

BULLETIN

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**MINISTRY OF FINANCE
REPUBLIC OF MACEDONIA**

Skopje, November and December 2002

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HONOURABLE,

You have in front of you the December issue of the Bulletin of the Ministry of Finance. There has been a slight delay in the preparation of this issue due to objective reasons, and therefore, we have again opted for double issue, which covers the last two months of 2002. Simultaneously, this issue marks a small jubilee - two years since the Ministry of Finance started publishing the Bulletin. To that end, I would like to take this opportunity and express my gratitude to all those participating in its preparation and publishing, helping this Bulletin to reach the quality and representativeness it currently has. We promise to continue the quality and expert monitoring and publishing of the latest economic trends in the country, of course, on monthly basis.

November-December period is usually one in which the Ministry of Finance rapidly prepares the budget for the next year and makes preparations for the pending International Monetary Fund mission. The renewal of the cooperation with the IMF will be positive signal for the international community and confirmation of the sound macroeconomic policy and reform orientation. Simultaneously, the conclusion of the arrangement with the IMF will enable utilization of funds pledged at the Donors' Conference and greater inflow of foreign investments. By the time you read the Bulletin, the results from the negotiations with the IMF on concluding new Stand-By arrangement will be known, and, I am certain, positive for the Republic of Macedonia.



Dimko **KOKAROSKI**, PhD
Deputy Minister of
Finance

Still, despite the normalization of the political and security situation, the Republic of Macedonia enters 2003 with fragile macroeconomic stability and heavy social burden. The last-year GDP growth rate of 0.3% postponed hopes for fast recovery of the Macedonian economy, and the exacerbation of problems with unemployment, social uncertainty and increasing poverty seriously undermined the quality of life of the citizens.

When added the aggravated fiscal position on mid-term and the unpreparedness of the large part of economic entities to face intensified foreign competition as imminent effect of the pending accession to the World Trade Organization, much more realistic picture is obtained regarding the challenges this Government faces.

To that end, the maintenance of sound macroeconomic environment and the acceleration of the structural reforms are two most significant pillars for promoting the investment climate, restoring economic growth and job creation.

According to the projected macroeconomic indicators, in the next 2003 we expect 3% real GDP growth and 3% inflation, supplemented by 2% employment growth and 5% salary growth. At the same time, the proposed 2003 budget policy will lead to reduction of tax burden and public expenditure, leaving more room for reform measures, entrepreneurship fostering, GDP growth increase and improvement of living standard.

Besides this, one should note the positive trends in the industrial production, initiated at the end of the third quarter, which continued in the fourth quarter of 2002, evident via several-month increase of the de-

seasoned industrial production. In that manner, the Macedonian economy slowly, but surely leaves the downturn zone and returns to the path of normal economic growth.

Enjoy reading the Bulletin of the Ministry of Finance.

Yours sincerely,

Dimko Kokaroski PhD
Deputy Minister of Finance

BASIC MACROECONOMIC INDICATORS

Annual data for Republic of Macedonia

		1993	1994	1995	1996	1997	1998	1999	2000	2001*
Real GDP	%	-7,5	-1,8	-1,1	1,2	1,4	3,4	4,3	4,5	-4,5
Inflation (average)	%	362	128	15,7	2,3	2,6	-0,1	-0,7	5,8	5,5
Inflation (end of period)	%			8,8	-0,7	2,7	-2,4	2,4	6,1	3,7
Implicit deflator	%	442,1	151,9	17,1	2,9	3,4	1,4	2,7	8,2	3,6
Budget balance (central budget and funds)	% GDP	-13,4	-2,9	-1,2	-0,5	-0,4	-1,7	0,0	2,5	-6,1
Exchange rate average	DEN/1USD	23,6	43,2	38,0	40,0	49,8	54,5	56,9	65,9	68,1
Exchange rate end of period)	DEN/1USD	44,6	40,6	38,0	41,4	55,4	51,8	60,3	65,3	69,2
Export (C.I.F.)	USD bill.	1,06	1,08	1,20	1,15	1,20	1,31	1,19	1,32	1,15
Import (F.O.B.)	USD bill.	1,01	1,27	1,42	1,46	1,59	1,91	1,78	2,08	1,68
Trade balance	USD bill.	0,05	-0,19	-0,22	-0,31	-0,39	-0,60	-0,59	-0,76	-0,53
Current account balance	USD bill.	0,02	-0,16	-0,22	-0,28	-0,27	-0,31	-0,11	-0,11	-0,24
As % of GDP	%	0,8	-4,7	-4,9	-6,3	-7,2	-8,7	-3,0	-3,1	-8,6
Foreign exchange reserves	USD bill.	0,12	0,16	0,27	0,27	0,28	0,33	0,48	0,71	0,79
Import coverage (reserves/import)	monts	1,4	1,6	2,3	2,2	1,9	2,1	3,2	4,1	4,9
External debt ¹⁾	USD bill.	1,14	1,26	1,44	1,17	1,13	1,44	1,49	1,49	1,44
As % of GDP	%	45,5	37,2	32,3	26,5	30,3	40,1	40,6	41,5	37,0

1) Since 1998, according to the new methodology suggested by the World Bank, total foreign debt comprises short, medium and long term credits.

* Estimation or preliminary data

Source: State Statistical Office, Ministry of Finance of the Republic of Macedonia and the National Bank of the Republic of Macedonia.

SELECTED MACROECONOMIC INDICATORS IN THE EUROPEAN UNION ACCESSION CANDIDATES

	Real GDP				Consumer prices ¹⁾				Current account balances ²⁾			
	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003
European Union												
accession countries	4,9	-	3,0	4,1	24,7	21,1	16,8	11,9	-5,1	-2,6	-3,4	-3,5
Bulgaria	5,4	4,0	4,0	5,0	10,4	7,5	6,4	4,3	-5,6	-6,1	-5,6	-5,5
Czech Republic	3,3	3,3	2,7	3,2	3,9	4,7	2,7	3,0	-5,3	-4,6	-5,2	-4,6
Estonia	7,1	5,0	4,5	5,0	4,0	5,8	3,7	3,0	-5,8	-6,1	-6,9	-7,4
Hungary	5,2	3,8	3,5	4,0	9,8	9,2	5,5	5,2	-2,8	-2,2	-3,8	-3,7
Latvia	6,8	7,6	5,0	6,0	2,6	2,5	3,0	3,0	-6,9	-10,0	-8,5	-7,5
Lithuania	3,8	5,9	4,4	4,8	1,0	1,3	1,1	2,5	-6,0	-4,8	-5,9	-5,7
Poland	4,0	1,0	1,0	3,0	10,1	5,5	2,1	2,3	-6,3	-4,0	-3,6	-4,2
Romania	1,8	5,3	4,3	4,9	45,7	34,5	24,2	19,1	-3,9	-5,9	-5,1	-4,9
Slovakia	2,2	3,3	4,0	3,7	12,0	7,3	4,2	7,1	-3,6	-8,6	-8,5	-7,2
Slovenia	4,6	3,0	2,5	3,2	8,9	8,4	7,7	5,5	-3,4	-0,4	-0,8	-0,6
Turkey	7,4	-7,4	3,9	5,0	54,9	54,4	47,1	28,6	-4,9	2,3	-0,8	-1,0

¹⁾ Annual average.²⁾ Percent of GDP.

Source : World Economic Outlook, (Recessions and Recoveries), IMF, Washington D.C., September 2002

GROSS DOMESTIC PRODUCT
(real growth rates, year on year, 1998-2002)

		Agriculture, hunting, forestry and fishing	Mining and quarrying, manufacturing, electricity and gas	Construction	Wholesale and retail trade; repair of motor vehicles, motorcycles	Hotels and restaurants	Transport, storage and communica- tion	Financial intermediation and real estate, renting	Public administration and defense	Imputed banking services	Value added	Net taxes on production	GDP
		A + B	C + D + E	F	G	H	I	J + K	L + M + N + O				
1998	I	2,0	8,3	-15,3	5,4	5,7	33,1	-0,9	-0,7	9,5	4,3	5,7	4,5
	II	3,8	6,5	1,3	3,7	3,7	35,2	-0,4	-0,3	11,3	4,8	6,1	5,0
	III	3,4	-2,2	16,7	-3,2	15,4	23,1	0,5	2,7	16,1	2,7	3,8	2,8
	IV	4,0	-5,3	22,7	-3,2	3,0	17,2	0,8	3,1	17,5	1,3	2,5	1,4
	98/97	3,3	1,4	7,7	0,4	7,3	26,5	0,0	1,2	13,5	3,2	4,5	3,4
1999	I	0,7	-9,0	14,4	-6,1	31,4	9,7	1,5	5,7	-2,3	0,0	-1,9	-0,3
	II	1,6	-5,3	27,0	-4,9	30,6	14,7	1,6	5,4	-2,0	3,0	1,1	2,7
	III	1,5	15,6	3,3	10,9	12,9	21,0	2,3	2,9	0,7	8,8	7,0	8,5
	IV	-0,2	6,3	1,3	11,2	28,2	22,7	2,3	2,6	0,9	6,4	4,5	6,1
	99/98	0,9	1,7	10,4	3,0	24,7	17,2	1,9	4,1	-0,7	4,6	2,7	4,3
2000	I	2,4	16,3	4,1	37,7	-7,1	13,4	2,4	1,0	0,5	11,4	15,1	12,0
	II	3,6	17,1	-9,9	4,6	-14,8	11,1	2,5	1,3	0,8	5,6	9,0	6,1
	III	1,2	1,8	5,3	-8,7	-9,6	10,1	2,7	-0,8	1,9	0,6	3,9	1,0
	IV	-3,1	4,5	12,5	-12,7	-13,1	0,7	3,2	-1,1	3,7	-0,3	3,0	0,2
	00/99	1,0	9,4	2,6	3,0	-11,3	8,5	2,7	0,1	1,7	4,1	7,5	4,5
2001 *	I	-6,9	-2,8	0,7	-18,9	6,7	-4,8	3,0	-8,7	-6,9	-6,2	-6,9	-6,3
	II	-12,5	-4,7	-4,9	4,5	-7,1	-7,2	2,6	-5,1	-8,5	-3,8	-4,4	-3,9
	III	-13,3	-10,6	-22,9	4,4	-14,7	-11,1	1,4	0,8	-13,1	-6,2	-6,9	-6,4
	IV	-10,3	-0,5	-22,8	9,7	-0,1	-9,9	1,3	3,7	-13,5	-1,5	-2,2	-1,6
	01/00	-10,8	-4,6	-14,4	-0,8	-4,5	-8,3	2,1	-2,3	-10,5	-4,4	-5,1	-4,5
2002 *	I	-2,7	-13,9	-11,0	7,6	-8,8	9,0	0,6	2,3	6,3	-2,2	-2,2	-2,2
	II	2,2	-7,7	-3,7	6,5	6,9	5,3	-0,5	0,7	10,9	-0,5	-0,5	-0,5
	III	3,6	-5,6	0,8	6,0	17,5	9,9	-0,4	0,5	15,8	1,0	1,0	1,0

*Preliminary data
Source: State Statistical Office

GROSS DOMESTIC PRODUCT (PRODUCTION APPROACH)

In million of denars

Current prices

NKD sector	Name	1998	1999	2000	2001 ¹⁾	Indices 2001/2000
A	Agriculture, hunting and forestry	22.224	23.094	23.756	22.933	96,5
B	Fishing	52	29	14	24	171,4
C	Mining and quarrying	1.584	1.620	1.856	1.312	70,7
D	Manufacturing	35.202	36.764	40.926	39.587	96,7
E	Electricity, gas and water supply	8.868	9.203	10.381	10.041	96,7
F	Construction	11.267	10.880	13.361	11.801	88,3
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods,	21.914	22.383	25.402	26.076	102,7
H	Hotels and restaurants	3.063	3.984	3.463	3.410	98,5
I	Transport, storage and communication	14.309	17.233	21.261	21.694	102,0
J	Financial intermediation	7.229	6.977	7.342	7.420	101,1
K	Real estate, renting and business activities	5.206	5.890	7.466	8.304	111,2
L	Public administration and defence: compulsory social security	12.067	14.351	14.333	14.445	100,8
M	Education	8.030	8.769	8.266	8.048	97,4
N	Health and social work	8.310	8.592	8.987	8.690	96,7
O	Other community, social and personal service activities	4.887	4.967	5.217	5.548	106,3
	Imputed rents	9.058	9.597	10.465	10.631	101,6
	Minus: Imputed banking services	5.036	5.017	5.153	4.738	91,9
A.	Value added in basic prices	168.235	179.316	197.344	195.230	98,9
B.	Net taxes on production	26.747	29.694	39.045	38.611	98,9
A + B	GROSS DOMESTIC PRODUCT	194.979	209.010	236.389	233.841	98,9

1) Estimate

Source: State Statistical Office

GROSS DOMESTIC PRODUCT (EXPENDITURE APPROACH)

	In millions of denars				In %			
	1998	1999	2000	2001	1998	1999	2000	2001
GROSS DOMESTIC PRODUCT	194.979	209.010	236.389	233.841	100,0	100,0	100,0	100,0
(current prices)								
Final consumption	180.582	188.702	218.986	221.770	92,6	90,3	92,6	94,8
Household consumption	141.078	145.693	175.965	163.791	72,4	69,7	74,4	70,0
Government consumption	39.504	43.009	43.021	57.979	20,3	20,6	18,2	24,8
Gross capital formation	43.408	41.171	50.683	42.760	22,3	19,7	21,4	18,3
Gross fixed capital formation	33.982	34.710	38.332	34.716	17,4	16,6	16,2	14,8
Change in stocks	9.426	6.461	12.351	8.044	4,8	3,1	5,2	3,4
Export of goods and services	80.343	88.143	114.209	99.091	41,2	42,2	48,3	42,4
Export of goods (FOB)	70.618	67.988	87.161	78.625	36,2	32,5	36,9	33,6
Export of services	7.147	14.367	19.971	15.894	3,7	6,9	8,4	6,8
Purchases of non-residents	2.579	5.788	7.077	4.572	1,3	2,8	3,0	2,0
Import of goods and services	109.355	109.007	147.489	129.780	56,1	52,2	62,4	55,5
Import of goods (FOB)	92.845	90.554	123.910	107.166	47,6	43,3	52,4	45,8
Import of services	16.510	18.543	23.579	22.614	8,5	8,8	10,0	9,7

Source: State Statistical Office

BASIC SHORT-TERM ECONOMIC TRENDS

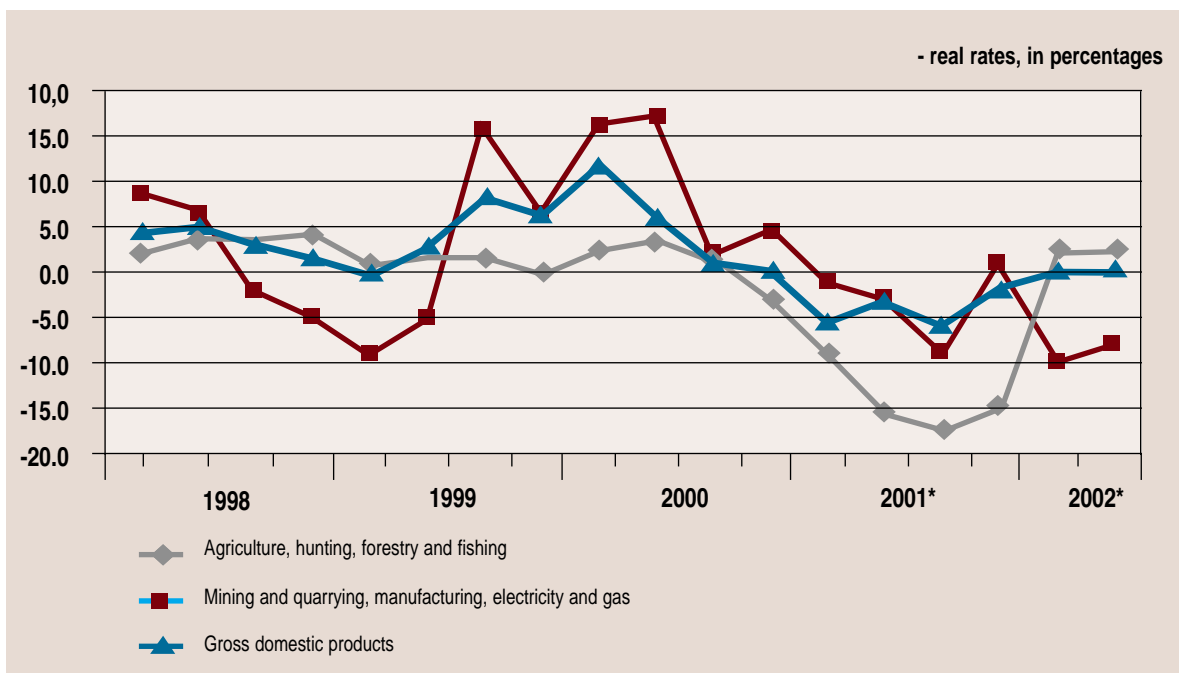
Percentage change from the same period previous year, if otherwise not stated

	2000	2001	2002	2001				2002				
				Q - 1	Q - 2	Q - 3	Q - 4	Q - 1	Q - 2	Q - 3	October	November
REAL SECTOR												
Production												
<i>real rates of change</i>												
Gross domestic product	4,6	-4,1	0,3	-5,7	-3,4	-6,0	-1,2	-2,2	-0,5	1,0		
Industrial production	3,5	-3,1	-5,4	-1,3	-3,2	-9,4	1,3	-14,4	-7,7	-5,6	0,1	5,4
Industrial production (monthly rates of change, deseasoned)												
<i>nominal rates of change</i>												
Investment in machines and equipment	20,8	-16,9	-	-57,6	-0,5	13,2	13,5	52,1	22,8	-0,6		
Prices												
Costs of living	5,8	5,5	2,4	5,0	4,4	6,0	4,1	3,7	3,5	-0,9	1,9	1,5
Industrial producer prices	8,9	2,0	-	4,6	3,8	1,6	-1,8	-1,9	-1,0			
Competitiveness of the industry												
Productivity	6,0	-6,7									-	
Unit labour cost	-4,7	7,0									-	
Real unit labour cost	-12,5	4,9									-	
Stock exchange prices of the major Macedonian export and import products												
<i>Prices in US \$</i>												
Crude oil brent (\$/bbl)	28,3	24,4	24,9	25,8	27,3	25,3	19,3	21,2	25,1	26,9	27,5	24,2
Lamb (c/kg)	261,9	291,2	330,3	285,8	291,3	283,9	303,7	311,1	319,2	339,7	346,0	351,1
Nickel (\$/mt)	8638,0	5944,7	6772,0	6551,0	6677,0	5495,0	5055,7	6203,0	6946,0	6.833,0	6804,0	7314,0
Copper (\$/mt)	1813,0	1578,3	1559,0	1764,0	1652,0	1471,7	1425,7	1557,0	1611,0	1.516,0	1484,0	1582,0
Lead (c/kg)	45,4	47,6	45,3	49,3	46,3	47,0	47,9	49,1	45,5	43,0	41,8	44,2
Zink (c/kg)	112,8	88,6	77,9	102,0	93,4	82,6	76,3	79,5	78,2	76,6	75,5	76,5
Steel cold rolled coilsreat	385,8	299,2	328,3	319,6	302,0	295,0	299,2	280,0	300,0	353,0	380,0	380,0
Steel hot rolled coilsreat	295,8	216,5	246,7	231,3	224,0	210,8	216,5	200,0	236,7	270,0	280,0	280,0
EXTERNAL SECTOR												
<i>nominal rates of change in dollar amount</i>												
Export of goods (FOB)	11,0	-12,7		-12,0	-10,2	-14,3	-14,1	-16,7	-7,5	3,0	-2,1	-3,3
Import of goods (CIF)	17,9	-19,4		-34,0	-13,4	-19,5	-8,2	9,8	8,1	29,1	14,2	15,0
Trade balance (in millions of US \$)	-771	-533		-109	-131	-83	-209	-197	-186	184	-83	-88
Current account of the balance of payments (in millions of US \$)	-236	-38		-55	-127	-74	-96	-103,6	-62,5	-44,4	-31,5	-39,3
"Foreign exchange reserves (in millions of US \$)												
""-"" means decrease"	236	38		203	-126	-53	13	12,8	-21,7	-40,7	-20,9	-29,4
Medium and long-term external debt (end of period, in millions of US \$)	1.436	1.378	1.518	1.417	1.382	1.413	1.378	1.422	1.488	1.498	1.495	1.487

	2000	2001	2002	Q - 1	2001 Q - 2	Q - 3	Q - 4	Q - 1	2002 Q - 2	Q - 3	October	November
Foreign exchange rates												
Denar / EURO	0,2	0,3		0,3	0,3	0,3	0,3	0,2	0,3	0,1	0,1	0,1
Denar / USA \$	15,8	3,3		7,2	7,0	2,2	-2,6	5,6	-13,5	-6,1	-7,5	-11,1
GOVERNMENT FINANCE												
<i>nominal rates of change</i>												
Revenues	22,5	-10,3		8,5	-29,4	-15,1	-0,7	20,5	32,9	27,3	-0,2	-11,8
Tax revenues	22,1	-6,9		6,4	-26,7	-14,4	8,7	13,1	31,3	23,7	-0,6	-10,1
VAT	75,2	-1,8		63,9	-34,7	-19,3	5,4	-4,5	52,0	40,9	14,9	-15,3
Expenditures	12,7	27,0		13,4	40,7	41,0	15,4	21,3	-10,0	1,4	9,5	-16,9
Current expenditures	1,8	31,9		17,5	35,2	49,0	25,9	12,0	-16,0	-15,5	1,7	-3,1
Capital expenditures	94,5	28,3		-20,9	108,2	24,7	22,4	92,7	3,7	114,7	114,4	-65,9
Central budget balance												
(in millions of denars)	6285	-12490		463	-6411	-4979	-1563	-1502	-1530	-3402	209	55
General budget balance												
(in millions of denars)	5905	-13171		-296	-6327	-5368	-1180	-1332	-1558			
MONETARY SECTOR												
<i>nominal rates of change (end of the period)</i>												
Net foreign assets	73,8	57,6		121,1	75,2	35,1	57,6	2,1	3,3	13,6	11,2	-0,4
Credit to private sector	17,2	7,3		18,0	12,8	9,4	7,3	5,4	7,6	13,1	11,3	12,1
Cash in circulation	16,6	48,5		52,3	40,6	14,6	48,5	25,8	32,9	65,5	53,3	35,0
M1	22,6	5,6		12,7	11,2	5,5	5,6	16,9	23,3	36,3	36,1	24,0
M2	29,4	61,9		17,0	9,7	5,5	61,9	47,7	60,5	64,6	55,7	35,3
M4	25,6	56,7		14,5	9,0	6,4	56,7	42,0	51,7	55,2	45,0	28,4
Foreign exchange reserves / M4												
(denars)	123,0	122,6		156,4	150,4	148,3	122,6	127,4	145,4	119,2	105,4	109,3
Foreign exchange reserves / M1	191,0	196,5		255,8	244,1	250,6	196,5	202,1	231,9	192,75	168,2	178,5
SOCIAL SECTOR												
Labour market												
Unemployment rate (Labor Force Survey)	32,2	30,5	31,9									
Number of new employed	101 996	90 308	110 401	28 226	21 103	19 520	21 459	24 093	27 490	29 980	10 813	7 870
Number of new employed on full time	63 987	63 346	74 341	18 960	14 927	13 646	15 813	15 973	18 492	21 607	7 049	5 253
Laid-off workers because of bankruptcy and redundancy	-	10 125	13 002	1 797	1 949	1 892	4 487	4 906	2 954	3044	792	726
Wages												
Nominal net wages	5,5	3,5	-	5,0	3,9	2,5	2,8	4,7	5	8,9	10,9	6,2
Real net wages	-0,3	-1,9	-	0,0	-0,5	-3,4	-3,1	1,0	1,4	-	8,8	4,6
Consumer basket	2,4	4,9	-	-2,1	-0,5	-3,4	-3,1	8,2	4,8	9,5	2,8	1,1
Social protection												
Number of pensioners	238 162	244 035	249 421	241 795	243 287	244 773	246 286	247 376	247 908	248 218	248 522	249561
Number of households that receive social protection	75 277	77 309	82 673	77 989	76 492	76 062	78 692	80 931	79 552	81 626	81 133	81885
Number of persons that receive unemployment benefits	34 618	36 975		36 685	36 606	36 230	38 381	42 636	45 065	48 118	48 267	47 330

Source: State Statistical Office, National Bank of the Republic of Macedonia, Ministry of Finance of the Republic of Macedonia, Ministry of Labour and Social Policy, Employment Bureau and World Development Prospects (Pink Sheets)

GROSS DOMESTIC PRODUCT



- in million USD dollars

	1993	1994	1995	1996	1997	1998	1999	2000	2001 ²⁾
Gross Domestic Product¹⁾	3.450	3.389	3.351	3.390	3.458	3.575	3.730	3.899	3.723

Source: State Statistical Office

- in USD dollars

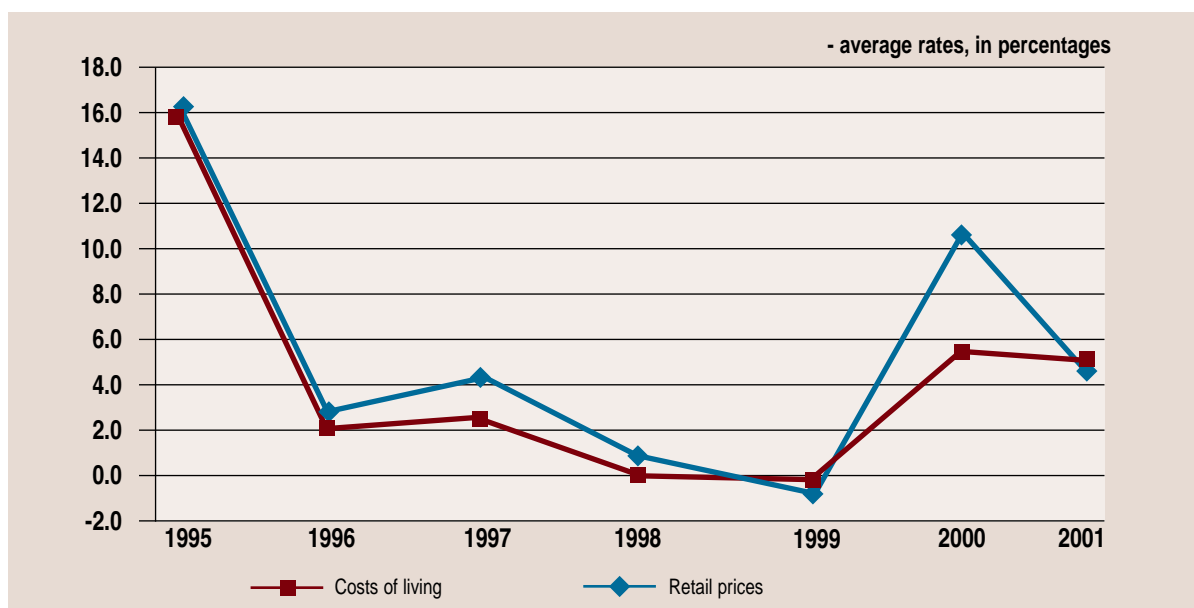
	1993	1994	1995	1996	1997	1998	1999	2000	2001 ²⁾
Gross Domestic Product per capita¹⁾	1.785	1.742	1.705	1.709	1.732	1.781	1.848	1.924	1.830

Source: State Statistical Office

1) Calculated according to UN PARE methodology by which a conversion is made with an exchange rate adjusted towards the movements of the prices in the national economy. The US Dollar exchange rate is taken as basis compared with the denar in 1994 and an indexation with the deflator for each coming year.

2) Estimate.

PRICES



- average rates, in percentages

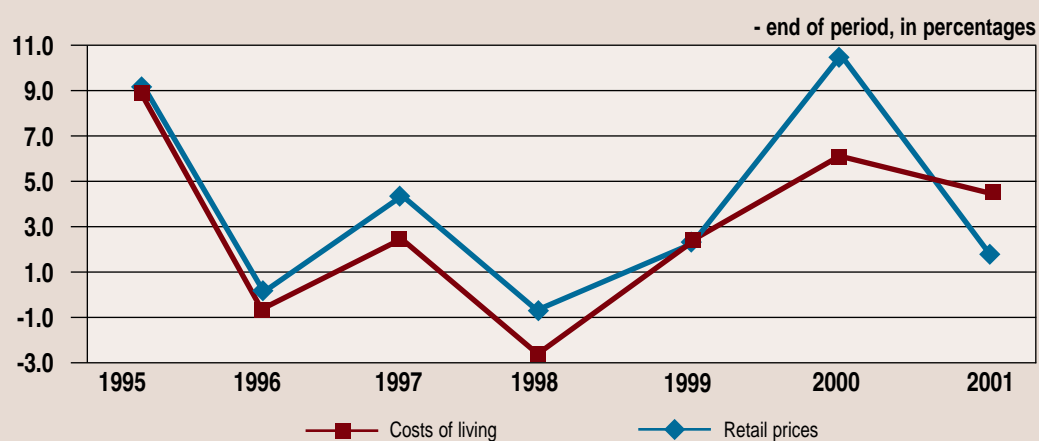
	1995	1996	1997	1998	1999	2000	2001
Costs of living	15.7	2.3	2.6	-0.1	-0.7	5.8	5.5
Retail prices	15.9	3.0	4.4	0.8	-1.1	10.6	5.2

Source: State Statistical Office

- end of period, in percentages

	1995	1996	1997	1998	1999	2000	2001
Costs of living	8.8	-0.7	2.7	-2.4	2.4	6.1	3.7
Retail prices	9.2	0.2	4.5	-1.0	2.3	10.8	1.2

PRICES

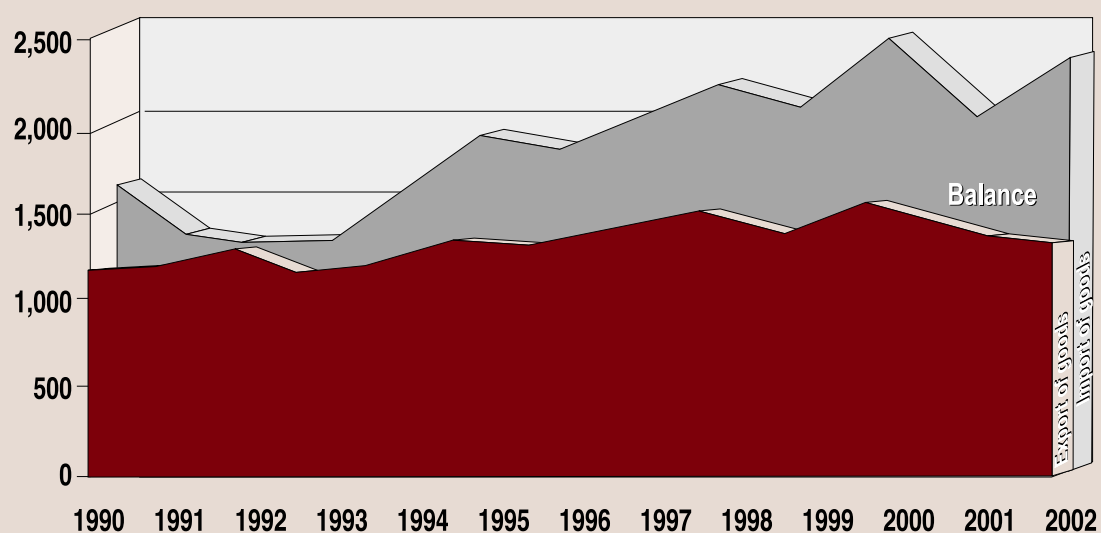


FOREIGN TRADE

- in millions of Dollars

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002*
Export of goods	1.113	1.096	1.199	1.055	1.086	1.204	1.148	1.237	1.311	1.192	1.323	1.155	1.105
Import of goods	1.531	1.274	1.206	1.199	1.484	1.719	1.627	1.779	1.915	1.776	2.094	1.688	1.952
Trade Balance	-418	-178	-7	-144	-398	-515	-479	-542	-604	-584	-771	-533	-847

* Preliminary data



FOREIGN TRADE

(In million US dollars)

		Total			Germany			FR Yugoslavia		
		Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
1997		1.236,8	1.778,5	-541,7	199,0	239,0	-40,0	273,6	206,0	67,6
1998		1.310,7	1.914,7	-604,0	286,0	255,2	30,8	240,0	245,6	-5,6
1999		1.191,3	1.776,2	-584,9	254,3	245,8	8,5	254,5	183,9	70,6
2000		1.322,6	2.093,8	-771,2	257,5	253,3	4,2	335,2	190,4	144,8
2001		1.155,0	1.687,6	-532,6	237,5	213,3	24,2	266,8	157,2	109,6
1995	Q1	313,5	371,4	-57,9	34,5	78,7	-44,2	23,2	36,3	-13,1
	Q2	326,6	409,5	-82,9	39,0	68,9	-29,9	18,1	36,3	-18,2
	Q3	272,8	419,6	-146,8	38,2	65,4	-27,2	18,8	39,5	-20,7
	Q4	291,1	518,4	-227,3	41,4	70,0	-28,6	24,7	49,0	-24,3
1996	Q1	271,5	355,6	-84,1	53,1	56,3	-3,2	55,3	36,0	19,3
	Q2	288,5	414,4	-125,9	53,9	64,2	-10,3	62,2	43,8	18,4
	Q3	276,2	399,9	-123,7	51,3	57,5	-6,2	65,1	42,1	23,0
	Q4	311,2	457,0	-145,8	56,3	61,9	-5,6	63,2	43,7	19,5
1997	Q1	272,9	374,2	-101,3	46,3	52,5	-6,2	66,5	49,0	17,5
	Q2	302,9	416,1	-113,2	50,7	66,9	-16,2	71,4	53,3	18,1
	Q3	308,5	429,5	-121,0	51,5	56,6	-5,1	64,8	50,8	14,0
	Q4	316,9	520,3	-203,4	50,5	63,0	-12,5	70,9	52,9	18,0
1998	Q1	274,5	377,7	-103,2	66,8	46,9	19,9	50,9	53,2	-2,3
	Q2	299,5	418,4	-118,9	65,6	64,5	1,1	66,3	60,8	5,5
	Q3	313,0	439,4	-126,4	72,1	57,6	14,5	66,8	61,9	4,9
	Q4	349,8	543,0	-193,2	76,1	86,2	-10,1	56,0	69,7	-13,7
1999	Q1	254,0	345,4	-91,4	69,1	49,5	19,6	26,6	41,5	-14,9
	Q2	250,6	364,9	-114,3	58,4	58,2	0,2	20,3	26,6	-6,3
	Q3	343,4	476,7	-133,3	67,2	59,4	7,8	115,1	46,7	68,4
	Q4	343,5	589,2	-245,7	59,6	78,7	-19,1	92,5	69,1	23,4
2000	Q1	331,1	606,8	-275,7	66,1	80,9	-14,8	78,8	47,8	31,0
	Q2	317,7	481,0	-163,3	56,9	52,7	4,2	76,3	47,3	29,0
	Q3	345,1	470,6	-125,5	70,8	55,0	15,8	82,8	47,3	35,5
	Q4	328,7	535,4	-206,7	63,7	64,7	-1,0	97,3	48,0	49,3
2001	Q1	291,5	400,4	-108,9	69,0	52,8	16,2	62,3	34,9	27,4
	Q2	285,3	416,6	-131,3	52,9	59,0	-6,1	74,1	39,2	34,9
	Q3	295,7	378,9	-83,2	61,9	42,8	19,1	62,9	33,4	29,5
	Q4	282,5	491,7	-209,2	53,7	58,7	-5,0	67,5	49,7	17,8
2002	Q1	243,4	443,3	-199,9	60,7	56,2	4,5	46,9	38,2	8,7
	Q2	263,9	459,8	-195,9	53,9	69,1	-2,4	53,4	47,8	5,6
	Q3	288,6	494,6	-206,0	60,2	75,0	-9,8	55,8	47,7	8,1
2000	I	90,8	133,2	-42,4	17,3	15,5	1,8	19,3	11,3	8,0
	II	115,0	172,8	-57,8	24,6	22,3	2,3	26,1	13,6	12,5
	III	125,3	300,8	-175,5	24,2	43,1	-18,9	33,4	22,9	10,5
	IV	104,5	126,8	-22,3	17,1	13,5	3,6	23,8	16,6	7,2
	V	99,6	167,0	-67,4	16,1	19,0	-2,9	26,2	15,4	10,8
	VI	113,6	187,2	-73,6	23,7	20,2	3,5	26,3	15,3	11,0
	VII	115,0	144,3	-29,3	26,0	19,4	6,6	27,2	14,6	12,6
	VIII	106,5	152,5	-46,0	20,8	19,0	1,8	27,5	16,1	11,4
	IX	123,6	173,8	-50,2	24,0	16,6	7,4	28,1	16,6	11,5
	X	107,4	160,7	-53,3	21,0	18,3	2,7	29,0	14,8	14,2
	XI	105,5	182,4	-76,9	18,1	20,4	-2,3	33,3	16,5	16,8
	XII	115,8	192,3	-76,5	24,6	26,0	-1,4	35,0	16,7	18,3
2001	I	82,3	118,6	-36,3	20,6	18,8	1,8	18,6	10,3	8,3
	II	98,4	131,2	-32,8	23,9	16,0	7,9	25,0	11,3	13,7
	III	110,8	150,6	-39,8	24,5	17,9	6,6	18,7	13,2	5,5
	IV	95,9	130,8	-34,9	16,2	15,9	0,3	25,1	12,8	12,3
	V	88,9	146,6	-57,7	15,5	23,3	-7,8	25,0	11,1	13,9
	VI	100,5	139,2	-38,7	21,2	19,8	1,4	23,9	15,3	8,6
	VII	97,1	133,2	-36,1	22,6	17,2	5,4	21,3	10,1	11,2
	VIII	92,3	118,6	-26,3	17,4	13,6	3,8	17,5	10,7	6,8
	IX	106,3	127,1	-20,8	21,9	12,1	9,8	24,0	12,6	11,4
	X	102,6	161,0	-58,4	18,8	17,6	1,2	25,3	15,1	10,2
	XI	97,9	158,7	-60,8	16,0	19,0	-3,0	22,6	18,7	3,9
	XII	82,0	172,0	-90,0	18,9	22,1	-3,2	19,8	16,0	3,8
2002	I	68,3	155,6	-87,3	17,7	15,7	2,0	13,0	9,6	3,4
	II	82,5	145,1	-62,6	20,6	21,9	-1,3	17,0	12,5	4,5
	III	92,6	142,6	-50,0	22,4	18,6	3,8	16,9	16,1	0,8
	IV	88,8	150,9	-62,1	15,8	20,7	-4,9	19,5	19,2	0,3
	V	76,7	146,7	-70,0	15,1	23,8	-8,7	19,4	12,4	7,0
	VI	98,4	162,2	-63,8	23,0	24,6	-1,6	20,9	13,0	7,9
	VII	113,5	185,7	-72,2	22,1	26,6	-4,5	28,1	15,4	12,7
	VIII	89,0	149,2	-60,2	18,7	20,2	-1,5	21,8	16,8	5,0
	IX	102,2	154,1	-51,9	21,3	20,2	1,1	22,8	14,4	8,4
	X	100,3	183,7	-83,4	16,3	23,7	-7,4	25,0	16,3	8,7
	XI	94,7	182,5	-87,8	19,6	26,1	-6,5	22,8	15,6	7,2

Source: State Statistical office

FOREIGN TRADE

(In million US dollars)

USA			Italy			Greece			Russia		
Export	Import	Balance	Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
117.0	83.4	33.6	43.6	96.0	-52.4	99.0	130.0	-31.0	26.6	69.2	-42.6
174.0	101.6	72.4	91.9	109.1	-17.2	83.1	112.9	-29.8	26.1	90.9	-64.8
136.1	54.7	81.4	77.6	92.7	-15.1	85.9	164.5	-78.6	15.1	91.2	-76.1
165.6	83.0	82.6	90.8	111.1	-20.3	84.1	201.5	-117.4	10.3	191.8	-181.5
99.7	51.5	48.2	88.7	107.7	-19.0	101.4	184.0	-82.6	13.9	139.4	-125.5
5.8	14.6	-8.8	26.9	30.7	-3.8	3.7	6.6	-2.9	19.0	21.4	-2.4
6.1	14.2	-8.1	29.9	80.3	-50.4	3.3	6.5	-3.2	25.8	14.1	11.7
5.1	13.3	-8.2	26.9	32.6	-5.7	3.9	7.8	-3.9	18.5	11.4	7.1
18.6	15.7	2.9	34.7	35.7	-1.0	3.3	8.0	-4.7	23.9	13.5	10.4
15.9	14.0	1.9	11.6	24.1	-12.5	24.0	17.0	7.0	10.7	28.4	-17.7
17.8	15.0	2.8	13.9	30.2	-16.3	25.7	19.6	6.1	8.6	30.7	-22.1
19.0	20.7	-1.7	13.0	30.6	-17.6	24.9	21.0	3.9	10.0	30.8	-20.8
18.0	12.7	5.3	12.9	24.9	-12.0	27.8	19.8	8.0	9.3	32.4	-23.1
26.5	19.3	7.2	9.9	19.8	-9.9	25.0	34.2	-9.2	6.5	16.5	-10.0
32.1	20.5	11.6	12.7	25.4	-12.7	27.4	34.8	-7.4	6.6	18.4	-11.8
27.6	21.6	6.0	11.0	23.2	-12.2	23.0	29.2	-6.2	6.4	17.9	-11.5
30.8	22.0	8.8	10.0	27.6	-17.6	23.6	31.8	-8.2	7.1	16.4	-9.3
32.7	17.4	15.3	21.1	20.6	0.5	19.4	24.9	-5.5	5.9	24.2	-18.3
45.3	18.9	26.4	23.0	30.0	-7.0	21.3	26.6	-5.3	7.6	25.9	-18.3
51.2	19.4	31.8	21.9	24.4	-2.5	20.9	30.3	-9.4	5.8	14.4	-8.6
44.8	45.9	-1.1	25.9	34.1	-8.2	21.5	31.1	-9.6	6.8	26.4	-19.6
34.5	12.5	22.0	21.9	14.6	7.3	20.4	24.8	-4.4	3.0	27.9	-24.9
32.5	12.7	19.8	19.4	23.4	-4.0	23.5	34.1	-10.6	3.3	9.2	-5.9
27.8	12.3	15.5	16.6	26.2	-9.6	18.4	39.6	-21.2	3.9	31.1	-27.2
41.3	17.2	24.1	19.7	28.5	-8.8	23.6	66.0	-42.4	4.9	23.0	-18.1
49.6	16.3	33.3	25.4	29.4	-4.0	19.7	43.1	-23.4	2.6	60.8	-58.2
48.6	16.5	32.1	27.4	29.3	-1.9	18.4	42.3	-23.9	2.7	38.6	-35.9
37.5	23.4	14.1	18.1	25.4	-7.3	23.5	55.3	-31.8	2.1	33.2	-31.1
29.9	26.8	3.1	19.9	27.0	-7.1	22.5	60.8	-38.3	2.9	59.2	-56.3
28.4	13.4	15.0	24.0	19.2	4.8	21.2	40.2	-19.0	2.8	53.4	-50.6
23.4	15.6	7.8	21.4	23.3	-1.9	24.3	38.7	-14.4	3.7	31.7	-28.0
26.9	11.7	15.2	24.3	29.5	-5.2	30.6	51.1	-20.5	3.3	26.9	-23.6
21.0	10.8	10.2	19.0	35.7	-16.7	25.3	54.0	-28.7	4.1	27.4	-23.3
17.6	17.9	-0.3	26.7	24.4	2.3	19.2	45.9	-26.7	3.4	49.4	-46.0
18.5	15.6	2.9	25.1	26.0	-0.9	27.5	49.1	-21.6	3.6	22.3	-18.7
16.5	10.7	5.8	21.2	29.4	-8.2	30.1	51.9	-21.8	3.5	13.3	-9.8
11.6	5.3	6.3	7.5	5.4	2.1	6.1	6.8	-0.7	0.4	17.5	-17.1
17.9	4.2	13.7	9.6	7.2	2.4	6.8	15.4	-8.6	1.2	19.0	-17.8
20.1	6.8	13.3	8.3	16.8	-8.5	6.8	20.9	-14.1	1.0	24.3	-23.3
16.7	4.9	11.8	11.2	6.3	4.9	5.8	11.5	-5.7	0.8	13.8	-13.0
14.9	4.7	10.2	9.7	8.4	1.3	5.1	16.1	-11.0	1.0	13.3	-12.3
17.0	6.9	10.1	6.5	14.6	-8.1	7.5	14.7	-7.2	0.9	11.5	-10.6
14.4	5.0	9.4	6.7	10.7	-4.0	9.0	14.4	-5.4	0.5	5.3	-4.8
12.2	4.8	7.4	4.5	7.9	-3.4	6.1	24.5	-18.4	0.7	5.3	-4.6
10.9	13.6	-2.7	6.9	6.8	0.1	8.4	16.4	-8.0	0.9	22.6	-21.7
7.5	5.8	1.7	6.7	7.8	-1.1	8.9	19.2	-10.3	1.0	17.0	-16.0
8.2	12.4	-4.2	6.1	7.7	-1.6	7.3	23.1	-15.8	0.9	21.0	-20.1
14.2	8.6	5.6	7.1	11.5	-4.4	6.3	18.5	-12.2	1.0	21.2	-20.2
10.5	6.7	3.8	5.8	5.0	0.8	5.8	8.4	-2.6	1.0	21.0	-20.0
9.3	2.4	6.9	8.1	6.6	1.5	6.3	14.5	-8.2	0.7	18.1	-17.4
8.6	4.2	4.4	10.1	7.6	2.5	9.1	17.2	-8.1	1.0	14.3	-13.3
7.3	4.7	2.6	7.2	7.5	-0.3	8.0	10.2	-2.2	1.0	9.6	-8.6
8.4	5.3	3.1	5.9	7.4	-1.5	8.2	12.4	-4.2	1.5	12.8	-11.3
7.7	5.6	2.1	8.3	8.4	-0.1	8.1	16.1	-8.0	1.2	9.3	-8.1
9.6	3.2	6.4	8.9	11.4	-2.5	8.0	17.1	-9.1	0.9	9.1	-8.2
9.4	4.1	5.3	7.0	9.2	-2.2	12.5	15.8	-3.3	1.2	8.5	-7.3
7.9	4.4	3.5	8.4	8.8	-0.4	10.1	18.1	-8.0	1.3	9.3	-8.0
5.2	3.6	1.6	8.6	9.7	-1.1	10.0	20.7	-10.7	1.3	8.6	-7.3
10.3	4.4	5.9	5.5	10.9	-5.4	8.8	17.7	-8.9	1.9	8.2	-6.3
5.5	2.9	2.6	4.9	15.2	-10.3	6.5	15.6	-9.1	0.9	10.6	-9.7
4.4	5.9	-1.5	7.8	7.0	0.8	5.1	16.7	-11.6	1.1	29.5	-28.4
5.5	8.5	-3.0	8.3	7.8	0.5	6.4	14.7	-8.3	1.1	11.4	-10.3
7.7	3.5	4.2	10.6	9.6	1.0	7.7	14.5	-6.8	1.2	8.5	-7.3
5.3	3.6	1.7	6.2	8.6	-2.4	13.4	19.9	-6.5	1.3	2.4	-1.1
3.5	3.6	-0.1	4.4	11.2	-6.8	9.0	17.5	-8.5	1.0	2.4	-1.4
8.0	6.8	1.2	6.7	12.5	-5.8	10.8	22.5	-11.7	1.1	1.7	-0.6
5.8	5.8	0.0	6.9	14.8	-7.9	10.8	27.4	-16.6	1.8	2.5	-0.7
6.5	3.4	3.1	4.9	6.8	-1.9	8.0	28.5	-20.5	1.1	2.5	-1.4
5.5	3.2	2.3	7.3	7.6	-0.3	9.8	18.6	-8.8	1.8	3.2	-1.4
7.2	3.4	3.8	5.6	11.0	-5.4	12.9	14.6	-1.7	1.7	16.9	-15.2
5.3	4.0	1.3	3.4	9.4	-6.0	9.5	18.4	-8.9	0.8	19.1	-18.3

Source: State Statistical office

SHORT-TERM ECONOMIC DEVELOPMENTS

October 2002 godina

SUMMARY OF THE MOST IMPORTANT SHORT-TERM ECONOMIC DEVELOPMENTS IN OCTOBER 2002

- Industry continued to recover
- Low inflation rate of only 2% annually
- The collection of VAT (14.9%) was significantly improved
- Budget transfers continued to increase
- Trade deficit increased (US\$ 79 million)
- External debt mildly declined
- Foreign currency market turnover increased as a result of the new Law on Foreign Exchange Operations
- Commercial banks mainly met the increased demand for foreign currency
- Interest rates on the money market and on the Central Bank bills increased

1. GENERAL ECONOMIC DEVELOPMENTS

Industrial production in October 2002 increased by 31.1% compared to the previous month. This is the second consecutive month of increase of production, mainly as a result of the increase of production in the processing industry. The recovery of textile industry, which started in June, continued as a result of renewed export contracts of Macedonian textile producers, and the high monthly growth of base metal production indicates an upward trend in the operations of this industry, after being in recession for a longer period of time. Restarting of operations of the sole Macedonian oil refinery "Okta", as well as the exempt of Macedonian steel from the US

protectionist measures is expected to additionally increase the industrial production. According to the Macedonian managers' estimates, the overall economic situation of their companies, in October 2002, was still unfavorable compared to the previous months, however as having significant improvement indications. The production volume increased in October, but the current coverage of production with purchasing orders remains to be insufficient.

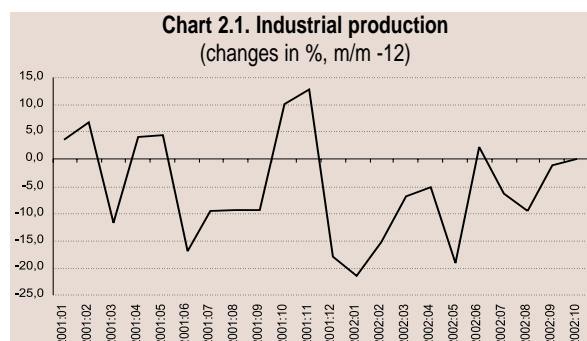
The new Law on Foreign Exchange Operations became effective in October 2002. Primary objective of the new legislation is to improve the condition of the balance of payments, as well as to harmonize Macedonian regulations with EU Directives and standards, pursuant to the initialed Association and Stabilization Agreement. In accordance to the policy of targeting the Denar exchange rate against the Euro, and maintaining price stability, the National Bank used all available market instruments and managed to maintain stabile Denar exchange rate despite the increased demand for foreign currency on the foreign currency market, and to keep inflation rate under the projected level. Since there are no indications for increase of some administrative prices, no other serious inflationary pressures could be recognized by the end of the year. Although the increase of salaries of public sector employees was indicated as a factor that would lead to higher inflation rate, that did not happen. Inflation rate in October 2002, measured through the costs of living, reached 1.9% at annual level.

The export of goods, in October 2002, slightly decreased by 2.1% in relation to September this year. Simultaneously, the high increase of import of 16.9% in relation to September increased the trade deficit from US\$ 51.3 million in September to US\$ 79.3 million in October, thus the total trade deficit of the country, in the period January-October, amounted to US\$ 656.1 million.

The interest rate significantly increased (by 1.5 percentage points) on the money and short-term securities market, mainly due to the reduced bank liquidity by 5.9%, as well as to the reduction of government deposits in the Central Bank.

2. INDUSTRIAL PRODUCTION

Industrial production in the Republic of Macedonia had a positive growth rates for a second month in a row. Compared to the previous month, industrial production in October 2002 was higher by 31.1%. This is usual, seasonal increase of production in the last quarter of the year, which comes after traditionally low production level in the third quarter, as a result of the summer vacations. Compared to the same period last year (October 2002/October 2001), industrial production is approximately on the same level, i.e. it slightly declined by 0.1%.

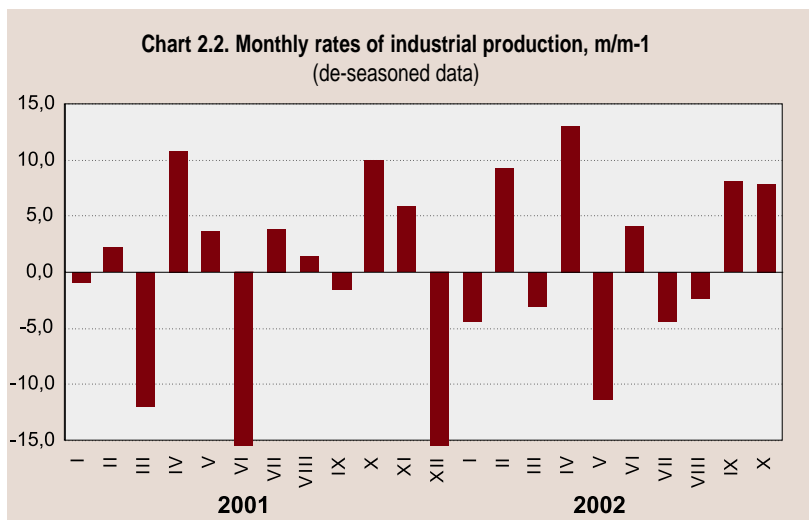


Source: State Statistics Bureau

At the same time, de-seasoned production had a monthly increase of 7.9% in relation to the previous month, thus realizing positive growth rates for two months in a row for a first time this year.

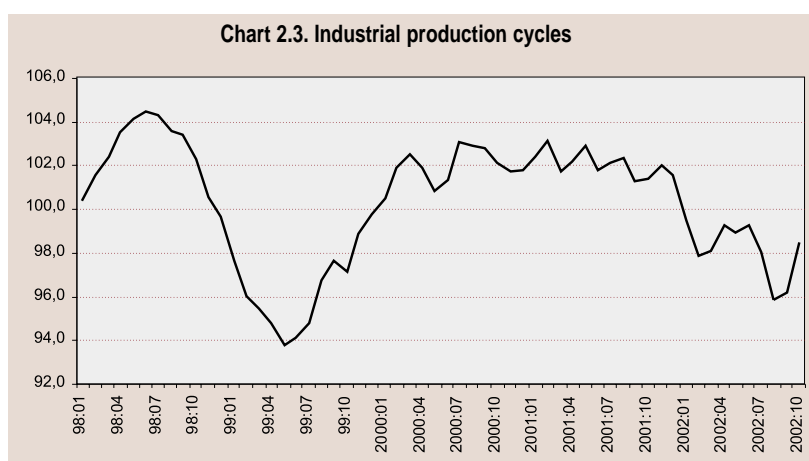
Primary driving force of this growth was again the processing industry by realizing positive growth rates in most of the branches. Thereby, the most significant was the increase of production of foodstuffs and beverages, production of chemicals and chemical products and production of base metals. The highest increase of 81.1%, compared to the previous month, was realized in the production of base metals, mainly as a result of the improvements in the steel industry, i.e. production of steel plates. Taking into consideration the restarting of production of oil derivatives in "Okta" and the exempt of Macedonian steel from the US protectionist

measures, these two branches are expected to influence positively on the overall industrial production in the coming months.



Source: State Statistics Bureau

After the October results, the possibilities for final recovery of the Macedonian industry after the deep crisis caused by the events of last year and the problems with the loss-making enterprises are more likely. The continuation of the positive trend in the largest part of industrial branches, and the successful restarting of certain loss-making enterprises that were bought by foreign investors (Jugohrom for example) will considerably contribute to realization of higher real growth rates of industrial production in the forthcoming period.



Source: State Statistics Bureau

Business tendencies in the processing industry - October 2002

Should we analyze the responses of the Macedonian managers, the overall economic situation of their enterprises improved in October 2002, compared to the previous month. In the same period, and compared to September 2002, the production volume also increased, while the estimate of the current coverage of production with orders remained to be unfavorable. There were no changes with the supplies of intermediate products and raw materials, and the supplies of final products moved towards the normal level.

In October 2002, the average utilization of production facilities was 62.1%, which is a slight improvement of 2.6% compared to September 2002. Despite the slight increase, the average utilization of production facilities remained to be on a very low level. Thereby, the low domestic and foreign demand, the economic environment, and the financial difficulties of enterprises are stated as limiting factors.

Situation in the agriculture

The autumn sowing was successfully completed, and entire planned land was sowed with autumn cultures (certain cultures were sowed over the planned volume).

According to the Orientation Plan for Autumn Sowing¹ a total of 180.8 thousand hectares were planned to be sown with autumn cultures, which is an increase of 17% compared to last year. As of November 15, 2002, when the optimal deadlines for autumn sowing ended, a total of 165.6 thousand hectares were sown, which is 92% of the plan. Within this percentage, grain cultures were sown on 156.9 thousand ha or 91% of the plan; industrial cultures were sown with 80% of the plan; vegetables were sown with 81% of the plan and fodder were sown with 84% of the plan.

The level of autumn sowing of grain cultures was increased by 17% in relation to last year; industrial cultures were increased by 39%; vegetables by 3% and fodder by 16%.

¹ According to data from the Ministry of Agriculture, Forestry and Water Economy the following amounts of agriculture products were collected from the early crops, approximately 250 thousand tons of wheat, 127.8 thousand tons of barley and 6.4 thousand tons of rye. The following amounts of agriculture products were collected from the late crops: 162.3 thousand tons of corn, 7.3 thousand tons of sunflower, 5.7 thousand tons of rice, 28.9 thousand tons of tobacco, 44 thousand tons of sugar beet, 168.8 thousand tons of potatoes, 94.2 thousand tons of tomatoes and 65.5 thousand tons of peppers.

3. PRICES

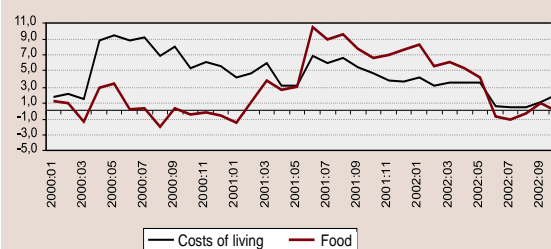
3.1. Costs of living

Prices of goods and services used for personal consumption, and being part of the costs of living in October 2002, increased by 0.5% compared to September 2002, and by 1.9% compared to October 2001.

The prices of goods and services increased in October 2002 compared to the previous month in the Consumer Price Index, as follows: prices of goods increased by 0.4% and prices of services by 1%.

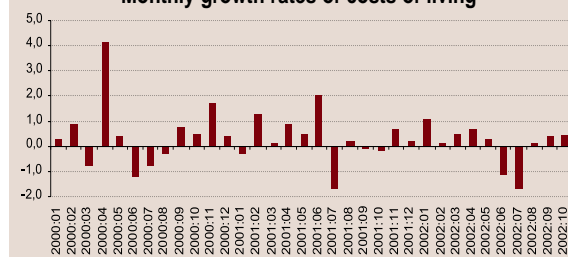
Analyzing the main groups, in October compared to September, prices increased in the group "health" by 2.3% and in the group "accommodation, water, electricity and other types of fuels" by 1.3%, and there was a slight price decline of 0.1% in the group "furnishings, furniture and maintenance of furnishings".

Chart 3.1.1. Annual inflation rate (costs of living)



Source: State Statistics Bureau

Chart 3.1.2. Monthly growth rates of costs of living



Source: State Statistics Bureau

3.2. Stock exchange prices of the major Macedonian export products

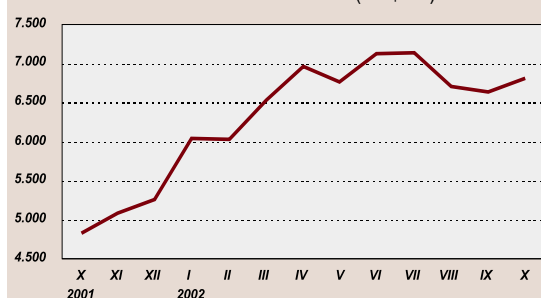
In the second half of 2002, the developments on the stock exchange prices reflected the increased demand of raw materials on the world markets, initiated by the recovery of industrial production worldwide. As a result, further increasing of stock market prices of base metals is expected in the last quarter of 2002 and the first half of 2003.

However, in October 2002, the level of stock exchange prices of the major Macedonian export products did not fully reflect the overall estimate for the movements of the stock exchange prices, concluded from the managers' statements with respect to the procurements and the future orders. Compared to the previous month, there was an increase in stock exchange prices of most of the products (nickel, copper, sugar, and lamb), and there was a decrease in prices of gold, lead, and zinc.

The price of sugar had the highest increase compared to the previous month. It increased by as much as 8%. Should we look at the data on the movements of the price of sugar in the past few years, it is clear that this is a seasonal price increase as a result of the higher demand in the last months of the current year.

With respect to the Macedonian export, very favorable factor is the repeated increase of the stock exchange price of nickel, which took place after a period of two-month price decline, when the nickel lost 7.1% of its stock exchange price. In October 2002, the price of nickel reached up to US\$ 6,804 per metric ton (US\$/mt), which is an increase of 2.5% compared to September 2002. The price of nickel increased by even 41% this year compared to October last year, which enabled profitable operations of the sole Macedonian nickel producer. With respect to other metals, only the stock exchange price of copper mildly increased in relation to the previous month (0.34%). Regarding the changes of copper price in the previous months, we can certainly emphasize that this was only a short-term increase, since this is a metal, the price of which constantly varies on the world markets.

Chart 3.2.1. Nickel (US\$/mt)



Source: World Development prospects

Out of the remaining products of greater significance for the Macedonian export, there were also some positive tendencies regarding lamb. There is a constant increasing trend of the price of this product, which started since August last year, with some exemptions. Thereby, in October 2002, lamb reached a stock exchange price of 346 US\$/kg (i.e. 3.46 US\$/kg), which is an increase of 0.7% in relation to the previous month. Compared to the same period last year, the price of lamb increased by 15%. Such trend is a realistic basis for realization of good financial result of the producers and exporters of this product from the Republic of Macedonia.

Chart 3.2.2. Lamb price (€/kg)



Source: World Development prospects

Compared to the previous month, the stock exchange prices of lead and zinc declined by 0.7% and 0.13%, respectively. Decrease of lead stock exchange price is only continuation of the downward trend that took place during the entire 2002, and this metal lost 18.5% of its price. Zinc had the same situation, the price movements of which were almost identical with those of lead.

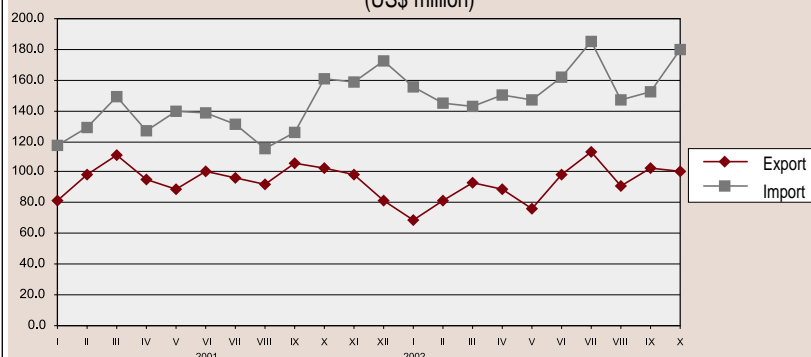
Prices of steel and hot-rolled and cold-rolled steel plates remained at the previous-month level. Compared to the remaining products, changes of prices of steel and steel plates are quite rare and take place after a period of stable, unchanged price level spreading across many months.

4. EXTERNAL SECTOR

4.1. Foreign trade

The export of goods in October had a mild decline of 2.1% in relation to September 2002. Simultaneously, the high increase of import of 16.9% in relation to September increased the trade deficit from US\$ 51.3 million in September to US\$ 79.3 million in October, thus the total trade deficit of the country, in the period January-October, amounted to US\$ 656.1 million.

Chart 4.1.1 Realized export of goods in 2001 and 2002
(US\$ million)

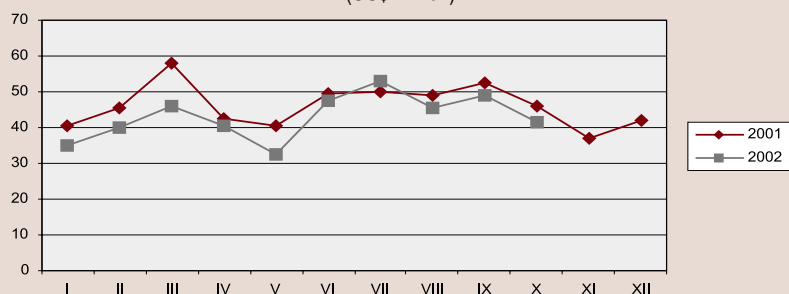


Source: State Statistics Bureau

Analysed at annual level, export in October 2002 declined by 2.4% in relation to the same month 2001.

Despite the expected increase of export of inward processing operations in the second half of this year, in October it highly declined by 15.7%. Contrary to these developments, import of inward processing operations increased by 20.7% in relation to September this year.

Chart 4.1.2.
Realized export of inward processing relief
(US\$ million)



Source: State Statistics Bureau

¹ The export to Greece increased by 29% in October compared to September this year, mainly due to the export of products that take the largest share in its structure: textile products, hot-rolled products, mutton etc. The increase of export of tobacco and women's and men's ready-made clothing in the US should be emphasized.

² The export from the Republic of Macedonia to Bulgaria, in the period January-October 2002, was US\$ 17.1 million and it was at the same level from last year, and the import amounted to US\$ 107.5 million, which is higher by US\$ 23.1 million in relation to the import last year. There were similar developments regarding the trade with Slovenia, where agricultural products were mainly exported to, and final products and products with higher processing level were imported from. The Agreement with Turkey is also realized with exceptionally low level of utilization of preferential quotas.

The following important export products had more significant monthly export increase: tobacco and tobacco products (US\$ 2.5 million), iron and steel (US\$ 1.1 million), oil seeds and fruits (US\$ 1 million) etc. Unlike this, export of clothing and footwear decreased in relation to the previous month (by US\$ 3.3. million, i.e. US\$ 1 million, respectively).

The product economic purpose analysis shows unfavourable export tendencies. The export of higher processing goods declined, i.e. general consumption goods declined by 6.7%, and the export of intermediate products increased by 5.3% in relation to September.

Analysed by economic groups of countries, export in the dominant EU partner decreased by 7.3% (approximately US\$ 4 million), by which the structural share in the total export in the past ten months is 50.7%.

Export by economic purpose *)

	In US\$		rates (in%)
	September 2002	October 2002	
Intermediate products	45,446,812	47,785,979	5.1
Instruments of labor	2,805,174	1,899,804	-32.3
General consumption goods, total	53,865,317	50,286,823	-6.6
Food	8,933,834	9,056,053	1.4
Beverages and tobacco	3,922,384	4,185,066	6.7
Clothing and footwear	34,022,288	29,823,301	-12.3
Furniture	412,834	457,080	10.7
Textile (except clothing)	1,809,439	1,892,793	4.6
Med. and pharma. products and cosmetics	2,778,953	3,078,636	10.8
Other general consumption goods	1,985,583	1,793,893	-9.7
Unclassified	119,882	85,194	-28.9
Total	102,237,184	100,057,800	-2.1

Source: State Statistics Bureau, previous data

FR Yugoslavia and Germany remain to be our greatest partners, the share of which covers almost half of the total export. The export to Greece and USA had a positive change in October.¹

The import of goods increased by 16.9% in relation to September 2002.

An increase of 20.5% in the import of raw materials and intermediate products, compared to the previous month, can be reckoned from the realization in the

Import of motor vehicles,
in million US\$

The import of road vehicles in the past ten months of the year increased 2,3 times mainly as a result of the amendments to the Law on Customs Tariff, i.e. the reduction of import tariff on cars.

	2001	2002	growth rates (in %)
I	4.8	6.2	29.2
II	6.2	12.3	98.4
III	4.6	9.9	115.2
IV	4.8	9.4	95.8
V	4.7	11.9	153.2
VI	4.6	10.9	137.0
VII	4.7	10.8	129.8
VIII	3.0	9.4	213.3
IX	4.7	8.9	89.4
X	5.0	11.3	126.0
Total	42.1	89.7	113.1

Source: State Statistics Bureau

import structure according to economic purpose of the products. This was mainly due to the import of fuel and final products for reproduction. The import of general consumption goods increased by 7.1%.

The tendency of unfavourable realization of certain free trade agreements continued in October. Significantly higher import than export continued to be realized with Bulgaria, Slovenia, and Turkey.² The trade deficit with these three countries alone amounted to approximately US\$ 219.3 million in the period January-September 2002.

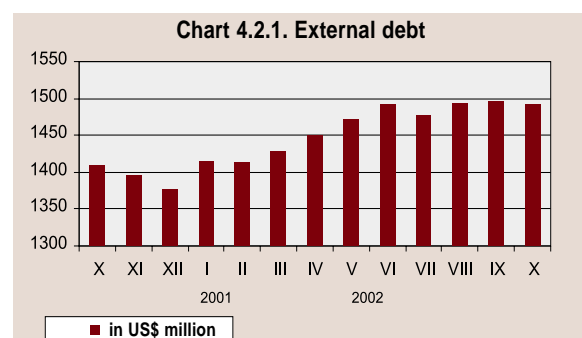


Source: State Statistics Bureau

4.2. External debt

The external debt of the Republic of Macedonia on the basis of medium-term and long-term credits and loans³ at the end of October 2002 amounted to US\$ 1,491 million, and compared to September it slightly decreased.⁴ The changes in the debt level were due to the significantly greater debt repayments in comparison to the new indebtedness, as well as the positive exchange rate differences, amounting to US\$ 1.91 million in October.

The London Club of Creditors continued to be the largest single creditor of the Republic of Macedonia, with the amount of US\$ 254 million, as well as IBRD (International Bank for Reconstruction and Development) and IDA (International Development Agency) with the amount of US\$ 424 million.

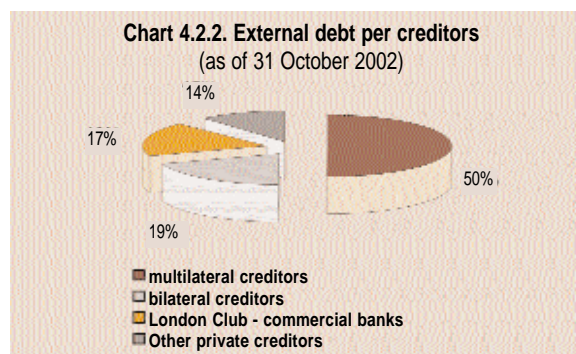


Source: National Bank of the Republic of Macedonia

In October 2002, US\$ 8.5 million were disbursed from foreign creditors on the basis on already approved credits and loans, and almost all amounts came from official creditors (US\$ 7.5 million from multilateral and US\$ 1.0 million from bilateral creditors). Cumulatively, in the ten months of 2002, US\$ 132.3 million were disbursed, almost half of which came from multilateral and bilateral creditors.

At the same time, foreign liabilities in the amount of US\$ 16.4 million were repaid in October, US\$ 15.1 million of which for principal and US\$ 1.3 million for interest. The largest part of the paid liabilities, US\$ 15 million, was paid to multilateral and bilateral creditors, and smaller part in the amount of US\$ 1.5 million was paid to private creditors. Cumulatively, for the ten months of 2002, US\$ 183.2 million were serviced, US\$ 138.6 million of which for principal and US\$ 44.6 million for interest. Out of the total amount of liabilities, US\$ 115.1 million were repaid to the official creditors and US\$ 67.9 million to private creditors.

The debt structure by creditors remained unchanged, one half goes to multilateral creditors, and the remaining to bilateral and private creditors.



Source: National Bank of the Republic of Macedonia

According to the repayment plan of the National Bank of the Republic of Macedonia, foreign liabilities in the amount of US\$ 29.2 million are due in November and December 2002, US\$ 23.5 million of which for principal and US\$ 5.7 million for interest.

In October, new credit agreements were concluded in the amount of US\$ 0.87 million and they fully originate from private creditors. This amount is significantly lower compared to the average developments in the previous months of the year. In total, in the first ten months of the year, new credits in the amount of US\$ 97 million were concluded, over 50% of which came from private creditors.

³ According to previous data provided by the National Bank of the Republic of Macedonia.

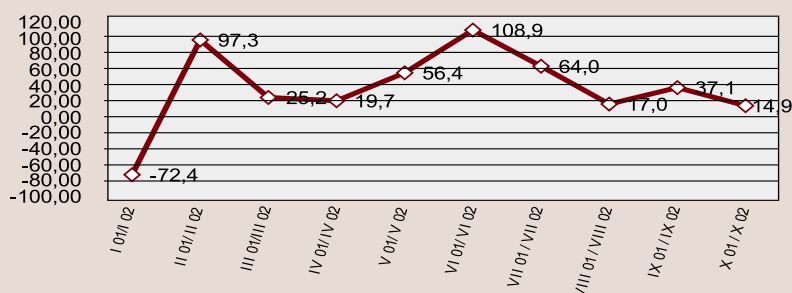
⁴ Data on the external debt as of September 30, 2002 was revised by the National Bank of the Republic of Macedonia from US\$ 1,476 million to US\$ 1,495 million.

5. FISCAL SECTOR

In the first ten months in 2002, **total revenues to the Central Budget** amounted to Denar 47,084 million, which is an increase of 11.92% in relation to the same period the previous year. Increased collection is mainly due to higher VAT revenues (higher by 23.2% compared to the same period last year and higher by 14.9% compared to October 2001), which affirms the rehabilitation trend of the real sector. Import duties, despite the concluded free trade agreements, increased by 3.9%. VAT revenues decreased by 12.7% in this period compared to the same period last year, since the profit tax is paid as advanced payment on the basis of profit realized in the previous year, in which the Republic of Macedonia was affected by the crisis.

In the period January-October 2002, **total expenditures of the Central Budget** amounted to Denar 54,200 million, which is an increase of 4% in relation to the same period last year.

Chart 5.1. Value added tax
(Inter-annual growth rates)



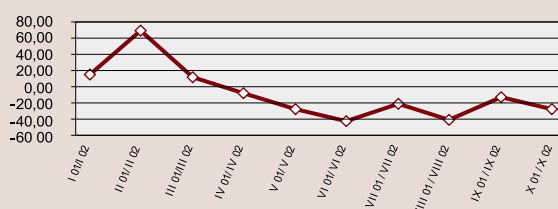
Source: Ministry of Finance

The increase of expenditures is mainly due to the increased wage bill and capital expenditures. The wage bill increased by 13.5% in October 2002 in relation to October 2001, and it amounted to Denar 14,966 million in the period January-October 2002 (or by 10.5% more compared to the first ten months of 2001). The capital expenditures, amounting to Denar 7,915 million in the period January-October, also increased by 74.1% compared to the same period in the previous year.

Observed by months, there were some internal movements in the current expenditures going towards lower share of expenditures for goods and services, which is consistent to the normalization of the security situation, and higher share of transfers, especially to the Pension

and Disability Insurance Fund and the Employment Bureau. This conclusion is confirmed by the gradual decrease of expenditures for goods and services, which analysed by months, have greater downward inter-annual growth rates. Denar 25,276 million were paid for goods and services in the referred period, which is lower by 14.3% in relation to the first ten months of 2001.

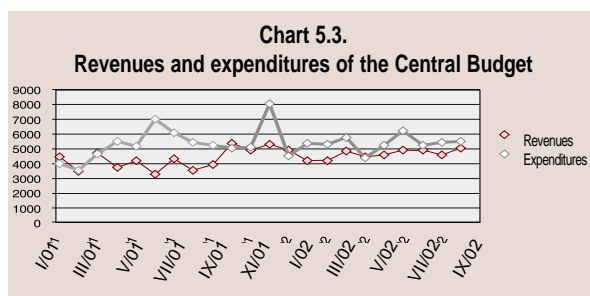
Chart 5.2. Expenditures for goods and services
(inter-annual growth rates)



Source: Ministry of Finance

Current transfers in the first ten months of 2002 amounted to Denar 14,346 million, i.e. they increased by 21.6% in relation to the same period last year. Transfers to the Pension and Disability Insurance Fund had the biggest share in the structure of budget transfers (Denar 445 million, or 28.9%), then to the Employment Bureau of the Republic of Macedonia (Denar 340 million, or 22%) and to social programs (Denar 287 million, or 18.6%). The structural reform support continued in this period, and Denar 185 million were spent for this purpose, which is 30 times more in relation to the same month last year. Interest payments in the first ten months of the year amounted to Denar 3.159 million, which is by 14.5% lower in relation to the same period last year. The largest share of interest payments is on the basis of foreign credits (Denar 2.094 million or 66.3%), while interests on the basis of domestic bonds were paid in the amount of Denar 1.065. Structurally, the largest share is interests on bonds for repaying foreign currency deposits of citizens, guaranteed by the Republic of Macedonia, and interest on the bond issued in the rehabilitation process of Stopanska Banka.

Central Budget deficit, according to the preliminary estimates, in the period January-October 2002, amounted to Denar 7,116 million. The deficit was mainly financed from domestic sources, i.e. by withdrawing state deposits in the Central Bank.



Source: Ministry of Finance

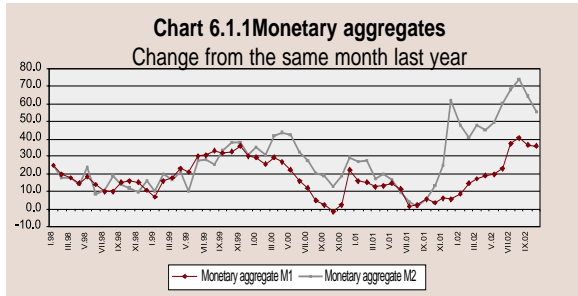
6. MONETARY SECTOR

6.1. Monetary aggregates and indicators

The four-month increasing tendency of the base money was interrupted in October 2002. Base money was reduced by 4.5% and reached a level of Denar 18 billion. This reduction is due to the decrease of all components of the money supply, as follows: ready money in circulation dropped by 4.5%, bank liquidity by 5.9%, and funds from banks' giro accounts in the National Bank by 2.2%. Due to the unfavourable developments in the external sector (trade deficit in the amount of US\$ 79 million), as well as the increased foreign currency demand as a result of the implementation of the new Law on Foreign Exchange Operations, the National Bank was again forced to intervene in October 2002 by selling foreign currency on the foreign currency market, thereby the net foreign currency assets again acted in direction of withdrawing the base money. At the same time, net domestic assets acted in direction of creating the base money, mainly as a result of the decrease of state deposits in the Central Bank (1.1%).

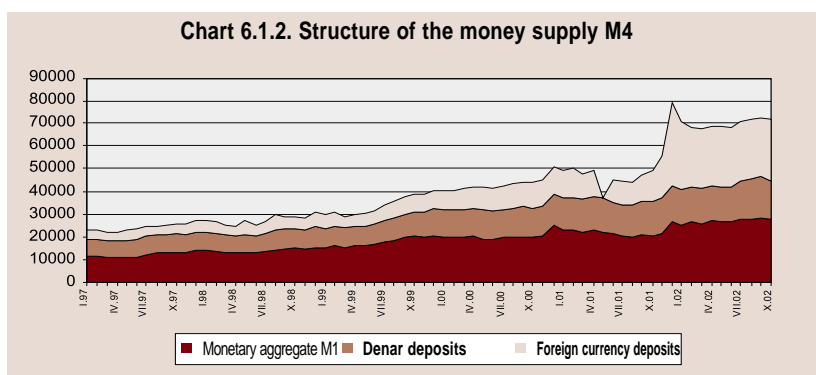
As a result of the enactment of the new Law on Foreign Exchange Operations, the total turnover on the foreign currency market significantly increased (by 32.7% in relation to the previous month) and amounted to US\$ 178 million. The new Law abolished foreign currency trade between enterprises and redirected it towards the banks. The commercial banks largely met the growing demand for foreign currency, however an intervention was needed from the Central Bank.

Monetary aggregate M1⁵ decreased by 2.2% in October 2002, which stopped the increasing trend over the past months. This was due to the decrease of ready money in circulation by 4.5%, while the sight deposits kept the level from the previous month. In the same period, monetary aggregate M2 increased by 1.2%, mainly as a result of the increase of quasi-deposits in the private sector. Thereby, foreign currency deposits increased, and Denar deposits declined.



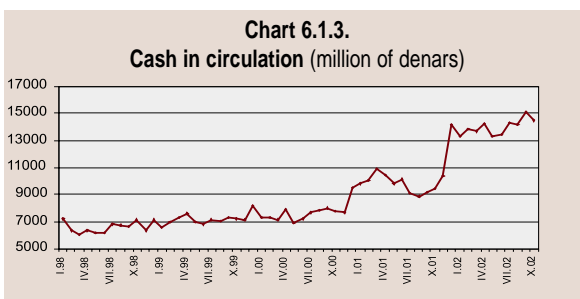
Source: National Bank of the Republic of Macedonia

The most broadly defined **monetary aggregate M4** amounted to Denar 72.2 billion at the end of October, which practically is insignificant reduction in relation to the previous month, and it increased by 45% in relation to the same month last year. With respect to the previous month, the foreign currency component is higher by 4.3%, and the Denar share was decreased by 5.6%. Non-monetary deposits, which declined by 18% in October 2002 in relation to the previous month and by 20% in relation to October 2001, significantly influenced the deduction of monetary aggregate M4.



Source: National Bank of the Republic of Macedonia

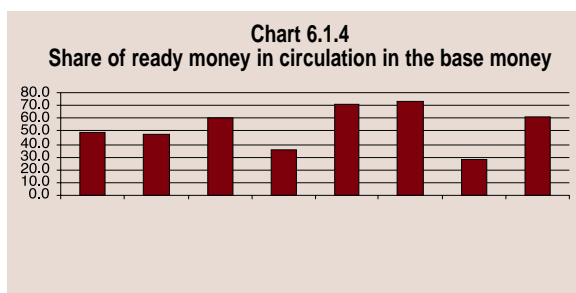
The five-month increasing tendency of the ready money in circulation, i.e. money out of the banking system, was also interrupted in October 2002. The ready money in circulation was in the amount of Denar 14.5 billion, which is a decrease of 4.3% in relation to the previous month, however it is an increase of even 53% compared to the same month last year.



Source: National Bank of the Republic of Macedonia

⁵The most narrowly defined monetary aggregate that covers the ready money in circulation and Denar sight deposits.

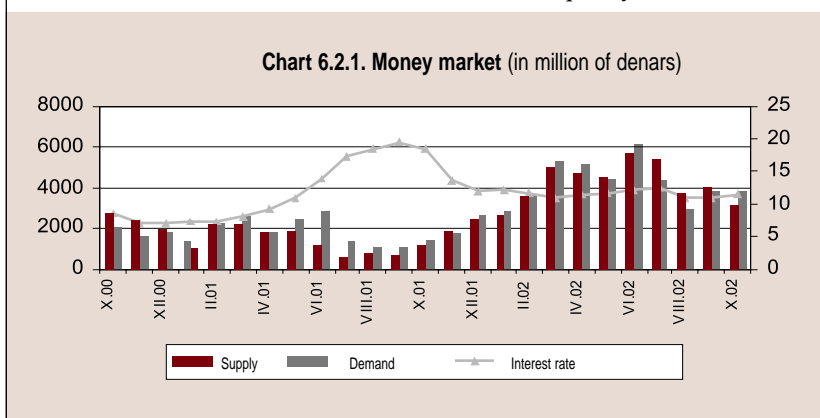
The share of ready money in circulation in the base money is 61%, which puts the Republic of Macedonia at the approximately same level as the Republic of Poland. In fact, this indicator shows the level of confidence economic entities (households and enterprises) have in the banking system. The decreasing tendency of the share of ready money in circulation in the base money is very important for the Republic of Macedonia. On December 31, 2001 this ratio was 66%, which qualified the Republic of Macedonia in the countries with high level of ready money in circulation. This is understandable since 2001 was a crisis year, and the economic entities preferred to have cash in their portfolio.



Source: International Monetary Fund

6.2. Money and short-term securities market

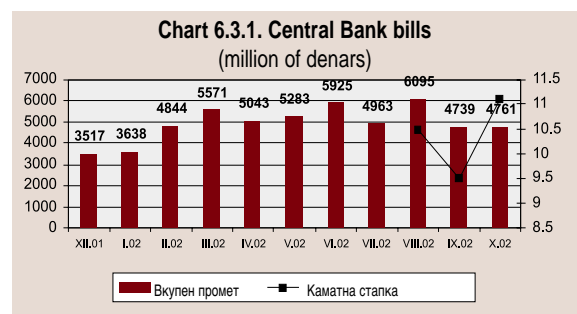
The total turnover on the money and short-term securities market dropped by 1.3% in October 2002 with respect to the previous month, and it amounted to Denar 2.9 billion. It is indicative that during this period supply of liquid assets significantly declined (25%), and demand remained at the same level as the previous month, thus increasing the gap between supply and demand, and amounting it to Denar 667 million on the demand side. Interest rate was 11.3% on average, which is an increase of 0.5 percentage points. The increase in the interest rate was due to the significant increase of demand on the money market, determined by the considerable reduction of bank liquidity.



Source: National Bank of the Republic of Macedonia

6.3. Central Bank bills

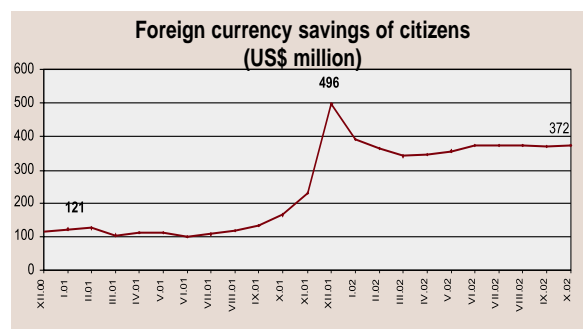
Pursuant to the Central Bank policy for targeting the Denar exchange rate against the Euro, as well as sustaining price stability, at the end of October 2002, Central Bank bills were sold in the amount of Denar 4.761 billion with 11.1% average interest rate. In relation to the previous month, the total turnover did not have any considerable changes (it increased by 0.5%), while the interest rate increased by 1.5 percentage points. Starting from July 17, 2002 the volume tender principle is no longer used when trading Central Bank bills; instead the interest rate tender principle is used. The market establishing of interest rates on Central Bank bills contributed to lower them for several percentage points. In fact, the interest rate was around 13% during the period when the principle of volume tender was used by the National Bank when selling Central Bank bills.



Source: National Bank of the Republic of Macedonia

6.4. Foreign currency savings of citizens

Foreign currency savings of citizen were increased inconsiderably at the end of October 2002 in relation to the previous month, and they were 2.2 times higher compared to the same period last year. The Denar exchange rate fluctuations in relation to the Euro and the interventions by the Central Bank on the foreign currency market in order to stabilize it, contributed to decrease Denar deposits by 3.5%, and, at the same time, to increase foreign currency deposits.



Source: National Bank of the Republic of Macedonia

7. LABOUR MARKET

According to data from the Employment Bureau of the Republic of Macedonia, 10.8 thousand **employments** were realized on the labour market in October 2002, which is by 42.4% more, i.e. 3.2 thousand more in relation to the same month in the previous year (by 7.1% less compared to the previous month of 2002). Thereby, 65% of the newly employed are full time and 35% are part time and seasonal employees. Off-record employment (73%), i.e. fluctuation (changing working posts) remained higher, than the new employments from the records of unemployed persons (27%).

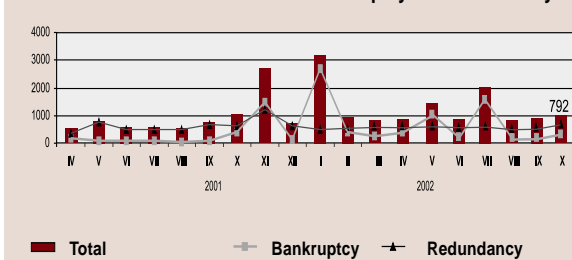
Chart 7.1. Total number of employments
(on-record and off-record)



Source: Employment Bureau of the Republic of Macedonia

The number of persons laid off either due to **bankruptcy or redundancy** resulting from the unfavourable conditions and solving over employment is 792 persons in October 2002, and it is by 295 persons higher than the previous month, and by 263 persons lower in relation to the same month last year, mainly on the basis of redundancy (72%), and less on the basis of bankruptcy (28%).

Chart 7.2. Persons seeking employment, to whom the employment was terminated on the basis of bankruptcy and redundancy

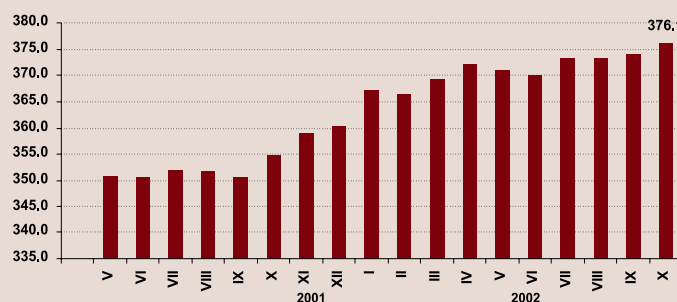


Source: Employment Bureau of the Republic of Macedonia

Due to higher off-record employment, the increasing trend of registered unemployment continued, since the number of persons who lost their job due to bankruptcy and redundancy, as well as the persons seeking employment, who register for a first time this month increased. The number of **persons seeking job**, in October 2002, was by almost 2 thousand persons higher than the previous month, i.e. this number was 376.1 thousand persons cumulatively speaking, which is the record high

level registered so far, and it is higher by 6% compared to the same month the previous year.

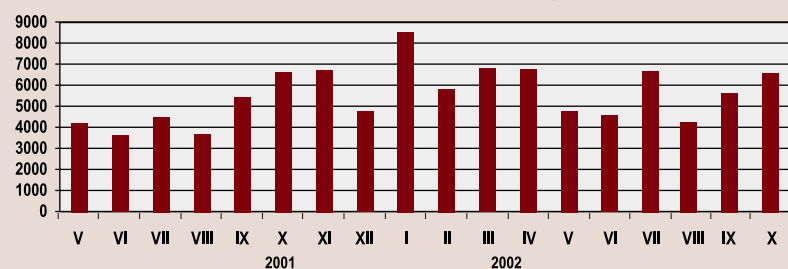
Chart 7.3. Persons seeking job
(in thousands)



Source: Employment Bureau of the Republic of Macedonia

The number of persons seeking employment, and registering as unemployed for a first time is 6.6 thousand, and it is lower by 1.2% in relation to the same month in the previous year.

Chart 7.4. Persons seeking job registered for the first time in the month, respectively



Source: Employment Bureau of the Republic of Macedonia

The share of young persons under the age 30 is 39.5%, and unemployed under age 40 compose 2/3 of the unemployed.

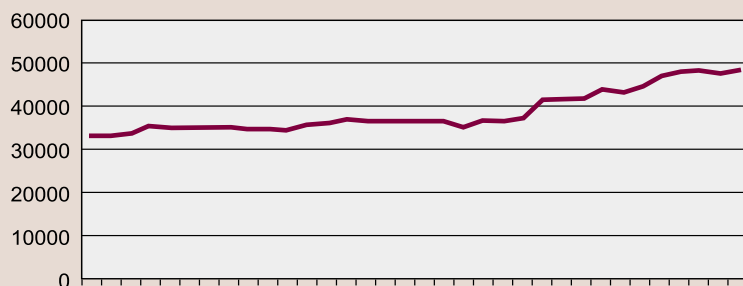
There is also an age group shifting tendency of registered unemployment, the reasons for which, besides the long period of seeking job, is also the increased share of unemployed persons who lost their job due to bankruptcy, redundancy etc, and who have longer years of service. The share of unemployed from the older age groups is also growing (age group 40-50 make up 19.2% and age group 50 and above 14.6%).

7.1. Unemployment allowance beneficiaries

The unfavourable tendency of further continuous increase in the number of **unemployment allowance beneficiaries continued**. According to the Employment Bureau records, the number of these people in October

2002 was 48,267, which is by 1.2% more than the previous month, i.e. by 31.7% higher in relation to the level of the same month in the previous year. The increase is mainly due to the lost working posts on the basis of redundancy. In fact, redundant workers and the workers from the bankrupted enterprises dominate in the structure of unemployment allowance beneficiaries.

Chart 7.2.1: Unemployment Allowance Beneficiaries



Source: Employment Bureau of the Republic of Macedonia

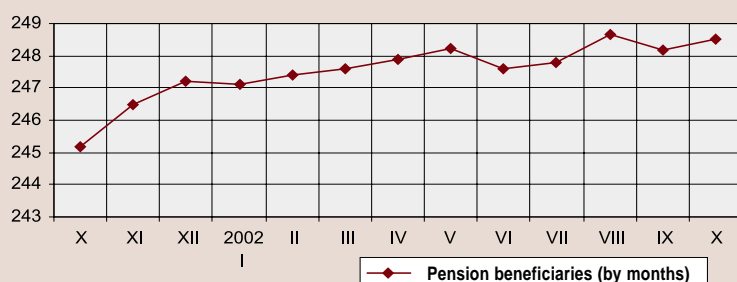
8. SOCIAL DEVELOPMENTS

8.1. Pension beneficiaries

The total number of pension beneficiaries in October 2002 was 248,522, which is an increase of 344 pensioners in relation to the previous month, and in relation to December 2001, this number was higher by 1322 persons. At annual level (October 2002/October 2001), this is an increase of 3332 persons, i.e. 1.3%.

The average pension in October 2002 amounted to Denar 6,961, and compared to the previous month, it decreased insignificantly. It increased by 6.0% in real terms compared to October 2001.

Chart 8.1.1. Pension beneficiaries (in thousands)



Source: Pension and Disability Insurance Fund

The average October 2002 pension ratio to the average net salary paid in September 2002 is 60.3%.

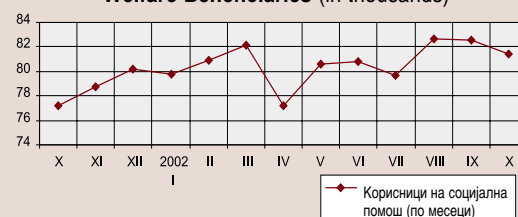
Out of 248,522 pension beneficiaries, 88.2% receive pension up to Denar 10,850, and only 11.8% receive pension exceeding Denar 10,850.

In October 2002, Denar 1,733 million were paid to 248.5 thousand pension beneficiaries.

8.2. Welfare beneficiaries

According to the newest data from the Ministry of Labor and Social Policy, in October 2002, Denar 192 million were paid to 81,433 disadvantaged households as welfare. Approximately 5,231 beneficiaries realized the right to regular pecuniary aid, and 20,316 beneficiaries acquired this right on the basis of third person care.

Chart 8.2.1. Welfare Beneficiaries (in thousands)



Source: Ministry of Labour and Social Policy

Compared to the same month the previous year, the number of welfare beneficiaries increased by 4272 persons, i.e. 5.5%.

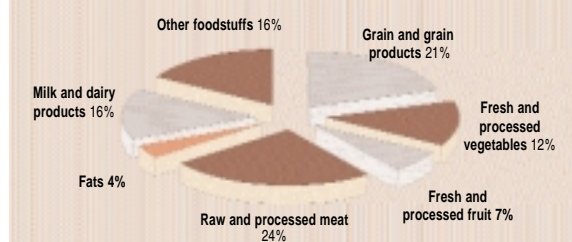
8.4. Consumer basket

The value of the consumer basket for food and beverages⁷, in October 2002, amounted to Denar 10,209, and it was higher by 0.4% compared to the previous month.

Increase of value was recorded in "fresh and processed vegetables" (7.4%) and in "milk and dairy products" (0.2%). Decrease of value was recorded in "fresh and processed fruit" (3.3%), "raw and processed meat" (0.9%) and in "other foodstuffs" (0.1%).

The values of the basket in the "fats" and "grain and grain products" groups are at the last-month level. The value of consumer basket was higher by 2.8% in October 2002 in relation to the same month the previous year.

⁷All products from the category "food and beverages", which comprise the basket, are determined as average monthly needs of one four-member non-agricultural household and that list of products is constant (same products-same quantities) in the course of one year.

Chart 8.4.1. Consumer basket

Source: State Statistics Bureau

"Raw and processed meat" and "grains and grain products" make up the largest percentage in the consumer basket.

SHORT-TERM ECONOMIC DEVELOPMENTS

November 2002

SUMMARY OF THE MOST IMPORTANT SHORT-TERM ECONOMIC DEVELOPMENTS IN NOVEMBER 2002

- **De-seasoned industrial production shows positive growth rate in three consecutive months**
- **Inflation rate will not exceed 2% at annual level**
- **Central budget revenues are higher by 13.3% in the first eleven months**
- **Favourable movement of the stock exchange prices of the main Macedonian export products**
- **Trade deficit reached US\$ 751 million at end-November**
- **External debt shows mild decrease**
- **Increase in interest rates at the money market and increase of Central Bank bills**

1. GENERAL ECONOMIC DEVELOPMENTS

November 2002 is the third consecutive month of industrial production growth, which, primarily, is a result of the growth of production in processing industry. Industrial production increased by 22.0% compared to the previous month. Textile industry continued the recovery commenced in June, as a result of the renewed export agreements of the Macedonian textile companies, whereby the high monthly growth of the production of base metals of 21.7% indicates upward trend in this industry, which was in recession for a longer period of time. Production of oil and oil derivatives showed especially high growth of 29.8%. Restarting of operations of the sole Macedonian oil refinery "Okta", as well as the exemption of Macedonian steel from the USA protectionist measures, is expected to lead to additional growth of indus-

trial production. According to the estimates of Macedonian managers, overall economic situation of their enterprises, in November 2002, is still more favourable compared to the previous months, showing signs of improvement, especially in the estimates for volume of production in the following period. The volume of production increased in November, however the current coverage of production with orders is still unfavourable.

Pursuant to the policy of targeting the Denar exchange rate against the Euro, as well as the policy of maintaining the price stability, the Central Bank used all available market instruments, thus satisfying the increased demand for foreign currency at the foreign exchange market. Given the fact that there are no indications for increase of some administrative prices, other more serious inflationary pressures cannot be identified by the end of the year. Although the increase of salaries of public sector employees was referred to as a factor to result in higher inflation rate, it did not happen. In November 2002, inflation rate measured through costs of living amounted to 1.8% at annual level.

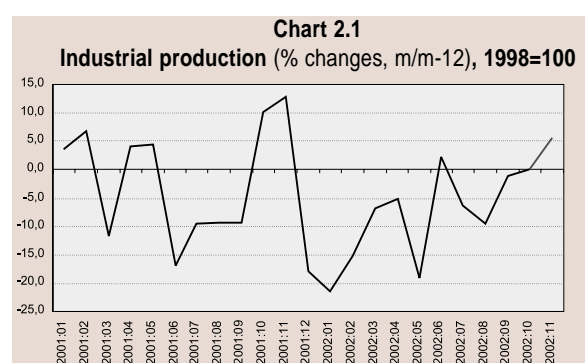
In November 2002, import and export decreased in relation to the previous month. Export fell by 5.6%, and import dropped by 0.5%, thus the trade deficit in November reached US\$ 87.7 million.

At the money and short-term securities market, the interest rate significantly increased (by 2 percentage points), due to the reduced liquidity of banks.

2. INDUSTRIAL PRODUCTION

Positive trends in the industrial production recorded in the two previous months also continued in November 2002. Compared to the average production in 2002, the industrial production in November is higher by 22%.

All these indicators support the fact that Macedonian economy, slowly but surely, comes out of the deep recession present in the first three quarters of 2002 and enters the zone of economic growth, led by the growth of industrial production in the leading sectors.



Source: State Statistics Bureau

For the first time in the last two years, de-seasoned industrial production showed positive growth rate of 7.2% in three consecutive months.

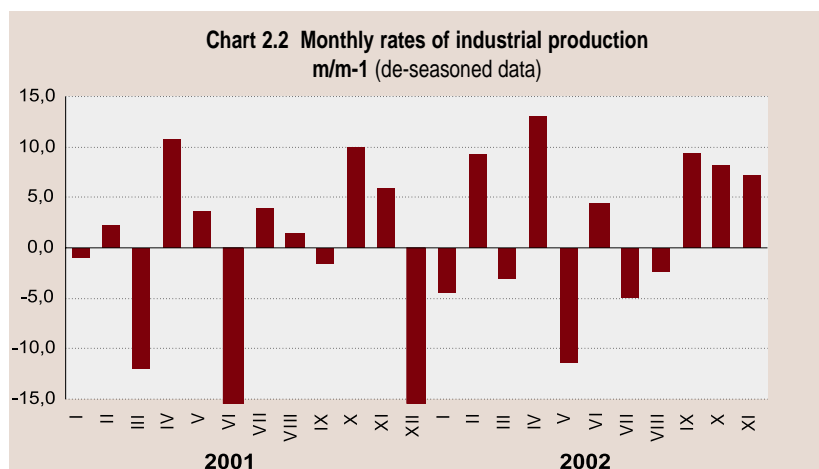
Thereby, the industrial production growth was initiated by the increased volume of production in the groups "energy" - 21.6%, "intermediate products" - 20.1%, and "capital products". "Non-durable goods for general consumption" remained at the level of average production and its participation in the industrial production is approximately 50%.

Observed by sectors, the growth is again led by the processing industry, where a growth of 24.7% was realized, primarily as a result of the increased production in the following sectors: food products and beverages (6.2%), textile fabrics (15.2%), oil derivatives (29.9%), chemicals and chemical products (9%), metal products in metal-processing phase (28.7%) and base metals (21.7%). Total participation of these sectors in the industrial production structure is approximately 62%.

Analyses show that the largest growth, compared to the 2001 average, was realized in the production of oil derivatives. Increased industrial activity in this sector comes after the several-month calm in the production

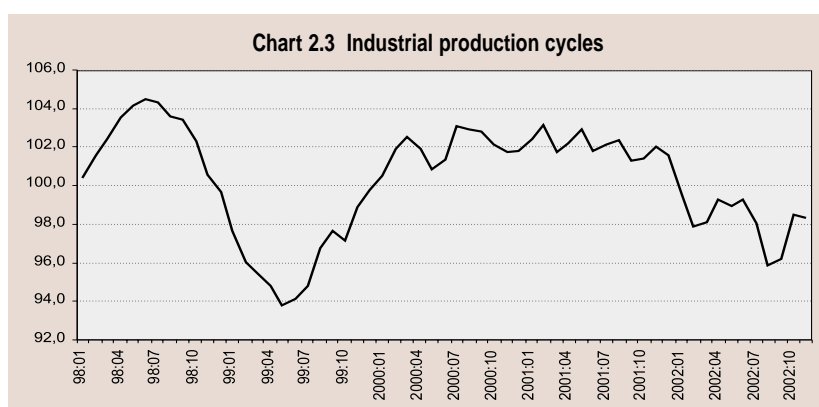
process in OKTA refinery, due to the necessary preparations for connecting the refinery in the oil pipeline Skopje-Solun. After the successful completion of this process, the normal production in this industrial capacity restarted.

Also, the textile industry recovery is obvious, initiated by the renewed export agreements (although primarily it is a matter of inward processing relief), which is another positive signal for the recovery of the Macedonian economy.



Source: Ministry of Finance

Taking into account the positive movements in the past period, we can point out with certainty that the Macedonian economy is "healing" the consequences caused by the last-year crisis and by the process of restructuring part of the largest industrial capacities. It is anticipated that the successful restart of certain loss-making enterprises after the takeover of the control package by foreign investors ("Jugohrom"), followed by recovery of the textile and steel industry, will have strong impulse over the industrial production in the following period, aimed at achieving positive real growth rates in the first half of 2003.

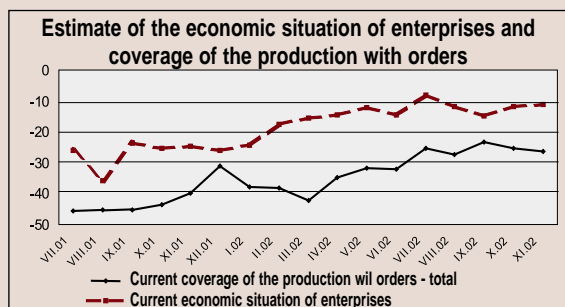


Source: Ministry of Finance

Business tendencies in the processing industry November 2002

Estimating by the answers of the managers of Macedonian enterprises, the total economic situation of their enterprises in November 2002 was more favourable than in the previous month. At the same time, the volume of production increased in relation to the previous month, and also there were optimistic indications for the volume of production in the following 3-4 months. Contrary to this, there are negative expectations with regard to the number of employed and the current coverage of production with orders. According to the Macedonian managers, supplies of raw materials and intermediate materials, as well as supplies of final products, are still below the normal. Compared to the average procurement price of input and average sale price of final products, higher growth is expected in the several following months, compared to the growth in October.

In November 2002, the average utilization of the production capacities was improved and it reached a level of 66%, which is an increase by 6.3% compared to the previous month. Despite the cumulative growth of 15.8% realized in the period January-November 2002, the average utilization of the industrial capacities is still at very low level. Thereby, the following are basic limiting factors: low domestic and foreign demand (34.6%), uncertain security environment (16.4%) and the financial problems in the enterprises (13.2%).



Agriculture

Despite the unfavourable weather conditions, the autumn sowing was completed successfully; all planned areas were planted with autumn cultures (regarding certain cultures the performance exceeds the planned scope). Compared to last year, the scope of autumn sowing increased by 17%.

According to the Orientation plan for autumn sowing, it was anticipated a total of 180.8 thousand hectares to be planted with autumn cultures. As of 15 November 2002, when the optimal deadlines for autumn sowing ended, about 165.6 thousand hectares were planted, or 92% of the plan, and within this, 156.9 thousand hectares, or 91% were planted with grain cultures; about 80% were planted with industrial products; 81% with vegetables; 84% with fodder.

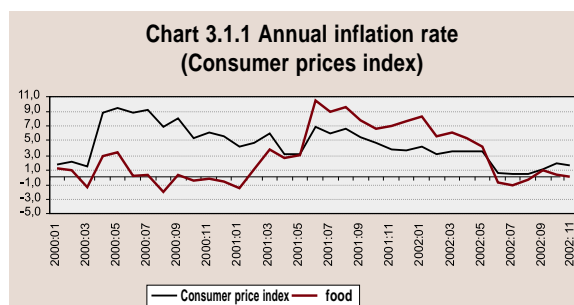
Increase of the scope of autumn sowing in relation to the previous year is noticed in the grains - by 17%; industrial cultures - by 39%; vegetables - 3% and fodder - 16%.

3. PRICES

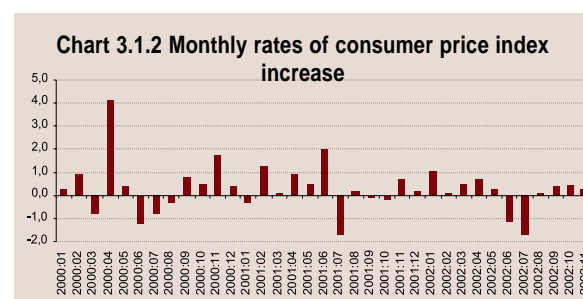
In November 2002, prices of goods and services used for personal consumption as a part of consumer price index increased by 0.2% compared to the previous month, and by 1.5% compared to October 2001.

Comparing the consumer price index in November 2002, in relation to the previous month, prices of goods increased by 0.2%, and prices of services increased by 0.4%.

Analysing the main groups, according to the purpose of consumption, in November 2002, compared to October, there was increase in the prices in the following groups: "communications" - by 1.8%, "alcoholic beverages and tobacco" - by 0.6%, whereby there was minimal decline in the group "hotels and restaurants" - by 0.1%.



Source: State Statistics Bureau



Source: State Statistics Bureau

3.1. Stock exchange prices of main Macedonian export products

In the last quarter of 2002, the movements of prices on the world stock exchanges fully reflect the increased demand for raw materials. Observed from the aspect of Macedonian economy, in November 2002 there are favourable tendencies at the main Macedonian export products, recorded via increase of stock exchange prices of almost all products. At the same time, only the price of crude brand oil declined by 12.3%. Given the indications for worsening of the conflict in Middle East, it is most likely a matter of short-term decline, after which increase of the stock exchange price of oil is again anticipated in the following several-month period. The indications for conflict also had impact in the increase of prices of gold at the world stock exchanges, by 0.8% compared to October 2002. Taking into account the development of events, unprecedented increase of the stock exchange price of the gold is anticipated in the last quarter of 2002 and the first quarter of 2003. (Source: World Development Prospects).

November was characterized with increase of prices of non-ferrous metals, whereby the highest increase of the stock exchange price, compared to the previous month, was realized at the nickel. Compared to October, the nickel price increased by 7.5%, reaching US\$ 7,314 for a metric ton (US\$/mt), which is the highest price in the past two years. With this trend of continuous growth of the stock exchange price, the nickel is again approximating the price level of 2000, so called "golden times of the nickel", when the nickel was sold for over US\$ 10,000 for a metric ton (US\$/mt). Such movements are especially favourable for the Republic of Macedonia, given the fact that in the period January-October 2002, only from the nickel a foreign currency inflow was realized in the amount of US\$ 26.5 million.

Chart 3.1.3. Nickel (US\$/mt)



Source: World development prospects

Regarding the other non-ferrous metals, the increase is highest at the copper, the price of which increased by 6.6% compared to the previous month. In November 2002, there was change in the stock exchange price of lead and zinc, by 5.7% and 1.3% respectively. In line with the recovery of the industrial production in world frames, and respectively the increased demand, further increase of the stock exchange prices of these metals is anticipated.

As a result of the seasonally increased demand in the last months of the year, again there was increase of the stock exchange price of sugar. Hence, in November 2002, compared to the previous month, the price of this product increased by 4.7%, reaching a level of 17.3 ¢/g, so that for a period of only four months the price of sugar on the world stock exchanges realized cumulative growth of 24.4%.

With respect to the other products more significant for the Macedonian export, the favourable tendencies regarding the lamb continue. This time, the price of lamb increased by 1.5% compared to the previous month and it reached a level of US\$ 351.1 ¢/kg, the highest in the last two years. Compared to the same period last year, the price of lamb is higher by 16.7%. Let us hope that the Macedonian producers and exporters of lamb will use these favourable trends on the world market and they will achieve sound financial results.

Chart 3.1.4. Lamb (¢/kg)



Source: World development prospects

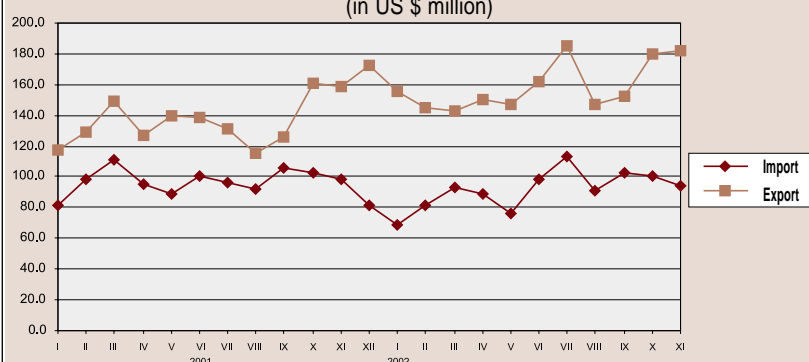
The prices of steel, cold-rolled and hot-rolled steel tins remained on the last-month level. The last change in the prices of these products on the world stock exchanges occurred in August 2002, as a result of the protectionist measures by the USA. Compared to the remaining products, the changes of prices at steel and steel tins are very rare and occur after a period of several-month stable, unchanged price level.

4. EXTERNAL SECTOR

4.1. Foreign trade

Export of goods in November declined by 5.6% compared to October 2002. At the same time, the more modest decline of import by 0.6% compared to October led to increase of the trade deficit, from US\$ 83.4 million in October to US\$ 87.8 million in November, hence the total trade deficit of the country in the first eleven months of 2002 amounted to US\$ 751.3 million.

Chart 4.1.1. Import of goods realized in 2001 and 2002
(in US \$ million)

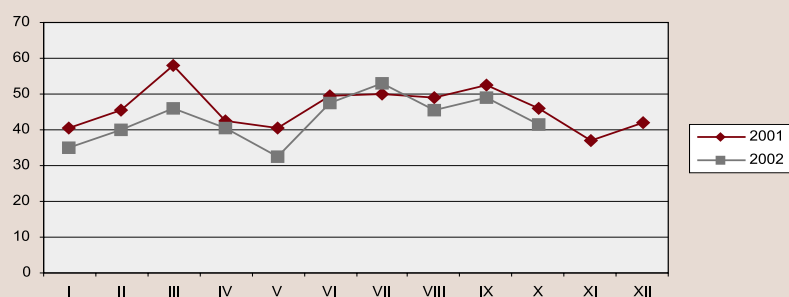


Source: State Statistics Bureau

Observed at annual level, the export in November 2002 declined by 3.3% compared to the same month 2001.

The export of "inward processing relief" in November showed positive growth of 6.6% compared to October. Import of "inward processing relief" had approximately same growth (6.4%).

Chart 4.1.2 Import of "inward process relief" works
(in million US dollars)



Source: State Statistics Bureau

Monthly increase of export was registered at the export of clothes (by around 8%), the export of iron and steel is at the previous-month level, whereby there was decline in the export of tobacco and tobacco prod-

ucts (US\$ 2.6 million or 35.5%), fruit and vegetable (US\$ 2 million or 34.2%), chemical products (US\$ 1.4 million or 18.5%) etc.

The analysis of economic purpose of products indicates that the export of goods with lower processing level declined, i.e. raw materials and intermediate materials (by around 11%) and, at the same time, general consumption goods are almost at the previous-month level.

Export by economic purpose*)

	US\$ rates	
	October 2002	November 2002 (vo%)
Intermediate products	48,043,271	42,574,041 -11.4
Instruments of labour	1,904,717	2,024,131 6.3
General consumption goods, total	50,277,523	50,033,773 -0.5
Food	9,086,261	7,245,026 -20.3
Beverages and tobacco	4,207,896	5,258,769 25.0
Clothes and footwear	29,762,114	31,396,163 5.5
Furniture	465,001	349,186 -24.9
Textile (except clothes)	1,898,647	1,111,005 -41.5
Medical, pharmaceutical and cosmetic products	3,078,636	3,038,423 -1.3
Other general consumption goods	1,778,968	1,635,201 -8.1
Unallocated	85,194	95,692 12.3
Total	100,310,705	94,727,637 -5.6

*) Source: State Statistics Bureau, previous data

Viewed by economic grouping of countries, export in the dominant partner - European Union - increased by 2.6%, thus its structural participation in the total export in the period January-November 2002 is 50.6%.

FR Yugoslavia and Germany are still our greatest partners, the participation of which in the export covers less than a half of the total export. Export to Greece and the USA showed significant negative change in November¹.

Import of goods indicated mild decline of 0.6% compared to October 2002.

From the results in the structure of import by economic purpose of products, small increase can be seen both in import of raw materials and intermediate materials (by 1.3%) and import of general consumption goods (by 1.9%), compared to the previous month.

Table 4.1.2

Import of road vehicles in US\$ million

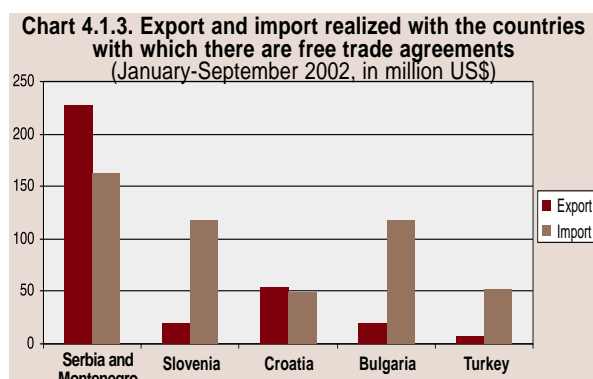
Import of road vehicles in the past eleven months of 2002 increased more than two times, as a result of the amendments to the Law on Customs Tariff, i.e. the decline of the import customs duties on cars.

	2001	2002	growth rates (in %)
I	4.8	6.2	29.2
II	6.2	12.3	98.4
III	4.6	9.9	115.2
IV	4.8	9.4	95.8
V	4.7	11.9	153.2
VI	4.6	10.9	137.0
VII	4.7	10.8	129.8
VIII	3.0	9.4	213.3
IX	4.7	8.9	89.4
X	5.0	11.3	126.0
XI	6.4	10.9	70.3
Total	42.1	89.7	113.1

Source: State Statistics Bureau

¹ Export to Greece in November declined by about 27% compared to October 2002, and export to the USA by 26.4%.

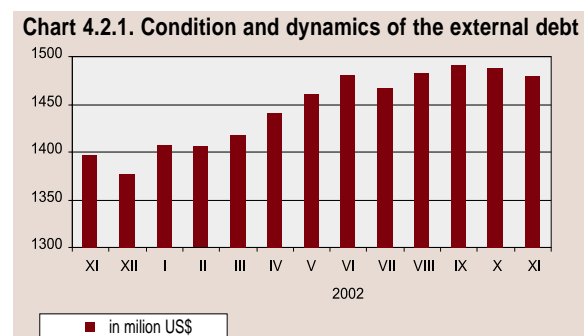
The tendency of unfavourable implementation of free trade agreements also continued in November 2002. Significantly higher import than export with the same dynamics continued with Bulgaria, Slovenia and Turkey². The trade deficit with only these three countries in the period January-November 2002 amounted to about US\$ 241.2 million.



Source: State Statistics Bureau

4.2 External debt

External debt of the Republic of Macedonia, on the basis of medium-term and long-term credits and loans³ at the end of November 2002 amounted to US\$ 1479.7 million, and starting in October it shows mild declining tendency.⁴ The decline in the external debt in November 2002 is due to significantly larger repayments of the new borrowings, as well positive exchange rate differences, which amounted to US\$ 4.07 million in November.



Source: National Bank of the Republic of Macedonia

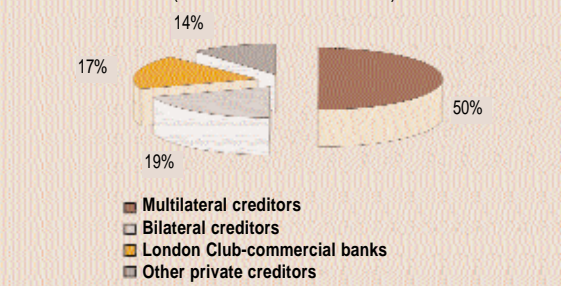
In November 2002, only US\$ 4.1 million were disbursed from foreign creditors on the basis of already approved credits and loans, which primarily are approved by official creditors (US\$ 3.0 million by multilateral and US\$ 1.0 million by bilateral creditors). The amount of used credits in November is significantly lower than the average in the previous months this year. Cumulatively, in the period January-December 2002, US\$ 146.9 million were disbursed,

60% out of which are from multilateral and bilateral creditors.

At the same time, liabilities in the amount of US\$ 19.1 million were serviced towards abroad, US\$ 16.5 million out of which are repayment of principal and US\$ 2.6 million are interest. Largest part of the repaid liabilities, US\$ 17.5 million are towards multilateral and bilateral creditors, and small part of US\$ 1.6 million is towards the private creditors. Cumulatively, during eleven months in 2002, US\$ 202.3 million were serviced, US\$ 155.1 million out of which are principal and US\$ 47.2 million are interest. Out of the total liabilities, US\$ 132.5 million were repaid towards the official creditors and US\$ 69.8 million towards private creditors.

Debt structure per creditors is favourable, whereby 69% of the external debt is composed of official creditors, and the remaining part is the debt towards the private creditors. In the group of official creditors, the debt to multilateral creditors is 50%, which is by 2.6 times more than the debt to bilateral creditors. The largest single private creditor is London Club with US\$ 254 million, and also IBRD (International Bank for Reconstruction and Development) and IDA (International Development Agency) are within the official creditors with US\$ 427 million.

Chart 4.2.2. Structure of the external debt per creditors (as of 30 November 2002)



Source: National Bank of the Republic of Macedonia

According to the repayment plan of the National Bank of the Republic of Macedonia, in December 2002 liabilities towards abroad fall due in the amount of US\$ 18.6 million, US\$ 14.6 million out of which are principal and US\$ 4 million are interest.

² Export to Bulgaria is characterized with much lower number of products than the import. Similar movements are noticed in the trade with Slovenia, where mainly agricultural products are exported, whereby final products and products with higher level of processing are imported. The agreement with Turkey is also being realized with exceptionally low utilisation of preferential quotas.

³ According to the previous data from National Bank of the Republic of Macedonia

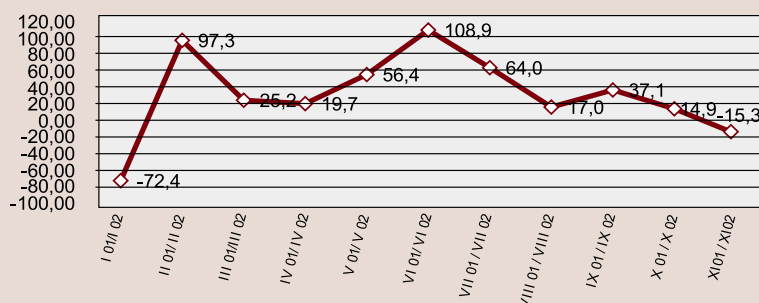
⁴ Data on external debt as of 31 October 2002 was revised by National Bank of the Republic of Macedonia, from US\$ 1491 million to US\$ 1488 million.

During November, new credit agreements were concluded in the amount of US\$ 3.4 million, all of them with private creditors. This amount is significantly lower than the average concluded credit agreements in the previous months of the year. Cumulatively for eleven months this year, new credits in the amount of US\$ 108.3 million are concluded, 58% out of which are with private creditors.

4. FISCAL SECTOR

In the period January-November 2002, total revenues of the Central Budget amounted to Denar 52.636 million, which is an increase of 13.3% compared to the same period last year. Revenues from the value added tax, which are by 19.1% higher than the same period last year, are the main bearer of this growth.

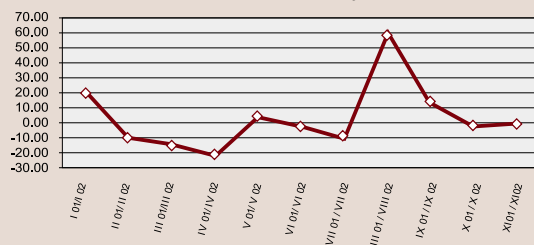
Chart 5.1.1. Value added tax
(Inter-annual growth rates)



Source: Ministry of Finance

The trend of decline of the revenues from profit tax also continued in November 2002, whereby cumulatively, total revenues from this tax in the first 11 months of this year, compared to the same period last year, are lower by 13.1%. This is primarily a result of the advance payment of profit tax (on the basis of realized profit during the last year) and does not reflect the recovery of Macedonian economy in the fourth quarter of 2002. In November, the growth of revenues from excises by 9.4% is significant, compared to the previous month, while on annual basis, revenues in the first eleven months are higher by 0.7% in relation to the same period last year.

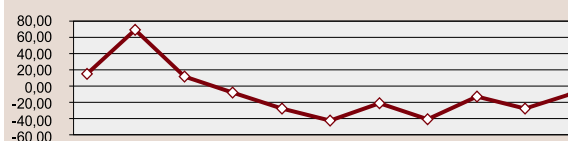
Chart 5.1.2. Excises (inter-annual growth rates)



Source: Ministry of Finance

In the first eleven months of 2002, total revenues of the Central Budget amounted to Denar 57.704 million, i.e. expenditures increased by 2.6% compared to the same period last year. Despite the reduction of expenses for goods and services by 36.0% on annual level, the moderate growth of total expenditures is primarily due to the low comparable basis of wage bill in the first half of 2002 (increase by 11.1% was recorded, compared to the same period last year), as well as to the higher transfers from the Central Budget.

Chart 5.1.3. Expenditures for goods and services
(inter-annual growth rates)



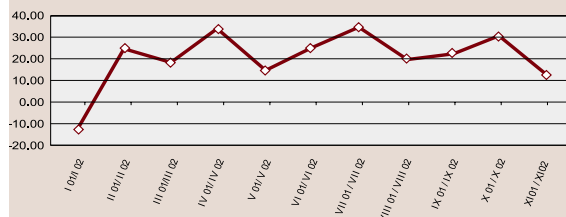
Source: Ministry of Finance

The current transfers in the first eleven months of 2002 amounted to Denar 15.752 million, thus realizing an increase of 20.9% in relation to the same period last year. The transfers to the Pension and Disability Insurance Fund had the greatest participation (Denar 4.784 million or 30.7%), followed by the Employment Bureau of the Republic of Macedonia (Denar 3.782 million or 24.3%) and social programs (Denar 3.153 million or 20.2%).

Payments upon interest in the first eleven months this year amounted to Denar 3.187 million, which is by 16.0% less compared to the same period last year. The majority of interest payments are on the basis of foreign credits (Denar 2.099 million or 65.9%), while the interests for domestic bonds were paid in the amount of Denar 1.088 million.

At the same time, capital expenditures amounted to Denar 8.008 million, which is by 50.9% more than in the first eleven months in 2001. The increase is primarily due to higher investments in fixed assets (69.0%), which participate with 72.2% in the structure of capital expenditures. The increased investment activity is also related with the projects financed from Telekom sale (36.4% more), which is due to the normalization of security situation, as well as the increased spending of certain budget users in the pre-election period.

Chart 5.1.4. Transfers
(inter-annual growth rates)



Source: Ministry of Finance

Central Budget deficit, according to the preliminary data, amounted to Denar 5.067 million in the period January-November 2002.

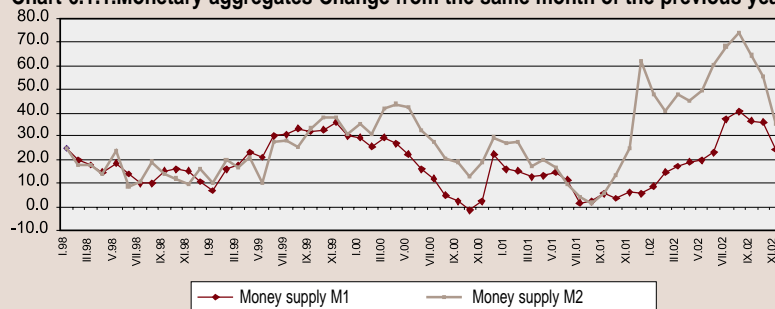
6. MONETARY SECTOR

6.1. Monetary aggregates and monetary indicators

In November 2002, the effects from the increased liquidity were neutralized both with interventions of the Central Bank on the foreign exchange market and with sale of Central Bank bills (the amount of sold Central Bank bills on 30 November 2002 was Denar 4.1 billion). At the same time, the base money significantly dropped by 7.1%, primarily due to reduction of funds on the giro accounts of banks in the Central Bank by 28%, as well as to the reduction of ready money in circulation by 3.5%, while the liquidity of banks increased by 6.7%. In November 2002, due to the higher demand for foreign currency on the foreign exchange market, the Central Bank intervened on the side of supply with foreign currency, whereby the foreign exchange assets were directed towards withdrawing the liquid assets in the amount of Denar 1.8 billion. Simultaneously, net domestic assets and Central Bank bills were aimed at creating liquid assets of Denar 600 million, while the net effect was withdrawal of Denar 1.2 billion.

Monetary aggregate M1⁵ in November 2002 decreased by 3.3% compared to the previous month, which is the highest decline in 2002. This is due to the decrease of two integral components of monetary aggregate M1, both of the ready money in circulation by 3.6% and of sight deposits by 3%. In the same period, **monetary aggregate M2** also declined by 1.2%, primarily as a result of the decline of monetary aggregate M1.

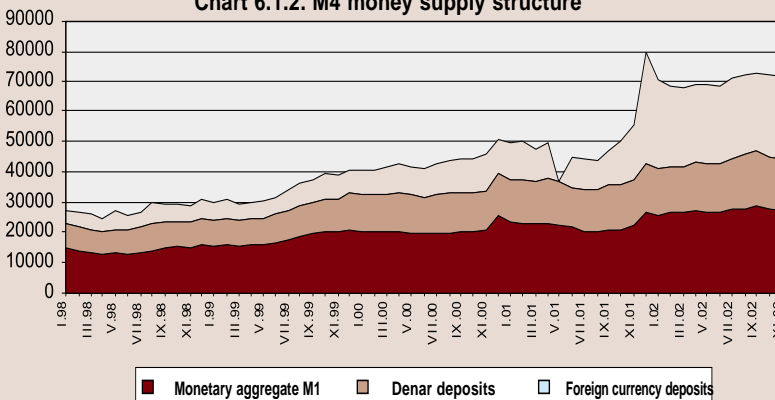
Chart 6.1.1. Monetary aggregates Change from the same month of the previous year



Source: National Bank of the Republic of Macedonia

The most broadly defined monetary aggregate M4, amounted to Denar 71.8 billion at the end of November, which is insignificant decrease compared to the previous month, and 28% increase in relation to the same month last year. Compared to the previous month, both integral parts of the monetary aggregate M4, i.e. foreign exchange and denar component, are at almost the same level.

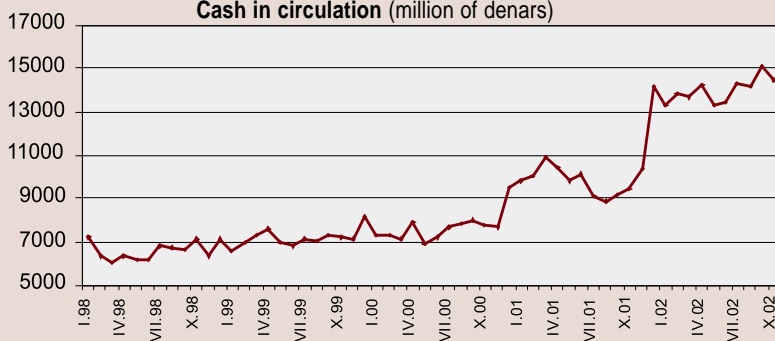
Chart 6.1.2. M4 money supply structure



Source: National Bank of the Republic of Macedonia

In November 2002, the level of ready money in circulation amounted to Denar 13.9 billion, which is the lowest level in the past five months, i.e. decline by 3.5%.

Chart 6.1.3.
Cash in circulation (million of denars)



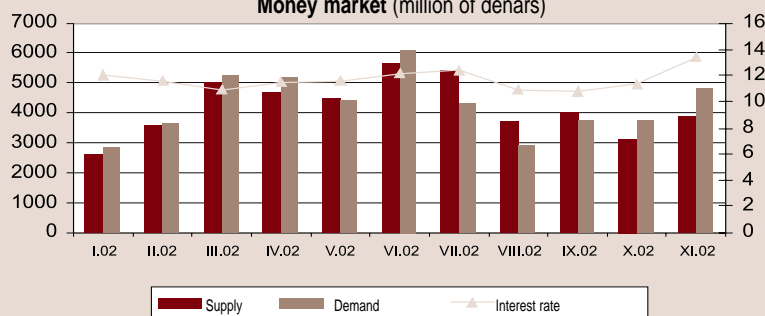
Source: National Bank of the Republic of Macedonia

⁵The most narrowly defined monetary aggregate that covers ready money in circulation and denar sight deposits.

6.2. Money and short-term securities market

Total turnover on the money and short-term securities market increased by 29% in November 2002, compared to the previous month, and it amounted to Denar 3.8 billion. Thereby, as a result of the reduced liquidity of banks, demand for money significantly increased thus leading to increase of interest rate (in November 2002 the average interest rate amounted to 13.3%), as well as deepening of the gap between supply and demand.

Chart 6.2.1.
Money market (million of denars)

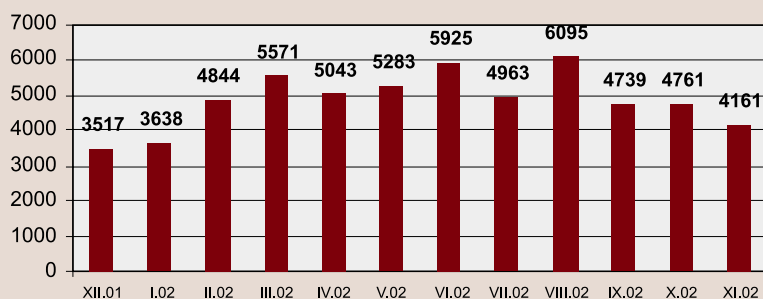


Source: National Bank of the Republic of Macedonia

6.3. Central Bank bills

In compliance with the policy of the Central Bank for targeting the denar exchange rate against the Euro and maintenance of the price stability, the Central Bank bills sold at the end of November 2002 amounted to denar 4.1 billion.

Chart 6.3.1
Central Bank bills (million of denars)



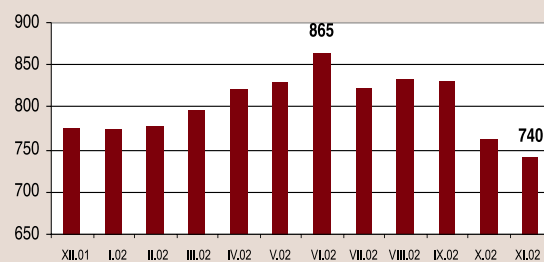
Source: National Bank of the Republic of Macedonia

6.4. Gross foreign exchange reserves

The gross foreign exchange reserves in November 2002 amounted to US\$ 736 million, which, compared with the previous months, is a reduction of US\$ 21 million or 2.8%. In accordance with the Central Bank policy on fixed exchange rate of the denar against the

Euro, the Central Bank intervened on the foreign exchange market in November with the sale of foreign exchange, which contributed to partial reduction of the gross foreign exchange reserves. Still, the monthly coverage of the import with foreign exchange reserves in 2002 indicates that the gross foreign exchange reserves are at an adequate level, which is equal to 4.1 months of import.

Chart 6.4.1 Gross foreign exchange reserves
(US\$ million)

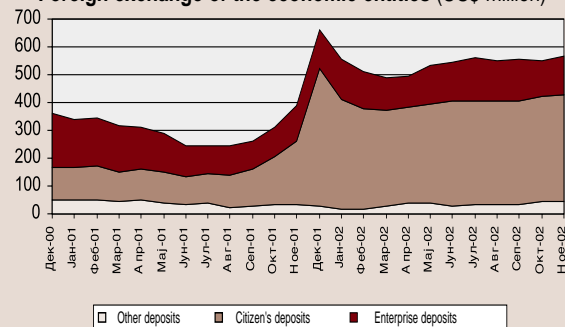


Source: National Bank of the Republic of Macedonia

6.5. Foreign exchange deposits of the economic entities

The overall foreign exchange deposits of the economic entities amounted to US\$ 587 million in November 2002, which, in comparison with the previous months, is an increase of 2.4%. The growth is a result of the increase in the foreign exchange savings of the citizens by 2.2% (US\$ 384 million in November 2002). Simultaneously, the foreign exchange deposits of the enterprises were reduced by 2.1% (US\$ 45 million).

Chart 6.5.1
Foreign exchange of the economic entities (US\$ million)



Source: National Bank of the Republic of Macedonia

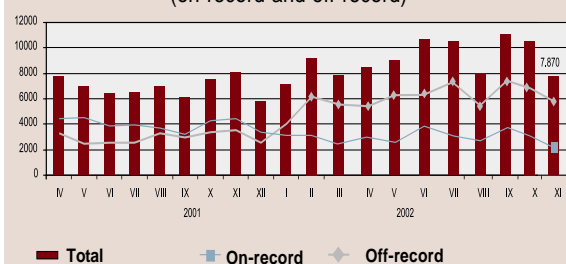
7. LABOUR MARKET

7.1. Labour market

Some encouraging, positive tendencies were noted at the labour market in November 2002, as follows: reduction of the number of persons that remained without a job on a basis of bankruptcy and redundancy, reduction of the total unemployment and reduction in the number of the persons beneficiaries of unemployment allowance.

7.9 thousand employments were realized in November 2002, which is by 1.8% less compared with the same month the previous year, i.e. by 27.2% less compared with the previous month this year. Out of the total number of employments, 66.7% are permanent, while 33.3% at a limited period of time and seasonal works. Within those frameworks, the employment of the unemployed off the records is four times higher (fluctuation-change of the working posts), then the new employments from the records of the unemployed.

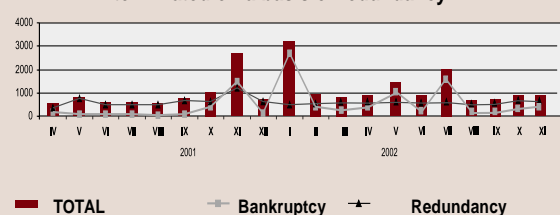
Chart 7.1.1. TOTAL EMPLOYMENTS
(on-record and off-record)



Source: Employment Bureau of the Republic of Macedonia

The number of persons that lost their job on the basis of bankruptcy and redundancy as a consequence of the unfavourable situation and solving of the excessive employment in November 2002 is 726 persons and is by 66 persons less than during the previous month, or by 1972 persons less compared with the same month of the previous year, above all, on the basis of redundancy (61%), and less, on the basis of bankruptcy (39%).

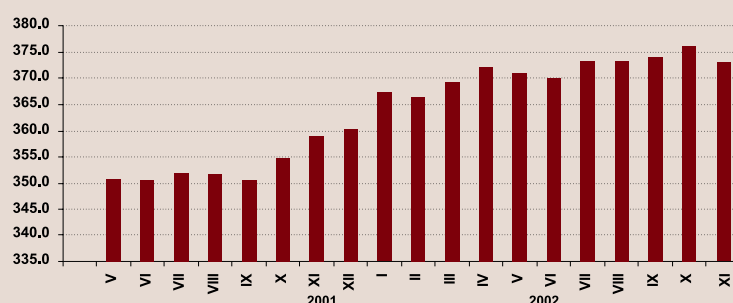
Chart 7.1.2. Persons seeking a job whose labour relation was terminated on a basis of redundancy



Source: Employment Bureau of the Republic of Macedonia

The number of persons seeking a job, according to the Employment Bureau, after the very high level of unemployment reached in the last month, in November 2002, declined, whereby this number is by 0.6% lower than the previous month and is 373.9 thousand persons.

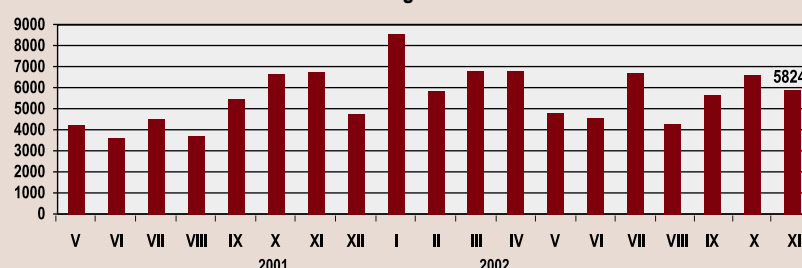
Chart 7.1.3. Persons seeking job
(in 000)



Source: Employment Bureau of the Republic of Macedonia

The persons looking for a job, registered for the first time this month is 5.8 thousand and is by 14% less compared with the same month the previous year.

Chart 7.1.4 Persons seeking a job, registered for the first time during the month

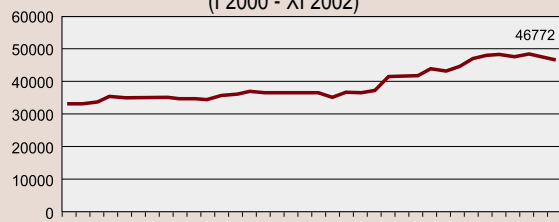


Source: Employment Bureau of the Republic of Macedonia

7.2. Beneficiaries of unemployment allowance

The unfavourable tendency of a continuous increase in the number of unemployment allowance beneficiaries was stopped, whereby in November 2002, according to the records of the Employment Bureau, this number was 47,330 persons, which is by 1.9% less than the previous month, but still by 27.5% higher compared with the level of the same month the previous year or by 10,201 beneficiary. The increase is mainly due to the lost working posts on the basis of redundancy, i.e. dominant in the structure of unemployment allowance beneficiaries are the redundant workers and the ones from the bankrupt enterprises.

Chart 7.2.1. Beneficiaries of unemployment allowance
(I 2000 - XI 2002)



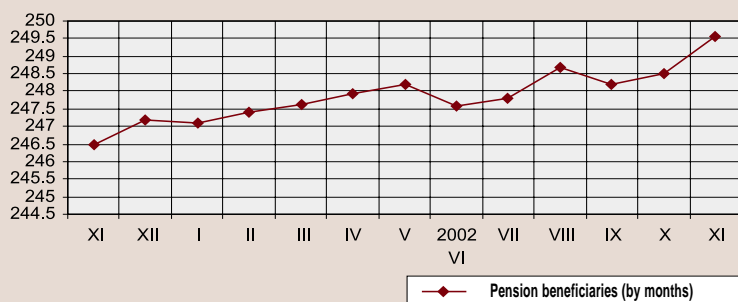
Source: Employment Bureau of the Republic of Macedonia

8. SOCIAL DEVELOPMENTS

8.1. Pension beneficiaries

In November 2002, the total number of pension beneficiaries was 249,561, which is an increase by 1039 pensioners compared with the previous month, whereas with respect to December 2001, this number was increased by 2361 persons. At an annual basis (November 2002/November 2001), there is an increase of 3062 persons, i.e. of 1.2%.

Chart 8.1.1
Pension beneficiaries (in 000)



Source: Pension and Disability Insurance Fund

The average pension in November 2002 amounted to 6,958 denars, which, in comparison with the previous month this year, is an insignificant fall, whereas in comparison with November 2001 it has been realistically increased by 6.4%.

The ratio of the average pension for November 2002⁶ to the average paid net salary in October 2002, is 59.3%.

Out of 249,561 pension beneficiaries, 88.3% receive pension in the amount up to denar 10,850, while only 11.7% receive pension exceeding denar 10,850.

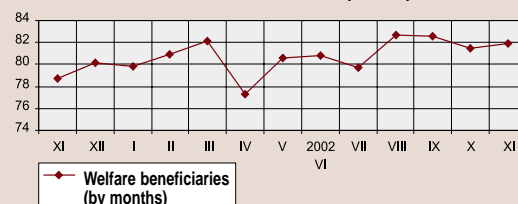
In November 2002, denar 1,737 million were paid for pensions to 249,5 thousand pension beneficiaries.

8.2. Welfare beneficiaries

According to the data of the Ministry of Labour and Social Policy, in November 2002, denar 192.8 million

were paid for welfare to 81,855 socially disadvantaged households. The right to permanent welfare was exercised by around 5,279 beneficiaries, while on the basis of third person's care, this right was exercised by around 20,990 beneficiaries.

Chart 8.1.2.
Welfare beneficiaries (in 000)



Source: Ministry of Labour and Social Policy

Compared with the previous month 2002, this number was increased by 452 persons or 0.5%, whereas compared with the same month the previous year, the number of welfare beneficiaries was increased by 3138 persons, i.e. 3.8%.

8.3. Consumer basket

In November 2002, the value of the consumer basket for food and beverages⁷ was 10,254 denars, and in comparison with the previous month, is higher by 0.4%.

An increase in the value is noticed at:

- "Fresh and processed vegetable" (3,5%)
- "Milk and dairy products" (0,4%)
- "Other food products" (0,3%).

A decrease was noticed at:

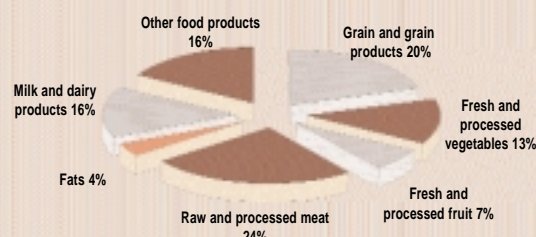
- "Fresh and processed fruit" (0,9%)
- "Raw and processed meat" (0,1%)

The value of the basket in the group "fats" and "grains and grain products" is at the level of the previous month.

The value of the consumer basket in November 2002 is higher by 1.1% in comparison with the same month of the previous year.

The structure of the consumer basket for November 2002 is presented in the following chart:

Chart 8.4.1.Consumer basket



Source: State Statistics Bureau

⁶ The comparison is made with the average salary of the previous month since the data on the salaries is available with a month delay.

⁷ All the products from the category "food and beverages" that comprise the basket are determined as average monthly needs of a four-member non-agricultural household and this list of products is permanent (same products, same qualities) during a year.

REVENUES OF THE CENTRAL BUDGET OF THE REPUBLIC OF MACEDONIA (2000, 2001 and 2002)

(in millions of denars)

Type of revenues	Actual in	Actual in 2002												
	Jan - dec 2001 godina	January	February	March	April	May	June	July	August	September	October	November	December	Jan-dec
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
TOTAL REVENUES AND GRANTS	63.109	2.801	6.957	8.121	5.854	5.018	4.871	5.985	5.672	5.232	5.647	4.526	6.887	67.571
REVENUES (TAX AND NON-TAX)	50.965	2.696	5.320	5.405	4.427	4.593	4.383	5.586	4.235	4.522	5.299	4.337	6.131	56.933
TAX REVENUES	47.566	2.613	5.106	5.167	4.227	4.351	4.039	5.297	4.122	4.388	5.141	4.219	5.718	54.388
Taxes on income, profits, and capital gains	10.255	710	1.018	984	743	680	760	904	723	787	870	830	1.129	10.139
Personal income tax	7.248	460	621	599	674	563	581	661	572	612	652	615	904	7.514
Profit tax	3.007	251	397	385	69	117	179	243	151	175	218	215	225	2.625
Domestic taxes on goods and services	27.813	1.398	2.786	2.803	2.389	2.538	2.289	3.186	2.411	2.693	3.266	2.351	3.126	31.236
Sales tax and VAT (since 1.04.2000)	17.132	621	2.055	1.985	1.554	1.652	1.368	2.268	1.343	1.680	2.390	1.393	2.212	20.521
Excises	10.681	777	731	818	835	886	921	918	1.068	1.013	876	958	914	10.715
Taxes on international trade and transactions	6.111	12	754	823	491	585	485	582	450	366	433	542	815	6.338
Import duties	4.821	12	600	670	399	477	403	488	378	297	365	452	691	5.232
Other import duties	1.290	0	154	153	92	108	82	94	72	69	68	90	124	1.106
Other taxes	0	1	0	1	1	0	1	0	0	0	0	0	0	4
Other taxes not else where classified	0	1	0	1	1	0	1	0	0	0	0	0	0	4
Taxes on specific services	1	0	0	0	0	0	0	1	0	0	0	0	0	1
Communal taxes	1	0	0	0	0	0	0	1	0	0	0	0	0	1
Fees for usage and permissions for performing activities	275	41	18	24	25	29	22	24	30	24	28	30	42	337
Licences for carrying out the activity	257	39	16	22	24	27	20	22	28	22	26	28	40	314
Motor vehicles fees	18	1	2	2	1	2	2	2	2	2	2	2	2	22
Tax on financial transactions	3.111	451	530	532	578	519	482	600	508	518	545	466	606	6.335
NON-TAX REVENUES	3.399	83	213	238	200	242	344	289	113	134	158	118	413	2.546
Enterpreunerial income and property income	1.822	3	23	107	59	136	240	167	40	38	50	29	43	935
Profit from additional activities of government institutions	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Profit from public financial and non-financial institutions	1.095	0	14	95	57	127	43	34	30	34	45	27	40	546
Other property income	727	3	9	12	2	9	197	133	10	4	5	2	3	389
Fees and charges	1.060	47	132	102	104	83	93	93	65	88	95	90	101	1.093
Fines	144	4	10	15	12	6	9	12	5	7	13	11	15	118
Court fines	448	21	41	44	51	35	35	32	13	27	31	35	39	404
Administrative fees	468	22	81	43	41	42	49	49	47	54	52	44	47	571
Other government services	486	31	42	27	35	18	9	7	7	6	11	1	9	204
Other non-tax revenues	31	2	17	2	2	5	2	22	1	2	2	-2	260	315
CAPITAL REVENUES	463	46	46	50	43	28	41	34	822	59	92	45	75	1.381
Sale of capital assets	439	40	41	41	35	26	21	23	31	33	33	39	70	433
Sale of land and intangible assets	24	6	5	9	8	2	20	11	791	26	60	6	5	949
TRANSFER AND DONATIONS	415	0	945	768	901	0	27	0	0	0	0	0	0	2.641
Transfers from other levels of government	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Foreign grants	415	0	945	768	901	0	27	0	0	0	0	0	0	2.641
General and current donations	415	0	945	768	901	0	27	0	0	0	0	0	0	2.641
PRIVATIZATION AND CONCESSION RECEIPTS	8.834	60	602	388	454	397	420	365	615	651	256	144	681	5.033
SUCCESSION RECEIPTS	1.669	-	-	-	-	-	-	-	-	-	-	-	-	0
BORROWING FROM ABROAD	763	0	45	1.510	29	0	0	0	0	0	0	0	0	1.584
Borrowing from international development organizations	763	0	45	1.510	29	0	0	0	0	0	0	0	0	1.584

EXPENDITURES OF THE CENTRAL BUDGET OF THE REPUBLIC OF MACEDONIA (2000, 2001 and 2002)

(in millions of denars)

Type of expenditure	Actual in 2002													
	Jan.-dec. 2001	January	February	March	April	May	June	July	August	Septemb.	October	November	December	Jan.-dec.
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
TOTAL EXPENDITURES	68.885	5.722	5.273	5.982	5.965	4.865	5.349	7.547	6.436	5.893	5.767	4.348	8.543	71.692
CURRENT EXPENDITURES	42.595	4.112	4.432	5.023	4.693	4.219	4.304	5.352	4.134	4.313	4.632	4.005	7.082	56.301
Wages, salaries and allowances	12.105	1.282	1.526	1.470	1.525	1.411	1.448	1.622	1.431	1.621	1.630	1.673	1.700	18.339
Wages and salaries	10.674	834	979	948	990	918	931	1.038	848	1.029	1.037	1.063	1.087	11.702
Allowances	1.430	448	547	522	535	493	517	584	583	592	593	610	612	6.637
Goods and other services	14.302	804	1.341	1.611	1.235	1.004	907	1.069	858	918	736	694	2.812	13.988
Travel and subsistence expenses	2.093	31	31	47	48	39	34	31	15	24	26	14	42	382
Utilities	488	24	35	20	38	46	30	35	31	44	29	36	57	425
Heating expenditures	481	84	147	117	88	63	41	52	27	19	41	23	131	834
Materials	9.467	55	73	62	56	61	62	67	44	68	64	65	192	870
Transport expenses	483	504	910	883	772	603	561	608	510	529	372	324	1.681	8.258
Current (routine) maintenance	91	16	12	38	56	19	32	27	21	48	21	18	194	502
Contractual services	650	65	90	104	123	118	110	105	45	67	81	50	266	1.224
Other operational expenditures	552	19	35	323	41	33	22	107	116	96	98	161	236	1.287
Reserves	–	6	8	17	13	22	15	37	49	22	4	3	11	207
Current transfers	12.715	1.073	1.464	1.807	1.649	1.605	1.791	2.032	1.731	1.618	1.837	1.610	2.356	20.573
Transfers to other levels of government	1.303	869	902	883	917	865	975	918	889	956	996	901	1.169	11.239
Transfers to households and individuals	10.108	204	562	7	23	14	53	13	53	20	14	33	25	1.022
Transfers on the basis of subsidies	1.305	–	–	–	–	–	–	–	–	–	–	–	–	0
Transfers to non-profit organizations	–	–	–	917	709	726	763	1.101	789	642	827	676	1.162	8.312
Interest payments	3.463	954	101	135	284	199	158	629	114	156	429	28	215	3.402
Interest on domestic loans	499	25	25	23	235	195	23	98	23	23	394	23	92	1.180
Interest on foreign loans	2.975	928	75	112	49	4	135	531	91	133	35	5	123	2.222
CAPITAL EXPENDITURES	3.928	331	651	512	554	581	873	1.027	984	1.058	911	255	630	8.366
Acquisition of capital assets	2.520	232	488	322	346	294	600	815	595	791	451	126	359	5.419
Acquisition of land and intangible assets	20	0	0	8	1	0	0	1	0	14	0	0	0	24
Acquisition of buildings	341	0	93	19	1	0	0	6	0	0	9	0	0	129
Furniture and office equipment	174	12	70	39	17	63	25	36	20	26	84	10	21	423
Purchase of motor vehicles	69	0	0	2	0	3	2	8	17	3	11	0	5	51
Feasibility studies, project preparation and design	6	4	0	0	4	2	5	80	21	3	1	0	1	122
Machinery	818	0	0	0	0	0	2	6	12	0	0	0	12	33
Construction, renovation and improvement	660	162	285	181	270	184	403	398	477	685	263	80	287	3.675
Substantial and special maintenance	433	26	39	67	50	38	20	62	47	59	66	35	33	542
Acquisition of goods reserves	28	0	6	2	4	142	218	0	0	17	0	1	418	
Capital transfers	1.408	99	162	190	208	286	273	212	389	267	461	129	270	2.947
Capital transfers to governmental institutions	1.316	11	143	130	161	164	201	116	141	114	341	124	254	1.901
Capital transfers to other levels of government	92	89	19	60	46	122	72	96	248	153	120	5	16	1.045
Capital transfers to individuals and non-profit organizations	0	0	0	0	0	0	0	0	0	0	0	0	0	
LENDING, EQUITY PARTICIPATION AND DEBT REPAYMENT	3.470	1.279	191	447	718	65	172	1.168	1.318	523	224	89	832	7.025
Lending and equity participation	211	136	51	64	172	3	9	122	138	6	57	69	100	927
Domestic loans and equity	294	136	51	64	167	–2	2	122	138	6	57	64	100	905
Foreign loans and equity	–	0	0	0	5	5	7	0	0	0	0	5	0	22
Amortisation (repayment of principal)	3.259	1.143	140	383	546	62	163	1.046	1.180	517	167	19	732	6.098
Domestic debt	7	0	0	0	460	50	–8	135	1.027	67	167	19	568	2.485
Foreign debt	3.251	1.143	140	383	86	12	171	911	153	450	0	0	164	3.613

BUDGET - CENTRAL GOVERNMENT

(in denars)

	1999	2000	2001	2002
	Final statement	Final statement	Supplemental budget	Supplemental budget
TOTAL REVENUES	50.493.469.454	65.713.522.924	75.842.074.000	72.565.262.000
REVENUES (TAX AND NON-TAX)	44.728.175.441	56.760.081.090	54.292.000.000	56.984.000.000
TAX REVENUES	41.858.828.319	51.120.246.193	50.484.000.000	54.026.000.000
Taxes on income, profits, and capital gains	12.793.078.777	13.585.772.246	10.166.000.000	10.101.000.000
Personal income tax	10.233.016.110	10.792.594.721	7.191.000.000	7.479.000.000
Profit tax	2.559.325.945	2.793.156.390	2.975.000.000	2.622.000.000
Other taxes on income, profit and capital gains	736.722	21.135	0	0
Domestic taxes on goods and services	20.631.883.947	29.733.381.841	30.251.000.000	31.192.000.000
Value Added Tax (since 1.04.2000)	9.958.866.206	17.452.340.371	18.251.000.000	20.332.000.000
Excises	10.673.017.741	12.281.041.470	12.000.000.000	10.860.000.000
Taxes on international trade and transactions	8.302.773.971	7.733.381.467	7.500.000.000	6.038.000.000
Custom duties	6.802.005.702	6.040.495.875	5.900.000.000	4.932.000.000
Other import taxes and duties	1.500.768.269	1.692.885.592	1.600.000.000	1.106.000.000
Other taxes	123.627.594	62.644.972	0	0
Taxes on specific services	7.464.030	5.065.667	10.000.000	3.000.000
Fees for usage and permissions for performing activities	-	-	260.000.000	300.000.000
Tax on financial transactions	-	-	2.297.000.000	6.392.000.000
NON-TAX REVENUES	2.869.347.122	5.639.834.897	3.808.000.000	2.958.000.000
Entrepreneurial income and property income	798.125.658	1.133.367.383	2.063.000.000	791.000.000
Fees and charges	1.156.606.788	1.215.770.217	1.200.000.000	1.140.000.000
Other government services	127.316.281	324.812.933	500.000.000	1.001.000.000
Other non-tax revenues	632.921.803	349.306.600	45.000.000	26.000.000
Sales of capital assets	15.437.592	2.616.577.764	10.027.443.000	5.469.000.000
Sales of land and intangible assets	-	-	15.000.000	234.000.000
TRANSFERS AND DONATIONS	2.419.089.626	4.155.269.452	6.896.631.000	8.294.262.000
Transfers from other levels of government	32.283.095	716.822.828	5.871.631.000	5.653.262.000
Foreign donations	2.386.806.531	3.438.446.624	1.025.000.000	2.641.000.000
BORROWING FROM ABROAD	3.330.766.795	2.181.594.618	4.611.000.000	1.584.000.000
International development organisations	3.330.766.795	2.181.594.618	4.611.000.000	1.584.000.000
TOTAL EXPENDITURES	49.761.209.035	57.689.326.704	75.842.074.000	72.565.262.000
CURRENT EXPENDITURES	42.088.365.187	46.985.485.342	60.981.237.000	56.849.538.000
Wages, salaries and allowances	15.996.631.927	16.285.267.541	16.491.970.000	18.402.266.000
Goods and other services	5.646.765.633	6.293.788.729	20.769.555.000	14.340.463.000
Current transfers	18.227.967.627	22.790.409.470	19.405.712.000	20.782.555.000
Interest payments	2.217.000.000	1.616.019.602	4.314.000.000	3.324.254.000
CAPITAL EXPENDITURES	2.407.296.601	5.186.477.309	11.210.837.000	8.832.822.000
Acquisition of capital assets	1.312.799.356	3.230.738.464	8.894.794.000	5.886.372.000
Capital transfers	1.094.497.245	1.955.738.845	2.316.043.000	2.946.450.000
LENDING, EQUITY PARTICIPATION AND DEBT REPAYMENT	5.265.547.247	5.517.364.053	3.650.000.000	6.882.902.000
Lending and equity participation	2.942.547.247	3.956.462.261	579.500.000	866.000.000
Amortization (debt repayment)	2.323.000.000	1.560.901.792	3.070.500.000	6.016.902.000

* The revenues in 1999 and 2000, are reclassified according to the latest Rulebook for classification of the revenues.

REVENUES AND EXPENDITURES OF THE CENTRAL GOVERNMENT BUDGET OF THE REPUBLIC OF MACEDONIA
(GFS - Government Finance Statistics)

In millions of denars	2002 January Actual.	2002 February Actual.	2002 March Actual.	2002 Q - 1 Actual.	2002 April Actual.	2002 May Actual.	2002 June Actual.
TOTAL REVENUES AND GRANTS	4.960	4.251	4.252	13.463	4.874	4.522	4.601
TAX REVENUES	4.060	4.499	4.482	13.041	4.538	4.204	4.000
Taxes on income and profits	710	1.019	984	2.713	743	680	760
Individual income tax	460	621	599	1680	674	563	581
Profit	251	397	385	1033	69	117	179
Domestic taxes on goods and services	1.397	2.787	2.803	6.987	2.389	2.537	2.289
VAT	621	2055	1985	4661	1554	1652	1368
Excises	777	731	818	2326	835	886	921
Import duties	12	754	823	1589	490	585	485
Other taxes ¹⁾	1.941	-61	-128	1.752	916	402	466
NON-TAX REVENUE	83	199	239	521	199	239	150
CAPITAL REVENUE	46	46	50	142	43	28	41
FOREIGN GRANTS	0	0	0	0	0	0	0
OTHER CENTRAL GOVERNMENT REVENUES ²⁾	770	-493	-519	-242	94	51	410
			0,0				
TOTAL EXPENDITURES	4.569	5.146	5.659	15.374	5.418	4.802	5.188
CURRENT EXPENDITURE	3.989	4.275	4.829	13.093	4.597	3.985	4.081
Goods and services	2081	2860	3067	8008	2746	2393	2342
Wages and salaries	1.282	1.526	1.471	4.278	1.524	1.411	1.448
Goods and nonlabor services	799	1.334	1.596	3.728	1.222	982	894
Refugee-related expenditure	0	35	68	103	31	40	2
Transfers	955	1.280	1.559	3.794	1.536	1.353	1.579
Pension Fund (net of PR, SR, ER)	366	386	433	1.185	447	423	534
Social programs	399	655	882	1.935	623	651	692
Social Assistance program	0	282	557	839	287	279	294
Employment Fund (severance pay and retraining)	399	373	324	1.096	337	320	311
Others	0	0	0	0	0	52	87
Subsidies	35	-14	44	65	167	43	3
Other transfers	155	253	201	609	299	236	350
Interest	953	100	135	1.188	284	199	158
Domestic	25	25	23	73	235	195	23
Foreign	928	75	112	1.115	49	4	135
CAPITAL EXPENDITURE	419	720	593	1.732	559	586	880
Fixed investment	148	155	177	480	208	142	399
Net lending	0	0	0	0	0	0	0
Equity	0	0	0	0	5	5	7
Capital transfers	99	212	211	522	161	164	205
Telecom projects	172	353	205	730	185	275	269
RESERVES	5	7	16	28	13	21	14
RE-PAYMENT OF PENSION OBLIGATIONS	98	95	94	287	107	97	94
STRUCTURAL REFORMS	1	9	89	99	105	77	86
PUBLIC ADMINISTRATION REFORMS	57	41	38	136	37	36	33
BALANCE	391	-895	-1.406	-1.911	-544	-280	-587
FINANCING	-391	895	1.407	1.911	544	280	587
DOMESTIC	749	35	-505	279	-421	277	676
Central bank	599	157	-852	-96	420	-45	778
Commercial banking system	149	153	26	328	0	0	0
Other domestic financing	1	-275	321	47	-841	322	-102
FOREIGN	-1.144	850	1.895	1.601	855	-12	-144
Disbursements	0	990	2.278	3.268	930	0	27
Grants	0	945	768	1.713	901	0	27
Loans	0	45	1.510	1.555	29	0	0
Amortization (-)	-1.144	-140	-383	-1.667	-75	-12	-171
Rescheduling / Other Financing	0	0	0	0	0	0	0
PRIVATIZATION RECEIPTS	4	11	17	31	110	15	55

Notes:

¹⁾ In the category "Other Tax Revenues" it is possible that negative values appear due to the accounting correction which is conducted in order to evade double recording of revenues that have already been recorded by the Customs Administration.

²⁾ Revenues (Balances) of other Central Budget Accounts. For example, the accounts for the individual revenues of the budget users.

**REVENUES AND EXPENDITURES OF THE CENTRAL GOVERNMENT BUDGET OF
THE REPUBLIC OF MACEDONIA (GFS - Government Finance Statistics)**

2002 Q - 2 Actual.	2002 July Actual.	2002 August Actual.	2002 September Actual.	2002 Q - 3 Actual.	2002 January- september
13.997	4.941	4.946	4.645	14532	41.992
12.742	5.200	4.062	4.489	13751	39.534
2.183	904	723	787	2414	7.310
1818	661	572	612	1845	5343
365	243	151	175	569	1967
7.215	3.186	2.411	2.693	8290	22.492
4574	2268	1343	1.680	5291	14526
2642	918	1068	1.013	2999	7967
1560	582	449	366	1397	4546
1.784	528	479	643	1650	5.186
588	145	112	134	391	1.500
112	35	822	59	916	1.170
0	0	0	0	0	0
555	-439	-50	-37	-526	-213
15.408	6.500	5.257	5.377	17.134	47.916
12.663	5.070	3.773	4.078	12921	38.677
7481	2663	2241	2520	7424	22913
4.383	1.622	1.431	1.621	4674	13.335
3.098	1.041	810	899	2750	9.576
73	51	6	0	57	233
4.468	1.727	1.412	1.403	4.542	12.804
1.404	432	437	441	1310	3.898
1.966	738	660	658	2.056	5.958
860	292	290	297	879	2.578
968	351	316	359	1026	3.090
139	95	54	2	151	290
213	81	0	6	87	365
885	476	315	298	1089	2.583
641	629	114	155	898	2.727
453	98	23	23	144	670
188	531	91	133	755	2.058
2.025	1.067	1.123	1.057	3247	7.004
749	592	309	399	1300	2.529
0	0	0		0	0
17	0	0		0	17
531	186	374	224	784	1.837
729	289	440	434	1163	
48	28	48	19	95	171
298	90	93	93	276	861
268	212	187	96	495	862
106	33	33	34	100	341
-1.411	-1.559	-311	-732	-2.602	-5.924
1.411	1.559	311	732	2.602	5.924
532	2.450	394	1.062	3.906	4.717
1.153	2.352	1.422	1.239	5013	6.070
0	0	0	0	0	328
-621	98	-1.028	-177	-1107	-1.681
699	-911	-153	-450	-1514	786
957	0	0	0	0	4.225
928	0	0	0	0	2.641
29	0	0	0	0	1.584
-258	-911	-153	-450	-1514	-3.439
0	0	0	0	0	0
180	20	70	120	210	421

PENSION AND DISABILITY INSURANCE FUND OF MACEDONIA

The total revenues of the Pension and Disability Insurance Fund in 2002 amounted to denar 25,811 million, which is an increase of 6.3% compared with the previous year. This planned increase of the total revenues was a result of the projected liabilities of the government for implementation of the structural reforms, public administration reforms, for repayment of the arrears to the pensioners (according to the ruling of the Constitutional Court of the Republic of Macedonia) and other legal obligations. The source revenues participate with 72.2% in the total revenue structure, which is an increase of 1.7% in comparison with 2001. The transfers from the Budget of RM to the Fund participate with 27% in the total revenues, which is an increase of 21.2% compared with the previous year.

The total expenditures of the Pension and Disability Insurance Fund in 2002 amounted to denar 25,889 million, which is an increase of 4.8% compared with the last year. The increased expenditures are mainly a result of the increase in the number of new pension beneficiaries who exercise the right to early retirement and the legal adjustment of the pensions with the movement of the salaries. The pension expenditures are dominant in the structure of total expenditures (86%), although the inter-Fund transfer to the Health Insurance Fund (11.3%) takes a significant part.

At the end of 2002, the Fund realized a deficit in the amount of denar 78 million, which is a reduction of 81% compared with the deficit realized in 2001.

PENSION AND DISABILITY INSURANCE FUND

(in millions of denars)

Types of revenues / expenditures	1998	1999	2000	2001	2002
	Actual	Actual	Actual	Actual	Actual
REVENUES	20,717	21,229	22,883	24,289	25.811
Contribution from salaries	13,373	14,316	15,722	15,671	15.784
Contribution from income	239	311	311	331	283
Revenues from the Central Budget	3,618	3,266	4,174	5,744	6.961
Revenues from the private sectors	400	439	404	377	409
Revenues from individual farmers	74	65	58	41	61
Revenues from excises	691	632	804	716	688
Contributions from the Employment Fund for unemployed	961	868	1,101	1,126	1.404
Other revenues	122	45	74	73	29
Revenues from dividends	50	67	53	209	192
Revenues from new employment	419	841	167	0	0
Transferred income from the previous year	201	201	0	0	0
EXPENDITURES	20,521	20,669	22,940	24,697	25.889
Pensions	17,730	17,756	19,774	21,278	22.255
Regular pensions	16,912	16,977	18,948	19,041	19.982
War veteran pensions	464	458	505	514	518
Agricultural pensions	354	321	321	297	262
Retroactive payment of 8%	0	0	0	1,167	1.136
Early retirement by the Law from year 2000	0	0	0	112	103
Early retirement by the Law from year 2001	0	0	0	148	254
Compensation for body injury	63	69	72	72	83
Compensation for disability insurance	98	95	94	91	76
Employment and accomodations for disabled children	15	13	12	7	9
Health care contribution	2,321	2,450	2,672	2,805	2.934
Compensation for administration	133	132	141	153	165
Other expenditures	161	154	175	254	222
Capital expenditures	-	-	-	37	145
BALANCE					
Deficit / Surplus	196	560	-57	-408	-78

Source: Internal data of the Ministry of Finance.

HEALTH INSURANCE FUND

The overall revenues of the Health Fund for 2002 amounted to denar 13,656 million, which is an increase of 11.1% compared with the total revenues realized in 2002. The total revenues in 2002 were composed of the regular revenues that participated with 64.6%, and the transfers from the Pension and Disability Insurance Fund and the Employment Bureau that participated with 35.4%. Such a structure of the total revenues realized in 2002 is in line with the structure of the revenues of the Health Insurance Fund realized in the several previous years.

The contributions of the Pension and Disability Insurance Fund in 2001 participated with 62.9% in the total transfers, which is by 0.2 percentage points lower than the participation in 2000. The majority of the contributions of the Pension and Disability Insurance Fund or 98.5% are the regular contributions, and the remaining part of the contributions is connected with the public administration reform. Within the contributions of the Employment Bureau, the greatest is the participation of the regular contributions (94.9%), followed by the contributions paid for the purpose of the 25 loss-makers and the FESAL II arrangement.

The expenditures of the Health Insurance Fund in 2002, reached a level of denar 13,611 million, which is an increase of 11.5% compared with the last year. Such an increase is a result of the increase of the out-patient units' expenditures that in 2002, reached a level of denar 4,430 million, which is an increase of as much as 76.8% compared with the last year, as well as a result of the expenditures for equipment and maintenance that are higher by denar 612 million this year. There is also an increase of the expenditures for treatments abroad, orthopedic costs and the costs for credits and interests.

The greatest participation in the structure of the Fund expenditures have again the expenditures for hospital treatment that account for 36.2% of the total expenditures, which is by 12.3 percentage points lower in comparison with 2001.

In 2002, the Health Insurance Fund realized a surplus of denar 45 million, which is 50% less in comparison with the previous year.

HEALTH INSURANCE FUND

(in millions of denars)

Types of revenues / expenditures	1998	1999	2000	2001	2002
	Actual	Actual	Actual	Actual	Actual
REVENUES	11,087	12,068	12,790	12,295	13,656
Contributions	6,7736	7,363	7,745	7,528	7,823
Contributions from the Pension Fund	2,309	2,417	2,649	2,616	3,075
Contributions from the Employment Fund	1,037	1,350	1,941	1,554	1,763
Contributions from the Ministry of Labour	45	0	0	48	54
Other revenues	851	938	455	70	734
Revenues on the basis of contracts for health insurance cards	109	0	0	0	0
Transfer from the Central budget for mandatory health insurance	-	-	-	166	111
Surplus from last year	-	-	-	313	96
EXPENDITURES	13,689	11,692	12,463	12,205	13,611
Outpatient expenditures	5,303	2,491	2,486	2,505	4,430
Hospital treatment	4,702	5,482	5,737	5,919	4,929
Costs for programs	214	125	105	306	123
Medicines	1,214	1,249	1,681	1,555	1,305
Dental care	638	667	687	522	521
Orthopedic expenses	208	154	143	111	134
Medical treatment abroad	290	161	70	90	144
Other treatment (contributions)	719	801	694	769	832
Administration	326	288	250	268	360
Equipment and maintenance	36	39	90	44	656
Other expenditures	41	234	200	48	23
Repayment of principal and interest payments	0	0	321	71	154
BALANCE					
Deficit / Surplus	-2,602	376	326	90	45

Source: Internal data of the Ministry of Finance.

EMPLOYMENT BUREAU OF THE REPUBLIC OF MACEDONIA

The revenues realized by the Employment Bureau in 2002 amounted to denar 5,918 million, which is 22.6% more compared to the revenues realized in 2001. The increase in the revenues is due to the higher transfers from the Budget of the Republic of Macedonia that were reduced during the last year due to the current situation in the country and the delay of the structural reforms. The increase in the number of the unemployed persons as a result of the structural reforms and the public administration reform was at a lower level than it was anticipated, thus a lower amount of funds was transferred from the Budget to the Employment Bureau. The greatest part of the total revenues are the transfers from the Budget (79.9%), which is an increase of 3.7 percentage points compared with 2001, whereas the source revenues participate with 19.9% in the total revenues.

The total expenditures of the Employment Bureau of the Republic of Macedonia in 2002 amounted to denar

5,868 million, which is by 23.6% more compared with the revenues realized in 2001. If a break down is made, the payment of the pecuniary allowance participates in the total expenditures with 38.7% and is increased by 21% compared with the previous year, while the participation of the transfers to the Pension and Disability Insurance Fund is 24.8%. The increase of these transfers by 3.7 percentage points compared with the last year is a result of the increased number of unemployed persons due to the structural reforms that were implemented. The health insurance expenditures in 2002, that account for 30% of the total expenditures of the Bureau, were increased by 13.4% compared with 2001.

The financial result of the Employment Bureau in 2002 was a positive one, amounting to denar 50 million.

EMPLOYMENT FUND

(In millions of denars)

Types of revenues / expenditures	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual
REVENUES	4,260	4,129	5,119	4,827	5,918
Revenues from contributions	990	1,058	1,121	1,136	1,180
Contributions from wages	969	1,037	1,098	1,113	1,178
Contributions from self-employed	22	21	22	23	2
Contributions from the people who work abroad	0	0	0	0	4,726
Revenues from the Central budget	3,261	3,066	3,990	3,677	3,742
Deficit financing transfers from Central Budget	2,737	2,575	3,470	3,170	944
For paying allowances to the employees of the loss-making enterprises	524	490	516	481	21
Public administration reforms	–	–	–	26	12
Other	0	0	3	26	
Other revenues	9	6	8	13	5,868
EXPENDITURES	4,264	4,135	5,110	4,749	5,658
Expenditures for the functions	4,084	3,970	4,913	4,571	2,273
Unemployment benefits	2,073	1,755	1,875	1,879	1,763
Contributions for health insurance	1,039	1,347	1,936	1,555	1,453
Contributions for pension and disability insurance	972	868	1,102	1,138	128
Средства за вработување на инвалидни лица	–	–	–	–	41
Надоместок за преквалификација	–	–	–	–	210
Expenditures for the personnel	180	165	198	178	124
Wages and salaries	99	105	118	116	22
Allowances	14	17	19	18	42
Goods and other services	43	34	54	43	0
Current transfers	0	0	0	0	0
Interest payments	0	0	1	0	22
Capital expenditures	24	8	6	2	
BALANCE					
Deficit / Surplus	–4	–6	9	78	50

Source: Internal data of the Ministry of Finance.

NATIONAL AND REGIONAL ROAD FUND

The revenues of the National and Regional Road Fund for 2002 amounted to denar 3,434 million, which is by 14.4% less in comparison with the previous year. Greatest participation in the structure of the total revenues have the transfers from the budget (38%) that are reduced by 21.1% compared with 2001. The source revenues of the Fund amount to denar 1,231 million, or 35.8% of the total revenues, which is by 6.6 percentage points more compared with the previous year. The increase of the collected source revenues in 2001 is due to the higher revenues from the fee for usage of the highways and the fee for registration of cars. The total amount of the grants received in 2002 was denar 36 million.

Simultaneously, the total expenditures of the National and Regional Road Fund in 2002 were reduced by almost the same amount, reaching a level of denar 3,420

million. The capital expenditures form the greatest part of the expenditures (36.5% of the total expenditures), that are simultaneously reduced by 28.8% compared with the previous year, as a result of the failure to realize the planned intensification of the Fund investment activity in 2002. Thus, the disbursement of funds for investments from the foreign credits amounted to denar 862 million, as opposed to the planned denar 1,050 million. The expenditures for road maintenance amounted to denar 900 million (mild decrease compared with 2001), or 26.3% of the total Fund expenditures, whereas the funds for local roads participated with 15.4% of the expenditures realized in 2002.

On the basis of such dynamics, at the end of 2002, the National and Regional Road Fund realized a surplus of denar 14 million.

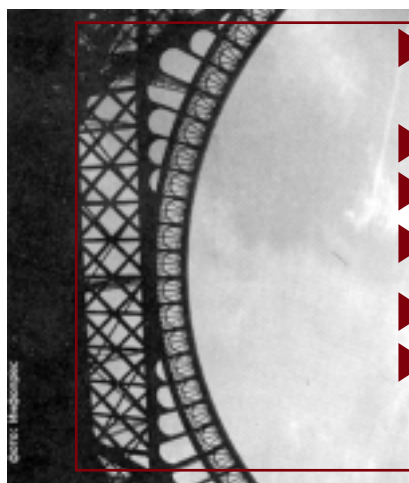
ROAD FUND

(In millions of denars)

Types of revenues / expenditures	1998	1999	2000	2001	2002
	Actual	Actual	Actual	Actual	Actual
REVENUES	2,660	3,793	3,506	4,012	3,434
Revenues from the Central Budget	668	924	1,590	1,655	1,305
Paytoll by foreign motor vehicles	49	54	82	73	87
Annual fee for motor vehicles subject to registration	524	518	746	704	381
Paytoll for use of motorway	468	492	537	375	862
Foreign loans	939	1,793	538	1,098	2
Other revenues	12	13	14	21	36
Grants	-	-	-	87	
EXPENDITURES	2,660	3,793	3,506	4,013	3,420
Investments	1,203	1,985	1,662	1,756	1,250
Expenditures for studies, projections, supervision, fees and material costs	0	0	179	286	900
Road maintenance	784	790	952	926	304
Investment maintenance	264	148	212	299	528
Funds for local roads	321	386	502	596	0
Other expenditures	89	142	0	0	0
Liabilities from the previous year	0	342	0	0	149
Liabilities towards the Bank Rehabilitation Agency	0	0	0	150	
DIFFERENCE					
Deficit / Surplus	0	0	0	-1	14

Source: Internal data of the Ministry of Finance.

MACEDONIAN LONG-TERM SECURITIES STOCK EXCHANGE NOVEMBER 2002



▶ **Macedonian Stock Exchange Index increased by 13% and reached 1,055.65, mainly due to the increase of price of the shares of Alkaloid AD Skopje and Makpetrol AD Skopje.**

▶ **Listing of shares of Alkaloid AD Skopje on the official market.**

▶ **Total turnover declined by 60%.**

▶ **Average price of government bonds for frozen foreign exchange deposits increased by 3 percentage points, thus reaching 63.5%.**

▶ **Turnover with convertible bonds significantly declined (by 23 times).**

▶ **Sale of government residual shares significantly decreased (only 1 package of residual shares for non-cash payment was sold in the amount of 69,800 denars)**

Activities being undertaken regarding the merger of the stock exchanges in the region will enable direct trading by companies listed at all bourses in the region, more intensive competition among brokers, higher transparency and awareness of the joint-stock companies, increase of the supply of securities, i.e. attraction of foreign investors.

Regarding the initiated project for merger of the stock exchanges in the region, the Macedonian Long-Term Securities Stock Exchange currently has IT connection with the Ljubljana Stock Exchange, while by the end of 2003, full merger of these two stock exchanges is planned.

Basic intention is full IT connection of the stock exchanges in Skopje, Belgrade, Ljubljana and Zagreb by the end of 2003. Regarding the Athens Stock Exchange, there are ongoing activities for dual listing of securities.

As of December 2002, the number of companies the shares of which are listed at the official market of the Macedonian Long-Term Securities Stock Exchange significantly increased (total 45 companies). In January 2003, their number increased to 91 companies. These figures show the increasing supply of securities and evident development of the Macedonian Stock Exchange, which among others, will contribute to attracting foreign investors as a result of the greater transparency and merger with the stock exchanges in the region.

Stock Exchange indicators - November 2002

In November 2002, the turnover on the Macedonian Long-Term Securities Stock Exchange decreased by 60% in relation to the previous month and amounted to 106,656,049 denars. On the basis of the total turnover, the average daily turnover also decreased, whereby it amounted to 6,666,003 denars.

Stock Exchange Indicators - November 2002

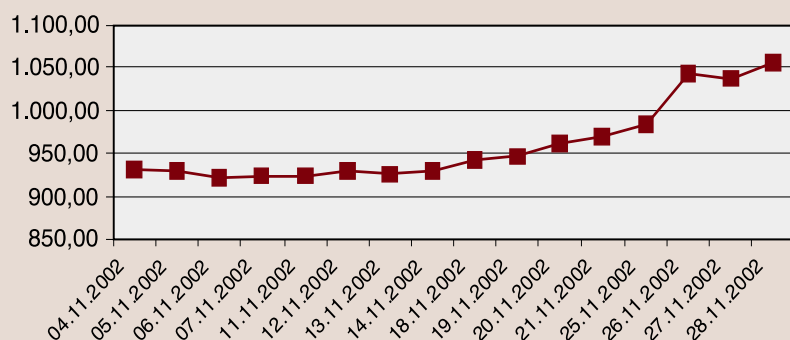
	October 2002	November 2002
□ Total turnover in denars:	257.832.572	106.656.049
□ Total turnover in shares:	226.496	92.370
□ Total turnover with bonds in Euros:	1.972.966	1.257.977
□ Total number in convertible certificates (in denars)	111.731.519	566.377
□ Total number of transactions:	1.604	991
□ Total number of trading days:	19	16
□ State segment - cash (in denars)	44.759	69.804
□ State segment - non-cash payment (in denars)	94.230.949	-
□ Block transactions (in denars)	65.246.190	210.942.698
➤ Average daily turnover (in denars)	13.570.135	6.666.003
➤ Average number of trades per day	84	62
➤ Average value of one transaction (in denars):	160.743	107.624
MSEI	927,15	930,87
MSEI	931,55	1.055,65

The total turnover of bonds in this month amounted to 1,257,977 euros, whereby the average price of government bonds for the "old" foreign currency saving grew by 63.5%. The turnover of convertible bonds also decreased significantly (by 23 times).

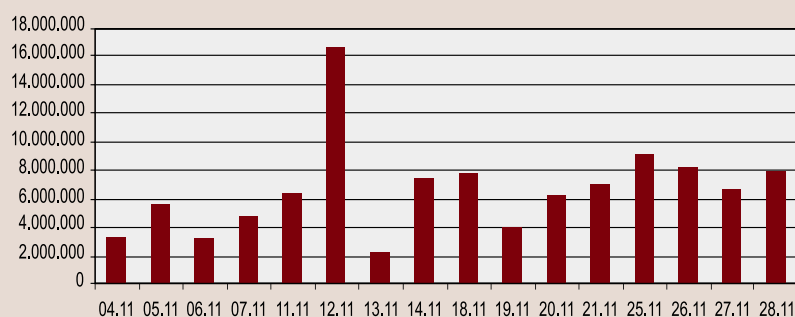
The share price movement indicator, the official stock exchange index (MSEI) increased by 13% in comparison to the previous month and reached an amount of 1,055.65, above all, due to price increase of the shares of Alkaloid AD Skopje and Makpetrol AD Skopje.

This month as well, highest turnover was realized on the unofficial stock exchange market in the amount of 64,014,801 denars, which is 66.10% of the total turnover. On the other hand, turnover in the amount of 646,780 denar was realized at the official market of the Stock Exchange, which is 33.9% of the total turnover on the Stock Exchange.

Movement of the Macedonian Stock Exchange Index - MSEI



Daily turnover in September 2002 (in denars)



In November 2002, the sale of government residual shares decreased significantly, i.e. only 1 package of residual shares for non-cash payment, in the amount of 69,800 denars was sold.

Total of 16 block transactions in the amount of 210,942,698 denars were realized in the analyzed period, whereby most notable is the trading with shares of Sugar Factory "4-ti Noemvri" AD Bitola.

In November 2002, the bonds issued by the Republic of Macedonia and the ordinary shares of Toplifikacija AD Skopje and Alkaloid AD Skopje were most often traded at the stock exchange. The price of ordinary shares of Alkaloid reached the highest value in 2002, whereby one ordinary share of Alkaloid AD Skopje was sold at the price of 2,000 denars.

SUMMARY OF EXECUTED BLOCK TRADES

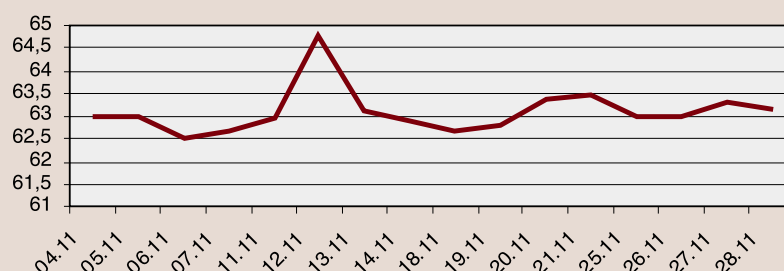
Name of the issuer	Date of transactions	Nominal value	Price per share (in denars)	% of outstanding shares	Turnover shares	Turnover (denars)
TD za Osiguruvawe Makosped Osig. Skopje	04.11.2002	1.000 DEM	31.061	10,33	155	4.814.455
F-ka za secer 4-ti Noemvri AD Bitola	04.11.2002	100 DEM	2.135	4,91	3.509	7.491.715
F-ka za secer 4-ti Noemvri AD Bitola	06.11.2002	100 DEM	2.135	4,61	3.294	7.032.690
Dijos AD Strumica	07.11.2002	10 DEM	51,68	55,00	52.254	2.700.487
F-ka za secer 4-ti Noemvri AD Bitola	12.11.2002	100 DEM	4.495	2,80	2.000	8.990.000
F-ka za secer 4-ti Noemvri AD Bitola	13.11.2002	100 DEM	3.050	10,22	7.306	22.283.300
F-ka za secer 4-ti Noemvri AD Bitola	14.11.2002	100 DEM	4.495	2,80	2.000	8.990.000
F-ka za secer 4-ti Noemvri AD Bitola	14.11.2002	100 DEM	4.495	4,89	3.500	15.732.500
F-ka za secer 4-ti Noemvri AD Bitola	14.11.2002	100 DEM	4.495	10,49	4.495	33.712.500
Dimce Banjarot AD Prilep	26.11.2002	10 DEM	1.517	21,49	1.680	2.548.560
Nama AD Kumanovo	27.11.2002	240 DEM	5.600	23,63	4.432	24.819.200
Nama AD Kumanovo	27.11.2002	240 DEM	5.600	23,63	4.432	24.819.200
Nama AD Kumanovo	27.11.2002	240 DEM	5.600	23,08	4.329	24.242.400
F-ka za secer 4-ti Noemvri AD Bitola	27.11.2002	100 DEM	3.233	2,16	1.547	5.001.451
F-ka za secer 4-ti Noemvri AD Bitola	27.11.2002	100 DEM	4.495	1,56	1.120	5.034.400
F-ka za secer 4-ti Noemvri AD Bitola	28.11.2002	100 DEM	4.495	3,96	2.832	12.729.840
TOTAL					98.885	210.942.698

MOVEMENT OF PRICES OF MOST LIQUID LISTED SECURITIES IN NOVEMBER 2002

Republic of Macedonia - FEED

Number of trading days	16
High	65%
Low	61%
Initial	62,1%
Last	63,2%
Number of transactions	485
Turnover /denars/	47.958.056
Turnover /EMU/	1.237.993

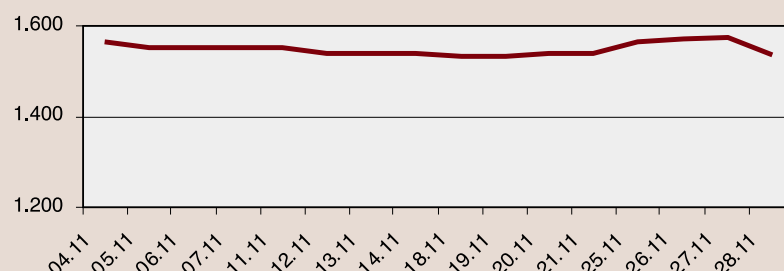
Republic of Macedonia - FEED



Toplifikacija AD Skopje

Number of trading days	11
High	1.580
Low	1.530
Initial	1.580
Last	1.531
Number of transactions	34
Turnover /denars/	4.552.890
Turnover /shares/	2.940

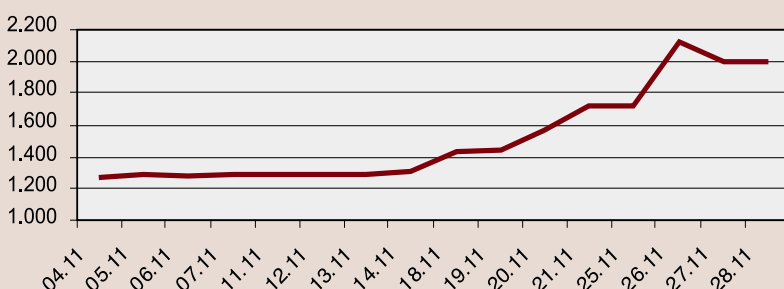
Prices of common shares of Toplifikacija AD Skopje



Alkaloid AD Skopje

Number of trading days	7
High	2.500
Low	1.300
Initial	1.300
Last	2.000
Number of transactions	63
Turnover /denars/	10.765.470
Turnover /shares/	6.027

Alkaloid A.D. Skopje - common shares



REALIZED TURNOVER ON THE MACEDONIAN STOCK EXCHANGE AD SKOPJE

November 2002

Turnover in denars

Member	Classical trade	% of classical trade	State-owned	% of State-owned	Block	% of Blocks	Total
BB	5.974.033	2,80	0	0,00	184.902.885	43,82	190.876.918
MI	59.079.725	27,69	69.804	50,00	83.509.710	19,79	142.659.239
KB	46.707.551	21,89	0	0,00	79.592.000	18,86	126.299.551
BD	26.375.764	12,36	0	0,00	73.880.800	17,51	100.256.564
MK	33.712.505	15,80	0	0,00	0	0,00	33.712.505
TN	24.090.595	11,29	0	0,00	0	0,00	24.090.595
SB	13.149.975	6,16	69.804	50,00	0	0,00	13.219.779
BL	3.492.503	1,63	0	0,00	0	0,00	3.492.503
PT	729.447	0,34	0	0,00	0	0,00	729.447

Number of Transactions

Member	Classical trade	% of classical trade	State-owned	% of State-owned	Block	% of Blocks	Total
KB	441	22,25	0	0,00	10	31,25	451
MI	431	21,75	1	50	5	15,63	437
MK	313	15,79	0	0,00	0	0,00	313
TN	281	14,18	0	0,00	0	0,00	281
SB	211	10,65	1	50	0	0,00	212
BD	167	8,43	0	0,00	3	9,38	170
BB	92	4,64	0	0,00	14	43,75	106
BL	39	1,97	0	0,00	0	0,00	39
PT	7	0,35	0	0,00	0	0,00	7

LEGEND

BD - BRO - DIL AD Skopje

SB - Broker - SB AD Skopje

MI - Makos - Invest Broker AD Skopje

TN - Tutunskabroker AD Skopje

KB - KB - Broker AD Skopje

FR - FERSPED - BROKER AD Skopje

MK - MAK Broker AD Skopje

BB - Bitola Broker AD Bitola

BL - Balkanska Banka AD Skopje

PT - Postel Broker AD Skopje

EI - Eksport Import Banka AD Skopje

Turnover by markets in November 2002

Market segment	Turnover in denars	%	Turnover in securities	%
FIRST MARKET	64.014.801	60,02	1.266.944	66,10
THIRD MARKET	42.641.248	39,98	649.780	33,90
TOTAL ALL MARKETS	106.656.049	100,00	1.916.724	100,00

State segment - noncash payment

Name of the issuer	Date of transaction	Nominal value	Price per share	Turnover (shares)	Turnover (denars)	% from nominal. value
Makpetrol TEAS Skopje	07.11.2002	10 DEM	63	1.108	69.804	20,00
TOTAL				1.108	69.804	

MACEDONIAN STOCK EXCHANGE - SKOPJE

Report on Trading 1.11.2002 - 30.11.2002

Description of the security	Nominal value	The highest price	The lowest price	Initial price	Last price	Number of transaction	Value	Quantity	No. of days for trading
OFFICIAL MARKET									
First market - Common stock									
Alkaloid Skopje	25,56 EUR	2.500	1.300	1.300	2.000	63	10.765.470	6.027	7
Toplifikacija Skopje	100 DEM	1.580	1.530	1.580	1.531	34	4.552.890	2.940	11
First market - bonds									
R. Macedonia - foreign exchange deposit		65	61	62,1	63,2	485	47.958.056	1.237.993	16
R.Macedonia - denationalization 01		63,5	59	60	59	7	738.384	19.984	3
TOTAL - OFFICIAL MARKET						589	64.014.801	1.266.944	
Non - official market									
Third market - ordinary shares									
29 Noemvri Skopje	460 DEM	2.000	2.000	2.000	2.000	4	76.000	38	3
Agroservis Skopje	2905 DEN	550	550	550	550	1	58.300	106	1
Algreta Resen	100 DEM	1.200	1.200	1.200	1.200	2	91.200	76	1
Alkaloid Skopje	25,56 EUR	1.301	1.240	1.240	1.300	43	4.159.275	3.216	7
Angropromet-Tikvesanka Kavadarci	100 DEM	3.001	3.001	3.001	3.001	2	438.146	146	2
Rudnici Bawani Skopje	50 DEM	620	620	620	620	2	68.200	110	2
Blagoj Gjorev Veles	50 DEM	393	388	388	393	3	861.718	2.207	3
Zivin. farma Belimbegovo Skopje	10 DEM	47	47	47	47	1	18.800	400	1
Beton Skopje	500 DEM	1.500	1.500	1.500	1.500	13	279.000	186	7
BIM Sveti Nikole	200 DEM	3.100	3.100	3.100	3.100	3	167.400	54	1
Vardar osiguruvanje Skopje	100 DEM	1.500	1.500	1.500	1.500	1	3.000	2	1
Veteks Veles	100 DEM	2.170	2.170	2.170	2.170	1	58.590	27	1
Gevgelija Turist Gevgelija	10 DEM	156	156	156	156	5	231.660	1.485	1
Granit Skopje	10 DEM	80	70	70	70	24	392.440	5.563	8
Dajmon MD Kavadarci	100 DEM	312	312	312	312	1	349.752	1.121	1
Metalec Bitola	100 DEM	1.500	1.500	1.500	1.500	14	223.500	149	6
Evropa Skopje	100 DEM	1.095	1.005	1.005	1.094	7	534.492	506	5
EMO Ohrid	60 DEM	400	380	380	380	8	1.655.680	4.357	6
Zito Luks Skopje	100 DEM	599	599	599	599	1	29.950	50	1
Zito Skopje Skopje	100 DEM	750	750	750	750	10	2.200.500	2.934	6
Zito Strumica Strumica	100 DEM	1.000	1.000	1.000	1.000	1	745.000	745	1
Zemjod. komb. Pelagonija Bitola	100 DEM	450	305	305	305	3	990.480	3.247	2
F-ka za sv. plat. Ilinden Bitola	100 DEM	620	620	620	620	2	17.360	28	1
Ineks Gorica Ohrid	100 DEM	1.600	1.600	1.600	1.600	1	1.068.800	668	1
Javorsped Bitola	10 DEM	309	309	309	309	2	6.798	22	1
Jaka tabak Radovis	100 DEM	1.099	1.099	1.099	1.099	2	219.800	200	2
Jugotutun Skopje	153,27 DEM	2.100	2.000	2.000	2.100	3	60.100	29	2
Komercijalna banka Skopje	5000 DEN	1.740	1.500	1.740	1.700	6	772.550	456	4
Javor Stokovna kucja Korzo Bitola	10 DEM	310	300	310	310	33	1.996.397	6.455	3
Kraiste -Tikves Kavadarci	100 DEM	200	200	200	200	6	322.800	1.614	2
Kultura Kavadarci	10 DEM	10	10	10	10	1	55.010	5.501	1
Lotarija na Makedonija Skopje	100 DEM	176	175	176	175	2	105.500	600	1
Lihnida Ohrid	20 DEM	63	63	63	63	4	33.390	530	1
Makedonija Gostivar	100 DEM	2.500	2.200	2.200	2.500	4	3.384.620	1.531	2
Makosped Skopje	1000 DEN	100	100	100	100	1	300.000	3.000	1
Mlaz Bogdanci	45.06 DEM	500	500	500	500	3	644.500	1.289	3
Makpetrol Skopje	1000 DEM	10.850	9.100	9.200	10.523	67	5.287.238	557	16
Makedonija Turist Skopje	50 DEM	800	700	795	800	12	982.600	1.283	5
Makedonska [tedilnica	2653 DEN	3.200	3.200	3.200	3.200	1	640.000	200	1
OKTA Skopje	100 DEM	500	500	500	500	1	10.000	20	1
Pelagonija komerc Bitola	100 DEM	630	630	630	630	6	68.670	109	3
Mebel Stip	5 DEM	10	10	10	10	1	73.230	7.323	1
PKB Skopje Skopje	90 DEM	100	100	100	100	1	362.000	3.620	1
Prilepska Pivarnica Prilep	250 DEM	5.900	3.500	3.500	5.900	2	933.000	198	2
Pelagonija Trans Prilep	100 DEM	1.500	1.500	1.500	1.500	1	22.500	15	1
Rade Koncar Skopje	25 EUR	160	160	160	160	1	10.560	66	1
Replek Makedonija Skopje	1100 DEM	13.001	13.001	13.001	13.001	1	13.001	1	1
RZ Ekonomika Skopje	10 DEM	50	50	50	50	2	2.200	44	2
Rudnik Demir Hisar s. Sopotnica	10 DEM	250	250	250	250	1	52.750	211	1
Stopanska banka Bitola	3000 DEN	3.000	3.000	3.000	3.000	1	42.000	14	1
Sileks Kratovo	85 DEM	70	62	62	70	3	44.920	668	2
Slovin Jugokokta Skopje	10 DEM	88	88	88	88	1	71.632	814	1
Skopski Pazar Skopje	100 DEM	2.202	2.011	2.200	2.202	5	374.880	185	4
Sigurnosno staklo Prilep	100 DEM	900	900	900	900	22	1.283.400	1.426	2
Tabak osigur. i reosigur. Skopje	1000 DEM	35.000	30.511	30.511	35.000	2	3.340.149	103	1
Teteks Tetovo	100 DEM	310	310	310	310	2	2.678.090	8.639	2
Tehnometal Vardar Skopje	100 DEM	600	500	500	600	10	125.200	210	6
Tutunski kombinat Prilep	100 DEM	300	300	300	300	2	12.000	40	1
Transkop-Patnicki soob. Bitola	100 DEM	600	600	600	600	4	130.200	217	1
Fotocentar Skopje	456.6 DEM	1.000	1.000	1.000	1.000	1	548.000	548	1
F-ka za secer 4ti Noemvri Bitola	100 DEM	4.750	4.402	4.402	4.402	9	1.330.100	302	3
Agrohemizacija Skopje	10 DEM	100	100	100	100	1	691.900	6.919	1
Crvena Zvezda Pehcevo	267 DEM	1.000	800	1.000	800	2	34.000	37	2
Crven trendafil Skopje	32 DEM	320	320	320	320	3	122.240	382	2
Third market - Preferred stock									
Komercijalna banka Skopje	1000 DEN	890	800	840	820	11	456.429	556	7
Tutunska banka Skopje	1000 DEN	1.800	1.600	1.600	1.800	2	80.000	48	2
TOTAL NON-OFFICIAL MARKET						398	42.443.597	83.403	
OTHER SECURITIES									
Government securities									
Convertible certificates	1 Denar	39,8	33	39,8	33	4	197.651	566.377	3
Total non-official market						4	197.651	566.377	
TOTAL ALL MARKET						991	106.656.049		

MACEDONIAN LONG -TERM SECURITIES STOCK EXCHANGE DECEMBER 2002



- ▶ Trading with 45 listed companies started at the official stock exchange market.
- ▶ Market capitalization of listed companies reached EUR 172 million
- ▶ Macedonian Stock Exchange Index increased by 5,5%, thus reaching 1,094.75
- ▶ Total turnover increased by 21%
- ▶ Average price of government bonds for frozen foreign exchange deposits reaching 60.7% (0,2% higher compared to the previous month)
- ▶ Average price of convertible certificates amounted to 31.7% (3% lower than the previous month)
- ▶ Not a single government-owned package of residual shares was sold.

Activities being undertaken regarding the merger of the stock exchanges in the region will enable direct trading by companies listed at all bourses in the region, more intensive competition among brokers, higher transparency and awareness of the joint-stock companies, increase of the supply of securities, i.e. attraction of foreign investors.

Regarding the initiated project for merger of the stock exchanges in the region, the Macedonian Long-Term Securities Stock Exchange currently has IT connection with the Ljubljana Stock Exchange, while by the end of 2003, full merger of these two stock exchanges is planned.

Basic intention is full IT connection of the stock exchanges in Skopje, Belgrade, Ljubljana and Zagreb by the end of 2003. Regarding the Athens Stock Exchange, there are ongoing activities for dual listing of securities.

As of December 2002, the number of companies the shares of which are listed at the official market of the Macedonian Long-Term Securities Stock Exchange significantly increased (total 45 companies). In January 2003, their number increased to 91 companies. These figures show the increasing supply of securities and evident development of the Macedonian Stock Exchange, which among others, will contribute to attracting foreign investors as a result of the greater transparency and merger with the stock exchanges in the region.

Stock Exchange Indicators - december 2002

	November 2002	December 2002
□ Total turnover in denars:	106.656.049	128.789.157
□ Total turnover in shares:	92.370	112.580
□ Total turnover with bonds in Euros:	1.257.977	905.720
□ Total number of transactions:	566.377	4.137.573
□ Total number of trading days:		
□ State segment - cash (in denars)	991	1.152
□ State segment - non-cash payment (in denars)	16	18
□ Block transactions (in denars)	210.942.698	660.444.163
➤ Average daily turnover (in denars)	6.666.003	7.154.953
➤ Average daily number of transactions:	62	64
➤ Average value of a single transaction (in denars):	107.624	111.796
MSEI	930,87	1.037,46
MSEI	1.055,65	1.094,75

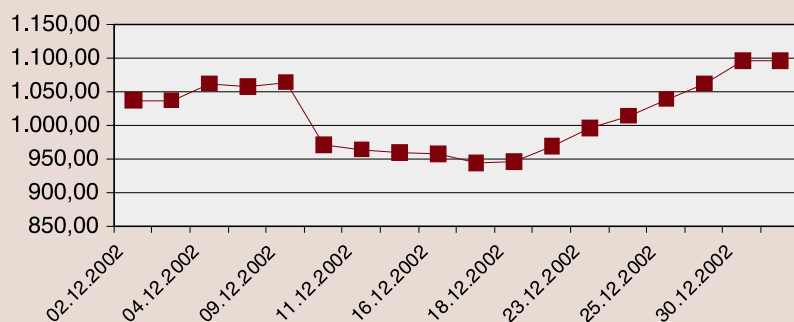
Stock Exchange Indicators - December 2002

This month is characterized by the fact that the Macedonian Long-Term Securities Stock Exchange started trading with shares of 45 newly listed companies, thus increasing the supply of ordinary shares. Newly developed condition will probably contribute to the increased trading intensity on the Macedonian Stock Exchange.

Market capitalization of the listed companies reached 172 million euros.

In December 2002, the stock exchange index (MSEI), as indicator of the share price movement, increased by 5.5% and reached an amount of 1,094.75 denars.

Movement of the Macedonian Stock Exchange Index



At the same time, the total turnover on the Macedonian Long-Term Securities Stock Exchange increased by 21% in relation to November the previous year and reached an amount of 128,789,157 denars.

The average price of the government bonds for old foreign currency saving in December amounted to 62.8% (0.7% lower compared to the previous month). The average price of government denationalization bonds amounted to 60.7% of the bond value, which is by 0.2% higher compared to the previous month.

The average price of the convertible certificates reached a level of 31.7% (decrease by 3% compared to the previous month).

In the last month of 2002, highest turnover was realized on the unofficial market in the amount of 4,237,834 denars, which is 82.2% of the total turnover. On the other hand, turnover of 918,039 denars, i.e. 17.8% of the total stock exchange turnover was realized on the official market of the stock exchange.

Total of 20 block transactions in the amount of 660,444,163 denars were realized in December, whereby most notable is the trading with shares of Pivara Skopje and Cementarnica USJE AD Skopje.

In this month, the ordinary shares of Toplifikacija AD Skopje, Makpetrol AD Skopje and Alkaloid AD Skopje were most often traded at the stock exchange, whereby the price of Alkaloid shares decreased in relation to the previous month and the highest price amounted to 1,670 denars.

SUMMARY OF EXECUTED BLOCK TRADES

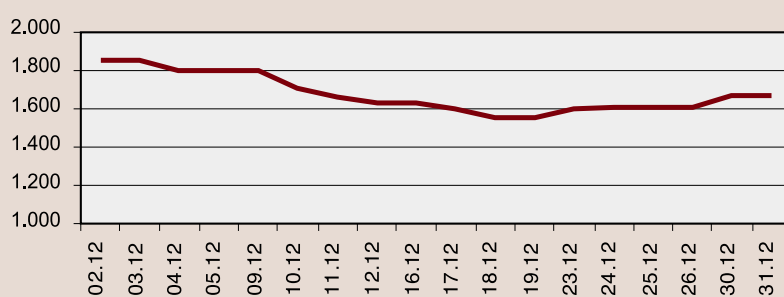
Name of the issuer	Date of transactions	Nominal value	Price per share (in denars)	% of outstanding shares	Turnover shares	Turnover (denars)
Ograzden Berovo	03.12.2002	100 DEM	551	74,45	24.778	13.652.678
Zito Luks Skopje	09.12.2002	70 DEM	620	1,52	12.500	7.750.000
Cementarnica USJE Skopje	09.12.2002	100 DEM	3.105	10,00	56.378	175.053.690
Polet Skopje	12.12.2002	50 DEM	3.220	87,85	2.046	6.588.120
Tabak Osig. i Reosig. Skopje	12.12.2002	500 EUR	32.000	8,09	448	14.336.000
Replek Skopje	12.12.2002	1.100 DEM	15.000	6,68	1.140	17.100.000
Investbanka Skopje	16.12.2002	2.670 DEN	2.600	3,36	6.110	15.886.000
Blagoj Gjorev Veles	17.12.2002	25,56 EUR	311	3,16	16.353	5.085.783
Zito Leb Ohrid	18.12.2002	51,3 EUR	3.119	50,32	7.877	24.568.363
Mesna industrija Sveti Nikole	18.12.2002	63 DEM	1.550	5,99	3.230	5.006.500
Zito Leb Ohrid	18.12.2002	51,13 EUR	3.119	48,98	7.667	23.913.373
Skopska Pivara Skopje	23.12.2002	361,17 USD	35.143	0,65	1.172	41.187.596
Skopska Pivara Skopje	23.12.2002	361,17 USD	35.143	2,69	4.847	170.338.121
Skopska Pivara Skopje	23.12.2002	361,17 USD	35.143	0,93	1.681	59.075.383
Internesenal Hotels Skopje	23.12.2002	1 EUR	62	30,17	160.080	9.924.960
F-ka za secer 4-ti Noem. AD Bitola	24.12.2002	100 DEM	4.495	2,07	1.484	6.670.580
Gradski Trgovski Centar Skopje	25.12.2002	50 EUR	2.415	0,28	5.100	12.316.500
F-ka za secer 4-ti Noem. AD Bitola	26.12.2002	100 DEM	3.237	21,31	15.239	49.328.643
Grad. institut Makedonija Skopje	26.12.2002	100 DEM	6.344	18,35	2.569	16.297.736
Komercijalna Banka Skopje	30.12.2002	5.000 DEN	2.500	1,08	4.373	10.932.500
TOTAL					327.195	660.444.163

MOVEMENT OF PRICES OF MOST LIQUID LISTED SECURITIES IN DECEMBER 2002

Alkaloid AD Skopje

Number of trading days	11
High	1.870
Low	1.555
Initial	1.850
Last	1.670
Number of transactions	31
Turnover /denars/	4.001.231
Turnover /EMU/	2.314

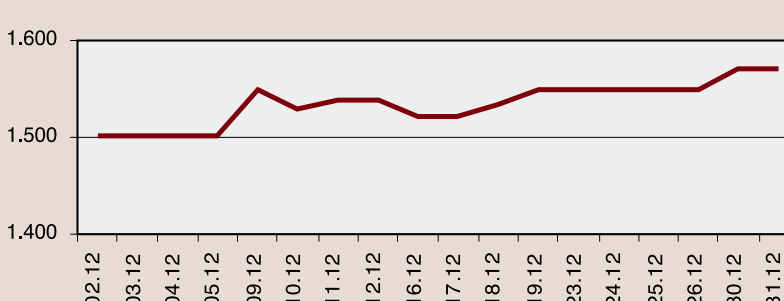
Alkaloid A.D. Skopje - common shares



Toplifikacija AD Skopje

Number of trading days	11
High	1.570
Low	1.500
Initial	1.530
Last	1.570
Number of transactions	35
Turnover /denars/	5.040.787
Turnover /shares/	3.281

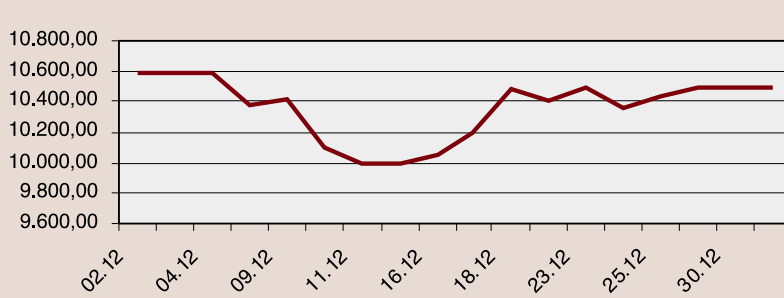
Toplifikacija AD Skopje - common shares



Makpterol AD Skopje

Number of trading days	14
High	10.690
Low	9.610
Initial	10.000
Last	10.500
Number of transactions	49
Turnover /denars/	7.265.280
Turnover /shares/	700

Makpterol AD Skopje - common shares



REALIZED TURNOVER ON THE MACEDONIAN STOCK EXCHANGE AD SKOPJE

December 2002 godina

Turnover in denars

Member	Clasical trade	% of clasical trade	State-owned	% of State-owned	Block	% of Blocks	Total
MI	40.170.167	15,6	0	0	639.769.672	48,43	679.939.839
KB	53.402.903	20,73	0	0	495.630.642	37,52	549.033.545
BB	2.058.182	0,8	0	0	111.998.446	8,48	114.056.628
TN	56.283.981	21,85	0	0	10.013.000	0,76	66.296.981
MK	47.628.046	18,49	0	0	0	0	47.628.046
BD	36.770.303	14,28	0	0	10.171.566	0,77	46.941.869
SB	13.332.033	5,18	0	0	24.633.000	1,86	37.965.033
BL	6.135.636	2,38	0	0	28.672.000	2,17	34.807.636
PT	1.780.563	0,69	0	0	0	0	1.780.563
SL	16.500	0,01	0	0	0	0	16.500

Number of Transactions

Member	Clasical trade	% of clasical trade	State-owned	% of State-owned	Block	% of Blocks	Total
KB	591	25,65	0	0	14	0	605
MI	408	17,71	0	0	12	0	420
MK	374	16,23	0	0	0	0	374
TN	334	14,5	0	0	2	0	336
BD	281	12,2	0	0	2	0	283
SB	184	7,99	0	0	2	0	186
BB	72	3,13	0	0	4	0	76
BL	48	2,08	0	0	2	0	50
PT	11	0,48	0	0	0	0	11
SL	1	0,04	0	0	0	0	1

LEGEND

BD - BRO - DIL AD Skopje

SB - Broker - SB AD Skopje

MI - Makos - Invest Broker AD Skopje

TN - Tutunskabroker AD Skopje

KB - KB - Broker AD Skopje

FR - FERSPED - BROKER AD Skopje

MK - MAK Broker AD Skopje

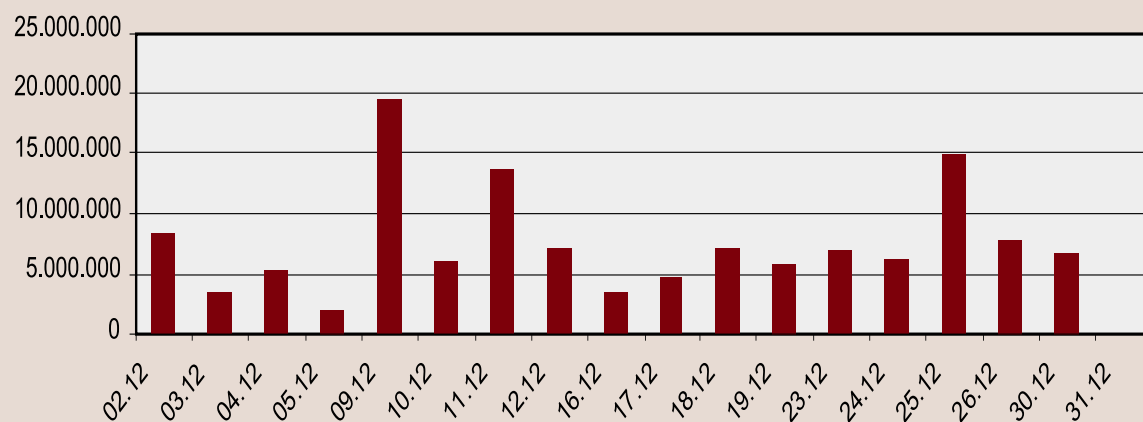
BB - Bitola Broker AD Bitola

BL - Balkanska Banka AD Skopje

PT - Postel Broker AD Skopje

EI - Eksport Import Banka AD Skopje

Daily turnover in December 2002 (in denars)



Turnover by markets in December 2002

Market segment	Turnover in denars	%	Turnover in securities	%
FIRST MARKET	55.117.324	42,80	918.039	17,81
THIRD MARKET	73.671.833	57,20	4.237.834	82,19
TOTAL ALL MARKETS	128.789.157	100,00	5.155.873	100,00

MACEDONIAN STOCK EXCHANGE - SKOPJE

Report on Trading 1.12.2002 - 31.12.2002

Description of the security	Nominal value	The highest price	The lowest price	Initial price	Last price	Number of transaction	Value	Quantity	No. of days for trading
OFFICIAL MARKET									
First market - Common stock									
Ading Skopje	51,13 EMU	4.150	4.150	4.150	4.150	1	83.000	20	1
Alkaloid Skopje	25,56 EMU	1.870	1.555	1.850	1.670	31	4.001.231	2.314	11
EMO Ohrid	60 DEM	381	380	380	381	3	529.729	1.392	3
Zito leb Ohrid	51,13 EMU	3.119	3.119	3.119	3.119	1	1.624.999	521	1
Investbanka Skopje	2670 DEN	630	630	630	630	4	45.360	72	1
Komercijalna banka Skopje	5000 DEN	1.750	1.105	1.105	1.750	15	1.260.655	775	6
Makpetrol Skopje	511,29 EMU	10.500	9.610	10.000	10.500	29	4.378.460	424	10
Makedonija Turist Skopje	25,56 EMU	1.200	900	1.200	900	23	3.028.166	3.131	3
Ohridska banka Ohrid	2650 DEN	1.500	1.360	1.500	1.360	2	139.620	97	2
Toplifikacija Skopje	100 DEM	1.570	1.500	1.530	1.570	35	5.040.787	3.281	11
Fustelarko Borec Bitola	100 DEM	500	500	500	500	2	12.500	25	1
First market - Common stock									
Investbanka Skopje	2670 DEN	1.100	1.100	1.100	1.100	1	1.100	1	1
Komercijalna banka Skopje	1000 DEN	860	850	860	850	7	226.800	266	5
First market - bonds									
R. Macedonia - foreign exchange deposit		64,8	61,8	63,6	62,1	507	34.195.367	890.890	17
R. Macedonia - denationalization 01		62,7	59	59	62,7	3	549.550	14.830	2
Total - official market						664	55.117.324	918.039	
Non - official market									
Third market - ordinary shares									
Pecatnica 11 Oktomvri Prilep	100 DEM	1.600	1.600	1.600	1.600	7	1.312.000	820	2
29 Noemvri Skopje	460 DEM	2.000	2.000	2.000	2.000	6	110.000	55	5
Ading Skopje	51,13 EMU	4.150	2.000	2.000	4.150	2	104.150	51	2
Algreta Resen	100 DEM	1.101	1.101	1.101	1.101	2	104.595	95	1
Angropromet-Tikvesanka Kavadarci	100 DEM	3.001	3.001	3.001	3.001	3	414.138	138	2
Blagoj Gjorev Veles	25,56 EMU	355	355	355	355	1	203.415	573	1
Beton Skopje	500 DEM	1.500	1.499	1.499	1.500	53	1.249.471	833	9
Brik Berovo	100 DEM	250	250	250	250	1	46.500	186	1
Vitaminka Prilep	51,13 EMU	2.000	2.000	2.000	2.000	8	1.050.000	525	2
Gevgelija Turist Gevgelija	10 DEM	156	156	156	156	3	290.316	1.861	1
Grad. institut Makedonija Skopje	100 DEM	7.500	7.500	7.500	7.500	1	630.000	84	1
Granit Skopje	10 DEM	81	70	70	81	35	618.428	8.590	12
Gradski Trgovski Centar Skopje	100 DEM	2.414	100	100	2.300	14	4.392.742	4.290	6
Evropa Skopje	100 DEM	1.355	1.162	1.250	1.355	12	1.009.428	788	6
EMO Ohrid	60 DEM	380	380	380	380	1	333.640	878	1
Celicen liv i granulat Zeleznik D. Hisar	100 DEM	620	620	620	620	1	218.860	353	1
Zito Luks Skopje	100 DEM	620	500	500	600	4	2.087.050	3.475	2
Zito Skopje Skopje	100 DEM	900	750	751	750	147	24.802.059	28.090	12
ZEM Promet Skopje	100 DEM	1.000	1.000	1.000	1.000	1	13.000	13	1
Zemjod. komb. Pelagonija Bitola	51,13 EMU	305	305	305	305	4	33.855	111	1
Ineks Gorica Ohrid	100 DEM	2.135	2.135	2.135	2.135	1	710.955	333	1
Internesenal Hotels AD Skopje	1 EMU	600	600	600	600	2	6.000	10	1
Jaka tabak Radovis	100 DEM	1.099	1.099	1.099	1.099	1	142.870	130	1
KJUBI Makedonija Skopje	100 DEM	255	255	255	255	1	187.935	737	1
Komercijalna banka Skopje	5000 DEN	1.701	1.100	1.700	1.100	9	2.731.460	2.306	2
Kraiste -Tikve(Kavadarci	100 DEM	200	200	200	200	3	299.400	1.497	1
Lozar-Pelisterka Skopje	100 DEM	3.260	3.260	3.260	3.260	1	136.920	42	1
Lozar -Sviwarska farma Veles	5 EMU	73	73	73	73	1	1.426.858	19.546	1
MZT Oprema za vozila Skopje	100 DEM	661	661	661	661	1	16.525	25	1
Makedonija Gostivar	100 DEM	2.305	2.200	2.200	2.305	6	885.600	393	2
Mlaz Bogdanci	35 EMU	500	500	500	500	2	132.000	264	1
Makpetrol Skopje	511,29 EMU	10.690	10.100	10.690	10.100	20	2.886.820	276	4
Makedonija staklo Bitola	200 DEM	1.780	1.780	1.780	1.780	2	1.498.760	842	2
Makedonija Turist Skopje	25,56 EMU	1.211	770	770	1.130	44	4.965.728	4.754	10
Makosped osiguruvawe Skopje	1000 DEM	31.050	31.050	31.050	31.050	2	1.863.000	60	1
Ocna optika Skopje	44 DEM	1.395	1.395	1.395	1.395	1	772.830	554	1
Pelagonija komerc Bitola	100 DEM	630	630	630	630	5	49.770	79	4
Rade Koncar Skopje	25 EMU	160	160	160	160	2	319.040	1.994	2
Radobank Skopje	10000 DEN	8.500	8.490	8.490	8.500	2	951.000	112	2
RZ Ekonomika Skopje	5,11 EMU	50	50	50	50	2	2.250	45	2
Sileks Kratovo	43,77 EMU	70	64	70	64	4	82.848	1.272	4
Slavej Skopje	100 DEM	1.900	1.900	1.900	1.900	1	286.900	151	1
Slovin Jugokokta Skopje	10 DEM	88	88	88	88	2	138.688	1.576	1
Skopski Pazar Skopje	100 DEM	2.700	2.500	2.500	2.700	2	327.000	130	2
Tajmiste Kicevo	100 DEM	1.550	1.550	1.550	1.550	3	153.450	99	2
Taqa Bikova Gevgelija	47 DEM	1.464	1.464	1.464	1.464	1	68.808	47	1
Tabak osigur. i reosigur. Skopje	1000 DEM	32.000	32.000	32.000	32.000	2	8.640.000	270	2
Teteks Tetovo	51,13 EMU	310	310	310	310	11	2.887.650	9.315	3
Tehnometal Vardar Skopje	100 DEM	600	600	600	600	10	111.600	186	7
Tutunski kombinat Prilep	51,13 EMU	300	300	300	300	3	29.400	98	2
Tutunska banka Skopje	1000 DEN	1.500	1.500	1.500	1.500	1	115.500	77	1
Trgotekstil Angro 6 Skopje	50 DEM	100	100	100	100	8	66.000	660	6
Treska 30 Avgust Vinica	100 DEM	150	150	150	150	2	9.000	60	1
Third market - Preferred stock									
Komercijalna banka Skopje	1000 DEN	830	800	800	830	4	371.420	453	3
Stopanska banka Skopje	400 DEN	249	249	249	249	1	7.470	30	1
Tutunska banka Skopje	1000 DEN	1.500	1.500	1.500	1.500	1	43.500	29	1
Total non-official market						470	72.348.602	100.261	
Other securities									
Government securities									
Convertible certificates	1 Denar	36	28	32	35	18	1.323.232	4.137.573	7
Other securities						18	1.323.232	4.137.573	
Total all market						1.152	128.789.157		

MONEY AND SHORT-TERM SECURITIES MARKET

In **November** 2002, the money and short-term securities market noted increased activity compared to the previous month, manifested through higher total money turnover realized among the commercial banks. In the analyzed period, the total turnover realized on the money and short-term securities market in relation to the previous month increased by 872.625 denars, i.e. by 29,4% and amounts to 3.843.050 denars.

Total demand for liquid funds in this month amounted to 4.833.450 denars, which is an increase by 1.035.925 denars in relation to October 2002, or expressed in percentage, 27,3%. Simultaneously, total supply of liquid funds on the money market amounted to 3.897.050 denars, which is an increase by 766.625 denars, i.e. 24,5% higher in relation to the previous month.

Average daily realization on the money market in November 2002 amounted to 183.002 denars, unlike the previous month when it amounted to 135.019 denars.

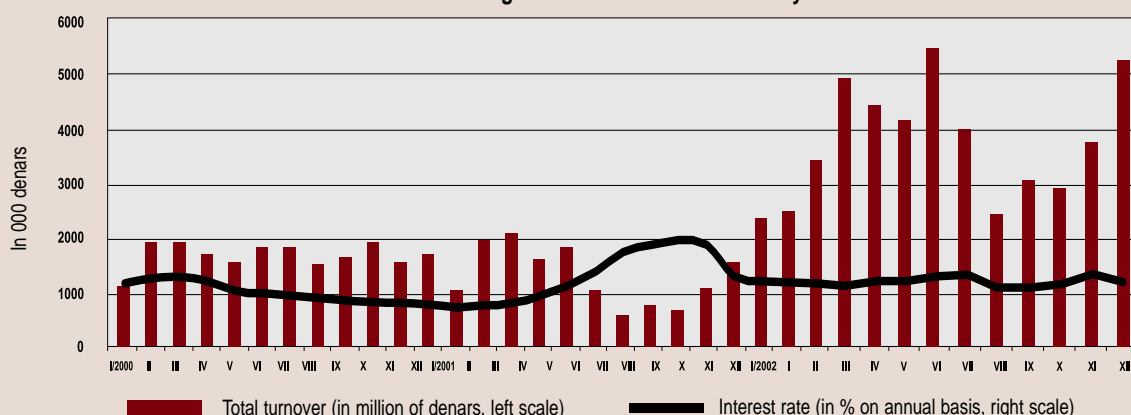
Simultaneously, the condition of higher demand in relation to supply on the money and securities market resulted in increase of average weighted interest rate from 11,4% in October to 13,4% in November 2002.

In **December** 2002, the money and short-term securities market notes significant increase of market activities compared to the previous month. The total realized turnover amounts to 5.213.200, which is an increase by 35,7%, or higher realization by 1.370.150 denars in relation to November the same year. Regarding total demand for liquid funds, it increased by 832.550 denars, or 17,2% higher in relation to the previous month and amounts to 5.666.000 denars. Total supply of liquid funds in December amounted to 5.353.200 denars, which is significant increase of supply by 37,4%. That means that in December 2002, more liquid funds have been supplied at the money and short-term securities market in the amount of 1.456.150 denars in relation to the previous month.

Average daily turnover on the money market in December this year reached a level of 236.963 denars, which is an increase by 29,5% in relation to November 2002, when the average daily turnover amounted to 183.002 denars.

Since the supply of and the demand for liquid funds on the money and short-term securities market are almost equal in the last month of the year, the average weighted interest rate decreased in relation to November 2002 and amounted to 11,9%.

Total turnover and weighted interest rate on the money market



Money market Year 2001 and 2002 (by months)

	VI-2001	VII	VIII	IX	X	XI	XII	I-2002	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Total turnover (million of denars)	1033.4	580.9	746.8	654.2	1067.4	1542.9	2323.4	2491.6	3390.2	4888.6	4473.2	4145.9	5631.1	3938.9	2460.1	3008.9	2.970	3.843	5.213
Interest rate (% on annual basis)	13,75	17,15	18,44	19,34	18,55	12,58	11,92	12,03	11,62	10,84	11,41	11,62	12,11	12,33	10,84	10,83	11,35	13,36	11,92

DEPOSITS OF PHYSICAL PERSONS AT BANKS AND SAVINGS HOUSES

The deposits of physical persons at banks and savings houses in **November** 2002 reached a level of 33.528.009 denars, i.e. 549 million euros, which is an increase by 605.574 denars or 1,8% higher in relation to the previous month.

Compared to November 2001, deposits of citizens at banks and savings houses are now higher by 10.677.325 denars, i.e. by 46,7%.

Analyzed by currency structure of deposits, 29,1% of the total deposits are denar deposits, while the remaining 70,9% are foreign currency deposits. Compared with the condition at the end of the third quarter, denar deposits in November 2002 increased by 7,8%, i.e. are by 703.271 denars higher, and their total amount reached 9.755.522 denars. In this month there was an increase at the foreign currency deposits in the amount of 2,3% compared to the condition at the end of the third quarter, i.e. by 540.330 denars, whereby the total foreign currency deposits reached an amount of 23.772.487 denars.

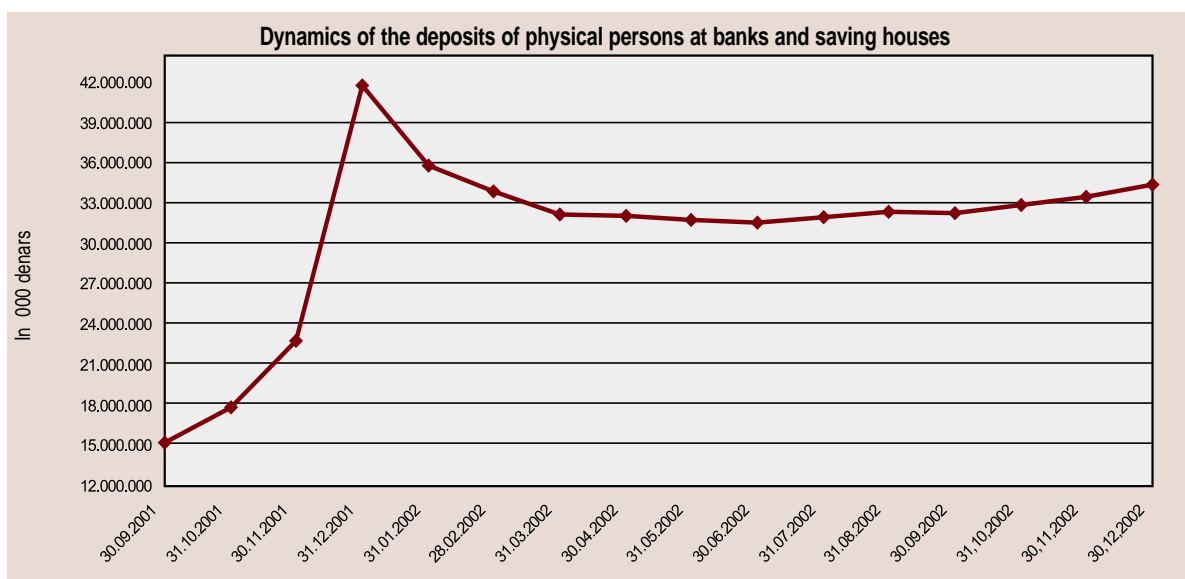
Regarding the maturity structure of deposits in the analyzed period, 56,9% or 19.072.931 denars are sight deposits, which is an increase by 267.570 denars in relation to the previous month. The total value of the time deposits amounts to 14.455.078 denars or 43,1% of the total deposits. The total value of time deposits increased in November 2002 by 976.031 denars in relation to the previous month of the same year.

The deposits of physical persons at banks and savings houses in **December** 2002 reached an amount of 34.445.184 denars, i.e. 564 million euros, which is an increase by 2,7% or 917.176 denars in relation to November the same year.

Compared to the same period last year, deposits of citizens decreased by 7.384.140 denars, i.e. by 21,4% in December 2002. Still, the comparison of these two months does not give real picture of the saving intensity in 2002. The increased amount of savings deposits in the last three months of 2001 occurred as a result of the conversion of foreign currencies (mostly Deutsche Mark) into euro, which the citizens carried out at the commercial banks.

Analyzed by currency structure of deposits, 29,4% of the total deposits are denar deposits, while the remaining 70,6% are foreign currency deposits. Compared to the previous month, denar deposits in December 2002 increased by 11,9%, i.e. are by 1.081.883 denars higher, thereby reaching a level of 10.134.134 denars. The increase at the foreign currency deposits, compared to November 2002, amounts to 4,6%, i.e. the total level of foreign currency deposits amounts to 24.311.050 denars.

Regarding the maturity structure of deposits in the analyzed period, 56,8% are sight deposits amounting to 19.557.905 denars, which is an increase by 2,5% in relation to November 2002. The total value of time deposits amounts to 14.887.279 denars, which is 43,2% of the total deposits. The total value of the time deposits increased in December 2002 by 1.408.232 denars.



IN BRIEF

NEGOTIATION FOR IMF STAND-BY ARRANGEMENT BEGIN

"Negotiations between Macedonia and the International Monetary Fund Mission for conclusion of the Stand-By Arrangement will commence on 22nd January, and will be conducted up to 7th February", said the Minister of Finance, Petar Gosev, yesterday. "We have prepared the basic policies, and they will be also discussed at the Government Session on Monday. Thus, we will have the platform of the Government on the table during the negotiations", stated Gosev.

Asked whether it can be guaranteed that all conditions, set by the IMF, have been met by our side prior to the negotiations, Minister of Finance said that "there are many requests, but we have more answers", as well as that "it is a process of harmonizing the attitudes, views and different opinions, which sometimes proves to be the most efficient thing to do". "We will do our best to conclude the Arrangement with the IMF, and we



will carry out our part of the tasks, since we are aware of its significance. Political message to the international investors and to the world management centers is that in the Republic of Macedonia there are sound reform-oriented credible policies, and ultimately, it is condition to receive financial resources we impatiently expect and need at this moment", said Gosev.

FIRST INTERNATIONAL FAIR FOR FINANCIAL AND BUSINESS OPPORTUNITIES OPENED

Under the slogan "The future is challenge", the first International Fair for Financial and Business Opportunities "FinExpo 2002" was held at Skopje Fair, at which around sixty and so firms in the financial sphere took part. The objective of this Fair, as it was announced by the organizers, is for both financial supply and

demand in Macedonia to meet in one place, to present information on investment possibilities, to popularize the financial sector services as well as to promote the financial institutions before the foreign firms and financiers.

By opening "FinExpo 2002", Deputy Minister of Finance, Dimko Kokaroski, expressed hope that experience presented at this fair will contribute to the reform course to the end of creation of modern monetary, fiscal, credit and banking system, compatible with the European Union.

"We are aware of the fact that reforms in any sphere are long-lasting and difficult", said Kokaroski, adding that the Government is strongly committed to endure the reform course. "The purpose is for Macedonia to establish stable and secure financial sector which the citizens, the businessmen and the potential investor will trust, able to offer products and services with European quality and efficiency", stated Kokaroski.



"MAKSTEEL ENGINEERING" - FIRST CLUSTER IN MACEDONIA

New company in the field of metal processing complex "Maksteel Engineering" was officially promoted in the premises of Skopje Iron Factory. Engineering will be composed of five firms, joining their interests: "Maksteel" from Skopje, the core of Skopje Iron Factory - comprising the steel plant and hot rolling plant, "Fakom" - Skopje, "Iskra" - Kumanovo, "Metaltec" - Prilep and "IGM" - Kavadarci.

As President of "Maksteel" company Minco Jordanov said, this is virtually the first Macedonian cluster exactly in the metal processing complex having special purpose, thus facilitating our entrance and being driving force for accession to the European Union. With the assistance by "Duferko", the strategic investor in "Maksteel", from which we expect financial and production support, we will try to become sub-contractors of the large companies from the steel industry in Western Europe.

As the first man in "Maksteel Engineering" Gorgi Savov stated, this company is established to the end of getting out of the Macedonian market that becomes too narrow.

As the Directors of the five joined companies stated in their addressing, better quality and more competitive steel metal production will be provided, broader assortment of products and support by the EBRD standing behind "Duferko", as well as better approach at the Ukrainian and Russian markets. In addition, as it has been previously said, competitiveness among the producers within the cluster will remain to the end of ensuring better quality production.

WORLD ECONOMIC FORUM IN DAVOS BEGINS

Under the motto "Confidence Building", World Economic Forum in Swiss town Davos has began, attended by around 2,300 leading persons from the political, business, banking and academic circles.



Corporative scandals and the possible war against Iraq are the two topics to dominate this year's World Economic Forum. Although the official opening ceremony was envisaged for the afternoon, meeting were previously held on wide range of world topics, such as economy, security, business, finances and ecology. Main topic on this year's meeting is "Confidence Building". Organizers of the Forum stated that it is necessary to restore confidence of the companies and the governments. "Waves of corporative scandals disclosed in 2002 contributed to serious undermining of confidence", says the Forum Guide. World Economic Forum was established in 1971, and it is held in Davos again, after being held last year in New York as a token of solidarity following terrorist attacks on the USA on 11th September 2001.

GREEN LIGHT FOR ACCESSION OF MACEDONIA TO THE WTO

Members of the Parliament unanimously adopted the Law on Ratification of the Protocol on Accession of the Republic of Macedonia to the WTO, estimating it as a step ahead towards integration in the European economic mainstreams. Accession to the WTO is an act



equal to the accession of our country to the UN, and should be seen as a privilege, but also as an obligation which imposes Macedonia certain activities it should undertake to the end of realizing economic welfare in the country. "We cannot close our economy, and the protection envisaged for some products will be on short-term basis and is aimed towards preparation of our economy for the competitiveness that will inevitably be present by opening the economy towards the WTO member states", pointed out the Minister of Economy, Ilija Filipovski.

By ratifying the Protocol for accession to the WTO, Macedonia assumes number of obligations as a member of the trade family, and therefore program needs to be prepared for structural adaptation to the new conditions of operations, dictated by the world market.

GOVERNMENT ACCEPTS THE ENTREPRENEURSHIP SUPPORT PROGRAM

Government of the Republic of Macedonia has accepted the Program by the Ministry of Economy, containing measures and activities to support entrepreneurship and to create competitiveness of the small and medium enterprises in the Republic of Macedonia.

Main objective of the Program is to introduce anti-bureaucratic procedures already in the first year, i.e. registration of firms to be made only on one place, which could be already realized in May this year. This program is also supported by the World Bank, and envisages 500 businessmen from Macedonia to attain professional training at appropriate firms abroad. In addition, the Program is planned to restructure 40 to 50

domestic firms, followed by the "20 keys" Project, but, however, the main results can be felt on mid-term, emphasized the Minister of Economy.

The Program is focused on four areas, such as creation of network for business support to the small and medium enterprises, creation of favourable economic environment, promotion and non-financial support to the entrepreneurship, and ultimately, financial support to these businesses.

There is an amount of EUR 63 million in the Bank for Development Promotion only intended for credit support of the small enterprises, but direct negotiations will also be led with donors to invest in the infrastructure for the Program realization.

TRADING ON THE MACEDONIAN STOCK EXCHANGE LIVE ON THE INTERNET

Starting 1st January 2003, Macedonian Long-Term Securities Stock Exchange will start applying the Internet application "Best-Net", intended for the investors, as well as for the companies interested to follow the trading on the capital market in our country. As the Director of the Macedonia Stock Exchange Evgenij Zograf-



ski explained, the Stock Exchange electronic trading system enables direct monitoring of the trading carried out on the Stock Exchange via Internet. The application offers monitoring three types of information live. First type is intended for insight in the prices of all enterprises listed on the Stock Exchange. The second offers information on daily trading, while the third one enables review of all securities, i.e. review of all trading with securities in tables and charts, since the start of operations of the Stock Exchange.

The whole product will be available to all those interested in direct monitoring of the Stock Exchange trading, and precisely due to that, the Stock Exchange offers three types of subscription: for domestic physical persons (720 denars per month), domestic legal entities (3,600 denars per month) and foreign physical persons and legal entities (EUR 100 per month).

THE TWO FURNACES OF "JUGOHROM" RESTARTED

After more than one year of being idle, the two out of the total of nine furnaces for melting ore in the Tetovo plant "Jugohrom" have been restarted and are expected to start with production before the end of this year, after conducting procurement of the necessary raw materials. The French company SCMM, which in September became owner of this enterprise, now renamed in "Silmak", signed contract with "Electric Power Plant of Macedonia" for delivery of electricity at price of EUR 22 for each used megawatt-hour in the next three years, as was specified in the contract concluded between SCMM and the Government as well.

The third furnace of the plant will be prepared for start in the next several months. "It has been agreed with the German concern "Tisen Krup" for the whole produced quantity of ferro-silicium to be bought up", said Mihajlo Mihajlovski, Executive Director of "Silmak", Macedonian branch office of the French SCMM. Around 500 employees of the former "Jugohrom" have been re-employed under service provider contract in "Silmak" so far, majority out of which have been engaged in production. They have been paid salaries for October and November as previously promised by the French partner.

NON-PERFORMING LOANS IN MACEDONIAN BANKS ON THE LOWEST LEVEL EVER

According to Gligor Bisev, First General Manager of Stopanska banka - Skopje, the level of non-performing



loans in the country is 16.8% and historically speaking, it is the lowest level since it gained monetary independence. As comparison only, in 1999 in conditions of existence of Kosovo crises, the level of non-performing loans increased from 32% to 44%. With respect to that percentage, now we have decrease by more than 3,5 times. We can conclude that the banking system of the

country is prepared and capable of responding to all challenges, meaning collecting not only domestic, but also attracting foreign saving. That is already happening. Data published for end-September 2002 point that the total credits in the country increase at around 10% rate, whereby foreign currency credits grow with higher pace than the denar ones. Thus, "in an exceptionally difficult macroeconomic surrounding, the banking system managed to restructure and now it is capable to support all sound and profitable projects in the country", said Bisev.

"FIRST COME, FIRST SERVED" PRINCIPLE EFFECTIVE AS OF JANUARY

From the beginning of 2003, the Customs Administration will apply new manner of import of goods for which customs contingents apply, pursuant to free trade agreements signed by the Republic of Macedonia with ten countries. From now on, the customs quotas will work under the principle "First come, first served". In order to avoid subjectivity, from now on, the contingents will be presented on the web site (web site of the Customs Administration) and potential beneficiaries will apply for obtaining such duty-free quota.

The Republic of Macedonia has concluded such agreements for duty-free quantitatively limited import, mainly of agricultural and food products, with Slovenia, Croatia, Yugoslavia, Turkey, Bulgaria, EU, EFTA, Bosnia and Herzegovina, Albania and Ukraine. Only milk and wheat are excluded from customs quotas as sensitive products, and they will be sold via auction, whereby the basic customs fee for these products will be the starting point and the importer offering the highest amount will obtain the quota, explained Minister of Economy Ilija Filipovski.



US\$ 5 MILLION COMMUNITY DEVELOPMENT CREDIT APPROVED

Macedonian Ambassador in the USA, Nikola Dimitrov, and World Bank Country Director Christian Portman, yesterday in Washington, signed Community Development Credit Agreement in the amount of US\$ 5 million. Credit repayment period is 20 years, plus 10 years grace period.

The total value of the Community Development Project is US\$ 9.6 million. Additional US\$ 3 million are expected from donations from foreign countries, as well as funds from the Budget of the Republic of Macedonia and the community budget. Basic purpose of the Project is supporting the Government efforts for economic development and social integration of the population from areas affected by 2001 war conflict. Active participation by the Ministry of Local Government, local population and local authorities is envisaged in the realization of the projects to the end of strengthening the institutional capacity of local government as pre-condition to the decentralization process.

CONFERENCE ON THE SUBJECT "POVERTY REDUCTION STRATEGY"

According to domestic criteria, "almost one quarter of the population in Macedonia is poor. According to the world poverty parameters, although there are many poorer countries, our whole country enters the poverty zone". This conclusion was brought up by the Minister of Finance Petar Gosev at the conference on the World



Bank - sponsored Strategy for poverty reduction in Macedonia, financed by the Dutch Government. According to Mr. Gosev, fight against poverty is top priority for the Macedonian Government, and this Project will be coordinated by the Ministry of Finance. He points out the reasons for this problem to be a decade long war crises in former SFRY, which engulfed Macedonia as well, as well as the system of semi-market economy and political incompetence, but also the moves of some of the leaders in these states. "Part of these reasons have been overcome, but the processes of establishing efficient market economy, rule of law, parliamentary democracy and impartiality of the government institu-

tions have still not be completed", emphasized Mr. Gosev, adding that absence of reforms, lack of foreign investment and inadequate business climate are poverty generators.

NOVELTY IN THE OPERATIONS OF OUR OLDEST BANK

"Stopanska Banka - Skopje introduced swift transfer of funds between any domestic clients not having an account in any bank", the General Director of Stopanska Banka, Gligor Bisev announced at the press conference yesterday. "So far, such transfer was executed only by the post office through money orders transferred from one person to another. This service is provided both for physical persons and legal entities. The transfer of funds will take five minutes at the most, and the fee is lower by 0.3% than the fee charged by the post office and it is 0.7% of the amount of funds. Only denar transactions in Macedonia are fully liberalized and from that aspect this system is in compliance with the legal regulation", Bisev said.

In December, as Bisev announced, Stopanska Banka will open new branch office, located near the headquarters of this bank in the City Mall in Skopje.

THE GOVERNMENT CANCELS THE DISTRIBUTION OF SOCIAL APARTMENTS

The Government cancelled the announcements for distribution of social apartments, built and awarded with the Project for construction of apartments for persons with low income. According to the information from the Government, in the past period the line ministry distributed 144 social apartments in Skopje, 144 in Veles, 42 in Gostivar, 24 in Kicevo, 38 in Delcevo and 43 in Bitola.

Such Government decision followed after the insight in the documentation for distributed apartments, performed by the Commission composed of representatives from the Ministry of Transport and Communication, Ministry of Labour and Social Policy and Ministry of Finance. Thereby, the Commission determined many irregularities regarding the distribution of apartments.

The social apartments should have been distributed primarily to citizens with low income who do not own apartments, children without parents who are 18 years

of age or older, young married couples with children younger than 12 years of age, as well as families with average income per member of family not exceeding 75% of the GDP per capita.



PRO INTENSIFIES THE FISCALIZATION PROCESS

"The fiscalization process was stopped prior to the parliamentary elections, thus the so-far percent of fiscalization is exceptionally low, i.e. only 10%, although it should have been at least 30%. The fiscalization will continue and this system will be back to normal functioning. However, we are not sure that this year we will manage to complete this process", announced the new Director of Public Revenues Office, Zoran Vaskovski.

According to the data of Public Revenue Office, so far a total of 4,190 fiscal registers have been installed and about 815 devices are placed, but not fiscalized yet in the companies. This is a matter of large and medium companies, i.e. the two groups that should have fiscalized their operations so far.

In order to accelerate the fiscalization, as one of the measures to be undertaken by PRO, the controls at taxpayers will be strengthened. If the company does not have fiscal register, the PRO will file a case against it. "Large number of cases were filed last year, however they are still waiting for court resolution", Vaskovski said. The fines for not having fiscal registers are high and range between 250,000 and 300,000 denars.

LOSS MAKERS - PRIORITY FOR THE NEW GOVERNMENT AS WELL

The conditions for disbursement of funds from FESAL 2 arrangement with the World Bank are met, since the status of "one plus four loss-makers" was solved, thus the only thing being waited for is the signing of the agreement with the International Monetary Fund to disburse these funds in the amount of US\$ 20 million. More precisely, from this group the following are considered solved: "Jugohrom", "Godel", "Goteks", "Zleto-vo baterii" and "Porcelanka".

According to the official information from the Government, in the following period, seven to nine enterprises should be solved via bankruptcy procedure and two firms with sale of shares in order to meet the conditions of this arrangement. According to the projection, a total of EUR 83.5 million is required. This huge amount is due to the huge liabilities accumulated by the companies on the basis of arrears, as well as late salaries and contributions for a period of several years behind. At its last session, the Government proposed measures for faster and cheaper solving of the loss makers, obliging the line ministries to undertake measures and activities for overcoming the situation found in these companies.

EXPORT-IMPORT BANK UNDER RECEIVERSHIP

With a decision by the Governor of the National Bank of the Republic of Macedonia, due to the detection of irregularities and illegalities in the operations of Export-Import Bank, a new receiver was appointed for a period of six months, while the bank was excluded from the payment operations. Pursuant to the Law on Banks, he is obliged to submit a report to the Central Bank within 45 days on the potential possibilities for its further survival by establishing a new bank with the funds of the insolvent bank through increase of capital

by investors that will buy out the bank or the claims and liabilities fully or partially for a period not exceeding one year. There is a possibility for the bank to be sold to another bank for a period of one year, or if a resort is found in liquidation, the amount of the proceeds from this procedure should be estimated.

By the end of February, it is expected to have a complete report by the receiver on the situation found in the bank, as well as his estimate about the future possibilities for its operations.

THESSALONICA PORT OFFERS ITS SERVICES TO THE MACEDONIAN PARTNERS

The joint stock company Thessalonica Port had a presentation in "Alexander Palace" hotel on its potentials and services for the Macedonian businessmen and business partners in order to expand and deepen the cooperation it has in this area for several decades behind.

Mr. Apostolos Genicaris, the President of the Board of Directors, talked about the beginnings of the cooperation with Macedonia after it gained its independence, and he emphasized that the more intensive cooperation with the Macedonian companies commenced seven years ago, so that now they are an important and relevant partner. At the beginning, this company was known for the high prices of its services for loading and unloading, but with the modernization, above all, with the privatization of the port, it entered into the world of market economy, and facing the competition, it gradually reduced the prices of its services. Now, according to the Directors of the Thessalonica Port, it is the cheapest port on the Balkans that offers services with the highest quality for loading and unloading of goods, warehousing and the most modern technology. After its privatization, the Thessalonica Port is listed officially at the Athens Stock Exchange.

AN ANALYSIS OF MACEDONIAN ECONOMIC GROWTH DURING 1997-2001



D-r. Brajan V.
ROBERTS

Growth accounting is a method used by economists to decompose economic growth into components attributable to growth in factors of production such as labor, capital, and productivity

Introduction

Comparison of Macedonia's growth experience to those of other countries reveals that the contribution of capital growth is far below what could be expected. The long-run growth experiences of many developed and developing countries suggest that growth in physical capital should account for roughly 50% of real GDP growth. In Macedonia during 1997-2000/01, it accounted for only 14%. The Macedonian growth accounting exercise shows that the most important reason for relatively low recent economic growth is a low rate of investment in physical capital. Understanding the reasons for this low investment rate and developing appropriate and desirable policies to stimulate capital investment must thus receive high priority from the Macedonian Government.

Growth Accounting Theory and Methods

1. Growth accounting is a method used by economists to decompose economic growth into components attributable to growth in factors of production such as labor, capital, and productivity. Growth accounting begins by specifying a basic theory of production usually captured in the mathematical specification of a production function. A neoclassical production function typically takes the general form:

$$(i). \quad Y = A \cdot F(K, L)$$

where Y is a measure of real output such as GDP, K is a measure of the capital input into production, L is a measure of the labor input into production, A is "total

factor productivity" (also sometimes referred to as "the residual"), and F(K,L) is a mathematical function that transforms inputs into output.

2. Total factor productivity is a concept of central concern to macroeconomics and growth economics since it was introduced into economics in the 1950s, notably by the economist Robert Solow. It represents the overall degree of efficiency with which the productive inputs K and L are being used. Consider two economies with identical levels of capital and labor inputs. If A is higher in one of them, then that country is using its capital and labor more efficiently than the other, its productivity is higher, and it produces more. Solow's central finding in the late 1950s was that for the US economy in the first half of the 1900s, roughly half of the growth of the economy was due to growth in total factor productivity. This finding was unexpected and startling and suggested that the emphasis economists had been giving to capital accumulation as a source of growth was misplaced. More recent studies of growth in the postwar period show that growth in physical capital account for roughly 50% of real GDP growth, and total factor productivity growth for roughly 30% (see table at end of memo).

3. A classic specification of the production function that will be used in this memo is the Cobb-Douglas function:

$$(ii) \quad Y = A \cdot K^\alpha \cdot L^{1-\alpha}$$

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*The views expressed are those of the authors and do not necessarily represent those of the Ministry of Finance

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where $0 < \alpha < 1$. The Cobb-Douglas specification is widely used in macroeconomic analysis because it satisfies some important conditions derived from the theory of economic production, and because it is mathematically very convenient. In particular, it is straightforward to express the Cobb-Douglas production function as a relation between growth rates of output and inputs as opposed to levels:

$$(iii). \quad dY/Y = dA/A + \alpha * dK/K + (1-\alpha) * dL/L,$$

where dY/Y , dK/K , and dL/L are the percentage growth rates of real GDP, capital services, and labor services respectively, and dA/A is growth in total factor productivity.

During the period 1997-2000/01, real Macedonian GDP grew on average by roughly 2.8% per year. This is as good an estimate as any of the revealed medium-run growth potential of the Macedonian economy assuming similar internal and external economic and political environments

Table 1

	National Income Data		Labor Force Survey Data			Physical Capital Stock	
	Total GDP	Gross fixed capital formation	Month of survey	Total employment		Nominal netstock of capital (nonfinancial sector)	Estimated net stock of capital (1997 prices)**
	(цени во 1997)			(A)	(Б)		
1991	208.506	44.236					260.289
1992	191.409	36.893					271.152
1993	189.112	33.978					278.015
1994	185.785	31.061					281.274
1995	183.715	34.226					287.373
1996	185.891	36.457	April	537.591	524.946		295.093
1997	188.568	34.889	April	512.301	526.032	300.473	300.473
1998	194.979	33.982	April	539.762	542.492		304.407
1999	203.363	33.506	April	545.222	547.534		307.473
2000	212.514	32.434	April	549.846	574.577		309.160
2001	202.951	28.931*	October	599.308	580.325		307.175
2002			April	561.341			

(A) : Employment in April of year X

(B) : Average of employment in April of year X and X+1

* : Estimated based on nominal value of gross fixed capital formation in 2001 and capital goods price inflation in 2001.

** : Calculated as capital stock in year t-1 plus gross fixed capital formation in year t minus depreciation in year t. Depreciation estimated assuming a 10% depreciation rate on aggregate capital stock.

Source : taken from various publications of the State Statistical Office. 1997 value of nominal net stock of capital was obtained from the Ministry of Finance, who received it from the SSO.

4. We use equation (iii) to estimate the average annual growth rate in total factor productivity in Macedonia by rearranging it as:

$$(iv). \quad dA/A = dY/Y - \alpha * dK/K - (1-\alpha) * dL/L$$

In order to use equation (iv), we need empirical data on real GDP growth, growth in capital services, growth in labor services, and the parameter α . An ideal measure of capital services used in production would take into account the volume of physical capital available to an economy and the rate at which it was utilized. A utilization rate of capital is typically not available, and economists must use the available measure of the total stock of physical capital suitably adjusted for depreciation. Similarly, the measure of labor typically used in growth accounting is the total number of people employed.

5. The parameter α can either be estimated econometrically using historical data on input and output growth rates, or it can be derived from national accounts data. Not enough data are available for Macedonia to estimate α econometrically. It can be shown that if it is assumed that an economy is competitive, then the parameter α equals the share of capital income in total national income. Unfortunately, data required to estimate the share of capital income is not yet available for Macedonia. However, many growth accounting studies have estimated α either econometrically or using national account data for both developed and developing countries, and the evidence is strong that for the typical developed (OECD) country, α equals roughly 0.33, and for the typical developing country, α equals roughly 0.4. We thus use a value of $\alpha = 0.4$ in this memo.

Growth Accounting for Macedonia During 1996-2001

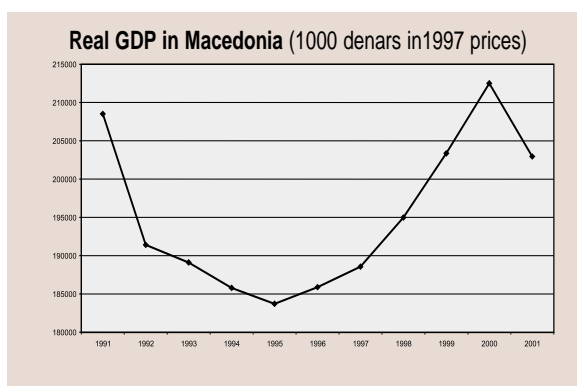
6. In order to calculate growth in total factor productivity, we require data on growth in output, dY/Y , employment, dL/L , and growth in the capital stock, dK/K . Table 1 below summarizes available data on these variables:

7. There are two measures of employment in the Macedonian economy. One measure is a survey of firms that the SSO has carried out for many years in Macedonia. The quality of this data deteriorated sharply during transition. As a result, the SSO has conducted a labor market survey according to international

standards starting in 1996. This survey gives a more accurate estimate of true employment in Macedonia, and we will use it as the source of data for L. However, because the survey is carried out only once a year (in April except for 2001, when it was conducted in October), it is not possible to calculate an average level of employment over the calendar year. We are thus confronted with the question of calculating growth rates from year to year using only the April values, or averaging the values of year X and X+1 and then calculating growth rates. For sake of completeness, we present results for both approaches.

8. Data is available for the gross and net value of capital stock in the non-financial sector in Macedonia during 1997-1999. In order to construct a time series on capital stock, we take the 1997 nominal value of net capital stock and extend it backwards and forwards using the time series on gross investment in physical capital (taken from the national accounts) and subtracting depreciation. We have no direct measure of depreciation and assume that physical capital depreciated at a rate of 10% annually. This is a standard assumption in development of capital stock series for other countries.

9. Real Macedonian GDP data is graphed below. There was a sharp fall in 1992 as the simultaneous impacts of transition to a market economy and consequences of the breakup of Yugoslavia took effect. GDP continued to fall through 1996, when the influence of negative shocks associated with early transition and regional conflict lessened and growth resumed. As shown in the table below, growth of roughly 1.3% was experience in 1996 and 1997 but accelerated in 1998 to 3.4% and then to roughly 4.4% in 1999 and 2000. Growth in 1999 and 2000 was particularly stimulated by the consequences of the Kosovo conflict. In 2001, GDP fell by 4.5% as civil conflict broke out. For the purposes of this memo, we will consider the period starting after 1995, when growth had resumed. The years 2000 and 2001 pose a special challenge: growth was unusually strong in 2000 due to a positive external shock, and unusually negative in 2001 due to a negative internal shock. These years should be "smoothed" so as to filter out the impacts of these unusual shocks to the economy. One way to smooth these shocks from the data series is to consider the average of values for 2000 and 2001 rather than these years individually. We will thus give results for the period 1997-2000, 1997-2001, and 1997-average(2000-2001).



10. Growth rates of GDP, employment, and capital stock are given in table 2 below for each year during 1997-2001, and the average annual rate of growth during 1997-2000, 1997-2001, and 1997-average(2000-2001). Using equation (iv) and the assumption that $\alpha = 0.4$, total factor productivity ranges from a low value of roughly 0.1% during 1997-2001 to a high value of roughly 2.1% during 1997-2000. We prefer the results

A preliminary estimate of average total factor productivity growth during the same period is slightly higher than 1% per year. Making standard assumptions employed in analysis of economic growth, the fundamental equation for growth accounting gives a TFP growth rate of roughly 1.15%. This is essentially equal to the typical long-run growth rate of total factor productivity experienced in developed and developing countries in the post-war period. Recent Macedonian productivity growth has thus been adequate if not spectacular

Table 2

	GDP Growth	Capital Stock Growth	Employment Growth		Total Factor Productivity Growth*	
			(A)	(B)	(A)	(B)
1992	-8,2%	4,2%				
1993	-1,2%	2,5%				
1994	-1,8%	1,2%				
1995	-1,1%	2,2%				
1996	1,2%	2,7%				
1997	1,4%	1,8%	-4,7%	0,2%	3,5%	0,6%
1998	3,4%	1,3%	5,4%	3,1%	-0,3%	1,0%
1999	4,3%	1,0%	1,0%	0,9%	3,3%	3,3%
2000	4,5%	0,5%	0,8%	4,9%	3,8%	1,3%
2001	-4,5%	-0,6%	9,0%	1,0%	-9,6%	-4,8%
1997-2001	1,8%	0,8%	2,2%	2,0%	0,1%	0,2%
1997-2000	3,4%	1,2%	0,6%	2,3%	2,6%	1,6%
1997-aug (2000-2001)	2,8%	1,1%	1,7%	2,4%	1,4%	0,9%

*: Calculated assuming that capital share in national income equals 0.4.

for the period 1997-average(2000-2001), as the unusual shocks of 2000 and 2001 are smoothed away. This gives the result that average annual total factor productivity growth was between 0.9-1.4% (depending on the measure of employment used). Taking the average of these endpoints gives a value of 1.2%. We believe that this is the best estimate of total factor productivity that can be made for Macedonia in the recent past given the limited number of observations and the data that are available.

11. These results suggest the following important conclusions. First, the potential growth rate of the Macedonian economy in the near term as revealed by experience during 1997-2001 is roughly 3%. This assumes that internal and external economic and political environments will be similar to those that prevailed

The 2.8% potential growth rate can be broken down into contributions from growth of three inputs: 45% came from growth in employment, 14% came from growth in physical capital, and 41% came from growth in total factor productivity. This shows that in recent years, a major part of Macedonian growth has resulted from productivity growth, and a minor part from physical capital growth. The role that productivity growth has played and can play in future in contributing to economic growth in Macedonia needs to receive more attention from both policymakers and the public.

in that period. Second, that potential growth rate can be broken down into contributions from growth of three inputs: 45% comes from growth in employment, 14% comes from growth in capital, and 41% comes from growth in total factor productivity. This shows that a major part of Macedonian growth has resulted from productivity growth, and a minor part from capital growth. Although there is much focus and attention placed on the need for more investment in physical capital by both the public and policymakers, emphasis should also be placed on measures to stimulate productivity.

12. It is important to compare Macedonia's recent growth experience with those of other countries. It would be interesting to compare Macedonia's experience with those of other transition countries, but few studies are so far available. However, a great deal of empirical evidence is available on the growth experiences of developed and developing countries. Tables 3 and 4 below summarize the growth experiences of G-7 countries during 1960-1990, Latin American countries during 1940-1980, and East Asian countries during 1996-1990. These results and comparison with the

recent Macedonian experience suggest the following key conclusions:

- In both developed and developing countries, the major source of growth has been growth in physical capital, which has accounted for roughly 50% of real GDP growth in the G-7, Latin American, and East Asian countries;
- The contribution of growth in physical capital to real GDP growth in Macedonia was only 14%, far below the typical contribution of 50%. This suggests that investment in physical capital is far below what could be expected given the typical post-war growth experience;
- Total factor productivity growth in all three regions averaged 1.2-1.3% per year. The Macedonian rate of 1.15% is quite close to this level. Productivity growth in Macedonia has thus been adequate if not spectacular.

Table 3

	Trend real GDP growth	Contribution from capital	Contribution from labor	Total factor productivity
Macedonia, 1997-2000/01	2,8	0,40 (14%)	1,26 (45%)	1,15 (41%)
All developing countries, 1971-1992	5,2	2,5 (48%)	1,3 (23%)	1,3 (25%)
-Africa	3,4	1,9 (58%)	1,3 (36%)	0,2 (6%)
-Asia	6,5	2,8 (43%)	1,1 (17%)	2,6 (40%)
-Middle East and Europe	5,0	3,3	1,6	HA
-Western Hemisphere	4,0	1,9 (48%)	1,5 (35%)	0,5 (13%)

Source: Pierre-Richard Agénor and Peter J. Montiel, *Development Macroeconomics* (Princeton: Princeton University Press, 1999), table 17.2, p.676. Original data source : IMF.

Limitations of the Analysis

13. There are several limitations to the analysis developed above that should be kept in mind when evaluating the results. First, we have assessed the growth experience over only five years, which is a very short time period. Growth accounting exercises are usually done for periods of 20 to 40 years. This limitation is exacerbated by the fact that the Macedonian economy was subject to a very high degree of volatility during those five years, and annual growth rates of GDP and employment were quite different from year to year. As a result, annual growth in productivity was very volatile (see table 2.) The trend over five years is more informative than any single-year value, but it is not

Table 4

	Real GDP growth	Contribution from capital	Contribution from labor	Total factor productivity
Macedonia : 1997-2000/01				
	2,8	0,40 (14%)	1,26 (45%)	1,15 (41%)
G-7 Countries : 1960-1990				
Canada	4,1	2,3 (56%)	1,4 (33%)	0,5 (11%)
France	3,5	2,0 (58%)	0,0 (1%)	1,5 (41%)
Germany	3,2	1,9 (58%)	-0,3 (-8%)	1,6 (49%)
Italy	4,1	2,0 (49%)	0,1 (3%)	2,0 (48%)
Japan	6,8	3,8 (57%)	1,0 (14%)	2,0 (29%)
United Kingdom	2,5	1,3 (52%)	-0,1 (-4%)	1,3 (52%)
United States	3,1	1,4 (45%)	1,3 (42%)	0,4 (13%)
Latin American Countries : 1940-1980				
Argentina	3,6	1,6 (43%)	1,0 (26%)	1,1 (31%)
Brazil	6,4	3,3 (51%)	1,3 (20%)	1,8 (29%)
Chile	3,8	1,3 (34%)	1,0 (26%)	1,5 (40%)
Columbia	4,8	2,1 (43%)	1,6 (32%)	1,2 (25%)
Mexico	6,3	2,6 (41%)	1,5 (23%)	2,3 (37%)
Peru	4,2	2,9 (68%)	1,4 (32%)	0,0 (0%)
Venezuela	5,2	3,0 (57%)	1,8 (34%)	0,5 (10%)
Average	4,9	2,4 (48%)	1,3 (28%)	1,2 (24%)
East Asian Countries : 1966-1990				
Hong Kong	7,3	3,1 (42%)	2,0 (28%)	2,2 (30%)
Singapore	8,5	6,2 (73%)	2,7 (32%)	-0,4 (-5%)
South Korea	10,3	4,8 (46%)	4,4 (42%)	1,2 (12%)
Taiwan	9,1	3,7 (40%)	3,6 (40%)	1,8 (20%)
Average	8,8	4,4 (50%)	3,2 (36%)	1,2 (14%)

Source: Robert Barro and Xavier Sala-i-Martin, *Economic Growth* (Cambridge: MIT Press, 2001), table 10.8, pp.380-81.

These growth accounting exercises adjusted labor and capital inputs for changes in input quality.

Memo : The Capital-Output Ratio

Table 5 Capital-Output Ratios

Macedonia, 1997

Net capital stock	1.59
Gross capital stock	2.89

Other countries, 1990

All countries	2.94
African countries	2.85
Asian countries	2.42
Middle Eastern countries	2.80
Latin American countries	3.20
OECD countries	3.16

Source : Capital-output ratios for other countries calculated from data given in the Nehru and Dhareshwa data set (www.worldbank.org/research/growth/ddnehdha.htm). Nehru and Dhareshwa used various techniques to estimate an initial capital stock (usually, in 1950), and a modified Harberger approach was considered most suitable. A capital stock series was then generated using data on investment, which were aggregated according to a perpetual inventory method

14. Second, our measures of inputs into production, both capital and labor, have not been adjusted for changes in quality. Many growth accounting exercises carried out since Solow's pioneering work in the 1950s have attempted to distinguish between changes in the quantity of capital and labor used for production, and their quality. There are various techniques for measuring input quality change; applying them to the Macedonian case is a future research task. We can only note here that quality change issues may be more important during a transition experience like Macedonia's than during more stable, "steady-state" growth that is typically experienced in developing and developed countries.

uncommon to see big changes in five-year trends in growth accounting exercises for developing countries in the postwar era.

MACROECONOMIC CHALLENGES-PART I

In the following period, the policy makers will have to restore the market balance through the new mixture of fiscal, monetary and foreign exchange policy. They will create favourable business environment and a firm basis for fundamentally based growth and sustainable economic reforms of the labour market, post-privatization restructuring of the enterprises, improvement of the corporate management and continuation of the operational restructuring of the financial sector

Gligor
BISHEV, PhD

Foreword

Gligor Bishev PhD is First General Manager of Stopanska Banka A.D. Skopje. He was born in 1958 in Strumica, Republic of Macedonia. He graduated from the Faculty of Economics in Skopje in 1980, and acquired MA title in 1985 on the subject "Money Supply in the Modern Monetary Theory". He acquired his PhD title at the Faculty of Economics in Skopje in 1991. He held large number of responsible positions, among which are the following: Deputy Governor of the National Bank of the Republic of Macedonia, member of the Board of Directors of the Bank Rehabilitation Agency, member of the Board of Directors of the Money Market - Skopje and many other. At present, besides being First General Manager, Gligor Bishev is associate professor at the Faculty of Economics in Prilep, professor at the post-graduate studies at the Economic Institute in Skopje, member of Societe Universitaire Europeenne de Recherches Financieres (SUERF) and member of the Securities and Exchange Commission. He is fluent in English language.

The Republic of Macedonia entered a mature transition phase of the market economy in 1998. The process was interrupted in 1999 during the Kosovo conflict and in 2001 during the security crisis in the country. The recession in 1999 was avoided owing to the expansion of the service and catering sector that were connected directly with the Kosovo crisis. However, the bases of the economy were undermined.

The restructuring of the enterprise sector was slowed down. The domestic spending, especially the government expenditures were significantly increased. The fiscal deficit, although having reached 6.1% of GDP in 2001, still, remained under control. What caused more threat were the quasi-fiscal deficits of the public enterprises and the public funds (the road fund and the health insurance fund), that have not shown deficits officially, but they have rather increased their outstanding liabilities. The financial transactions tax introduced in the second half of 2001, reduced the fiscal deficit in 2002 which is anticipated to amount to 3.6% in 2002, but it has also resulted in expansion of the gray economy. Money in circulation, that is the main indicator of the unofficial economy, was doubled in 2002 compared with 2001.

Due to the severe security crisis and the high political instability, the economy in 2001 entered into a deep recession. It also continued in 2002. In 2002, the already existing high unemployment (30.5% in 2001) was increased by 2 percentage points. The population that lives below the poverty line was 27% of the total population in the middle of 2002. A mild recovery is expected

in the second quarter of 2003. However, the recovery will not be strong enough to reduce the unemployment in 2003.

The security crisis and political instability had an adverse effect on the implementation of the legislation and functioning of the legal institutions. Simultaneously, the corruption of the administration was flourishing. This has, of course, not been a favourable environment for the entrepreneurs and the economic recovery. The inflow of foreign private capital vanished. The current account deficit was financed mainly from current transfers.

Donations from the foreign Governments prevented the outflow of foreign exchange reserves. They remained at a high level (US\$ 833 million at the end of August 2002 or equivalent to 4.9 month import). The price stability was maintained through the strategy for management of the exchange rate.



*The views expressed are those of the authors and do not necessarily represent those of the Ministry of Finance

The denar exchange rate was de facto pegged to the Euro, and its stability was maintained through the interest rates that were too high. The rates on the money market were increased three times within six months (from 6.7% in January 2001 to 20% in July 2001). In 2002 monetary restrictions were introduced, but the interest rates remained high. At the end of November 2002, the interest rate on the money market was 13.6%.

The strategy of targeting the exchange rates showed to be a very successful in controlling the inflation. The price stability in 2002 (1.2% at the end of November) again reached the level of the industrial countries.

The continued recession and the high interest rates did not have any unfavourable effects on the financial sector. The monetary tightening overlapped with the fast restructuring of the banking sector which was dictated by the largest bank-Stopanska Banka-Skopje, after its taking over by the National Bank of Greece, European Bank for Reconstruction and Development and the International Financial Cooperation. Hence, the very high interest rates and the deep recession were not followed by a financial crisis, as it is usually the case. On the contrary, not only was it avoided in the Macedonian case, but the efficiency of the banking sector was also increased.

The main challenge in the next months will be to take care of the functioning of the institutions, implementation of the rule of law and integration of the country. In parallel with this, the policy makers will have to restore the market balance through the new mixture of fiscal, monetary and foreign exchange policy. They will create favourable business environment and a firm basis for fundamentally based growth and sustainable economic reforms of the labour market, post-privatization restructuring of the enterprises, improvement of the corporate management and continuation of the operational restructuring of the financial sector.

The detailed analysis of the above-mentioned issues is presented in the five parts that follow the Foreword. The second chapter is dedicated to the results of the enterprise sector and the macroeconomic policy success assessment. The third chapter covers the labour force market: labour force quality, flexibility and mobility, unemployment rate and poverty rate. The balance of payments equilibrium, indebtedness towards abroad and the foreign direct investments are presented in the fourth chapter. The demand management policy: the monetary and fiscal policies are analyzed in the fifth and the sixth chapter. The final remarks are given at the end of the seventh chapter.

Table1: Basic macroeconomic indicators

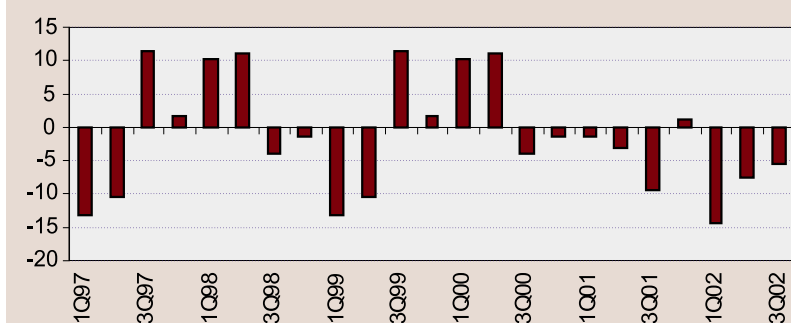
Years	1997	1998	1999	2000	2001	2002*
Production:						
- change in %	1.4	3.4	4.3	4.5	-4.1	0.0
- GDP						
- Industrial production	-0.1	4.5	-2.6	3.5	-3.1	-5.8
- Agricultural Production	1.0	4.0	1.0	3.5	-9.8	2.5
Economic development						
- GDP in mil. US\$	3,735	3,577	3,673	3,587	3,467	3,689
- GDP per capita	1,867	1,788	1,836	1,708	1,651	1,677
- Gross national saving as % of GDP	12.7	14.0	18.8	20.1	12.3	14.1
- GDP Deflator	103.4	101.4	102.7	108.2	104.2	101.8
Employment and salaries						
- Number of employed persons (end of the year)	313,808	312,951	315,092	307,220	292,892	278,350
- Number of unemployed (end of the year)	254,666	260,000	357,000	366,211	360,340	381,012
- % of unemployment	36.0	34.5	32.4	32.1	30.5	32.5
- Indexes of real net earnings (1990=100)	65.1	67.6	70.0	69.8	68.5	69.3
- Net average salary in US\$	182	172	170	155	154	168
Changes in salaries in %						
- Production price index	4.2	4.0	-0.1	8.9	2.0	-1.0
- Consumer price index	2.6	-0.1	-0.7	5.8	5.5	2.2
- Annual average	2.7	-2.4	2.4	6.1	3.7	2.1
- End of the year						

*Estimation

Economic activity

Following the deep recession in 2001, the feeble economic recovery commenced in the second quarter of 2002 when the annual GDP was increased by 0.3%. The projections for 2002 vary between 0% and 0.5%. The economic activity in the industry sector which is 26% of GDP was slowed down sixteen months in sequence. By the end of the third quarter of 2002, the reduction of the industrial production has not stopped yet. In the period January-September 2002, compared with the same period from the previous year, the industrial production was reduced by 9.5%. There was a slowdown in the production in 13 out of 24 industrial zones. There was a growth in 11 industry branches, the most important of which are the production of food and beverages and textile production. A turn of events is expected to take place in the first quarter of 2003.

Chart 1: Industrial production: annual changes



The production structure was not favourable and it was not oriented towards long-term recovery of the economy. The demand policies were mainly oriented towards sustaining of the price stability instead of the economic growth stability. The investments in fixed assets, which are a driving force of a sustainable high economic growth, have been dropping since 1997. The highest drop was the one in 2001 (10.8%). In 2001, the participation of the gross investments in fixed assets in GDP was reduced by 16.2%. The projections for 2002 maintain the same participation of the investments in GDP. Although low, in the period from 1997 to 2002, the investments in the country were higher than the domestic savings, on average by 5.3 percentage points. In 2001, the gap was 3.9%.

The strategy of targeting the exchange rates showed to be a very successful in controlling the inflation. The price stability in 2002 (1.2% at the end of November) again reached the level of the industrial countries

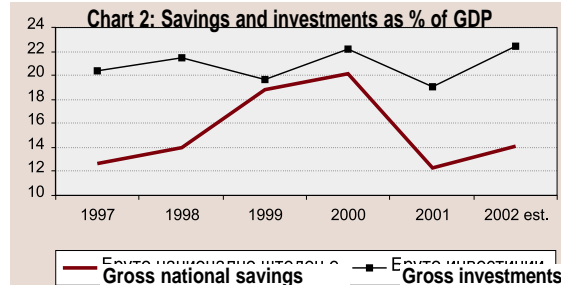
The main conclusion is two-fold. Firstly, on a medium-term basis, without import of the foreign savings (capital), the Macedonian economy cannot reach a fast increase. On a long-term basis, the inclination towards savings should grow with a faster pace than in the developed market economies. In order to join the group of economies with fast growth, the savings in the country should reach the level of 24% to 26% of GDP. Secondly, the need for import of foreign savings, on a medium term, will make the country face significant current account deficits. Such deficits cannot be offset with the adjustments to the exchange rate. On the contrary, such adjustments will only lead to a greater inflation. The alternative for the policy makers would be to accept lower economic growth rates. Accordingly, the main challenge for the next years for the policy makers would be to find out more appropriate mixture of the domestic savings, current account deficit and the economic growth rate.

¹ Trade Development and Poverty Reduction, World Bank

The efficient allocation of the domestic and foreign savings will play a key role. The main test for the banking industry as a main pillar of the financial sector will be to see if it is solid and if it has a capacity to play its historical role.

Taking into consideration the theory of reduced capital return and the experience of the advanced transition economies, the potential economic growth rate in the next decade would be very high, ranging from 5% to 7% annually. This should be a medium-term objective of the macroeconomic policies. Simultaneously, it will require extensive and detailed restructuring of the enterprise sector and the labour force market, which will, on a short-term, lead to further temporary growth of the nevertheless, high unemployment.

Chart 2: Savings and investments as % of GDP

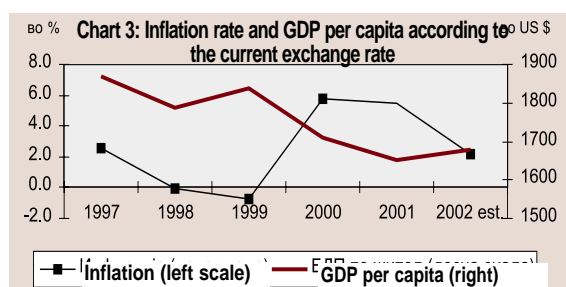


Despite of the investments in the country, the growth should also be led by the net export. This means that the economic growth would rely more on the world (foreign) demand than on the domestic one. This is the destiny of the small and open economies, such as Macedonia (2.1 million inhabitants and GDP of US\$ 3,5 billion in 2001). In addition, the open economies have tendency for faster growth than the closed ones.¹

A consequence of this is that the import of goods and services should increase significantly faster than the export of goods and services. This prerequisite was not a permanent feature of the Macedonian economy. In 2000, the growth rate of the import of goods was 19.2%, while the growth rate of the export of goods was 11.0%. Due to the strong recession, the export and import of goods in 2001 had a declining trend. However, the rate of export decline was by 3.9 percentage points higher than the rate of export of goods. It was projected for 2002 that the export of goods will continue to decline by 4.3% whereas the import of goods will be increased by 13.1%. Such movements are a proof that the Macedonian economy does not produce tradable goods. On the contrary, the greatest part of the production are non-tradable goods intended for consumption in the country. This requires fast restructuring of the economy with measures of the demand economy such as increase of

the investments in fixed assets, designing new products, introduction of new technologies, increase of the productivity and efficiency and reduction of the production costs. The measures of the demand economy should be combined with appropriate policies for demand management

The demand management policies are successful in the maintenance of the price stability. Since 1996, the inflation rate has been maintained at the level of the EU countries. However, the ultimate goal of the macroeconomic policy: a higher living standard and lower unemployment, as a sole measure for successful macroeconomic policy, has not been achieved yet. During the last six years, the unemployment rate was never lower than 30%. Moreover, the living standard was reduced. Accordingly, GDP per capita according to the current exchange rate was reduced from US\$ 1,867 in 1997 to US\$ 1,677 in 2002 (estimate).

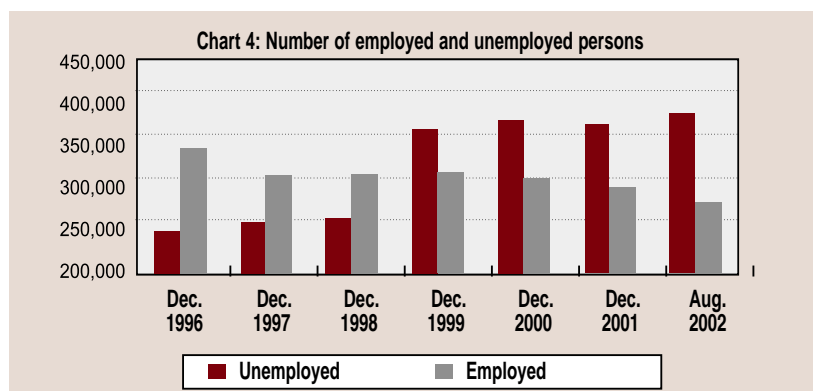


It was proven that the demand management policies only were not sufficient for sustainable growth. The fundamental growth conditions: macroeconomic stability, provision of ownership rights, corruption-free administration, basic public services, efficient corporate management and efficient real and financial market and labour force market must exist in order to achieve the ultimate goal of the macroeconomic policies: high living standard and low unemployment.

Labour force market

The main features of the labour force market are the following: the high demand of qualified labour force, low demand of the labour force in the processing industry, inflexible costs of the labour force in comparison with the unemployment level, low mobility and flexibility of the labour force and high institutional protective schemes for the employees. This created a vicious circle: the employees pretended that they worked, while the employers pretended that they paid them. The outcome was a decade of economic stagnation, high unemployment and low living standard.

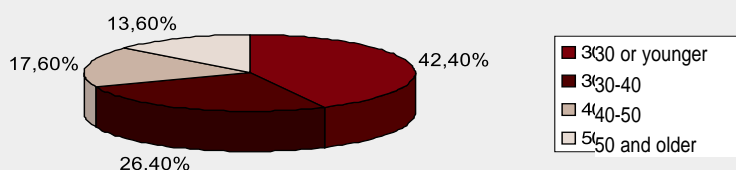
At the end of August 2002, the total number of employees was reduced to 279,009 (excluding the employees in the sector of individual farmers) which historically observed, is the lowest level in the country. In addition to this, 66,125 employees, or 23.7% have not been receiving their salaries on a regular basis. Simultaneously, the number of unemployed persons reached the record level: 376,076 at the end of October 2002. Thus, the number of unemployed was by 97,067 higher than the number of the employed, or there were 1.3 unemployed persons at each employed one. At the same time, at the end of October 2002, the number of pensioners was 259,185. If the number of persons seeking employment and the number of pensioners are taken together, it comes out that the ratio of the employed persons to the dependent ones is 1:2.04.



Despite of the investments in the country, the growth should also be led by the net export. This means that the economic growth would rely more on the world (foreign) demand than on the domestic one. This is the destiny of the small and open economies, such as Macedonia. In addition, the open economies have tendency for faster growth than the closed ones

During the transition decade, the number of unemployed reached 205,000 or 117.8%. Most of the people who are searching job are young, in the most productive age. Thus, 42.4% of the unemployed are at the age of 30 or less. The persons searching a job, at the age between 31 and 40 cover 26.4% of the total, or in a cumulative sense, the unemployed at the age of 40 or below cover 68.8% of the total number of unemployed. The persons over 40 cover 31.1% of the total number of unemployed. Almost 60% of the unemployed wait for a job for more than four years. The persons waiting for employment for 12 months or less are 16.7% of the total number. This refers to the fact that the high unemployment is structural, determined by fundamental factors. As such, it can be solved only on a long term, by development support.

Chart 5: Unemployment per age



With respect to the sex structure of the unemployed, 56.9% of the total number of unemployed are men. According to the qualifications 69.2% of the unemployed have completed high school or a lower level of education. In addition to the high unemployment, the participation of the inactive population is high.

The fast market-led growth is the most powerful weapon against the poverty Macedonia faces. The years of price stability should be replaced with years of economic stability and dynamics. The policy makers are aware that comprehensive and bold reforms are necessary in order to alleviate poverty. Still, what is required is a dialog, acceptance of the reforms and social peace

The average net salary per employee at the end of August 2002, amounted to denar 11.665 or US\$ 183. In real terms, it was by 4.6% higher compared with the same month in the previous year, when the economic

activity was declining. In the recession year, 2001, the real salaries fell by only 1.9%. Net salary of denar 3,000 (US\$ 48) or less is received by 5.9% of the employees, net salary between denar 3,001 and 5,000 (US\$ 48-80) is received by 15.0% of the employees and between denar 5,001 and 12,000 (US\$ 80-198) by 55.1% of the employees. Only 1.4% of the total number of employees receive a net salary of over denar 30,000 (US\$ 472).

The Macedonian households have an average income of denar 13,576 (US \$ 214) which is US\$ 7.1 daily or US\$ 1.8 daily per person. Thus, the living standard of the population is at the level of the least developed countries. Around 76,722 households were welfare beneficiaries the average amount of which is denar 2,428 (US\$ 38) per month. 4,918 persons received welfare in the amount of denars 2,645 (US\$ 42) per month, while 17,513 persons were beneficiaries of social assistance for domestic care in an average amount of denar 3,150 (US\$ 49).

The fast market-led growth is the most powerful weapon against the poverty Macedonia faces. The years of price stability should be replaced with years of economic stability and dynamics. The policy makers are aware that comprehensive and bold reforms are necessary in order to alleviate poverty. Still, what is required is a dialog, acceptance of the reforms and social peace. In order to have a social peace, people must feel safe, have guarantees, real price of their labour and chances based on sustainable development.

(to be continued)

THE TOŠOVSKY DILEMMA - CAPITAL SURGES IN TRANSITION COUNTRIES

Transition countries that open themselves up to global capital markets are like honest citizens in a dangerous world—they are vulnerable to large and potentially erratic flows. Such flows should not be seen as one-off destabilizing events: they are intrinsic to the transition process and therefore need to be factored into policy formulation

Stylized fact number one: There has been and continues to be a pronounced real appreciation of the currencies of the advanced transition countries of Central and Eastern Europe against the currencies of their industrial neighbors. Unless domestic real interest rates in these transition countries are kept relatively low, the currency appreciation could well attract huge capital inflows—flows so large that they could overwhelm policymakers' efforts to control inflation and contain external current account deficits.

Stylized fact number two: Capital/labor ratios are much lower in the transition countries than in their more advanced Western neighbors. The scarcity of physical capital, coupled with a reasonably strong endowment of workforce skills and infrastructure, means that a relatively high real interest rate is needed to balance saving and investment. If interest rates are low, investment will far exceed saving, fueling inflation and widening the external current account imbalance.

The clash between the low equilibrium real interest rate derived from stylized fact number one and the high equilibrium real interest rate derived from stylized fact number two motivates the arguments that follow and sets up a difficult dilemma for economic policy. This dilemma was first identified in the mid-1990s in discussions with then Czech National Bank Governor Josef Tosovsky; it has subsequently been referred to as the "Tosovsky Dilemma" by those at the IMF working in the area. The market may resolve this dilemma in the

way that it sets risk premiums on investments in the transition economy. But, insofar as risk premiums are sometimes erratic and, in any event, sensitive to factors beyond the reach of the authorities, capital flows can overwhelm efforts to stabilize the economy. This article concludes with some strategic imperatives that policymakers in transition countries should constantly keep in mind; these could also apply to other emerging market countries with relatively well developed human and physical infrastructure.

Leslie **LIPSCHITZ**,
Timothy **LANE**,
Alex **MOURMOURAS**

Table 1 Huge currency appreciations

Very large real exchange rate appreciations in the Central and Eastern European countries have been responsible for these countries' large GDP gains when measured in deutsche marks.¹

(cumulative percentage change)

1992-1997			1997-2002 ²		
Real GDP	DM GDP	RER	Real GDP	DM GDP	RER
7,0	177,7	147,3	18,6	66,9	34,5

Source: IMF, World Economic Outlook (WEO), various years (Washington).

¹The Central and Eastern European countries are Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic, and Slovenia. DM GDP represents the GDP of the Central and Eastern European countries measured in terms of deutsche marks. RER represents the real appreciation of the Central and Eastern European currencies against the deutsche mark.

²WEO estimates and projections for 2001-02.

Currencies on the rise

Table 1 illustrates stylized fact number one: a sustained real appreciation of the currencies of the advanced transition countries against the currencies of Western Europe. It shows that cumulated GDP growth for 10 advanced Central and Eastern European countries is modest when measured in conventional real terms but is high when measured in terms of deutsche marks (most of the period under investigation precedes the introduction of the euro). This difference—which is due chiefly to a very large real appreciation against the deutsche mark—is most pronounced over the first five years of the transition but still considerable over the second five-year period.

Two explanations for this real appreciation—both of which see the trend as equilibrating—are most commonly adduced:

- The real value of the currency may have been very low at the start of the transition, reflecting the demise of the traditional Soviet market and the absence of any market penetration or product reputation in Western markets. Some trend real appreciation would be natural as these handicaps are overcome.
- Productivity is likely to be greater in the traded goods sector than in the nontraded goods sector because of the exposure of the former to Western

markets and, perhaps, foreign direct investment and technology transfer. This imbalance will produce equilibrating upward pressure on the relative price of nontradables (and thus the real exchange rate) through both wage leadership and demand pressures.

A persistent appreciation has implications for domestic interest rates through the so-called interest parity condition—that is, ignoring risk premiums for the moment, a trend real appreciation of a Central or Eastern European currency against, say, the euro, should mean that the real interest rate is lower for a transition currency than for the euro. If real interest rates were the same or higher in the transition country, money would flow out of the euro area and into the transition country to take advantage of the expected gain from appreciation—these are referred to as interest-arbitraging flows.

For example, the equilibrium real interest rate in Poland should be equivalent to that in Germany minus the expected real appreciation of the zloty. If the real interest rate in Germany is 21/2 percent and the zloty is expected to appreciate, on average, by 6 percent a year in real terms, then, from the point of view of international arbitrage flows, the equilibrium real interest rate of the Polish zloty should be minus 31/2 percent a year. Anything higher would elicit large inflows, putting either downward pressure on the interest rate (under a pegged exchange rate regime) or upward pressure on the currency (under a floating exchange rate regime).

The data for this example correspond roughly to those in Table 2, which shows actual average real interest rates over a five-year period and the real interest rates that, ex post, would have been consistent with interest parity. In most cases, the actual interest rates were well above those calculated from interest parity, reflecting, presumably, the perceived risks on investments or capital market restrictions or imperfections. Nevertheless, the monetary authorities of many countries have been acutely aware of this mechanism limiting their ability to increase interest rates without risking large inflows or strong upward exchange rate pressure.

Table 2 Interest rates

Real interest rates in Central and Eastern European countries have generally been higher than implied by interest parity.

	Actual real interest rate ¹	Real currency appreciation ²	Parity real interest rate ³
Bulgarija	-10,4	8,5	-5,8
Czech Republic	-2,0	4,9	-2,6
Estonia	-6,2	10,1	-7,2
Hungary	3,1	2,4	-0,3
Latvia	3,4	11,4	-8,3
Lithuania	8,8	14,5	-10,8
Poland	4,4	5,8	-3,4
Romania	21,7	4,1	-1,9
Slovak Republic	7,4	4,4	-2,1
Slovenia	-5,1	2,3	-0,1

Source: IMF, *International Financial Statistics* (various years), and staff calculations.

¹Short-term treasury bill rates are used except for the Czech Republic, Estonia, and the Slovak Republic, for which we use deposit rates.

²Average annual rate, December 1994 to December 1999.

³Calculated using the average German real interest rate for December 1994 to December 1999.

Capital scarcity and investment

Turning to stylized fact number two, we know that the Central and Eastern European countries' capital endowments are much smaller than those of the advanced countries of Western Europe. The lower the capital/labor ratio-or the output/worker ratio-relative to Western Europe, the higher the relative marginal product of capital and the closed-economy equilibrium real interest rate. Therefore, although the transition country's equilibrium real interest rate may be lower than that in Western Europe from the interest-parity condition described above, the difference in capital endowment means that the notional, closed-economy, equilibrium real interest rate is much higher than in Western Europe.

Deriving relative marginal products of capital is conceptually straightforward, and some illustrative calculations are shown in Table 3.

Column 1 shows GDP per worker in the Central and Eastern European economies as a percent of German GDP per worker. On this basis, column 2 shows relative marginal product of capital: thus, for example, the marginal product of capital in the Czech Republic is three and one-half times that in Germany.

Of course, these figures boggle the mind. If this simple model has any truth to it, the rate of return on capital in the transition countries is massively higher than that in Western Europe. If these transition economies were closed, the real interest rates required to equilibrate saving and investment would be very high. Given that these economies are open and small relative to global capital markets, there should be huge capital inflows.

As a crude polar extreme, assuming frictionless adjustment in a year-that is, that by the end of the year so much capital would have been injected that the transition country worker's output would have grown to equal that of his German counterpart-column 3 shows capital flows ranging from 150 percent to over 800 percent of preflow annual GDP. One can quibble with the calculations, but the magnitudes are so great that one cannot quibble with the basic result. The differential in capital/labor and output/labor ratios between Western Europe and the transition countries is such as to make the notional, closed-economy, equilibrium real interest rate in the transition countries very high relative to that in Western Europe, and

the equilibrium capital flow very large if there are no impediments to such flows.

Table 3 Capital scarcity

Capital endowments and output per capita are much lower in the Central and Eastern European countries than in Western Europe, implying large potential capital inflows into the region.

	GDP per worker ⁶	Relative marginal product of capital ⁷	Potential inflows ⁸
Bulgaria	22,9	19,1	753
Czech Republic	53,6	3,5	275
Estonia	31,1	10,3	543
Hungary	55,7	3,2	259
Latvia	20,9	22,9	825
Lithuania	28,5	12,3	596
Poland	38,6	6,7	425
Romania	26,9	13,8	634
Slovak Republic	42,2	5,6	381
Slovenia	72,8	1,9	147
Median	34,9	8,5	484
Minimum	20,9	1,9	147
Maximum	72,8	22,9	825

Source: IMF, *World Economic Outlook*, and World Bank, *World Development Indicators* (WDI), various years.

⁶In percent of German GDP per worker (purchasing-power-parity basis).

⁷Cobb-Douglas production function.

⁸In percent of initial (pre-inflow) GDP

The policy dilemma

The two strands of the argument thus far set up an impossible dilemma for policy. The interest-arbitrage conditions would seem to suggest that if the monetary authority in the transition country sets interest rates, ex ante, high enough to reflect the real capital scarcity in the country (as shown in Table 3), there will be huge capital inflows (to take advantage of the real interest rate differential). Such large capital account inflows would elicit an equally large current account deficit. If the domestic monetary authority sets interest rates low enough to forestall such arbitraging inflows, rates will be so far below the marginal product of capital that there will be an enormous imbalance between saving and investment and a huge current account deficit. In either case, any semblance of financial restraint will be overwhelmed and there will be a correspondingly large current account deficit.

The problem is quite independent of the exchange rate regime. Under a fixed-rate regime, actual capital flows will occur. While the monetary authorities may try to sterilize the monetary impact, such sterilization will be costly and, ultimately, unsuccessful. Thus, the

economy will become highly liquid, interest rates will be forced down to well below the real return on capital, and a huge imbalance between domestic saving and investment will produce a large current account deficit. Under a floating exchange rate, the incipient capital flows will force an appreciation of the exchange rate with similar results for the current account. (Indeed, there will almost certainly be an overshooting of the exchange rate, as the exchange rate will have to move to a point where a significant depreciation is expected.)

A market solution

The real world is not quite this dire. Although capital inflows may have been large at times, it is clear from Table 2 that they have been insufficient to arbitrage out real interest rate differentials. Why has this happened? Market frictions, restrictions, and imperfections are part of the story, but risk premiums may be the market solution to the dilemma.

Consider the simplest ideal: the market sets risk premiums that are highly sensitive to current account deficits. In this case, every country, no matter how small it is relative to global capital markets, faces an

Unless domestic real interest rates in the transition economies are kept relatively low, the currency appreciation could well attract huge capital inflows—flows so large that they could overwhelm policymakers' efforts to control inflation and contain external current account deficits. This problem was first identified in the mid-1990s in discussions with then Czech National Bank Governor Josef Tosovsky; it has subsequently been referred to as the "Tosovsky Dilemma"

upward-sloping supply of funds. Thus, for example, with a balanced current account, there would be very large incipient capital inflows and little independence for domestic monetary policy. But as these inflows occurred and the current account deficit increased, risk premiums would rise, permitting some increase in domestic interest rates above those abroad. Eventually, at some equilibrium level of the current account deficit—ideally, a level where investment would be high, but not so high as to lead to significant adjustment friction and high inflation—risk premiums would be large enough to permit the authorities to set domestic interest rates at a level that could equilibrate saving and investment.

If risk premiums were set like this fictional ideal, we would have the best of worlds. The transition countries would be able to pursue real convergence—that is, convergence of capital/labor ratios and productivity levels—with optimal assistance from global capital markets.

The real world, however, is seldom this benign. In practice, risk premiums will be a function of a broad array of variables, some obvious—domestic economic, financial, and political developments—some beyond domestic influences—such as global capital market conditions—and some seemingly erratic—bandwagon effects, contagion, and the like.

The bottom line

So where does this leave us? We know that there are real mechanisms, endemic to the convergence process, that will make transition economies highly sensitive to external capital market conditions and limit domestic monetary independence. We also know that, because these are real, not nominal, mechanisms, the choice of exchange rate regime will not solve the problem (although, as argued below, it may have some significant secondary implications). And we know that well-behaved risk premiums can provide some protection. However, when risk premiums are erratic, the country will be subject to erratic, and potentially overwhelming, influences from abroad—both inflows that will undermine financial restraint and outflows that could cause payments crises and require painful compression of demand.

The implications of these findings are both awkward and profound. Global capital markets are huge relative to the sizes of these economies, so small portfolio shifts can exert an overwhelming influence on capital flows and domestic financial conditions. Therefore, policymakers should be continuously cognizant of the importance of reducing vulnerabilities.

First, governments need to implement sound economic management—including transparency and data dissemination—to ensure that the impetus for changes in capital market sentiment does not emanate from erratic domestic policies. This goes beyond simply having sensible policies; it requires that the market be properly informed about them. Easy access to information (including through candid and accessible IMF reports) would enable investors to assess risks independently and would likely militate against herd behavior.

Second, openness to global capital markets reduces the possible range of action for monetary policy. Thus, the fiscal stance becomes the preeminent tool of stabilization policy. Sustained fiscal austerity will lay the foundation for larger fiscal stabilizers in times of need.

Third, on the best way to open up the capital account, the conventional desiderata apply: the long end of the market should be opened up before the short—that is, foreign direct investment before portfolio flows. Insofar as erratic changes in risk premiums can reasonably be construed as a market failure, there may be a "market-failure" case for imposing or retaining capital controls—especially price-based controls on short-term inflows. But it would be folly to push this line too far in practice. It is often difficult to make controls stick; controls that can be circumvented may produce a culture of evasion; and capital controls may well reduce beneficial inflows over the longer term.

Fourth, the institutional and regulatory regime in the financial sector matters. A strong prudential regime should be in place before the capital account is fully liberalized. Banks' open foreign exchange positions should be strictly limited. Moreover, there may be hidden risks: even if banks seemingly have no direct net foreign exchange exposure, they may be exposed through unhedged corporate and household

borrowers. Therefore, countries need to seek policies that force corporations and households to be fully sensitive to currency risk.

Capital/labor ratios are much lower in the transition countries than in their more advanced Western neighbors. The scarcity of physical capital, coupled with a reasonably strong endowment of workforce skills and infrastructure, means that a relatively high real interest rate is needed to balance saving and investment. If interest rates are low, investment will far exceed saving, fueling inflation and widening the external current account imbalance

Finally, the exchange rate regime can profoundly influence market behavior and the scope for government action. For domestic borrowers, a long-lived peg can induce the private sector to take substantial open positions. For policymakers, large open positions in banks and corporations make it very costly to adjust exchange rates in a crisis; typically, therefore, governments try to resist for a while. For market agents, the exchange regime may encourage large, opportunistic, speculative flows when it becomes evident that the authorities are resisting an inevitable break in a fixed exchange rate regime. Thus, in most circumstances, a floating exchange rate regime is less vulnerable than a pegged regime.

Taken from: "Finance and Development",
September 2002

THE PRICE OF PROFLIGACY

Do bigger budget deficits cause higher interest rates?

Mitch Daniels, the top budget man in the Bush administration, last week acknowledged what private economists have known for months: that America has "returned to an era of deficits in the nation's public finances". Only two years ago, Mr Daniels was touting a projected ten-year budget surplus of more than \$5 trillion as proof that America could easily afford a big tax cut. Now he expects deficits of between \$200 billion and \$300 billion (2-3% of GDP) over the next couple of years and modest spills of red ink "for the foreseeable future". What is more, these deficits exclude both the cost of a war in Iraq and President Bush's planned \$670 billion tax cut.

No one disputes that the speed of America's fiscal deterioration has been dramatic. But is it a cause for concern? A fierce political debate is raging. Democrats (and many Republican fiscal hawks) worry that rising budget deficits will harm the economy by reducing total national saving and pushing up interest rates. Just as the shift to budget surpluses in the 1990s helped to reduce interest rates and boost corporate investment, they argue, so the return to deficits will do the reverse.

Nonsense, say the administration and its allies. Mr Daniels claims there is no reason to "hyperventilate" about budget deficits. The vice-president, Dick Cheney, argues that there is no evidence that interest rates move "in lockstep" with deficits. Other conservative commentators dismiss the idea that deficits affect interest rates as "Rubinomics" (after Robert Rubin, Bill Clinton's treasury secretary). The evidence, they claim, has never supported this crackpot idea.

The foundations of Rubinomics

In fact, Rubinomics is well grounded in economic theory. Few economists deny that, other things equal, a higher long-run budget deficit-or a smaller surplus-reduces national saving. This could be avoided only if larger deficits were fully offset by higher saving in the private sector, as households, recognising that deficits

today meant higher taxes tomorrow, saved more to make up for the government's profligacy. In practice, there are few signs that savers are so far-sighted.

It is probable, then, that total saving will fall. This implies a higher interest rate as the government competes with firms for limited investment funds. This effect is muted when a country has access to foreign capital, because the budget deficit can be financed from abroad. But even in a global capital market, economic theory suggests that a bigger deficit in a large economy, such as America, would push up global interest rates.

At issue, however, is by how much. The political slanging-match in Washington is not about whether deficits could raise interest rates in theory, but whether they do so significantly in fact. Those sceptical of Rubinomics point out that deficits were tame in the 1970s, while interest rates soared. Interest rates fell in the 1980s, while deficits ballooned. And in the past two years long-term interest rates have fallen as the budget outlook has darkened. These commentators also note that the formal econometric evidence is inconclusive: plenty of studies find a statistical link between interest rates and deficits; plenty find none.

Quite right. It is hard to disentangle the effect of changes in today's budget deficit from other factors affecting interest rates. As well as fiscal policy, monetary policy and the economic weather play a role. During the past couple of years, a weaker economy and looser monetary policy have probably pushed long-term interest rates down, outweighing any impact from bigger deficits. On top of this, it is not enough simply to look at the effect of today's budget deficit (as many studies do). Investors' expectations about future deficits are likely to influence long-term interest rates. So they should also be estimated and taken into account.

According to a new paper by William Gale and Peter Orszag, two economists at the Brookings Institution, the evidence that deficits affect interest rates becomes clearer once a measure of expected future deficits is included. Mr. Gale and Mr. Orszag sifted through 58 econo-

*The views expressed are those of the authors and do not necessarily represent those of the Ministry of Finance

metric studies. At first sight the sceptics are right: the evidence is inconclusive. Fewer than half of the studies (28) found that higher deficits increased interest rates significantly. Nineteen studies found no significant effect and 11 had mixed results.

However, Mr. Gale and Mr. Orszag argue that only 17 of these studies included a careful measure of expected future deficits. No fewer than 12 of these found a significant relationship between deficits and interest rates. The authors conclude that a projected rise in the budget deficit of 1% of GDP raises long-term interest rates by 0.4 to 0.6 percentage points.

These results are similar to the numbers built into many macroeconomic forecasting models used by official and private-sector organisations (including the Federal Reserve and the IMF). They all assume that there is a connection between changes in budget deficits and long-term interest rates. On average, they suggest that long-term rates would rise by half a percentage

point after one year and a full point after ten years if America's budget deficit rose by 1% of GDP.

This paper will not settle the debate in Washington, not least because Mr. Gale and Mr. Orszag are both prominent Democrats. Indeed, their work has already

There have been a concern that rising budget deficits will harm the economy by reducing total national saving and pushing up interest rates. Just as the shift to budget surpluses in the 1990's helped to reduce interest rates and boost corporate investment, so the return to deficits will do the reverse

been dismissed as partisan politicking on the Wall Street Journal's editorial page and elsewhere. That is a pity. The paper may have flaws, but it does attempt to re-examine the evidence and so deserves serious discussion. Unfortunately, in Washington today the argument over whether deficits affect interest rates has more to do with ideology than with economics.

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