank for Rehabilitation and

¹⁷ NBRM previous data.

¹⁸ As of June 30, 2000, the principal and outstanding regular interest on the external debt of the Republic of Macedonia are shown according to the records available to the NBRM. Estimation has been made for the amount of default interest on the arrears to the creditors with which the relations have not been regulated yet.

Development (EBRD) and USD 2.0 million from the International Financial Corporation (IFC). The largest portion of the funds withdrawn from IDA was intended for the Structural Adjustment of Social Sector Project (USD 14.5 million), as well as for the Urgent Import Project (USD 9.2 million). Almost entire amount withdrawn from the EBRD pertains to the second tranche in the amount of USD 13.4 million of the credit extended to A.D. "Makedonski Telekomunikacii". The funds extended by IFC in the amount of USD 2.0 million was exclusively intended for credit support of the private sector of the Republic of Macedonia.

At the same time, USD 4.3 million was withdrawn from the bilateral creditors, which is solely due to the funds granted for implementation of the Private Sector Development Project in cooperation with the Republic of China – Taiwan.

In January – June 2000 period, total amount of USD 14.0 million was withdrawn from the private creditors, USD 3.3 million of which was capitalized interest in accordance with the agreement for scheduling of the Macedonian debt to the London Club of Creditors. Additional USD 10.7 million was withdrawn from other creditors, as follows: USD 6.9 million as financial credits, USD 3.1 million as commercial credits and USD 0.7 million as trade credits.

In the first half of 2000, the total repayment of due medium-term and long-term liabilities equaled USD 57.7 million, USD 36.9 million of which was principal and USD 20.8 million was interest. USD 35.1 million was paid to the official creditors, USD 22.0 of which was liabilities based on principal. Total amount of USD 33.9 million was paid to the multilateral creditors, USD 21.2 million of which refers to principal. Analyzed by creditors, the largest portion of the funds was paid to the International Monetary Fund (IMF) (USD 12.0 million) and to the EBRD (USD 9.1 million).

In the first six months of 2000, USD 1.2 million was paid to the bilateral creditors. Furthermore, USD 0.8 million was paid based on principal, while the interest paid amounted to USD 0.4 million.

In January – June 2000 period, USD 22.6 million was paid to the private creditors, as follows: USD 14.9 million based on principal, and USD 7.7 million based on interest. The total amount of USD 14.9 million paid on the basis of principal was due to the payment of principal to "other creditors", primarily based on financial credits (USD 9.5 million) and commercial credits extended to enterprises (USD 3.3 million). Out of the total paid interest in the amount of USD 7.7 million, USD 4.7 million refers to interest paid to the London Club of Creditors, while USD 3.0 million was paid as interest to the other creditors.

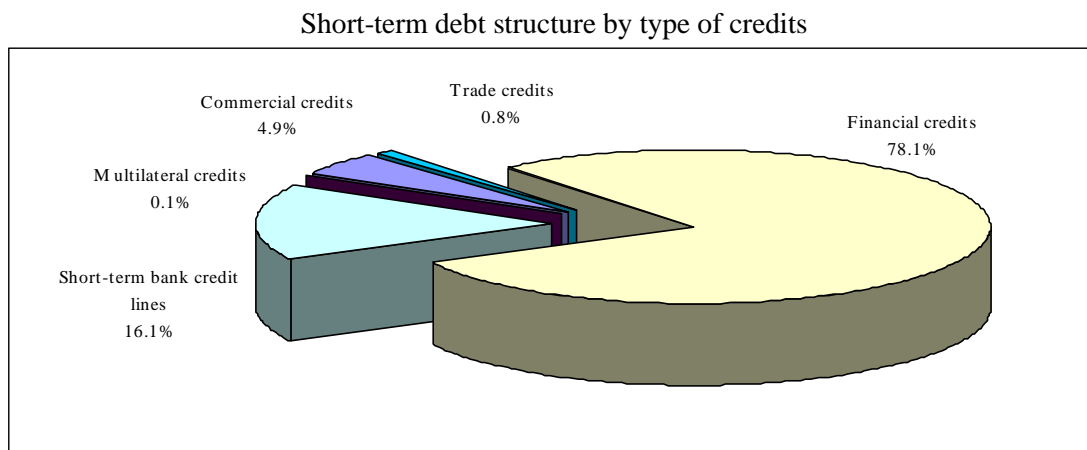
At the end of June 2000, the total arrears amounted to USD 63.7 million, USD 42.1 million of which was overdue principal, and the remaining USD 21.6 million was overdue interest. Compared to December 31, 1999, the arrears increased by USD 26.5 million. In accordance with the Letter on Deferred Payment dated April 1999, an agreement was made with the Paris Club of Creditors, the liabilities of the Republic of Macedonia to this club not to be paid within one-year period, which resulted in increase of the liabilities to these creditors to the amount of USD 40.0 million. The remaining arrears to the private creditors, which refers to the non-inclusion of API bonds in the agreement for rescheduling with the London Club of Creditors, as well as the arrears to other private creditors due to the financial standing of the Macedonian enterprises.

At the end of the first half of 2000 compared to December 31, 2000, the estimated back interest increased by USD 3.3 million thus reaching USD 5.6 million. In respect to the structure, the increment was a result of the increased back interest to the Paris Club of Creditors.

3.6.2. Debt structure

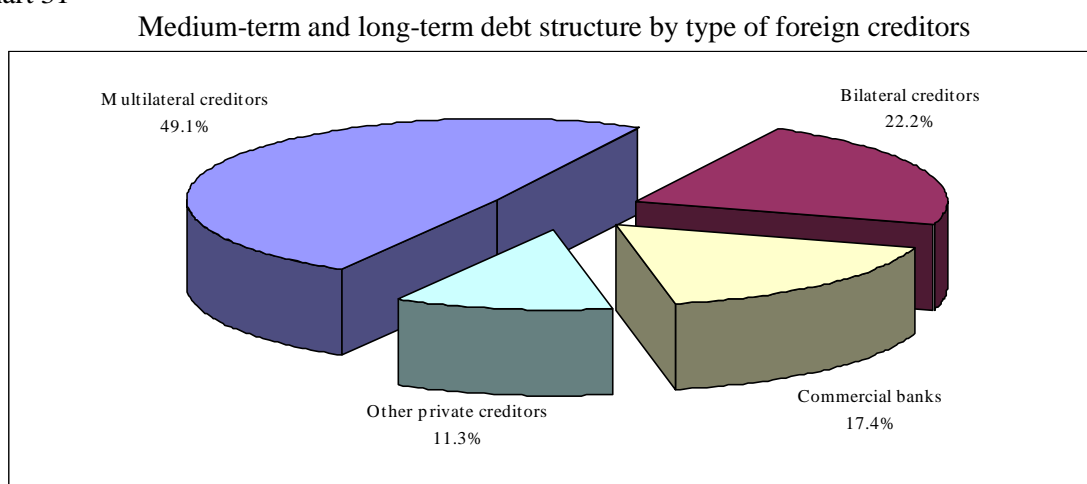
Regarding the structure of the external debt of the Republic of Macedonia based on used short-term credits, on June 30, 2000, the largest portion, or 78.1% of the total short-term debt were used financial credits. Simultaneously, the share of short-term bank credit lines reached 16.1%, followed by commercial credits with share of 4.9% and trade and multilateral credits with almost insignificant share. Compared to December 31, 1999, the share of financial credit declined by 2.6 percentage points, whereas the share of short-term bank credit lines and commercial credits increased by 4.6 and 2.7 percentage points, respectively.

Chart 30



In respect to the types of foreign creditors, in the medium-term and long-term debt of the Republic of Macedonia as of June 30, 2000, the official creditors dominated with USD 1,041.2 million, or 71.3% of the total debt (71.7% as of December 31, 1999). Simultaneously, the debt to private creditors reached USD 418.1 million, which was 28.7% of the total medium-term and long-term debt of the Republic of Macedonia (28.3% as of December 31, 1999).

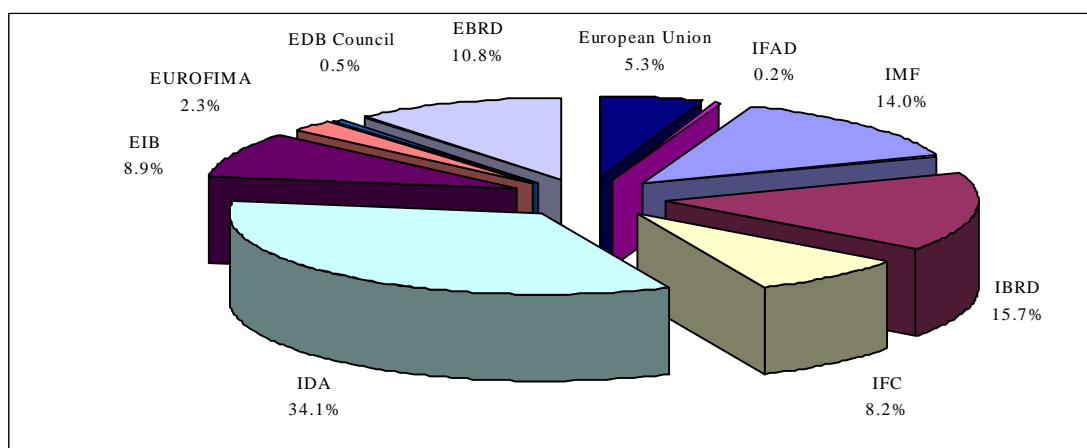
Chart 31



With respect to the structure of the debt of the Republic of Macedonia towards foreign creditors, the largest portion of the debt in the amount of USD 716.5 million, or 68.8% was debt to multilateral creditors. Compared to the end of 1999, the debt towards multilateral creditors was by USD 2.9 million higher, whereas its share in the total debt to official creditors decreased by 0.4 percentage points. Analyzing by creditors, IDA dominates the structure of multilateral creditors of the Republic of Macedonia with USD 244.0 million, or 34.1%, followed by EBRD with USD 112.6 million, or 15.7% and IMF with USD 100.1 million (14.0%).

Chart 32

Debt structure to multilateral creditors



As of June 30, 2000, the debt of the Republic of Macedonia to bilateral creditors reached USD 324.7 million, or 31.2% of the debt to official creditors. Compared to the end of the previous year, the debt was by USD 7.5 million higher, while the share in the total debt to official creditors increased by 0.4 percentage points.

In the first half of 2000, the debt of the Republic of Macedonia to private creditors increased by USD 10.4 million, thus reaching USD 418.1 million. In addition, USD 253.7 million, or 60.7% were liabilities to commercial banks. USD 7.3 million, or 44.7% of the other liabilities resulted from withdrawn financial credits, USD 6.6 million, or 40.1% were trade credits, and USD 2.5 million, or 15.2% were commercial credits.