

2. STRUCTURE OF THE BANKING SYSTEM OF THE REPUBLIC OF MACEDONIA

2.1. Structure of the Banking System

Main segments of the structure of the banking system in the Republic of Macedonia are:

1. Commercial Banks
2. Savings Houses

At the end of the first half of 2000, the banking system of the Republic of Macedonia comprised 21 banks, 1 branch of a foreign bank and 19 savings houses. Of these, 15 banks and the foreign bank branch have a full license for conducting payment operations, credit and guarantee activities with abroad, whereas the operating license of the other 6 banks pertains only to domestic banking operations. Compared to December 31, 1999, the number of institutions from the first segment has reduced, which is a result of the final decision for revoking the operating license of “Almako Banka” a.d. Skopje (February, 24, 2000) and the commenced bankruptcy procedure. The number of institutions in the second segment registered an increase, which is a result of the granted licenses by the National Bank of the Republic of Macedonia for founding of two new savings houses:

- “Zegin Viktorija i drugi” Ltd. Skopje, savings house,
- “Moznosti” Ltd. Skopje, savings house

and the commenced operations of the “Al Kosa” a.d. Stip, savings house, for which the National Bank of the Republic of Macedonia granted a license on November 09, 1999.

As for the main structural characteristics of the banking system of the Republic of Macedonia, at the end of the first half of 2000, they remained unchanged compared to the previous period. Several criteria show that there are still high concentrations in the banking system, regional asymmetry, dominant position of banks with relation to savings houses, unfavorable qualifications structure of the employees of banking institutions, which of course has an impact on the competitiveness and efficiency of the banking system of the Republic of Macedonia.

In the first half of this year, structural relations between the two main segments of the banking system confirm the structural dominance of banks in the banking system of the country. Their share of 98.9% in the total assets once again confirms the marginal role of savings houses in the system (they cover 1.1% of the total assets), which may well be illustrated by their share in the mobilization of available funds from households, which in accordance with the regulations represents one of their main functions. As of June 30, 2000, the share of savings houses in the total amount of collected households’ savings deposits equaled 2.6%. If only denar savings deposits are taken into consideration, the share of savings houses equals 5.6%, and is unchanged compared to the same period of the last year.

The main structural features of the banking system of the Republic of Macedonia are analyzed from several aspects:

1. Size of the banking institutions;
2. Ownership structure;
3. Regional structure.

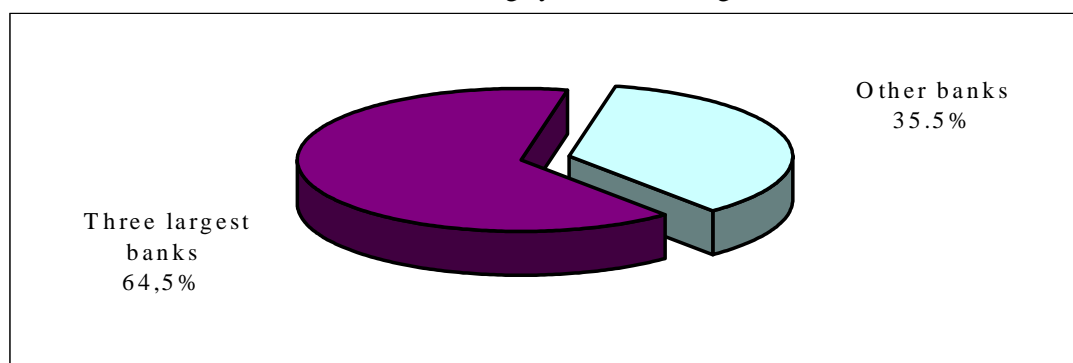
From the aspect of their size, banking institutions are analyzed according to three criteria:

- a) Scope of operations or market share;
- b) Total assets;
- c) Capital strength, i.e. total amount of own funds of banking institutions.

a) The scope of operations, as a total volume of on-balance sheet and off-balance sheet activities of the banks, indicates their market share in the banking system. According to this criterion, the three largest banks in the Republic of Macedonia have a market share of 64.5%, with 38.8% share of the largest bank in the total scope of operations. From the total scope of operations, the off-balance sheet activities cover 17%. In the first half of 2000, the largest bank had a share of 50.1% in the total volume of off-balance sheet activities. These indicators show significant concentration of the banking market with the three largest banks, which compared to December 31, 1999 registers a trend of slight growth.

Figure 1

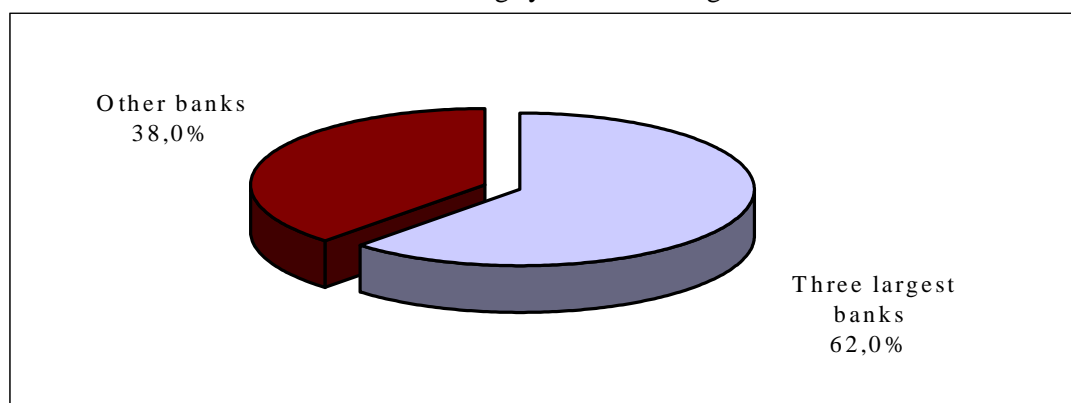
Concentration of the banking system according to market share



b) If total assets of banks are considered to be the criterion for determining their size, the three largest banks cover 62% of the total net assets of the banks operating on the territory of the Republic of Macedonia, which is unchanged compared to December 31, 1999. Compared to the first half of 1999, this concentration increased by 3.5 percentage points. Only the first largest bank covers 36.5% of the total banks' assets, which compared to December 1999 represents an increase of 1.1 percentage point. If the three largest banks are excluded from the analysis, the average assets of other banks amount to Denar 1.4 billion, or only 2% of the total assets of the banking system and is at the level from December 31, 1999. These indicators confirm the high concentration of assets with only three out of the total number of twenty-two banks operating on the territory of the Republic of Macedonia, identified in the previous periods.

Figure 2

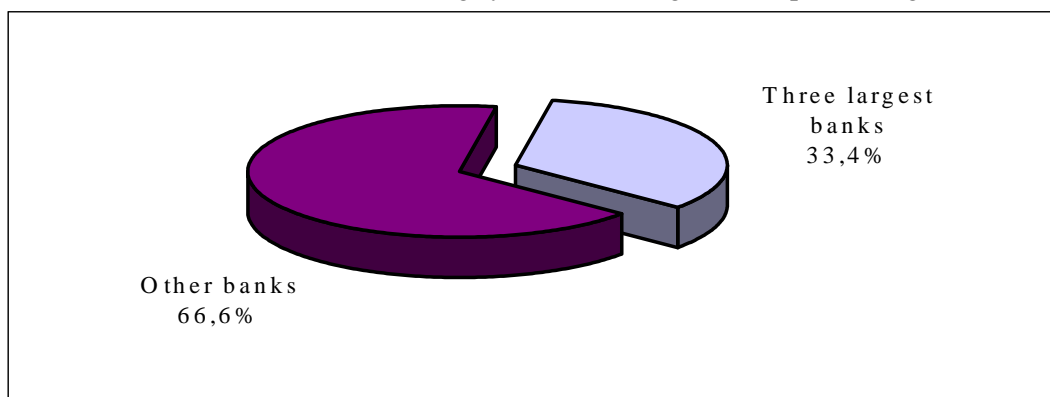
Concentration of the banking system according to the total assets



c) According to the size of the banks' own funds, i.e. their capital strength, the share of the three largest banks in the Republic of Macedonia in the total capital equals 33.4%. The downward trend in the concentration of own funds with the three largest banks (3.9 percentage points compared to June 1999, i. e 5 percentage points compared to December 1999) is a result of the decline in the capital of one of the three largest banks due to the determined amount of unallocated loan loss provisions, as well as the dynamic compliance of banks with the legally prescribed minimum capital requirement for conducting international payment operations and credit and guarantee operations. If the three largest banks are excluded from the analysis, the own funds of other banks amount to Denar 0.56 billion, or 3.5% of the total capital strength of the Macedonian banking system.

Figure 3

Concentration of the banking system according to the capital strength



2.1.2. Ownership structure

The ownership structure of banks in the Republic of Macedonia is analyzed from two aspects:

- a) Level of privatization of banks
- b) Share of foreign capital

a) On the basis of the data that the banks submit to the National Bank of the Republic of Macedonia, the level of privatization of the banking capital in the Republic of Macedonia as of June 30, 2000 equaled 80.4% and compared to December 31, 1999 represents an increase of 3.6 percentage points. If the two banking institutions which are fully state-owned

are excluded from the analysis: “Macedonian Bank for Development Support” and the branch of “T.C. Ziraat Bankasi” from the Republic of Turkey, the level of privatization of the rest of the banking capital in the Republic of Macedonia equals 90.6% or 3.9 percentage points more compared to December 31, 1999. The level of privatization of banks ranges between 72.1 % and 100% with six banks.

b) At the end of the first half of 2000, the share of foreign capital in the total founding capital of the banks in the Republic of Macedonia equaled 33.3%, which represents a significant increase of 14 percentage points compared to end December 1999. This is a result of the structural changes in the shareholding structure of Stopanska Banka a.d. Skopje, i.e. the entrance of new shareholders: National Bank of Greece, International Finance Corporation and European Bank for Reconstruction and Development, so the share of foreign capital in the ownership structure of the banks, which until that time was fully in domestic ownership, reached the level of 85%. The bank by bank analysis shows that foreign capital is present in 15 banks, with a share between 0.3% to 100%. The following table shows the share of banks with domestic, mixed and foreign ownership in the total banking system according to their total own potential.

Table 1

Share of banks according to the type of ownership in the total capital of the banking system

	Participation of the banks according to their own funds	
	31.12.1999	30.06.2000
Domestic ownership	42.8%	26.4%
Mixed (foreign and domestic) ownership	52.5%	69.1%
Foreign ownership	4.7%	4.5%
Total	100.0%	100.0%

2.1.3. Regional structure

The analysis of the regional aspects of the structure of the Macedonian banking system shows that from the total number of financial institutions only 6 banks and 5 savings houses are located outside of Skopje, of which only 3 banks are authorized to conduct international payment operations and credit activities. The assets of these eleven institutions participate with 11.9% in the total assets of the banking system of the Republic of Macedonia, which compared to the end of 1999 represents an increase of 0.3 percentage points. However, the regional aspect still reveals the asymmetry and high concentration of the banking system, as a result of the fact that the new banking institutions are mainly established in the capital.

The asymmetry and oversize in the supply of financial services is to a certain extent mitigated with the relatively wide network of branches, windows, business units and representative offices. Thus at the end of the first half of 2000, banks in the Republic of Macedonia had: 20 branches, 181 windows, 8 business units and 4 representative offices. Of course, the windows of the Macedonian Post Offices public enterprise used by the Postal Savings House (about 600 on the whole territory of the Republic of Macedonia) should also be taken into consideration.

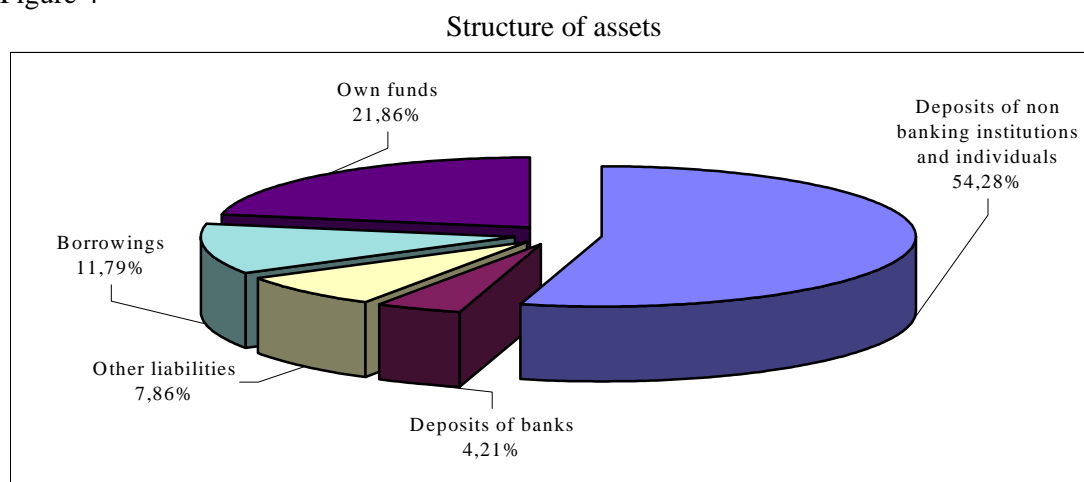
2.2. STRUCTURE OF THE BALANCE SHEET OF THE BANKING SYSTEM OF THE REPUBLIC OF MACEDONIA

At the end of the first half of 2000 the total assets of the banks in the Republic of Macedonia amounted to Denar 72,536 million (Annex 1), which in comparison with the end

of 1999 presents a nominal increase of 0.36%, i.e. an increase of 0.33% in real values, and compared to June 30, 1999 it represents a nominal growth of 20.8%, i.e. real growth of 17.66%². The bank by bank analysis shows that during the first six months of 2000 assets increased with 15 banks and the growth rate December 1999 - June 2000, ranges between 1.39% to 73.43%.

A breakdown of the liabilities and capital of the Macedonian banks is shown in the Figure below:

Figure 4



1. **Deposits** have the largest share in the financial structure of the banks. As of June 30, 2000, the share of total deposits in the total banks' assets equaled 58.49%, which compared to the end of 1999 represents a decline of 2.21 percentage points, and compared to June 1999 it represents an increase of 6.09 percentage points. On the other hand, the absolute decline in deposits during the first six months of 2000 amounted to Denar 1,444 million and on June 30, 2000 they amounted to Denar 42.426 million. Denar 3.052 million or 7.19% are deposits of banks, whereas Denar 39,374 million or 92.81% are deposits of non-banking institutions and households. This dominant category of deposits in the structure of the total assets participates with 54.28%, which compared to December 1999 represents a decline of 2.12 percentage points, whereas compared to June 1999 it increased by 5.1 percentage points.

Table 2

Maturity structure of deposits

Maturity of deposits	%		
	31.12.1998	31.12.1999	30.06.2000
Sight deposits	66.1	68.8	69.8
Denar	45.6	44.5	42.7
Foreign exchange	54.4	55.5	57.3
Deposits up to 1 year	23.6	21	20.9
Denar	57.6	68.4	72.3
Foreign exchange	42.4	31.6	27.7
Deposits over 1 year	10.3	10.2	9.3
Denar	89.2	88.1	82.9
Foreign exchange	10.8	11.9	17.1
Total	100	100	100

² The real growth of assets is calculated by deflating the nominal growth of assets with the CPI for the first six months of 2000 by 7.2% and for the period June 1999 – June 2000 by 15.1%.

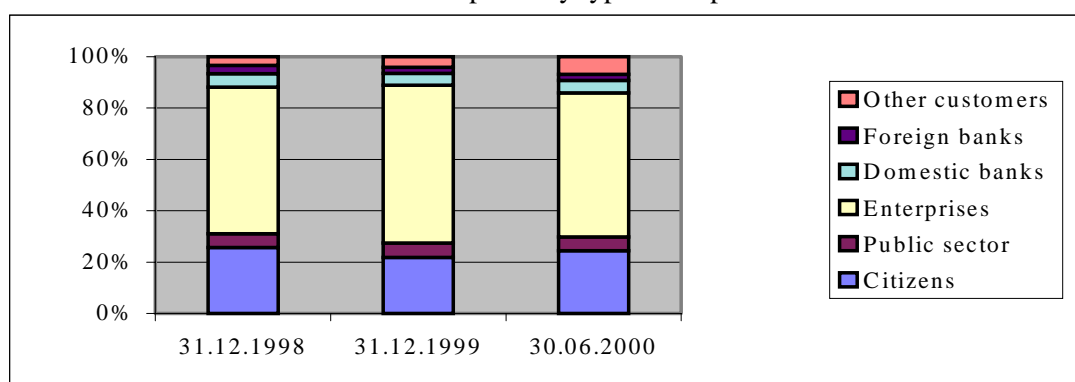
The structural analysis of total deposits of banks from the aspect of maturity reveals the dominance of sight deposits with a share in the total deposit base of banks of 69.81%, which compared to end December 1999 represents an increase of 1.05 percentage points, whereas compared to June 1999 it represents a decline of 1.0 percentage points. On June 30, 2000, total sight deposits amounted to Denar 29,616 million and compared to June 1999 they register an increase of Denar 6.792 million or 29.76%. In the same period, the short term deposits with maturity up to one year, increased by Denar 3.107 million for 53.85% and at the end of June 2000 they amounted to Denar 8.876 million. On the other hand, in the structure of the total deposits this category of deposits increased by 3.02 percentage points and at the end of the first six months of 2000 it had a structural share of 20.92%. In the same period, long-term deposits increased by Denar 301 million and at the end of the first half of 2000 they reached Denar 3.934 million. Their structural share in the total deposits equals 9.27% and registers a decline compared to the same period of 1999 by 2.0 percentage points.

The structure of deposits of banks from the aspect of maturity and its dynamics during 2000, reveals an increase compared to June 1999, however it is lower compared to the deposit base at the end of 1999. From the aspect of its maturity structure, the conclusion that Macedonian banks have a low capacity for long-term crediting identified in the previous periods, still remains.

The analysis of the structure of the total deposits from the aspect of types of depositors reveals the dominance of the deposits of non-financial legal entities³. Namely, as of June 30, 2000, the share of this category in the total banks' deposit equaled 68.46%, which compared to the end of June 1999 represents an increase of 0.8 percentage points, and compared to the end of 1999 registers a decline of 2.69 percentage points. The analysis of this category of deposits from the aspect of their maturity structure, reveals that on June 30, 2000, the share of sight deposits of non-financial legal entities equaled 72.22% and compared to June 1999 they had a lower share of 3.65 percentage points. At the expense of this decline, there is an increase in the share of short-term deposits of non-financial legal entities which in the same period increased by 5.13 percentage points and at the end of June 2000 its share in the total deposits of the non-financial legal entities equals 23.11%. Analyzed from the aspect of currency of denomination, 40.35% of the total deposits of non-financial legal entities are foreign currency deposits, whereas the rest of 59.65% are Denar deposits.

Figure 5

Structure of deposits by types of depositors



As of June 30, 2000, the total households' deposits amounted to Denar 10,331 million, which represents an increase of Denar 2,603 million or 33.69% compared to end June 1999 and 7.92% compared to the end of 1999. Thus the upward trend in this category of deposits, which in the period December 1998 – December 1999 equaled 15.5%, continues in

³ Deposits of non-financial legal entities include the deposits of public enterprises and other clients' deposits.

2000. In the structure of the total deposit base of banks the share of households' deposits equals 24.35%, which compared to June 30, 1999 represents a decline of 0.37 percentage points, and compared to December 31, 1999 it increased by 2.53 percentage points. Analyzed from the aspect of the maturity structure of this category of deposits, largest part, i.e. 75.47% are sight deposits and term deposits with maturity up to one year, which represents an increase of 4.05 percentage points compared to June 30, 1999. This suggests that households prefer short-term saving with Macedonian banks. From the aspect of currency of denomination, 55.01% are households' foreign currency deposits, whereas the rest of 44.99% are households' deposits denominated in denars.

Table 3

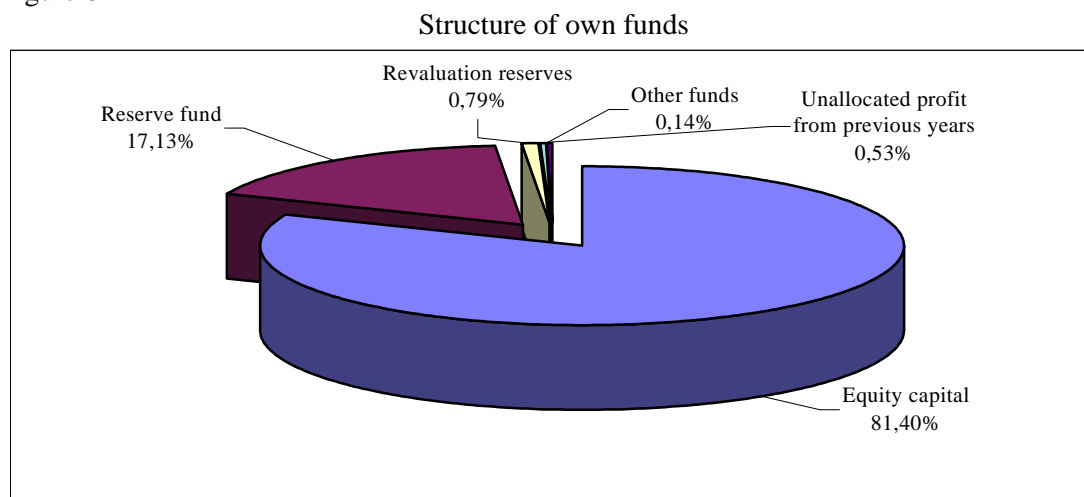
Structure of deposits by types of depositors

	D e p o s i t s (%)		
	3 1 . 1 2 . 1 9 9 8	3 1 . 1 2 . 1 9 9 9	3 0 . 0 6 . 2 0 0 0
I n d i v i d u a l s	2 5 . 7	2 1 . 8	2 4 . 4
Denar	5 3 . 7	5 2 . 1	4 4 . 9 9
Foreign exchange	4 6 . 3	4 7 . 9	5 5 . 0 1
P u b l i c s e c t o r	5 . 3	5 . 6	5 . 4 6
Denar	1 0 0	1 0 0	1 0 0
Foreign exchange	0	0	0
E n t e r p r i s e s	5 7 . 1	6 1 . 5	5 6 . 0 9
Denar	5 0 . 8	5 2 . 6	5 0 . 7 6
Foreign exchange	4 9 . 2	4 7 . 4	4 9 . 2 4
D o m e s t i c b a n k s	5 . 3	4 . 6	4 . 9
Denar	2 8 . 4	1 3	1 7 . 2
Foreign exchange	7 1 . 6	8 7	8 2 . 8
F o r e i g n b a n k s	3 . 3	2 . 4	2 . 3
O t h e r c l i e n t s	3 . 3	4 . 1	6 . 9
Denar	1 0 0	1 0 0	1 0 0
Foreign exchange	0	0	0
T o t a l	1 0 0 . 0	1 0 0 . 0	1 0 0 . 0

2. As of June 30, 2000, **short-term and long-term borrowings from domestic and foreign financial institutions** as external sources of funds had a share of 11.79% in the structure of the total assets of Macedonian banks, which compared to end December 1999 presents a decline of 1.51 percentage points, and compared to June 1999 the decline equals 4.81 percentage points. As of June 30, 2000, the total outstanding amount of borrowings equaled Denar 8.552 million, of which Denar 1.581 million or 22.86 percent are borrowings from domestic banks, Denar 6.961 million or 81.39 percent are borrowings from foreign banks, i.e. foreign credit lines.

3. At the end of June 2000, the **total own funds of banks** in the Republic of Macedonia amounted to Denar 15.860 million, which represents 21.86% of the total assets of banks. If a comparison is made with December 1999, it is evident that there is an increase in the banks' own funds of Denar 925 million or 6.19%, and compared to end June 1999 the increase in own funds amounts to Denar 1.433 million or 9.93%. In the same period a structural change in the share of own funds in the total assets of banks from 24.03% to 20.66% is registered. Banks' own funds cover 37.38% of the total deposits, which represents an increase of 3.34 percentage points compared to end December 1999, but compared to end June 1999 this indicator shows a decline of 7.38 percentage points.

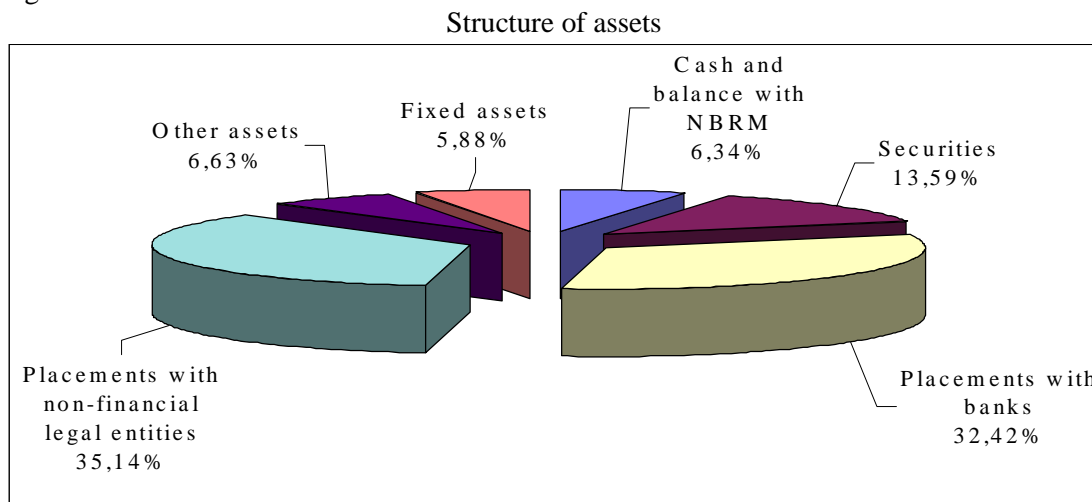
Figure 6



The above Figure shows that on June 30, 2000 founding capital had the highest share in the structure of own funds of 81.4% followed by the reserve funds with 17.13%. Other components of own funds, i.e. revaluation reserves, unallocated earnings from previous years and other funds have an insignificant share (single share lower than 1%).

The structural composition of assets of Macedonian banks as of June 30, 2000 is presented in the following Figure:

Figure 7



Such structure of assets of the aggregate balance sheet shows that the largest part of the bank's funds is concentrated in placements with non-financial legal entities and placements with banks.

Placements with non-financial economic entities have a share of 35.14% in the total assets of banks, which compared to December 1999 represents an increase of 3.84 percentage points, and compared to June 1999 it represents a decline of 7.96 percentage points. As of June 30, 2000, the total net placements with non-financial economic entities (reduced by the amount of allocated loan loss provisions) amounted to Denar 25.812 million and compared to the end of 1999 they registered an increase of Denar 2.092 million or 8.1%. As of June 30, 2000 the total amount of additionally determined unallocated loan loss provisions and additionally determined non-accrual interest identified, with the on-site supervisory examinations amounted to Denar 921 million.

The structure of gross placements, which due to the structural analysis also includes credit placements with domestic and foreign banks according to the type of ultimate users, is presented in the following table:

Table 4

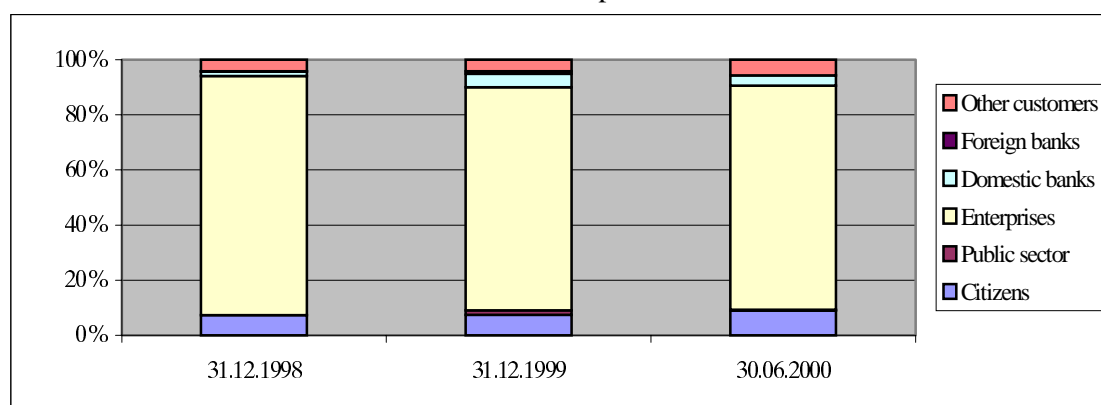
Structure of gross placements by types of credit users

	Gross placements (%)		
	31.12.1998	31.12.1999	30.06.2000
Individuals	7.2	7.4	9
Denar	95.6	99.9	99.9
Foreign exchange	4.4	0.1	0.1
Public sector	0	1.6	0.3
Denar	0	80.3	68.3
Foreign exchange	0	19.7	31.7
Enterprises	86.9	81.1	81.4
Denar	77.7	70.4	26.4
Foreign exchange	22.3	29.6	73.6
Domestic banks	1.6	4.9	3.7
Denar	100	87.2	100
Foreign exchange	0	12.8	0
Foreign banks	0.2	0.8	0
Other clients	4.1	4.2	5.7
Denar	67.1	80.2	56.9
Foreign exchange	32.9	19.8	43.1
Total	100	100	100

The above table shows that most significant is the share of placements with enterprises (regular and non-performing) which on June 30, 2000 had a share of 81.4% in the structure of gross placements. During the whole analyzed period, the share of placements with enterprises is the most dominant category with share of over 80% in the structure of gross placements. On the other hand it is important that during the first six months of 2000 an increase in the placements with households registered, which compared to the end of 1999 increased by 1.6 percentage points and on June 30, 2000 their share in the gross placements equaled 9%.

Figure 8

Structure of credit placements



Maturity structure of gross placements in the first six months of 2000 did not register any significant changes. Thus short-term placements still have a share of over 50% and on June 30, 2000 their share in the total gross placements equals 53.1%. Largest part of the long-term placements are foreign currency credits extended on the basis of foreign credit lines primarily from international financial organizations, and a significantly smaller part are denar credits from banks' own funds. As of June 30, 2000, long-term placements had a share of 46.9% in the gross placements.

Table 5

Maturity structure of credit placements

Maturity of gross placements	%		
	31.12.1998	31.12.1999	30.06.2000
Short-term placements	56.1	52.2	53.1
Denar	84	78.6	78.7
Foreign exchange	16	21.4	21.3
Long-term placements	43.9	47.8	46.9
Denar	66.5	68.4	71.1
Foreign exchange	33.5	31.6	28.9
Total	100.0	100.0	100.0

As of December 31, 1999, the share of the item – Placements with other banks⁴ in the total aggregate net assets of banks equaled 32.42% or Denar 23.814 million, which compared to end December 1999 represents an increase of 1.61 percentage points. This increase is primarily a result of the increase in the correspondent accounts of banks with foreign banks. Namely, this dominant item within the item – Placements with other banks, during the first six months of 2000 increased by Denar 1,582 million or 8.29% compared to December 1999, and at the end of June 2000 it reached Denar 20,656 million.

The underdeveloped financial market, and as a result of the lack of adequate financial instruments in the Republic of Macedonia, determines the low amount of securities in the banks' portfolios. Most important categories of securities that can be found in banks are bonds received from the government on two basis:

1. Bonds on the basis of claims for overpaid foreign currency deposits; and
2. Bonds which the banks received on the basis of "cleaning" their balance sheets:
 - during the linear rehabilitation of the banks in 1995;
 - on the basis of concluding the agreement for sale of Stopanska Banka, a.d. Skopje to foreign strategic investors and "cleaning" its balance sheet from bad claims, i.e. their swap for government bonds at the end of 1999.

As of June 30, 2000, the total amount of securities in the balance sheets of banks amounted to Denar 9,985 million, which compared to the end of December 1999 represents a decline of Denar 1,345 million or 11.81% and is primarily a result of the decline in the securities with a discount of NBRM, which during the first six months reduced by Denar 1,346 million for 78.32%. From a structural aspect, Denar 8,345 million or 83.8% are debt securities, of which 91.9% are government securities. Most of them, Denar 7,230 million are in the balance sheet of Stopanska Banks a.d. Skopje on the basis of the "Law on Guaranteeing the Investment of the Strategic Investors and Undertaking Certain Claims on Ultimate Users by the Republic of Macedonia in Stopanska Banka a.d. Skopje" ("Official Gazette of RM" No. 86/99). In accordance with this Law, Republic of Macedonia assumed the claims on the four largest debtors of the Bank and it issued bonds for the amount of their liabilities totaling DEM 235 million.

⁴ The item – Placements with other banks covers Denar and correspondent accounts with domestic and foreign banks, as well as credit placements with domestic and foreign banks.