

BULLETIN

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MINISTRY OF FINANCE
REPUBLIC OF MACEDONIA

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Skopje, July-August 2003



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HONOURABLE,

The new issue of the Bulletin of the Ministry of Finance is in your hands and as always, you will find many interesting economic information. The first part presents statistical data on the Macedonian economy, along with the data on the most recent macroeconomic developments, supplemented by several articles on current issues in the second part of the Bulletin.

Given the fact that the period for publishing this double issue of the Bulletin coincides with the end of first-year term of office of the new government, this introductory address will have slightly different concept. In fact, we will try to present brief review on part of the more significant activities of the Ministry of Finance in the past year, thereby not mentioning the situation and open issues we faced with at the beginning of our term of office. We decided to do this since we consider that reporting and transparency are the basic postulates in strengthening the democratic principles in the Republic of Macedonia.

We will begin with the basic document that creates the economic environment in the country, i.e. the 2003 Macroeconomic Policy of the Republic of Macedonia, which projected 3% GDP growth and 3% average inflation rate. Three additional documents were also prepared as support of the policies set out in the Macroeconomic Policy: 1) Measures for mobilizing the savings, increasing the private sector crediting and investments, 2) Measures for job creation and labour market flexibility, and 3) Export promotion measures. It is my pleasure to point out that according to the most recent estimates the Republic of Macedonia will realize the projected GDP growth rate by the end of the

year, whereby the inflation rate will be below the projected level.

The appropriate economic policy of the Government was also verified by the international financial institutions, by concluding the Stand By Arrangement with the IMF, approved by the IMF Board in April 2003. The conclusion of the Arrangement immediately resulted in disbursement of the previously-pledged macro-financial assistance (US\$ 16.5 million, US\$ 17.1 million credit by the World Bank under the PSMAC Arrangement, US\$ 20 million credit by the World Bank under the FESAL Arrangement, EUR 10 million credit and EUR 10 million grant by the European Commission), while the assistance by the Kingdom of the Netherlands in the amount of EUR 17 million and the last tranche of the macro-financial assistance by the European Commission in the amount of EUR 26 million are in the process of realization.

During the year, significant activities were also carried out in the area of completing the legislation in several different economic sectors.

Dimko Kokarowski, Ph.D.
Deputy Minister of Finance



These are the more significant ones in the **financial sector**: *Law on Amendments and Modifications to the Banking Law*, pursuant to which the minimal amount of voting shares in a bank, the acquiring of which requires previous approval by the National Bank of the Republic of Macedonia, is reduced from 10% to 5% and compulsory consent by the National Bank is introduced regarding capital investments of banks which exceed 10% of its guarantee capital.

Furthermore, *Law on Amendments and Modifications to the Law on Deposit Insurance Fund* pursuant to which the total volume of funds of the Fund is reduced from 5% to 4% of total deposits, having direct effect on reduction of costs of banks and their interest rates on debit balance. Also the decision according to which the banks and savings houses paid differentiated insurance premiums for deposit insurance depending on their solvency is repealed.

Pursuant to the *Law on Amendments and Modifications to the Law on National Bank of the Republic of Macedonia* the competencies for proposing vice governors were transferred from the President of the State to the Governor of the National Bank, the independence and autonomy of the National Bank is strengthened by fully transferring the denar exchange rate policy under its competence and the transparency of the operations is increased via introducing obligation for exchange of data and information with state institutions relevant for functioning of the monetary and financial system.

Not to forget the commenced *project for issuance of government short-term securities, i.e. treasury bills*. To this effect, the Ministry of Finance has prepared *Government Securities Market Development Strategy*, which elaborates the basic principles and activities for introduction of government securities as an instrument for financing the budget deficit and the current liquidity needs, as well as an instrument for promoting more dynamic development of the financial markets in the Republic of Macedonia. The issuance of government securities is expected to begin in January 2004, and they will be denominated in denars with three-month maturity period.

Regarding the **fiscal sector**, to the end of strengthening the revenue side of the budget, new *Law on Amendments and Modifications to the VAT Law* was adopted, according to which the rates are adjusted, the obligation for submitting annual tax return is terminated, thus reducing the administrative burden of the taxpayers and the tax administration and introducing VAT exemption for import of goods intended for foreign donations-financed projects. *Law on Profit Tax* was also amended, according to which the base for calculation of profit tax for investments up to EUR 100,000 is reduced by 100%, with a possibility to carry the right forward in the following years. The part of total investments for which the tax base for calculation of profit tax is reduced increased from 25% to 30%.

The *Law on Amendments and Modifications to the Law on Registering Cash Payments* introduced compulsory fine that can be collected on the spot, and it also provides opportunity for the tax inspector to temporarily close the premises of the tax payer if he fails to eliminate the irregularities set in the decision in the determined period. Amendments and modifications were also made to several other laws, among which: Excise Law, Law on Calculation and Collection of Public Revenues, Law on Administrative Fees, Law on Property Taxes, Payment Operations Law, Law on Customs Tariff and many others.

Regarding the public expenditure management, at the very beginning of the term of office of the new Government, 2002 Supplementary Budget of the Republic of Macedonia was adopted, which provided legal grounds for payment of the thus-far determined exceeding of the budget limits, i.e. non-budgeted arrears in the public sector, in the amount of around Denar 4.4 billion. In this period, the *2001 Final Account of the Budget of the Republic of Macedonia* was adopted.

Law on Execution of 2003 Budget of the Republic of Macedonia was also adopted, which stipulates that the programs for budget spending should be compulsorily adopted by the Government, thus providing preconditions for earmarked utilization of public resources, implementation of the set budget policy, and the Government has greater insight and there is higher transpar-

ency and review on public funds utilization. The law contains provisions according to which genuine revenues can be used if they are higher than the ones approved in the 2003 Budget, but upon prior approval by the Parliament, except for the revenues from foreign project-related credits and donations. In parallel, the Ministry of Finance prepared *Law on limiting genuine revenues for financing public expenditures in 2003*, which mandatorily is in line with the budget and limits the maximum amount of genuine revenues in the budget year that can be used for financing the central budget, the funds and the local government units.

To the end of reducing the possibilities for the budget users to assume liabilities over the approved budget ceilings and thus to create arrears, as well as to the end of increasing the controlling role of the Ministry of Finance, *Law on Amendments and Modifications to the Public Procurement Law* was adopted. Amendments were also made to the *Law on Civil Servants* which postpone the application of the part referring to the salaries and eliminate the part that did not allow reduction of the salary on the basis of redeployment to lower position.

In order to retain the achieved economic and financial performances and to provide monetary stability by the end of the year, the Ministry of Finance prepared 2003 Supplementary Budget of the Republic of Macedonia, which reduced the central budget deficit from 1.6% to 1.4% of GDP. In fact, instead of deficit of about 1.2% of GDP as it was planned, mild surplus of about 0.1% of GDP was realized in the central budget in the first six months of 2003. The reason for such deviation is in the delay of expenditure performance, primarily capital expenditures. It is expected that the delay in the expenditure performance in the first half of 2003 will be offset by the end of the year.

In addition to these activities, the Ministry of Finance also coordinated the activities on the bases of which in early 2003 the World Bank approved new three-year Country Assistance Strategy for the Republic of Macedonia in the amount of US\$ 165 million.

In this period, in cooperation with the Ministry of Economy, Ministry of Justice, Privatization Agency and the

National Bank, and as a result of resolving the status of part of the loss-making enterprises and opening tender procedures for the remaining ones, placing the banks with problematic portfolio under special supervision by the National Bank of the Republic of Macedonia and adopting new Law on Collateral, the World Bank, in July 2003, released the *second tranche of FESAL 2 Arrangement* in the amount of US\$ 20 million. The disbursement of irreversible financial assistance from the Government of the Kingdom of the Netherlands in the amount of EUR 17 million is ongoing.

At the same time, by signing the Stand By Arrangement with the IMF and the consolidation of the budget expenditures, all obligations arising from PSMAC 1 Arrangement (Public Sector Management Adjustment Credit) were fulfilled. The Ministry of Finance signed the Credit Agreement in May 2003, followed by disbursement of the funds in the amount of US\$ 17 million.

We should not forget to mention the Credit Agreement signed with the World Bank, intended for support of the *Community Development Project* in the amount of US\$ 5 million. The Ministry of Finance and the Ministry of Local Government are the implementing agencies of this project. The primary objective of the project is to provide development in the regions affected by 2001 conflict via reducing the poverty, restoring the normal way of living and maintaining social cohesion.

This is only part of the projects and activities of the Ministry of Finance in the course of the previous year. We would need much more time and space to fully and thoroughly describe everything. However, despite the unreserved engagement and the will to realize all assumed obligations and tasks, certain activities will remain to be fulfilled in the months to come. We can mention the following: Audit Law, adoption of Decree on chart of accounts for banks, savings houses and other financial organizations and Rulebook on the contents of separate accounts in the chart of accounts of banks, savings houses and other financial organizations, Law on Motor TPL, Law on conditions for open-

ing accounts and depositing free funds of public enterprises, local government units, joint stock companies with dominant state-owned capital and other state administrations bodies not having a status of budget users, new law on commodity reserves, etc.

After all this, we can say with certainty that the selected economic and financial policies of the Government are step in the right direction and they have already yielded results. Performance of Macedonian economy is improved. This year GDP increased, as well as the industrial production and the foreign exchange reserves. Budget deficit was reduced, interest rate decreased and there was low inflation rate. However, many problems remain in front of us and we will solve them in the upcoming period, however we will need

the support of the professional and academic circles, as well as the cooperation with the international institutions. The major problem still remains to be the low level of investments, which becomes limiting factor for more dynamic growth with direct implications in the area of job creation.

Enjoy reading this Bulletin.

Deputy Minister of Finance

Dimko Kokaroski, Ph.D.

BASIC MACROECONOMIC INDICATORS

Annual data for Republic of Macedonia

		1993	1994	1995	1996	1997	1998	1999	2000	2001*	2002*
Real GDP	%	-7.5	-1.8	-1.1	1.2	1.4	3.4	4.3	4.5	-4.5	0.7
Inflation (average)	%	362	128	15.7	2.3	2.6	-0.1	-0.7	5.8	5.5	1.8
Inflation (end of period)	%	248.2	55.4	8.8	-0.7	2.7	-2.4	2.4	6.1	3.7	1.1
Implicit deflator	%	442.1	151.9	17.1	2.9	3.4	1.4	2.7	8.2	3.6	3.4
Budget balance (Central budget and funds)	% of GDP	-13.4	-2.9	-1.2	-0.5	-0.4	-1.7	0.0	2.5	-6.1	-3.1
Exchange rate (average)	DEN/1USD	23.6	43.2	38.0	40.0	49.8	54.5	56.9	65.9	68.1	64.7
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	58.6
Export (F.O.B.)	USD bill.	1.06	1.08	1.20	1.15	1.20	1.31	1.19	1.32	1.15	1.11
Import (F.O.B.)	USD bill.	1.01	1.27	1.42	1.46	1.59	1.91	1.78	2.08	1.68	1.88
Trade balance	USD bill.	0.05	-0.19	-0.22	-0.31	-0.39	-0.51	-0.50	-0.70	-0.53	-0.77
Current account balance	USD bill.	0.08	-0.27	-0.30	-0.34	-0.29	-0.27	-0.03	-0.07	-0.24	-0.32
As % of GDP	%	-3.3	-7.8	-6.7	-7.7	-7.7	-7.5	-0.9	-2.1	-6.9	-8.7
Foreign exchange reserves	USD bill.	0.12	0.16	0.28	0.28	0.26	0.33	0.45	0.70	0.76	0.73
Import coverage (reserves / import)	months	1.4	1.6	2.3	2.2	1.9	2.1	3.2	4.1	4.9	4.1
External debt ¹⁾	USD bill.	1.14	1.26	1.44	1.17	1.13	1.47	1.49	1.49	1.48	1.55
As % of GDP	%	45.5	37.2	32.3	24.1	30.3	41.0	40.6	41.5	43.1	42.8

1) Since 1998, according to the new methodology suggested by the World Bank, total external 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 balance ²⁾			
	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004
European Union accession countries	-	4.3	3.9	4.3	21.1	15.8	10.1	7.3	-2.8	-3.4	-4.1	-3.6
Bulgaria	4.1	4.8	5.0	5.5	7.5	5.8	2.6	4.2	-6.2	-4.4	-4.6	-4.4
Czech Republic	3.1	2.0	1.7	2.6	4.8	1.8	0.6	3.5	-5.7	-6.5	-5.7	-5.1
Estonia	5.0	5.8	5.0	5.1	5.8	3.6	1.7	2.0	-6.1	-12.4	-12.6	-9.2
Hungary	3.8	3.3	3.0	3.5	9.2	5.3	4.7	5.5	-3.4	-4.0	-5.7	-5.4
Latvia	7.9	6.1	5.5	6.0	2.5	1.9	3.0	3.0	-9.6	-7.8	-7.3	-6.8
Lithuania	6.5	6.7	5.8	6.2	1.3	0.3	-	2.5	-4.8	-5.3	-5.7	-5.9
Poland	1.0	1.4	2.9	4.1	5.5	1.9	0.8	2.2	-3.9	-3.5	-3.3	-3.8
Romania	5.7	4.9	4.7	5.0	34.5	22.5	15.1	12.0	-5.5	-3.4	-4.8	-4.8
Slovak Republic	3.3	4.4	4.0	4.0	7.3	3.3	8.5	8.1	-8.6	-8.2	-6.3	-5.0
Slovenia	2.9	3.2	2.2	3.0	8.4	7.5	5.9	5.0	0.2	1.7	0.9	0.4
Turkey	-7.5	7.8	5.3	5.0	54.4	45.0	26.0	13.4	2.3	-0.9	-3.2	-1.9

1) Annual average

2) Percent of GDP

Source: World Economic Outlook (Recessions and Recoveries), IMF, Washington D.C., September 2003.

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 communication	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 + O	L + M + N				
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	6.3	6.9	5.3	-0.5	0.7	10.9	-0.6	-0.6	-0.6
III	3.6	-5.6	0.8	5.8	21.7	9.9	-0.4	0.5	15.8	1.0	1.0	1.0
IV	6.2	5.5	-3.0	6.5	9.4	13.3	-0.1	1.9	11.4	4.3	4.3	4.3
02/01	2.3	-5.1	-3.7	6.5	7.4	9.4	-0.1	1.3	11.0	0.7	0.7	0.7
2003*												
I	1.6	3.4	0.6	4.8	7.9	1.7	-0.7	2.5	0.9	2.2	2.2	2.2
II	2.5	3.4	-3.5	5.7	0.9	7.3	-0.5	2.1	-6.5	3.0	3.0	3.0

* Preliminary data

Source: State Statistical Office

GROSS DOMESTIC PRODUCT (PRODUCTION APPROACH)

In millions of denars		At current prices				
NACE Section	Description	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	71.4
C	Minerals and stone mining	1.584	1.620	1.856	1.312	-29.3
D	Manufacturing	35.202	36.764	40.926	39.587	-3.3
E	Electricity, gas and water supply	8.868	9.203	10.381	10.041	-3.3
F	Construction	11.267	10.880	13.361	11.801	-11.7
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	21.914	22.383	25.402	26.076	2.7
H	Hotels and restaurants	3.063	3.984	3.463	3.410	-1.5
I	Transport, storage and communication	14.309	17.233	21.261	21.694	2.0
J	Financial intermediation	7.229	6.977	7.342	7.420	1.1
K	Real estate, renting and business activities	5.206	5.890	7.466	8.304	11.2
L	Public administration and defence; compulsory social security	12.067	14.351	14.333	14.445	0.8
M	Education	8.030	8.769	8.266	8.048	-2.6
N	Health and social work	8.310	8.592	8.987	8.690	-3.3
O	Other community, social and personal service activities	4.887	4.967	5.217	5.548	6.3
P	Imputed rents	9.058	9.597	10.465	10.631	1.6
	Minus: Imputed banking services	5.036	5.017	5.153	4.738	-8.1
A	Value added	168.235	179.316	197.344	195.230	-1.1
B	Net taxes on production	26.747	29.694	39.045	38.611	-1.1
A + B	GROSS DOMESTIC PRODUCT	194.979	209.010	236.389	233.841	-1.1

1) Preliminary data.

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	9.971	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	2002			2003				
				Q - 1	Q - 2	Q - 3	Q - 4	Q - 1	Q - 2	July	August
REAL SECTOR											
Production											
real rates of change											
Gross domestic product	4.6	-4.5	0.7	-2.2	-0.6	1.0	4.3	2.2	3.0		
Industrial production	3.5	-3.1	-5.3	-13.9	-7.7	-5.6	5.5	3.5	4.0	15.3	-7.3
nominal rates of change											
Investment in machines and equipment	20.8	-16.9	16.4	48.1	22.8	-0.6	5.1	-26.3	13.8		
Prices											
Costs of living	5.8	5.5	1.8	3.7	3.5	-0.9	0.9	0.0	0.6	2.3	2.2
Industrial producer prices	8.9	2.0	-0.9	-1.9	-1.0	-1.4	1.0	1.4	-0.4	-1.0	-0.8
Competition of the industry											
Productivity	6.0	0.5	3.0	-3.2	6.7	13.9	21.8	20.3	10.3	24.7	0.5
Unit labour cost	-4.7	-0.7	0.2	2.2	-4.4	-6.6	-13.1	-19.6	-6.6	-17.7	1.1
Real unit labour cost	-12.5	-2.7	1.1	9.1	0.4	-3.6	-15.9	-22.8	-8.6	-16.7	2.0
Stock exchange prices of the major Macedonian export and import products											
Prices in US \$											
Crude oil brent	28.3	24.4	25.0	21.2	25.1	26.9	26.8	31.4	26.1	28.4	29.8
Lamb (c/kg)	261.9	291.2	330.3	311.1	319.2	339.7	351.5	356.7	375.8	394.1	386.6
Nickel	8,638.0	5,944.7	6,772.0	6,203.0	6,946.0	6,883.0	7,104.0	8,343.0	8,372.0	8,797.0	9,351.0
Copper	1,813.0	1,578.3	1,559.0	1,557.0	1,611.0	1,516.0	1,554.0	1,663.0	1,641.0	1,710.0	1,760.0
Lead	45.4	47.6	45.3	49.1	45.5	43.0	43.5	45.9	45.6	51.5	49.7
Zink	112.8	88.6	77.9	79.5	78.2	76.6	79.8	78.6	77.4	82.8	81.8
Steel cold rolled coilsreat	385.8	299.2	328.3	280.0	300.0	353.0	380.0	400.0	410.0	462.5	482.5
Steel hot rolled coilsreat	295.8	216.5	246.7	200.0	236.7	270.0	280.0	306.7	320.0	320.0	322.5
EXTERNAL SECTOR											
nominal rates of change in dollar amount											
Export of goods (FOB)	11.0	-12.7	-3.7	-16.7	-7.2	3.3	6.3	20.7	34.7	8.1	-1.7
Import of goods (CIF)	17.9	-19.4	16.3	11.8	13.5	31.3	16	19.6	25.4	3.8	-1.4
Trade balance (in millions of US \$)	-771	-533	-849	-200	-196	-184	-270	237.2	222.8	-67.8	-60.0
Current account of the balance of payments (in millions of US \$)	-236	-38	-324	-104.3	-59.2	-37.1	-123.9	-115.0	-72.0	-11.3	-1.7
Foreign exchange reserves (in millions of US \$) "—" means decrease	235.6	62	-41.0	-120.0	42.0	69.0	-41.0	-113.0	-62.0	7.0	-15.1
Medium and long-term external debt (end of period, in millions of US \$)	1,438.0	1,444.0	1,549.0	1,417.0	1,482.0	1491.0	1,549.0	1,541.0	1,624.0	1,625.0	1,593.0

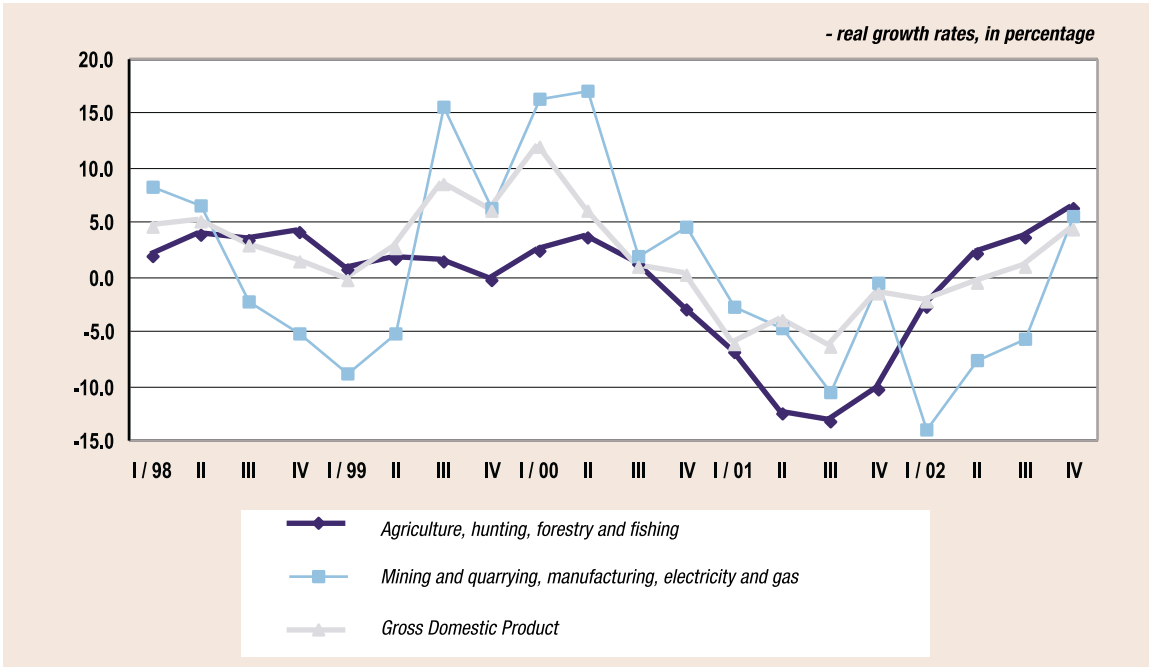
BASIC SHORT-TERM ECONOMIC TRENDS

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

	2000	2001	2002	2002			2003			
				Q - 1	Q - 2	Q - 3	Q - 4	Q - 1	Q - 2	July
Foreign exchange rates										
Denar / EURO	60.73	60.91	60.98	60.96	60.96	60.98	61.03	61.31	61.29	61.24
Denar / USA \$	65.89	68.04	64.73	69.53	66.50	61.98	61.05	57.18	54.08	53.85
GOVERNMENT FINANCE										
<i>nominal rates of change</i>										
Revenues	22.5	-10.3	10.1	20.5	32.9	26.8	0.1	-5.7	1.8	-5.0
Tax revenues	22.1	-6.9	14.0	13.1	31.3	23.2	-0.8	-7.8	-2.0	-12.4
VAT	75.2	-1.8	19.8	-4.5	52.0	31.2	40.9	4.5	21.3	-3.9
Expenditures	12.7	27.0	-0.1	21.3	-10.0	0.8	3.5	-18.3	-10.2	-28.0
Current expenditures	1.8	31.9	17.2	12.0	-16.0	17.9	-3.3	-2.4	7.3	-12.4
Capital expenditures	94.5	28.3	11.8	92.7	3.7	53.4	81.2	-71.2	-54.4	-79.6
Central budget balance (in millions of denars)	6,285	-12,490	7,343	463	-6,411	-4,979	-2,624	337.0	-155.0	577.0
General budget balance (in millions of denars)	5,905	-13,171	-13,019	-1,865	-5,076	-3,866	-2,213			-443.0
MONETARY SECTOR										
<i>nominal rates of change (end of the period)</i>										
Net foreign assets	73.8	57.6	-19.1	2.1	3.3	13.6	-27.7	-18.6	-7.2	-3.4
Credit to private sector	17.2	7.3	12.7	5.4	7.6	13.1	9.9	9.9	9.3	10.6
Cash in circulation	16.6	48.5	0.0	25.8	32.9	65	0.0	-13.4	-5.2	-8.1
M1	22.6	5.6	4.6	16.9	23.3	36.3	4.6	-8.6	-3.5	-4.5
M2	29.4	61.9	-7.0	47.7	60.5	64.6	-7.0	7.3	15.8	14.5
M4	25.6	56.7	-8.6	42.0	51.7	55.2	-8.6	5.2	12.4	11.5
Foreign exchange reserves / M4 (denars)	106.3	117.4	93.8	125.3	119.7	104.5	93.8	90.9	91.9	92.6
Foreign exchange reserves / M1	165.0	188.2	150.5	198.8	190.9	168.9	150.5	157.8	161.9	162.4
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	24,093	27,490	29,980	28,838	22,452	24,193	8,537
Number of new employed on full time	63,987	63,346	74,341	15,973	18,492	21,607	18,269	12,693	16,184	6,007
Wages										
Nominal net wages	5.5	3.5	6.9	4.7	5.0	7.9	8.8	6.3	7.1	3.1
Real net wages	-0.3	-1.9	5.0	1.0	1.4	8.8	7.9	6.3	7.1	0.8
Consumer basket	2.4	4.9	3.7	8.1	4.8	1.0	1.3	-1.0	-1.6	1.2
Social protection										
Number of pensioners	238,162	244,035	248,168	247,376	247,908	248,219	249,168	249,932	250,820	251,284
Number of households that receive social protection	75,277	77,309	81,027	80,931	79,552	81,626	81,997	59,658	61,585	61,847
Number of persons that receive unemployment benefits	34,618	36,975	45,819	42,636	45,065	48,118	47,456	44,125	45,484	44,599

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

GROSS DOMESTIC PRODUCT



In million USD dollars

	1993	1994	1995	1996	1997	1998	1999	2000	2001 ²⁾
Gross Domestic Product ¹⁾	3,450	3,389	3,351	3,390	3,458	3,575	3,730	3,899	3,723

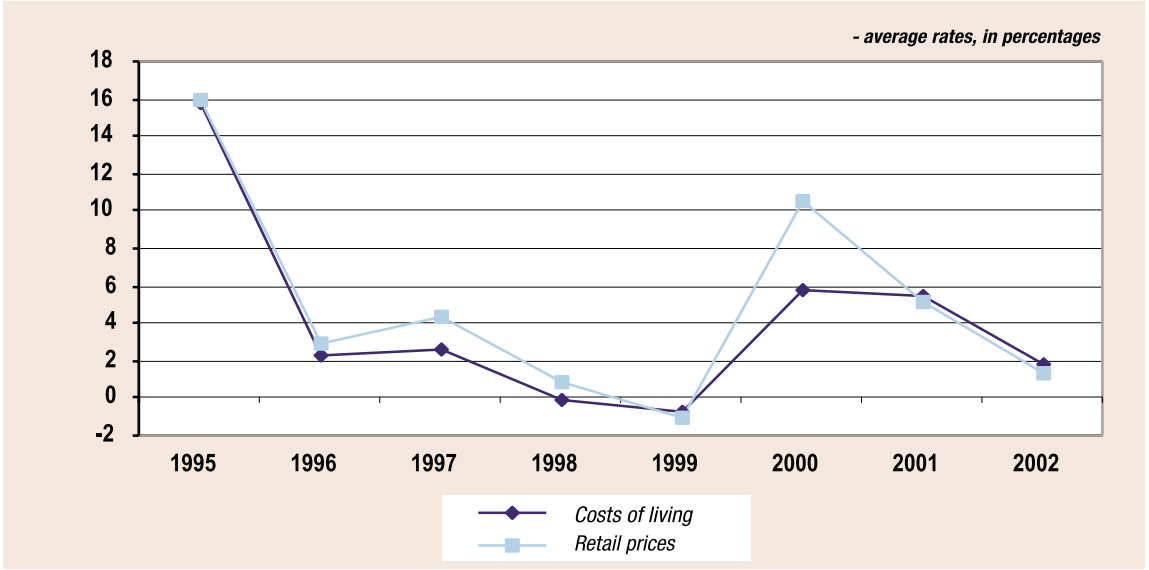
In USD dollars

	1993	1994	1995	1996	1997	1998	1999	2000	2001 ²⁾
Gross Domestic Product per capita ¹⁾	1,785	1,742	1,705	1,709	1,732	1,781	1,848	1,924	1,830

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 on basis compared with the denar in 1994 and an indexation with the deflator for each coming year.

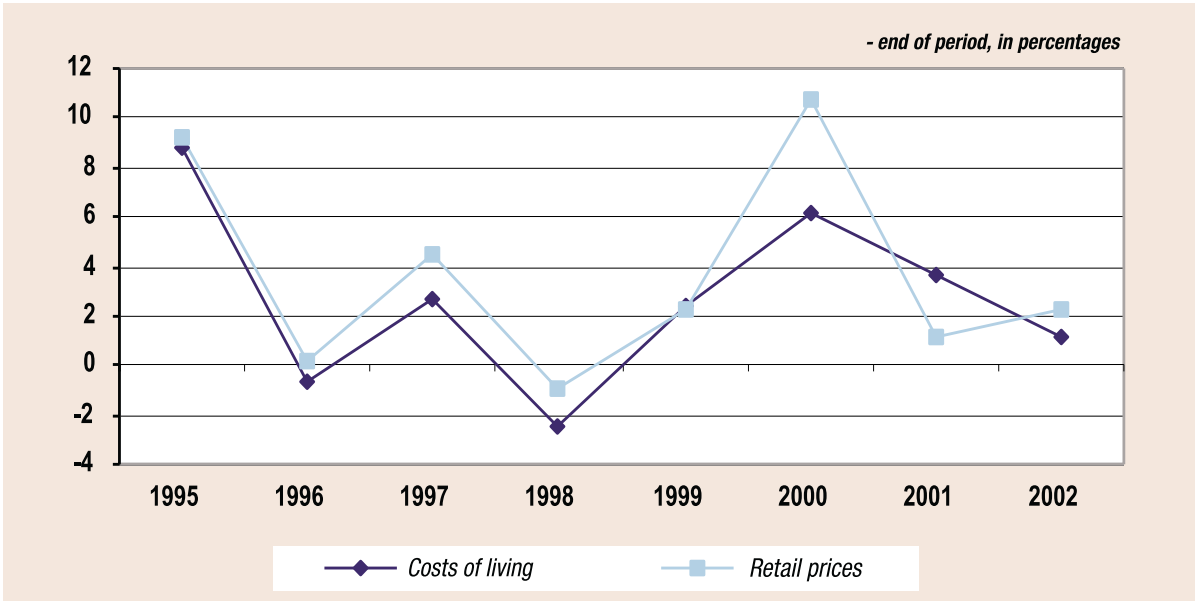
2) Previous data

PRICES



Average rates, in percentages								
	1995	1996	1997	1998	1999	2000	2001	2002
Costs of living	15.7	2.3	2.6	-0.1	-0.7	5.8	5.5	1.8
Retail prices	15.9	3.0	4.4	0.8	-1.1	10.6	5.2	1.4

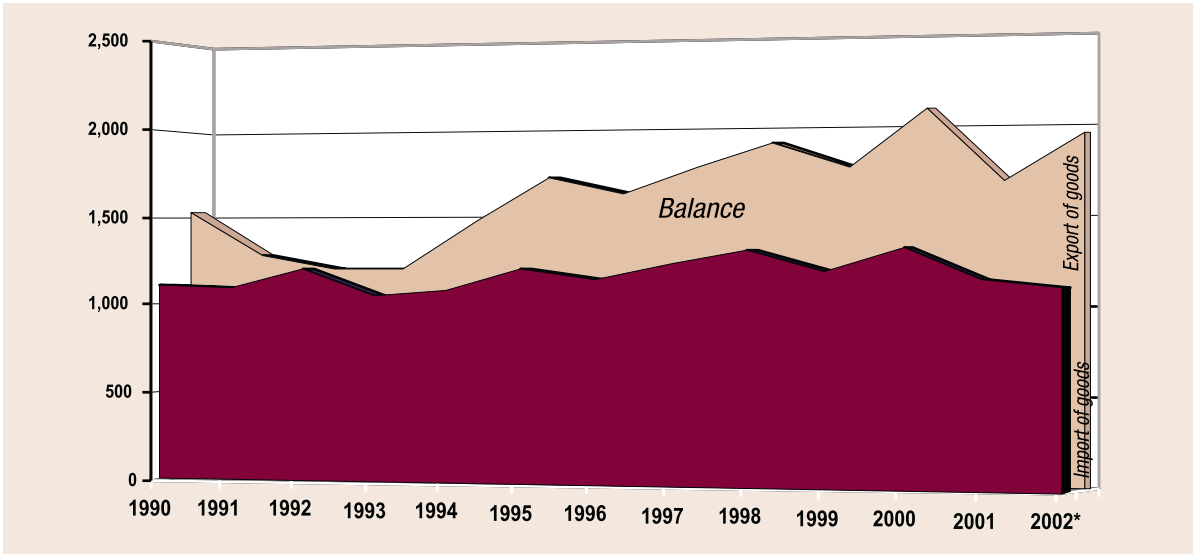
End of period, in percentages								
	1995	1996	1997	1998	1999	2000	2001	2002
Costs of living	8.8	-0.7	2.7	-2.4	2.4	6.1	3.7	1.1
Retail prices	9.2	0.2	4.5	-1	2.3	10.8	1.2	2.2



FOREIGN TRADE

In millions US 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	1,116
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	1,995
Balance	-418	-178	-7	-144	-398	-515	-479	-542	-604	-584	-771	-533	-879

* Preliminary data



FOREIGN TRADE

(In millions US dollars)

		Total			Germany			Serbia and Monte Negro		
		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
2002		1,115.5	1,995.2	-879.7	234.0	284.7	-50.7	246.4	185.2	61.2
1999	<i>Q1</i>	254.0	345.4	-91.4	69.1	49.5	19.6	26.6	41.5	-14.9
	<i>Q2</i>	250.6	364.9	-114.3	58.4	58.2	0.2	20.3	26.6	-6.3
	<i>Q3</i>	343.4	476.7	-133.3	67.2	59.4	7.8	115.1	46.7	68.4
	<i>Q4</i>	343.5	589.2	-245.7	59.6	78.7	-19.1	92.5	69.1	23.4
2000	<i>Q1</i>	331.1	606.8	-275.7	66.1	80.9	-14.8	78.8	47.8	31.0
	<i>Q2</i>	317.7	481.0	-163.3	56.9	52.7	4.2	76.3	47.3	29.0
	<i>Q3</i>	345.1	470.6	-125.5	70.8	55.0	15.8	82.8	47.3	35.5
	<i>Q4</i>	328.7	535.4	-206.7	63.7	64.7	-1.0	97.3	48.0	49.3
2001	<i>Q1</i>	291.5	400.4	-108.9	69.0	52.8	16.2	62.3	34.9	27.4
	<i>Q2</i>	285.3	416.6	-131.3	52.9	59.0	-6.1	74.1	39.2	34.9
	<i>Q3</i>	295.7	378.9	-83.2	61.9	42.8	19.1	62.9	33.4	29.5
	<i>Q4</i>	282.5	491.7	-209.2	53.7	58.7	-5.0	67.5	49.7	17.8
2002	<i>Q1</i>	244.0	444.2	-200.2	60.9	56.4	4.5	47.2	38.2	9.0
	<i>Q2</i>	264.4	461.7	-197.3	54.0	70.5	-2.7	53.6	47.9	5.7
	<i>Q3</i>	289.1	497.1	-208.0	60.3	77.1	-10.4	55.8	47.9	7.9
	<i>Q4</i>	301.8	597.6	-295.8	57.0	89.2	-32.2	66.4	55.1	11.3
2003	<i>Q1</i>	294.5	531.7	-237.2	66.6	69.2	-2.6	47.2	50.4	-3.2
	<i>Q2</i>	356.1	578.9	-222.8	67.9	73.9	-6.0	76.4	54.8	21.6
	<i>Q3</i>	327.6	520.2	-192.6	70.9	67.3	3.6	71.8	49.2	22.6
2002	<i>I</i>	68.4	155.9	-87.5	17.8	15.7	2.1	13.1	9.6	3.5
	<i>II</i>	82.7	145.7	-63.0	20.6	22.0	-1.4	17.2	12.5	4.7
	<i>III</i>	92.9	142.6	-49.7	22.5	18.7	3.8	16.9	16.1	0.8
	<i>IV</i>	88.9	151.2	-62.3	15.8	20.9	-5.1	19.5	19.3	0.2
	<i>V</i>	76.9	147.5	-70.6	15.1	24.2	-9.1	19.4	12.5	6.9
	<i>VI</i>	98.6	163.0	-64.4	23.1	25.4	-2.3	20.8	13.0	7.8
	<i>VII</i>	113.6	186.6	-73.0	22.1	27.5	-5.4	28.1	15.4	12.7
	<i>VIII</i>	89.0	149.7	-60.7	18.7	20.9	-2.2	21.8	17.2	4.6
	<i>IX</i>	102.6	154.8	-52.2	21.3	20.4	0.9	23.2	14.6	8.6
	<i>X</i>	100.5	184.6	-84.1	16.4	24.1	-7.7	25.0	16.3	8.7
	<i>XI</i>	95.5	183.5	-88.0	19.6	26.5	-6.9	22.8	15.7	7.1
	<i>XII</i>	105.8	229.5	-123.7	21.0	38.6	-17.6	18.6	23.1	-4.5
2003	<i>I</i>	79.0	158.9	-79.9	18.7	22.6	-3.9	11.3	15.0	-3.7
	<i>II</i>	94.7	152.2	-57.5	21.9	21.7	0.2	15.5	15.4	0.1
	<i>III</i>	120.8	220.6	-99.8	26.0	24.9	1.1	20.4	20.0	0.4
	<i>IV</i>	117.4	190.2	-72.8	22.2	21.2	1.0	22.4	15.4	7.0
	<i>V</i>	120.1	207.9	-87.8	23.6	26.5	-2.9	27.3	23.3	4.0
	<i>VI</i>	118.6	180.8	-62.2	22.1	26.2	-4.1	26.7	16.1	10.6
	<i>VII</i>	122.5	190.3	-67.8	24.9	27.1	-2.2	27.1	17.8	9.3
	<i>VIII</i>	87.6	147.6	-60.0	21.4	17.6	3.8	20.3	14.2	6.1
	<i>IX</i>	117.5	182.3	-64.8	24.6	22.6	2.0	24.4	17.2	7.2

Source: State Statistical Office

FOREIGN TRADE

(In millions 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
77.4	58.7	18.7	81.9	118.6	-36.7	116.9	237.9	-121.0	14.4	125.4	-111.0
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
18.0	18.2	-0.2	26.7	24.6	2.1	19.2	46.0	-26.8	3.4	49.4	-46.0
18.9	15.6	3.3	25.1	26.2	-1.1	27.6	49.4	-21.8	3.6	22.3	-18.7
16.5	10.7	5.8	21.2	29.4	-8.2	30.3	52.2	-21.9	3.5	13.3	-9.8
24.6	13.9	10.7	18.7	32.2	-13.5	35.6	56.3	-20.7	3.0	61.1	-58.1
16.7	13.8	2.9	27.2	21.6	5.6	35.1	98.4	-63.3	2.5	25.1	-22.6
13.8	19.1	-5.3	26.6	34.1	-7.5	52.1	75.3	-23.2	3.6	34.6	-31.0
15.7	10.6	5.1	21.4	27.1	-5.7	42.3	54.6	-12.3	3.2	53.4	-50.2
4.4	6.2	-1.8	7.8	7.0	0.8	5.1	16.7	-11.6	1.1	29.5	-28.4
5.9	8.5	-2.6	8.3	8.0	0.3	6.4	14.8	-8.4	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	13.5	20.1	-6.6	1.3	2.4	-1.1
3.5	3.6	-0.1	4.4	11.2	-6.8	9.1	17.6	-8.5	1.0	2.4	-1.4
8.1	6.9	1.2	6.7	12.6	-5.9	10.8	22.4	-11.6	1.1	1.8	-0.7
5.8	5.8	0.0	6.9	14.9	-8.0	10.8	27.5	-16.7	1.8	2.5	-0.7
6.5	3.4	3.1	4.9	6.9	-2.0	8.0	28.8	-20.8	1.1	2.5	-1.4
5.5	3.2	2.3	7.3	7.6	-0.3	10.0	19.1	-9.1	1.8	3.3	-1.5
7.2	3.5	3.7	6.0	11.1	-5.1	12.9	14.6	-1.7	1.7	16.9	-15.2
5.3	4.0	1.3	4.6	9.4	-4.8	9.5	18.6	-9.1	0.8	19.0	-18.2
12.1	6.4	5.7	8.1	11.7	-3.6	13.2	23.1	-9.9	0.5	25.2	-24.7
6.7	5.2	1.5	9.2	7.3	1.9	8.2	43.9	-35.7	0.5	1.8	-1.3
5.1	3.9	1.2	7.5	6.0	1.5	11.7	22.9	-11.2	0.5	2.1	-1.6
4.9	4.7	0.2	10.5	8.3	2.2	15.2	31.6	-16.4	1.5	21.2	-19.7
3.5	4.5	-1.0	8.9	10.4	-1.5	17.4	31.1	-13.7	0.9	9.6	-8.7
3.4	6.1	-2.7	8.0	11.7	-3.7	18.5	25.2	-6.7	1.1	17.1	-16.0
6.9	8.5	-1.6	9.7	12.0	-2.3	16.2	19.0	-2.8	1.6	7.9	-6.3
7.2	3.8	3.4	7.3	11.3	-4.0	16.0	21.7	-5.7	1.3	9.8	-8.5
4.2	2.7	1.5	6.3	7.3	-1.0	10.4	14.0	-3.6	1.0	22.8	-21.8
4.3	4.1	0.2	7.8	8.5	-0.7	15.9	18.9	-3.0	0.9	20.8	-19.9

SHORT-TERM ECONOMIC DEVELOPMENTS

August 2003

SUMMARY OF THE MOST IMPORTANT SHORT-TERM ECONOMIC DEVELOPEMENTS IN AUGUST 2003

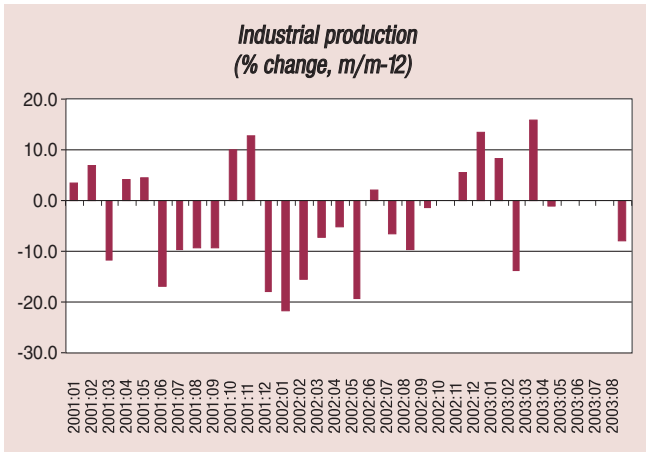
- *Industrial production increased by 3.7% in the period January-August 2003*
- *Low average inflation rate of 0.8% in the first eight months of 2003*
- *Export increased by 21% in the period January-August 2003, while import simultaneously increased by 16.6%*
- *Foreign trade deficit increased by US\$ 58 million in relation to the previous month*
- *Central Budget surplus in the amount of Denar 317 million*
- *External debt decreased by US\$ 32 million in relation to July 2003*
- *Gross foreign exchange reserves of the Republic of Macedonia declined by US\$ 12 million*
- *Interest rates remained almost unchanged*
- *Total deposits of the population increased by 1.2% in relation to the previous month*

1. INDUSTRIAL PRODUCTION

Industrial production continued to have significant monthly fluctuations. After the significant increase in July, it declined by 22.7% in August 2003, i.e. 7.8% annual reduction.

Thereby, there was a monthly reduction in almost all more important industry branches (except in the production of oil, construction materials, electric machines and electricity).

Negative developments in August slowed down the industrial production growth; hence the growth reached 3.7% in the first eight months of 2003 (compared to the same period last year).



Source: State Statistics Bureau

Structurally analyzed, in the first eight months of 2003, compared to the same period last year, production increased in the following categories: “Consumer Durables” (63%), “Intermediary Products Except for Energy” (6.6%) and “Energy” (41.6%).

On the other hand, production dropped in the category “Consumer Non-durables” (14.6%), while the production of “Capital Products” retained the same level as the one in the first eight months of 2002.

Analyzed by individual industry branches, main characteristic is the fact that industrial production growth was generated by relatively small number of branches.

Thus, the production growth of 5% in the processing industry in the first eight months of 2003 was mainly fueled by the sharp increase of production of base metals (by 94.5%), as a result of the successful restarting of several former loss-making enterprises (Feni, Jugohrom) and by the favorable movements of prices of nickel, steel and iron on the world stock exchanges.

Since these are big electric power consumers, their increased production intensified the production of electricity by 16%. On the other hand, the drop in production in ore and stone extraction sector continued, thus reaching 62.8% on cumulative basis in the first eight months of the year, which is due to the closure of several mines.

2. PRICES

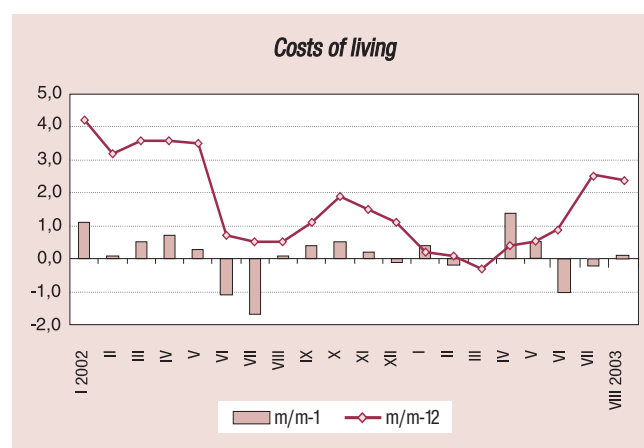
The trend of having relatively low inflation rates continued in August 2003. Costs of living in August 2003 had a minimal increase of 0.1% in relation to the previous month, and 2.2% in relation to August 2002.

The average inflation rate in the first eight months of 2003 was 0.8%.

Such low and predictable inflation is mainly a result of the following: 1) exchange rate stability, 2) disciplined and balanced budget policy, 3) consistent macroeconomic policy. The dollar depreciation on the world stock exchanges is an additional factor that reduces import prices.

Structurally analyzed, prices increased in the following groups: “Means of Transport and Services” (4.7%), “Rent, Water and Services” (4.4%), “Tobacco and Beverages” (2.9%), “Housing” (3.2%), “Clothing and footwear” (1.6%), “Hygiene and health” (2.5%); while they decreased in the group “Food” (1.8%), which takes the largest share in the consumer price index.

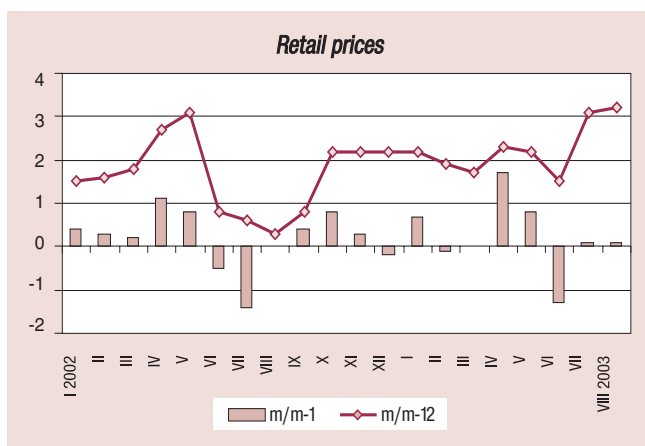
On aggregate basis, prices of services increased by 5.7%, while prices of goods declined by 0.1% in the first eight months of 2003 compared to the same period last year.



Source: State Statistics Bureau

Consumer price index (CPI) in August 2003 was higher by 0.1% in relation to the previous month, and by 3.2% in relation to August 2002.

On cumulative basis, the CPI increased by 2.3% in the first eight months of 2003 in relation to the same period last year.



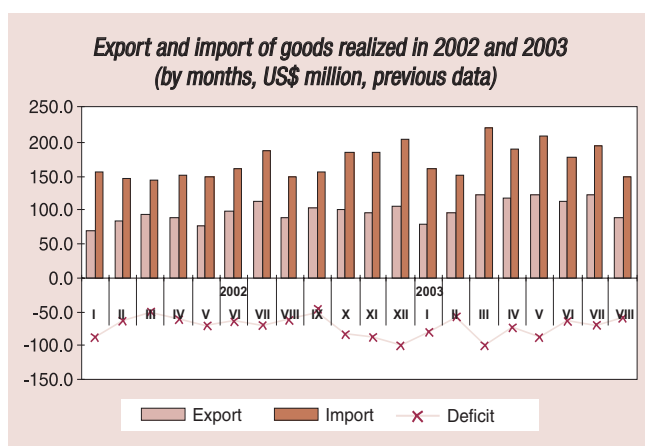
Source: State Statistics Bureau

The value of the consumer basket for food and beverages for a four-member household in August 2003, calculated on the basis of retail prices, amounted to Denar 10,083 and it was lower by 0.7% in relation to the previous month.

3. EXTERNAL SECTOR

Foreign trade

As a result of the stabilization of the political and security situation in the country, foreign trade realized some positive developments in the first eight months of the year, whereby the growth reached 18% on cumulative basis.



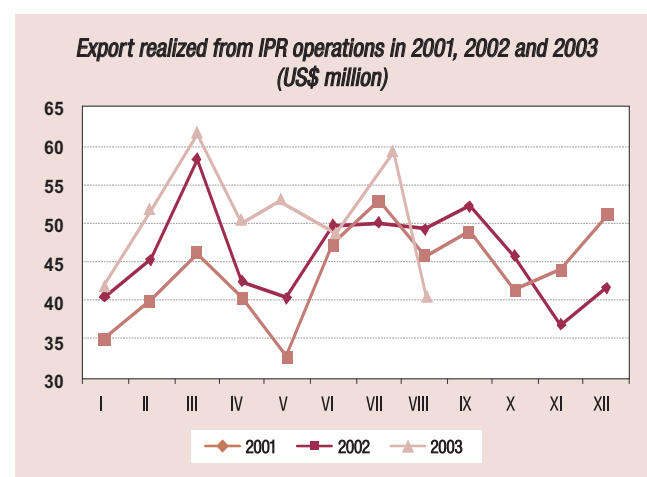
Source: State Statistics Bureau

Thereby, export of goods significantly increased by 21% (amounting to US\$ 860.7 million), while the import of goods increased by 16.6% (amounting to US\$ 1,448.5 million). Such developments led the trade deficit to increase by US\$ 56.3 million, amounting to US\$ 587.8 million in the period January-August 2003.

The increasing trade tendency was interrupted in August in relation to July 2003, whereby export of goods declined by 28.5%, while import by 22.4%.

Such export reduction in August 2003 was mainly a result of decreased export of iron and steel (by more than 50%) and export of clothing, beverages and tobacco, and foodstuffs.

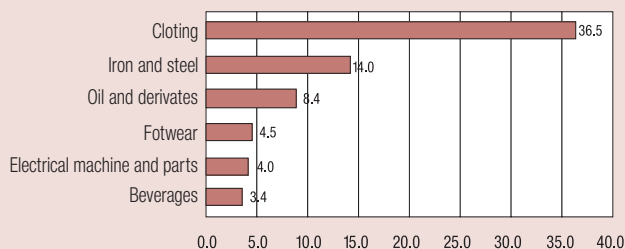
Export structure remained to be unfavorable, given the significant 44.5% share of export of inward processing relief products.



Source: State Statistics Bureau

Major export products in August were the following: clothing, iron and steel, oil and oil derivatives, footwear, electric machines and parts, beverages etc. These five groups of products comprise around 71% of the total exports of the country.

**Export of more significant groups of products according to SITC
(August 2003, structure in %)**



Source: State Statistics Bureau

The analysis of export products by economic purpose in the period January-August 2003, compared to the same period last year, indicates that there are no major shifts, i.e. almost half of the export still comprises raw materials and intermediate products.

In the period January-August 2003, 55.5% of all goods were exported to the EU market, while 44.4% of all goods imported in the Republic of Macedonia originate from EU. In relation to the same period last year, export in the EU was higher by 30.7% in the analyzed period, while import was higher by 11.8%, as a result of the realization of the Interim Trade Agreement.

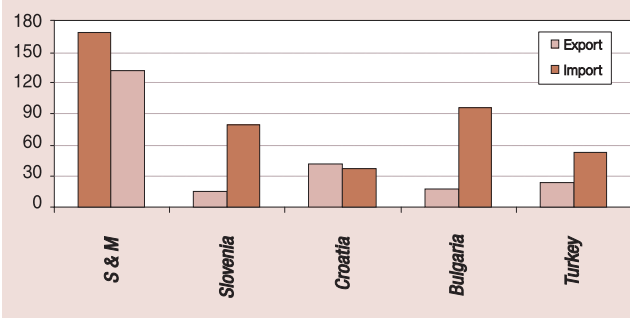
Germany, Serbia and Montenegro, Greece, Italy and USA remained our biggest partners, the share of which was 66.7% in the total export.

Import of goods in August 2003 decreased by 22.4% in relation to July, and by 1.5% in relation to the same month last year. Such monthly reduction was a result of reduced import of mainly foodstuffs, motor vehicles, chemical products, raw materials etc.

The tendency of unfavourable realization of the free trade agreements continued in August as well. Significantly higher import than export continued to be realized in trade with Bulgaria, Slovenia, and Turkey.

The trade deficit with these three countries alone amounted to US\$ 173 million, which is about 30% of the trade deficit of the country realized in the period January-August 2003.

**Export and import with countries with which
free trade agreements are being realized
(January - August 2003, US\$ million)**



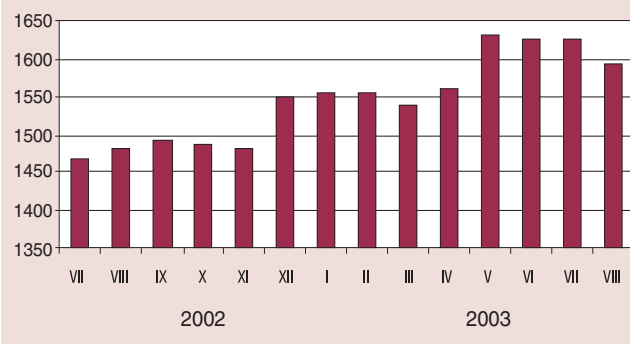
Source: State Statistics Bureau

External debt

External debt amounted to US\$ 1,593 million by the end of August 2003, which is a reduction of US\$ 32 million on monthly level, i.e. 2%. Such debt reduction was due to the exchange rate differences (US\$ 27.6 million) caused by the US\$ appreciation and by the higher repayments than disbursed funds from approved credits.

Regarding the debt structure, more than half of the debt still goes to multilateral creditors,

**Condition and dynamics of external debt
(US\$ million)**



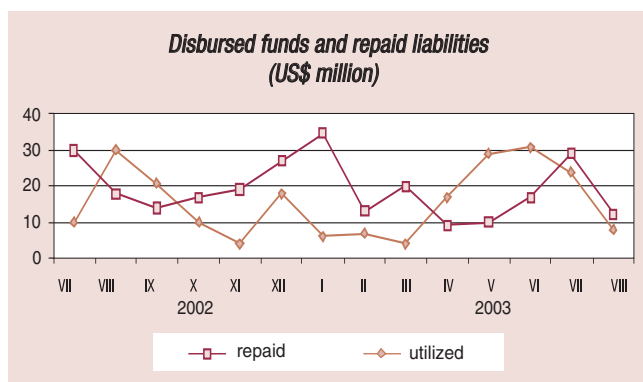
Source: National Bank of the Republic of Macedonia

whereby the biggest individual creditors are IDA (International Development Agency) with US\$ 331 million and the London Club of Creditors with US\$ 243 million.

Funds in the amount of US\$ 8 million were disbursed from foreign creditors in August, similarly to the previous month when US\$ 24 million were disbursed. Half of these funds come from multi-lateral and bilateral creditors (US\$ 4 million).

The liabilities to abroad were serviced regularly and timely, whereby US\$ 12 million were repaid, US\$ 10 million of which for debt principal. Largest share of repaid liabilities was to bilateral and private creditors.

New credits in the amount of US\$ 2.7 million were concluded in August 2003, fully originating from private creditors.



New credits in the total amount of US\$ 106 million were concluded in the first eight months of 2003.

Pursuant to the repayment schedule, repayment liabilities in the amount of US\$ 66 million mature to abroad in the period September-December 2003, US\$ 53 million of which for principal.

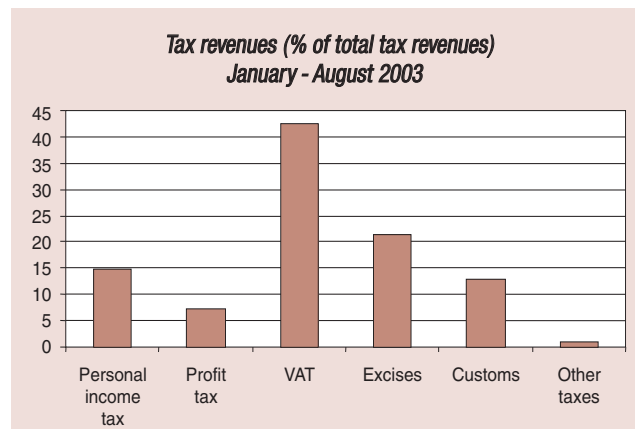
4. FISCAL SECTOR

Central Budget revenues

Central Budget revenues amounted to Denar 35,363 million in the first eight months of 2003, and they are lower in relation to the same period last year.

Such reduction in revenues in this period is primarily due to the abolishment of the Financial Transactions Tax (Denar 4,200 million were collected on the basis of this tax in the first eight months of 2002).

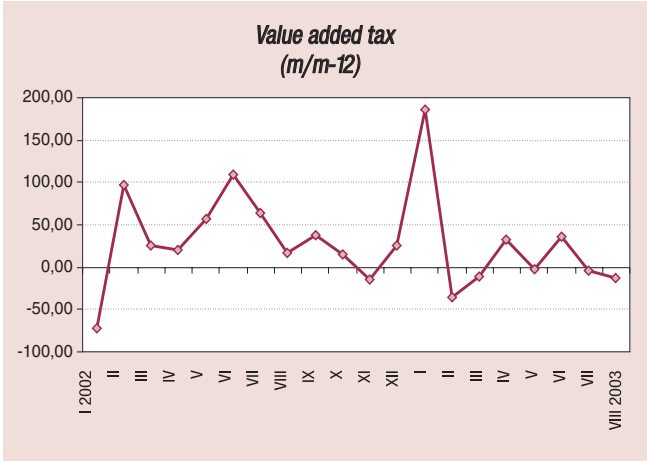
Tax revenues have the largest share (91.3%) in the total Central Budget revenues, amounting to Denar 32,306 million in the first eight months of 2003. VAT makes up 43.5%, excises 20.5%, personal income tax 14.8%, customs and other import duties 13.5%, profit tax 7.6% and other tax revenues 1% in the total tax revenues.



Analysis of the realization of VAT revenues indicates that 60.4% of the total projected revenues in the 2003 Supplementary Budget were realized in the first eight months of 2003.

The average monthly VAT realization in the period January-August 2003 amounted to Denar 1,720 million, which is higher by 7.1% in relation to the average monthly VAT realization in the same period in 2002, when it amounted to Denar 1,606 million. This is due to the intensified economic

activity in the country, increased volume of imports, as well as the increased fiscal discipline (pursuant to the measures for mandatory usage of fiscal cash registers).



Source: Ministry of Finance

The realized excise revenues over performed in relation to the plan. In fact, the realized excise revenues in the period January-August 2003 in the amount of Denar 6,864 million exceed the revenues projected in the 2003 Supplementary Budget by 2.4% (Denar 161 million). Such over performance is largely due to the increase of revenues from oil derivatives.

Despite the large number of limiting factors (reduced tariffs due to the accession in WTO, the conclusion of new bilateral free trade agreements, exemptions on other grounds), the realized customs revenues in the first eight months of 2003 (Denar 4,180 million) are higher by 3.2% in relation to the same period last year. This is a result of the increased control by the Customs Administration over import of goods in the country.

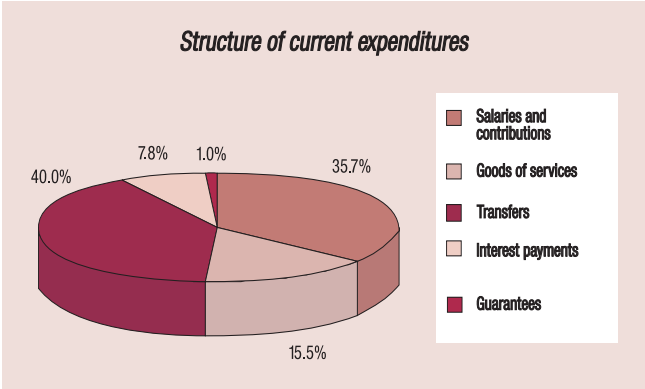
Central Budget expenditures

Total Central Budget expenditures in the first eight months of 2003 amounted to Denar 35,046 million, thus being significantly lower (by 17.3%) in relation to the same period last year.

The reduction of budget expenditures is due to: a) consolidation of fiscal sector and running of disciplined fiscal policy in 2003 and b) poor realization of public investments.

Current expenditures (having 93.4% share in the total expenditures) in the first eight months of 2003 declined by 3.9% in relation to the same period last year.

Thereby, current transfers have the largest share (40%) in the structure of current expenditures.



Source: Ministry of Finance

Current transfers in the period January-August 2003 decreased by 1.2% in relation to the same period in 2002, whereby the transfers to the Pension and Disability Insurance Fund increased by 14.2%. Such increase is due to the pension indexation according to the average salary increase.

Transfers also increased to the Employment Bureau by 4.4% and the costs for structural reforms by 13.4%.

On the other hand, transfers for social programs declined by 14.8% in the period January-

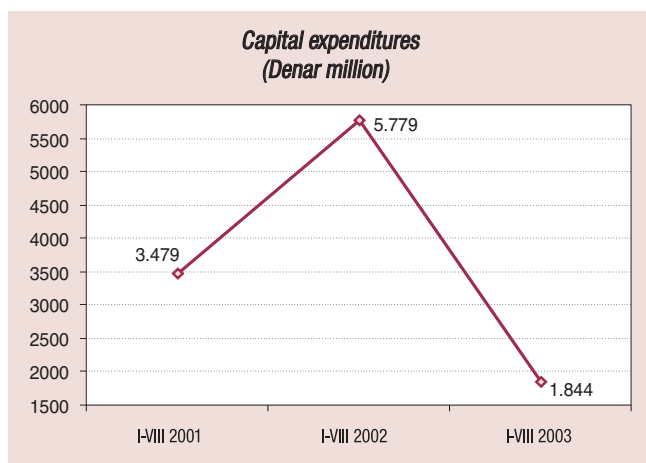
August 2003, as well as those for reforms in the public administration (by 6.1%).

Expenses on salaries and contributions increased by 12.3% in the first eight months of 2003 in relation to the same period last year, which is a result of the salary increase in July 2002.

The disciplined fiscal policy is shown through the analysis of expenditures for goods and services. In fact, in the period January-August 2003, these expenses significantly decreased by 20.0%, or around Denar 1 billion, in relation to the same period last year.

Interest payments also declined by 30.2%. Thereby, domestic interest payments decreased by 17.3%, while foreign interest payment by 34.5%.

High reduction of capital expenditures of 68.1% in the first eight months of 2003, in relation to the same period last year, is unfavorable with respect to supporting the economic growth. Poor realization of projects by the ministries is the reason for such situation.



Source: Ministry of Finance

As a result of such developments of budget revenues and expenditures, Central Budget surplus in the amount of Denar 317 million was realized in the period January-August 2003.

5. MONETARY SECTOR

Monetary regulation

In conditions of restrained public consumption, monetary regulation instruments in August 2003 were directed at absorbing the cumulated excess liquidity in the banking sector. Thereby, in conditions of higher demand than supply of foreign currency, the National Bank intervened on the foreign exchange market by net purchase of foreign currency, thus alleviating the pressure on the foreign exchange market and preserving exchange rate stability. Simultaneously, low average inflation rate was also preserved, reaching 0.8% in August.

Despite the intensified crediting activities by the banks and significantly higher interest for investments in Central Bank bills in this period, 26.9% excess reserve requirement (in Denars) was registered at the end of the accounting period for August, which is an increase of 0.2 percentage points on monthly basis. Such movements indicate the need for more rational liquidity management by certain banks, which would contribute to more rational liquidity allocation in the banking system.

On the other hand, positive effects from the relaxed monetary policy and sound fiscal policy continued in the eighth month of the year, reflected in the continuing mild reduction of interest rates of the banks.

	In %, on annual basis	
	VIII 2002	VIII 2003
Discount rate	10.7	6.5
Interest rate on Lombard credits	23.0	16.0
Interest rate on Central bank bills	9.7	7.0
Interest rate on money market	10.8	8.5
Interest rate on debit balance	18.3	15.5
Interest rate on credit balance	9.6	7.4

After the seasonal increase realized in the previous month, cash in circulation had a monthly reduction of Denar 121 million, or 0.9% in August

2003, thus amounting to Denar 13,059 million. As a result of the stabilization of cash demand, the level of primary money also decreased by Denar 337 million, or 2.1% in August 2003. Compared to the same month last year, primary money is significantly lower by 15%.

Monetary aggregates

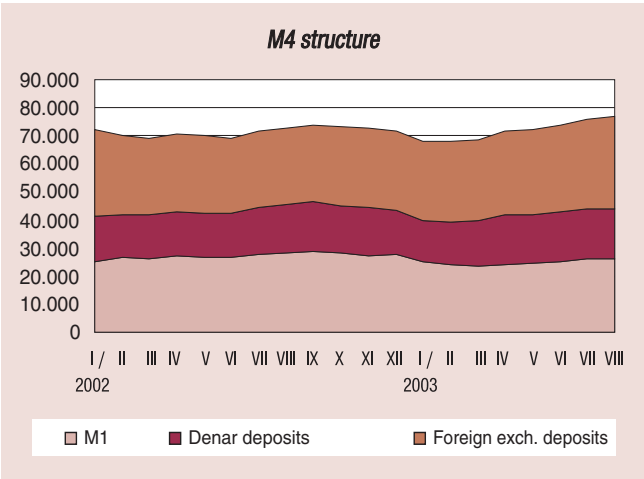
In August 2003, monetary aggregates had milder growth rates, mainly as a result of the cash demand stabilization and the reduction of short-term denar deposits. The decline of cash in circulation (0.9%), with simultaneous 3.1% increase of deposit money (due to the 5.8% increase of deposit money of enterprises), resulted in mild 1% growth of the M1 monetary aggregate. Other monetary aggregates also had mild growth rates, whereby M2 monetary aggregate increased by 1.8%, and M4 monetary aggregate by 1.5%.

At the same time, total deposits of non-government sector also increased by 1.8% on monthly basis. Thereby, population and enterprises continued to prefer short-term savings in foreign currency, which is unfavorable with respect to providing more significant credit support for investments. With respect to the maturity structure, the share of short-term deposits (90.8%) still dominates, while regarding the currency structure, the share of foreign exchange deposits reached 65.7% at the end of the month (1 percentage point higher than the previous month). Compared to the same month last year, total deposits in the banking system are higher by 19.2%.

By the end of August 2003, total deposits of the population amounted to Denar 35,214 million, which is an increase of 1.2% in relation to the previous month. Thereby, foreign exchange deposits amounted to Denar 26,585 million, which is higher by 1.9% in relation to the previous month.

This way, foreign exchange deposits approximate the level from the period of conversion of

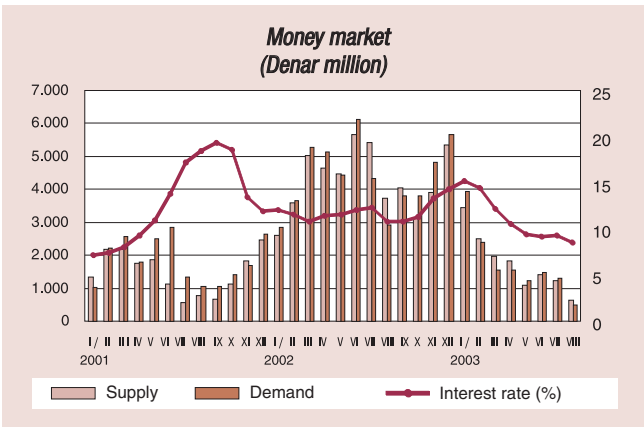
currencies into Euro, which indicates an increased confidence in the banking system.



Source: National Bank of the Republic of Macedonia

Money and short-term securities market

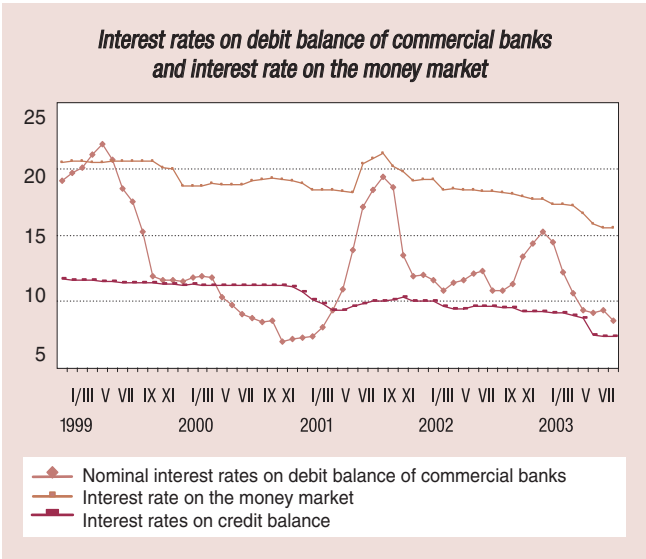
Higher supply than demand of liquid assets was registered on the money and short-term securities market in August 2003 (coverage of demand with supply was 1.18). Such situation reduced the average weighted interest rate by 0.8 percentage points in relation to the previous month, reaching 8.5% in August 2003. At the same time, total turnover realized on the money and short-term securities market also declined by as much as 60.4% in the eighth month of the year.



Source: National Bank of the Republic of Macedonia

Interest rate policy of the commercial banks

The positive effects of the disciplined fiscal and more relaxed monetary policy on the interest rate policy of the banks continued in August 2003 as well, this time with more moderate dynamics though.

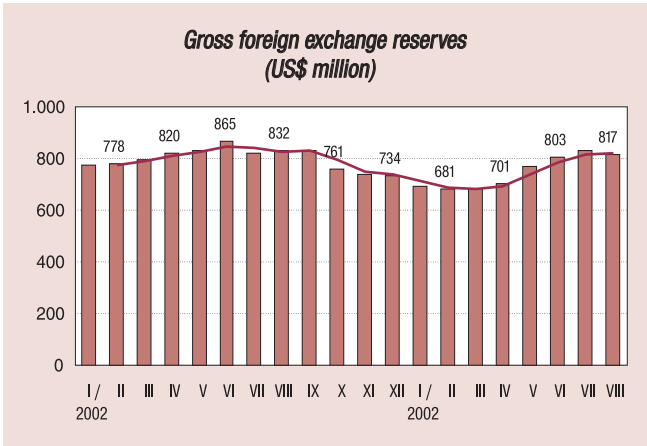


Source: National Bank of the Republic of Macedonia

Bank interest rates retained almost the same level as the one from the previous month, whereby the average weighted interest rate on debit balance amounted to 15.5%, and the average weighted interest rate on credit balance reached 7.5%. This way, interest margin remained almost unchanged on the level of 8.1 percentage points. The trend of moderate reduction of bank interest rates is expected to continue in the forthcoming period, thus having positive effects on the crediting activities of the banks.

Foreign exchange reserves

Gross foreign exchange reserves of the Republic of Macedonia declined by US\$ 12 million, amounting to US\$ 817 million as of August 31, 2003.



Source: National Bank of the Republic of Macedonia

Such reduction of gross foreign exchange reserves is basically a result of the inter-currency relations. Compared to the end 2002, gross foreign exchange reserves are higher by US\$ 83 million, thus continuing the positive practice of keeping the foreign exchange reserves on the level sufficient to cover four-month imports.

LABOUR MARKET

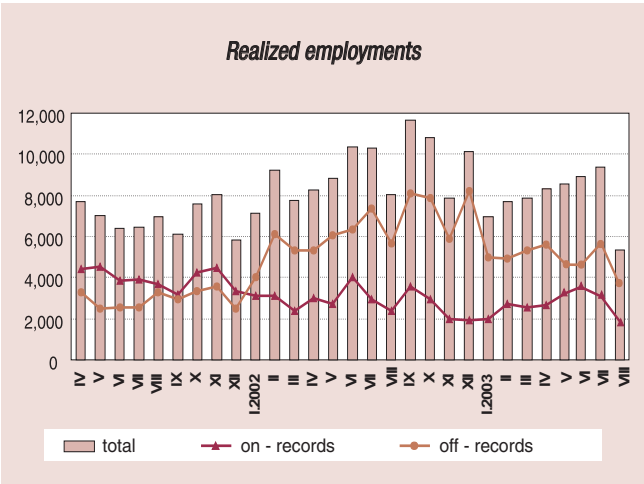
Employment

Seasonally reduced economical activity in August (due to the summer vacations) had an impact towards reducing the number of new employments, reaching 4,789 persons.¹ In the first eight months of 2003, total of 59,971 persons got employed, which is lower by 14% in relation to the same period last year. However, one should take into account the fact that the first half of 2002 is unrealistic comparison basis given the relatively high number of economically ungrounded pre-election promises. Employments on the records of the Employment Bureau make up 34.8% of the total number of employments, which, structurally analyzed, is a small reduction in relation to the previous months.

1) This figure includes newly employed persons on- and off-records of the Employment Bureau. The second category refers to persons who have not been registered as unemployed previously, like students, inactive persons, and persons who changed their job. So, this figure does not provide an accurate picture of net newly created jobs.

Fulltime employment amounts to 70.1% of the new employments in August 2003, which is higher by 7 percentage points in relation to the average share in the first seven months of the year.

Out of the total 3,359 newly employed persons on fulltime basis in August, 39.1% are on-record employments, and the remaining employments refer to persons who are not registered as unemployed in the Employment Bureau.



610 persons got employed in August on the basis of the Law on Employment Encouragement. Thus, the total number of employed persons on the basis of this Law reached 3,950 persons (as of April 16, 2003). Thereby, 46.4% of the on-record persons employed fulltime have been employed pursuant to the Law on Employment Encouragement.

According to the regional employment structure, most employments were realized in Skopje, Bitola, Tetovo and Ohrid.

Unemployment

4,973 new persons got registered as unemployed in August, 46.8% of which are women. The number of newly registered unemployed persons in the first eight months of the year is 47,766, which is lower by 0.7% in relation to the same period last year.

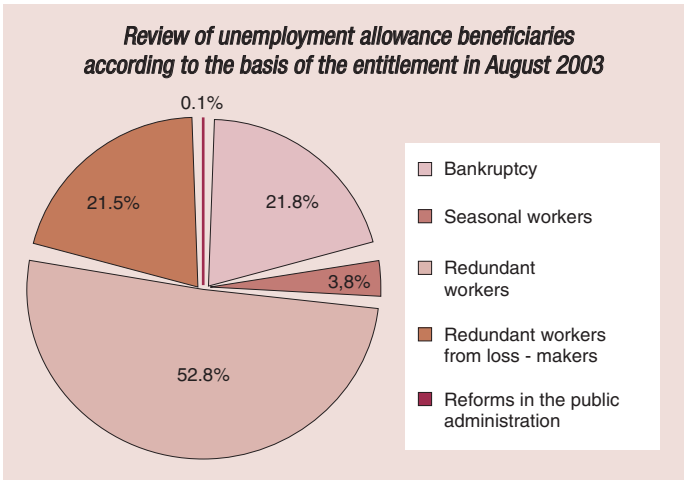
Registered unemployment in August 2003 increased by 825 persons or 0.2% in relation to the previous month, reaching a number of 384,025 persons. Males make up 56.4% of the total unemployment, and 65.8% is urban unemployment. Persons in the age group 15-30 make up 35% of the total unemployment, those aged 30-50 make up 47.8%, and the remaining share are people older than 50.

Beneficiaries of unemployment allowance and health insurance entitlement

The number of unemployment allowance beneficiaries decreased in August 2003 by 8.9% on an annual level, i.e. by 1% on monthly level.

Consequently, the number of unemployment allowance beneficiaries amounted to 44,175 persons, which makes up 11.5% of the registered unemployed persons. The structure of unemployment allowance beneficiaries is shown below.

The number of registered unemployed persons who are paid health insurance by the Bureau amounted to 234,736, which is an annual increase of 2%. It means that 61.1% of the people registered in the Employment Bureau are health insurance beneficiaries.



Source: Employment Bureau

8.SOCIAL DEVELOPMENTS

Pension beneficiaries

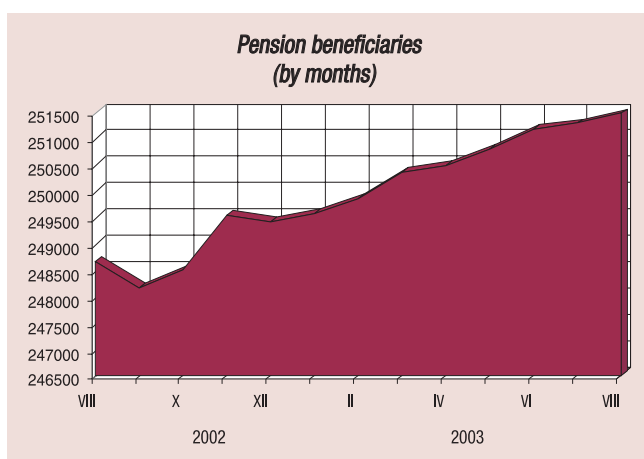
The trend of moderate monthly increase of pension beneficiaries continued in August 2003 as well, amounting to 251,417 pensioners.

The number of pensioners increased by 6,445 persons or 2.6% on annual basis (August 2002/ August 2003).

Total amount of Denar 1,908.5 million was paid for pensions in August 2003, which is higher by 10.1% in relation to the same month in 2002.

The average pension in August 2003 amounted to Denar 7,344, which is an increase of 2.5% compared to the previous month, and 5.5% real increase compared to the same month last year. Such increase is due to the legal provision for semi-annual pension indexation according to the nominal salary increase.

The average August² 2003 pension ratio to the average net salary paid in July 2003 is 62.0%.

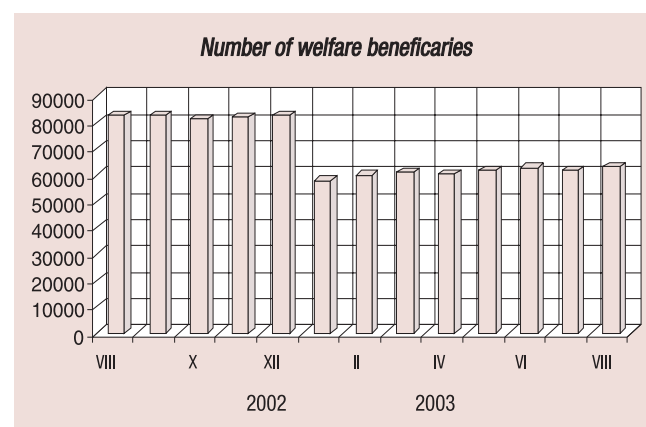


Source: Pension and Disability Insurance Fund

Welfare beneficiaries

62,963 persons were registered as welfare beneficiaries in August 2003, which is higher by 1.8% or 1,116 persons in relation to the previous month. Such increase is a result of the newly registered beneficiaries, as well as due to the revising of the documentation of certain beneficiaries.

The number of regular pecuniary aid beneficiaries did not change significantly, whereby 5,117 persons realized this entitlement. The number of beneficiaries on the basis of third person care increased by 268.



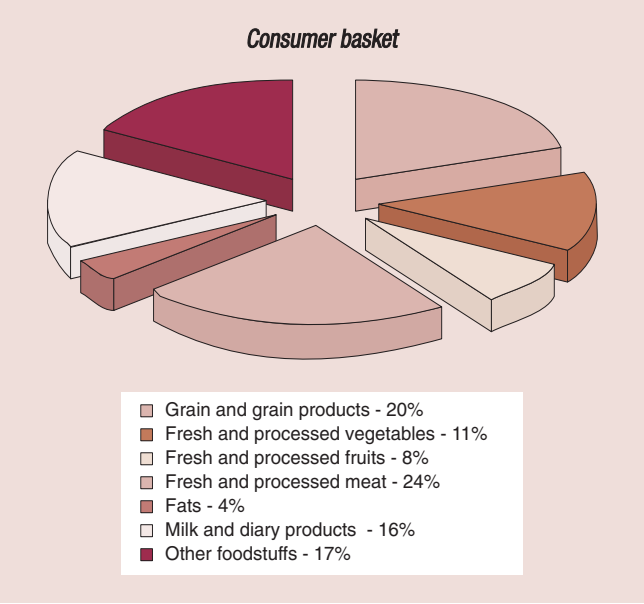
Source: Ministry of Labour and Social Policy

Consumer basket

The value of the consumer basket for food and beverages³ in August 2003 amounted to Denar 10,083, and it is lower by 0.7% in relation to July. Compared to the same month last year, the value of the consumer basket was reduced by 0.1%. Such reduction is due to the decrease in prices of larger part of products that compose this basket.

2) The comparison is conducted with the average salary of the previous month since the information on salaries is issued with a month delay.

3) All 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.



Source: State Statistics Bureau

Average net salaries

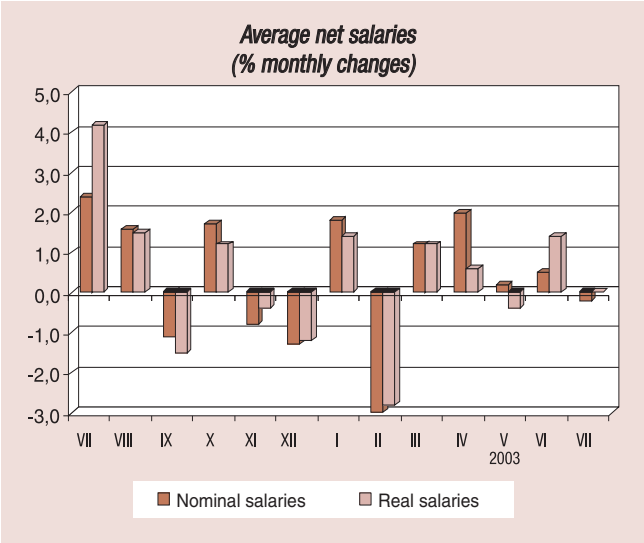
In July 2003, the average net salary per employee amounted to Denar 11,839, which is a nominal decrease of 0.2%, and on real basis it remained at the same level in relation to July 2003.

Highest monthly salaries are found it the activity “Financial Intermediation” (Denar 23,992), while the lowest are found in the activity “Hotels and

Restaurants” (Denar 9,312). The average monthly net salary in July has the highest increase in the activity “Currying and final processing of leader, production of suitcases, handbags, saddles, leader craftsman products and footwear” (by 46.7%) in relation to June 2003.

Analyzed by sectors, “Agriculture” increased by 6.1% and “Industry” by 0.6%, while “Services” decreased by 0.5%.

In July 2003, 25.3% of the workers in the Repu- blic of Macedonia did not receive salary.¹



REVENUES OF THE CENTRAL BUDGET OF THE REPUBLIC OF MACEDONIJA (2001, 2002 AND 2003)

Type of revenues	Actual in Jan - Dec 2001	Actual in Jan - Dec 2002	2002				2003				in million denars
			Q - 1	Q - 2	Q - 3	Q - 4	Q - 1	Q - 2	July	August	
1	2	3	4	5	6	7	8	9	10	11	12
TOTAL REVENUES AND GRANTS	63,109	67,571	17,879	15,743	16,889	17,060	13,863	17,391	5,777	5,542	42,573
REVENUES (TAX AND NON-TAX REVENUES)	50,965	56,933	13,420	13,403	14,343	15,767	12,649	13,531	5,203	3,597	34,980
TAX REVENUES	47,566	54,388	12,886	12,617	13,807	15,078	11,876	12,362	4,637	3,428	32,303
Taxes on income, profits, and capital gains	10,255	10,139	2,713	2,183	2,414	2,829	2,864	2,520	1,000	768	7,152
Personal income tax	7,248	7,514	1,680	1,818	1,845	2,171	1,678	1,881	671	555	4,785
Profit tax	3,007	2,625	1,033	365	569	658	1,186	639	329	213	2,367
Domestic taxes on goods and services	27,813	31,236	6,987	7,216	8,290	8,743	7,199	8,133	3,091	2,204	20,627
Sales tax and VAT (since April 1, 2000)	17,132	20,521	4,661	4,574	5,291	5,995	4,869	5,546	2,180	1,169	13,764
Excises	10,681	10,715	2,326	2,642	2,999	2,748	2,330	2,587	911	1,035	6,863
Taxes on international trade and transactions	6,111	6,338	1,589	1,561	1,398	1,790	1,655	1,588	515	423	4,181
Custom duties	4,821	5,232	1,282	1,279	1,163	1,508	1,411	1,254	397	327	3,389
Other custom duties	1,290	1,106	307	282	235	282	244	334	118	96	792
Other taxes	0	4	2	2	0	0	0	0	0	0	0
Other taxes not elsewhere classified	0	4	2	2	0	0	0	0	0	0	0
Taxes on specific services	1	1	0	0	1	0	0	0	0	0	0
Communal taxes	1	1	0	0	1	0	0	0	0	0	0
Fees for usage or licences for carrying out the activity	275	337	83	76	78	100	130	121	31	33	315
Licences for carrying out the activity	257	314	77	71	72	94	127	118	28	31	304
Motor vehicles fees	18	22	5	5	6	6	3	3	3	2	11
Financial Transaction Tax	3,111	6,335	1,513	1,579	1,626	1,617	28	0	0	0	28
NON-TAX REVENUES	3,399	2,546	535	786	536	689	773	1,169	566	169	2,676
Entrepreneurial and property income	1,822	935	133	435	245	122	135	598	454	44	1,232
Profit from additional activities of the government institutions	0	0	0	0	0	0	0	0	0	0	0
Revenues from public financial and non-financial institutions	1,095	546	109	227	98	112	77	598	412	44	1,131
Other property income	727	389	24	208	147	10	58	0	42	0	100
Fees and charges	1,060	1,093	281	280	246	286	311	343	102	79	834
Fines	144	118	28	27	24	39	46	34	15	11	107
Court fines	448	404	106	121	72	105	122	149	39	20	331
Administrative fees	468	571	146	132	150	143	142	159	48	48	397
Other government services	486	204	101	62	20	21	42	208	7	18	275
Other non-tax revenues	31	315	21	9	25	260	284	20	3	28	335
CAPITAL REVENUES	463	1,381	142	112	915	212	137	160	54	34	385
Sale of capital assets	439	433	122	82	87	142	124	146	48	30	348
Sale of land and intangible assets	24	949	20	30	828	71	14	14	6	4	38
TRANSFERS AND DONATIONS	415	2,641	1,713	928	0	0	668	850	0	0	1,518
Transfers from other levels of government	0	0	0	0	0	0	0	0	0	0	0
Foreign donations	415	2,641	1,713	928	0	0	668	850	0	0	1,518
General and current donations	415	2,641	1,713	928	0	0	668	850	0	0	1,518
PRIVATIZATION AND CONCESSION RECEIPTS	8,834	5,033	1,050	1,271	1,631	1,081	409	349	520	748	2,026
SUCCESSION RECEIPTS	1,669	-	-	-	-	-	-	995	0	0	995
BORROWING FROM ABROAD	763	1,584	1,555	29	0	0	0	1,506	0	1,163	2,669
International development organisations	763	1,584	1,555	29	0	0	0	1,506	0	1,163	2,669

EXPENDITURES OF THE CENTRAL BUDGET OF THE REPUBLIC OF MACEDONIJA (2001, 2002 AND 2003)

in million denars

Type of expenditures	Actual in Jan - Dec 2001	Actual in Jan - Dec 2002	2002			2003					
			Q - 1	Q - 2	Q - 3	Q - 4	Q - 1	Q - 2	July	August	Jan.-Aug.
1	2	3	4	5	6	7	8	9	10	11	12
TOTAL EXPENDITURES	68,885	71,692	16,978	16,179	19,877	18,659	14,119	16,613	5,419	4,403	40,554
CURRENT EXPENDITURES	42,595	56,301	13,567	13,216	13,799	15,719	11,754	12,915	4,439	3,818	32,926
Wages, salaries and allowances	12,105	18,339	4,278	4,384	4,674	5,003	4,952	5,057	1,708	1,505	13,222
Wages and salaries	10,674	11,702	2,761	2,839	2,915	3,187	3,156	3,213	1,081	882	8,332
Allowances	1,430	6,637	1,517	1,545	1,759	1,816	1,796	1,844	627	623	4,890
Goods and other services	14,302	13,988	3,755	3,146	2,845	4,241	1,589	1,873	655	492	4,609
Travel and subsistence expenses	2,093	382	109	121	70	82	52	112	41	28	233
Utilities	488	425	79	114	110	122	80	136	62	38	316
Heating expenditures	481	834	348	192	98	195	154	273	40	16	483
Materials	9,467	870	190	179	179	321	724	553	232	171	1,680
Transport expenses	483	8,258	2,297	1,936	1,647	2,377	166	219	78	81	544
Current (routine) maintenance	91	502	66	107	96	233	115	64	19	30	228
Contractual services	650	1,224	259	351	217	397	199	278	114	72	663
Other operational expenditures	552	1,287	377	96	318	495	88	129	35	27	279
Reserves	-	207	31	50	108	18	11	109	34	29	183
Current transfers	12,715	20,573	4,344	5,045	5,381	5,803	4,439	5,357	1,810	1,692	13,298
Transfers to governmental institutions	1,303	11,239	2,654	2,757	2,763	3,066	2,741	2,902	1,215	1,012	7,870
Transfers to non-profit institutions	10,108	1,022	774	90	86	72	26	31	11	18	86
Transfers on the basis of subsidies	1,305	0	0	0	0	0	0	0	0	0	0
Transfers to households and individuals	-	8,312	917	2,198	2,532	2,665	1,672	2,424	584	662	5,342
Interest payments	3,463	3,402	1,190	641	899	672	774	628	266	129	1,797
Interest on domestic loans	499	1,180	74	453	144	509	127	385	12	12	536
Interest on foreign loans	2,975	2,222	1,116	188	755	163	647	243	254	117	1,261
CAPITAL EXPENDITURES	3,928	8,366	1,494	2,008	3,069	1,795	448	754	206	198	1,606
Acquisition of capital assets	2,520	5,419	1,042	1,240	2,200	936	278	304	174	184	940
Acquisition of land and intangible assets	20	24	8	1	15	0	0	0	6	0	6
Acquisition of buildings	341	129	112	1	6	9	0	0	0	2	2
Furniture and office equipment	174	423	121	105	82	116	13	37	2	6	58
Purchase of motor vehicles	69	51	2	5	28	16	14	0	3	0	17
Feasibility studies, project preparation and design	6	122	4	11	104	2	0	16	5	0	20
Plant, equipment and machinery	818	33	0	2	19	12	0	4	0	1	5
Construction, renovation and improvement	660	3,675	629	857	1,560	629	205	167	105	128	605
Substantial and special maintenance	433	542	132	108	168	134	46	80	54	47	227
Purchase of commodity reserves	-	418	34	148	218	18	0	0	0	0	0
Capital transfers	1,408	2,947	452	767	868	860	170	450	32	14	686
Capital transfers to governmental institutions	1,316	1,901	284	526	371	719	151	438	20	4	613
Capital transfers to local self-government units	92	1,045	168	240	497	141	19	12	12	10	53
Capital transfers to individuals and non-profit organizations	-	0	0	0	0	0	0	0	0	0	0
LENDING, EQUITY PARTICIPATION AND DEBT REPAYMENT	3,470	7,025	1,917	955	3,009	1,144	1,917	2,944	774	387	6,022
Lending and equity participation	211	927	251	184	266	226	249	171	39	60	519
Domestic loans and equity	294	905	251	167	266	221	249	156	39	60	504
Foreign loans and equity	-	22	0	17	0	5	0	15	0	0	15
Amortisation (repayment of principal)	3,259	6,098	1,666	771	2,743	918	1,668	2,773	735	327	5,503
Domestic debt	7	2,485	0	502	1,229	754	135	2,400	1	0	2,536
Foreign debt	3,251	3,613	1,666	269	1,514	164	1,533	373	734	327	2,967

REVENUES AND EXPENDITURES OF THE CENTRAL GOVERNMENT BUDGET OF

<i>In million denars</i>	2001	2002	January	February
TOTAL REVENUES	52,829	58,160	4,039	3,994
<i>Tax revenues</i>	47,716	54,389	3,772	3,670
<i>Personal Income Tax</i>	7,248	7,513	482	586
<i>Profit Tax</i>	3,006	2,624	198	395
<i>VAT</i>	17,132	20,521	1,780	1,329
<i>Excises</i>	10,830	10,715	916	729
<i>Import Duties</i>	6,111	6,336	301	594
<i>Other Taxes</i>	275	340	65	38
<i>Tax on Financial Transactions</i>	3,111	6,336	30	-1
<i>Utility Taxes</i>	3	4	0	0
<i>Non Tax Revenues</i>	4,349	3,170	222	295
<i>Profit of Public Financial Institutions</i>	1,847	1057	87	17
<i>Administrative Taxes and Charges</i>	1,061	1,092	91	110
<i>Other Administrative Taxes</i>	486	205	18	12
<i>Other Non Tax Revenues</i>	32	35	26	156
<i>Concession proceeds (OTE)</i>	923	781	0	0
<i>Capital Revenues</i>	349	601	45	29
<i>Foreign Donations</i>	415	0	0	0
TOTAL EXPENDITURES	65,575	65,503	4,378	3,868
<i>Current Expenditures</i>	44,017	51,591	4,228	3,528
<i>Wages and Allowances</i>	16,407	18,338	1,650	1,638
<i>Goods and Services</i>	6,358	8,715	366	473
<i>Transfers</i>	16,950	20,576	1,460	1,342
<i>Pension Fund</i>	5,215	6,538	542	550
<i>Employment Fund</i>	3,548	4,111	340	340
<i>Other Transfers</i>	2,349	3,404	84	93
<i>Refugees</i>	582	391	29	29
<i>Structural Reforms</i>	239	1,387	109	138
<i>Public Administration Reforms</i>	944	442	31	31
<i>Interest</i>	4,212	3,401	520	75
<i>Domestic</i>	1,066	1,179	23	23
<i>Foreign</i>	3,146	2,222	497	52
<i>Guaranties</i>	90	561	232	0
<i>Capital Expenditures</i>	7,723	8,636	150	179
<i>Fixed Assets</i>	3,589	2,718	58	73
<i>Capital Transfers</i>	2,211	2,476	91	60
<i>Commodity Reserves</i>	546	418	0	0
<i>International Financial Institutions</i>	35	22	0	0
<i>Telecom Projects</i>	1,342	3,002	1	46
<i>Crisis Related Expenditures</i>	13,835	5,276	0	161
BUDGET BALANCE	-12,746	-7,343	-339	126
FINANCING	12,746	7,345	339	-126
<i>Inflow</i>	19,272	13,432	1,290	-5
<i>Privatisation Receipts</i>	10,837	5,178	78	46
<i>Foreign Donations</i>	0	2,641	0	0
<i>Capitalisation</i>	604	0	0	0
<i>Foreign Loans</i>	763	1,548	0	0
<i>Deposits</i>	5,399	4,029	1,212	-51
<i>BIS</i>	1,669	0	0	0
<i>Outflow</i>	6,526	6,087	951	121
<i>Repayment of Principal</i>	3,550	6,087	951	121
<i>Foreign</i>	3,543	3,602	947	121
<i>Domestic</i>	7	2,485	4	0
<i>Purchase of Bonds</i>	2,976	0	0	0

THE REPUBLIC OF MACEDONIA

March	Q1	April	May	June	Q2	July	August	Total 2003
4,753	12,786	4,598	4,659	4,430	13,687	5,259	3,631	35,363
4,435	11,877	4,384	3,834	4,144	12,362	4,638	3,429	32,306
610	1,678	676	570	635	1,881	671	555	4,785
594	1,187	209	191	239	639	329	213	2,368
1,760	4,869	2,064	1,627	1,855	5,546	2,180	1,169	13,764
685	2,330	814	870	903	2,587	911	1,035	6,863
760	1,655	582	527	478	1,587	515	423	4,180
27	130	39	49	34	122	32	34	318
-1	28	0	0	0	0	0	0	28
0	0	0	0	0	0	0	0	0
256	773	185	790	192	1,167	567	168	2,675
31	135	51	505	41	597	455	44	1,231
110	311	111	112	119	342	102	79	834
12	42	20	168	20	208	7	18	275
103	285	3	5	12	20	3	28	336
0	0	0	0	0	0	0	0	0
62	136	29	35	94	158	54	34	382
0	0	0	0	0	0	0	0	0
4,203	12,449	4,295	4,762	4,785	13,842	4,682	4,074	35,046
3,983	11,739	4,090	4,455	4,271	12,816	4,448	3,800	32,803
1,665	4,953	1,683	1,681	1,693	5,057	1,707	1,504	13,221
489	1,328	592	657	523	1,772	638	473	4,211
1,633	4,435	1,472	2,032	1,855	5,359	1,809	1,695	13,297
573	1,665	585	579	602	1,766	794	591	4,816
340	1,020	340	363	380	1,083	350	398	2,851
236	413	103	424	380	907	248	218	1,786
26	84	29	21	21	72	18	17	190
138	384	63	87	144	294	67	124	869
27	90	39	54	36	129	34	34	287
179	774	343	85	200	628	266	129	1,797
81	127	230	83	72	385	12	12	536
98	647	113	2	128	243	254	117	1,261
17	249	0	0	0	0	28	0	277
121	450	156	272	496	924	218	254	1,846
119	250	92	84	112	288	148	110	796
0	151	54	168	374	596	33	60	840
0	0	0	0	0	0	0	0	0
0	0	5	3	7	15	0	0	15
2	49	5	17	3	25	37	84	195
99	260	49	35	18	102	16	20	398
550	337	303	-103	-355	-155	577	-443	317
-550	-337	-303	103	355	155	-577	443	-317
46	1,331	1,342	655	933	2,930	158	769	5,187
285	409	1,095	111	137	1,343	520	748	3,020
668	668	0	850	0	850	0	0	1,518
0	0	0	0	0	0	0	0	0
0	0	1	894	611	1,506	0	1,163	2,669
-907	254	246	-1,200	185	-769	-362	-1,142	-2,020
0	0	0	0	0	0	0	0	0
596	1,668	1,645	552	578	2,775	735	327	5,504
596	1,668	1,645	552	578	2,775	735	327	5,504
465	1,533	134	-9	248	373	734	327	2,966
131	135	1,511	561	330	2,402	1	0	2,538
0	0	0	0	0	0	0	0	0

BUDGET - CENTRAL GOVERNMENT

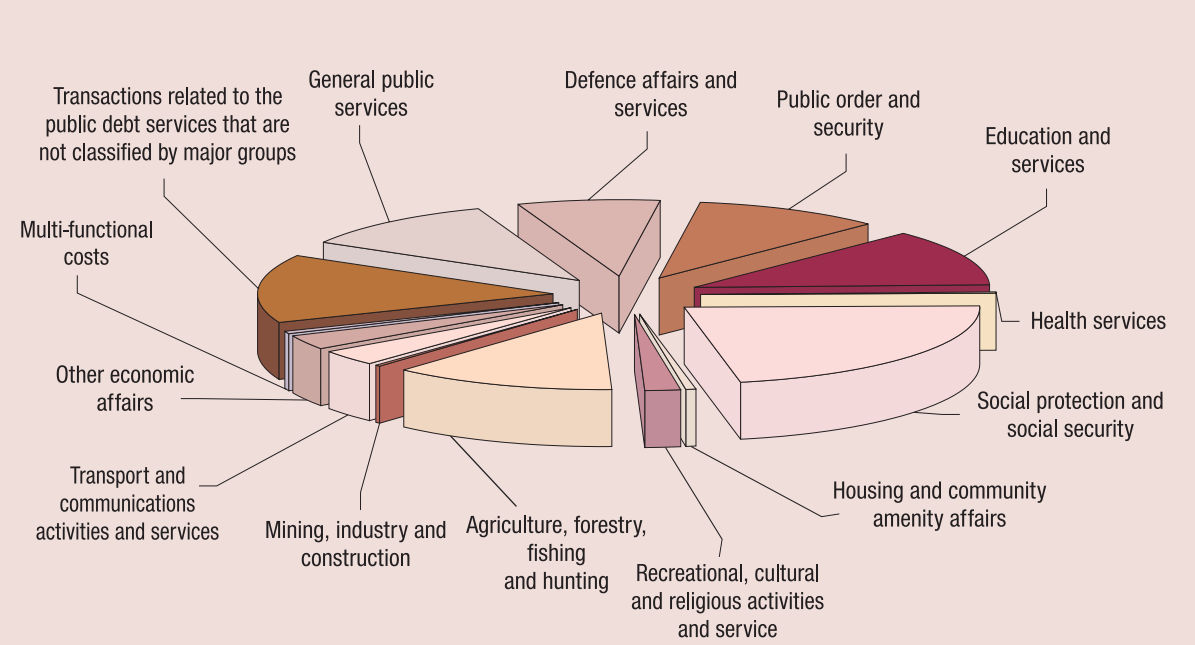
	1999	2000	2001	2002	2003
	<i>Final statement</i>	<i>Final statement</i>	<i>Final statement</i>	<i>Supplemental budget</i>	<i>Supplemental budget</i>
TOTAL REVENUES	50,493,469,454	65,713,522,924	69,688,034,455	72,565,262,000	67,490,170,000
REVENUES (TAX AND NON-TAX)	44,728,175,441	56,760,081,090	50,447,329,542	56,984,000,000	56,179,000,000
TAX REVENUES	41,858,828,319	51,120,246,193	47,715,732,355	54,026,000,000	50,932,000,000
<i>Taxes on income, profits and capital gains</i>	12,793,078,777	13,585,772,246	10,254,737,418	10,101,000,000	10,897,000,000
<i>Personal income tax</i>	10,233,016,110	10,792,594,721	7,248,441,986	7,479,000,000	7,713,000,000
<i>Profit tax</i>	2,559,325,945	2,793,156,390	3,006,295,432	2,622,000,000	3,184,000,000
<i>Other taxes on income, profit and capital gains</i>	736,722	21,135	0	0	0
Domestic taxes on goods and services	20,631,883,947	29,733,381,841	27,961,320,393	31,192,000,000	33,089,000,000
<i>Value Added Tax (since 1.4.2000)</i>	9,958,866,206	17,452,340,371	17,131,342,296	20,332,000,000	22,792,000,000
<i>Excises</i>	10,673,017,741	12,281,041,470	10,829,978,097	0,860,000,000	10,297,000,000
Taxes on international trade and transactions	8,302,773,971	7,733,381,467	6,110,877,520	6,038,000,000	6,596,000,000
<i>Custom duties</i>	6,802,005,702	6,040,495,875	4,819,861,730	4,932,000,000	5,445,268,000
<i>Other import taxes and duties</i>	1,500,768,269	1,692,885,592	1,291,015,790	1,106,000,000	1,150,732,000
Other taxes	123,627,594	62,644,972	168,830	168,830	4,000,000
<i>Taxes on specific services</i>	7,464,030	5,065,667	2,619,857	3,000,000	3,000,000
<i>Fees for usage and permissions for performing activities</i>	-	-	274,734,772	300,000,000	343,000,000
<i>Financial transactions tax</i>	-	-	3,111,273,565	6,392,000,000	-
NON-TAX REVENUES	2,869,347,122	5,639,834,897	2,731,597,187	2,958,000,000	5,247,000,000
<i>Entrepreneurial income and property income</i>	798,125,658	1,133,367,383	1,151,786,583	791,000,000	3,108,000,000
<i>Fees and charges</i>	1,156,606,788	1,215,770,217	1,061,498,244	1,140,000,000	1,220,000,000
<i>Other government services</i>	127,316,281	324,812,933	486,087,458	1,001,000,000	520,000,000
<i>Other non-tax revenues</i>	632,921,803	349,306,600	32,224,902	26,000,000	399,000,000
CAPITAL REVENUES	15,437,592	2,616,577,764	10,660,015,021	5,703,000,000	3,596,000,000
<i>Sales of capital assets</i>	15,437,592	2,616,577,764	9,714,039,661	5,469,000,000	3,496,000,000
<i>Sales of land and intangible assets</i>	-	-	945,975,360	234,000,000	100,000,000
TRANSFERS AND DONATIONS	2,419,089,626	4,155,269,452	6,484,077,606	8,294,262,000	3,760,170,000
<i>Transfers from other levels of government</i>	32,283,095	716,822,828	5,407,618,545	5,653,262,000	708,170,000
<i>Foreign donations</i>	2,386,806,531	3,438,446,624	1,076,459,061	2,641,000,000	3,052,000,000
DOMESTIC LOANS	0	0	1,333,471,478	0	0
BORROWING FROM ABROAD	3,330,766,795	2,181,594,618	763,140,808	1,584,000,000	3,800,000,000
REVENUES FROM REPAYMENT OF LOANS	-	-	-	-	155,000,000
TOTAL EXPENDITURES	49,761,209,035	57,689,326,704	68,520,623,429	72,565,262,000	67,490,170,000
CURRENT EXPENDITURES	42,088,365,187	46,985,485,342	57,496,087,268	56,849,538,000	52,946,575,000
Wages, salaries and allowances	15,996,631,927	16,285,267,541	16,407,589,066	18,402,266,000	20,742,000,000
Goods and other services	5,646,765,633	6,293,788,729	19,985,061,676	14,340,463,000	7,708,157,000
Current transfers	18,227,967,627	22,790,409,470	17,494,812,744	20,782,555,000	21,732,342,000
Interest payments	2,217,000,000	1,616,019,602	3,608,623,782	3,324,254,000	2,764,076,000
CAPITAL EXPENDITURES	2,407,296,601	5,186,477,309	7,140,072,243	8,832,822,000	5,629,770,000
Acquisition of capital assets	1,312,799,356	3,230,738,464	5,117,069,331	5,886,372,000	3,184,221,000
Capital transfers	1,094,497,245	1,955,738,845	2,023,002,912	2,946,450,000	2,445,549,000
LENDING, EQUITY PARTICIPATION AND DEBT REPAYMENT	5,265,547,247	5,517,364,053	3,884,463,918	6,882,902,000	8,913,825,000
Lending and equity participation	2,942,547,247	3,956,462,261	334,943,165	866,000,000	623,060,000
Amortization (debt repayment)	2,323,000,000	1,560,901,792	3,549,520,753	6,016,902,000	8,290,765,000

FUNCTIONAL CLASSIFICATION OF THE CENTRAL BUDGET EXPENDITURES

	Final stateme. 1999	Final stateme. 2000	Final stateme. 2001	Budget 2002	Budget 2003	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
	in million denars					structure					% of GDP				
TOTAL	49,761	57,689	68,521	72,565	67,374	100.0	100.0	100.0	100.0	100.0	23.8	24.4	29.3	30.3	26.5
1 General public services	8,707	12,985	7,767	10,232	8,411	17.5	22.5	11.3	14.1	11.1	4.2	5.5	3.3	4.3	3.3
2 Defence affairs and services	3,804	4,613	14,351	8,049	5,889	7.6	8.0	20.9	11.1	7.8	1.8	2.0	6.1	3.4	2.3
3 Public order and security	4,634	5,741	10,222	10,101	7,753	9.3	10.0	14.9	13.9	10.2	2.2	2.4	4.4	4.2	3.0
4 Education and services	7,905	8,055	7,767	9,009	9,044	15.9	14.0	11.3	12.4	11.9	3.8	3.4	3.3	3.8	3.6
5 Health services	291	314	338	365	333	0.6	0.5	0.5	0.5	0.4	0.1	0.1	0.1	0.2	0.1
6 Social protection and social security	14,671	14,410	14,295	16,697	16,875	29.5	25.0	20.9	23.0	22.3	7.0	6.1	6.1	7.0	6.6
7 Housing and community amenity affairs	157	303	301	677	381	0.3	0.5	0.4	0.9	0.5	0.1	0.1	0.1	0.3	0.1
8 Recreational, cultural and religious activities and service	1,206	1,346	1,320	1,515	1,428	2.4	2.3	1.9	2.1	1.9	0.6	0.6	0.6	0.6	0.6
9 Fuel and energy affairs and services	15	5	5	5	5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10 Agriculture, forestry, fishing and hunting	527	743	826	970	936	1.1	1.3	1.2	1.3	1.4	0.3	0.3	0.4	0.4	0.4
11 Mining, industry and construction	250	264	65	152	134	0.5	0.5	0.1	0.2	0.2	0.1	0.1	0.0	0.1	0.1
12 Transport and communications activities and services	1,545	2,297	2,152	1,984	2,408	3.1	4.0	3.1	2.7	3.2	0.7	1.0	0.9	0.8	0.9
13 Other economic affairs	2,241	2,843	1,408	2,594	2,508	4.5	4.9	2.1	3.6	3.3	1.1	1.2	0.6	1.1	1.0
14 Multi-functional costs	478	593	578	874	406	1.0	1.0	0.8	1.2	0.5	0.2	0.3	0.2	0.4	0.2
15 Transactions related to the public debt services that are not classified by major groups	3,331	3,177	7,127	9,341	10,863	6.7	5.5	10.4	12.9	14.3	1.6	1.3	3.0	3.9	4.3

Note: The functional classification on the Central Budget expenditures was prepared according to the international standards.

Functional classification of the expenditures 2003



BALANCE OF PAYMENTS OF THE REPUBLIC OF MACEDONIA (annual data)¹

(In million US\$)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 ⁴
CURRENT ACCOUNT											
Goods, net	-82.54	-262.94	-298.91	-339.85	-286.14	-269.29	-32.46	-75.28	-235.43	-324.48	-198.21
Export, f.o.b.	42.82	-184.92	-222.78	-314.67	-386.13	-515.09	-495.81	-690.41	-523.23	-767.56	-476.88
Import, f.o.b. ²	1055.30	1086.35	1204.05	1147.44	1236.81	1291.52	1189.98	1320.73	1153.33	1110.49	770.73
Services, net	-1012.48	-1271.27	-1426.83	-1462.11	-1622.94	-1806.61	-1685.79	-2011.14	-1676.56	-1878.05	-1247.61
Income, net	-154.47	-155.12	-200.51	-156.16	-137.74	-59.60	41.83	47.05	-15.79	-24.63	-14.45
o/w : interest, net	-56.69	-46.60	-39.57	-51.35	-54.90	-44.82	-42.15	-45.44	-39.46	-30.61	-25.06
Current transfers, net	-56.69	-46.60	-39.73	-56.42	-54.88	-44.34	-41.41	-39.15	-33.59	-20.26	-20.56
Official	85.80	123.70	163.95	182.34	292.63	350.21	463.66	613.53	343.06	498.32	318.18
Private	28.00	44.00	27.01	51.58	7.46	37.39	72.69	132.30	48.65	100.37	58.10
CAPITAL AND FINANCIAL ACCOUNT	57.80	79.70	136.94	130.76	285.17	312.82	390.97	481.23	294.41	397.95	260.08
Capital account, net	-12.85	162.37	280.65	318.23	327.15	281.84	-128.46	11.28	178.23	353.88	146.98
Capital transfers, net	0.00	30.04	1.70	0.00	0.00	0.00	0.00	0.31	1.30	8.06	-2.97
Official	0.00	30.04	1.70	0.00	0.00	0.00	0.00	0.00	3.64	9.82	-2.94
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.31	0.00	9.93	0.00
Acquisition/disposal of non-produced, nonfinancial assets	0.00	0.00	0.00	0.00	0.00	-1.79	0.00	0.00	-2.34	-1.76	-0.03
Financial account, net	-12.85	132.33	278.95	318.23	327.15	283.63	-128.46	10.97	176.93	345.82	149.95
Direct investment, net	0.00	24.02	9.51	11.23	15.74	117.72	31.80	176.23	442.32	77.32	26.13
Portfolio investment, net	0.00	0.00	2.68	0.31	2.08	7.79	0.14	-0.09	0.36	0.59	3.55
Other investment, net	43.98	150.22	367.35	300.78	341.14	226.66	-32.01	85.05	-183.27	137.34	152.32
Trade credits, net	-82.02	97.97	144.58	76.94	267.44	45.39	7.13	146.54	-125.08	65.66	91.27
Loans, net	-91.00	-96.83	29.31	41.51	75.39	219.87	54.83	13.51	-107.31	-26.28	12.66
Currency and deposits, net	81.00	38.09	86.66	113.77	-9.81	-40.62	-135.01	-122.53	27.09	69.49	38.70
o/w : Monetary Authorities, net	0.00	0.00	0.00	0.00	0.00	0.00	21.20	-0.19	-77.08	68.79	8.79
o/w : Commercial Banks, net	-17.00	-69.64	23.43	61.37	-29.14	-28.77	-51.28	-93.26	-272.39	137.03	5.32
o/w : Individuals, net	98.00	107.73	63.23	52.40	19.33	-11.85	-62.52	-29.08	376.56	-136.33	24.58
Other, net	136.00	110.99	106.81	68.56	8.12	2.03	41.04	47.53	22.03	28.48	9.70
Gross official reserves ("-" increase) ³	-56.83	-41.91	-100.59	5.91	-31.81	-68.54	-128.39	-250.22	-82.48	130.57	-32.05
ERRORS AND OMISSIONS	95.39	100.58	18.26	21.62	-41.02	-12.55	160.92	64.00	57.19	-29.39	51.24

Source: National Bank of the Republic of Macedonia

1) Revised preliminary data

2) Imports data are on f.o.b. basis in accordance with IMF V Balance of Payments Manual. Calculation of c.i.f. - f.o.b. factor as percent of import c.i.f. is: 1993-20%, 1994-20%, 1995-20%, 1996-14%, 1997-10%, 1998-5.02%, 1999-4.86%, 2000-3.90%, 2001-4.20% i 2002-4.20%.

3) Excluding monetary gold and exchange rate differences

4) January-July 2003 godina

PENSION AND DISABILITY INSURANCE FUND

In the period January-September 2003, the Pension and Disability Insurance Fund realized revenues in the amount of Denar 20,213 million, which is an increase of 5.8% in relation to the same period last year. With-in the most significant revenue sources, revenues from the Budget of the Republic of Macedonia, with 28.8% share in the total Fund revenues, had the largest increase of 14.6%. Revenues from salaries, with 60.1% share in the total Fund revenues, increased by 7.2% in the period January-September 2003, compared to the same period in 2002. Revenues from the Employment Bureau and individual farmers also increased, while revenues from the private sector, excises, dividends and sale of securities declined, but they make up only 4% of the total revenues of the Pension and Disability Insurance Fund.

In the period January-September 2003, the expenditures of the Pension and Disability Insurance Fund

amounted to Denar 20,204 million, i.e. they were higher by 5.7% in relation to the same period last year. Expenditures for payment of regular pensions make up the largest share, or 79.1%, and they increased by 7.9% in the respective period. Expenditures for health-care contributions make up 10.4% of the total expenditures of the Pension and Disability Insurance Fund, and they are lower by 2.7% in relation to the same period last year, while expenditures for retroactive payment of the outstanding 8% to the pensioners declined by 2%.

Hence, the Pension and Disability Insurance Fund realized surplus in the amount of Denar 9 million in the period January-September 2003, unlike the same period last year when it had deficit in the amount of Denar 413 million.

(in million of denars)

Types of revenues/expenditures	1998	1999	2000	2001	2002	2003
	Actual	Actual	Actual	Actual	Actual	Jan - Sept
REVENUES	20,717	21,229	22,883	24,289	25,811	20,213
Contribution from salaries	13,373	14,316	15,722	15,671	15,784	12,144
Contribution from income	239	311	311	331	283	227
Revenues from the Government Budget	3,618	3,266	4,174	5,744	6,961	5,819
Revenues from the private sectors	400	439	404	377	409	280
Revenues from individual farmers	74	65	58	41	61	48
Revenues from excises	691	632	804	716	688	502
Contributions from the Employment Fund for unemployed	961	868	1,101	1,126	1,404	1,127
Other revenues	122	45	74	73	29	41
Revenues from dividends	619	245	68	209	192	26
Revenues from new employment	419	841	167	0	0	0
Transferred income from the previous year	201	201	0	0	0	0
EXPENDITURES	20,521	20,669	22,940	24,697	25,889	20,204
Pensions	17,730	17,756	19,774	21,278	22,255	17,741
Regular pensions	16,912	16,977	18,948	19,041	19,982	15,980
War veteran pensions	464	458	505	514	518	390
Agricultural pensions	354	321	321	297	262	191
Retroactive payment of 8%	0	0	0	1,167	1,136	837
Early retirement by the Law from year 2000	0	0	0	112	103	86
Early retirement by the Law from year 2001	0	0	0	148	254	198
Compensation for body injury	63	69	72	72	83	60
Compensation for disability insurance	98	95	94	91	76	71
Employment and accomodations for disabled children	15	13	12	7	9	3
Health care contribution	2,321	2,450	2,672	2,805	2,934	2,110
Compensation for administration	133	132	141	153	165	114
Other expenditures	161	154	175	254	222	105
Capital expenditures	-	-	-	37	145	0
BALANCE						
Deficit / Surplus	196	560	-57	-408	-78	9

Source: Internal data of the Ministry of Finance

HEALTH INSURANCE FUND

Total revenues of the Health Insurance Fund in the period January-September 2003 increased by 48% in relation to the same period last year, amounting to Denar 14,185 million. Such increase was mainly due to 53% increase of revenues from contributions, the share of which in the total revenues amounted to 60.5%. Revenues on the basis of contributions from the Pension and Disability Insurance Fund also increased by 54% in relation to last year, as well as the contributions from the Employment Bureau, the increase of which amounted to 4%.

Expenditures of the Health Insurance Fund in the period January-September 2003 were increasing with much slower pace than its revenues, thus positively influencing the economic performance of its operations. In fact, the total expenditures in this period

amounted to Denar 10,075 million, which is higher by 14% in relation to the same period last year. Outpatient-related expenses increased by 20% compared to last year, having 35.2% share in the structure of the total expenditures. Hospital treatment expenses increased by 4%, expenses for pharmaceuticals increased by 38% and expenses for other types of treatments by 12%. Expenses for equipment and maintenance were the only ones to decline.

Hence, the Health Insurance Fund realized surplus in the amount of Denar 4,112 million in the period January-September 2003, unlike the preceding year, when the surplus amounted to only Denar 720 million. This surplus was realized due to the significant increase of the Fund's revenues.

(in million of denars)

Tupe of revenues / expenditures	1998	1999	2000	2001	2002	2003
	Actual	Actual	Actual	Actual	Actual	Jan - Sept
REVENUES	11,087	12,068	12,790	12,295	13,656	14,185
Contributions	6,736	7,363	7,745	7,528	7,823	8,580
Contributions from the Pension Fund	2,309	2,417	2,649	2,616	3,075	3,201
Contributions from the Employment Fund	1,037	1,350	1,941	1,554	1,763	1,373
Contributions from the Ministry of Labour	45	0	0	48	54	47
Other revenues	851	938	455	70	734	46
Revenues on the basis of contracts for health insurance cards	109	0	0	0	0	0
Transfers from the Central Budget for mandatory health insurance	-	-	-	166	111	847
Transferred income from the previous year	0	0	0	313	96	91
EXPENDITURES	13,689	11,692	12,463	12,205	13,611	10,073
Outpatient expenditures	5,303	2,491	2,486	2,505	4,430	3,549
Hospital treatment	4,702	5,482	5,737	5,919	4,929	3,577
Costs for programs	214	125	105	306	123	10
Medicines	1,214	1,249	1,681	1,555	1,305	1,234
Dental care	638	667	687	522	521	377
Orthopedic expenses	208	154	143	111	134	99
Medical treatment abroad	290	161	70	90	144	162
Other treatment (contributions)	719	801	694	769	832	716
Administration	326	288	250	268	360	205
Equipment and maintenance	36	39	90	44	656	40
Other expenditures	41	234	200	48	23	18
Loans and interest payments	0	0	321	71	154	85
BALANCE						
Deficit/Surplus	-2,602	376	326	90	45	4,112

Source: Internal data of the Ministry of Finance

EMPLOYMENT BUREAU

In the period January-September 2003, the revenues of the Employment Bureau amounted to Denar 4,361 million, which is higher by 4.2% in relation to the same period last year. Revenues on the basis of salary contributions increased by 4.9%, while Central Budget transfers increased by 4% in relation to the same period last year. Within the transfers, there was a 4% increase of transfers for covering the Employment Bureau deficit and transfers for payment of pecuniary allowance to workers from the loss-making enterprises.

Within the total expenditures of the Employment Bureau in the amount of Denar 4,513 million, 96.6% are functional expenditures and 3.4% are expert service expenditures. Within the functional expenditures, the

unemployment allowance expenses increased by 3.4%, contributions for pension and disability insurance by 6.8%, and expenses for health insurance for the unemployed increased by 4%. There was decline of expenses for employment of disabled persons and expenses for re-qualification.

Expert service expenditures reduced by 2%, due to the large reduction of capital expenditures (by 84.5%), while allowances declined by 10.7%.

In the period January-September 2003, the Employment Bureau realized surplus in the amount of Denar 30 million, which is much better economic performance than the one in the same period last year, when the surplus reached only Denar 1 million.

(in million of denars)

Tupe of revenues / expenditures	1998	1999	2000	2001	2002	2003
	Actual	Actual	Actual	Actual	Actual	Jan - Sept
REVENUES	4,260	4,129	5,119	4,827	5,918	4,543
Revenues from contributions	990	1,058	1,121	1,136	1,180	888
Contributions from wages	969	1,037	1,098	1,113	1,178	888
Contributions from self-employed	22	21	22	23	2	0
Contributions from the people who work abroad	0	0	0	0	0	1
Revenues from the Government budget	3,261	3,066	3,990	3,677	4,726	3,645
For covering the deficit of the Employment Fund	2,737	2,575	3,470	3,170	3,742	2,928
For paying allowances to the employees of the loss-making enterprises	524	490	516	481	944	703
Public administration reform	-	-	-	26	19	3
Other	0	0	3	26	21	11
Other revenues	9	6	8	13	12	10
EXPENDITURES	4,264	4,135	5,110	4,749	5,868	4,513
Expenditures for the functions	4,084	3,970	4,913	4,571	5,658	4,360
Unemployment benefits	2,073	1,755	1,875	1,879	2,273	1,751
Contributions for health insurance	1,039	1,347	1,936	1,555	1,763	1,373
Contributions for pension and disability insurance	972	868	1,102	1,138	1,453	1,143
Transfers for employment of disabled persons	-	-	-	-	128	70
Compensation for training	-	-	-	-	41	23
Expenditures for the personnel	180	165	198	178	210	153
Wages and salaries	99	105	118	116	124	100
Allowances	14	17	19	18	22	15
Goods and other services	43	34	54	43	42	36
Current transfers	0	0	0	0	0	0
Interest payments	0	0	1	0	0	0
Capital expenditures	24	8	6	2	22	3
BALANCE						
Deficit / Surplus	-4	-6	9	78	50	30

Source: Internal data of the Ministry of Finance

NATIONAL AND REGIONAL ROAD FUND

In the period January-September 2003, the total revenues of the National and Regional Roads Fund amounted to Denar 2,222 million and they are lower by 3.1% in relation to the same period last year. Such reduction of revenues was mainly due to the reduced revenues from the Budget of the Republic of Macedonia, which were lower by 11.3% compared to the period January-September 2002, while they make up the largest share in the revenue structure. However, other two more significant sources of revenues, annual registration fee and pay toll, increased by 5.2% and 80.4%, respectively.

Total expenditures of the National and Regional Roads Fund in the period January-September 2003 were lower by 7.9% in relation to the previous year, amounting to Denar 2,178 million. This reduction of expenditures was mainly a result of lower investments compared to last year, amounting to Denar 516 million. Expenditures for road maintenance retained the last-year level, while expenses for local roads maintenance increased by almost 35%.

As a result of higher expenditure reduction, the Road Fund realized surplus in the amount of Denar 44 million in the period January-September 2003.

(in million of denars)

Tupe of revenues / expenditures	1998	1999	2000	2001	2002	2003
	Actual	Actual	Actual	Actual	Actual	Jan - Sept
REVENUES	2,660	3,793	3,506	4,012	3,434	2,222
Revenues from Budget	668	924	1,590	1,655	1,305	849
Paytoll by foreign motor vehicles	49	54	82	73	87	59
Annual fee for motor vehicles subject to registration	524	518	746	704	761	589
Paytoll for use of motorway	468	492	537	375	381	544
Foreign credit	939	1,793	538	1,098	862	144
Other revenues	12	13	14	21	2	35
Grants	-	-	-	87	36	1
EXPENDITURES	2,660	3,793	3,506	4,013	3,420	2,178
Investments	1,203	1,985	1,662	1,756	1,250	516
Expenditures for studies, projections, supervision, fees and material costs	0	0	179	286	289	150
Road maintenance	784	790	952	926	900	770
Repayment of loans	264	148	212	299	304	149
Funds for local roads	321	386	502	596	528	491
Other expenditures	89	142	0	0	0	102
Liabilities from the previous year	0	342	0	0	0	0
Liabilities towards the Bank Rehabilitation Agency	0	0	0	150	149	0
BALANCE						
Deficit / Surplus	0	0	0	-1	14	44

Source: Internal data of the Ministry of Finance

MACEDONIAN LONG-TERM SECURITIES STOCK EXCHANGE

Stock Exchange Indicators - July 2003

The total turnover on the Macedonian Long-term Securities Stock Exchange in July 2003 was higher by 5.36% in relation to June 2003, amounting to Denar 251.6 million, whereas the average daily turnover decreased by 5.73% in relation to the previous month, amounting to Denar 13.2 million.

Total turnover of shares in the analyzed period amounted to Denar 52.9 million, thus increasing by 3.07% in relation to the turnover realized in the previous month. Turnover of bonds amounted to Denar 190.2 million, which is an increase of 12.74% compared to the previous month.

Within the total turnover of bonds, the turnover of bonds for the "old" foreign currency savings amounted to Denar 50.3 million, with the average price reaching 66.52% of the nominal value, which is an increase of 2.75 percentage points in relation to the previous month. In this period, the average price of denationalization bonds from the first issue amounted to 60.91% of the nominal value, thus increasing by 2.8 percentage points compared to the previous month. Trading of second issue denationalization bonds in the amount of Denar 138 million was more notable in this period. The average price of these bonds amounted to 60.8% of their nominal value, which is an increase of 1.66 percentage points in relation to the previous month. The price of convertible certificates reached 24.34% of the nominal value, thus reducing by 7.05 percentage points in relation to the previous month.

In July 2003, the official stock exchange index (SEI), being the indicator of the share price movements, increased by 1.88% in relation to the previous month, amounting to Denar 1,013.68.

Just like in the previous month, the largest turnover in July 2003 in the amount of Denar 225.9 million was realized on the official market, making up 89.80% of the total turnover. Trading on the unofficial market amounted to Denar 17.2 million or 6.84% of the total turnover on the Stock Exchange. Trading with other

Stock Exchange Indicators - July 2003

	June 2003	July 2003	% change
TOTAL TURNOVER			
Shares	51,347,018	52,922,598	3.1
Bonds	168,778,365	190,284,743	12.7
Other securities	18,741,163	8,461,707	54.8
TOTAL	238,866,546	251,669,048	5.4
VOLUME (in securities)			
Shares	78,224	41,846	-46.5
Bonds (NV in EURO's)	4,490,297	4,918,179	9.5
Other securities (NV in EURO's)	57,790,930	34,553,737	-40.2
MSEI	995.00	1,013.68	1.9
TOTAL NUMBER OF TRANSACTIONS	1,732	1,327	-23.4
NUMBER OF LISTED SECURITIES	100	100	0.0
MARKET CAPITALIZATION (In Denars)			
Shares	16,390,910,330	16,359,386,605	-0.2
Bonds (NV in EURO's)	20,824,420,685	19,818,132,700	-4.8
TOTAL	37,215,331,015	36,177,519,305	-2.8
NUMBER OF TRADED SECURITIES - UNOFFICIAL MARKET	35	31	-11.4
NUMBER OF TRADING DAYS	17	19	11.8
DAILY AVERAGE:			
Turnover (denars)	14,050,973	13,245,739	-5.7
Number of transactions	102	70	-31.4
NUMBER OF REPORTED TRANSACTIONS	8	18	125.0
VALUE OF REPORTED TRANSACTIONS	1,547,278,451	235,777,518	-84.8
NUMBER OF TRANSACTIONS - STATE SEGMENT	61	39	-36.1
VALUE OF TRANSACTIONS - STATE SEGMENT	136,860,537	586,048,174	328.2

securities amounted to Denar 8.4 million, i.e. 3.36% of the total turnover.

In the analyzed period, the shares of Makpetrol Skopje, Alkaloid AD Skopje and Zito Strumica made up the largest percentage share on the official Stock Exchange market.

In July 2003, total of 18 block transactions were realized in the total amount of Denar 235.7 million. Trading with shares of Balkanska Banka Skopje, Nova Trgovija Stip and Vinarska Vizba Tikves Kavadarci is

the most notable. The value of reported block transactions in July 2003 decreased by 84.76% in relation to the previous month.

In July 2003, total of 39 transactions of government securities were realized on the Macedonian Securities Market, in the total amount of Denar 586 million. Out of this total, trading with state-owned ordinary shares amounted to Denar 584.5 million, and trading with stocks reached Denar 1.5 million.

Analyzing the turnover of ordinary shares, cash-based turnover amounted to Denar 565.22 million, and the remaining Denar 19.2 million worth of securities were purchased using government securities. With respect to cash-based turnover, trading with ordinary shares of Toplifikacija Skopje and Vinarska Vizba Tikves Kavadarci was the most notable, while trading with shares of Karpos Predilnica Kriva Palanka and Sniteks was the most notable regarding non-cash turnover of ordinary shares.

Out of the total trading with stocks in the amount of Denar 1.56 million, Denar 1.46 million was paid in cash and Denar 0.1 million with government securities.

In July 2003, total of 70 transactions were realized in 19 trading days.

Stock Exchange Indicators - August 2003

The total turnover on the Macedonian Long-term Stock Exchange in August 2003 declined by 63.7% in relation to July 2003, amounting to Denar 91.37 million. The average daily turnover also declined by 56.9%, reaching Denar 5.71 million.

Total turnover of shares in this period amounted to Denar 30.4 million, thus decreasing by 42.5% in relation to the turnover realized in the previous month. Turnover of bonds amounted to Denar 53.7 million, which is a significant decrease of 71.8% compared to the previous month.

Within the total turnover of bonds, the turnover of bonds for the "old" foreign currency savings amounted to Denar 31.3 million, with the average price reach-

ing 65.21% of the nominal value, which is a decrease of 1.31 percentage points in relation to the previous month. The average price of denationalization bonds from the first issue reached 62.91% of the nominal value, thus increasing by 2 percentage points compared to the previous month. The average price of denationalization bonds from the second issue increased by 1.32 percentage points amounting to 62.12% of their nominal value. The price of convertible certificates has been falling continuously in the past few months, and it reached 23.51% of the nominal value in August, thus reducing by 0.83 percentage points in relation to the previous month.

The official stock exchange index (SEI), as indicator of price movements of shares, decreased by 0.7% in August 2003 in relation to the previous month, amounting to Denar 878.

Regarding the turnover structure, the largest turnover in August 2003 was realized on the official market, in the amount of Denar 69.6 million, making up 76.2% of the total turnover. Turnover in the amount of Denar 14.5 million was realized on the unofficial market of the Stock Exchange, which makes up 15.9% of the total Stock Exchange turnover. Trading with other securities amounted to Denar 7.2 million, or 7.9% of the total turnover.

The shares of Alkaloid AD Skopje and Makpetrol Skopje had the largest percentage share in the total turnover realized on the official market in this period.

Total of 8 block transactions were realized in August 2003 in the amount of Denar 118 million. Most notable trading is the one of shares of the National Payment Card and Vinka Vinica. The value of reported block transactions in August 2003 decreased by 49.9% in relation to the previous month.

Total of 25 transactions of government securities were realized on the Macedonian Securities Market, in the amount of Denar 161.2 million. Within this amount, turnover of state-owned ordinary shares reached Denar 146.4 million, and the trading with stocks amounted to Denar 14.8 million.

Looking at the trading with ordinary shares, Denar 130.9 million go to cash-based trading, while the remaining shares in the amount of Denar 15.5 million

were purchased using government securities. With respect to cash-based trading, trading of ordinary shares of Strumicko Pole Vasilevo, Avioimpex Skopje and Sik Plackovica Radovis was the most notable, while trading with shares of ZAS Skopje and Zivino-komerc Stip was the most notable regarding non-cash trading with ordinary shares.

Out of the total turnover of stocks in August 2003 in the amount of Denar 14.81 million, Denar 12.9 million were paid in cash, whereby the most notable was trading with stocks of Mateks Skopje and Berovotrans Berovo. Denar 1.9 million were paid with government securities, where the most notable was the trading with stocks of Zvezdakoop Stip.

Total of 55 transactions in 16 trading days were realized during this month.

Stock Exchange Indicators - August 2003

	July 2003	August 2003	% change
TOTAL TURNOVER			
Shares	52,922,598	30,412,662	-42.5
Bonds	190,284,743	53,706,541	-71.8
Other securities	8,461,707	7,257,527	-14.2
TOTAL	251,669,048	91,376,730	-63.7
VOLUME (in securities)			
Shares	41,846	158,828	279.6
Bonds (NV in EURO's)	4,918,179	1,366,088	-72.2
Other securities (NV in EURO's)	34,553,737	29,598,218	-14.3
MSEI	1,013.68	1,006.84	-0.7
TOTAL NUMBER OF TRANSACTIONS	1,327	878	-33.8
NUMBER OF LISTED SECURITIES	100	100	0.0
MARKET CAPITALIZATION (In Denars)			
Shares	16,359,386,605	16,434,590,949	0.5
Bonds (NV in EURO's)	19,818,132,700	20,224,835,834	2.1
TOTAL	36,177,519,305	36,659,426,783	1.3
NUMBER OF TRADED SECURITIES - UNOFFICIAL MARKET	31	24	-22.6
NUMBER OF TRADING DAYS	19	16	-15.8
DAILY AVERAGE:			
Turnover (denars)	13,245,739	5,711,046	-56.9
Number of transactions	70	55	-21.4
NUMBER OF REPORTED TRANSACTIONS	18	8	-55.6
VALUE OF REPORTED TRANSACTIONS	235,777,518	118,134,181	-49.9
NUMBER OF TRANSACTIONS - STATE SEGMENT	39	25	-35.9
VALUE OF TRANSACTIONS - STATE SEGMENT	586,048,174	161,233,837	-72.5

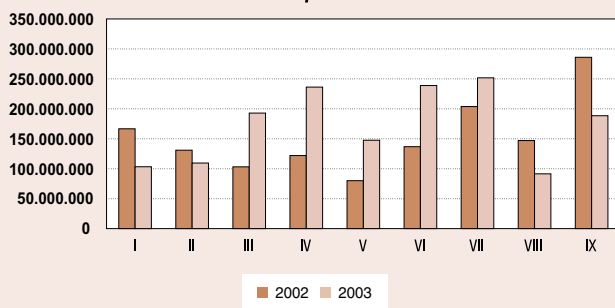
MACEDONIAN STOCK EXCHANGE

January - September, 2003

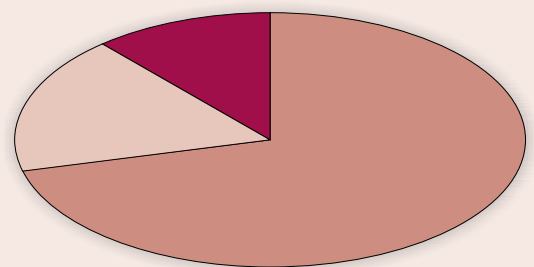
STOCK EXCHANGE INDICATORS

	januari-sept. 2002	januari-sept. 2003	% Change
TOTAL TURNOVER (denars)	567,153,398	545,383,890	▼ -3.8
Shares	552,750,370	869,337,325	▲ 57.3
Bonds	256,277,674	144,965,003	▼ -43.4
Other securities	1,376,181,442	1,559,686,218	▲ 13.3
Total turnover			
VOLUME (in securities)	794,559	1,618,240	▲ 103.7
Shares	13,784,839	23,688,888	▲ 71.8
Bonds (NV in EURO's)	555,296,215	420,565,674	▼ -24.3
Other securities (NV in EURO's)	935	1,035	▲ 10.7
MSEI	9,939	12,247	▲ 23.2
TOTAL NUMBER OF TRANSACTIONS	2	100	-
NUMBER OF LISTED SECURITIES			
NUMBER OF TRADED SECURITIES - UNOFFICIAL MARKET	2	66	-
NUMBER OF TRADING DAYS	147	150	▲ 2.0
DAILY AVERAGE:			
Turnover (denars)	9,361,779	10,397,908	▲ 11.1
Number of transactions	68	82	▲ 20.6
NUMBER OF REPORTED TRANSACTIONS	136	86	▼ -36.8
VALUE OF REPORTED TRANSACTIONS (denars)	1,975,368,771	2,916,745,931	▲ 47.7
NUMBER OF TRANSACTIONS - STATE SEGMENT	148	152	▲ 2.7
VALUE OF TRANSACTIONS - STATE SEGMENT (denars)	867,609,928	1,087,801,858	▲ 25.4

Turnover per months



Turnover structure



TURNOVER STRUCTURE

Market segment	Turnover in denars	Turnover in EURO's	%	Number of transactions
Official market	1,210,024,491	19,747,732	77.60	10,368
Unofficial market	204,696,724	3,343,192	13.10	869
Other securities	144,965,003	2,363,866	9.30	1,010
TOTAL	1,559,686,218	25,454,790	100.0	12,247

**OVERVIEW OF TRADING IN THE MOST LIQUID SHARES (OFFICIAL MARKET)
JANYARY/SEPTEMBER 2003**

No.	Name of the issuer	Turnover (denars)	Turnover (EURO's)	Participation in turnover(%)	Number of transactions	Market capitalization (denars)
1.	Alkaloid Skopje	87.142.862	1.421.912	25,6	483	2.147.029.500
2.	Makpetrol Skopje	46.106.790	752.694	13,5	400	1.157.422.218
3.	Toplifikacija Skopje	28.773.045	469.335	8,4	228	643.500.000
4.	Tetovska banka Tetovo	23.996.400	392.256	7	6	176.222.400
5.	Makedonija Turist Skopje	16.404.938	267.746	4,8	145	432.412.713
6.	Komercijalna banka Skopje	15.910.629	259.618	4,7	150	657.509.400
7.	Evropa Skopje	13.551.335	221.192	4	118	249.909.057
8.	Mlaz Bogdanci	11.643.729	190.035	3,4	141	101.576.454
9.	Teteks Tetovo	10.753.900	175.514	3,2	9	141.603.970
10.	Komercijalna banka Skopje	7.794.986	127.260	2,3	137	148.245.080
	Others	78.608.552	1.282.790	23,1	1.709	11.179.929.847
	TOTAL OFFICIAL MARKET	340.687.166	5.560.352	100,0	3.526	17.035.360.639

TOP 5 GAINERS

No.	Issuer	January-Sept. 2002 average price	January-Sept. 2003 average price	% change January-Sept. 2003/ January-Sept. 2002
1.	Blagoj Gjorev Veles	463,8	209,9	120,9
2.	Alkaloid Skopje	1.635,50	1.258,90	29,9
3.	Granit Skopje	82	67,8	20,9
4.	Makedonija Turist Skopje	922,1	833,9	10,6
5.	Makpetrol Skopje	10.104,30	9.438,30	7,1

TOP 5 LOSERS

No.	Issuer	January-Sept. 2002 average price	January-Sept. 2003 average price	% change January-Sept. 2003/ January-Sept. 2002
1.	Zemjod. komb. Pelagonija Bitola	308,2	480,0	35,8
2.	Tehnometal Vardar Skopje	636,6	908,6	29,9
3.	Zito Luks Skopje	553,0	638,3	13,4
4.	Komercijalna banka Skopje	1.774,80	1.875,30	5,4
5.	Evropa Skopje	1.091,70	1.145,20	4,7

OVERVIEW OF THE TRADING WITH BONDS AND OTHERS SECURITIES

	High	Low	Initial	Last	Average price	Volume	Turnover (denars)	Turnover (EURO's)
Government bonds - F/X deposits (RM 01)	69,9	55,1	63	68,5	62,8	7.892.426	308.931.621	5.040.537
Government bonds - denationalisation I issue (RMDEN01)	68	55,1	58,1	68	60,5	707.638	26.300.150	428.757
Government bonds - denationalisation II issue (RMDEN02)	68	47	55	66,5	58,3	15.088.824	534.105.554	8.718.088
Convertible certificates - saving houses (RMKSF)	40,9	18	35	22,2	30,6	420.565.674	144.965.003	2.363.866

STATE OWNED SECURITIES REPORT ON TRADING**Jan/Sept 2003**

SHARES	Date of transaction	Nominal value	Price per share (denars)	Turnover (shares)	Turnover (denars)
State - cash - common shares					
<i>Agrostrmos Probistip</i>	13.06.03	100 DEM	314	150	47.100
<i>Betonprom Kriva Palanka</i>	13.06.03	350 DEM	1.100,00	54	59.400
<i>Vet. stoc. centar Todor Velkov Kumanovo</i>	20.06.03	10 DEM	5.555,00	2.433	13.515.315
<i>Metalec Bitola</i>	13.06.03	51,13 EMU	1.501,00	1.672	2.509.672
<i>Zemjodelsko stocarski kombinat Strum.</i>	27.06.03	5 EMU	140	110.989	15.538.460
<i>Javor repromaterijali Bitola</i>	13.06.03	10 DEM	31	67.754	2.100.374
<i>Ken Kumanovo</i>	13.06.03	5,11	31	4.375	135.625
<i>Klanica so ladilnik Strumica</i>	27.06.03	5 EMU	115	211.794	24.356.310
<i>Letnica Strumica</i>	13.06.03	100 DEM	314	1.013	318.082
<i>Mlekara Strumica</i>	27.06.03	5 EMU	183	17.885	3.272.955
<i>Masinopromet Skopje</i>	20.06.03	50 DEM	157	808	126.856
<i>Rade Koncar Skopje</i>	13.06.03	25 EMU	321	12.375	3.972.375
<i>RZ Ekonomika Skopje</i>	13.06.03	10 DEM	47	107.610	5.057.670
<i>Agrolozar</i>	25.07.03	5 EMU	91	101.796	9.263.436
<i>Vinarska Vizba Tikves Kavadarci</i>	04.07.03	100 DEM	1.901	79.421	150.979.321
<i>Edinstvo Struga</i>	25.07.03	10 DEM	31	9.239	286.409
<i>Ilinden Struga</i>	25.07.03	50 DEM	366	204	74.664
<i>Javor-Angrotekstil Bitola</i>	25.07.03	10 DEM	141	45.169	6.368.829
<i>Konzervna fabrika</i>	25.07.03	5 EMU	201	348.137	69.975.537
<i>Makedonska kniga Skopje</i>	04.07.03	100 DEM	1.510	3.564	5.381.640
<i>Metaloprodazba so ugostitelstvo</i>	25.07.03	5 EMU	330	72.069	23.782.770
<i>MZT Energetika Skopje</i>	25.07.03	100 DEM	313	2.592	811.296
<i>MZT Pumpi - Inkom</i>	25.07.03	100 DEM	313	362	113.306
<i>Nova Trgovija Stip</i>	04.07.03	10 DEM	378	205.338	77.617.764
<i>Oranzerii Hamzali</i>	25.07.03	5 EMU	101	395.902	39.986.102
<i>Rudnik Demir Hisar Sopotnica</i>	25.07.03	10 DEM	31	32.966	1.021.946
<i>Sovremen dom Prilep</i>	04.07.03	10 DEM	31	51.590	1.599.290
<i>Toplifikacija Skopje</i>	11.07.03	100 DEM	1.566	111.892	175.222.872
<i>F-ka za kabli Negotino</i>	25.07.03	50 DEM	157	4.797	753.129
<i>Fortress-Inn Skopje</i>	04.07.03	50 DEM	157	12.640	1.984.480
<i>Jugturist Kumanovo</i>	08.08.03	100 DEM	157	5.656	887.992
<i>Straso Pindzur Kavadarci</i>	08.08.03	100 DEM	400	2.170	868.000
<i>Avioimpeks Skopje</i>	29.08.03	100 DEM	313	39.736	12.437.368
<i>Keramika Gevgelija</i>	29.08.03	100 DEM	313	207	64.791
<i>MZT Vozila za oprema Skopje</i>	29.08.2003	100 DEM	313	474	148.362
<i>SIK Plackovica Radovis</i>	29.08.03	100 DEM	626	19.365	12.122.490
<i>Strumicko Pole Vasilevo</i>	29.08.03	5 EMU	455	229.367	104.361.985
<i>Avtoservis Kumanovo</i>	12.09.03	100 DEM	78	724	56.472
<i>6-ti Noemvri Valandovo</i>	12.09.03	100 DEM	78	28.564	2.227.992
<i>Buciste Probistip</i>	26.09.03	100 DEM	313	62	19.406
<i>Vardar Gradsko</i>	26.09.03	10 DEM	156	31.674	4.941.144
<i>Dijos Strumica</i>	26.09.2003	10 DEM	31	6.110	189.410
<i>Ineks Gorica Ohrid</i>	26.09.03	100 DEM	3.502	4.106	14.379.212
<i>Industriski ladilnik Tetovo</i>	26.09.03	10 DEM	37	30.130	1.114.810
<i>Metalec Prilep</i>	26.09.03	100 DEM	313	89	27.857
<i>Prosvetno delo Skopje</i>	26.09.03	100 DEM	2.300	3.619	8.323.700
Total state - cash - common shares				2.418.643	798.403.976

Total state - cash - common shares					
<i>MZT Oprema Skopje</i>	04.02.03	100 DEM	158	97.786	15.450.188
<i>Jugturist Kumanovo</i>	11.02.03	100 DEM	315	550	173.250
<i>Grozd Strumica</i>	20.02.03	100 DEM	2.183	1.419	3.097.677
<i>Jugotrans Struga</i>	05.03.03	70 DEM	2.201	5.520	12.149.520
<i>Jugomontaza Bl.Dav.Sk.</i>	13.03.03	5 EUR	314	6.600	2.072.400
<i>RZ MRTT Skopje</i>	13.03.03	5,11 EUR	315	4.299	1.354.185
<i>Javor Konsalting Bitola</i>	13.03.03	10 DEM	325	1.649	535.925
<i>Skopski Saem Skopje</i>	13.03.03	100 DEM	3.141	346	1.086.786
<i>Lihnida Ohrid</i>	13.03.03	20 DEM	628	8.728	5.481.184
<i>Masinski servis Kavad.</i>	27.03.03	100 DEM	2.196	1.664	3.654.144
<i>Makoteks AD Skopje</i>	08.04.03	35,9 EMU	2.195	40.151	88.131.445
<i>9 Maj АД Неготино</i>	24.04.03	100 DEM	2.188	6.163	13.484.644
<i>Anska reka-Zivinarska farma Valandovo</i>	13.06.03	51,13 EUR	314	2.115	664.110
<i>Bargala Stip</i>	13.06.03	50,85 EMU	700	5.280	3.696.000
<i>Bitolasil Bitola</i>	27.06.03	50 DEM	313	18.677	5.845.901
<i>Avtoguma Skopje</i>	13.06.03	10 DEM	31	11.223	347.913
<i>Dojransko ezero Nov Dojran</i>	27.06.03	100 DEM	313	5.929	1.855.777
<i>Interprogres Skopje</i>	13.06.03	10 DEM	31	7.894	244.714
<i>Jugotutun Sveti Nikole</i>	13.06.03	102,26 EUR	628	3.904	2.451.712
<i>Karaorman Skopje</i>	13.06.03	100 DEM	350	24.210	8.473.500
<i>Kontinental Bitola</i>	13.06.03	37 DEM	116	7.231	838.796
<i>Karpos odrzuwawe Kriva Palanka</i>	20.06.03	100 DEM	313	1.316	411.908
<i>Makedonijaproekt Skopje</i>	13.06.03	100 DEM	314	9	2.826
<i>Makpetrol Tema Skopje</i>	20.06.03	10 DEM	31	3.262	101.122
<i>MAK - Tutun Resen</i>	13.06.03	100 DEM	314	1.789	561.746
<i>RZ Inter-Transsped Skopje</i>	13.06.03	10 DEM	42	333.316	13.999.272
<i>RZ Famord Skopje</i>	13.06.03	10 DEM	41	89.877	3.684.957
<i>Skovin Skopje</i>	27.06.03	10 DEM	101	505	51.005
<i>Ardoneks Skopje</i>	04.07.03	2.043 MKD	205	6.821	1.398.305
<i>ART Skopje</i>	25.07.03	5,11 EMU	31	4.551	141.081
<i>Beton Kocani</i>	25.07.03	25,56 EMU	157	5.895	925.515
<i>Beton Ohrid</i>	25.07.03	500 DEM	1.565	1.992	3.117.480
<i>Dimko Mitrev Veles</i>	11.07.03	51,13 EMU	157	326	51.182
<i>Zastava promet Skopje</i>	11.07.03	100 DEM	157	3.198	502.086
<i>Internacional Veles</i>	04.07.03	100 DEM	313	440	137.720
<i>Karpos Predilnica Kriva Palanka</i>	18.07.03	100 DEM	157	41.331	6.488.967
<i>Plastika Skopje</i>	11.07.03	64,5 EMU	210	460	96.600
<i>Polet Kumanovo</i>	11.07.03	100 DEM	157	1.550	243.350
<i>Semenarstvo Skopje</i>	04.07.03	10 DEM	131	10.322	1.352.182
<i>Sinteks</i>	25.07.03	50 EMU	306	14.521	4.443.426
<i>TK Boro Papucar Kumanovo</i>	11.07.03	15,34 EMU	47	7.802	366.694
<i>Tehnokomerc Skopje</i>	01.08.03	51,13 EMU	313	140	43.820
<i>ZAS Skopje</i>	08.08.03	37,48 EMU	227	41.246	9.362.842
<i>Zivino-komerc Stip</i>	08.08.03	10 DEM	40	139.532	5.581.280
<i>Kozjak Kumanovo</i>	15.08.03	50 DEM	78	921	71.838
<i>Gradba Prilep</i>	15.08.03	500 DEM	782	90	70.380
<i>Mlekara Prilep</i>	15.08.03	100 DEM	157	1.173	184.161
<i>Tehnika Prilep</i>	15.08.03	500 DEM	782	274	214.268
<i>Edinstvo Tetovo</i>	12.09.03	5,11 EMU	40	42.189	1.687.560
<i>Palasturist Skopje</i>	12.09.03	1.000 DEM	782	155	121.210
Total state - non cash payment - common shares				691.412	189.902.607
TOTAL STATE - SHARES				1.230.324	260.912.801

STATE OWNED SECURITIES				
Report on trading Jan/Sept 2003				
STAKES	Date of transaction	Stakes (EUR)	Initial selling price (EUR)	Turnover (denars)
Stakes - cash				
Alifita Kavadarci	13.06.2003	19.028	1.903	116.812
Angropromet 99 Kumanovo	13.06.2003	22.906	2.291	140.619
Veterinarna stanica Be-Vet Berovo	13.06.2003	1.750	175	10.743
BIK Bogdanci	13.06.2003	1.060	106	9.761
Veterinarna stanica Negotino	13.06.2003	3.127	313	19.197
Veterinarna stanica Resen	13.06.2003	1.536	154	9.429
Kicevo Prom Kompani Kicevo	13.06.2003	2.909	291	17.858
Maksignal Skopje	13.06.2003	24.487	2.449	150.325
Maksurovina Radovis	13.06.2003	2.638	264	16.195
Podomont Skopje	13.06.2003	56.274	5.627	690.929
Staklo dijamant Skopje	13.06.2003	10.686	1.069	272.244
Union Skopje	13.06.2003	19.698	1.970	544.164
Poledelstvo Gajranci Probistip	20.06.2003	33.695	3.370	206.585
Gold Prilep	20.06.2003	47.486	4.749	1.746.826
Javor Gostivar	20.06.2003	9.595	960	176.481
Mladost Demir Hisar	20.06.2003	65.016	6.502	2.909.885
Oprema Prilep	20.06.2003	1.962	196	132.440
Server - Zoran Skopje	20.06.2003	9.252	925	56.724
Staklarnica - Staklena volna Skopje	20.06.2003	134.809	13.481	12.563.053
Stolicara Makedonski Brod	20.06.2003	41.859	4.186	1.077.881
Centar za zemjodelski usluga Stip	20.06.2003	2.587	259	15.861
Agro Mehanika Strumica	27.06.2003	25.628	2.563	361.235
Bitolski Vesnik Bitola	27.06.2003	3.575	358	328.636
Biznis-Mak Strumica	27.06.2003	3.264	326	20.003
Zavod za ipituvawe i primena Stip	27.06.2003	21.291	2.129	130.480
Mahiz Vardar Skopje	27.06.2003	521	52	3.193
Mise Eftimov Krusevo	27.06.2003	37.128	3.713	227.536
Nikole	27.06.2003	27.897	2.790	170.964
Surovina Struga	27.06.2003	15.167	1.517	288.144
Tehnograting Krusevo	27.06.2003	16.897	1.690	103.552
Bilkapromet Skopje	04.07.03	60.612	6.061	371.282
Mak-Surovina Skopje	04.07.03	2.898	290	204.146
Nemetali s.Cesinovo Kocani	04.07.03	28.584	2.858	437.732
Start 97 Strumica	04.07.03	3.264	326	39.988
Tehnounion - promet Skopje	04.07.03	10.464	1.046	64.098
Nikole	11.07.03	6.546	327	20.052
Tekstil 96 Skopje	18.07.03	10.655	533	32.603
Veterinarna Stanica Bitola	25.07.03	3.139	314	290.289
Veterinarna Stanica Demir Hisar	08.08.03	688	34	2.104
Veterinarna Stanica Kavadarci	29.08.03	18.271	1.827	1.286.218
Imeks Prilep	29.08.03	5.907	591	36.159
Otpad Sveti Nikole	29.08.03	10.780	1.078	65.989
Berovo trans Berovo	29.08.03	115.707	11.571	4.958.062
Meteks Skopje	29.08.03	133.008	13.301	6.513.615
Zletovo - Sasa	12.09.03	637	16	974
6-ti Noemvri Radovis	19.09.03	836	21	51.214
Total stakes - cash				36.892.282,00

Stakes - Payments in securities				
Ovce Pole - Agroprom Sv. Nikole	13.06.03	3.508	351	21.536
RZ Skopje - Lipterm Skopje	27.06.03	13.020	1.302	79.792
Univerzal Skopje	04.07.03	16.424	1.642	100.606
Deplast-meka programa Debar	08.08.03	96.828	4.841	296.161
Zvezdakoop Stip	08.08.03	151.844	7.592	1.393.304
Kreating inzenering Skopje	15.08.03	1.467	73	4.487
Bitolska surovina Bitola	15.08.03	36.172	1.809	110.639
Resena Resen	29.08.03	24.099	2.410	147.521
Rade Koncar - zavaruvanje	12.09.03	572.481	28.624	2.662.689
Total stakes - Payments in securities				4.816.734
TOTAL GOUVERNMENT AUCTIONS - STAKES				41.709.016

MEMBERS OF THE MACEDONIAN STOCK EXCHANGE

Bro-dil AD

Adress: ul."Partizanski odredi", br.3 blok 11, 1000 Skopje
Tel: 02/298 851, 298 852; fax: 02/118670"
e-mail: hari@bro-deal.com.mk

Broker SB AD

Adress: Gradski zid blok 10, 1000 Skopje
Tel:02/295 295; fax 02/295551
e-mail: hlijana@stb.com.mk

KB Broker AD

Adress: Kej Dimitar Vlahov br. 4, 1000 Skopje
tel: 02/107 356; fax: 120 236
e-mail: kbbroker@on.net.mk

Makos-Invest Broker AD

Adress: ul."Mito Hadzivasilev Jasmin", br.20, 1000 Skopje"
tel: 02/110290; fax: 110 290
e-mail: ib-mit@unet.com.mk

MAK Broker AD

Adress: ul."Partizanski odredi", br.3, 1000 Skopje
tel: 02/116213; fax: 116 213
e-mail: alexp@makbanka.com.mk

Tutunskabroker AD

Adress: ul."Dame Gruev", br.14, 1000 Skopje
tel: 02/133305; fax: 133464
e-mail: tutbrok@mt.net.mk

Balkanska Banka Skopje AD

Adress: ul. "Maksim Gorki", br.6, 1000 Skopje
tel: 02/286109; fax: 286030
e-mail: zvonko@bbs.com.mk

Fersped Broker AD

Adress: ul."Naroden Front", br.6, 1000 Skopje
tel: 02/149336; fax: 149383
e-mail: broker@fersped.com.mk

Postel Broker AD

Adress: ul."Orce Nikolov", b.b, 1000 Skopje
tel: 02/224300; fax: 112862
e-mail: palevski@postbank.com.mk

Bitola Broker AD

Adress: ul."Vasko Karangeleski", Hotel Bitola b.b
7000 Bitola
tel: 047/258830; fax: 258840
e-mail: bbbroker@mt.net.mk

Eksport Import Banka AD

Adress: ul."Dame Gruev", br.14, 1000 Skopje
tel: 02/134346; fax: 112744

Sileks Banka AD

Adress: ul."Vasil Glavinov", br.28/2, 1000 Skopje
tel: 02/112297; fax:224844
e-mail: silbank@unet.com.mk

LISTED COMPANIES ON MACEDONIAN STOCK EXCHANGE
REPORT ON TRADING 01.01.2003-30.09.2003

No.	ISSUER	Nominal value	Number of chares	High price	Low price	Average price	Volume	Value (denars)	Value (euro's)	Market capitalization (denars)	Market capitaliza- on (EUR)	Velocity
INDUSTRY												
1	Alkaloid Skopje	25,56 EMU	1.301.230	2.300	1.300	1.635	47.583	87.142.862	1.421.912	2.147.029.500	35.103.117	3,66
2	Agroploid Resen	511,3 EMU	21.025	8.615	8.615	8.615	6	51.690	845	181.130.375	2.961.413	0,03
3	PZ Makstil Skopje	100 DEM	155.825	150	150	150	342	51.300	838	23.373.750	382.152	0,22
4	Aligreta Resen	100 DEM	12.431	1.402	1.300	1.372	612	847.274	13.832	16.160.300	264.215	4,92
5	Ohis Skopje	100 DEM	927.974	342	342	342	7	2.394	39	317.367.108	5.188.832	0
6	Oteks Ohrid	1940,97 DEN	488.736	154	154	154	187	28.798	470	75.265.344	1.230.560	0,04
7	Pecatnica 11 Okt. Prilep	100 DEM	32.000	1.600	1.600	1.600	3.061	4.897.600	79.871	51.200.000	837.101	9,57
8	Rade Koncar Skopje	25 EMU	202.269	176	160	161	6.355	1.016.816	16.588	35.599.344	582.036	3,14
9	Ading Skopje	51,13 EMU	48.300	3.900	3.600	3.750	110	406.200	6.641	173.880.000	2.842.872	0,23
10	Blagoj Gorev Veles	25,56 EMU	516.000	600	268	464	14.334	7.260.975	118.521	309.600.000	5.061.842	2,78
11	VV Tikves Kavaderci	51,13 EMU	206.500	9.600	9.300	9.450	48	449.400	7.341	1.920.450.000	31.398.628	0,02
12	Veteks	51,13 EMU	29.998	2.170	1.499	1.863	515	1.090.637	17.746	44.967.002	735.193	1,72
13	Vinka Vinica	19 EMU	98.099	855	340	522	4.510	1.544.335	25.066	33.353.660	545.320	4,6
14	Vitaminka Prilep	51,13 EMU	80.980	2.200	1.750	1.988	649	1.215.200	19.821	141.715.000	2.316.986	0,8
15	Evropa Skopje	51,13 EMU	255.583	1.305	915	1.092	12.398	13.551.335	221.192	249.909.057	4.085.918	4,85
16	EMO Ohrid	60 DEM	347.248	380	380	380	2.034	772.920	12.600	131.954.240	2.157.402	0,59
17	Zito Vardar Veles	50 EMU	73.037	885	690	793	486	391.708	6.391	50.395.530	823.948	0,67
18	Zito Luks Skopje	100 DEM	825.637	640	500	553	9.763	5.326.719	86.891	507.164.040	8.291.939	1,18
19	Zito Prilep Prilep	50 EMU	68.379	630	630	630	64	40.320	657	43.078.770	704.322	0,09
20	Zito Skopje Skopje	100 DEM	113.634	750	650	685	3.730	2.673.061	43.707	73.862.100	1.207.617	3,28
21	Zito Strumica Strumica	51,13 EMU	68.245	1.100	1.100	1.100	3.521	3.873.100	63.262	75.069.500	1.227.358	5,16
22	Jaka tabak Radovis	51,13 EMU	116.999	1.100	1.050	1.080	621	656.100	10.714	122.848.950	2.008.534	0,53
23	Kvasara AD Bitola	51,13 EMU	12.500	3.000	3.000	3.000	10	30.000	490	37.500.000	613.111	0,08
24	Kiro Kucuk Veles	153,38 EMU	25.967	3.100	3.100	3.100	570	1.767.000	28.843	80.497.700	1.316.107	2,2
25	Metalec Bitola	51,13 EMU	10.248	1.621	1.500	1.563	716	1.135.944	18.535	16.396.800	268.081	6,99
26	RZ Makstil Skopje	5,11 EMU	14.622.944	113	113	113	1	113	2	1.652.392.672	27.015.993	0
27	Rudnici Banjani Skopje	25 EMU	65.502	680	620	648	931	604.930	9.860	44.541.360	728.234	1,42
28	Sileks Kratovo	43,77 EMU	451.464	66	62	64	2.118	135.464	2.211	29.796.624	487.163	0,47
29	Zito Bitola Bitola	153,4 EMU	127.111	341	341	341	162	55.242	902	43.344.851	708.672	0,13
30	Komuna Skopje	25,56 EMU	279.000	187	187	187	196	36.652	599	52.173.000	853.009	0,07
31	RZ Institut Skopje	5,11 EMU	113.392	50	50	50	126	6.300	103	5.669.600	92.696	0,11
32	RZ Inter-Trans[ped Skopje	5,11 EMU	585.399	30	30	30	485	14.550	238	17.561.970	287.132	0,08
33	Fakom Skopje	51,13 EMU	67.000	3.000	3.000	3.000	1	3.000	49	201.000.000	3.286.274	0
34	Tajmiste Kicevo	100 DEM	26.341	1.550	1.500	1.544	477	739.150	12.076	40.828.550	667.531	1,81
35	Teteks Tetovo	51,13 EMU	456.787	310	310	310	34.690	10.753.900	175.514	141.603.970	2.315.171	7,59
36	TK Boro Papucar Kumanovo	15,34 EMU	55.800	180	180	180	100	18.000	294	10.044.000	164.216	0,18
37	Toplifikacija Skopje	100 DEM	450.000	1.610	1.285	1.463	19.273	28.773.045	469.335	643.500.000	10.520.981	4,28
38	Tutunski kombinat Prilep	51,13 EMU	509.050	680	300	522	2.395	1.325.040	21.629	346.154.000	5.659.486	0,47
39	Fustelarko Borec Bitola	100 DEM	84.302	674	500	550	568	300.180	4.906	56.819.548	928.978	0,67
40÷	Crvena zvezda Pehcevo	136,47 EMU	14.388	800	800	800	60	48.000	778	11.510.400	188.191	0,42
	TOTAL		23.947.324				173.815	179.037.254	2.921.308	10.156.708.615	166.058.329	0,73

TRADE

1	Automakedonija Skopje	44.48 EMU	82.529	950	950	963	5	4.750	78	78.402.550	1.281.852	0,01
2	Makpetrol Skopje	511,29 EMU	112.382	11.100	9.216	10.104	4.527	46.106.790	752.694	1.157.422.218	18.923.414	4,03
3	Replek Makedonija Skopje	562,42 EMU	17.020	12.881	10.440	11.539	246	2.823.086	46.109	187.220.000	3.060.976	1,45
4	Tehnometal Vardar Skopje	51,13 EMU	80.186	710	600	637	2.336	1.464.931	23.887	55.408.526	905.908	2,91
	TOTAL		292.117				7.114	50.399.557	822.768	1.478.453.294	24.172.150	2,44

CONSTRUCTION

1	BETON AD Skopje	255,65 EMU	43.684	1.600	1.400	1.502	3.832	5.751.252	93.849	65.526.000	1.071.325	8,77
2	GP Mavrovo Skopje	51,13 EMU	248.249	1.500	1.500	1.500	1	1.500	25	372.373.500	6.088.165	0
3	Beton Bitola	500 DEM	9.138	1.600	1.600	1.600	731	1.169.600	19.122	14.620.800	239.045	8
4	Beton Stip	25 EMU	41.804	517	517	517	3.628	1.875.676	30.649	21.612.668	353.359	8,68
5	Iinden Skopje	51,12 EMU	12.470	1.000	1.000	1.000	2	2.000	33	12.470.000	203.880	0,02
6	Granit Skopje	5 EMU	2.893.600	96	75	82	84.097	7.025.255	114.575	277.785.600	4.541.689	2,91
	TOTAL		3.248.945				92.291	15.825.283	258.252	764.388.568	12.497.463	2,84

TRANSPORTATION

1	Galeb Ohrid	50 EMU	40.278	2.134	2.000	2.000	112	238.338	3.895	80.556.000	1.317.060	0,28
2	Mlaz Bogdanci	35 EMU	195.912	550	450	493	23.572	11.643.729	190.035	101.576.454	1.660.736	12,03
3	Transkop-Patnicki soobrakaj Bitola	100 DEM	30.000	600	600	600	267	160.200	2.613	18.000.000	294.293	0,89
	TOTAL		266.190				23.951	12.042.267	196.543	200.132.454	3.272.090	96,43

AGRICULTURE

1	Zemijod. komb. Pelagonija Bitola	51,13 EMU	278.620	330	305	308	12.096	3.694.863	60.301	84.979.100	1.389.376	4,34
	TOTAL		278.620				12.096	3.694.863	60.301	84.979.100	1.389.376	4,34

SERVICES

1	GI Makedonija AD Skopje	100 DEM	14.000	7.300	6.300	6.900	82	572.300	9.364	88.200.000	1.442.037	0,59
2	Lotarija na Makedonija Skopje	51,03 EMU	161.540	193	193	193	162	31.266	512	31.177.220	509.736	0,1
3	Makedonijaproekt Skopje	51,13 EMU	13.000	110	110	110	42	4.620	76	1.430.000	23.380	0,32
4	RZ Ekonomika Skopje	5,11 EMU	535.245	95	50	74	52.939	4.756.138	77.625	37.467.150	612.574	9,89
5	Skopski Pazar Skopje	51,13 EMU	100.088	2.341	2.010	2.183	2.502	5.466.765	89.240	214.188.320	3.501.898	2,5
	TOTAL		823.873				55.727	10.831.089	176.816	372.462.690	6.089.624	6,76

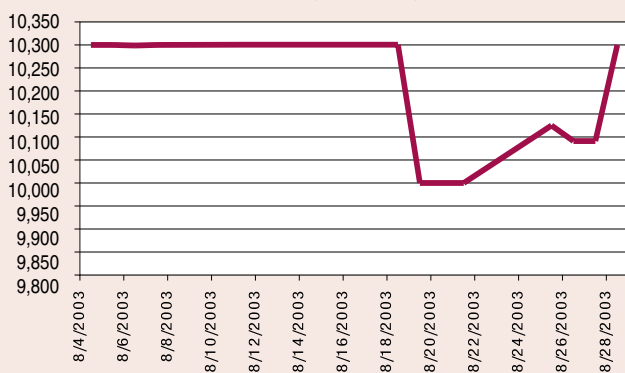
BANKING

1	Invest Banka AD Skopje	2670 DEN	215.209	600	550	583	1.446	860.700	14.044	139.100.400	2.274.239	0,67
2	Komercijalna banka Skopje	5000 DEN	552.935	2.000	1.662	1.775	8.991	15.910.629	259.618	805.754.480	13.173.780	1,63
3	Ohridska banka Ohrid	2650 DEN	235.149	1.930	1.320	1.682	1.497	2.513.910	41.019	450.996.350	7.373.619	0,64
4	Stopanska banka Bitola	3000 DEN	298.960	2.900	2.280	2.693	524	1.350.190	22.012	739.597.200	12.092.133	0,18
5	Tetovska banka Tetovo	3000 DEN	146.852	1.200	1.200	1.200	19.997	23.996.400	392.256	176.222.400	2.881.169	13,62
	TOTAL		1.449.105				32.455	44.631.829	728.950	2.311.670.830	37.794.940	2,24

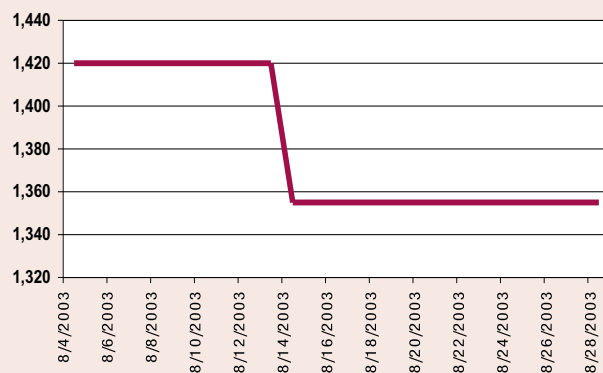
HOTELS, CATERING AND TURISM

1	Iternesenal Hotels AD Skopje	1 EMU	530.554	600	600	600	10	6.000	98	318.332.400	5.204.614	0
2	Makedonija Turist Skopje	25,56 EMU	452.247	1.050	831	922	17.856	16.404.938	267.746	432.412.713	7.069.784	3,95
	TOTAL		982.801				17.866	16.410.938	267.844	750.745.113	12.274.398	1,82
	TOTAL ALL BRANCHES		31.288.975				415.315	332.873.080	5.432.780	16.119.540.664	263.548.369	1,33

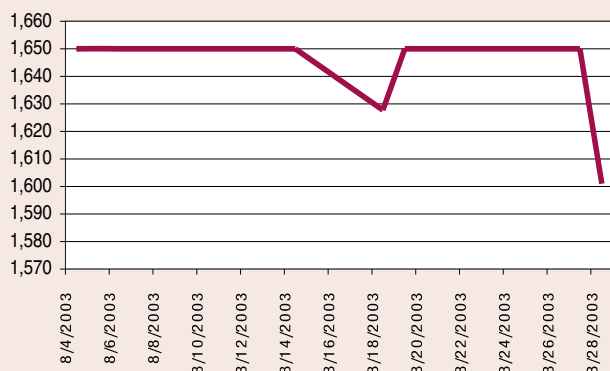
Makpetrol AD Skopje - ordinary shares



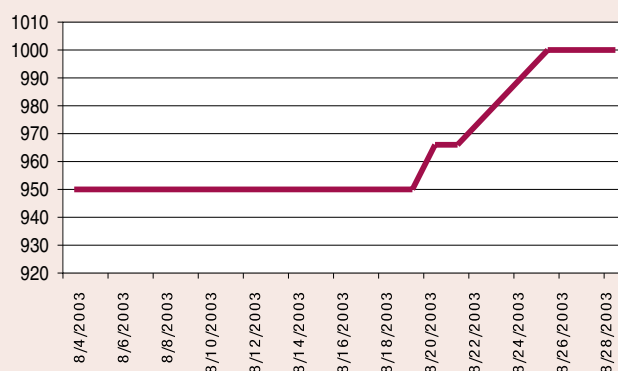
Toplifkacija AD Skopje - ordinary shares



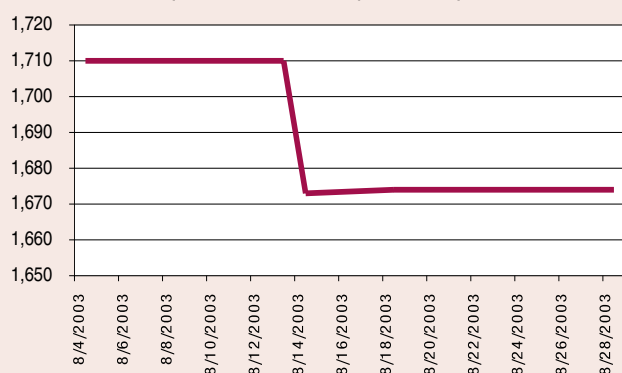
Alkaloid AD Skopje - ordinary shares



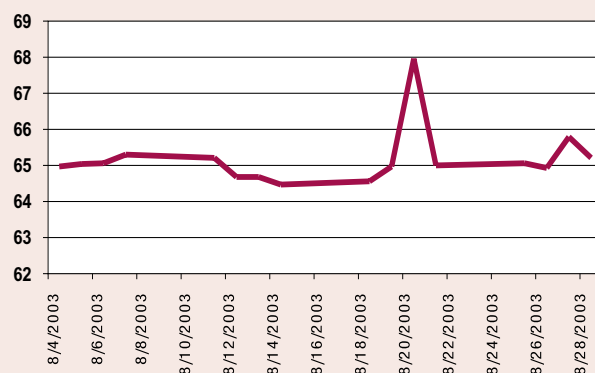
Evropa AD Skopje - ordinary shares



Komercijalna banka AD Skopje - ordinary shares



Republic of Macedonia - Government bonds



TURNOVER PER MEMBERS (in denars)*

JANUARY - SEPTEMBER 2003								
Rang	Member	Clasic trade	% of clasic trade	Block	% of blocks	State segment	% of state segment	Total
1	KB	673.564.559	21,6	125.837.970	10,2	3.080.334.246	52,8	3.879.736.776
2	TN	895.980.591	28,7	322.076.929	26,1	1.157.326.989	19,8	2.375.384.509
3	MI	325.511.208	10,4	279.364.050	22,6	463.372.768	7,9	1.068.248.026
4	MK	343.511.628	11	47.043.716	3,8	483.300.575	8,3	873.855.919
5	BD	191.474.278	6,1	259.181.822	21	68.446.000	1,2	519.102.101
6	FR	244.803.056	7,9	108.630.888	8,8	130.259.234	2,2	483.693.178
7	BB	215.087.981	6,9	49.422.235	4	79.467.570	1,4	343.977.786
8	SB	62.773.032	2	0	0	221.114.531	3,8	283.887.563
9	BL	97.443.699	3,1	16.502.036	1,3	149.869.948	2,6	263.815.682
10	EU	34.468.195	1,1	19.403.910	1,6	0	0	53.872.105
11	SL	29.968.419	1	6.934.108	0,6	0	0	36.902.527
12	PT	4.785.789	0,2	75.544	0	0	0	4.861.332
	TOTAL	3.119.372.437	100	1.234.473.208	100	5.833.491.861	100	11.128.468.014

* Double counted

COMPOSITION OF THE MACEDONIAN STOCK EXCHANGE INDEX (MSEI)

Code	Company	Market capitalization (30.09.2002)	Market capitalization (30.09.2003)	% change 30.09.2003 / 30.09.2002
ALK	ALKALOID AD	2.068.426.360	2.147.029.500	-3,7
TPLF	TOPLIFIKACIJA AD	598.500.000	643.500.000	-7,0
EVRO	EVROPA AD	253.027.170	249.909.057	1,2
MPT	MAKPETROL AD	1.130.754.385	1.157.422.218	-2,3
KMB	KOMERCIJALNA BANKA	752.337.500	805.754.480	-6,6
	TOTAL	4.803.045.415	5.003.615.255	-4,0

MONEY AND SHORT-TERM SECURITIES MARKET

The total turnover realized in July 2003 amounted to Denar 1.2 billion, which is a decrease of 12.15% in relation to the turnover realized in the previous month. Consequently, the average daily turnover decreased, amounting to Denar 52.3 million.

The total demand of liquid assets in the analyzed period amounted to Denar 1.31 billion, which is lower by Denar 159.7 million, i.e. 10.83%. The total supply of liquid assets also declined by 12.64% compared to the previous month, amounting to Denar 1.24 billion.

Given the fact that supply of liquid assets declined in relation to the demand, the average weighted interest rate also decreased by 0.39 percentage points, amounting to 9.34%. At the same time, 239 transactions were realized in 23 trading days.

In the period February-July 2003 it can be noted that supply, demand and realization on the money market continuously decreases, compared to the same period in 2002. This is due to the increasing bank liquidity, which could also mean that credit to the economy declined. Increased bank liquidity is a result of the inflow to the banks on the basis of effected "old" foreign currency savings and denationalization bonds of citizens.

One should also point out the fact that higher turnover on the money market in 2002, in relation to 2003, was a result of the lack of experience of the banks at that time in the payment operations of the country and planning of needed funds, since they

took over this function from the Payment Operations Bureau on December 31, 2001. Two years later, banks gained the experience in the payment operations and in planning daily and monthly needs of funds.

The activity on the money and short-term securities market in August 2003 decreased by 1.5 times in relation to July 2003, reflected through reduced money turnover between commercial banks. In fact, the total turnover in this period on the money and short-term securities market amounted to Denar 476 million, which is lower by Denar 728 million or 60.45% in relation to July 2003.

The average daily realization on the money and short-term securities market in this month amounted to Denar 23.8 million, which is lower by Denar 28.5 million in relation to the previous month.

The demand of liquid assets in August 2003 amounted to Denar 497 million, which is lower by Denar 817 million compared to the demand of liquid assets in July 2003, or by 62.2%. The total supply of liquid assets on the money market also decreased by 49.1% in relation to the previous month, amounting to Denar 632.5 million.

In August 2003, the average weighted interest rate declined by 0.82 percentage points in relation to the previous month, reaching 8.5%, as a result of significantly lower demand of liquid assets on the money market.

Money market 2002 and 2003 year (monthly)

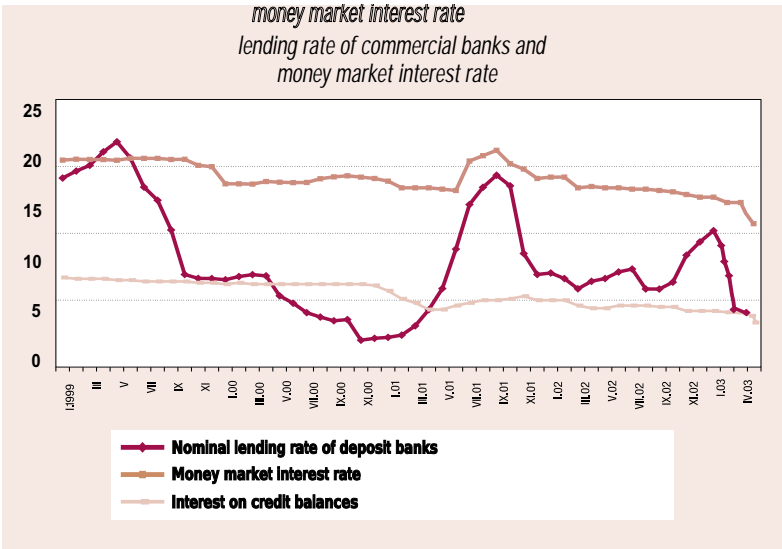
	I.02	II.02	III.02	IV.02	V.02	VI.02	VII.02	VIII.02
Total turnover (in million of denars)	2,491	3,390	4,888	4,473	4,145	5,631	3,938	2,460
Interest rate (% annual level)	12.03	11.62	10.85	11.41	11.62	12.11	12.33	10.84

Source: National Bank of the Republic of Macedonia

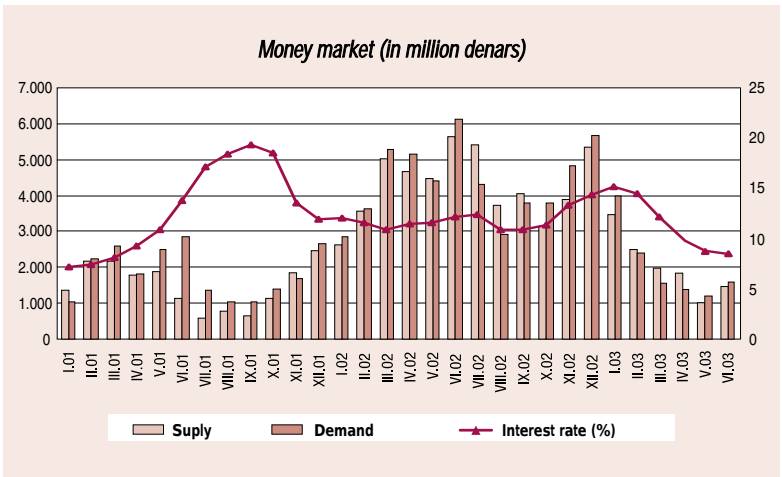
In the analyzed period, 84 transactions were realized in 20 trading days, which is lower by 82 transactions in relation to July 2003.

Just as in the past months, demand, supply and re-alization on the money and short-term securities

market were continuously decreasing in August 2003 in relation to the same period last year. This is due to the increased bank liquidity. During this period, banks also had increased inflow as a result of the realized "old" foreign currency savings and denationalization bonds.



Source: National Bank of the Republic of Macedonia



Source: National Bank of the Republic of Macedonia

IX.02	X.02	XI.02	XII.02	I.03	II.03	III.03	IV.03	V.02	VI.03	VII.03	VIII.03	IX.03
3,008	2,970	3,843	5,213	3,224	2,330	1,493	1,350	979	1,371	1,204	476	837
10.83	11.35	13.36	14.36	15.20	14.44	12.19	10.59	9.36	9.16	9.34	8.52	7.41

DEPOSITS OF THE PHYSICAL PERSONS WITH THE BANKS AND SAVINGS BANKS

Latest legal amendments regarding the operations of the Deposit Insurance Fund

According to the latest amendments to the Law on Deposit Insurance Fund, the Fund shall charge its members an annual premium of up to 0.7% of the total deposits of physical persons at each bank and savings house. This significant reduction of the maximum premium rate charged by the Fund from 2.5% to 0.7% on annual basis provides room for the banks, i.e. it reduces their monthly expenses for paying the premium to the Fund.

The level of funds that the Fund is obliged to keep on its account was also lowered from 5% to 4% of the total deposits of physical persons at member banks and savings houses. According to the amendments, the Fund is given the possibility to enact a decision for terminating the requirement for paying the premium by the banks and savings houses after reaching the level of 4% of the total deposits at the banks and savings houses on its account. Such termination of the requirement for paying monthly premiums to the Fund would reduce their costs and should contribute towards decreasing the interest rates on debit balance of the banks.

Deposits of physical persons at banks and savings houses

Deposits of physical persons at banks and savings houses **in July 2003** reached Denar 37.4 billion, i.e. EUR 611.9 million, which is an increase of 1.3% in relation to the previous month. Compared to July 2002, deposits of the citizens in July 2003 increased by Denar 5.51 billion, i.e. 17.3%.

When analyzing the deposit currency structure, one could note that 30.54% of the total deposits are denar deposits, while 69.46% are foreign ex-

change deposits. In relation to the previous month, the share of denar deposits is lower by 0.36 percentage points, whereas foreign exchange deposits increased by the same percentage.

Regarding the deposit maturity structure, one could state that 56.71% of the total deposits in July 2003 are sight deposits, and the remaining 43.29% are time deposits. Compared to June 2003, sight deposits in July 2003 increased by 0.24 percentage points and time deposits decreased by the same percentage.

From the beginning of its operations, the Fund has calculated outstanding claims in the total amount of Denar 109.28 million for two banks and 2 savings houses. It has paid Denar 60.19 million so far, i.e. 55.08% of the total outstanding claims. In July 2003, the Fund paid 55.24% for claims.

In August 2003, deposits of physical persons at banks and savings houses amounted to Denar 37.8 billion, i.e. EUR 618.2 million, which is 1% increase of the total deposits at banks and savings houses. Compared to August 2002, deposits of citizens in August this year grew by Denar 5.44 billion, i.e. 16.82%.

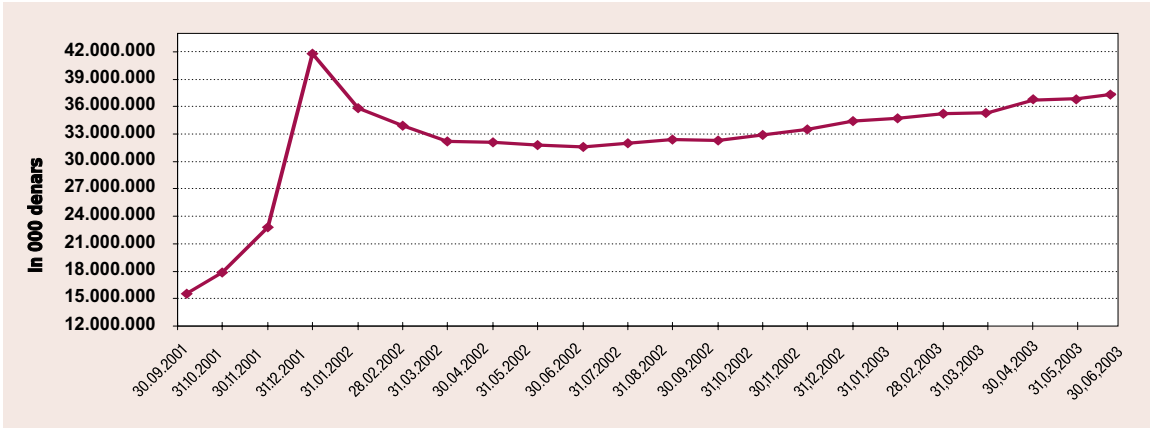
The increasing trend of deposits at banks and savings houses continued in this month as well.

Regarding the currency structure of the deposits, it could be noted that 29.91% of the total deposits are denar deposits, while 70.09% are foreign exchange deposits. These figures show that denar deposits decreased by 0.63 percentage points in relation to the previous month at expense of the share of foreign exchange deposits.

Analyzing the maturity structure of the deposits in August 2003, one could conclude that 56.31% are sight deposits and the remaining 43.69% of the total deposits are time deposits. Compared to July, sight deposits decreased by 0.4 percentage points at the expense of the share of time deposits.

The amount of funds of the Deposit Insurance Fund reached 3.10% of the total deposits of

physical persons in August 2003. The reason for the reduction of funds on the DIF account from 3.16% in July to 3.1% in August is the payment of part of the calculated claims. Hence, the Fund paid Denar 33.9 million in August 2003, out of the total reimbursement amount of Denar 109.2 million. This indicates that the Fund have settled 86.13% of the total calculated outstanding claims as of this month.



Source: Deposits insurance fond

CREDIT LINES FOR SMALL AND MEDIUM - SIZE ENTERPRISES

provided and guaranteed by the Government of the Republic of Macedonia

(data is for informational purposes only, detailed information can be obtained in commercial banks)

<i>Credit line</i>	<i>Credit line in kind from Italy (equipment produced in Italy) Agent bank-Macedonian Bank for Development Promotion</i>	<i>KfW - Germany, Programme for crediting SME development Agent bank-Macedonian Bank for Development Promotion</i>	<i>German-Macedonian Fund for crediting repatriates from Germany. Agent bank-Macedonian Bank for Development Promotion</i>
<i>Amount</i>	50,000 - 2,000,000 €	50,000 - 400,000 €	10,000 - 150,000 €
<i>Repayment period</i>	7 years, including grace period	5 years, including grace period	5 years, including grace period
<i>Grace period</i>	Up to 1.5 years	Up to 1 year	Up to 2 years
<i>Annual Interest rate</i>	Fixed at 7% per annum	Variable (depending on the semi-annual EURIBOR interest) At the moment it is 11% per annum	Fixed at 8% per annum
<i>Guarantee</i>	Mortgage, bank guarantee, deposit, securities	Mortgage, notes, pledge on movables, rights and securities, pledge on real estate	Mortgage on real estate, obligatory relationship or bank guarantee, deposit, securities
<i>Purpose of the credit</i>	The funds are approved for profitable investment projects of private investors	Modernization and expansion of existing private SMEs and establishment of new ones. Minimum 70% of the credit for fixed assets; Maximum 30% of the credit may be used for working capital	Initiation of operations of new companies, taking over existing companies, active partnership of existing companies, expansion of existing companies not older than 3 years
<i>Target groups</i>	All SMEs except the following: E-trading public administration, compulsory social protection, private households that have employed persons and extraterritorial organizations and bodies.	SMEs that have more than 51% private ownership	Production, rendering services, construction or agricultural SMEs with over 51% private ownership (trade is excluded). The founder must be repatriate from Germany, returned after 1 January 1991
<i>Source of funds</i>	Italy provided 12.7 million €, 9.3 million €. 27 % are utilized. Revolving fund will be created from the collected annuities.	KfW - Germany provided 15 million €, out of which 3 million € remain to be utilized. 80% are utilized. Revolving fund will be created from the collected annuities.	DEG - Germany and the Ministry of Finance of the Republic of Macedonia provided 10.2 million €, 9 million €. 12 % are utilized. The funds will be used to create revolving fund.
<i>Commercial bank that offer the credit</i>	Balkanska banka Skopje, Eksport import banka Skopje, Izvozna i kreditna banka Skopje, Invest banka Skopje, Komercijalna banka Skopje, Makedonska banka Skopje, Ohridska banka Ohrid, Radobank Skopje, Stopanska banka Skopje, Stopanska banka Bitola, Tetovska banka Tetovo, Tutunska banka Skopje	Balkanska banka AD Skopje, Eksport import banka AD Skopje, Izvozna i kreditna banka AD Skopje, invest banka AD Skopje, Komercijalna banka AD Skopje, Makedonska banka AD Skopje, Ohridska banka AD Ohrid, Radobank AD Skopje, Stopanska banka AD Skopje, Stopanska banka AD Bitola, Tetovska banka AD Tetovo, Tutunska banka AD Skopje	Balkanska banka AD Skopje, Eksport import banka AD Skopje, Izvozna i Kreditna banka AD Skopje, Invest banka AD Skopje, Komercijalna banka AD Skopje, Makedonska banka AD Skopje, Ohridska banka AD Ohrid, Radobank AD Skopje, Stopanska banka AD Skopje, Stopanska banka AD Bitola, Tetovska banka AD Tetovo, Tutunska banka AD Skopje.
<i>Note:</i>	One - time commission of 1,2%		

<i>Credit line</i>	<i>Crediting small businesses (micro and small credits)</i>	<i>Crediting the production intended for export from the funds from Macedonian Bank for Development Promotion</i>	<i>Programme for crediting Investments of small and medium - size enterprises, from the funds from Macedonian Bank for Development Promotion</i>
<i>Amount</i>	50,000 - 15,000 € micro credits, up to 50,000 € small credits,	50,000 - 400,000 €	Up to 1,125,000 € for SMEs, Up to 75,000 € for individual agricultural producers
<i>Repayment period</i>	Up to 2 years	4 - 15 mounts (for export arrangements)	From 1 to 10 years
<i>Grace period</i>	Up to 3 mounts	/	Up to 3 years (for fixed assets) Up to 2 years (for individual agricultural producers)
<i>Annual interes rate</i>	Up to 20% per annum for micro credits, up to 15% per annum for small credits	Fixed at 11% per annum	Variable, bout 7% (LIBOR + 3% + banking costs)
<i>Guarantee</i>	Blank note with a statement certified by notary, with at least two guarantors; Crossed check with statement certified by notary, Note and/or crossed check from other solvent legal entities - guarantors; Mortgage; pledge on movables and rights; pledge of valuables and securities; checks; other upon necessity acceptable for the bank. When evaluating the credits, special credit technology is applied which is focused on social and economic situation of the entrepreneur and his business, regarding the collateral.		Mortgage on real estate, notes, pledge on movables, rights and securities, pledge on real estate
<i>Purpose of the credit</i>	Financing fixed assets (procurement of equipment, machines, tools, installations, urban land, restoration and modernization; financing working capital (raw materials, intermediate materials, commodities...)	Financing working capital for production intended for export.	Procurement of new equipment, current operating assets, construction works, engineering, consultant services and licences. Permanent operating assets
<i>Target groups</i>	Private companies, individuals, individual entrepreneurs, craftsmen, vendors and sole proprietor	Private export-oriented companies	
<i>Source of founds</i>	KfW from Germany provided 6.5 million €, out of which 5.3 million € remain to be utilized. 18 % are utilized. Revolving fund will be created from the collected annuities.	Macedonian Bank for Development Promotion provided funds for this credit line - 31.5 million € are used so far	Revolving fund of 100% utilized credit line from IBRD
<i>Commercial bank that offer the credit</i>	Izvozna i kreditna banka AD Skopje, Tutunska banka AD Skopje,	Balkanska banka AD Skopje, Eksport import banka AD Skopje, Izvozna i kreditna banka AD Skopje, Invest banka AD Skopje, Komercijalna banka AD Skopje, Makedonska banka AD Skopje, Ohridska banka AD Ohrid, Radobank AD Skopje, Stopanska banka AD Skopje, Stopanska banka AD Bitola, Tetovska banka AD Tetovo, Tutunska banka AD Skopje	Investbanka AD Skopje, Ohridska banka AD Ohrid, Rado banka AD Skopje, Tutunska banka AD Skopje
<i>Note:</i>		Own participation - 15%. Commitment fee 0.50% per annum	Own participation - 20% of the accounting value of the project. Commitment fee 0.75% per annum

Credit line	Credits from the credit line of the International Fund for Agriculture Development IFAD1: Small and large credits for individual farmers	Credits from the credit line of the International Fund for Agriculture Development IFAD1: Credit for small and medium - size enterprises	Credits from the credit line of the International Fund for Agriculture Development IFAD1: Credit for small and medium - size enterprises
Amount	1,000 - 10,000\$ (small) 1,000 - 30,000\$ (large)	1,000 - 75,000\$	Credits from the credit line of the International Fund for Agriculture Development IFAD 2: Agricultural financial services
Repayment period	1 to 6 years, depending on the purpose	1 to 6 years, depending on the purpose	
Grace period	3 months to 3 years, depending on the purpose	3 months to 3 years, depending on the purpose	
Annual interest rate	6% per annum	6% per annum	
Guarantee	Mortgage ratio: 2:1 (for small credits) Mortgage ratio 2:1 (for large credits), bank checks, foreign currency, guarantee from liquid organization, bank guarantee, acceptance orders from liquid enterprise	Mortgage ratio 2:1, bank checks, foreign currency, guarantee from liquid organization, bank guarantee, acceptance orders from liquid enterprise	
Purpose of the credit	1. Development of cattle breeding 2. Production of plants	1. Small enterprises development 2. Commercial trade	Improvement of the living standard of target population
Target groups	Individual farmers from certain regions in the east and south-east part of Macedonia	Small and medium-size enterprises (in villages)	Unemployed persons in the agricultural undeveloped areas, poor agricultural households, as well as small and medium-size entrepreneurs
Source of funds	IFAD (International Fund for Agricultural Development) provided US\$ 6.7 million, US\$ 4.9 million\$. 27% are utilized. The funds will be used to create revolving fund.	IFAD (International Fund for Agricultural Development) provided US\$ 6.7 million, US\$ 4.9. 27% are utilized. The funds will be used to create revolving fund.	IFAD provided 7.5 million \$. The funds have not been used so far. Revolving fund is planned to be created from the collected annuities.
Commercial bank that offer the credit	Investbanka A.D. Skopje	Investbanka A.D. Skopje	
Note:	Criteria: investment programme for large credits; obligatory participation of 30% in equipment, buildings and obligatory insurance of goods in insurance company and restrictive endorsement of the Policy at the benefit of the bank. The bank does not approve cash, but it makes procurement at the account of the client from supplier chosen by the client itself.	Criteria: investment programme for large credits; obligatory participation of 30% in equipment, buildings and obligatory insurance of goods in insurance company and restrictive endorsement of the Policy for the benefit of the bank. The bank does not approve cash, but it makes procurement at the account of the client from supplier chosen by the client itself.	The implementation of this credit line is in initial phase. The conditions for awarding the credits are being defined, as well as the selection of commercial banks.

<i>Credit line</i>	<i>Government of Netherlands Assistance for Development of Small and Medium Size Businesses</i>	<i>REVOLVING FUND Project for private sector development of the International Cooperation and Development Fund - Taiwan</i>	<i>Credit line for job creation in SMEs REVOLVING FUND</i>
<i>Amount</i>	For individual farmers - 10.000 €, 7.25% interest; Micro entrepreneurship - 17.000 €, 18% interest; Small businesses - 50.000 €, 8-12% interest	Up to 400.000 US\$ for small and medium - size enterprises Up to 200.000 US\$ for agriculture	No limit
<i>Repayment period</i>	From 3.5 to 5 years	Up to 7 years for SMEs, Up to 5 years for agriculture	from 5 to 10 years
<i>Grace period</i>	6 months - 1 year	1 - 3 years	1 - 3 years
<i>Annual interest rate</i>	From 7,25 % to 18%	LIBOR + 2,5%	about 9% (EURIBOR + 5.3%)
<i>Guarantee</i>	In accordance with the credit policy of commercial banks - participant in the credit realization	Mortgage on real estate, pledge on equipment	Mortgage, pledge on equipment, other instruments acceptable for banks
<i>Purpose of the credit</i>	Support of the employment opportunities and development of micro and small businesses	Procurement of machines, equipment, construction works, other fixed assets (except acquisition of land), procurement of raw materials, intermediate materials (for SMEs); procurement of agricultural mechanization, basic herds, green houses, plantations, equipment, procurement of raw materials, intermediate materials (for credits in the area of agriculture)	Construction/purchase of property, purchase of equipment and machines, raw materials and spare parts. Education training.
<i>Target groups</i>	Micro and small businesses and individual farmers		SMEs from textile, leather, food industry and other branches that would enable job creation, except primary agricultural production.
<i>Level of utilization of funds</i>	The Government of Netherlands provided 7 million €, 3.5 million € of which remain to be utilized. The funds will be used to create revolving fund	International Cooperation and Development Fund (ISDF) - Taiwan provided funds for this credit line which is 100% utilized. Commercial banks created revolving fund from the repaid annuities.	Funds from CEB in the amount of 5 million € are 100% utilized. Revolving fund was created from them, which continues to be utilized under the same conditions.
<i>Commercial bank that offer the credit</i>	Tutunska banka AD Skopje, Radobank AD Skopje, Saving house Moznosti	Ohridska banka AD Ohrid, Stopanska banka AD Skopje, Komercijalna banka AD Skopje, Tutunska banka AD Skopje, Radobank AD Skopje, Stopanska banka AD Bitola, Ohridska banka AD Ohrid, Makedonska banka AD Skopje	Ohridska banka AD Ohrid, Stopanska banka AD Skopje, Komercijalna banka AD Skopje,
<i>Note:</i>			The funds cannot be used for agricultural projects, except for processing and final processing of agricultural products.

<i>Credit line</i>	<i>APEX Global Loan from European Investment Bank</i>	<i>Credit program for small businesses from FARE / NEPA</i>	<i>Micro - Credit line for small business from CARDS - EU</i>
<i>Amount</i>	20,000 € to 12,500,000 €	Up to 1.800.000 MKD	Up to 30.000 EUR
<i>Repayment period</i>	5 to 7 years	3 to 5 years	Up to 5 years
<i>Grace period</i>	1 year	Up to 6 months	Up to 6 months
<i>Annual interest rate</i>	about 8%, or 9% (via Macedonian Bank for Development Promotion)	Not lower then 10%	Up to 10%
<i>Guarantee</i>	In accordance with the credit policy of commercial banks - participants in the credit realization	Blank note with a statement certified by notary, with at least two guarantors; Crossed check with statement certified by notary, Note and/or crossed check from other solvent legal entities - guarantors; Mortgage minimum 130%; pledge on movables and rights; pledge of valuables and securities and other rights;	Blank note certified by notary, crossed check with a statement certified by notary, note and / or crossed check by other solvent legal entities - guarantors, mortgage minimum 130% of the credit amount, collateral on immovable assets minimum 130% of the credit amount, depositing valuables and securities, bank guarantee. PHARE Fund provides guarantee collateral fund
<i>Purpose of the credit</i>	Fixed assets and increase of the existing operating capital related to the project	Purchase of equipment or machines, long-term financing of new projects. Upon NEPA approval, the bank may allow up to 10% of the total awarded credit to be intended for operating capital	Purchase of equipment or machines, long-term financing of new projects. 20% of the total awarded credit may be intended for operating capital
<i>Target groups</i>	Small and medium-size enterprises in all production - related activities	Legal entities having more than 20 employees. Business is not older than 5 years and at least 51% of the principal is in private ownership	Legal entities having more than 20 employees. Business is not older than 5 years and at least 51% of the principal is in private ownership or they have just commenced their business
<i>Level of utilization of funds</i>	European Investment Bank provided 20 million €, 177 million € out of which remain to be utilized. The funds will be used to create revolving fund.	The funds from the FARE - NEPA arrangement are not used, since the project realization has not begun yet	The funds from CARDS - EU for this project are not used, since the project realization has not begun yet
<i>Commercial bank that offer the credit</i>	Komercijalna banka AD Skopje, Stopanska banka AD Skopje	Izvozna kreditna banka AD Skopje, Komercijalna banka AD Skopje, Komercijalno investiciona banka AD Kumanovo, Ohridska banka AD Ohrid, Stopanska banka AD Bitola, Tutunska banka AD Skopje	Selection required
<i>Note:</i>		One - off compensation of costs 1% The realization of the credit line is not commenced	70% of the placement borne by PHARE Fund, and 30% by the commercial banks. 20% of the total assets are own guarantee fund of PHARE

Credit line	Japan assistance for balance of payments support (Decision of Official Gazette no. 36/2002)				Reinvestment of funds from counterpart funds from foreign assistance (Decision in Official Gazette no. 51/2001)	
Amount	6.000.000 ¥ до 30.000.000 ¥				The amount is not defined, and it is financed up to 50% of the value of the specific project	
Repayment period	Raw materials	Spare parts	Equipment		Short - time credits	Long - term credits
Grace period	9 months	1 year	Until March 2005		9 months	5 godini
Annual interest rate	3 months	6 months	6 months		3 months	1 godina
Guarantee	0 %	0 %	0 %		3%	3%
Purpose of the credit	Bank guarantee	Bank guarantee	Mortgage in the amount of 2:1		Bank guarantee	Mortgage in the amount of 2:1
Target groups	According to the list indicated in the Decision				Raw materials	Investment projects
Source of funds	All economic entities the meet the criteria set in the Decision				SMEs in the area of economy	
Commercial bank that offer the credit	The government of Japan provided 300.000.000 ¥ . Japan Counterpart Fund is created from the repaid funds.				Reapid funds from foreign assistance which generate counterpart funds. At the moment 35.000.000 denars are not allocated.	
Note:	Ministry of finance - Counterpart Funds Unit				Ministry of finance - Counterpart Funds Unit	
	The CPF Management Committee, established by the Government, makes a selection from the applied projects. The procurement and payment to the suppliers is performed with intermediation of renowned foreign company, according to the international procurement standards.				The CPF Management Committee, established by the Government, makes a selection from the applied projects. The procurement and payment to the suppliers is performed by the Counterpart Funds Unit.	

FACTS ABOUT PRIVATIZATION

CONDITIONS 30 SEPTEMBER, 2003

SECTOR STRUCTURE AT THE BEGINNING OF PRIVATIZATION

Sector	Number of companies	Number of employees	Value (EUR)
Manufacturing	403	149,174	1,101,109,147
Construction	117	33,499	118,205,995
Trade	385	20,773	252,619,574
Transport and Traffic	63	12,080	67,505,331
Finance and services	120	4,417	26,247,146
Craft	58	3,017	9,376,752
Catering and Tourism	70	5,890	111,824,957
TOTAL	1,216	228,850	1,686,888,902

Source: Statistics provided by POS, December 31, 1994

PRIVATIZATION PROCESSES IN PROGRESS BY SEPTEMBER 30, 2003

Sector	Number of companies	Number of employees	Value (EUR)
Manufacturing	24	4,385	16,328,442
Agriculture	15	1,160	10,226,993
Construction	5	133	4,750,073
Trade	22	2,975	6,724,464
Transport and Traffic	1	43	484,391
Finance and services	10	167	522,614
Craft	1	75	184,065
Catering and Tourism	3	202	1,703,927
TOTAL	81	9,140	40,924,969

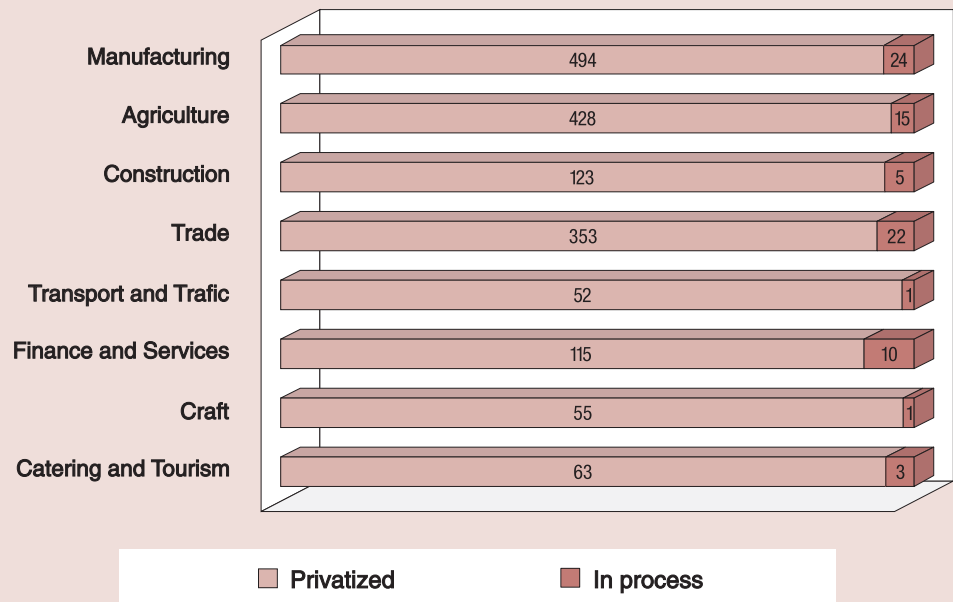
PRIVATIZATION TRANSACTIONS FINISHED BY SEPTEMBER 30, 2003

Sector	Number of companies	Number of employees	Value (EUR)
Manufacturing	494	137,835	1,473,236,647
Agriculture	428	20,521	201,173,821
Construction	123	31,890	120,125,089
Trade	353	17,687	256,671,690
Transport and Traffic	52	7,260	40,260,965
Finance and services	115	7,340	115,058,342
Craft	55	2,914	24,639,230
Catering and Tourism	63	4,281	93,728,168
TOTAL	1,683	229,728	2,324,893,952

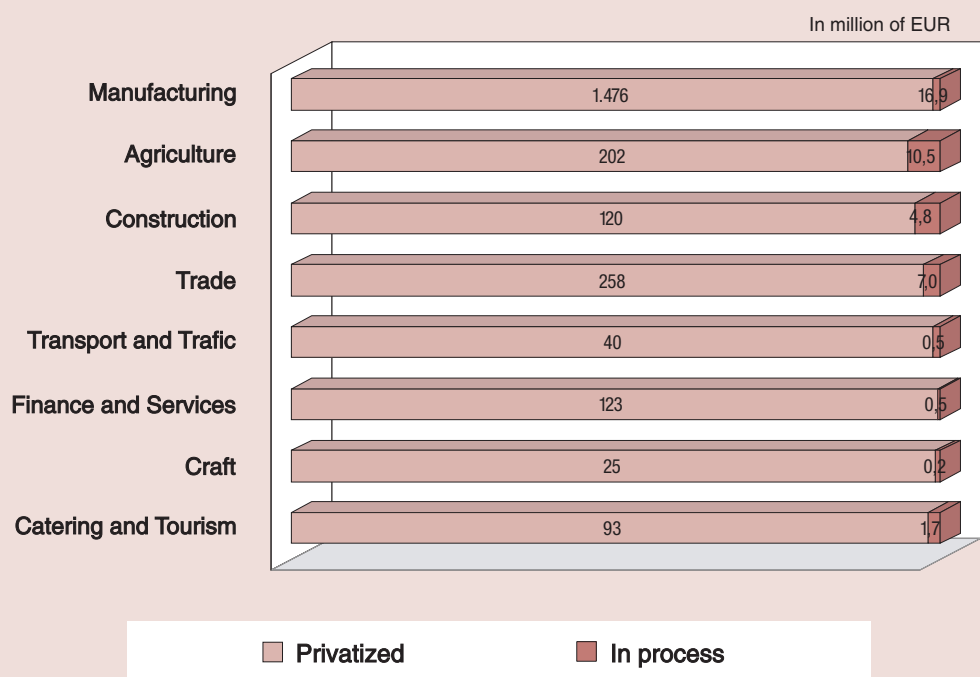
PROGRESS OF PRIVATIZATION - NUMBER OF COMPANIES BY SECTORS

Sector	Privatized	In process
Manufacturing	494	24
Agriculture	428	15
Construction	123	5
Trade	353	22
Transport and Traffic	52	1
Finance and services	115	10
Craft	55	1
Catering and Tourism	63	3
TOTAL	1,683	81

Progress of privatization - number of companies by sectors



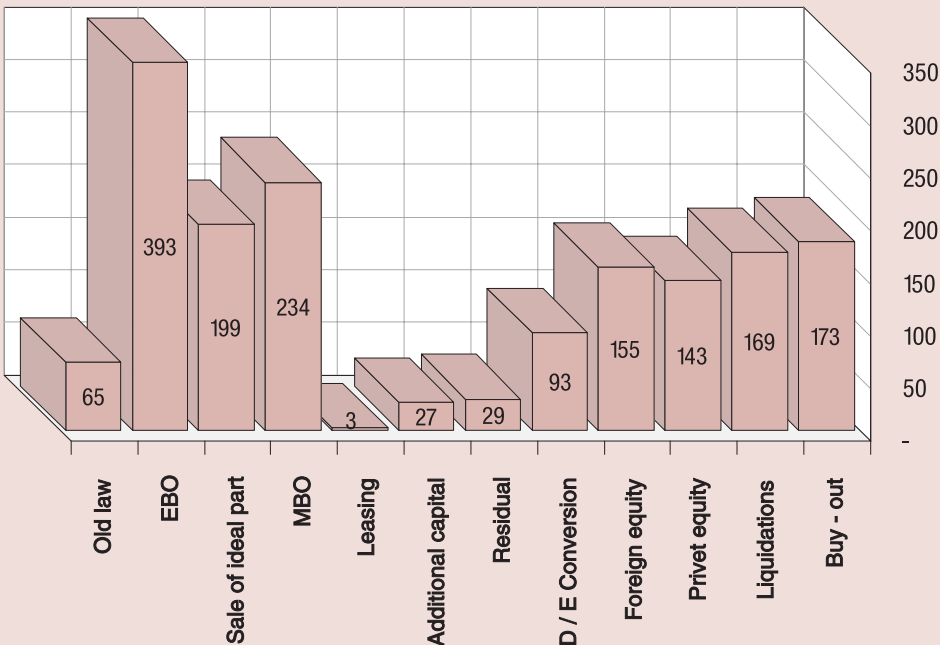
Progress of privatization - equity



PROGRESS OF PRIVATIZATION - EQUITY

Sector	Privatized	In process
Manufacturing	1,473,236,647	16,328,442
Agriculture	201,173,821	10,226,993
Construction	120,125,089	4,750,073
Trade	256,671,690	6,724,464
Transport and Traffic	40,260,965	484,391
Finance and services	115,058,342	522,614
Craft	24,639,230	184,065
Catering and Tourism	93,728,168	1,703,927
TOTAL	2,324,893,952	40,924,969

Number of privatized companies by model of privatization



NUMBER OF PRIVATIZED COMPANIES BY MODEL OF PRIVATIZATION

Model	Companies	Employees	Value (EUR)
Old law	65	11,522	58,528,096
EBO	393	16,855	76,965,175
Sale of ideal part	199	25,897	326,118,176
MBO	234	71,075	707,681,194
Leasing	3	-	595,839
Additional capital	27	7,620	96,739,753
Residual	29	14,962	145,654,379
D / E Conversion	93	23,842	327,086,749
Foreign equity	155	1,843	25,257,846
Private equity	143	4,854	34,428,177
Liquidation	169	1,089	58,138
Bay - out	179	50,169	528,780,429
TOTAL	1,683	229,728	2,324,893,951

IN BRIEF

The Netherlands will award new EUR 23 million to the Republic of Macedonia

The Kingdom of the Netherlands will award new EUR 23 million to the Republic of Macedonia next year as bilateral assistance, EUR 17 million of which for balance of payments support and EUR 6 million for financing specific good governance and private sector development programs. This was announced by the Dutch Minister of Development Cooperation Mrs. Agnes van Ardenne at the bilateral meeting in Dubai, UAE, on the 57th Annual Assembly of the World Bank and the IMF. The meeting addressed issues on the present economic and political situation in the country and on the so-far realization of the Stand-by Arrangement with the IMF. Mrs. Ardenne expressed her contentment for the so-far cooperation and the readiness the Netherlands to continue its policy of supporting the development of Macedonia, as well as the support for other countries within the Dutch Constituency, which requires formal approval by the Parliament. Thereby, it was emphasized that the promotion of regional development and cooperation on the Balkans is very important.

The Minister of Finance Petar Gosev and the Governor of the National Bank Ljube Trpeski participated at the regular meeting of the Dutch Constituency, where the Republic of Macedonia is a member state. At this meeting, the Constituency members harmonized their position on the future engagement and activities of the World Bank Development Committee and the IMF International Monetary Financial Committee.

The Board of Directors of the World Bank officially approved the Country Assistance Strategy

The new Country Assistance Strategy for the Republic of Macedonia was officially approved



by the Board of Directors of the World Bank in Washington. This strategy will be implemented in the period 2004-2006. It is the basic World Bank document, and represents an operational plan for its activities in the country, containing structural and investment loans, economic and sector studies, as well as the technical assistance provided by the Bank.

The World Bank officials conclude that despite crises in 1999 and 2001, progress was made in economic reforms, health sector and financial system, and to some extent, in the public finance management. However, further improvement of public sector management remains to be one of the main economic challenges in future, especially enhancing the transparency and efficiency of public expenditures and professionalization of public administration, as well as improving the investment climate for attracting domestic and foreign investments.

The Strategy envisages projects in the total amount of US\$ 165 million. "Macedonia now has the opportunity to pave the way for more

intensive economic growth and for reducing poverty, thus improving the quality of life of its citizens" - said Orsalia Kalantzopoulos, World Bank Country Director. She said that this Strategy shows the confidence the World Bank has in the economic progress of our country. One of the goals of the World Bank assistance in the Strategy is promotion of efficient public finance management, corruption eradication and support to the decentralization process. Building up the human capital and fostering the most vulnerable groups of citizens are among the tasks in the Strategy.

Nickel price exceeded the level of US 10,000/t

In September 2003, the nickel price on the London Stock Exchange reached US\$ 10,250 per ton, which is the record high price in the last decade. Such development was a result of the increased demand of almost all metals on the world markets, and according to the previous movements, the nickel price will probably continue to grow in the coming period. This way, "FENI - Industry" became very profitable metallurgy plant after its privatization. Over 500 tons of nickel were produced in the previous month, volume never reached before FENI was sold to the renowned French consortium SCMM. This excellent performance is mainly a result of the strengthened working discipline in all production segments, as well as the successful governance of the managerial team comprising experienced and proved engineers in FENI.

The government will issue short-term securities

The Strategy on Development of Government Securities Market envisages regular issuance of government short-term securities starting from January 1, 2004. According to the Minister of Finance Petar Gosev, one of the main reasons for

this is the opportunity for easier overcoming the liquidity problems of the Budget, which occur due to the fact that the revenue inflow does not always match the period when expenditures occur. Government bonds presently issued cannot be used for budget liquidity management. These bonds include "old" foreign currency savings bonds, denationalization bonds, bonds issued for rehabilitation of Stopanska Banka, and they are earmarked and incidental, i.e. they are used for strictly determined purposes, says Gosev. Therefore, the financial market is currently anemic, and these new government securities would revive its activities. They also provide an additional opportunity for investments by the institutional investors that would come in the country. Other reason is that currently, the foreign debt, i.e. liabilities denominated in foreign currency have the dominant share in the total public debt of the country, which imposes risk on the balance of payments. Therefore, the purpose of these securities is to change this unfavorable structure, i.e. to increase the share of domestic debt at the expense of reducing the liabilities to abroad. At the beginning, government securities will be issued with three-month maturity period, denominated in domestic currency, but this maturity period will gradually increase. Interest rates will be established on market and competitive basis. Auction sale is now preferred, and banks are expected to be the primary buyers of the government securities at the beginning, since they will directly participate at these auction sales. Other interested parties will be able to purchase the securities via the banks. Over-the-counter principle is considered to be more suitable for providing better competitiveness. Government agent for issuing these securities will be the National Bank of the Republic of Macedonia.

7 out of 24 loss-making enterprises included in FESAL 2 arrangement were sold

According to the estimate by the Ministry of Economy, the pace of selling 24 loss-making enterprises covered by FESAL 2 arrangement in the past period is satisfactory. Hence, the Government is optimistic to resolve the issue of loss-making enterprises by the end of 2003, thus meeting the condition for withdrawing the third tranche of FESAL 2 arrangement in the amount of US\$ 20 million, and having more room for resolving other priority economic problems in the country next year.



According to the current status, eight enterprises were sold so far, tender sale of two other enterprises is ongoing, while public tenders will be announced for the remaining loss-making enterprises in September and October. Thereby, textile companies are the most interesting for the potential buyers, and they were sold first, due to the cheap labor and secured workload on the basis of inward processing relief operations. Within the group of textile loss-making enterprises, "Astibo", "Makedonka tkaenini" and "Nokateks" were sold entirely, as well as part of "Oteks", for which two tenders were announced, while the sale of the remaining part of Oteks is ongoing. "Silika" - Gostivar was also sold, as well as five production units of "Godel" and the warehouse of "Hemteks", which should be verified by its Board of Creditors, while the tendering procedures for "MZT Fam" and

"Makedonska predilnica" are ongoing, and there are some interested domestic companies.

Tenders are pending for "Tehnika" - Skopje, 10 other production units of "Godel", "Nova Makedonija", "Mikron" "MHK Zletovo" mines and the tenders for "Porcelanka" and "Gazela" should be repeated after the completion of the court proceedings.

No interest was shown on several tenders for some enterprises from this list of loss-making enterprises that are sold without opening price and obligations for employment, like "Frinko" - Bitola and "Ruen" Kocani. According to the Ministry of Economy, the final resolution of these companies and other ones that will remain unsold will be known by the end of the year, when the Government should decide whether they will be turned into free economic zones or leased.

Macedonia and Japan exchanged notes on the "Zletovica" credit

In Tokyo, the Macedonian Minister of Finance Petar Gosev and the Japanese Minister of Foreign Affairs Yoriko Kawaguchi exchanged notes on the credit extended by the Government of Japan for the construction of multi-purpose hydro system "Zletovica", in the presence of the President Boris Trajkovski.



It is a credit in the amount of US\$ 85 million for constructing major part of the "Zletovica" system, which should provide better water supply, development of agriculture, more dynamic social and economic development of Stip, Probistip, Zletovo, Karbinci, Sveti Nikole, Lozovo and Kratovo.

The construction of the system worth around US\$ 120 million will be phased in the next seven years.

This is the first credit to the Republic of Macedonia from Japan that is extended for development purposes. The so-far assistance from Japan was mainly for the purpose of balance of payments support, primary healthcare, assistance in agriculture sector and in the area of culture. The total assistance extended to Macedonia by Japan since the establishment of diplomatic relations in 1994 amounts to around US\$ 100 million.

Macedonian Bank for Development Promotion insured the export of "Alkaloid" to Russia

Pharmaceutical and chemical company Alkaloid and the Macedonian Bank for Development Promotion (MBDP) signed an agreement for insurance of the export of Alkaloid in Russian Federation on October 3. The maximum exposure is US\$ 760,000 and the agreement will expire after one year. This agreement insures Alkaloid against potential losses that could occur due to insolvency of the foreign partner. This strengthens the market position of Alkaloid on the Russian market.

"The agreement is a good example on how banking and business sectors should cooperate to the end of increasing and promoting Macedonian export" - say the people in Alkaloid.

The agreement also creates opportunities for insuring export claims of Macedonian exporters in the Russian Federation, reinsured by MBDP in the largest Russian insurance company Ingostrah.

IMF technical mission in Macedonia

IMF technical mission on fiscal decentralization visited the Republic of Macedonia this September. The mission members held a meeting with the Minister of Finance Petar Gosev. According to the Ministry of Finance, the so-far activities related to the fiscal decentralization were discussed, and especially the realization of the pilot project for administering taxes and fees on local level, as part of "phase zero" of this process. During their stay, mission staff had meetings with the representatives of the line ministries and other institutions included in the process of drafting the Law on Financing Local Government Units.

Donation in the amount of CHF 12.5 million to the Electric Power Company (ESM)

The Swiss Government granted CHF 12.5 million (EUR 7.5 million) for improving the efficiency of ESM in the area of electricity



distribution. The assistance includes equipment and education, whereby 7,000 electricity meters will be delivered among other items (in the amount of CHF 7 million), 530 of which will be used for interconnection measuring in our production plants, as well as for major industrial plants that fall under the category of direct consumers. This is very important for separating production and distribution, as part of the planned activities for financial separation of these two activities, i.e. part of the planned reorganization of the company. The other electric meters that are digital and very accurate, will be used for smaller industrial plants. This would enable a completely new integrated measuring system that would reduce losses. In addition to the electric meters, other significant equipment is also included, and it will be implemented by the end of 2005.

Credits for small businesses ranging between EUR 10,000 and EUR 75,000

The Macedonian Enterprise Development Foundation (MEDF) signed contracts with IK banka, Stopanska banka - Bitola, Tutunska banka and "Moznosti" Savings House, through which these loans will be realized. The MEDF loan funds for 2002-2006 increased by additional EUR 4.9 million with the signing of the financing agreement with the Government of the Netherlands.

MEDF has developed three types of credits. The first group refers to individual farmers having less than 10 hectares of land, sole proprietors and micro-companies with less than 5 employees. This type of loans can amount up to EUR 10,000 per borrower, and the repayment period is five years, including one year grace period. The second type refers to credits to small enterprises having from 4 to 20 employees, and they can amount from EUR 15,000 to EUR 75,000, with a repayment period of five years and grace period of one year. The third type refers to credits to micro enterprises with up to three employees, and they



can amount up to EUR 15,000. The repayment period is three years with grace period of six months.

The Parliament passed the Supplementary Budget

The members of Parliament voted for the Supplementary Budget, according to which revenues amount to Denar 55.79 billion or higher by Denar 560 million, while expenditures decrease by Denar 100 million amounting to Denar 59.2 billion.



The deficit is projected at Denar 3.4 billion or 1.4% of GDP. According to the Minister of Finance Petar Gosev, this Supplementary Budget has been harmonized with the IMF and

it will neither disturb the macroeconomic stability, accelerate inflation nor pressure the denar exchange rate and the foreign exchange reserves. Public expenditures continue to drop, preventing the external debt to exceed 40% of GDP.

Tutunska banka was announced as bank of the year

Tutunska banka Skopje won this year's award 2003 Bank of the Year in Macedonia by the renowned international banking magazine The Banker. This is a traditional award by this magazine, which is part of the Financial Times, to the best 145 banks in the world. The award ceremony was held two days ago in London, Great Britain.

As emphasized by the people in Tutunska banka, the final decision by The Baker expert team was made on the basis of many relevant performance criteria about the operations of this banking institution. In addition to the positive indicators relating to the basic data and results, the criteria also include bank's growth, application of modern technology, the achievements during the previous year, as well as the overall strategy of this bank. Komercijalna banka AD Skopje received this prestigious award in the previous two years.

Macedonian entrepreneurs will participate at the SME Fair in Slovenia

The National Enterprise Promotion Agency, in cooperation with the SME Development Center (PCMG) from Ljubljana and the Slovenian Euro-Info Centers Network, the Chamber of Craftsmen of Slovenia, the Economic Chamber of Slovenia

and some international partners, will organize business meetings for companies within the Entrepreneurship and SME Development Project in Southeast Europe.

The business meetings will be held within the International SME Fair in Celje, in mid September. 250 companies will participate at this event, from the following countries: Austria, Bosnia and Herzegovina, Croatia, Hungary, Italy, Macedonia, Serbia and Montenegro and Kosovo, whereby over 400 business meetings have been organized. 12 companies from Macedonia will participate at this Fair, with 50 organized meetings with entrepreneurs from the region.

ProBusiness Bank changed its name into ProCredit Bank

The National Bank of the Republic of Macedonia issued approval for changing the name of the new micro-crediting bank from ProBusiness into ProCredit Bank in the beginning of September. At the Special Shareholders Assembly, the Bank shareholders approved this change of the name, with the explanation that this would unify their network of 10 specialized micro-financing banks throughout Southeast Europe under one name and logo.



ProCredit Bank officially started its operations in Macedonia at the beginning of July this year. Prompt and simple credit-approval procedure and the relative favorable conditions for crediting are the main reasons for the successful start of this Bank, which is expected to “shake up” the Macedonian banking system.

Over 40,000 tons of vegetables were exported from the Strumica region

According to the initial information, over 40,000 tons of vegetables were exported via the customs terminal in Strumica since the beginning of the purchasing and exporting season, i.e. from April 1 until mid September. According to the data from the regional office of the Ministry of Agriculture, Forestry and Water Economy, 13,100 tons of watermelons were exported, and they make up the largest share of exported vegetables, followed by cabbage with 7,400 tons, tomatoes 7,300 tons, cucumbers 6,800 tons, peppers 2,300 tons and smaller quantities of potatoes and grapes. According to estimates, the export of vegetables is



probably twice this quantity, since there is no data in the regional office of the Ministry of Agriculture on the wholesale purchase, and smaller quantities were exported via other terminals in the country. Most of the export was realized in the countries from the former Yugoslavia: Bosnia and Herzegovina, Croatia, Serbia and Montenegro, smaller quantities in Slovenia, as well as in Greece, Romania, the Czech Republic, Bulgaria, Albania and Belarus.

GROWTH IN EUROPE AND AMERICA - THE TORTOISE AND THE HARE

Europe's sluggish growth is not only a disappointment for Europe: the persistent growth gap between America and much of the rest of the world could spell trouble for the whole global economy

In the late 1990s *The Economist* viewed the American economy as the hare and the economies of the euro-area as the tortoise. The American hare's rapid pace of growth was, we believed, exaggerated by a large economic and financial bubble. Once that bubble burst, we expected America's economy to slow sharply, while the steadily plodding European tortoise, whose economy looked relatively free from the financial imbalances that had built up in America, would start to pull ahead. America's economy has indeed slowed sharply, and the euro area did briefly grow faster than America in 2001, but the hare has since sprinted into the lead again. Europe's sluggish growth is not only a disappointment for Europe: the persistent growth gap between America and much of the rest of the world could spell trouble for the whole global economy.

The gap between growth rates in America and the euro area has widened this year. Germany, Italy and the Netherlands are in recession and output in the euro area as a whole stagnated in the second quarter. Indeed, the euro area currently looks even sicker than Japan, where GDP grew by an annualised 2.3% in the second quarter. But most forecasters still expect Japan's economy to grow by less than 1.5% over the next couple of years. That leaves America as the main driver of the world economy, even though the American economy is hardly in the prime of health. Much of its 2.4% growth in the second quarter came from



a sharp increase in defence spending during the Iraq war, and employment continues to decline. Nevertheless, recent tax cuts are almost certain to boost growth in the second half of this year, and forecasters widely expect America's economy to outpace the economies of the euro area Japan over the next few years.

The euro area's slower growth is surprising given that the bubble supposedly created fewer

Price differences in Europe - a single currency, but many prices

A bottle of whisky costs almost 80% more in Amsterdam than in Rome. But Italians should pause before celebrating: a packet of Nurofen to soothe a hangover is 70% dearer than in Amsterdam. The creation of the euro in 1999 was supposed to encourage prices to converge, by making it easier to compare prices in different countries. As with the Internet, another force for price equalisation, fact has not always met expectation. Although price gaps narrowed in the euro's first three years, an annual survey by Dresdner Kleinwort Wasserstein (DKW) finds no more convergence in the past two. The survey, which covers the six biggest euro-area countries, uses branded goods where possible, to allow like-for-like comparisons. Madrid has the cheapest total shopping basket, 10% less than in Paris, the most expensive city. Individual prices differ by much more. Pampers nappies cost 56% more in Brussels than in Frankfurt. A cinema ticket costs 170% more in Brussels than in Madrid. But Brussels is the place for Levi jeans -43 % cheaper than in Paris.

Shopping around

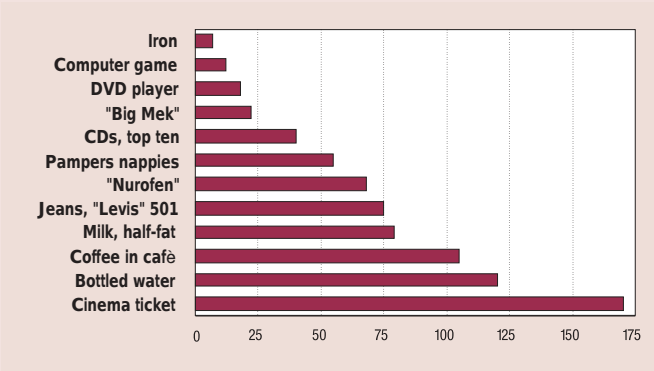
The biggest price differences tend to persist in non-tradable services. Electrical goods, such as

irons and televisions, are easily shipped across borders, and thus have the smallest price ranges. The euro should spur price convergence not so much because consumers shop across borders, but because greater price transparency encourages wholesalers to take advantage of price discrepancies.

So why do prices still vary by so much? There are at least three reasons: different tax rates, especially on alcohol; national tastes (eg, bottled water is seen as a basic good in some countries, but a luxury in others); and differences in the market structure. One big barrier is that there are still no large pan-European wholesalers or retailers, such as America's Wal-Mart. Leo Doyle, an economist at DKW, estimates that price dispersion within the euro area is still roughly twice as large as in America. That suggests that there is still huge scope for the further convergence of goods prices-which in turn implies different inflation rates in different countries.

DKW also finds that, thanks to the rise in the euro, prices in London are no longer higher, on average, than in the euro area; in 2000 London was almost 20% more expensive than the euro-zone average. Britons pay well over the top for their booze and cigarettes, but their country is cheaper by far for books and deodorants. Perhaps that is why so many of them turn up their nose at the thought of joining the euro.

variations in euro-area countries, %*



**Difference between highest and lowest prices as % of lowest price*

Source: Dresdner Kleinwort Wasserstein

excesses (such as households over-borrowing) in Europe than in America. One explanation is that growth comparisons are distorted by America's faster population growth. GDP per head in the euro area has grown at exactly the same pace as in America over the past three years. But that isn't good enough. After America's bubble burst, the euro area economies should have grown faster. Many commentators argue that structural rigidities, such as inflexible labour markets and high taxes are to blame. But there are more important reasons why the euro area economies have been looking less robust than America's over the past few years. First, America has enjoyed a much bigger monetary and fiscal stimulus than the euro area, where fiscal policy has been constrained by the straitjacket of the stability and growth pact. Second, although consumer borrowing has been more modest in the euro area, its corporate borrowing and investment binge in the late 1990s was bigger than in America and this is now cramping growth.

A hobbled hare

As a result, the world economy is still too reliant on America. Morgan Stanley calculates that America has accounted for over three-fifths of global growth since 1995. That is unsustainable. Most economists expect America's GDP to grow by 3.5-4% over the next few years. But that would imply that household saving remains low and consumer debts continue to grow at an alarming pace, storing up big problems for the future. The huge monetary and fiscal stimulus that has so far underpinned demand cannot be repeated. Moreover, suppose America's economy does rebound rapidly while other economies remain



sluggish. Then, America's already massive current-account deficit will widen further as more imports are sucked in, building up a new problem.

The world economy would be a lot healthier if Europe and Japan took some of the strain off America by pursuing looser monetary and fiscal policies and structural reforms to boost their growth. And America would be healthier if it grew more slowly than its potential for a few years

The current-account deficit is already as large as 5% of GDP, and history suggests that deficits of this size are usually followed by big declines in the currency. A dollar crash could curb growth in Europe and Japan as well as pushing up American bond yields-and mortgage rates-as foreigners demanded a bigger risk premium. Some argue that America's current-account deficit does not matter; it simply reflects foreign investors' desire to invest in American assets. But UBS estimates that more than half of America's current-account deficit in the three months to June was financed by foreign central banks' purchases of American

securities. Private investors' love affair with the dollar has already faded.

The world economy would be a lot healthier if Europe and Japan took some of the strain off America by pursuing looser monetary and fiscal policies and structural reforms to boost their growth. And America would be healthier if it grew

more slowly than its potential for a few years, so allowing households to bring their finances into better balance. Without a more even sharing of growth, both the hare and the tortoise risk being run over in a nasty accident

The Economist", August 16th, 2003

INFLATION AND ECONOMIC GROWTH - THE MACEDONIAN CASE

Taking the present conditions in the Macedonian economy as a starting point, the most appropriate fiscal and monetary mix for Macedonia would be the following: tight fiscal policy and somewhat more expansionary monetary policy (tight fiscal – loose monetary policy), of course, within the targeted annual inflation rate from 6 to 7%



Academician Taki Fiti is a full professor at the Faculty of Economics in Skopje. He was born on 7th November 1950 in Krusevo. He graduated from the University of Economics in 1973 in Skopje. He gained his M.A. title in 1980, and his Ph.D. title in 1983 at the University of Economics. He has participated in study tours in Italy, Germany and Poland. In the period 1996-1998, he was Minister of Finance of the Republic of Macedonia. Areas of scientific interest: economy, economic growth and development, government regulation, international capital movement, entrepreneurship. He is an author of hundred or so expert and scientific works published in the country and abroad. He is an author and co-author of 12 books, the more important being: "Transnational Companies and Capital Export", "Modern Capitalism", "Entrepreneurship and Entrepreneurial Management", "Economy - Micro-Economic Approach" and "Economy - Macro-Economic Approach". Taki Fiti has recently been elected full member of MANU (Macedonian Academy for Sciences and Arts).

1. Introduction

Commencement of the transition process caused serious economic problems and challenges for the ex-socialist countries. The difficult path of economic reforms presupposed parallel engagement in several complex spheres of economic activity: macroeconomic stabilization, price liberalization of goods, services, factors of production and foreign trade, enterprise and bank privatization and restructuring, redefining of government economic functions, etc. The radical steps undertaken in the economic reforms caused real "transition shock" at the beginning, the global effect of which was six-year negative growth rates of the gross domestic product (GDP) in the transition countries as a whole.

In the period after 1996, the transition countries as a whole started to realize positive GDP growth rates. Such tendency is being maintained up to present days - an exception is only 1998 when the average real GDP growth rate in the transition countries as a whole amounted to -1,0%. However, despite these facts, the cumulative effect of the relatively long period of negative GDP growth rates in the transition countries as a whole (1990 - 1995) led for the estimated level of real GDP at the end of 2001 to be lower than the one in 1989 in 20 out of 27 countries in transition.*

Given such situation, the complex issues regarding the economic growth remained to be the main focus of the modern macro-economic science. In the light of this, what is important and of current interest is the issue related to the inflation to real output ratio (real GDP growth) of the economies.

Average real growth rates of GDP in the transition countries

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP growth	-3.3	-8.1	-11	-6.9	-6.1	-0.2	0.1	2.3	-1.0	3.0	5.5	4.2	3.4

Source: EBRD (2002) Transition report 2002, London, p. 58.

* The views expressed are those of the author and do not necessarily represent those of the Ministry of Finance
1) Real GDP at the end of 2001, compared to real GDP at the end of 1989, was higher in the following: Czech Republic (106), Hungary (112), Poland (129), Slovakia (110), Slovenia (121), Albania (116) and Uzbekistan (105) - See: EBRD (2002), Transition Report, London, p.58.

2. High Price Stability² - important precondition for dynamic and sustainable growth

There is high level of agreement in the modern macro-economic science that the low, one-digit inflation rate is important precondition for dynamic and sustainable economic growth. Today, this rule can be confirmed by the voluminous statistical records of the above-mentioned in most of the developed countries, the developing countries and the countries in transition. However, the issue of optimal inflation rate (optimal from the point of view of correlation with the GDP growth rates), especially when it is a matter of the developing countries and the transition countries, is more complex that it seems at first sight. Actually, one-digit inflation rate assumes margins of inflation rate between 1% and 9% on annual basis.

Regarding the economically developed countries, the dilemmas about the optimal inflation rate are reduced to the question: whether to use zero inflation rate or 2% to 3% rate on annual basis? The debates about this issue are within the numerous economic concepts that explain the costs and the advantages of inflation. (Blanchard, Cohen 2002, p. 517-523). Samuelson pointed out that recent analyses for the USA have confirmed that targeting zero inflation would face the American economy with inefficient utilization of resources and would cause reduction of the output and the employment by 1% to 3%. (Samuelson & Nordhaus 2001, p. 691). Today, there is prevailing opinion in the theory for inflation rate from 2% to 3%, contrary to the advocating zero inflation rate, while in practice most of the central banks in the OECD member states also try to maintain inflation rate between 2% and 4%.

When it is a matter of the developing countries and the countries in transition in which, as a rule, un-utilized resources exist, in the economic science the opinion prevails that slightly higher inflation rates (from 5% to 10%), however, again in the one-digit inflation, are most optimal to reach dynamic and sustainable economic growth. The genesis for



such opinion originates ever since Keynesian economic theory. Keynes supported the stimulating of the aggregate demand both by fiscal and monetary policy measures and instruments. He even thought that the monetary expansion in conditions of existence of un-utilized resources simply cannot have strong influence over the general level of prices (inflation). "It is probable that the general price level will not rise a lot if the output grows as far as there are effectively un-utilized available resources of any kind" (Keynes 1997, p. 300). It is interesting that the neo-Keynesian economy, which in the period after 1990s experienced its second youth, reaffirm this thought of Keynes, claiming that aggregate demand management via fiscal and monetary policy measures and instruments is essential for every national economy. (Tobin 1998; Blanchard et Cohen 2002, p.587; Stiglitz 2000, p.567). Neo-Keynesian supporters strengthened the arguments for such viewpoint by the phenomenon of what is known as hysteresis. The term stands for situation when temporary (short-term and incidental) shocks

2) I would like to point out that the terms "price stability" and "macro-economic stability" are not identical and should not be confused. The term macroeconomic stability is broader and more complex - it means high price stability, sustainable domestic and external debt and ability to fast overcome recessions, i.e. expansions, within the cyclical development of the economy. In this sense, the macro-economic stability is precondition for sufficient employment and sustainable economic growth. (See: *The East Asian Miracle*, World Bank, 1993, p. 105).

of the global demand cause significant disruptions to the balance of the economy on the long run, i.e. have strong influence over the output and the employment on the long run. (Mankiw 2003, p.370-371). This concept in particular explains the reasons for the persistence of the unemployment in the modern economies (Phelps, 1993, p. 379). Today, many economists claim that twice higher natural unemployment rate in the EU member states (10%), opposed to the natural unemployment rate of 5% in the USA, is only consequence of the strong recession caused by the first shock in 1973/1974, as well as of the inadequate aggregate demand management.

Analyses made by the IMF experts (the analyses encompasses 136 countries) have confirmed that the developing countries with inflation level between 5% and 10% annually have proven to be able to realize and maintain high economic growth rates - from 5% to

10% on annual level (FMI 1996). Such conclusion is also confirmed in the latest IMF studies - they even show that the threshold from which the negative effect of the inflation begins to slow down GDP in the developing countries starts to increase form 11% to 12%. (Bogoev 2001, p. 32). Nobel Prize winner Stiglitz, with respect to this issue, concluded: "The most successful countries, like Poland, ignored the IMF pressure, maintaining inflation to around 20% in the critical years of adjustment. IMF star-pupils, like the Czech Republic, which reduced inflation to 2%, faced its economy with stagnation. There are some good reasons to believe that over-excessive dedication to the fight against inflation can discourage the economic growth . . ." (Stiglitz 2002, p. 156). Such stands on the ratio between the inflation and the economic growth in the developing countries and in the countries in transition are also supported by many other famous economists: the professors Stanley Fischer, Robert Baro, Dornbush, etc.

Inflation rates and GDP growth rates in selected countries in transition

Czech Republic

<i>Year</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
<i>GDP</i>	-1.2	-11.6	-0.5	0.1	2.2	5.9	4.3	-0.8	-1.0	0.5	3.3	3.3	2.5
<i>Inflation</i>	9.7	52.0	11.1	20.8	9.9	9.1	8.8	8.5	10.7	2.1	3.9	4.7	2.3

Hungary

<i>Year</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
<i>GDP</i>	-3.5	-11.9	-3.1	-0.6	2.9	1.5	1.3	4.6	4.9	4.2	5.2	3.8	4.0
<i>Inflation</i>	28.9	35.0	23.0	22.5	18.8	28.2	23.6	18.3	14.3	10.0	9.8	9.2	4.9

Poland

<i>Year</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
<i>GDP</i>	-11.6	-7.0	2.6	3.8	5.2	7.0	6.0	6.8	4.8	4.1	4.0	1.0	1.0
<i>Inflation</i>	586	70.3	43.0	35.3	32.2	27.8	19.9	14.9	11.8	7.3	10.1	5.5	2.1

Slovenia

<i>Year</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
<i>GDP</i>	-4.7	-8.9	-5.5	2.8	6.3	4.1	3.5	4.6	3.8	5.2	4.6	3.0	2.7
<i>Inflation</i>	550	117	207	32.9	21.0	13.5	9.9	8.4	7.9	6.1	8.9	8.4	7.4

Source: EBRD (2002) Transition report, London, p. 58 – 60.

Obviously, the two basic rules noted before, are also confirmed by the transition countries. Actually, on one hand, in the transition countries, the periods of very high inflation rates coincide with the negative growth rates of their gross domestic product, and on the other, the transition countries that maintained higher, but basically, one-digit inflation rates, have achieved higher rates of economic growth.

Given such situation, the complex issues regarding the economic growth remained to be the main focus of the modern macro-economic science. In the light of this, what is important and of current interest is the issue related to the inflation to real output ratio (real GDP growth) of the economies

The careful reader will certainly notice that the viewpoints for aggregate demand management and for the ratio between the inflation rate and the economic growth rate, which to a great extent originate from the neo-Keynesian camp, have not much in common with the old viewpoints on the utility of inflationary financing of the economic growth supporting high budget deficit and high two-digit inflation rates.

3. Managing the aggregate demand in the Macedonian economy

Situation diagnosis

Why did Macedonia, after the successful disinflationary efforts (1993 - 1995) maintain exceptionally low inflation rates, entering, during certain years, even in the zone of negative inflation, in case when the economic theory and practice of certain countries in transition confirm that too low inflation has a contractionary effect on the economic growth rates?

Macedonia is a country with obvious BOP difficulties due to which it is forced to cooperation and financial arrangements with the IMF and the World Bank. In the period from 1992 until today, the key elements of the fiscal and monetary policy were agreed with, even imposed by the IMF. Both policies were too restrictive

and followed by income policy - restriction on public sector salary increase. All this was happening when the Macedonian economy functioned far below its potential gross domestic product. The IMF imposed extremely low inflation rates since it is one of the key IMF policies, and in the case of Macedonia, also due to the concern that in a country that underwent exceptionally high inflation rate (almost 1,700% on annual level in 1992) the inflation expectations may easily be spurred. The restrictive budget policy in Macedonia was additionally intensified also with the budget deposit, which was every year allocated on a special account of the National Bank as "a form of supporting the monetary by fiscal policy", which actually served to buyout the surplus of foreign currency on the foreign exchange market without thereby increasing the primary money issue. Today Macedonia has low inflation, low budget deficit, exceptionally high interest rates, high unemployment and low economic growth rates. Macedonia has come to a condition, which to a certain extent coincides with the following statement of the Nobel Prize winner Stiglitz: "The IMF is especially concerned about inflation... The term "macro" points to the aggregate behavior, to both levels of growth, the unemployment and the inflation, and the country can have low inflation and high unemployment, but not growth". (Stiglitz 2002, p. 27). Further on, Stiglitz emphasizes that the inflation is not an end in itself and that the IMF often makes confusion regarding the objectives, forgetting what actually should concern us. "A country like Argentina can have "A" level (from the aspect of IMF ranking logic) (T.F.) even if it had two-digit unemployment rate in years, and the budget seems long balanced and the inflation under control". (Stiglitz 2002, p. 27).

There is high level of agreement in the modern macro-economic science that the low, one-digit inflation rate is important precondition for dynamic and sustainable economic growth. Today, this rule can be confirmed by the voluminous statistical records of the above-mentioned in most of the developed countries, the developing countries and the countries in transition

In the difficult negotiations with the IMF, the indications by the "client" countries that the stabilization policies implemented by the Fund are too restrictive, that in conditions of low economic activity they are often counterproductive since they dampen the growth, were almost ignored. The IMF's reply was that

those are the sacrifices and efforts that must be made now in order for the countries (on the long run) to have sustainable growth rates in the future. Of course, this position of the IMF is strongly supported by the macroeconomic concepts from neo-liberal provenience.

Analyses made by the IMF experts (the analyses encompasses 136 countries) have confirmed that the developing countries with inflation level between 5% and 10% annually have proven to be able to realize and maintain high economic growth rates - from 5% to 10% on annual level

All this shows that the Macedonian economy is very often in a typical "Keynesian trap", in the trap of very low aggregate demand, resulting in exceptionally low real output (small GDP growth) and enormous unemployment. The developments in the past two years in the Macedonian economy confirm this statement. According to the National Bank data (NBM, 2003, p. 24, 32, 42), the Macedonian economy reached 0.7% GDP growth at the end of the year, 1.8% of average annual inflation rate and higher unemployment rate compared to the previous year (31.9% in 2002, vis-a-vis 30.5% in 2001). The numbers and facts significantly deviate from the revised assessments by the IMF which envisaged (and allowed) 3.5% inflation rate and 2.5% real GDP growth. In the current year, the budget expenditure growth dynamics (of the expenditures allowed by and agreed with the IMF) is lower, whereby the competent government sectors failed to accelerate the process of activating the budget capital transfers which, in conditions of slowed-down economic activity is counterproductive policy.

Which inflation rate is good for the Macedonian economy?

The conditions in the Macedonian economy convince us that the time has come for the government, in the negotiations with the IMF and the World Bank, to open the issue on more flexible aggregate demand management, and it is to the end of increasing the real factors (output and employment) in the short run. At this moment, when the low inflation rates have been fact for Macedonia (during the past six or seven years), when the fiscal and monetary policy coordination runs rather well and when the fear from spurring the inflation expectations is significantly relativized, we believe that, with an appropriate fiscal and monetary mix, Macedonia should have inflation rates ranging

from 6 to 7%. Simultaneously, in the negotiations with the IMF, the issue should be opened regarding the tolerance of the Denar exchange rate deviations from the basic parity within the +/- 5% range in order for the economy to respond and to accommodate more easily to the shocks in the aggregate demand and the aggregate supply.

Of course, we are aware of the fact that the higher inflation rate cannot substitute for the significance of the real factors, primarily the importance of the enterprise restructuring, the initiative and quality of entrepreneurial and managerial structures, preparation of quality investment projects etc. But, one cannot neglect the fact that certain stimulation of the aggregate demand can contribute to increasing of the optimism in the economy, of the investment incentive, of the expectations for higher profits (this is not unrealistic since in the short run, the prices of the raw materials and the salaries are rigid) and of the output and employment growth. (McConnell & Brue 1996, p. 244).

Which fiscal and monetary mix is the most appropriate for Macedonia?

Macedonia should be especially wary in the choice of the fiscal and monetary mix to be implemented in the future, and regarding the real conditions and tendencies in the economy and regarding the qualitatively various effects of the basic stabilization policies - the fiscal and the monetary policies in the short and long run.

In order to explain the various effects from the stimulation of the economy with the fiscal, i.e. monetary policy measures, we will remind that the aggregate demand (AD) equals the household demand for final products and services (C), demand by the enterprises (I), by the government (G) and by foreign trade (X - M):

$$AD = C + I + G + (X - M)$$

The stimulation of the economy via expansionary fiscal policy (tax cuts and public expenditure increase) would increase the aggregate demand via increasing the consumption by the households (C) and the government (G). However, the fiscal expansion, especially in the long run, leads to budget deficit increase, real interest rate increase, investment decline (I) and export decline due to domestic currency exchange rate appreciation. The expansionary monetary policy in the short run leads to budget increase of the aggregate demand and the real factors (output and employment) via decrease of the real interest rates, increase of the investments in the

enterprise sector and increase of the export due to domestic currency exchange rate depreciation. Of course, this would be the “pure” effects of the stabilization policies (the fiscal and the monetary policy) if they are observed separately. But, one should not forget that when managing the aggregate demand, the fiscal and the monetary policy are substitutes - the National Bank always responds to the expansionary budget policy with monetary restrictions, and vice versa, to the firm, “tough” budget policy, the central bank always responds with relaxation of the “monetary brakes”. In other words, when managing the aggregate demand in the short run, there is always a mix of stabilization policies (fiscal and monetary mix) corresponding to the stage of economic cycle and the effects the government tries to achieve. (Samuelson & Nordhaus 2001, p. 740 –747; Stiglitz & Walsh 2002, p. 767 –777).

Taking the present conditions in the Macedonian economy as a starting point (the economy functions below its potential, the unemployment reaches enormous levels, the interest rates are kept at high level, investments are low, domestic and external debt of the country are relatively high, the export is maintained at low level) we believe that the most appropriate fiscal and monetary mix for Macedonia would be the following: **tight fiscal policy and somewhat more expansionary monetary policy (tight fiscal – loose monetary policy), of course, within the targeted annual inflation rate from 6 to 7%.**

More significant fiscal expansion in the current condition of the Macedonian economy is not advisable due to the adverse effects on the interest rate, the

investments and the export being weak points of our economy, but also due to the conditions with the domestic and the external debt of the country. The fiscal policy problems are mainly focused at the exceptionally poor budget expenditure structure (large share for salaries and social transfers, small share for capital investments). Even within the budget expenditures agreed with the IMF, it would be good to have larger share of the budget investments in large infrastructure projects or in education at the expense of the salaries, which for example, assumes acceleration of reforms in the area of public administration. One should take into account that the budget expansion, via the budget capital transfers is always better option than the budget expansion via increase of other categories of public expenditures. (Stiglitz & Walsh 2002, p.769 –770).

The latest IMF studies shows that the threshold from which the negative effect of the inflation begins to slow down GDP in the developing countries starts to increase from 11% to 12%

Vice versa, looser monetary policy would have positive effects precisely on the interest rates, the credit policy, the investments and export - what the Macedonian economy now especially needs. We can reiterate that the monetary policy cannot solve the development problems, but it can create more favorable entrepreneurial environment and stimulate investments in the economy - a fact not to be taken lightly.

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- 3) In the modern macro-economic literature, the weaknesses of the fiscal discretionary policy, i.e. the advantages of the monetary policy are increasingly emphasized. The weaknesses of the fiscal discretionary policy arise from the long time lag (delay related to the diagnose of the situation in the economy, proposal of changes in the fiscal policy, their adoption by the Parliament and concrete application of the changed policies), from the fact that the tax increase, public expenditure reduction is difficult to be implemented, etc. The discussion regarding the efficiency, i.e. inefficiency of discretionary stabilization policies is old, but what is new is the fact that today, the advantages of the monetary compared to the fiscal policy are tested and verified by applying complex mathematical macro-economic models (Taylor, 2000, p. 27-30).

FINANCIAL SERVICES IN CONDITIONS OF GLOBALIZATION AND REGULATION

In many debates, economic globalization is shown to be convergent and divergent force, i.e. a process leading to unification of the world economy, but also deepening the gap between developed and undeveloped parts of the world



Prof. Risto Gogovski Ph.D.

was born on 6 March 1961 in the village of Vevcani, Struga municipality. He graduated at the Faculty of Economics in Skopje in 1983, section *economic policy and development*. He obtained his MA in 1989, with monetary and credit policy being his major subject. He obtained his Ph.D. diploma in 1994 from the Faculty of Economics on the subject: the central banks in the small open economies. Since 1 December 1989 he has worked as a full time assistant at the Faculty of Tourism and Catering in Ohrid, for the subjects Political Economy and International Economic Relations. In 1995 he was elected a lecturer for the subjects International Payment Operations and International Economic Relations and he still holds this position. Starting from 1997, he has been additionally engaged as a lecturer of the subject Financial management at the Faculty of Technical Engineering in Bitola. In 1999 he was elected a professor at the Faculty of Tourism and Catering in Ohrid. At the moment he is a part time professor at the Faculty of Tourism and Catering in Ohrid.

1. Meaning and essence of the globalization process

One of the most important features of word trade and world markets at the end of XX and the beginning of XXI century is the comprehensive globalization process, being a result of the economic and technological development.

Globalization of world trade and world markets includes all the countries and regions in the world. The most developed countries and regions are especially involved in this process, but developing countries are also joining in by using various cooperation and integration processes.

Given the opinions of economists, globalization may be shown as a process leading to better economic integration of peoples (national economies). The progress from globalization is usually shown as an increase of the share of foreign trade in GDP, and since recently, as an increase of investments in the non-domicile country.

In many debates, economic globalization is shown to be convergent and divergent force, i.e. a process leading to unification of the world economy, but also deepening the gap between developed and undeveloped parts of the world.

What are the main facts and obvious manifestations of globalization, taken on complex and multidimensional level? On one hand, facts (figures) show general positive trends in the economic growth rates, both for developed and undeveloped countries. Talking about facts, we can conclude that in the past 50 years, trade was the main engine of economic growth, as the global trade expansion enabled higher global GDP growth (in the 1990s, world trade had a 6.8% annual growth rate, which is double the world production growth of 3.2%; developing countries saw their trade increasing by 8.3%).¹

World economy globalization is manifested through three significant factors:

- *Increasing the scope, mobility and integration of world markets and capital;*
- *Removing national borders by liberalizing regulations and eliminating other economic barriers; and*
- *Internationalizing capital and production.*

These three factors accelerate globalization of the world economy, underlining the two dimensions of globalization - convergence and divergence, and the growth and integration of world capital markets confirm its global characteristics.

* The views expressed are those of the author and do not necessarily repress those of the Ministry of Finance

1) Speech by IMF Director E. Aninat, "Adjusting to a Globalized Economy", Forums, San Diego La Jolla, California, 13 October 2000.

The movement of capital towards cheap resources, especially towards cheap labor, is the mechanism of simultaneous realization of convergence and divergence processes of the world economy. Convergence is manifested through the decreasing trend in absolute figures of the poorest people in the world, and by expanding the scope of the global economy. For example, in 1993, the world was worried about the lives of 1.3 billion people who lived with less than US\$ 1 per day, and in 2001, absolute poverty covered 1.2 billion people of the total world population. This means that “the lucky ones”, i.e. those 120 million people escaped extreme poverty thanks to the foreign capital to which they sold

Price of labor in production

Country	Price of labor (US\$/hour)
Germany	31.88
Switzerland	29.28
Belgium	26.88
Austria	25.33
Finland	24.78
Norway	24.38
Denmark	24.19
The Netherlands	24.18
Japan	23.66
Sweden	21.36
France	19.34
USA	17.20
Italy	16.48
Canada	16.03
Australia	14.40
Great Britain	13.17
Spain	12.70
Korea	7.40
Singapore	7.28
Taiwan	5.82
Hong Kong	4.82
Malaysia	1.59
Philippines	0.71
Thailand	0.46
Indonesia	0.30
China	0.25

Source: Globalisation, Growth and Poverty, World Bank Investment Research Report, Oxford University Press, 2001

2) Australia, Canada, New Zealand and USA.

their labor for a few cents per hour, and to the foreign aid directed towards the undeveloped world.

The second feature of globalization - divergence - is manifested through the deepening gap between

Relative GDP per capita as percentage of the leading nation, USA

	1900	1913	1950	1973	2000
Western Europe	67.3	69.8	53.5	74.0	74.1
Territories under European auspices ²	87.6	98.7	96.7	96.8	96.5
Southeast Europe (Turkey included)	34.2	33.0	21.1	36.2	36.1
Eastern Europe	29.9	31.9	27.5	34.6	15.5
USSR	26.5	28.0	29.6	36.5	16.6
Latin America	23.4	27.1	26.0	26.4	20.1
Asia (China and Japan excluded)	14.8	14.0	8.0	10.8	15.9
Africa	10.9	10.8	8.7	7.9	4.8
World	27.5	29.0	22.3	24.8	21.9

Source: World Economic Outlook, May 2000.

the developed and undeveloped world. Even developing countries are divided into “more” and “less” globalized economies.

What is the interest of foreign capital to invest in the financial services industry, within the globalization process? No matter how absurd it is, but unlike the “competitiveness” of undeveloped countries in production, thanks to the cheap labor, their financial resources are expensive, i.e. they bear high interest rates and interest rate margins, which makes investments in financial industry very profitable.

The poor quality of bank portfolio and the potential danger of financial losses due to high investment risks, as well as the inefficient and poor competition in banking systems of transition countries cause the interest rate margins to increase. Despite the share of foreign capital in banking systems and certain improvements in their performance, interest rate margins remain to be relatively high in relation to the home countries.

Interest rate margins in transition economies

	1995	1996	1997	1998	1999
Armenia	48.7	34.2	28.2	23.6	11.5
Belarus	74.2	30.0	16.2	12.7	27.2
Bulgaria	23.0	48.8	37.1	10.3	9.6
Croatia	14.7	16.9	11.2	11.1	10.6
Czech Republic	5.8	5.8	5.5	4.7	4.2
Estonia	7.2	7.6	13.6	8.6	4.5
Hunrary	6.5	5.1	3.2	0.0	0.0
Latvia	19.8	14.1	9.4	9.0	9.2
Lithuania	7.0	7.6	6.5	6.2	8.2
Moldavia	-	11.2	9.9	9.2	8.0
Poland	6.7	6.1	5.6	6.3	-
Russia	218.4	91.8	15.3	24.7	-
Slovakia	7.8	4.6	5.2	4.9	6.7
Slovenia	8.0	7.5	6.8	5.6	5.1
Ukraine	52.4	46.3	30.9	32.3	34.3
Macedonia	14.0	11.0	9.8	7.5	9.0
Oth.count.avera.	35.7	22.5	13.6	11.3	10.7
USA	2.9	2.9	2.8	2.9	2.7
Japan	2.5	2.4	2.2	2.1	2.0
Euro zone	-	4.8	4.2	3.5	3.2
Great Britain	2.6	2.9	3.0	2.7	-
Switzerland	4.2	3.6	3.5	3.4	2.7
Dev.count.averag	3.0	3.3	3.1	2.9	2.6

Source: International Financial Statistics, IMF, various publications

2. Regulation of financial services industry

Convergence strongly influences the financial services sector. Functionally speaking, financial services sector is directed at cooperation among banks, insurance companies and investment institutions. The process of convergence also equalizes the operations of supervisory authorities in the relevant financial sectors, thus becoming closer and mutual; however, this does not mean they should merge. Business in the financial services branch remains to be fundamentally different in separate sectors. Therefore, the solution is to integrate the supervisory bodies within the separate financial sectors, enabling their coordination and cooperation on national and international level.

Financial convergence is taken, according to the OECD recommendations, as general term for all types of relations of financial suppliers and consumers for all types of financial products and services. Convergence takes place on several levels, including the levels of: 1) products, 2) financing, 3) investment, 4) distribution of the financial product, 5) institutional level, and 6) regulatory level.³

At a product level, we can see that banks and insurance companies offer increasing number of competitive products, and it is a matter of time when the differences in products from banking and insurance sectors will disappear. For example, even life insurance in the household sector is turning into an instrument for accumulation of savings, just what banks do with deposits.

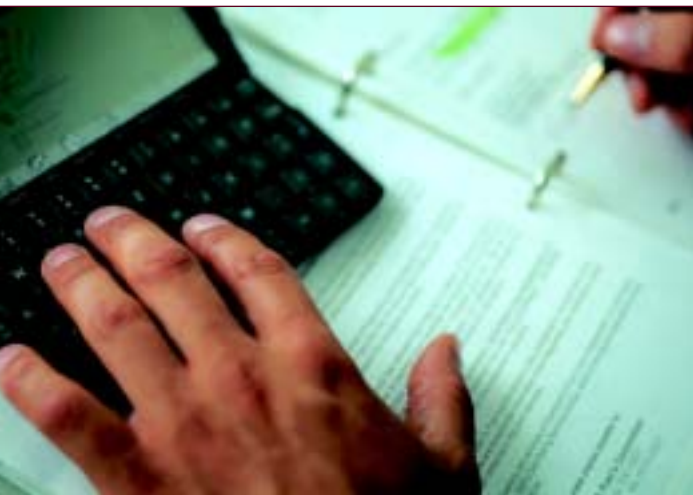
At a financial level, it can be easily recognized that financial markets provide room that banks and insurance companies use to expand their activities. They primarily provide better flexibility and liquidity for the core businesses of banks and insurance companies. Financial markets enable development of securitization of bank credits, but also of insurance policies by helping them to maintain liquidity.

At an investment level, financial markets and asset management are gaining strategic importance, both for the banks and insurance companies. Thus,

World economy globalization is manifested through three significant factors: increasing the scope, mobility and integration of world markets and capital; removing national borders by liberalizing regulations and eliminating other economic barriers; and internationalizing capital and production

insurance companies have recently developed very active investment strategies, based on the optimal portfolio strategy, unlike in the past, when they invested their financial reserves exclusively in government bonds. Such new behavior was determined by the need for supporting the financial risk by the assets from the insurance companies

3) Claude Bebear, "Remarks on the Development of Global Regulation for Financial Services Industries and its Impact on Insurance", The Geneva Papers on Risk in Insurance, Vol. 27, No. 1 (January 2002), p. 45-65.



balance sheets. Investment of larger share of assets in equity enables risk sharing and higher return from such assets. Hence, behavior of insurance companies is becoming more similar to the one by the banks in following the aggregate risk against financial market fluctuations.

At a distribution level, banking networks are increasingly used as distribution channels for products of insurance companies. For example, 60% of distribution of life insurance and 8% of non-life insurance in France goes through banks.

At institutional level, the convergence is well known and obvious to the public. In the recent years, we could see appearance of wide financial conglomerates created from different types of financial institutions: banks, insurance companies and investment institutions.

At regulatory level, regulators and supervisors face many similar or identical questions and answers in insurance, banking and investment activities. They want to protect financial service beneficiaries in these three sectors by setting forth similar supervision standards for the companies, independently of their field of activities. Most often, standards refer to: a) complete information and transparency of the products marketed by the companies; b) risk diversification to the end of reducing concentration of risk; c) covering assets with liabilities etc.

However, despite the abovementioned convergence between financial services, business remains to be different in principle, especially between banks and insurance companies.

The first difference is that banks mainly face financial risk (market, liquidity and credit risks), while insurance companies face wider real risk (insured life, health,

property, private and commercial risk) joined by financial risk (shown through short time difference between premium payment and the incurrence of loss). Consequently, insurance is specific due to the fact that risk is concentrating on the liabilities side of the balance sheet, while risk in banks is concentrating on the assets side of the balance sheet.

The second difference is the fact that banks, unlike insurance companies, create economic liquidity from their assets. Money used for lending primarily comes from deposits. In other words, funds invested by economic agents are the basis needed for extending loans to such economic agents or their debtors, i.e. this is monetary creation. Insurance companies do not create money, they just transfer existing money, provided by the insurance policy holders. Liabilities of insurers as paid premiums to insurance policy holders are used to cover possible losses by investing them diversely.

No matter how absurd it is, but unlike the "competitiveness" of undeveloped countries in production, thanks to the cheap labor, their financial resources are expensive, i.e. they bear high interest rates and interest rate margins, which makes investments in financial industry very profitable

Third difference is that the insurance sector shows to be weaker source of systemic risk (or risk deriving from contagious liquidity risk) than the banking sector due to several reasons. First, liquidity injected by the insurers in the economic system is a transfer resulting from previously created value by part of the insurance policy holders, unlike the liquidity pumped in the economy by the banks, which is not part of previously created value. Consequently, market failure of the insurance company may only potentially impact the insurance policy holders, whereas bank insolvency may impact many individuals who will follow the panic, and not only the clients. Depositors in banks can withdraw their deposits any time they want, or after expiry of insurance, without having to pay any penalties, unlike the insurance policy holders, whose insurance contract cancellation is more difficult and expensive.

The abovementioned leads us to the conclusion that regulation in conditions of globalization is a complex issue. Today there are three possible solutions: 1) the one promoted by the French authorities for having different regulatory bodies by sectors, but closely related so they could learn and benefit from their experience; 2) the one promoted by the European Commission for establishing a new supervisory level based on close and reliable cooperation between supervisors; 3) the one supported by Great Britain, Germany, Holland, Switzerland, USA and Japan, for establishing single regulatory body competent for the three financial sectors.

Regarding the transition countries, globalization affects the financial system in direction already described above. However there are different levels of complexity in the structure, both in relation to the developed countries and within the group of transition economies. This is also valid for the regulation of the financial system elements.

The establishment of various types of non-banking financial institutions increases the level of financial intermediation in the national economies of these countries. The creation of more complex structures of the financial systems in transition countries imposes the need for finding new approach in practicing the regulatory function, i.e. introduction of consolidated supervision. In fact, there is an increasing trend of establishing bank groups and financial holding companies where non-banking financial institutions also take part. Independent supervision by separate regulatory bodies (for example capital market supervision, insurance company supervision, investment and pension fund supervision, bank supervision) within their scope of responsibilities can often complicate things. Hence, the establishment of good cooperation between separate regulatory bodies, primarily based on information sharing and joint supervision controls, is a must for the efficient performance of regulatory function, i.e. regulations on consolidated supervision should be adopted.

Depending on the position of separate regulatory bodies, we can divide transition countries into two groups⁴: 1) bank supervision is positioned separately within the Central Banks (Slovakia, Poland, Lithuania, Czech Republic, Bulgaria, Croatia, Slovenia and Macedonia); 2) there is an integrated financial supervision covering all segments of the financial system (Latvia, Estonia, Hungary).

Financial institutions in selected transition countries

Type of institution	Czech Repub.	Slovenia	Hungary	Macedonia	Bulgaria
Banks	38	21	42	21	34
Leasing companies	276	-	26	-	-
Credit institutions	135	45	38	-	-
Investment funds	161	69	-	-	3
Pension funds	19	-	22	-	27
Insurance companies	43	13	26	4	31
Other (farm credit unions, brokerage houses, financial companies, management companies, mutual funds, saving, houses)	-	41	77	27	102

Source: Annual supervision reports by separate countries

3. Globalization of financial markets and international banking

The process of money dematerialization initiated the expansion of banking and financial services. Money became “I own you” promise, thus making the banks active participants in the secondary issuance of

4) Milica Arnaudova, “Comparative Analysis of the Success of Reforms in Banking Systems of Transition Countries”, Economic Surveys no. IV/2002, NBRM, p. 36.

money, instead the role they played as intermediaries in the issuance of primary money⁵. At the same time, principles of bank management (safety, liquidity and profitability) that contradict to each other and need to be optimized, also gained high importance.

In mid 1900s, new tendency of denationalization of money occurred, i.e. inclination to isolate the money from sovereignty of individual countries, thus accepting one universal type of dematerialized money as a global legal tender and means of accounting. The goal is to eliminate the state monopoly in money creation, thus avoiding national limitations, bearers and regulations in creating bank money (financial transactions). Such tendency is caused by the accelerated globalization of financial markets by applying more modern IT in performing financial (and international) transactions.

At the beginning, international banking activities followed the relations in foreign trade, i.e. they occurred as specific business operations of specialized parts of commercial banks both affected by the monetary and foreign exchange policy, banking and crediting system, and by international financial and economic relations. Despite the fact that international bank activities were in function of developing international economic relations, they were also in function of relaxing rigid legal limitations that existed in some banking systems. As an example, we can mention the loosening of the application of the anticipative income theory⁶ in 1980s, as a result of the extreme international liquidity. At that time diligence of banks declined when analyzing credit requests, which resulted in international debt crisis. This crisis initiated international activities for standardization of banking (and financial) operations by establishing international standards on solvency and capital adequacy, the essence of which is the level of bank capital and risk in certain types of assets.

Thus, from the moment when denationalized money occurred, international financial (banking) transactions stopped having the sole function of improving the international economic relations, but they became

increasingly autonomous. International financial transactions multiply exceed the volume and growth rates of international GDP and foreign trade.

Given the fact that international financial activities are relatively new phenomenon, dilemma remains whether it is strictly procedural activity (business) without any room for academic discussions. In favor of this understanding is the attempt to incorporate financial transactions in the WTO regulation as trade of services.

However, there are several theoretical concepts about the occurrence and spread of international financial (banking) activities: concept based on the theory on economic organizations; concept based on the theory on foreign trade; theory on expansion of international banking; application of conventional theory on foreign direct investments as theoretical basis for international banking; theory on a multinational enterprise as theoretical basis for the theory on multinational banking⁷.

Concept based on the theory on economic organizations. This concept is based on the estimation of market structure of banks in various countries by comparing the margin (margins) between borrowing

The creation of more complex structures of the financial systems in transition countries imposes the need for finding new approach in practicing the regulatory function, i.e. introduction of consolidated supervision

and lending interest rates. Relative bank efficiency in different countries is determined by comparing the difference in interest rates. The level of profit and number of banks are in inverse proportional relation, which means that banks located in countries with high concentration rates would be more profitable than the ones in countries with lower concentration. Interest

5) G. Smith "Money and Banking, Addison-Wesley Publishing Company, New York, 1982.

6) This theory is based on the fact that bank is a financial institution that works commercially with other people's money (sectors with financial surplus) creating assets at those entities that have financial deficits, on the basis of trust. In one word, bank's crediting activity is limited by the credit potential and the solvency of debtors for repaying the loan, as well as by the future revenues and incomes.

7) For more information see: R. Gogoski, World Trade Organization, Financial Services and International Banking, Economic Surveys no. 1/2003, NBRM, Skopje.

margin would be higher in countries with higher level of concentration.⁸

*Concept based on the theory on foreign trade.*⁹ This approach estimates the comparative banking costs in different countries and trade barriers. It recognizes the empirical fact for the increasing importance of services, including financial (banking) services, both in national and foreign trade. Thereby, starting point is that the basic principles of the theory on foreign trade can also apply to trade of banking (financial) services, thus trying to change the stand that theory on foreign trade¹⁰ applies exclusively to foreign trade of goods. The initial focus of these theories exclusively on trade of goods resulted from the fact that services at that time were not so important as they are today, i.e. data on services was inadequate and uncertain. During 1980s, Michael Porter¹¹ formulated “new” theory on foreign trade, where he especially dealt with services and the applicability of the new theory on trade with services.

Development, diversification and innovations in banking operations were the key elements for determining the development stages of banking systems, i.e. world banking. In that sense, world banking in financially developed countries evolved through the following stages¹²:

- 1) *Classical - traditional banking, i.e. conservative service-oriented banking according to banking operations;*
- 2) *Monetary banking, i.e. industrial production banking according to banking operations;*
- 3) *Electronic - engineering banking, i.e. planetary banking according to banking operations.*

Conservative service-oriented banking lasted for over 100 years, whereby it lost its dominance in 1960s. Industrial production banking dominated from 1960s and lasted until early 1990s. Planetary banking started in 1990. In only few years it become dominant in

financial and banking sector in the world, giving a new approach to the banking operations.

The essence of market characteristics of planetary banking is the “revolutionary” changes in relation to conservative and industrial banking. These changes resulted from: *increasing competition and struggle for survival on the financial markets, which were subjected to constant deregulation and liberalization of national legislations in 1990s; IT revolution that enabled replacement of production of banking products producing market-segmented banking process¹³; creation of transnational (planetary) banks that mainly operate beyond national borders.*

World banking according to characteristics of banking operations

1 Development stages of commercial banking		
Traditional banking (1860-1960)	Industrial banking (1960-1990)	Planetary banking (od 1990)
2 Sistem features		
-conservative -service-oriented -market-oriented	-contemporary -production-oriented -segmented	-sophisticated -processor-based -global
3 Functional features		
-crediting and depository -local -standard	-capital-based -national -engineering	-hedging- derivatives -international -reengineering
4 Organisational features		
-concentration of power -deontrecation of information -regulation -uncompetitive	-division of power -information segmentation -deregulation -kmpetitive	-deconcentration of power -concentration of informtion -autonomy -anarchical- controlled
5 Tehnological features		
-specilized -"take it or leave it" -branch-based -pencil and paper	-universal -turn-key -electronic -IT	-programmed -"do it your self" -domestic -remote

8) Y. S. Park, J. Zwick, "International Banking in Theory and Practice", Addison-Wesley Publishing Company, Massachusetts, 1985, p. 21
9) R. Aliber, "Towards a Theory of International Banking", Federal Reserve Bank of San Francisco, Economic Review, Spring 1976.
10) Ricardo's Theory on Comparative Advantages from XIX century, HOS model and Standard Model of Foreign Trade. For more information, see: Risto Gogoski. "Strategy in International Economic Relations", FTU Ohrid, 2003.
11) M. E. Porter, "The Competitive Advantage of Nation", The Free Pres (A Division of MacMillan, Inc.) New York 1990.
12) Zivota Ristic, World Banking - Yesterday, Today and Tomorrow, Scholar Gathering "Contemporary Review in the Field of Monetary and Fiscal Finances", Faculty of Economics, Skopje, 1996, p. 163.

The abovementioned leads us to the conclusion that basic feature of modern development of banking and other financial relations in the international framework is globalization of international financial markets and banking. This process can be shown through the following facts:

- 1) *Many banks from various countries participate on the world financial market. Thereby, banks from OECD have the dominant position, dominant subgroup in which comprise banks from the ten most developed countries;*
- 2) *Volume of financial transactions on the international financial market exceeded the volume of world trade and balance of payment deficits. According to some analyses, over 50% of financial transactions are executed independently of trade flows, i.e. they are autonomous. This was not the case in the past, when banking operations used to be related to trade transactions between the countries;*
- 3) *Replacement of and modifications to traditional banking methods and instruments with new techniques and procedures (financial innovations). We witness a securitization process, whereby the vast spread of financial instruments initiate process of direct connection of depositors and debtors on an international level via the banks. This is enhanced by the higher level of liberalization enabling free movement of capital in many countries;*
- 4) *Computer and information technology enable prompt and permanent access to financial markets on an international level. Today banks operate 24 hours a day on the financial markets. Information on credit resources, creditworthiness and quality of financial instruments is easily and promptly accessed, which is very important for lowering the risks in international financial operations;*
- 5) *Banks from different countries link up their capital. Many banks from developed*

countries have invested funds in mutual balances with other banks, and the percentage of inter-bank deposits and other resources deposited on special accounts also grows. Similarly regarding investments, group of countries make up joint investments in form of consortia and syndicated loans. Informal world banking association has been established since the occurrence of debt crisis, which stands behind creditors' interests;

- 6) *There is a high level of competitiveness and efficiency on the financial market, which is shown through the harmonized setting of interest rates, narrowing of interest margin and lowering the costs of financial operations. Competency, diligence and subtle supervision are very important elements in the performance of modern financial operations. On an international level, there is a need for institutionalizing standards for smooth and stabile operations of banks, that would act as prerequisites for putting together and preserving stabile international financial system, with limited risks and single competition conditions.*

Today banks operate 24 hours a day on the financial markets. Information on credit resources, creditworthiness and quality of financial instruments is easily and promptly accessed, which is very important for lowering the risks in international financial operations

4. Conclusion

In the process of redefining roles, the real power of enterprises reduces the power of national states. The same counts for enterprises from the financial services industry, including the insurance companies. We are talking about risk management of the insurance company when trading its financial product, management, driven by microeconomic goals - risk effect on the profit of the insurance company.

Other component is the financial industry regulation, where we talk about risk management by the

government regulatory bodies, driven by macro-economic goals - monetary stability, development and growth.

Competency, diligence and subtle supervision are very important elements in the performance of modern financial operations.

The abovementioned leads us to the conclusion that regulation in conditions of globalization is

a complex issue. Today, there are three possible solutions: 1) the one promoted by the French authorities for having different regulatory bodies by sectors, but closely related so they could learn and benefit from their experience; 2) the one promoted by the European Commission for establishing a new supervisory level based on close and reliable cooperation between supervisors; 3) the one supported by Great Britain, Germany, Holland, Switzerland, USA and Japan, for establishing single regulatory body competent for the three financial sectors.

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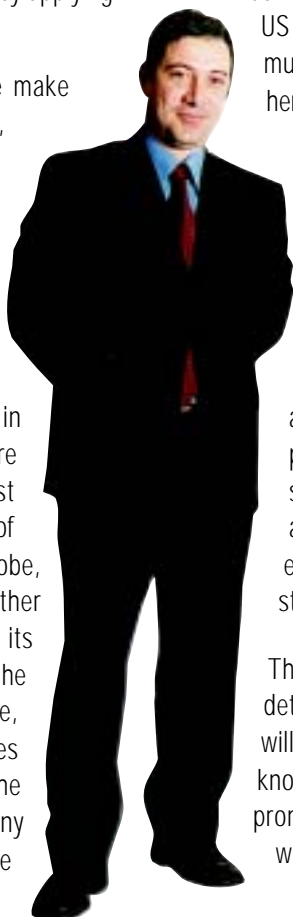
1. A. Harrison, E. Dalkiran, E. Elsey "International Business - Global Competition from a European Perspective", Oxford university press, 2000.
2. C. Bebear, "Remarks on the Development of Global Regulation for Financial Services Industries and its Impact on Insurance", The Geneva Papers on Risk and Insurance, Vol. 27. No. 1, January 2002
3. R. Gogoski, "Strategy in International Economic Relations", FTU Ohrid, 2003.
4. Milica Arnaudova, "Comparative Analysis of the Success of Reforms in Banking Systems of Transition Countries", Economic Surveys no. IV/2002, NBRM.
5. P. Pearson, "The European Commission's Action Plan for Financial Services", The Geneva Papers on Risk and Insurance, Vol. 26, No. 3 (July 2001)
6. Y. S. Park, J. Zwick, "International Banking in Theory and Practice", Addison-Wesley Publishing Company, Massachusetts, 1985.

OPEN SOURCE SOFTWARE, EXPERIENCE, TRENDS AND USAGE

Although the world trends and practice make their way in our country much later, ultimately, they arrive. The approach, which slowly but surely finds its place under the sun, is the utilization of the Open Source software (call it free software, the utilization and copying of which does not require payment for license and the source code of which you have for any modification, check and security)

It is hard to imagine any organization today not having some form of information system, composed of at least one computer and the software necessary for performing basic tasks. The computers and the remaining hardware are only one side of the medal. The most complex part is the software, for the usage of which the necessary optimal hardware is generally procured. This means that there is no reverse situation. Precisely the software should resolve the issues you want to overcome by applying information technology.

Although the world trends and practice make their way in our country much later, ultimately, they arrive. Until recently you could have bought here only the so-called proprietary software, i.e. software for the utilization of which you pay for a license without having any insight in the software source code (regardless whether it is an application, system or other solution). This is the approach in using the solutions of the largest software companies (I will refer to only the most popular ones in our country, regardless of their size) Microsoft, Macromedia, Adobe, Corel, Oracle, Borland etc. The other approach, which slowly but surely finds its place under the sun, is the utilization of the Open Source software (call it free software, the utilization and copying of which does not require payment for license and the source code of which you have for any modification, check and security). The creation of Open Source software does



not mean it is based on engaging human and other resources without compensation, misleading people who think that the free solution is a non-quality one. This type of software supports itself via sponsorships and charging for support when implementing and projecting Open Source-based solutions. The large commercial international companies such as IBM have invested several billion US dollars in the Linux¹ community. HP, Oracle, SUN and other companies follow its example.

Why do I speak of such software? A general world trend (not fashion, but economic and functional trend, and also a market demand) is the utilization of the Open Source software in almost all spheres of the private sector (all three segments, small, medium-size and large enterprises), the education and of course, the state administration.

Those readers not having detailed knowledge of this issue will probably be interested to know what is the software being promoted as Open Source and what are its most important representatives. It is difficult

Miroslav Jovanovic is a Head of the Information Technology Department. Born in 1968, he graduated from the Faculty of Electronics in Nis, Yugoslavia, in the group "Computer Technique and Information Technology". He has attended several seminars, training and other courses in the field of information technology and economics in the country and abroad. He has been working in the Ministry of Finance since the beginning of 2000. Previously he worked in the Ministry of Trade. He is fluent in English.

* The views expressed are those of the author and do not necessarily represent those of the Ministry of Finance
1) <http://zdnet.com.com/2100-11-526321.html?legacy=zdn>

to formulate the answer, but the number of projects classified as Open Source is enormous, meaning you can find exceptionally high-quality, good-, medium- and poor-quality software solutions. The situation is the same with the proprietary software, so there is no difference in this segment. Of course, the most famous representative of the Open Source software is the Linux. This operating system is even somewhat a cult in the software industry. You can read a little bit more on it later. Other famous representatives are the following:

- *Apache (the most famous web server and at the same time the most utilized);*
- *Sendmail, Postfix, Qmail (e-mail servers);*
- *Samba (file and printer server);*
- *Mozilla (web browser);*
- *PHP (server scripting web language);*
- *MySQL, PostGres, Firebird (databases);*
- *BIND (DNS server);*
- *Squid (Proxy server);*
- *Open Office (office software);*
- *GNOME, KDE*
- *SSH,*
- *GIMP (Linux version of Photo Shop), Diagrams, Project Management.*

Of course, this is only small part of the most famous representatives of Open Office software. The number of high-quality software solutions is far higher, especially to the ones knowledgeable of the issue.

When it is a matter of utilizing the Open Source software in the state administration, one should mention that it is not a trend of the economically less advanced countries; on the contrary, most of the

economically advanced countries use it in their state administration. This is a matter of a move having more long-term implications and is directed towards preventing the dependency on one producer and the safety issues, always being of strategic interest. The global situation is quite interesting and it illustrates the abovementioned that the economically advanced countries and groupings decide to accept this concept.

The state administrations of large number of countries become increasingly oriented towards utilizing Open Source software, so 60 countries throughout the world are considering or have already adopted legal regulation encouraging or taking into account the utilization of Open Source software in their administration.

Typical example is Brazil², where the recommendation to use Open Source software in all government agencies and companies is to be adopted. Peru and Venezuela have gone a little bit further than Brazil. Argentina also belongs into this group. In Mexico, these developments have started somewhat earlier than in the other countries.

North America, i.e. the United States also use this concept, at first glance maybe not with such an enthusiasm, but it still tentatively appears in certain number of institutions. The fact that the Linux finds its place even in the sensitive sphere, that being the US security agencies and institutions, is especially intriguing. Special curiosity is that the renown National Security Agency (NSA)³ issues a free version of Security-Enhanced Linux (there will probably be various comments and understanding of security regarding this), which, together with the source code, can be freely downloaded from their website. HP produced the fastest Linux supercomputer last year for the needs of the US Department of Energy (DoE)⁴. Then, there is also the renown NASA⁵ with its FlightLinux⁶, but also the Department of Defence (DoD)⁷, which, according to research⁸ (version 1.2.04, updated in January 2003), identified around 115 FLOSS⁹ applications and 251 examples of their usage

2) *Economist* November 9, 2003 – printed and electronic issue

3) <http://www.nsa.gov/selinux/>

4) <http://www.vnuet.com/News/1130996>

5) <http://www.nasa.gov>

6) <http://flightlinux.gsfc.nasa.gov/>

7) <http://www.dod.gov/>

8) <http://www.egovos.org/pdf/dodfoss.pdf>

9) FLOSS - Free Libre Open Source Software

in supporting the infrastructure, software development, security-related applications etc. Certain number of federal states has either introduced legal regulations on the usage of Open Source software in the local government (Oregon and Texas) or they plan to do so (California, Oklahoma, Alabama, Utah, Hawaii and Louisiana).

In Asia, China provides another case where the government institutions, perceiving the fact that one should not be too dependent on a single external supplier, the need of security and the need of national self-sustainability, has long been using and developing its own Linux distribution named Red Flag Linux (the name probably is not surprising at all). Japan, South Korea and China have started cooperating to the end of developing Open Source alternative to Microsoft software, whereby Japan has already set aside US\$ 9 million. Indian politicians (lead by the president of the country) have called their army of esteemed programmers to actively join in developing Open Source solutions due to similar reasons as China. In Thailand there is a government program offering Linux and other Open Source software to its citizens, which can be utilized on cheap computers. According to press reports, Microsoft in Thailand has reduced the prices on its Windows and MS Office package to astonishing US\$ 40 per PC¹⁰, and according to the information on the OpenOffice website¹¹, the price of this set is only US\$ 36!

In Africa, the main driving force in this direction is precisely the richest country, South Africa, followed by Namibia.

The Democratic Party in Australia proposed using the Open Source software in their Parliament, meaning that Australia and New Zealand seriously consider switching to this model¹². The National Archives of Australia will use Open Source software for keeping and presenting the archived documents originating from government agencies, or more precisely, the OpenOffice¹³.

In Europe, especially the EU (being the most interesting for us, of course) the countries having the final word are Germany, France, Great Britain and Italy,



but the other countries do not lag behind in this area as well¹⁴. In Germany only, over 500 government agencies¹⁵ use Open Source solutions (the Anti-Cartel Office, the Anti-Monopoly Commission, Federal Commissariat for Data Protection, Animal Breeding Agency), and the latest examples are Munich city authorities (14,000 desktop computers) and Schwabisch Hall, as well as many others. The Niedersachsen police put in function 11,620 desktop computers (RedHat Linux) and 120 servers in which their information system called "Nivadis"¹⁶ shall run. The Minister Otto Schilly also presented the Open Source strategy during his press conference in Berlin. The Norwegian government last year cancelled its exclusive agreement with Microsoft¹⁷ due to the monopoly position. Via its program, iDA (Interchange of Data between Administrations) made a research during 2001 and 2002 regarding Open Source software, and especially a study regarding the utilization of the Open Source software in the public sector. There are similar studies in Germany, where KBSt (Coordinator and advisor to the federal German government), and already in the letter 2/2000 from 2000 they realize the advantage of Open Source solutions, where the conclusion recommends the Open Source software as good investment protection. We can mention Belgium and Spain as bigger users within the EU. Austria is somewhere at the beginning, but the news that Vienna seriously considers transferring 15,000 computers to Linux¹⁸ means an

10) Mercury news- dated September 14, 2003

11) http://www.openoffice.org/press/1.1/press_fa.html

12) <http://www.theinquirer.net/?article=5222%20>

13) <http://www.computerworld.com.au/index.php?id=1991153367&fp=16&fpid=0>

14) Computerworld- dated March 17, 2003

15) Infoworld - dated June 25, 2003

16) Slashdot - dated September 21, 2003

17) ZDNet UK - dated July 15, 2002

18) Seattle post - Intelligencer - dated September 11, 2003

enormous step in that direction and catching up with the already mentioned EU countries.

When it is a matter of utilizing the Open Source software in the state administration, one should mention that it is not a trend of the economically less advanced countries; on the contrary, most of the economically advanced countries use it in their state administration. This is a matter of a move having more long-term implications and is directed towards preventing the dependency on one producer and the safety issues, always being of strategic interest

The government of Great Britain announced new action for broader promotion of the competition with series of trial Open Source solutions both in the central government institutions and in the broader public sector¹⁹. This action will be realized in cooperation with IBM, and coordinated by OGC²⁰ and OeE²¹. OGC issued a Guide for Implementation of Open Source software where the following policy decisions stated in the Guide are presented:

The decisions of this policy are as follows:

- *UK Government will consider OSS solutions alongside proprietary ones in IT procurements. Contracts will be awarded on a value for money basis.*
- *UK Government will only use products for interoperability that support open standards and specifications in all future IT developments.*
- *UK Government will seek to avoid lock-in to proprietary IT products and services.*
- *UK Government will consider obtaining full rights to bespoke software code or customisations of COTS (Commercial off-the-Shelf) software it procures wherever this achieves best value for money.*
- *UK Government will explore further the possibilities of using OSS as the default exploitation route for Government funded R&D software.*

You can find good article on the BBC website elaborating this step of the British government²².

In Russia, the Ministry of Communication and Computerization, in cooperation with the IBM, will open a Linux Competency Centre²³, which according to Mr. Andrey Korotkov (Deputy Minister in the Ministry of Communication and Computerization) will create Linux eco-system enabling the Russian hi-tech companies to more swiftly penetrate the global market, and the IT solutions based on Linux and open standards will open enormous possibilities for the business in Russia.

In Israel, the Ministry of Commerce suspended all government agreements with Microsoft and announced that the suspension will last during 2004 as well. This is the result of a decision by the Israeli anti-trust agency, after its Director General, Mr. Dror Strum announced that Microsoft is a monopoly²⁴.

I mentioned at the beginning that I will speak a little bit more on the Linux itself at the end. Unlike the other operative systems (for example Microsoft Windows), when speaking of Linux, we must make one distinction which is immediately visible, and that is the fact that we are not talking only about operative system. Linux distributions which usually give us the idea about what Linux is, are much more than an operative system. Besides the functionality of a modern and secure operative system (with all its advantages and disadvantages), we find enormous quantity of quality all-purpose software in one distribution, so you can turn one Linux distribution in pure desktop solution with all office, Internet, graphic, development and other necessary software without paying or turn it into pure server machine with an enormous choice of server applications when necessary (web and e-mail servers, databases, proxy, DNS server, LDAP, RADIUS, FTP, SSH, file server and other services you need), again without paying. This is not the case at other operative systems, although, to be honest, one must mention that part of the Open Source solutions are ported to other operative systems as well, including Microsoft Windows (for example, Mozilla, MySQL, Apache, PHP, OpenOffice etc).

19) <http://www.ogc.gov.uk> – Government Investigates Wider Use of Open Source IT Systems Across Public Sector, dated October 09, 2003

20) OGC – Office of Government Commerce

21) OeE – Office of the eEnvoy (<http://www.e-envoy.gov.uk>)

22) BBC ?? 10.10.2003 - <http://news.bbc.co.uk/1/hi/technology/3181108.stm>

23) Computerworld - dated October 09, 2003

24) <http://www.theregister.co.uk/content/4/33365.html>

Still, in order to have the functionality of a Linux distribution, you cannot fully replace other operative systems with Open Source solutions, but you will have to pay and use some commercial software.

Open Source solutions do not hide additional costs. Personnel training entails costs, as well as the training for other commercial solutions. The Internet is an enormous space where you can find solution and answer for every problem that may occur in the usage. Still, for commercial usage in large systems and important applications, you have a possibility to pay for technical support, which is also the case with commercial software. It all depends on the situation and the capability of your staff.

For the interested ones, it is my pleasure to recommend the study of Mr. Niranjan Rajani entitled *Free as in Education. Significance of the Free/Libre and Open Source Software for Developing Countries*²⁵ where you can find enormous quantity of elaborated information on this topic.

It is obvious that this phenomenon has spread throughout all continents. What is the situation in our country? Like in many other things, here we also lag behind the countries that have decided to place things in more acceptable frames. The application of the Open Source solutions is far below the satisfactory level regarding the enormous potential and the savings you can gain by applying it. The single official distributor of a Linux distribution in the country is Neocom, representing the German Suse, the largest European Linux producer. You cannot purchase other distributions (Red Hat, Mandrake, Slackware, Debian, Turbo Linux etc.) in the Republic of Macedonia, but you have to order them from abroad or download (ISO images) from the Internet.

One of the bigger promoters in Macedonia is of course, the non-profit organization "Sloboden softver"²⁶ and the only Macedonian Linux web portal²⁷ (I apologize in advance if I omitted someone). "Sloboden softver" introduces the Macedonian language in all the most important Open Source products (GNOME, KDE, Open Office, Mozilla) and that commitment deserves respect. Thereby, besides the approximation of this software to the users in the Republic of Macedonia in their native language

(regarding our multi-ethnicity, there are translations and localization for almost all ethnic minorities in the Republic of Macedonia), so the language, the country, the people and the culture are being promoted far beyond the borders of our country. The same applies for the remaining Open Source products, where the localization is done and submitted in Macedonian.

Our closer and further neighbours have been very active in this part, so their activity is of an affirmative nature, presenting the country, the capability and the culture.

A government policy that would support and encourage the usage of Open Source software in the state administration, the education and the economy in the Republic of Macedonia would animate the domestic companies to adjust the Open Source software to our conditions and to localize it in Macedonian language and in the other languages spoken in the Republic of Macedonia, as well as to create domestic software. That would create preconditions for reduction of the brain drain from the country and a new export product would be created - the software.

A government policy that would support and encourage the usage of Open Source software in the state administration, the education and the economy in the Republic of Macedonia would animate the domestic companies to adjust the Open Source software to our conditions and to localize it in Macedonian language and in the other languages spoken in the Republic of Macedonia, as well as to create domestic software

The usage of Open Source solutions in the state administration is at the very beginning, excluding the Health Insurance Fund²⁸ and the Ministry of Finance, which extensively bases its solutions on this concept. The purpose of the IT Department within the Ministry of Finance is to use quality software and solutions, to have a possibility to choose and to have its own development vision. Simultaneously, it is more than

25) <http://www.maailma.kaapeli.fi/FLOSSReport1.0.html>

26) Sloboden softver – <http://www.slobodensoftver.org.mk>

27) Macedonian Linux Portal - <http://www.linux.net.mk>

28) <http://www.neocom.com.mk/Produkti/prodSoftSuse.asp>

obvious that the taxpayer's money is taken into account. The experience of the IT Department is based on permanent improvement and extensive usage of the knowledge sources available on the Internet (you can find literally everything there) and on specialized courses. The Open Source solutions implemented in the Ministry of Finance have been successfully used for over three years. The application and the introduction of new solutions is very dynamic process, so the number of applied solutions and their area of application continue to grow. At the same time, the experience and the knowledge grow both in the process of implementation and realization of such solutions and in the professional expertise.

The usage of Open Source solutions in the state administration is at the very beginning, excluding the Health Insurance Fund and the Ministry of Finance, which extensively bases its solutions on this concept

If you happen to be interested in using the Open Source solutions in the economy, i.e. business, I will indicate only few companies utilizing this model. The list is too long, and as I previously indicated, it is a matter of the overall range of firms.

Amazon²⁹, known almost to everyone, bases its business on Linux, realizing around US\$ 17 million in savings³⁰. The most famous and best Internet browser uses a cluster of over 10,000 Linux servers³¹. Dreamworks³² is one of the most famous film company using Linux and a special version of GIMP in the making of their cartoons (Shrek, Spirit, Stallion of the

Cimarron). Industrial Lights and Magic³³, a division of Lucas Films, in charge of the special effects, uses Linux to render special effects. The list is long, but still, I must mention the following companies as well: Merrill Lynch, Shell (cluster of 1024 IBM x Series for oil searching), WesternGeco (cluster of 256 IBM x Series for analysing data on seismic changes), Kaiser Aluminium, United States Postal Service (cluster of around 900 Linux servers).

All Formula 1 fans will find interesting the information that BMW-Williams Team³⁴ will use HP ProLiant Linux cluster of several hundred servers to improve the aerodynamics and the other aspects of their FW25 car, via comprehensive analyses of their models.

You can understand and use this text as a possibility to get acquainted with something new or to deepen your existing knowledge. Some will probably use it to enter into this world, and some as a possibility to make additional pressure on the commercial producers to reduce the price of their products and to save money.³⁵

Whatever the purpose, this trend will be closely monitored and actively implemented by many countries and large companies which should definitely not be neglected; it also requires appropriate attention and analysis. Every neglect and ignoring may cost dearly, especially when taking into account the EU agenda, which incorporates this trend in its strategy.

Should you find this text interesting, you might also be interested in the UPI (United Press International) text by Christopher Deliso³⁶, who has his own view and opinion about the issue, supported by data from IDG (International Data Group)³⁷ as well.

29) <http://www.amazon.com>

30) <http://www.maailma.kaapeli.fi/FLOSSReport1.0.html>

31) <http://www.wired.com/news/print/0,1294,54504,00.html>

32) <http://www.dreamworks.com/>

33) <http://www.iml.com>

34) <http://www.vnunet.com/News/1144043>

35) <http://newsforge.com/article.pl?sid=03/09/20/1632224>

36) <http://www.upi.com/view.cfm?StoryID=20030808-042156-5360r> – од 08.08.2003 година

37) <http://www.idg.com/> - Leading analytic and research company in the ITC industry

WHAT IS THE OPTIMAL LEVEL OF LABOUR MARKET FLEXIBILITY IN MACEDONIA

A comparative analyses of the legislation and institutions governing Macedonian labour market with those of other economies, both transition and developed, can yield some interesting and surprising findings which should guide policymakers in determining measures for boosting employment

The growing interest about the characteristics and functioning of the labour market in Macedonia is due to a high and persistent unemployment rates during transition, which are more than 30% according to ILO definition. It is often argued that the lack of flexibility and/or failure of the labour market institutions to adjust to new economic environment are at fault for high unemployment rates. A comparative analyses of the legislation and institutions governing Macedonian labour market with those of other economies, both transition and developed, can yield some interesting and surprising findings which should guide policy-makers in determining measures for boosting employment/reducing unemployment.

Is unemployment rate above 30 percent in Macedonia sensible?

It is very difficult to conduct an analysis of the Macedonian labour market because of the data constraint and vagueness. Two official data sources for unemployment are Labour Force Surveys (LFSs) conducted on annual basis and National Employment Bureau (NEB) which

covers registered unemployment. While there is considerable overlap between the two sets of numbers in almost all transition economies, there are few countries in which the numbers obtained from LFSs based on self-reports are larger than the registered numbers (Cazes and Nesporova, 2001). On the contrary, registered unemployment in Macedonia is by far higher than the LFS's unemployment (Table 1).

Table 1

Country	Registered	LFS
Azerbaijan	1,1%	19,4%
Estonia	4,4%	10,0%
Georgia	2,6%	10,0%
Russia	3,4%	9,2%
Macedonia	37,5% ¹	30,5%

Source: http://eurochild.gla.ac.uk/dev_web/Documents/monee/Download.htm. Data for Macedonia are from State Statistical Office and the National Bureau for Employment.

Note: data refer to 1996. For Macedonia data are for 2001.

Nikica Mojsoska Blazeovski has been working with the Ministry of Finance since 2000, and from January 2002 she is an Assistant Head of Macroeconomic Department. Her tasks are in the domain of labour market analyses and the government employment policy. Mojsoska's papers have been published in few periodicals such as the Bulletin of the Ministry of Finance, weekly magazine Capital and as working papers of the Staffordshire University - UK.

Nikica M. Blazeovski is currently writing a PhD thesis at the Staffordshire University on "Understanding Unemployment in Macedonia: Improving the efficiency of job-matching and vocational education and training". She is a member of the publication "Annual Economic Report 1999, 2000, 2001" of the Ministry of Finance, one of the translators of the "Principle of Economics" from Gregory Mankiew, second edition, and second ass. Editorial chief of the Bulletin.

1) ratio of the number of registered unemployed to the sum of the LFS employed (aged 15 and more) and registered unemployed

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



The likely reason for such discrepancy is different incentive to register as unemployed based on the availability and eligibility of benefits. In particular, a greater incentive in Macedonia relative to other countries to register with the NEB as unemployed rests on the entitlement to social insurance benefits on the basis of being unemployed. Namely, NEB pays pension contributions for all registered unemployed that receive unemployment insurance benefits (cash payment). In addition, all registered unemployed persons are entitled to health insurance if they cannot acquire it on some other basis, for example through other member of the household. Consequently, workers engaged in the grey economy and part of the inactive population register with the NEB which yields an unrealistic picture about the size of the unemployment in Macedonia. There is a great need for change in the appropriate laws in order to improve labour statistics and to switch the role and resources of the NEB from benefit administration to more active policies.

In particular, a greater incentive in Macedonia relative to other countries to register with the NEB as unemployed rests on the entitlement to social insurance benefits on the basis of being unemployed

A study of the labour markets in 22 east European countries carried out by the Interuniversity Consortium for Political and Social Research (ICPSR) in the period of 1990-1997 gives many comparative statistics (see Blanchflower, 2001). It shows that Macedonian citizens have 7.4% higher probability of being unemployed than the average CEE citizen. Only Bulgarian citizens are in worse position (12.1% higher probability of being unemployed) whereas Albanians are by 6.6% more likely to be unemployed than the CEE citizens as a whole. However, we have to point out that Macedonia was one of the few countries (if not alone) with open unemployment during the communist system. For illustration, unemployment rate in Macedonia in 1980 was equal to 21.5% and 22.1% in 1989, compared with the official zero open unemployment in the rest of the ex-Yugoslav Republics and other communist countries.

In most of the CEE countries males experience lower probability of being unemployed compared to females (Table 2). In Macedonia, males are on average 2.7% less likely to be unemployed than females. Similarly, equation results in Table 2 show that higher educated workers have on average 8.8% lower probability of being unemployed relative to less (no) educated workers. However, there is no separate data on the size of the returns to schooling and experience which would have shown the relevance of education and experience acquired in the previous communist system for the new, market oriented, economy.

Table 2 Probit unemployment equations by country

	Male	Higer education no education	Number of observations	Years
Bulgaria	-.023*	-.215*	3683	1990-1997
Czech Rep.	-.003*	-.021*	5588	1990-1997
Estonia	-.012*	-.107*	4583	1991-1996
Hungary	-.078*	-.133*	3713	1990,1992-1997
Latvia	-.010	-.136*	4005	1991,1992,1994-1997
Lithuania	.004	-.088*	3829	1991,1992,1994-1997
Russia	-.025*	-.090*	3570	1992-1996
Romania	-.002	-.100*	4466	1992-1997
Albania	-.034*	-.169	3396	1992-1996
Armenia	-.026*	-.074*	2943	1992-1996
Slovakia	-.004	-.119*	3184	1992-1996
Macedonia	-.027*	-.088*	3221	1992-1997
Slovenia	-.017	-.110*	3005	1992-1996
Ukraine	-.016*	-.115*	3686	1992-1996
Belarus	-.004	-.023	3580	1992-1996

Source: Blanchflower (2001), Table V, pp. 372.

*) implies significance at 5% level

Although ILO unemployment is much lower than registered unemployment, it is still too high and persistent over long period, and is much higher than in other transition economies. In addition, presented comparison suggests that Macedonian citizens are more likely to be unemployed than their counterparts in other CEE countries, meaning that even if we allow for lower data accuracy unemployment is severe problem in Macedonia.

Regarding high LFS unemployment rate, it might be that LFSs do not capture employment in the grey eco-

nomy although that is intended in the ILO definition on unemployment. This can be supported by the World Bank (World Bank, 2003) calculations for unemployment in Macedonia based on LFSs and Household Budget Surveys (HBSs). According to data from HBS, unemployment rate in 2000 equals 23% which is by 9.2 percentage points lower than LFS unemployment rate.

If further adjustments are made to this number for family farms, unpaid family workers and unreported self-employment, unemployment rate reduces even to 10%, implying that despite the lack of formal market' jobs people are engaging in some other economic activities.

We proceed by examining three separate labour market issues which are often revealed in the public debate without being supported by the robust analysis.

I. Strictness of the employment protection legislation (EPL)

Labour legislation strictness is often blamed as a main cause for high unemployment in Macedonia. The case for employment protection is based on worker welfare, implicit contracts, the positive impact of stable employment relationship on human capital investment, and the social costs of dismissals and macro-economic stability.

The main argument against employment protection is that it limits firms' behaviour by increasing labour costs which can reduce total employment. The net impact of these effects varies with size of firms, type of activity and economic conditions.

Cazes (2002) finds that EPL has little or no effect on overall unemployment, but stricter EPL increases unemployment duration. However, stricter EPL tends to negatively affect employment and labour market participation rates. Table 3 presents comparison of the

degree of labour legislation strictness in some of the transition economies.

Table 3 Employment protection legislation in late 1990s

	<i>Regular Employment Index</i>	<i>Temporary Employment Index</i>	<i>Collective Dismissals Index</i>	<i>EPL Strictness Index</i>
<i>Bulgaria</i>	1,4	3,8	3,6	-
<i>Czech Rep.</i>	2,8	0,5	4,3	2,1
<i>Estonia</i>	3,1	1,4	4,1	2,6
<i>Hungary</i>	2,1	0,6	3,4	1,7
<i>Poland</i>	2,2	1,0	3,9	2,0
<i>Slovak Rep.</i>	2,6	1,4	4,4	2,4
<i>Slovenia</i>	2,9	0,6	4,9	2,3
<i>Macedonia</i>	3,9	5,0	4,2	4,4
<i>Macedonia</i> ²	2,1	4,4	4,0	3,2
<i>CEEC average</i>	2,7	1,2	4,1	2,4
<i>EU average</i>	2,4	2,1	3,2	2,4
<i>OECD average</i>	2,0	1,7	2,9	2,0

Source: Riboud, Sanchez-Paramo and Silva-Jauregui, 2002. World Bank estimates for Macedonia.

Note: Index ranges between 0-6, with 6 indicating most restrictive legislation.

The above table illustrates that despite the reduction of the overall employment protection index in Macedonia during 1990s and again in 2003, scores are still high and above the average in the Central and Eastern European countries (CEECs). Regarding regular employment legislation which regulates the rules for hiring and firing procedures for permanent workers, notification procedures and severance payments, there was a substantial reduction in the strictness during transition. After the recent law amendments Macedonia has now even less strict legislation on regular employment than the CEEC average.

On the contrary, law amendments did not produce a significant decline in the temporary employment index, which is well above the indexes in all other countries, both transition and developed economies. Temporary

2) After amendments of the legislation in 2003

employment legislation establishes the rules for fixed-term contracts, possibility for their renewal, maximum duration and the functioning of the temporary work agencies. Temporary employment is an important source of labour market flexibilisation and includes workers on fixed-term contracts, agency workers, seasonal workers and those in other forms of irregular employment (mainly so-called civil-law contracts). Information on temporary employment is very scarce and may not be fully reliable because of difficulty of detecting the use of civil-law contracts. In some countries there is a legal ban on the use of temporary contracts for certain occupations (e.g. Russia), or for graduates from secondary vocational schools and universities and apprentices or young people below 18 (e.g. the Czech Republic). Despite the popular perception that temporary employment in CEECs has substantially increased during transition, as employers prefer to have more freedom in deciding whether to lay-off workers, the share of temporary to total employment is rather low in almost all transition economies (Cazes and Nesporova, 2001). It ranges between 3 to 6.9% in Ukraine, Estonia, Hungary, Poland and Russia, with the exception Slovenia with relatively high proportion of temporary employment (11% in 1999), although it remains below the 15% average in the EU. Some other estimates for fixed-term contracts in Hungary point out that they account for about 16% of total employment.

Equation results show that higher educated workers have on average 8.8% lower probability of being unemployed relative to less (no) educated workers

Macedonia seems to be an outlier in this group with the share of temporary employment in total employment of 13.2% in 1998, 10.2% in 2000 and 17.7 % in 2002. We cannot be sure about the data reliability for Macedonia since data are from LFSs (counted for population aged 15-64) meaning that the coverage of civil-law contracts solely depends on the self-perception and self-report of workers with such

contracts. While recent amendments of the Labour Code in Macedonia allow for greater use of fixed-term contracts (up to three years) without limits to their number or duration, legislation on temporary work agencies does not exist which explains a very high score of the temporary employment strictness. Interesting information is that, on average, EU and OECD countries have stricter legislation governing temporary employment than CEEC average.

Collective dismissals index captures the definition of collective dismissals, additional notification requirements and possible delays. Macedonian index of co-



llective dismissals is reduced by recent law amendments and is one percentage point lower than CEEC average but is much higher than developed economies' indexes.

There are different views in the economic literature regarding the impact of labour legislation on economic performance. Svejnar (2002), for example, applies a regression analysis for the actual data in transition economies in order to investigate the impact of different labour market institutions and policies on economic performance, measured by GDP growth. By running a simple bivariate regression instead of multivariate one which can explain the joint influence of those factors on the economic growth, Svejnar finds that employment protection (flexibility) has a modest impact on GDP growth. However, to draw stronger conclusion from his analysis there is a need to consider also wages' flexibility, geographical and occupational flexibility, etc.

Comparative analysis of the EPL in Macedonia and other transition economies provides a valuable information for the policymakers for the need and direction of further labour law' amendments. An important issue to be considered and regulated (since there is no regulation) are temporary work agencies (TWAs). Besides the total of 3 articles in the Law for employment and insurance in the case of unemployment (articles 27, 28 and 29) which regulate private placement agencies, there is no legal framework for establishment and operation of the TWAs. Second issue that has to be addressed is the regulation on part-time employment which adds to the labour market flexibility. Namely, the floor set for social contributions, 65% of the average monthly net wage for full-time job, creates disincentive for the use of part-time employment because it increases employers' costs for part-timers.

II. Analysis of the labour market flows

Most of the analyses of the Macedonian labour market refer to the stock of unemployed/employed persons which can yield misleading inferences about the labour market dynamics. By contrast, analysis of the relative size of inflows and outflows provides deeper insight into the operation of the labour market and the factors underlining the high unemployment. Although we recognize constrains in terms of data availability and reliability to analyse the flows, we discuss this issue with comparing flows in the Macedonian labour market and in some of the transition economies for which data are available.

While data calculations are not identical for all countries included, Table 4 shows that Macedonian labour market is relatively dynamic. In addition, it reveals that the persistency of the high unemployment in Ma-

Table 4: Unemployment inflows and outflows

		1994	1995	1996
Czech Rep.	Annual average inflow rate ³	0,6	0,6	0,6
	Annual average outflow rate ²	21,3	21,3	19,3
Hungary	Annual average inflow rate	1,1	1,0	1,3
	Annual average outflow rate	9,1	7,9	9,4
Poland	Annual average inflow rate	1,2	1,3	1,2
	Annual average outflow rate	6,2	8,0	8,2
Slovenia	Annual average inflow rate	6,7	8,4	9,0
	Annual average outflow rate	9,8	6,9	9,7
Macedonia	Annual average inflow rate ⁵		10,6	13,0
	Annual average outflow rate ⁶		14,7	9,2

Source: Terrel (1999) and European Training Foundation (1999).
Author's own calculations for Macedonia.

cedonia is due to high inflows and not because of low outflows. High inflows in unemployment may result from high inflow of first-time labour market entrants (school-leavers), workers that lost jobs, inflow from inactivity to activity or from other source of incentive for registration, without any change in demographics or activity.

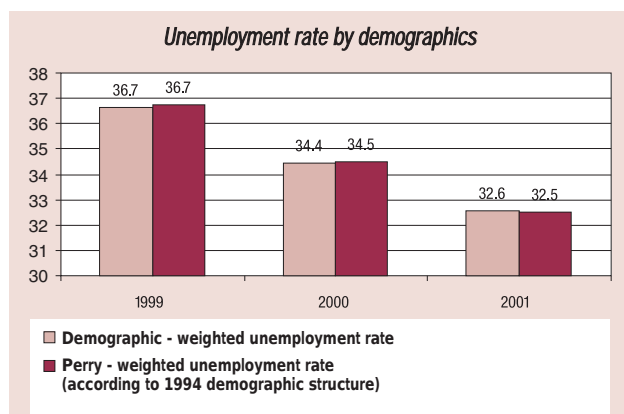
The classic method for measuring the effects of demographic changes is to compute a Perry-weighted unemployment rate (Perry, 1970; Ball and Mankiw, 2002) which is a weighted average of unemployment

Macedonian employers allocate the smallest amount of the total costs for 'wages and salaries', or about 61.3%. Employers' social contributions contribute with 28.8% in total labour costs for Macedonian workers, with the contribution's share being higher only in Hungary and Romania

1) Average annual rates of the number flowing into unemployment divided by the number employed and multiplied by 100.
2) Average annual rates of the number flowing out of unemployment divided by the number unemployed and multiplied by 100.
3) New registered unemployed divided by the number of employed from the LFSs and multiplied by 100. Data refer to 2001 and 2002.
4) Employments from the registered unemployed in the NEB divided by the number of registered unemployed and multiplied by 100. Data refer to 2001 and 2002.

population, we have computed the 'Perry-weighted' unemployment rate for Macedonia. A time series for Perry weighted unemployment shows what would have happened to the unemployment rate given the evolution of each group's unemployment if the sizes of groups did not change.

Figure 1



Source: Author's own calculations on the basis of LFSs and 1994 Census of population.

Figure 1 demonstrates that the unemployment rates would have been almost the same if there were no changes in the demographic structure of the population. Hence, we conclude that high inflows into unemployment cannot be explained by a changing demographic structure. Also, there were no massive lay-offs as a result of restructuring in Macedonia compared with other transition countries (World Bank, 2003). Furthermore, data from LFSs show that participation rate is much stable ranging between 59 and 62% meaning that there is no increased inflow into unemployment from inactivity. Consequently, we have to consider some other factors which may contribute to high inflows and very high unemployment.

The most sticking factor, already mentioned, is the administration of social insurance benefits (e.g. health insurance) through NEB. Part of the school-leavers that engage in the grey economy as their first economic activity and part of the inactive population register as unemployed and hence, even without any demographic change or increase in participation rate, regis-

tered unemployment rises. In addition, high LFS unemployment rate may be explained by the failure of the LFSs to capture informal employment as most of the respondents perceive only regular employment, and not fixed-term, part-time contracts or civil-law contracts as employment.

There are two important recommendations for policy-makers that arise from the above analysis. Firstly, the government should strongly market to the public the advantages of doing a formal sector' activity such as access to the commercial buyers in the formal sector of the economy, access to credit lines, legal protection of workers and possibility to operate on the foreign exchange market, which are not so obvious for some employers. Secondly, the government has to take an action to detect and convert civil-law contracts into working contracts, not necessarily in contracts on indefinite time but at least in fixed-term or part-time contracts.

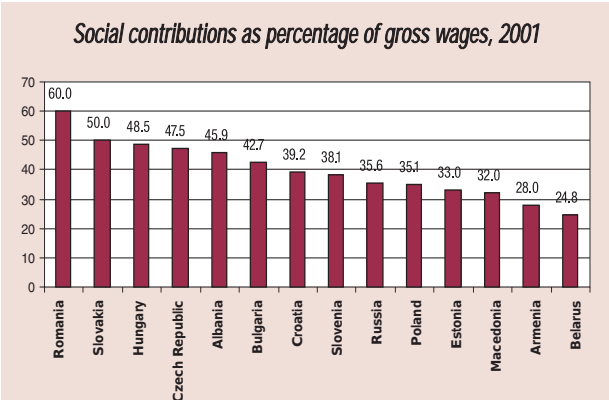
The government should strongly market to the public the advantages of doing a formal sector' activity such as access to the commercial buyers in the formal sector of the economy, access to credit lines, legal protection of workers and possibility to operate on the foreign exchange market, which are not so obvious for some employers

III. Labour costs

Much of the public debate over employer's labour costs concentrates on the size of the social contributions measured by their share into gross wage. By comparing this measure of the burden imposed on employers by social contributions they pay for workers, Figure 2 shows that Macedonia is among countries with lower share of social contributions in the gross wage.

However, what matters from the employers' standpoint is not gross wage and its structure, but labour costs.

Figure 2

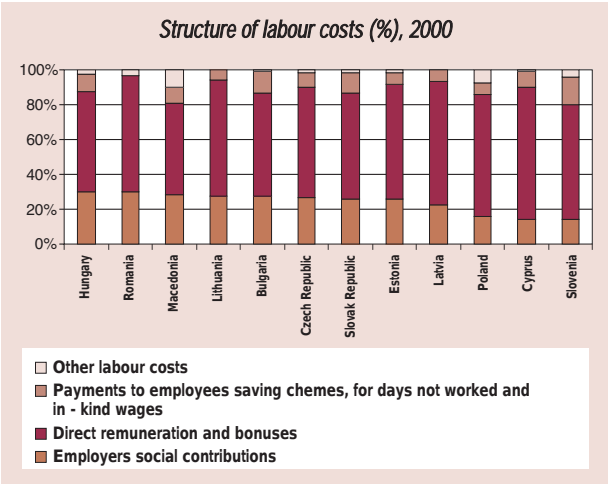


Source: World Bank

This is somewhat broader category that in addition to wages and social contributions includes bonuses, payments for days not worked, in-kind wages, payments to employees saving schemes, employers imputed social contributions, etc. By comparing the structure of the labour costs, i.e. the share of employers' social contributions, the picture is rather different (Figure 3).

As Figure 3 shows, in all countries the largest share of total costs is accounted for by 'wages and salaries' which comprises of 'direct wages and salaries' plus 'payments to employers saving schemes, for days not worked, and in-kind wages'. The largest share occurs in Cyprus (85%) and Slovenia (81%), and the lowest in Hungary and Romania (both 67%). Macedonian employers allocate the smallest amount of the total costs

Figure 3



Source: Eurostat

for 'wages and salaries', or about 61.3%. Because of the differences in the methodology¹, this share can increase to 71.3%, which is still lower than in other CEECs except Hungary and Romania. Employers' social contributions contribute with 28.8% in total labour costs for Macedonian workers, with the contribution's share being higher only in Hungary and Romania.

By contrast, the share of social contribution in employers' expenditures for labour is lowest in Slovenia and Cyprus and equals 14.2 and 14.4%, respectively. It follows that Macedonian workers are in worse position than their colleagues in other transition economies since they receive the lowest part of employers' labour costs as direct remuneration and bonuses.

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7) In most of the countries employers' costs for the nutrition of workers are in the form of canteens and vouchers which is part of 'salaries in-kind', while in Macedonia they are in the form of cash payments to employees and are included in 'other labour costs'.

PUBLIC INVESTMENT PROGRAM 2003-2005

The Public Investment Program (PIP) in the Republic of Macedonia is a document for development of the Government of the Republic of Macedonia, through which the implementation of the public sector investment strategy in the country is planned on medium term. The preparation of the 2003-2005 PIP in the Republic of Macedonia was based on macro-economic aggregates realized during the previous years, as well as assessment of the expected movements in the following years

Tahir Sakiri is a State Advisor in the Ministry of Finance, managing the Public Investment Department. He was born in 1949 in Skopje and graduated at the Faculty of Economics - Skopje in 1971, section Macroeconomics. He participated in the preparation of many development documents and projects on medium and long term, among which "National Strategy for Economic Development of the Republic of Macedonia until 2020", the Framework Agreement for Economic Development and Reforms "Macedonia 2003". He participated in many seminars and workshops in the country and abroad from the area of public investments, organized by the World Bank, the European Commission and other international institutions.

The support for accelerating investment activities becomes increasingly important, due to the need for overcoming the problem of underdeveloped and incomplete infrastructure and relatively outdated and inefficient facilities in technical and technological terms.

The development policy of the Government of the Republic of Macedonia for investments in public infrastructure on medium and long term is based on dynamic investment activities, which are expected to result in optimal utilization of the existing facilities, reconstruction and modernization of public infrastructure to the end of providing greater efficiency, as well as completing the initiated profitable projects,

taking into account the alternatives of lower costs.

The scope of problems the country faces and the comprehensiveness of the works to be realized in conditions when own funds are lacking and capacities for foreign borrowing are limited require more intensive engagement of foreign capital, mainly in form of foreign direct investments, joint ventures, concessions, donations, and selective foreign borrowing in accordance with the balance of payments capacity of the country.

Given the significant needs for investments deriving from the low development level, and the limited available resources, the Republic of Macedonia puts emphasis on the rational utilization and planned allocation of investment funds.

With this regard, the Government of the Republic of Macedonia adopts a special Program for Public Infrastructure Investments on Medium Term, and updates it each year.

The Public Investment Program for 2003-2005 includes investment projects, evaluated by the Government as being significantly important for



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

the development of the energy sector, transport, water supply, irrigation, environment and non-economic activities.

When determining the priorities in the Public Investment Program 2003-2005, considerations were given to the real possibilities for providing capital investment funds from: 1/ the State Budget, 2/ investors' own funds, 3/ irreversible funds from donator countries, 4/ selective borrowing of favorable credits in accordance with the balance of payments capacities of the country.

Within the funds envisaged by the Program for 2003-2005, EUR 804.33 million or 83.2% will be allocated for development of economic infrastructure, and EUR 162.92 million or 16.8% of the total funds will be directed at developing the non-economic activities

The Public Investment Program comprises 156 investment projects. The total cost of these projects is estimated to amount to EUR 2,126.78 million. Part of the funds in the amount of EUR 642.47 was realized by the end of 2002. Some investment activities estimated at EUR 513.07 million are planned for after 2005. Thus,

EUR 967.25 million are planned to be realized in the period 2003-2005, EUR 318.08 million of which in 2003 alone.

In the energy sector, activities will be intensified for completing the construction of "Kozjak" hydropower plant and for rehabilitating the existing hydropower plants. Simultaneously, activities will be intensified for constructing interconnections with the energy systems of the neighboring countries as a step towards establishing the stability of the energy system of the Republic of Macedonia

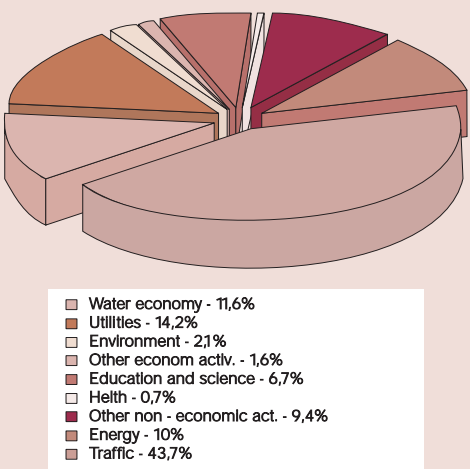
The commitment of the Government of the Republic of Macedonia for attracting foreign investments primarily using concessions, donations, and direct investments and joint ventures is a must due to the large share of foreign credits in the total financing of public sector investments in the past period. In addition, the volume of irreversible funds from abroad needs to increase, especially in the areas of water supply, irrigation, environment, education and health.

Within the funds envisaged by the Program for 2003-2005, EUR 804.33 million or 83.2% will be allocated for development of economic infrastructure, and EUR 162.92 million or 16.8% of the total funds will be directed at developing the non-economic activities.

EUR million

Expenditures per sector	2003	2004	2005	Total 2003-2005
Energy	58.80	30.50	6.99	96.29
Traffic	91.68	156.45	174.60	422.73
Water economy	32.37	34.86	44.62	111.85
Utilities	54.85	58.01	24.93	137.79
Enviornment	13.14	5.85	1.18	20.17
Other economic sectors	5.13	5.17	5.20	15.50
Education and sience	21.13	24.22	19.66	65.01
Health	3.36	1.94	1.94	7.24
Other non-economic act.	37.62	27.31	25.74	90.67
Total	318.08	344.31	304.86	967.25*

Expenditures per sector 2003 - 2005



*) Calculations were made according to the Euro middle exchange rate of the National Bank of the Republic of Macedonia for 2002 (1 EUR = Denar 60.9783)

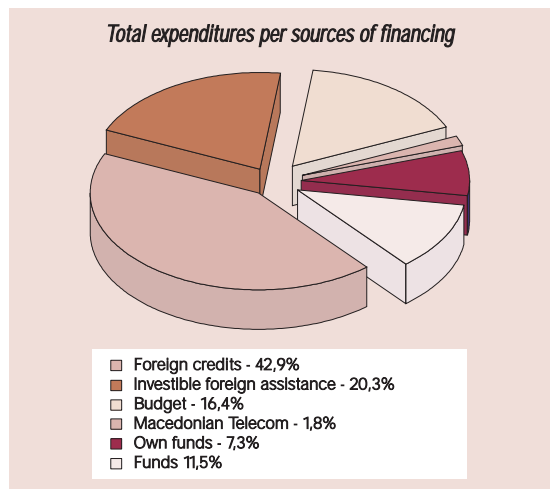
Total expenditures per sources of financing	EUR million			
	2003	2004	2005	Total
Total	318.08	344.31	304.86	967.25
<i>Foreign credits</i>	96.23	149.31	169.05	414.59
<i>Irreversible foreign assistance</i>	72.02	80.48	43.43	195.93
<i>Budget</i>	49.51	55.00	53.78	158.29
<i>Macedonian Telecom</i>	17.03	0.00	0.00	17.03
<i>Own funds</i>	45.53	23.26	1.70	70.49
<i>Funds**)</i>	37.77	36.26	36.90	110.93

Participation of different sectors in foreign loans disbursement

EUR million				
	2003	2004	2005	(%)
Total	96.24	149.31	169.05	100.00
<i>Energy</i>	25.14	14.73	6.58	11.20
<i>Traffic</i>	32.91	96.80	124.76	61.38
<i>Water economy</i>	18.61	22.86	32.14	17.75
<i>Utilities</i>	14.75	13.43	4.46	7.87
<i>Other non-economic act.</i>	4.83	1.49	1.11	1.79

Public sector activities in 2003 will go on in the following directions:

- In *the energy sector*, activities will be intensified for completing the construction of "Kozjak" hydropower plant and for rehabilitating the existing hydropower plants. Simultaneously, activities will be intensified for constructing interconnections with the energy systems of the neighboring countries as a step towards establishing the stability of the energy system of the Republic of Macedonia. In this sense, the project for construction of electricity transmission line from Stip to Cervena Mogila (Republic of Bulgaria) will be realized in 2003.
- Regarding *traffic*, investment activities will be focused on resolving the bottlenecks in the existing road infrastructure by constructing new road sections on east-west and north-south corridors. Thereby, the highway sections Negotino - Demir Kapija and Smokvica - Gevgelija from Corridor 10, and the Skopje bypass will be constructed with funds from the European Investment Bank, EBRD and with financial support by the European Union.



○ In *water economy*, the investment activities will be focused on the construction of water supply facilities in those areas that failed to resolve the issue of regular and long-term supply of drinking water. The approved financial support by the Government of Japan will intensify the activities for initiating the construction of the regional hydro system "Zletovica", which is very important for resolving the water supply problem in the eastern part of the Republic of Macedonia.

○ In the *environment sector*, priority was given to the protection of waters from pollution, providing good quality drinking water and preserving the forests. In that sense, the projects for preservation of Ohrid and Prespa Lakes will continue to be implemented with funds from the assistance provided by the Government of the Federal Republic of Germany.

○ Regarding *non-economic activities*, the priorities are focused towards overcoming the most urgent problems: reconstruction and rehabilitation of the existing facilities, completion of the initiated investments and procurement of modern equipment.

The Public Investment Program, in addition to its planning and development orientation, has promotional purposes. In fact, this Program is presented at the donor conferences, like the ones organized by the European Union and the World Bank in Paris and Brussels.

The so-far financial and technical support from abroad contributed towards reviving the investment activities in the country, given the fact that public sector investments encourage the development of the entire economy of the country.

**) Budget funds for roads are covered in the "Funds" item.

A-A-AND DOWN!

Expect the dollar to slide further after this week's sharp decline

Statements by the finance ministers and central bankers of the Group of Seven (G7) rich industrial economies are usually rather bland. This makes it easier for member countries to agree to them, and it avoids unsettling financial markets. However, the G7 statement issued on September 20th in Dubai, ahead of the annual meetings of the IMF and the World Bank, was of a spicier type. Its call for "more flexibility" in exchange rates took markets completely by surprise, pushing the dollar sharply lower. It is therefore awkward that finance ministers seem to disagree about exactly what they meant.

John Snow, America's treasury secretary, proclaimed the statement to be "a milestone change". The currency markets listened. They interpreted the communique as telling the Japanese and the Chinese to let their currencies rise and thus to allow the dollar to fall. Japan has been holding down the yen through foreign-exchange intervention on a grand scale; the Chinese yuan is pegged to the dollar with the help of strict capital controls.

However, Japanese and British officials quickly denied that this marked any change in policy. To add to the confusion, two days later Mr Snow said there had been no change in America's "strong dollar policy". Currency markets, however, stuck by their initial interpretation. By September 23rd, the dollar had fallen to a three-year low of less than ¥111, before stabilising. It had shed 5% in little more than a week. The dollar also gave up most of its recent gains against the euro, falling back to a rate of \$1.15.

This resumes the steady slide in the dollar that began in early 2002. Over the past few months, evidence of a stronger recovery in America had pushed the dollar higher. But just as some economists had started to predict that the dollar could rise back to parity against the euro, currency markets have now switched their



attention from growth rates to America's huge current-account deficit. If America's economy does grow faster than those of its main trading partners, then its external deficit will also widen by more.

The sharp fall in the dollar caused stockmarkets to shudder. Investors fretted about a loss of export competitiveness in Japan and Europe: the Nikkei fell by 5% during the week, Germany's DAX by 7%. Wall Street also slipped: although a weak dollar should be good for American profits and hence share prices, investors worried that bond yields will rise sharply if Asian central banks stop intervening and so buy fewer American Treasury bonds.

The buck doesn't stop here

The Dubai statement was certainly not another Plaza Accord. In 1985, after the dollar had soared, G7 finance ministers agreed at a meeting in New York to intervene together to push down the greenback. This time, not only is there less agreement, but the authorities are leaving adjustment to the markets. Nevertheless, says Stephen Roach, the chief economist at Morgan Stanley, the G7 have sent out a clear message that a dangerously unbalanced world needs a weaker dollar. It would help to shift the balance of American growth

from consumer demand to exports, allowing households to rebuild their savings and slimming America's current-account deficit. In Europe and Japan, a weaker dollar would cramp exports, but that could, in theory, be offset by looser monetary or fiscal policies to boost domestic demand.

Over the past few months, evidence of a stronger recovery in America had pushed the dollar higher. But just as some economists had started to predict that the dollar could rise back to parity against the euro, currency markets have now switched their attention from growth rates to America's huge current-account deficit

The euro has already risen by around 35% against the dollar over the past couple of years, while the yen has risen more modestly thanks to heavy intervention. Earlier this year, when Japan's economy looked sickly and deflation seemed to be worsening, there were good reasons for Japan to hold down the yen. But the case for intervention has perhaps weakened. Japan's GDP grew by 3% in the year to the second quarter, the strongest growth in any G7 economy. Many economists think the true rate may be a bit lower. Still, even nominal GDP grew in the second quarter.

Either way, Japan's economy is much stronger than the market had expected. For example, in June J.P. Morgan Chase forecast that Japan's GDP would grow by an average of only 0.8% this year and next; now it is betting on average growth of 2.7%. Its growth predictions for America have been raised by much less. If

(still a big if) such forecasts prove correct, then the recent rise in the yen would be justified.

Has Japan really caved in to demands that it cease holding down its currency? No. The yen's recent rise reflects a change in the market's perception of Japan's prospects, not a change in the country's policy. Sadakazu Tanigaki, the new finance minister, spoke this week of the dangers of the yen rising further. If it does continue to climb, the ministry may intervene again.

Meanwhile the American government is likely to keep up its criticism of China. Although America's economy has picked up this year, employment has continued to shrink. This is why the dollar has become such a hot political issue. Exporters blame the cheap yuan for America's large trade deficit. However, Chinese officials were quick to dismiss the communique from the G7 (of which China is not a member), making clear that they had no intention of revaluing the yuan soon.

The pegging of the yuan and other Asian currencies to the dollar means that the dollar has fallen by much less in trade-weighted terms than against the euro. The dollar has fallen by 19% against a basket of other rich countries' currencies (the measure used in the indicators published each week in our back pages), but by only 10% against a broader basket which also includes emerging-market currencies.

That 19% decline in the narrower trade-weighted index pales next to the 40% drop in the three years after 1985. America's current-account deficit was then only around 3% of GDP, half as big as it is likely to be by next year. A further decline in the dollar seems all but inevitable.

"The Economist", September 27th, 2003

TIME TO GO UP?

Signs of economic recovery are mounting—and with them expectations that interest rates are about to rise. Yet central banks should not hurry to tighten policy

Monetary policy has rarely been so loose. Short-term interest rates are at their lowest level for almost half a century. Even in real terms—ie, after adjusting for inflation—the average interest rate in the G7 economies is negative for the first time since the 1970s, when inflation soared. Have rates now hit the bottom? And if so, how long will it be before they start to rise?

Financial markets are betting that the next moves in interest rates will be upwards. The futures market is implicitly forecasting that American interest rates will rise from 1% now to 1.5% by next June and to 2.3% by December 2004. Euro-area rates are expected to rise from 2% to 2.8% by the end of next year. The market predicts that the Bank of England, which left interest rates unchanged on October 9th, will increase them by almost half a point by the end of 2003. Only in Japan are rates tipped to stay unchanged, at zero.

The markets reckon that global growth is speeding up, so central banks will soon need to lift interest rates to hold inflation down. In previous cycles, central banks have typically lifted rates within two years of recession's end. Technically, America's recession finished in November 2001.

The flaw in this argument is that this economic cycle is not typical. Thanks to a post-bubble hangover, America's recovery has been the slowest in modern times: annual GDP growth has averaged 2.7%, compared with 4.7% during the first two years of the previous eight recoveries. Em-

ployment rose, on average, by 4% in the first two years of previous recoveries, but since November 2001 employment in America has continued to fall. Industry is using less than 75% of its capacity, compared with almost 80% at the same point of previous cycles. Thus, even if the economy grows rapidly over the next year or so (and it may not), there will still be plenty of slack, putting further downward pressure on inflation.



At the end of previous recessions, inflation was also much higher than today, so as growth perked up monetary policy needed to be tightened swiftly to stop inflation rising.

Today, America's inflation rate is uncomfortably low. Core consumer price inflation (ie, excluding energy and food) fell to a 37-year low of 1.3% in the year to August, and it could dip lower next year.

At the very least, the Federal Reserve is likely to tighten policy more slowly than in past recoveries. Indeed, Ben Bernanke, a governor at the Fed, argued recently that when there is considerable economic slack, if output growth is generated solely by increased productivity, with no expansion in jobs, then monetary policy may have to be eased, not tightened, to guard against the risk of inflation falling too low.

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Similar arguments apply in the euro area. In the first half of this year, output stalled in the euro area, and Germany and Italy slipped back into recession.

Until recently financial markets had therefore expected interest rates to fall further. But more recent data suggest that recovery is under way, so the markets are now betting that the European Central Bank could start lifting rates early next year. That would surely be premature if, as many forecasters expect, inflation falls next year. Much will depend on the euro. This week it rose to with-

in a whisker of its record high against the dollar, but in trade-weighted terms it is still 2% below its level in June, before the ECB last reduced interest rates. If the euro climbs higher in trade-weighted terms, cramping growth and helping to squash inflation, then an interest-rate cut would be more likely than an increase.

The likely first mover

The Bank of England will probably be the first big central bank to lift rates. Britain has the highest inflation rate of any of the big seven economies (2.9%) and economic growth has been more robust than expected. Recently revised figures showed that, in the first half of 2003, GDP grew twice as fast as previously thought. Some members of the bank's Monetary Policy Committee have also been expressing concern about rampant consumer borrowing and surging house prices.

Japan still has deflation (falling prices), yet even there the debate about when interest rates will rise is hotting up, largely because expectations about GDP growth have become markedly more optimistic. *The Economist's* monthly poll of forecasters now expects growth this year and next to average 2.2%, well above most estimates of Japan's sustainable potential rate of 1-1.5%. There are also signs that deflation is abating: consumer prices fell by only 0.3% in the year to August. The Bank of Japan has said it will maintain zero interest rates until inflation turns positive.

But a month or two of rising prices is unlikely to make the central bank jump. Its governor, Toshihiko Fukui, has said: "We will continue with our policy not only until prices rise but until there is no fear that they will fall again." Last week Kazumasa Iwata, a deputy governor, went further. He said he

viewed “price stability” as inflation of 1-2%, implying a longer period of zero interest rates.

The recent easing of deflation is also partly due to special factors, such as an increase in cigarette tax. Richard Jerram, an economist at ING bank, estimates that underlying deflation is running at 0.5% and has not fallen significantly during the past year-and-a-half of recovery. He expects interest rates to remain at zero for a long time.

A significant rise in interest rates by the main central banks is unlikely over the next year as long as inflation remains low. A few economists concur: those at Goldman Sachs do not expect the Fed to raise rates before mid-2005. Given Japan’s grim experience, this seems wise insurance against deflation.

Yet an easy monetary policy is not without its dangers. The build-up of excess liquidity in recent years, as central banks have become serial bubble-blowers, is a growing cause for concern.

As one bubble after another has burst, from Asia to tech stocks, central banks have eased policy time and again. By slashing interest rates after the stockmarket bubble burst, America’s Fed prevented a deeper recession and staved off the risk of deflation, but at the cost of encouraging ever

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higher consumer borrowing-and hence the risk of an even bigger blow to growth when interest rates eventually have to go up.

Divers who stay deep down in the ocean for too long risk getting “the bends” when they ascend. Are central bankers risking a similar fate?

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ST. "Dame Gruev" 14 Skopje, Tel: (389) 02 117 288, Fax: (389) 02 117 280

Web site: <http://www.finance.gov.mk>

EDITOR-IN-CHIEF

Ph.D Dimko Kokaroski

FIRST ASS. EDITOR-IN-CHIEF

Dejan Runtevski

dejan.runtevski@finance.gov.mk

SECOND ASS. EDITOR-IN-CHIEF

Nikica Mojsoska-Blazevski

nikica.mojsoska@finance.gov.mk

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Aneta Gacevska

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Jasminka Vaskova

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Emilija Sirkarovska

Maja Petrovska

Aleksandar Argirovski

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