

# BULLETIN

MINISTRY OF FINANCE  
REPUBLIC OF MACEDONIA

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Skopje, January - March 2004

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## HONOURABLE,

The new issue of the Bulletin of the Ministry of Finance is in your hands. This is the first issue this year. The preparation of this issue was largely delayed, and therefore we decided to prepare a quarterly issue that would cover the economic parameters in the period January – March 2004. In the upcoming months however, we promise to continuously monitor and publish the most recent economic trends in the country on monthly basis.

In this period, as always, as a matter of fact, the Ministry of Finance was working more intensely, and we achieved significant results. Please, allow me to briefly, through figures, state only part of the last-year achievements. Macedonian economy had real growth of 3.2%, in relation to the initially projected 2.8%, thus the real growth in 2003 is higher by 0.4 percentage points than the projected one. Basic driving force of the growth were the excellent performances of the steel industry and the production of ferrosilicon and ferronickel (due to favorable external demand), which set relatively high growth rate of the industrial production in the first three quarters of the year. However, the growth engine in the last quarter in 2003 was the intensified construction activity.

Regarding the inflation, the price stability is maintained as one of the basic postulates of the sound macroeconomic policy, and the average inflation (measured through costs of living) in 2003 was as low as 1.2%.

At the same time, we achieved impressive fiscal consolidation and only in one-year period we reduced the Central Budget deficit for as much as 4.2 percentage points, or in other words, the Central Budget deficit of

5.3% of GDP in 2002 was reduced to 1.1% of GDP in 2003. This is a result of the disciplined fiscal policy, which was a main feature in the past year, although part of the reasons lie in the underperformance of the projected capital expenditures.

In 2004 we expect further intensification of economic activities and the projected GDP growth rate is 4%. One of the basic prerequisites is the further reduction of public expenditures by the government, and the budget users will be obliged to fully execute the budget in terms of capital expenditures. These policies will initiate strengthening of the domestic demand and along with the favorable external demand by the traditional trade partners of Macedonia will enable us to meet the projections. At the same time, we will continue to run the policy of low and stable inflation and in 2004 the average inflation will be under 2.8%.

However, we cannot but mention the events in the first quarter (industrial production) that put some doubts on the realization of projections. But I am optimistic and I believe that the situation in this sector will stabilize very quickly (Balkanstil, Free Economic Zone Bunarzik), and together with the positive trends in the other economic sectors we will get back on track by the end of the year.

**Dimko Kokaroski PhD**  
Deputy Minister of Finance



Early 2004 was marked by the initiation of issuance of treasury bills, project in which the Ministry of Finance, in cooperation with other competent institutions, put enormous efforts and time. The process of issuance of three - monthly treasury bills of the Republic of Macedonia commenced in January 2004 and it was inspired by the need to expand the sources of budget deficit financing, to promote the financial market development, and to diversify the portfolio of securities. The Government (Ministry of Finance) is the issuer, while the National Bank of the Republic of Macedonia is the agent. The issuance of treasury bills covers primary sale of bills by the issuer via auctions. Auctions are carried out via electronic system and it is accessible only by NBRM, Ministry of Finance and the authorized direct participants (banks). Banks may buy and sell treasury bills for their own account or for the account of indirect participants (legal entities and physical persons), as well as those who have concluded contracts for participation at the primary market. Auctions are carried out via volume tenders with interest rates based on predetermined schedule, specified in Calendar for Issuance of Treasury Bills. Starting in 2005, the Ministry of Finance plans to commence continuous issuance of long-term securities, to the end of transforming the external debt into domestic and providing securities for investment by potential institutional investors.

One of the activities especially important for the Republic of Macedonia and that will mark 2004 is surely the initiation of fiscal decentralization process. First step in the implementation of this process is the adoption of the Law on Local Finance which provides instruments for financing the new competencies by generating revenues from a) genuine sources and

b) the Budget of the Republic of Macedonia. Genuine revenues are local taxes, fees and charges, revenues from property, from personal income tax collected in the current year per municipality: 3.1% of the personal income tax of physical persons collected in the municipality and 100% of the personal income tax of craftsmen. Tax revenues envisaged in this law are set as 1% of the overall collected VAT realized in the previous fiscal year. This law also allows the municipality to borrow from the country and from abroad under specially set conditions and procedures.

Last but not the least, I would mention the successful completion of the Stand-By Arrangement with the IMF. We have timely met all obligations the Government assumed under the Arrangement, although some of them were very challenging and unpopular, and we needed courage and decisiveness to implement them (e.g. downsizing of public administration). The exceptions we made were not in vain, since in the upcoming period we expect to continue the cooperation and to conclude new, this time multi-year reform-oriented arrangement, which will confirm the sound macroeconomic policy the Republic of Macedonia will run in the coming period, and will give positive signal to the international community from where we expect higher inflow of foreign direct investments.

Enjoy reading the Bulletin of the Ministry of Finance.

Yours sincerely,  
Dimko Kokaroski PhD

## BASIC MACROECONOMIC INDICATORS

Annual data for Republic of Macedonia

		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002*	2003*
Real GDP	%	-7,5	-1,8	-1,1	1,2	1,4	3,4	4,3	4,5	-4,5	0,9	3,2
Inflation (average)	%	362	128	15,7	2,3	2,6	-0,1	-0,7	5,8	5,5	1,8	1,2
Inflation (end of period)	%	248,2	55,4	8,8	-0,7	2,7	-2,4	2,4	6,1	3,7	1,1	2,6
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	1,8	-7,2	-5,7	-1,1
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	54,3
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	49,9
Export (F.O.B.)	USD bill.	1,06	1,08	1,20	1,15	1,20	1,29	1,19	1,32	1,16	1,11	1,36
Import (C.I.F.)	USD bill.	1,01	1,27	1,42	1,46	1,59	1,80	1,68	2,01	1,68	1,92	2,21
Trade balance	USD bill.	0,05	-0,19	-0,22	-0,31	-0,39	-0,51	-0,49	-0,69	-0,52	-0,81	-0,85
Current account balance	USD bill.	0,08	-0,27	-0,30	-0,34	-0,29	-0,27	-0,03	-0,07	-0,24	-0,36	-0,28
As % of GDP	%	-3,3	-7,8	-6,7	-7,7	-7,7	-7,5	-0,9	-2,0	-7,1	-9,6	-6,0
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	0,90
Import coverage (reserves / import)	months	1,4	1,6	2,3	2,2	1,9	2,2	3,2	4,1	4,9	4,4	4,0
External debt 1)	USD bill.	1,14	1,26	1,44	1,17	1,13	1,44	1,49	1,49	1,50	1,64	1,81
As % of GDP	%	45,5	37,2	32,3	26,5	30,3	40,1	40,6	41,5	43,8	43,4	38,6

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 <sup>1)</sup>				Current account balance <sup>2)</sup>			
	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005
EU accession countries	4,4	4,4	4,5	4,4	15,3	9,5	7,1	5,6	-3,0	-3,8	-3,8	-3,5
Bulgaria	4,8	4,3	5,0	5,2	5,8	2,3	6,0	3,6	-4,3	-8,6	-8,4	-7,7
Czech Republic	2,0	2,9	3,0	3,4	1,8	0,1	3,5	3,0	-6,1	-6,5	-5,4	-4,8
Estonia	6,0	4,7	5,5	5,0	3,6	1,3	3,0	2,5	-12,2	-13,7	-11,0	-7,5
Hungary	3,5	2,9	3,2	3,4	5,3	4,7	7,1	4,4	-4,1	-5,5	-5,3	-4,3
Latvia	6,1	6,7	6,0	6,0	1,9	2,9	3,0	3,0	-7,2	-9,1	-9,9	-8,1
Lithuania	6,8	9,0	6,7	6,3	0,3	-1,2	1,1	2,5	-5,2	-6,5	-6,7	-6,7
Poland	1,4	3,7	4,7	4,0	1,9	0,8	3,0	2,4	-2,6	-2,0	-2,3	-2,9
Romania	5,0	4,9	5,0	5,0	22,5	15,3	12,0	7,2	-3,4	-5,9	-5,2	-5,2
Slovak Republic	4,4	4,2	3,9	4,1	3,3	8,5	7,8	4,2	-8,0	-0,9	-2,9	-3,5
Slovenia	2,9	2,3	3,5	4,1	7,5	5,6	3,7	3,4	1,4	0,1	-0,6	-1,0
Turkey	7,9	5,8	5,0	5,0	45,0	25,3	12,0	10,6	-0,8	-2,9	-3,0	-2,4

1) Annual average

2) Percent of GDP

Source: World Economic Outlook (Recessions and Recoveries), IMF, Washington D.C., April 2004

## GROSS DOMESTIC PRODUCT

(real growth rates, year on year, 1998-2003)

		Agriculture, hunting, forestry and fishing	Mining and quarrying, manufacturing, electricity and gas	Construc- tion	Wholesale and retail trade; repair of motor vehicles, motorcycles	Hotels and resta- urants	Transport, storage and commu- nication	Financial intermediation and real estate, renting	Public administration and defense	Imputed banking services	Value added	Net taxes on produc- tion	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
	99/00	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
	00/01	-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	-5,6	-10,1	-7,0	6,0	-1,0	-3,4	-2,8	10,0	-2,5	-1,8	1,1	-1,3
	II	-2,5	-3,5	0,7	4,6	16,1	-6,7	-4,1	4,7	1,7	-0,9	2,0	-0,4
	III	-1,6	-1,3	5,3	4,2	32,2	-0,5	-4,1	0,8	6,2	0,3	3,2	0,8
	IV	1,8	10,2	1,4	6,8	18,8	3,5	-3,7	-0,8	2,2	3,6	6,6	4,1
	02/01	-2,0	-0,8	0,6	5,4	16,7	-1,8	-3,7	3,5	1,8	0,4	3,3	0,9
2003 *	I	1,0	3,4	1,1	4,3	7,9	1,1	-1,2	2,8	0,9	2,1	2,1	2,1
	II	1,6	3,5	0,5	4,7	0,9	6,6	-0,6	3,0	-6,5	3,1	3,1	3,1
	III	3,8	14,4	3,4	3,5	5,0	7,3	0,1	0,6	-7,5	5,6	5,6	5,6
	IV	2,3	-1,1	13,8	4,7	2,2	7,0	-0,1	0,7	-4,9	2,1	2,1	2,1
	03/02	2,2	4,5	4,8	4,3	3,9	5,6	-0,5	1,8	-4,6	3,2	3,2	3,2

## GROSS DOMESTIC PRODUCT (PRODUCTION APPROACH)

In millions of denars

At current prices

NACE Section	Description	1998	1999	2000	2001	2002 <sup>1</sup>	INDEXES 2002/2001
A	Agriculture, hunting and forestry	22.224	23.094	23.756	22.933	24.509	6,9
B	Fishing	52	29	14	24	48	100,0
C	Minerals and stone mining	1.584	1.620	1.856	1.312	960	-26,8
D	Manufacturing	35.202	36.764	40.926	39.587	37.925	-4,2
E	Electricity, gas and water supply	8.868	9.203	10.381	10.041	9.146	-8,9
F	Construction	11.267	10.880	13.361	11.801	11.893	0,8
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	21.914	22.383	25.402	26.076	27.348	4,9
H	Hotels and restaurants	3.063	3.984	3.463	3.410	4.088	19,9
I	Transport, storage and communication	14.309	17.233	21.261	21.694	20.610	-5,0
J	Financial intermediation	7.229	6.977	7.342	7.420	7.427	0,1
K	Real estate, renting and business activities	5.206	5.890	7.466	8.304	8.168	-1,6
L	Public administration and defence; compulsory social security	12.067	14.351	14.333	14.445	16.145	11,8
M	Education	8.030	8.769	8.266	8.048	8.688	8,0
N	Health and social work	8.310	8.592	8.987	8.690	9.361	7,7
O	Other community, social and personal service activities	4.887	4.967	5.217	5.548	5.553	0,1
P	Imputed rents	9.058	9.597	10.465	10.631	10.792	1,5
	Minus: Imputed banking services	5.036	5.017	5.153	4.738	4.160	-12,2
A.	Value added	168.235	179.316	197.344	195.230	198.592	1,7
B.	Net taxes on production	26.747	29.694	39.045	38.611	45.378	17,5
A + B	GROSS DOMESTIC PRODUCT	194.979	209.010	236.389	233.841	243.970	4,3

1) Preliminary date

## GROSS DOMESTIC PRODUCT (EXPENDITURE APPROACH)

	In million of denars				In %			
	1999	2000	2001	2002	1999	2000	2001	2002
GROSS DOMESTIC PRODUCT (current prices)	209,010	236.389	233.841	243.971	100,0	100,0	100,0	100,0
Final consumption	188,702	218.986	221.771	242.795	90,3	92,6	94,8	99,5
Household consumption	145,693	175.965	163.788	188.179	69,7	74,4	70,0	77,1
Government consumption	43,009	43.021	57.983	54.616	20,6	18,2	24,8	22,4
Gross capital formation	41,171	50.683	42.759	48.058	19,7	21,4	18,3	19,7
Gross fixed capital formation	34,710	38.332	34.716	40.448	16,6	16,2	14,8	16,6
Change in stocks	6,461	12.351	8.043	7.610	3,1	5,2	3,4	3,1
Export of goods and services	88,143	114.209	99.091	92.674	42,2	48,3	42,4	38,0
Export of goods (FOB)	67,988	87.161	78.625	71.887	32,5	36,9	33,6	29,5
Export of services	14,367	19.971	15.894	16.388	6,9	8,4	6,8	6,7
Purchases of non-residents	5,788	7.077	4.572	4.399	2,8	3,0	2,0	1,8
Import of goods and services	109,007	147.489	129.780	139.556	52,2	62,4	55,5	57,2
Import of goods (FOB)	90,554	123.910	107.166	121.574	43,3	52,4	45,8	49,8
Import of services	18,543	23.579	22.614	17.982	8,8	10,0	9,7	7,4

Source: State Statistical Office

## BASIC SHORT-TERM ECONOMIC TRENDS

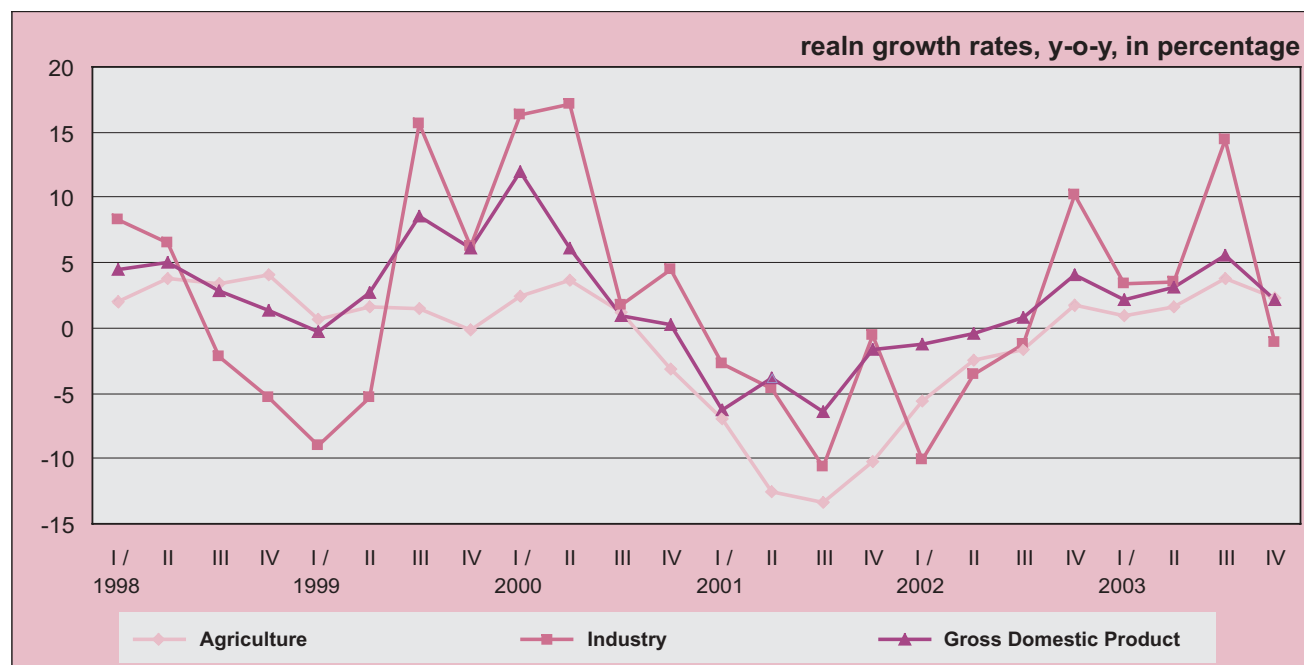
Percentage change from the same period previous year, if otherwise not stated

	2000	2001	2002	2003	2002				2003				2004
					Q - 1	Q - 2	Q - 3	Q - 4	Q - 1	Q - 2	Q - 3	Q - 4	
<b>REAL SECTOR</b>													
Production real rates of change													
Gross domestic product	4,6	-4,5	0,9	3,2	-1,3	-0,4	0,8	4,1	2,1	3,1	5,6	2,1	
Industrial production	3,5	-3,1	-0,8	4,5	-10,1	-3,5	-1,3	10,2	3,4	3,5	14,4	-1,1	-26,1
nominal rates of change													
Investment in machines and equipment	20,8	-16,9	16,4	-7,7	48,1	22,8	-0,6	5,1	-27,0	9,7	4,0	-12,5	
<b>Prices</b>													
Costs of living	5,8	5,5	1,8	1,2	3,7	3,5	-0,9	0,9	0,0	0,6	0,8	1,9	1,6
Industrial producer prices	8,9	2,0	-0,9	-0,3	-1,9	-1,0	-1,4	1,0	1,4	-0,4	0,0	-0,3	-1,5
<b>Competition of the industry</b>													
Productivity	6,0	0,5	3,0	13,1	-3,2	6,7	13,9	21,8	20,3	10,3	21,0	-6,4	-37,9
Unit labour cost	-4,7	-0,7	0,2	-10,3	2,2	-4,4	-6,6	-13,1	-19,6	-9,2	-17,5	5,4	67,3
Real unit labour cost	-12,5	-2,7	1,1	-10,1	9,1	0,4	-3,6	-15,9	-22,8	-9,5	-18,0	8,0	73,8
<b>Stock exchange prices of the major Macedonian export and import products Prices in US \$</b>													
Crude oil Brent	28,3	24,4	25,0	28,9	21,2	25,1	26,9	26,8	31,4	26,1	28,4	29,5	32,0
Lamb	261,9	291,2	330,3	388,4	311,1	319,2	339,7	351,5	356,7	375,8	394,5	426,5	458,6
Nickel	8.638,0	5.944,7	6.772,0	9.629,0	6.203,0	6.946,0	6.883,0	7.104,0	8.343,0	8.372,0	9.371,0	12.432,0	14.729,0
Copper	1.813,0	1.578,3	1.559,0	1.779,0	1.557,0	1.611,0	1.516,0	1.554,0	1.663,0	1.641,0	1.753,0	2.059,0	2.731,0
Lead	45,4	47,6	45,3	51,5	49,1	45,5	43,0	43,5	45,9	45,6	51,1	63,4	84,4
Zink	112,8	88,6	77,9	82,8	79,5	78,2	76,6	79,8	78,6	77,4	82,1	93,0	107,0
Steel cold rolled coilsreat	385,8	299,2	328,3	444,6	280,0	300,0	353,0	380,0	400,0	410,0	478,3	490,0	520,0
Steel hot rolled coilsreat	295,8	216,5	246,7	320,2	200,0	236,7	270,0	280,0	306,7	320,0	324,2	330,0	401,7
<b>EXTERNAL SECTOR</b>													
nominal rates of change in dollar amount													
Export of goods (FOB)	11,0	-12,7	-3,7	22,2	-16,7	-7,2	3,3	6,3	20,4	34,7	16,8	28,4	22,1
Import of goods (CIF)	17,9	-19,4	16,3	15,3	11,8	13,5	31,3	16,0	19,7	25,8	10,7	8,3	13,8
Trade balance (in millions of US \$)	-771	-533	-849	-937	-200	-196	-184	-270	-238,0	-225,1	-212,4	-76,1	-246,0
Current account of the balance of payments (in millions of US \$)	-236	-38	-324	-277	-104,3	-59,2	-37,1	-123,9	-109,0	-64,3	-25,5	-66,0	-139,0
Foreign exchange reserves (in millions of US \$) "-" means decrease	235,6	37,8	-41,0	169,0	-120,0	42,0	69,0	-41,0	-113,0	-62,0	16,0	169,0	218,0
Medium and long-term external debt (end of period, in millions of US \$)	1.438,0	1.444,0	1.571,0	1.771,0	1.417,0	1.482,0	1.491,0	1.571,0	1.561,0	1.648,0	1.655,0	1.771,0	1.738,0

	2000	2001	2002	2003	2002				2003				2004
					Q - 1	Q - 2	Q - 3	Q - 4	Q - 1	Q - 2	Q - 3	Q - 4	
Foreign exchange rates													
Denar / EURO	60,73	60,91	60,98	61,29	60,96	60,96	60,98	61,03	61,31	61,29	61,21	61,28	61,28
Denar / USA \$	65,89	68,04	64,73	49,05	69,53	66,50	61,98	61,05	57,18	54,08	54,49	52,36	49,94
GOVERNMENT FINANCE													
nominal rates of change													
Revenues	22,5	-10,3	10,1	-7,4	20,5	32,9	26,8	0,1	-5,7	1,8	-10,6	-3,0	10,3
Tax revenues	22,1	-6,9	14,0	-9,6	13,1	31,3	23,2	-0,8	-7,8	-2,0	-12,0	-4,7	5,7
VAT	75,2	-1,8	19,8	3,2	-4,5	52,0	31,2	40,9	4,5	21,3	-4,0	27,2	25,3
Expenditures	12,7	27,0	-0,1	-13,8	21,3	-10,0	0,8	3,5	-18,3	-10,2	-18,6	4,9	5,2
Current expenditures	1,8	31,9	17,2	-1,2	12,0	-16,0	17,9	-3,3	-2,4	7,3	-2,6	2,4	5,7
Capital expenditures	94,5	28,3	11,8	-447,0	92,7	3,7	53,4	81,2	-71,2	-54,4	-57,7	103,5	-34,3
Central budget balance (in millions of denars)	6,285	-12,490	7,343	-2,551	463	-6,411	-4,979	-2,624	337,0	-155,0	-38,7	-288,0	1,002,0
General budget balance (in millions of denars)	5,905	-13,171	-13,019	-2,496	-1,865	-5,076	-3,866	-2,213	-4,0	-251,0	329,0	-2,654,0	647,0
MONETARY SECTOR													
nominal rates of change (end of the period)													
Net foreign assets	73,8	57,6	-27,7	5,3	2,1	3,3	13,6	-27,7	-18,6	-7,2	3,8	5,3	10,3
Credit to private sector	17,2	7,3	8,7	15,8	5,4	7,6	13,1	8,7	9,9	9,3	9,0	15,8	18,9
Cash in circulation	16,6	48,5	0,0	0,3	25,8	32,9	65	0,0	-13,4	-5,2	-13,8	-0,3	9,2
M1	22,6	5,6	4,6	1,1	16,9	23,3	36,3	4,6	-8,6	-3,5	-6,8	1,1	9,1
M2	29,4	61,9	-7,0	15,9	47,7	60,5	64,6	-7,0	7,3	15,8	13,9	15,9	18,1
M4	25,6	56,7	-8,6	13,2	42,0	51,7			5,2	12,4	11,4	13,2	15,4
Foreign exchange reserves / M4 (denars)	106,3	117,4	93,8	88,6	125,3	119,7	104,5	93,8	90,9	91,9	98,8	88,6	92,9
Foreign exchange reserves / M1	165,0	188,2	150,5	150,7	198,8	190,9	168,9	150,5	157,8	161,9	172,1	150,7	161,7
SOCIAL SECTOR													
Labour market													
Unemployment rate (Labor Force Survey)	32,2	30,5	31,9	36,7									
Number of new employed	101,996	90,308	110,401	79,921	24,093	27,490	29,980	28,838	22,452	24,193	24,964	8,312	25,648
Number of new employed on full time	63,987	63,346	74,341	49,661	15,973	18,492	21,607	18,269	12,693	16,184	15,564	5,220	16,153
Wages													
Nominal net wages	5,5	3,5	6,9	4,8	4,7	5,0	7,9	8,8	6,3	7,1	3,3	1,5	4,0
Real net wages	-0,3	-1,9	5,0	3,6	1,0	1,4	8,8	7,9	6,3	6,5	2,5	-0,4	2,4
Consumer basket	2,4	4,9	3,7	-1,0	8,1	4,8	1,0	1,3	-1,0	-1,6	-1,1	-0,1	0,7
Social protection													
Number of pensioners	238,162	244,035	248,168	251,427	247,376	247,908	248,219	249,168	249,932	250,820	251,589	253,367	254,333
Number of households that receive social protection	75,277	77,309	81,027	61,918	80,931	79,552	81,626	81,997	59,658	61,585	63,173	63,256	64,584
Number of persons that receive unemployment benefits	34,618	36,975	45,819	45,024	42,636	45,065	48,118	47,456	44,125	45,484	44,596	45,891	53,273

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

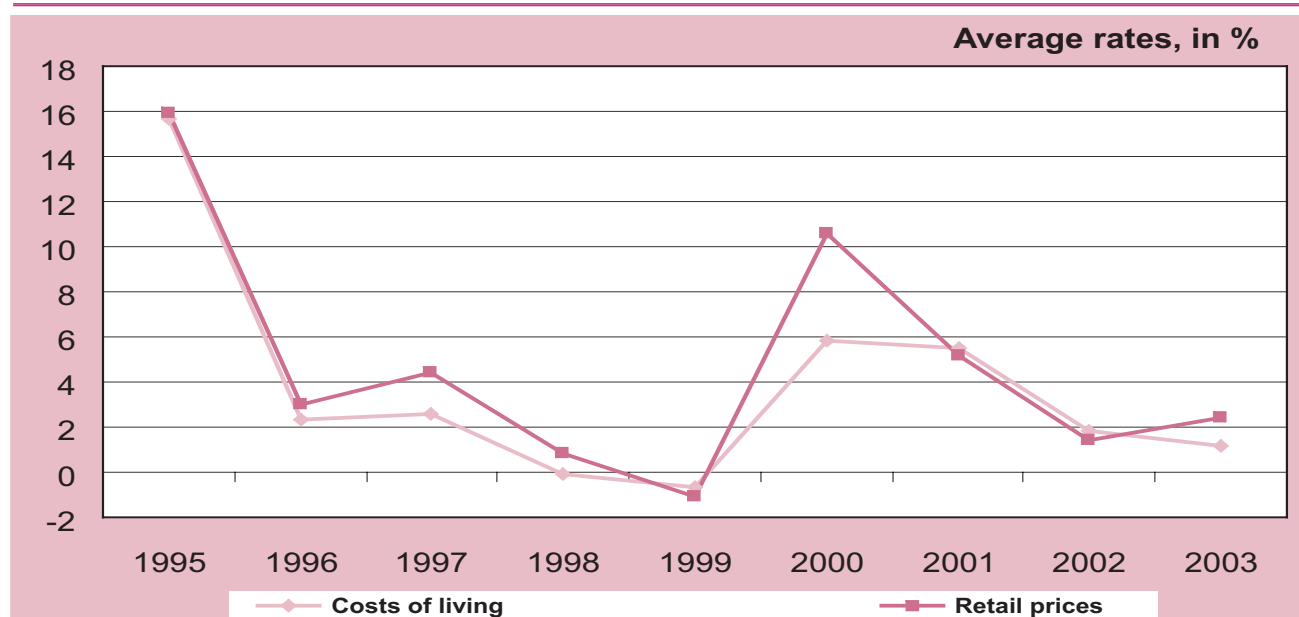


- In million USD dollars	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002 <sup>2)</sup>
Gross Domestic Product <sup>1)</sup>	3.450	3.389	3.351	3.390	3.458	3.575	3.730	3.899	3.723	3.755

- In USD dollars	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002 <sup>2)</sup>
Gross Domestic Product <sup>1)</sup>	1.785	1.742	1.705	1.709	1.732	1.781	1.848	1.924	1.830	1.839

- 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 base 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	2003
<b>Costs of living</b>	15,7	2,3	2,6	-0,1	-0,7	5,8	5,5	1,8	1,2
<b>Retail prices</b>	15,9	3	4,4	0,8	-1,1	10,6	5,2	1,4	2,4

End of period, in percentages

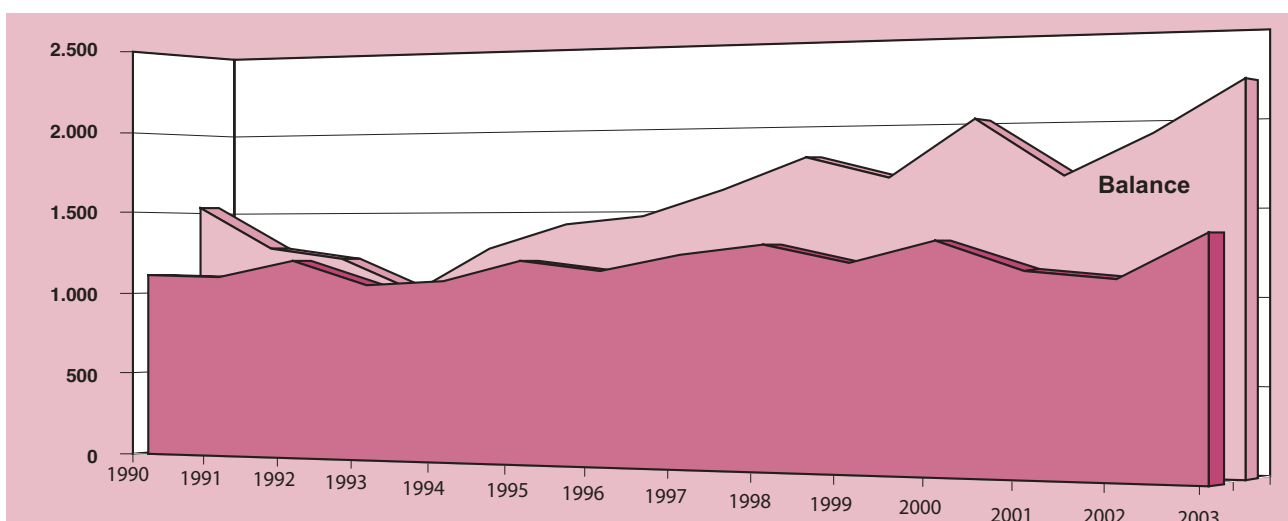
	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Costs of living</b>	8,8	-0,7	2,7	-2,4	2,4	6,1	3,7	1,1	2,6
<b>Retail prices</b>	9,2	0,2	4,5	-1	2,3	10,8	1,2	2,2	2,9



## FOREIGN TRADE

In millions US dollars

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Export of goods</b>	1.113	1.096	1.199	1.055	1.086	1.204	1.147	1.237	1.292	1.190	1.321	1.155	1.112	1.359
<b>Import of goods</b>	1.531	1.274	1.206	1.013	1.271	1.427	1.462	1.623	1.807	1.686	2.011	1.682	1.917	2.211
<b>Balance</b>	-418	-178	-7	42	-185	-223	-315	-386	-515	-496	-690	-527	-805	-852



FOREIGN TRADE

		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
2003		1.363,2	2.299,9	-936,7	278,3	303,8	-25,5	273,8	212,6	61,2
2000	Q1	331,1	606,8	-275,7	66,1	80,9	-14,8	78,8	47,8	31,0
	Q2	317,7	481,0	-163,3	56,9	52,7	4,2	76,3	47,3	29,0
	Q3	345,1	470,6	-125,5	70,8	55,0	15,8	82,8	47,3	35,5
	Q4	328,7	535,4	-206,7	63,7	64,7	-1,0	97,3	48,0	49,3
2001	Q1	291,5	400,4	-108,9	69,0	52,8	16,2	62,3	34,9	27,4
	Q2	285,3	416,6	-131,3	52,9	59,0	-6,1	74,1	39,2	34,9
	Q3	295,7	378,9	-83,2	61,9	42,8	19,1	62,9	33,4	29,5
	Q4	282,5	491,7	-209,2	53,7	58,7	-5,0	67,5	49,7	17,8
2002	Q1	244,0	444,2	-200,2	60,9	56,4	4,5	47,2	38,2	9,0
	Q2	264,4	461,7	-197,3	54,0	70,5	-2,7	53,6	47,9	5,7
	Q3	289,1	497,1	-208,0	60,3	77,1	-10,4	55,8	47,9	7,9
	Q4	301,8	597,6	-295,8	57,0	89,2	-32,2	66,4	55,1	11,3
2003	Q1	293,7	531,7	-238,0	66,6	69,2	-2,6	47,2	50,4	-3,2
	Q2	355,8	580,9	-225,1	68,0	74,2	-6,2	76,4	54,8	21,6
	Q3	337,8	550,2	-212,4	72,0	71,0	1,0	74,7	53,5	21,2
	Q4	375,9	637,1	-261,2	71,7	89,4	-17,7	75,5	53,9	21,6
2004	Q1	358,7	604,9	-246,2	81,7	82,0	-0,3	56,0	48,0	8,0
2003	I	78,6	159,0	-80,4	18,7	22,6	-3,9	11,3	15,0	-3,7
	II	94,7	152,2	-57,5	21,9	21,7	0,2	15,5	15,4	0,1
	III	120,4	220,5	-100,1	26,0	24,9	1,1	20,4	20,0	0,4
	IV	117,3	190,3	-73,0	22,2	21,2	1,0	22,4	15,4	7,0
	V	119,9	208,4	-88,5	23,6	26,5	-2,9	27,3	23,2	4,1
	VI	118,6	182,2	-63,6	22,2	26,5	-4,3	26,7	16,2	10,5
	VII	124,3	194,8	-70,5	25,2	27,8	-2,6	27,2	18,0	9,2
	VIII	96,1	173,1	-77,0	22,2	20,5	1,7	23,1	18,3	4,8
	IX	117,4	182,3	-64,9	24,6	22,7	1,9	24,4	17,2	7,2
	X	124,7	214,0	-89,3	22,8	26,7	-3,9	28,9	18,8	10,1
	XI	122,7	198,8	-76,1	24,7	29,4	-4,7	22,6	15,7	6,9
	XII	128,5	224,3	-95,8	24,2	33,3	-9,1	24,0	19,4	4,6
2004	I	101,5	176,4	-74,9	27,3	21,8	5,5	14,5	11,2	3,3
	II	130,9	197,9	-67,0	28,0	32,5	-4,5	19,9	16,9	3,0
	III	126,3	230,6	-104,3	26,4	27,7	-1,3	21,6	19,9	1,7

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
72,8	56,2	16,6	95,4	122,5	-27,1	179,8	300,2	-116,3	13,7	177,8	-164,1
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	26,9	21,6	5,3	35,1	98,4	-63,3	2,5	25,1	-22,6
13,8	19,1	-5,3	26,5	34,3	-7,8	52,1	76,4	-24,3	3,6	34,6	-31,0
16,0	11,1	4,9	21,6	29,3	-7,7	43,7	56,7	-16,9	3,4	53,5	-50,1
26,3	12,2	14,1	20,4	37,3	-16,9	48,9	68,7	-11,8	4,2	64,6	-60,4
14,6	13,3	1,3	24,2	30,6	-6,4	52,4	63,5	-11,1	3,8	66,4	-62,6
6,7	5,2	1,5	8,9	7,3	1,6	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	31,2	-13,8	1,0	9,6	-8,6
3,4	6,1	-2,7	7,9	11,8	-3,9	18,5	25,6	-7,1	1,1	17,1	-16,0
6,9	8,5	-1,6	9,7	12,1	-2,4	16,2	19,6	-3,4	1,5	7,9	-6,4
7,2	3,9	3,3	7,4	11,8	-4,4	16,9	22,4	-5,5	1,3	9,8	-8,5
4,5	3,1	1,4	6,4	9,0	-2,6	10,9	15,4	-4,5	1,1	23,2	-22,1
4,3	4,1	0,2	7,8	8,5	-0,7	15,9	18,9	-3,0	1,0	20,5	-19,5
5,7	4,4	1,3	5,5	11,3	-5,8	18,2	22,8	-4,8	2,3	24,6	-22,3
6,8	2,8	4,0	7,2	11,8	-4,6	15,9	21,0	-5,1	1,2	19,6	-18,4
13,8	5,0	8,8	7,7	14,2	-6,5	14,8	24,9	-10,1	0,7	20,4	-19,7
6,4	5,3	1,1	5,6	7,6	-2,0	12,5	17,7	-5,2	1,4	27,4	-26,0
4,6	3,8	0,8	8,0	10,0	-2,0	17,8	20,8	-3,0	1,2	17,3	-16,1
3,6	4,2	-0,6	10,6	13,0	-2,4	22,1	25,0	-2,9	1,2	21,7	-20,5

# SHORT-TERM ECONOMIC DEVELOPMENTS

## MARCH, 2004

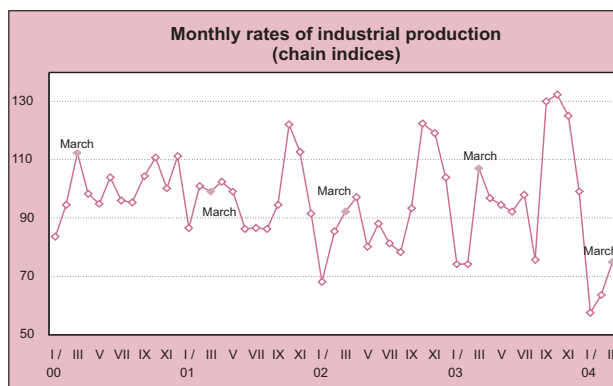
### SUMMARY OF THE MOST IMPORTANT SHORT-TERM ECONOMIC DEVELOPMENT IN MARCH 2004

- Industrial production increased by 17.5 on monthly basis
- On cumulative basis, industrial production declined by 26.1% in the period January-March 2004
- Average inflation in the first quarter in 2004 was 1.6%
- Mild rise of the stock market prices of the major Macedonian export products
- Cumulative growth of exports of 22.1% on annual basis, and imports increase by 13.8%
- Foreign trade deficit in the period January-March 2004 is US\$ 246.3 million
- External debt of the Republic of Macedonia is reduced by US\$ 17 million (US\$ 1,737 million)
- Central Budget surplus of Denar 988 million in the first quarter
- Growth of gross foreign reserves of NBRM by US\$ 18 million compared to the previous month
- New employments increased by 19.2% on annual basis

## 1. REAL SECTOR

### 1.1. Industrial production

Negative trends in the industrial production that began in the last quarter last year continued in early 2004. The consequences from the sharp January fall of industrial production will most probably be present in the next several months as well, thus putting into question the realization of the projected 3.8% growth rate of the Macedonian industry in 2004. On the other hand, the positive trends in the foreign trade of the Republic of Macedonia in the first three months of 2004 (increase of imports by 22.1% in relation to the period January-March 2003) are obvious indicator that the conditions in the Macedonian industry are not so bad after all.

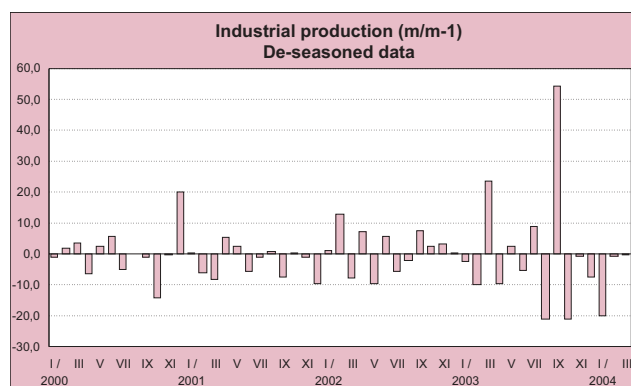


Source: State Statistics Office

Compared to February 2004, industrial production increased by 17.5%. February growth in the industry is a result of the improvement of the economic activities in almost all important sectors (food industry, tobacco

industry, steel industry and construction industry). The exception is base metal industry where the production is at the previous-month level. January decline on cumulative basis in the period January-March 2004 still holds the industrial production on very low level (26.1% lower compared to 2003). Compared to the first quarter last year, only the food industry realized growth of 6.1%. On annual basis (March 2004/March 2003), the industry declined by 22.9%.

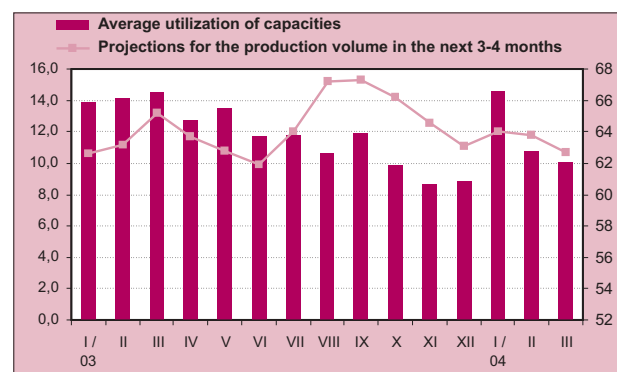
De-seasoned industrial production (which is derived when the industrial production index is "cleared" from the impact of various seasonal factors during the year) in February 2004 is almost at the same level as in the previous month, i.e. there is only mild decline of 0.2%. What worries is the fact that, almost insignificant, it is the sixth consequent decline of de-seasoned production (for the first time in the past four years).



Source: Internal calculations of the Ministry of Finance

The results from the March survey of business tendencies in the food industry also contribute to the negative trends in the industry. Unlike the previous month when the average utilization of industrial capacities reached its highest in the past two years,

and the projections for production volume in the following 3-4 months for the first time after four months were higher, in March 2004 these indicators had negative trend again.

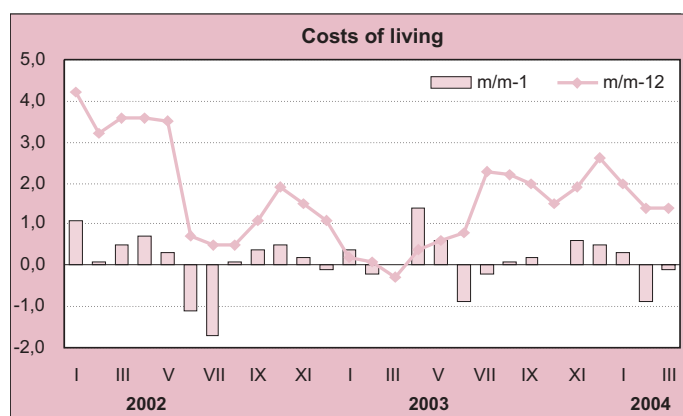


Source: State Statistics Office

Given the pending resolution of the problems in certain companies that halted their operations long ago (but they cover almost one-fourth of the production in this industrial branch), in the following period we expect the negative trends in the industry to stop. However, occasional monthly variations of production are still possible until June 2004, while stable growth is expected in the second half of the year.

## 1.2. Prices

After the February reduction of prices of 0.9%, in March they remained at almost the same level, i.e. they declined by insignificant 0.1% compared to the previous month. Such developments led to reduction of the annual inflation rate from 2% in the first month to 1.6% in the period January-March 2004 (measured through CPI).



Source: State Statistics Office

Reduction of prices in March is a result of the deflationary tendencies of food products (having the largest share in the total CPI), mainly the meat and grain products. Within the CPI, in March 2004 the prices of services were unchanged, i.e. they declined insignificantly by 0.1%. Compared to March 2003, costs of living increased by 1.3%.

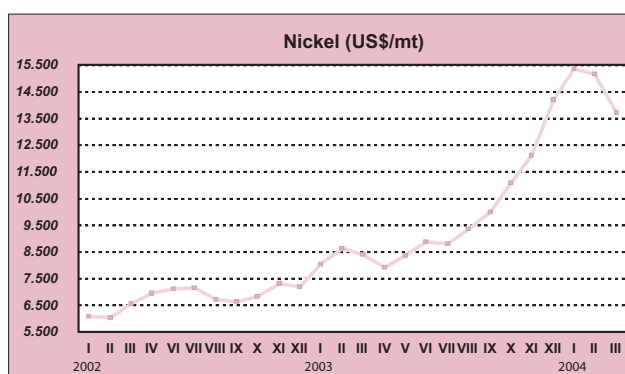
Identical trends are also present at the Retail Price Index, which in March 2004 remained at the previous-month level, initiated by the mild reduction of prices of agricultural and food products.

Prices of oil derivatives continue to set the trend of prices of producers of industrial products. In March 2004, stock market prices of oil indicated high rise on annual basis (in March 2004, the oil price was the highest in the past several years, US\$ 33.8/barrel), which is accordingly reflected on the monthly growth of 0.8% of prices of producers of industrial products.

### 1.2.1 Stock market prices of major Macedonian export products

Rise of prices of majority of products traded on the world markets is the basic feature of February 2004. The

only exception is the nickel whose market price sharply declined by 9.4% in relation to the previous month, which is a second consequent fall in a six-month period. In March 2004, the nickel on the world markets was sold at average price of US\$ 13,715 per metric ton. This changed the direction of movement of the price of this metal, which reached its highest in the past period.

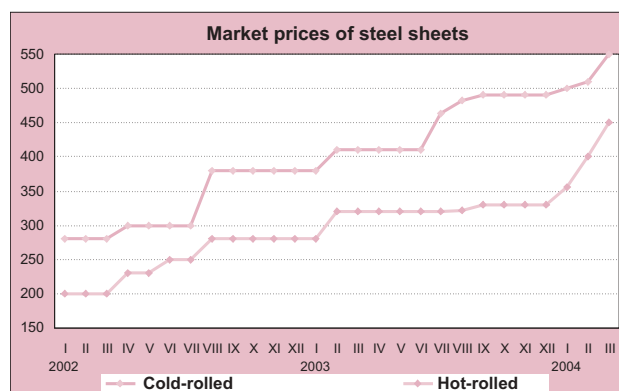


Source: World Development Prospects (Pink Sheets)

Another feature of world markets in 2004 is also the high rise of the prices of certain products. The stock market price of copper increased again, this time by as much as 9% compared to the previous month, i.e. it reached US\$ 3,009 per metric ton. The price of this metal on the world markets has been continuously rising for a year, i.e. it increased by more than 81.4% on annual basis. Prices of other non-ferrous metals also increased, mainly the zinc (2.4% rise compared to the previous month).

After several-month stagnation, in March 2004 the stock market prices of steel and steel sheets increased, which is a second consequent increase. The rebound of economy in global terms, as well as the higher demand from these products on the Chinese market (which has lately been the main driving force of the

world economy) led to upward trend of the price level of these products. Compared to February 2004, the price of steel increased by as much as 21.1%, while the price of hot-rolled and cold-rolled steel sheets increased by 7.8% and 12.5%, respectively.



Source: State Statistics Office

## 2. EXTERNAL SECTOR

### 2.1. Foreign trade

Total foreign trade in March had positive trend compared to February 2004. However, the export of goods in March 2004, expressed in US\$ equivalent, declined by 3.5%, while the import of goods increased by 16.5%, which led to increase in the monthly trade deficit from US\$ 67 million in February to US\$ 104.3 million in March 2004.

Analyzed on annual basis, the exports in the first quarter in 2004 significantly increased by 22.1% compared to the same quarter in 2003.

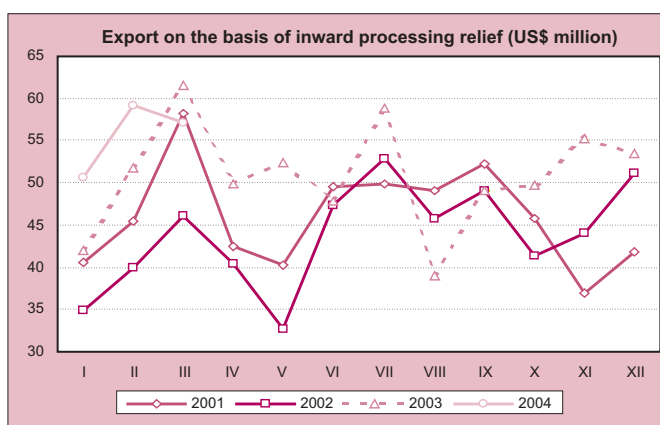
Drop in exports in March 2004 is primarily due to lower import of tobacco and tobacco products (about US\$ 12 million, i.e. by 72%), while the export of iron and steel, oil and oil products and food products increased. Export of inward processing relief products

makes up 45.2% of the total exports, which makes the export structure unfavorable.



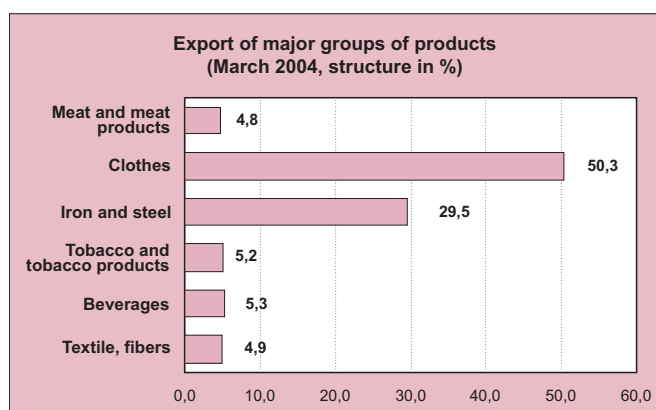
Source: State Statistics Office

Main groups of export products in March are the following: clothing, iron and steel, beverages, tobacco and tobacco products, textile fibers, meat and meat products etc. These six groups of products make up 70.4% of the total export of goods in the country.



Source: State Statistics Office

The structure of exported products per economic purpose in the first quarter in 2004, compared to the same period last year, shows positive changes, i.e. increase in the structural share of export of general consumption goods (by three percentage points), and decline in the export of raw materials and intermediate goods.



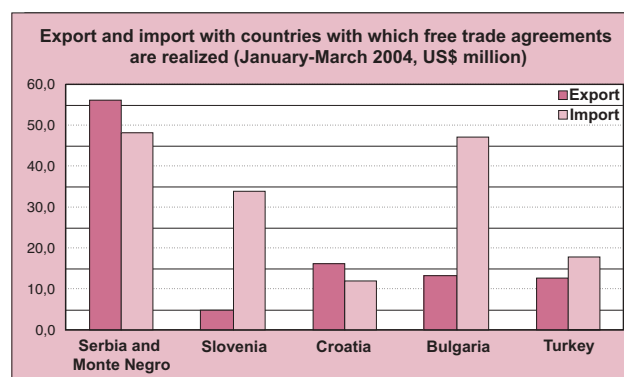
Source: State Statistics Office

In the first quarter of 2004, 59.7% of the total exported goods are marketed in EU, while 42.1% of the total imported goods in the Republic of Macedonia originate from EU. Exports to EU increased by about 28.0%, and imports from EU also increased by 4.0%. Germany, Serbia and Monte Negro, Greece, Italy, France and Croatia are our biggest partners, which participate with about 69.5% in the total exports realized in the first quarter this year.

Import of goods in March 2004 increased by 4.6% compared to March 2003. On cumulative basis, in the first quarter this year import of goods was higher by 13.8% compared to the same period last year. Imports in March, in relation to February 2004, is higher due to the imports of electricity (about S\$ 8.6 million), meat and meat products (US\$ 6.2 million more than the pervious month), grain and grain products (US\$ 6.1 million), fruit and vegetables (US\$ 3.1 million), oil (US\$ 5.2 million), iron and steel (US\$ 4.0 million), non-ferrous metals (US\$ 2.6 million), medical products (US\$ 2.6 million) etc.

Realization of free trade agreements with Bulgaria and Slovenia was also low in this period. Trade deficit only

with these two countries is US\$ 63.2 million, which is about 26% of the trade deficit realized in the first quarter of 2004. Trade deficit with Turkey is 2.5 times lower, as a result of the amendments made to the free trade agreement.



Source: State Statistics Office

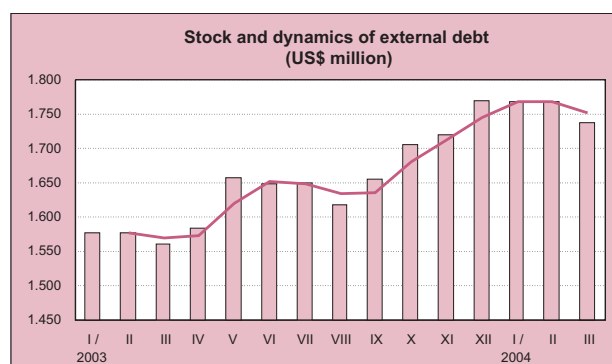
## 2. External debt

External debt of the Republic of Macedonia amounted to US\$ 1.737 million at end-March, which is a reduction by US\$ 17 million or by 1% compared to the previous month. The reduction of debt is a result of the higher repayment of liabilities towards abroad on the basis of disbursed foreign credits, as well as a result of the realized negative exchange rate differences in the amount of US\$ 13,8 million.

Regarding the structure of external debt, more than a half of it is towards multilateral creditors, private creditors make up 33%, while bilateral creditors participate with 14%. The biggest separate creditors are IDA with US\$ 367 million and London Club of creditors with US\$ 238 million.

US\$ 10 million were disbursed form approved credits during this month, i.e. the amount is almost identical as in February 2004. Most of the dis-

bursed funds are from multilateral creditors, especially from EIB (US\$ 6 million), while US\$ 3 million were disbursed from private creditors. Cumulatively, in the first quarter this year US\$ 44 million were disbursed (IBRD and IDA - US\$ 27 million).



Source: National Bank of the Republic of Macedonia

In march 2004, US\$ 19 million were repaid towards abroad (US\$ 15 million principal). In the first three months of the year, US\$ 83 million were repaid towards abroad, US\$ 69 million principal and US\$ 14 million interest. Largest part of liabilities are repaid towards private creditors (US\$ 43 million).

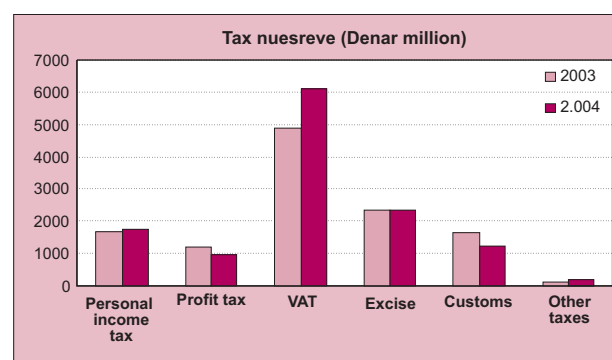
Outstanding liabilities towards abroad amounted to US\$ 7 million in March, i.e. total of US\$ 9 million in the first quarter.

### 3. FISCAL SECTOR

In the first quarter of 2004 the total central budget revenues amounted to Denar 14,102 million, which is 10.3% increase compared to the same period last year. Higher revenues are primarily result of the VAT revenues. Out of the total planned tax revenues in the 2004 Budget amounting to Denar 52,785 million, Denar 12,557

million are realized in January-March 2004, i.e. 23.8%, which is 1.6% increase compared to the projections.

VAT revenues in the period January-March amount to Denar 6,103 million, which is 25.3% increase compared to the same period last year. Such comparison does not reflect the actual situation, since last year (starting in April) VAT rates were changed and it led to higher revenues on this basis, especially if compared to the first two months in 2003. However, such realization is higher by Denar 220 million, or 3.7% compared to the VAT revenue projections for this period.



Source: Ministry of Finance

Although the excise on cars was terminated on 1 January 2004, excise revenues in the first quarter this year increased by 0.8% or by Denar 18 million compared to the same period last year, reaching a level of Denar 2,349 million. Higher revenues in relation to the last year are realized especially at excise of tobacco products (Denar 109 million).

Revenues from personal income tax in the first two months of 2004 reached Denar 1,738 million, i.e. they were higher by Denar 60 million or 0.4% compared to the same period last year. In relation to the projections, there was mild underperformance by Denar 96 million.

In the first quarter this year, compared to the same period last year, customs duty revenues declined by 25.8% (by 2.5% compared to projections), primarily as a result of the reduction of customs rates pursuant to WTO agreement and Stabilization and Association Agreement with EU.

Within the total central budget expenditures, expenditures for wage and allowances make up 39.2%, which is 0.8% decline compared to the same period last year. This decline is a result of the lower expenditures for salaries and allowances due to the strike of the employees in education sector at end-January and early February.

### **Introduction of short-term securities**

Government treasury bills are short-term securities issued by the Government to the end of financing the budget deficit, i.e. overcoming the temporary liquidity problems due to the time discrepancy of public revenues and expenditures.

The first treasury bills were issued in January 2004, which was imposed by the need to expand the sources of budget financing, to promote the financial market development, and to diversify the portfolio of securities. The Government (Ministry of Finance) is the issuer, while the National Bank of the Republic of Macedonia is the government agent.

The issuance of treasury bills covers primary sale of treasury bills by the issuer via auctions. Auctions are carried out via electronic system and it is only accessible to NBRM, Ministry of Finance, and authorized direct participants (banks). Banks may buy and sell treasury bills for their own account and for the account of indirect participants (legal entities and physical persons), as well as those who have concluded contract for participation on the primary market. Auctions are carried out on the volume tender principle with interest rates in line with pre-determined schedule, specified in Calendar for issue of treasury bills.

In February 2004, two auctions were carried out where treasury bills in the amount of Denar 250 million were offered, out of which Denar 208.7 million were realized. The average weighted interest rate was 7.42%.

In the period January-March 2004, total central budget expenditures amounted to Denar 13,114 million, or by 5.3% higher than the same period last year. In March only central budget revenues are higher by Denar 538 million or by 12.8% compared to March 2003. Almost half of the increase of expenditures in March 2004 is a result of the higher costs for goods and services (Denar 187 million), as well higher transfers to Pension and Disability Insurance Fund (Denar 98 million). In relation to the projections, there was reduction by 4.8% or by Denar 654 million.

Regarding transfers (37.6% in the total central budget expenditures), they increased by Denar 484 million, i.e. by 10.9% in the first three months, generated mainly by the higher regular transfers to Pension and Disability Insurance Fund (PDF). Transfers to PDF are by 20.7% or Denar 345 million higher compared to the same period last year.

Negative feature of the budget policy in the first three months in 2004 is the low level of capital expenditures (Denar 685 million), which is a decrease of 35.6% or Denar 378 million compared

In the period January-March 2004, mainly initiated by the successful collection of public revenues, central budget surplus was Denar 988 million (the surplus projection for the first three months was Denar 280 million).

#### 4.1. Monetary regulation

The volume tender auctions<sup>1</sup> (with unlimited volume and fixed interest rates) resulted in higher interest for Central Bank bills in March 2004, and the Central Bank bills at end-March reached Denar 5.571 million.

## 4.2. Monetary aggregates

In February 2004, monetary aggregates in general continued the nega-

Similar tendencies, i.e. mild decline on monthly basis is also a feature of the monetary aggregate M2, where the decline is 0.7%. The growth of long-term foreign exchange potential resulted in more moderate drop of the monetary aggregate M4 by 0.4%.

In March 2004 there was a significant drop of 33% in the supply and of 88% in the demand on the money market, which decreased the overall turnover and in March it reached Denar 674 million, i.e. by 49.6% lower than in February.

However, these movements did not initiate a change in the average weighted interest rate on the money market, which in March 2004 remained on the previous-month level (6.5%).

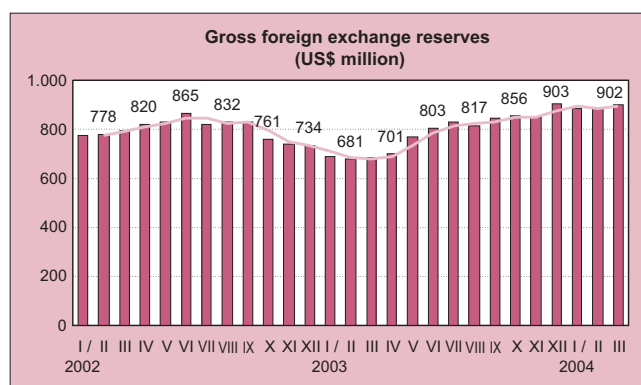


<sup>1</sup> Starting on 18 February 2004.

#### 4.4. Foreign exchange trends

At end-March, the average Denar exchange rate against the EUR was 61.29 Denars/EUR. which is the same as in the previous month. At the same time, the Denar exchange rate depreciated against US\$ and at end-March it was 49.94 Denars/US\$.

The turnover on the exchange market was US\$ 98 million, which is a decline by 11% on monthly basis, while the demand was lower than the supply of foreign currency by about US\$ 25 million.



Source: National Bank of the Republic of Macedonia

Total foreign exchange potential reached US\$ 1,611 million, which is US\$ 12 million decline on monthly basis. The decline in the foreign exchange potential is a result of the lower level of foreign exchange assets in the banks. Total foreign exchange assets of commercial banks at end-March amounted to US\$ 700 million, and they are lower by US\$ 29 million compared to the previous month. The decline is due to the drop of the foreign exchange deposits of citizens by US\$ 15 million, while the foreign exchange deposits of corporations increased by US\$ 7 million on monthly basis.

Gross foreign exchange reserves of NBRM, after the January decline,

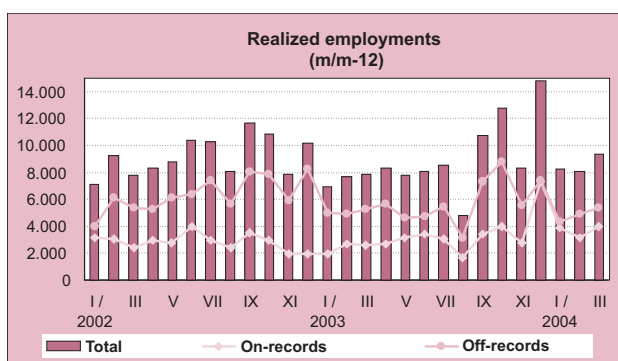
increased by US\$ 18 million in March 2004, and they amount to US\$ 902 as of 30 March 2004.

## 5. LABOUR MARKET

### 5.1 Employment

In March 2004, according to the records of the Employment Bureau, 9,335 persons got employed, out of which 59.7% or 5,585 persons got employed on indefinite period. In relation to the same month last year, total number of new employments increased by 19.2%.

Chart 1 shows the structure of total employments, i.e. the share of employed persons who were previously registered in the records of the Employment Bureau as unemployed and the share of employed persons who previously were not registered in the records of the Employment Bureau (they were inactive). Share of employed persons from the records is insignificantly higher than the previous month and it was 42.8% of the total employments in March 2004.



Source: Employment Bureau

According to the regional structure of employments, the largest share of employments are realized in Skopje, Bitola, Stip, Ohrid and Prilep.

## 5.2. Unemployment

At end-March, registered unemployment was 395,236 persons, which is 3.8% increase compared to the same period last year, or 0.4% increase compared to the early 2004. However, compared to the previous month, the number of unemployed is lower by 371 persons.

Urban unemployment makes up 66% of the total unemployment, while 57% of the unemployed are men. Persons aged 15-30 make up 33.8% of the total unemployment, persons aged 30-50 make up 56.5%, and 9.7% of the unemployed are over 50.

Thereby, only 18% of the unemployed have been looking for a job for less than a year, i.e. they are short-term unemployed persons. Persons unemployed from 1 to 2 years makeup 12.1% in the total unemployment, 43% are unemployed from 2 to 7 years, while the remaining 26.7% have been unemployed for more than 8 years.

## 5.3. Unemployment allowance beneficiaries and right to health insurance

Number of unemployment allowance beneficiaries at end-February 2004 was 53,273 persons (13.5% of the total number of unemployed), which is 20.7% increase on annual level. Such increase is due to the greater number of allowance beneficiaries on the basis of bankruptcy (76.7%), while the number of beneficiaries on the basis of redundancy (loss-makers and seasonal workers) declined. 62.8% (248,463 persons) of the registered unemployed

persons receive health insurance in this month, which is almost the same as in the previous month.

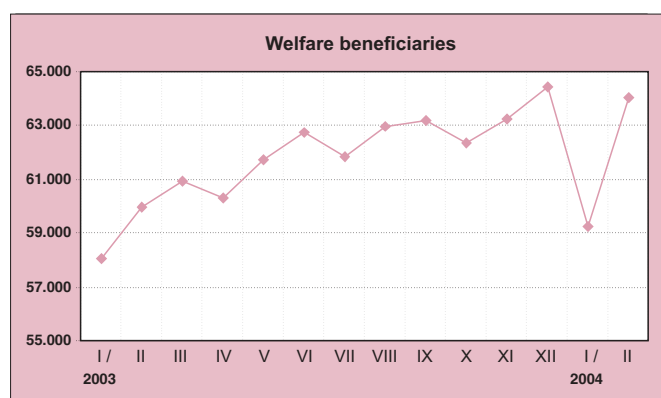
## 5.4 Pension beneficiaries

Number of pension beneficiaries in March was 254,333 persons, which is by 66 persons less than in the previous month, while compared to March 2003, the number of pension beneficiaries increased by 3,978 persons.

Average pension in March 2004 was Denar 7,442. This means that it is at previous-month level, while compared to March 2003 it is realistically increased by 3.7%. The ratio of average pension in March<sup>2</sup> 2004 with the average paid net salary in February 2004 is 61.3%.

## 5.5 Welfare beneficiaries

As of February<sup>3</sup> 2004, number of welfare beneficiaries is 63,032 persons, which is an increase by 4,819 persons or by 8.1% compared to the previous month. Such increase is a result of the fact that the beneficiaries complete their documentation during these months.



<sup>2</sup> The comparison is made with the average salary in the previous month, since the data on salaries is available with monthly lag.

<sup>3</sup> Last available data

## EXTERNAL DEBT

External debt of the Republic of Macedonia amounted to US\$ 1,737 million at end-March, which is US\$ 17 million decline on monthly basis. The reduction of debt is a result of the higher repayment of liabilities towards abroad on the basis of disbursed foreign credits, as well as a result of the negative exchange rate differences in the amount of US\$ 13.8 million (appreciation of US\$ against EUR).

Regarding the structure of external debt, more than a half goes to multilateral creditors, and IDA (US\$ 367 million) and London Club of Creditors (US\$ 238 million) remain to be our largest individual creditors.

In March, funds disbursed from foreign creditors reached US\$ 10 million,

and it is almost at the previous-month level. Majority of these funds come from multilateral creditors. Within this group of creditors, most of the funds were disbursed from EIB (US\$ 6 million), while US\$ 3 million were disbursed from private creditors.

The Republic of Macedonia continued to service its liabilities towards abroad on timely and regular basis, and in March 2004 total repayments towards broad amounted to US\$ 19 million, out of which US\$ 15 million is principal. In the first three months of the year, US\$ 83 million were repaid towards abroad, out of which US\$ 69 million principal and US\$ 14 million interest. Largest part of liabilities is repaid towards private creditors (US\$ 43 million).

### EXTERNAL DEBT OF THE REPUBLIC OF MACEDONIA <sup>1</sup>

In millions US dollars

	31.12. 1998	31.12. 1999	31.12. 2000	31.12. 2001	31.12. 2002	31.03. 2003	30.06. 2003	30.09. 2003	31.12. 2003	31.03. 2004
<b>Official creditors</b>	<b>1.004</b>	<b>1.031</b>	<b>1.033</b>	<b>980</b>	<b>1.048</b>	<b>1.032</b>	<b>1.096</b>	<b>1.106</b>	<b>1.193</b>	<b>1.183</b>
<b>Multilateral creditors</b>	<b>684</b>	<b>714</b>	<b>716</b>	<b>688</b>	<b>756</b>	<b>766</b>	<b>823</b>	<b>844</b>	<b>920</b>	<b>931</b>
IMF	114	113	82	71	67	64	65	62	68	64
IBRD	115	117	123	124	145	149	156	169	181	191
IFC	55	57	57	33	18	19	20	19	17	17
IDA	179	222	250	255	295	302	326	343	358	367
EIB	54	68	67	75	102	103	110	108	116	118
EUROFIMA	22	17	17	14	12	9	10	7	8	7
CEDB	5	5	7	6	14	15	16	16	17	17
EBRD	90	72	72	61	32	31	30	28	34	31
EU	48	40	37	44	65	67	82	82	112	110
IFAD	1	2	3	4	5	6	6	6	7	8
EAR	0	0	1	1	0	0	1	2	2	1
<b>Bilateral creditors</b>	<b>320</b>	<b>317</b>	<b>316</b>	<b>292</b>	<b>292</b>	<b>266</b>	<b>273</b>	<b>262</b>	<b>273</b>	<b>253</b>
<b>Commercial creditors</b>	<b>394</b>	<b>407</b>	<b>405</b>	<b>464</b>	<b>501</b>	<b>528</b>	<b>552</b>	<b>548</b>	<b>577</b>	<b>554</b>
London club	243	250	253	262	254	249	249	243	243	238
Others	151	157	152	202	247	279	304	305	334	315
<b>Banks and financial institutions</b>	<b>27</b>	<b>26</b>	<b>32</b>	<b>143</b>	<b>181</b>	<b>197</b>	<b>216</b>	<b>217</b>	<b>213</b>	<b>198</b>
<b>Enterprises</b>	<b>124</b>	<b>131</b>	<b>120</b>	<b>59</b>	<b>66</b>	<b>82</b>	<b>87</b>	<b>88</b>	<b>121</b>	<b>118</b>
<b>TOTAL</b>	<b>1.398</b>	<b>1.438</b>	<b>1.438</b>	<b>1.444</b>	<b>1.549</b>	<b>1.561</b>	<b>1.648</b>	<b>1.655</b>	<b>1.770</b>	<b>1.737</b>

<sup>1</sup> Dol goro-en i srednoro-en dol g

## TOTAL EXTERNAL DEBT PER DEBTORS \*

In millions US dollars

	1997	1998	1999	2000	2001	2002	31.03. 2003	30.06. 2003	30.09. 2003	31.12. 2003
<b>Total external debt</b>	<b>1.139</b>	<b>1.437</b>	<b>1.490</b>	<b>1.489</b>	<b>1.506</b>	<b>1.611</b>	<b>1.614</b>	<b>1.696</b>	<b>1.729</b>	<b>1.812</b>
<b>Public sector</b>	<b>1.007</b>	<b>1.222</b>	<b>1.305</b>	<b>1.330</b>	<b>1.222</b>	<b>1.333</b>	<b>1.327</b>	<b>1.383</b>	<b>1.393</b>	<b>1.486</b>
<b>Government</b>	775	890	975	1.066	1.052	1.141	1.138	1.178	1.182	1.256
<b>Government (Government liabilities)</b>	767	864	932	1.018	1.010	1.101	1.099	1.138	1.144	1.215
<b>Road fund</b>		18	33	48	42	40	39	40	38	41
<b>Health fund</b>	1	1	3	0	0	0	0	0	0	0
<b>Others</b>	7	7	7	0	0	0	0	0	0	0
<b>NBM</b>	99	114	113	96	71	67	64	65	62	68
<b>Public enterprises</b>	133	218	217	168	99	125	125	140	149	162
<b>Private sector</b>	<b>132</b>	<b>215</b>	<b>185</b>	<b>159</b>	<b>284</b>	<b>278</b>	<b>287</b>	<b>313</b>	<b>336</b>	<b>326</b>
<b>Banks</b>	92	110	93	66	97	110	113	112	105	86
<b>Enterprises</b>	40	105	92	93	187	168	174	201	231	240

\* Short, medium and long-term debt

## EXTERNAL DEBT PER CREDITORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Total (Medium and long-term debt)</b>	<b>1.062</b>	<b>1.123</b>	<b>1.141</b>	<b>1.380</b>	<b>1.438</b>	<b>1.436</b>	<b>1.444</b>	<b>1.549</b>	<b>1.770</b>
<b>Multilateral creditors</b>	399	468	490	687	714	715	688	756	926
<b>IMF</b>	69	80	103	114	113	82	71	67	68
<b>IBRD / IDA</b>	178	206	237	296	339	373	379	441	539
<b>IFC</b>	5	2	0	56	57	57	33	18	20
<b>EIB</b>	82	76	37	54	68	67	75	102	116
<b>EBRD</b>	15	69	83	90	72	72	62	32	37
<b>EUROFIMA</b>	40	29	25	23	17	17	14	12	8
<b>Council of Europ. Develop. Bank</b>	10	6	5	5	5	7	6	14	17
<b>EU</b>				48	41	37	44	65	112
<b>IFAD</b>				1	2	3	4	5	7
<b>Bilateral creditors</b>	412	402	377	289	317	316	292	292	272
<b>Private creditors</b>	251	253	274	404	407	405	464	501	572
<b>Commercial banks</b>	229	229	241	243	250	253	262	254	243
<b>Others</b>	22	24	33	161	157	152	202	247	329
<b>Total (without IMF)</b>	993	1.043	1.038	1.266	1.325	1.335	1.373	1.482	1702
<b>Short-term debt</b>				<b>60</b>	<b>55</b>	<b>52</b>	<b>63</b>	<b>64</b>	<b>42</b>

Source: National Bank of the Republic of Macedonia

## REPAYMENT OF DEBT PER CREDITORS (January - March 2004)

(in million of USA dollars)	Total	Principal	Interest
<b>Total (principal and interest)</b>	<b>82,51</b>	<b>68,82</b>	<b>13,69</b>
<b>Official creditors</b>	<b>39,60</b>	<b>30,70</b>	<b>8,89</b>
<b>Multilateral creditors</b>	<b>18,24</b>	<b>13,24</b>	<b>5,00</b>
IMF	4,29	4,12	0,16
IBRD	4,82	3,10	1,72
IFC	1,08	1,00	0,08
IDA	0,62	0,06	0,56
EIB	2,76	1,83	0,93
EUROFIMA	0,00	0,00	0,00
CEDB	0,10	0,00	0,10
EBRD	3,74	3,11	0,64
EU	0,81	0,00	0,81
IFAD	0,00	0,00	0,00
EAR	0,02	0,02	0,00
<b>Bilateral creditors</b>	<b>21,36</b>	<b>17,47</b>	<b>3,89</b>
Reschedule 1995	14,20	11,23	2,97
Unrescheduled debt	0,00	0,00	0,00
Reschedule 2000	4,71	4,43	0,28
New credits	2,45	1,80	0,64
<b>Private creditors</b>	<b>42,91</b>	<b>38,12</b>	<b>4,79</b>
London club	7,63	5,23	2,40
Others	35,28	32,89	2,39
Banks and financial institutions	31,60	29,44	2,16
Enterprises	3,68	3,44	0,24

Source: National Bank of the Republic of Macedonia

## SERVISING OF THE LIABILITIES (PRINCIPAL AND INTEREST)

In millions US dollars

	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Per creditors</b>									
<b>Principal</b>	<b>33</b>	<b>47</b>	<b>53</b>	<b>86</b>	<b>103</b>	<b>111</b>	<b>145</b>	<b>184</b>	<b>185</b>
Multilateral creditors	29	29	27	29	43	49	67	82	57
IMF	1	1	0	2	17	19	8	9	22
IBRD / IDA	19	15	6	6	0	6	4	6	8
IFC	8	3	1	0	3	3	27	20	5
EIB	0	2	8	2	3	3	3	3	6
EBRD	0	1	8	14	15	15	19	38	11
EUROFIMA	0	7	2	5	4	1	4	4	5
Council of Eur. Develop. Bank	0	0	1	1	1	1	1	1	0
EU	0	0	0	0	1	0	0	0	0
IFAD	0	0	0	0	0	0	0	0	0
EAR						1	1	1	0
Bilateral creditors	0	13	18	30	13	14	44	35	43
Paris club	0	0	17	26	11	11	29	29	37
Taiwan	0	0	0	0	0	0	10	0	0
Others	0	0	1	4	3	3	5	6	6
Commercial creditors	4	5	9	27	46	48	34	67	85
London club	0	0	0	0	0	0	0	8	10
Others	4	5	9	27	46	48	34	59	75
<b>Interest</b>	<b>13</b>	<b>32</b>	<b>72</b>	<b>57</b>	<b>53</b>	<b>54</b>	<b>60</b>	<b>51</b>	<b>51</b>
Multilateral creditors	12	18	43	0	26	27	28	23	22
IMF	2	3	3	3	3	3	2	1	1
IBRD / IDA	8	7	6	5	8	9	10	9	9
IFC	1	1	0	0	5	5	4	2	1
EIB	0	4	28	3	4	3	4	4	5
EBRD	0	2	4	5	4	5	5	4	2
EUROFIMA	0	1	1	1	1	1	1	1	1
Council of Eur. Develop. Bank	0	0	0	0	0	0	0	0	1
EU	0	0	0	2	1	1	2	2	2
IFAD	0	0	0	0	0	0	0	0	0
EAR							0	0	0
Bilateralni kreditori	0	13	28	21	9	9	17	13	13
Paris club	0	0	27	20	8	7	15	11	11
Taiwan	0	0	0	0	0	1	1	1	0
Others	0	0	1	1	1	1	1	1	2
Commercial creditors	1	1	1	16	18	18	15	15	16
London club	0	0	0	10	9	9	10	10	6
Others	1	1	1	6	9	9	5	5	10
<b>Total (principal and interest)</b>	<b>47</b>	<b>79</b>	<b>125</b>	<b>143</b>	<b>155</b>	<b>165</b>	<b>205</b>	<b>235</b>	<b>236</b>
<b>Per debtors</b>									
Principal	0	47	53	86	103	111	144	184	187
Government		8	8	19	18	17	49	50	67
Extra budgetary funds		0	0	0	0	4	5	5	4
Others		40	45	68	85	90	90	129	116
Interest	0	32	72	57	52	53	60	51	50
Government		15	30	37	26	27	39	35	32
Extra budgetary funds		0	0	0	0	4	4	3	3
Others		17	42	20	26	22	17	13	15
<b>Total (principal and interest)</b>	<b>0</b>	<b>79</b>	<b>125</b>	<b>143</b>	<b>155</b>	<b>164</b>	<b>204</b>	<b>235</b>	<b>237</b>

Source: National Bank of the Republic of Macedonia

## CENTRAL GOVERNMENT BUDGET OF THE REPUBLIC OF MACEDONIA

	2001	2002	Q1	Q2	Q3
<b>TOTAL REVENUES</b>	<b>52.829</b>	<b>58.160</b>	<b>12.789</b>	<b>13.690</b>	<b>13.563</b>
Tax Revenues	47.716	54.389	11.879	12.363	12.152
Personal Income Tax	7.248	7.513	1.678	1.881	1.835
Profit Tax	3.006	2.624	1.187	639	778
VAT	17.132	20.521	4.869	5.546	5.077
Excises	10.830	10.715	2.331	2.587	2.961
Import Duties	6.111	6.336	1.655	1.587	1.395
Other Taxes	275	340	130	122	103
Tax on Financial Transactions	3.111	6.336	28	0	1
Utility Taxes	3	4	1	1	1
Non Tax Revenues	4.349	3.170	773	1.167	1.280
Profit of Public Financial Institutions	1.847	1.057	135	597	866
Administrative Taxes and Charges	1.061	1.092	311	342	318
Other Administrative Taxes	486	205	42	208	53
Other Non Tax Revenues	32	35	285	20	44
Capital Revenues	349	601	137	160	123
Foreign Donations	415	0	0	0	0
<b>TOTAL EXPENDITURES</b>	<b>65.575</b>	<b>65.503</b>	<b>12.454</b>	<b>13.843</b>	<b>13.950</b>
Current Expenditures	44.017	51.591	11.744	12.817	12.531
Wages and Allowances	16.407	18.338	4.953	5.058	4.909
Goods and Services	6.358	8.715	1.328	1.771	1.497
Transfers	16.950	20.576	4.440	5.359	5.524
Pension Fund	5.215	6.538	1.665	1.766	2.065
Employment Fund	3.548	4.111	1.020	1.083	1.096
Other Transfers	2.349	3.404	413	907	948
Refugees	582	391	84	72	51
Structural Reforms	239	1.387	386	294	348
Public Administration Reforms	944	442	93	129	105
Interest	4.212	3.401	774	629	562
Domestic	1.066	1.179	127	385	86
Foreign	3.146	2.222	647	244	476
Guaranties	90	561	249	0	39
Capital Expenditures	7.723	8.636	450	924	1.372
Fixed Assets	3.589	2.718	250	288	388
Capital Transfers	2.211	2.476	151	596	817
Commodity Reserves	546	418	0	0	0
International Financial Institutions	35	22	0	15	0
Telecom Projects	1.342	3.002	49	25	167
Crisis Related Expenditures	13.835	5.276	260	102	48
<b>BUDGET BALANCE</b>	<b>-12.746</b>	<b>-7.343</b>	<b>335</b>	<b>-153</b>	<b>-387</b>
<b>FINANCING</b>	<b>12.746</b>	<b>7.343</b>	<b>834</b>	<b>153</b>	<b>387</b>
Inflow	19.272	13.430	2.502	2.928	2.001
Privatisation Receipts	10.837	5.177	409	1.344	2.014
Foreign Donations	0	2.641	668	850	0
Capitalisation	604	0	0	0	0
Foreign Loans	763	1.548	0	1.506	1.163
Deposits	5.399	4.029	256	-772	-1.176
BIS	1169	0	0	0	0
Outflow	6.526	6.087	1.668	2.775	1.614
Repayment of Principal	3.550	6.087	1.668	2.775	1.614
Foreign	3.543	3.602	1.533	373	1.482
Domestic	7	2.485	135	2.402	132
Purchase of Bonds	2.976	0	0	0	0

Q4	Total 2003	I	II	III	Q1	Total 2004
<b>13.840</b>	<b>53.881</b>	<b>4.506</b>	<b>4.058</b>	<b>5.538</b>	<b>14.102</b>	<b>14.102</b>
12.770	49.163	4.118	3.869	4.569	12.556	12.556
2.108	7.502	505	576	657	1.738	1.738
667	3.271	140	300	518	958	958
5.683	21.175	2.161	1.926	2.016	6.103	6.103
2.685	10.564	885	634	830	2.349	2.349
1.503	6.140	349	380	499	1.228	1.228
121	476	78	53	49	180	180
1	31	0	0	0	0	0
1	4	0	0	0	0	0
820	4.040	331	147	893	1.371	1.371
209	1.807	68	0	725	793	793
398	1.369	98	123	137	358	358
67	370	20	20	24	64	64
146	495	145	4	7	156	156
135	555	57	42	76	175	175
0	0	0	0	0	0	0
<b>16.185</b>	<b>56.432</b>	<b>4.149</b>	<b>4.210</b>	<b>4.741</b>	<b>13.100</b>	<b>13.100</b>
13.892	50.984	4.041	4.063	4.311	12.415	12.415
5.314	20.234	1.719	1.655	1.761	5.135	5.135
2.318	6.914	470	651	676	1.797	1.797
5.782	21.105	1.549	1.635	1.740	4.924	4.924
1.809	7.305	669	670	671	2.010	2.010
1.161	4.360	433	446	421	1.300	1.300
996	3.264	42	180	144	366	366
53	259	14	17	13	44	44
631	1.659	44	62	91	197	197
202	528	36	37	35	108	108
478	2.443	303	94	134	531	531
352	950	12	12	57	81	81
126	1.493	291	82	77	450	450
0	288	0	28	0	28	28
2.291	5.037	108	147	430	685	685
811	1.737	96	140	77	313	313
1.232	2.796	11	6	347	364	364
0	0	0	0	0	0	0
3	18	0	0	0	0	0
245	486	1	1	6	8	8
2	412	0	0	0	0	0
<b>-2.345</b>	<b>-2.551</b>	<b>357</b>	<b>-152</b>	<b>797</b>	<b>1.002</b>	<b>1.002</b>
<b>2.345</b>	<b>2.551</b>	<b>-357</b>	<b>152</b>	<b>-797</b>	<b>-1.002</b>	<b>-1.002</b>
4.322	10.585	316	469	-371	414	414
906	4.673	68	0	20	88	88
1.042	2.560	490	0	0	490	490
0	0	0	0	0	0	0
1.104	3.773	1.020	0	0	1.020	1.020
1.270	-4.22	-1.360	264	-612	-1.708	-1.708
0	0	98	205	221	524	524
1.977	8.034	673	317	426	1.416	1.416
1.977	8.034	673	317	426	1.416	1.416
294	3.682	669	317	294	1.280	1.280
1.683	4.352	4	0	132	136	136
0	0	0	0	0	0	0

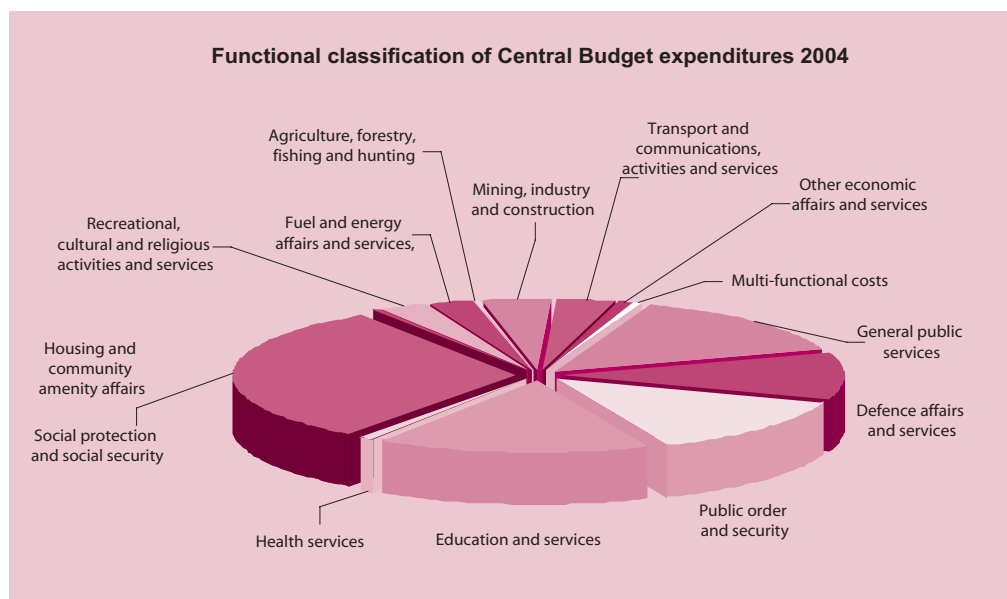
## CENTRAL BUDGET OF THE REPUBLIC OF MACEDONIA

	2000 Final statement	2001 Final statement	2002 Final statement	2003 Supplemental budget	2004 Budget
<b>TOTAL REVENUES</b>	<b>65.713.522.924</b>	<b>69.688.034.455</b>	<b>71.981.222.938</b>	<b>67.490.170.000</b>	<b>66.666.000.000</b>
<b>REVENUES (TAX AND NON-TAX)</b>	<b>56.760.081.090</b>	<b>50.447.329.542</b>	<b>58.896.097.958</b>	<b>56.179.000.000</b>	<b>56.861.000.000</b>
<b>TAX REVENUES</b>	<b>51.120.246.193</b>	<b>47.715.732.355</b>	<b>54.389.136.894</b>	<b>50.932.000.000</b>	<b>52.785.000.000</b>
Taxes on income, profits and capital gains	13.585.772.246	10.254.737.418	10.137.596.496	10.897.000.000	11.642.000.000
Personal income tax	10.792.594.721	7.248.441.986	7.513.310.320	7.713.000.000	8.139.000.000
Profit tax	2.793.156.390	3.006.295.432	2.624.286.176	3.184.000.000	3.503.000.000
Other taxes on income, profit and capital gains	21.135	0	0	0	0
Domestic taxes on goods and services	29.733.381.841	27.961.320.393	31.235.879.140	33.089.000.000	34.712.000.000
Value Added Tax (since 1.4.2000)	17.452.340.371	17.131.342.296	20.521.036.109	22.792.000.000	23.990.000.000
Excises	12.281.041.470	10.829.978.097	10.714.843.031	10.297.000.000	10.722.000.000
Taxes on international trade and transactions	7.733.381.467	6.110.877.520	6.336.011.440	6.596.000.000	5.997.000.000
Custom duties	6.040.495.875	4.819.861.730	5.230.636.743	5.445.268.000	4.827.062.000
Other import taxes and duties	1.692.885.592	1.291.015.790	1.105.374.697	1.150.732.000	1.169.938.000
Other taxes	62.644.972	168.830	0	4.000.000	0
Taxes on specific services	5.065.667	2.619.857	3.359.937	3.000.000	0
Fees for usage and permissions for performing activities	-	274.734.772	340.562.742	343.000.000	434.000.000
Financial transactions tax	-	3.111.273.565	6.335.727.139	-	-
<b>NON-TAX REVENUES</b>	<b>5.639.834.897</b>	<b>2.731.597.187</b>	<b>4.506.961.064</b>	<b>5.247.000.000</b>	<b>4.076.000.000</b>
Entrepreneurial income and property income	1.133.367.383	1.151.786.583	931.379.088	3.108.000.000	1.956.000.000
Fees and charges	1.215.770.217	1.061.498.244	1.091.976.541	1.220.000.000	1.300.000.000
Other government services	324.812.933	486.087.458	205.764.069	520.000.000	420.000.000
Other non-tax revenues	349.306.600	32.224.902	2.277.841.366	399.000.000	400.000.000
<b>CAPITAL REVENUES</b>	<b>2.616.577.764</b>	<b>10.660.015.021</b>	<b>7.193.569.639</b>	<b>3.596.000.000</b>	<b>2.835.000.000</b>
Sales of capital assets	2.616.577.764	9.714.039.661	6.244.440.021	3.496.000.000	2.735.000.000
Sales of land and intangible assets	-	945.975.360	949.129.619	100.000.000	100.000.000
<b>TRANSFERS AND DONATIONS</b>	<b>4.155.269.452</b>	<b>6.484.077.606</b>	<b>3.808.557.430</b>	<b>3.760.170.000</b>	<b>2.257.000.000</b>
Transfers from other levels of government	716.822.828	5.407.618.545	1.167.411.039	708.170.000	0
Foreign donations	3.438.446.624	1.076.459.061	2.641.146.391	3.052.000.000	2.257.000.000
<b>DOMESTIC LOANS</b>	<b>0</b>	<b>1.333.471.478</b>	<b>480.521.896</b>	<b>0</b>	<b>2.000.000.000</b>
<b>BORROWING FROM ABROAD</b>	<b>2.181.594.618</b>	<b>763.140.808</b>	<b>1.584.121.754</b>	<b>3.800.000.000</b>	<b>2.713.000.000</b>
<b>REVENUES FROM REPAYMENT OF LOANS</b>	<b>-</b>	<b>-</b>	<b>18.354.261</b>	<b>155.000.000</b>	<b>0</b>
<b>TOTAL EXPENDITURES</b>	<b>57.689.326.704</b>	<b>68.520.623.429</b>	<b>71.700.272.895</b>	<b>67.490.170.000</b>	<b>66.666.000.000</b>
<b>CURRENT EXPENDITURES</b>	<b>46.985.485.342</b>	<b>57.496.087.268</b>	<b>56.314.747.304</b>	<b>52.946.575.000</b>	<b>53.421.299.000</b>
Wages, salaries and allowances	16.285.267.541	16.407.589.066	18.337.661.335	20.742.000.000	21.127.667.000
Goods and other services	6.293.788.729	19.985.061.676	13.991.420.289	7.708.157.000	7.459.051.000
Current transfers	22.790.409.470	17.494.812.744	20.586.832.339	21.732.342.000	22.391.478.000
Interest payments	1.616.019.602	3.608.623.782	3.398.833.341	2.764.076.000	2.443.103.000
<b>CAPITAL EXPENDITURES</b>	<b>5.186.477.309</b>	<b>7.140.072.243</b>	<b>8.366.132.516</b>	<b>5.629.770.000</b>	<b>6.171.007.000</b>
Acquisition of capital assets	3.230.738.464	5.117.069.331	5.418.620.859	3.184.221.000	3.224.507.000
Capital transfers	1.955.738.845	2.023.002.912	2.947.511.657	2.445.549.000	2.946.500.000
<b>LENDING, EQUITY PARTICIPATION AND DEBT REPAYMENT</b>	<b>5.517.364.053</b>	<b>3.884.463.918</b>	<b>7.019.393.075</b>	<b>8.913.825.000</b>	<b>7.073.694.000</b>
Lending and equity participation	3.956.462.261	334.943.165	931.369.212	623.060.000	110.000.000
Amortization (debt repayment)	1.560.901.792	3.549.520.753	6.088.023.863	8.290.765.000	6.963.694.000

## FUNCTIONAL CLASSIFICATION OF CENTRAL BUDGET EXPENDITURES

		Final statement 2000	Final statement 2001	Final statement 2002	Budget 2003	Budget 2004	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
		In million of denars					Participation					% of GDP				
<b>TOTAL</b>		57.689	68.521	71.700	67.490	66.666	100,0	100,0	100,0	100,0	100,0	24,4	29,3	29,4	26,9	24,8
1	<b>General public services</b>	12.985	7.767	15.434	8.735	8.057	22,5	11,3	21,5	12,9	12,1	5,5	3,3	6,3	3,5	3,2
2	<b>Defence affairs and services</b>	4.613	14.351	5.491	5.897	6.056	8,0	20,9	7,7	8,7	9,1	2,0	6,1	2,3	2,3	2,4
3	<b>Public order and security</b>	5.741	10.222	6.912	7.528	7.687	10,0	14,9	9,6	11,2	11,5	2,4	4,4	2,8	3,0	3,1
4	<b>Education and services</b>	8.055	7.767	8.909	9.043	8.956	14,0	11,3	12,4	13,4	13,4	3,4	3,3	3,7	3,6	3,6
5	<b>Health services</b>	314	338	365	334	379	0,5	0,5	0,5	0,5	0,6	0,1	0,1	0,1	0,1	0,2
6	<b>Social protection and social security</b>	14.410	14.295	16.628	17.005	17.630	25,0	20,9	23,2	25,2	26,4	6,1	6,1	6,8	6,8	7,0
7	<b>Housing and community amenity affairs</b>	303	301	709	430	426	0,5	0,4	1,0	0,6	0,6	0,1	0,1	0,3	0,2	0,2
8	<b>Recreational, cultural and religious activities and services</b>	1.346	1.320	1.506	1.432	1.475	2,3	1,9	2,1	2,1	2,2	0,6	0,6	0,6	0,6	0,6
9	<b>Fuel and energy affairs and services</b>	5	5	5	10	10	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
10	<b>Agriculture, forestry, fishing and hunting</b>	743	826	938	902	1.539	1,3	1,2	1,3	1,3	2,3	0,3	0,4	0,4	0,4	0,6
11	<b>Mining, industry and construction</b>	264	65	37	41	63	0,5	0,1	0,1	0,1	0,1	0,1	0,0	0,0	0,0	0,0
12	<b>Transport and communications, activities and services</b>	2.297	2.152	2.082	2.322	2.316	4,0	3,1	2,9	3,4	3,5	1,0	0,9	0,9	0,9	0,9
13	<b>Other economic affairs and services</b>	2.843	1.408	2.440	2.505	1.919	4,9	2,1	3,4	3,7	2,9	1,2	0,6	1,0	1,0	0,8
14	<b>Multi-functional costs</b>	593	578	758	354	400	1,0	0,8	1,1	0,5	0,6	0,3	0,2	0,3	0,1	0,2
15	<b>Support of Strategic priorities</b>	-	-	-	-	348	-	-	-	-	0,5	-	-	-	-	0,1
<b>Transactions related to the public debt services that are not classified by major groups</b>		3.177	7.127	9.487	10.952	9.407	5,5	10,4	13,2	16,2	14,1	1,3	3,0	3,9	4,4	3,7

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



# BALANCE OF PAYMENTS OF THE REPUBLIC OF MACEDONIA

(annual data)<sup>1</sup>

(Vo milioni USD)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	I-III/2004
<b>CURRENT ACCOUNT</b>												
Goods, net	-82,54	-262,94	-298,91	-339,85	-286,14	-269,29	-32,46	-75,28	-235,43	-361,92	-278,17	-138,83
Export, f.o.b.	42,82	-184,92	-222,78	-314,67	-386,13	-515,09	-495,81	-690,41	-523,23	-804,34	-851,48	-223,27
Import, f.o.b. <sup>2</sup>	1,055,30	1,086,35	1,204,05	1,147,44	1,236,81	1,291,52	1,189,98	1,320,73	1,153,33	1,112,15	1,359,04	357,85
Services, net	-1,012,48	-1,271,27	-1,426,83	-1,462,11	-1,622,94	-1,806,61	-1,685,79	-2,011,14	-1,676,56	-1,916,49	-2,210,52	-581,12
Income, net	-154,47	-155,12	-200,51	-156,16	-137,74	-59,60	41,83	47,05	-15,79	-24,65	-2,56	-30,33
o/w : interest, net	-56,69	-46,60	-39,57	-51,35	-54,90	-44,82	-42,15	-45,44	-39,46	-31,38	-32,00	1,03
Current transfers, net	-56,69	-46,60	-39,73	-56,42	-54,88	-44,34	-41,41	-39,15	-33,59	-20,24	-31,56	-9,28
Official	85,80	123,70	163,95	182,34	292,63	350,21	463,66	613,53	343,06	498,45	607,87	113,74
Private	28,00	44,00	27,01	51,58	7,46	37,39	72,69	132,30	48,65	100,50	103,36	13,78
<b>CAPITAL AND FINANCIAL ACCOUNT</b>												
Capital account, net	-12,85	162,37	280,65	318,23	327,15	281,84	-128,46	11,28	178,23	386,31	212,62	84,96
Capital transfers, net	0,00	30,04	1,70	0,00	0,00	-1,79	0,00	0,31	1,30	8,25	-6,69	-1,48
Official	0,00	30,04	1,70	0,00	0,00	0,00	0,00	0,31	3,64	9,81	-6,60	-1,48
Other	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	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	-1,56	-0,09	0,00
Financial account, net	-12,85	132,33	278,95	318,23	327,15	283,63	-128,46	10,97	176,93	378,06	219,31	86,44
Direct investment, net	0,00	24,02	9,51	11,23	15,74	117,72	31,80	176,23	442,32	77,72	94,26	41,95
Portfolio investment, net	0,00	0,00	2,68	0,31	2,08	7,79	0,14	-0,09	0,36	0,35	3,39	0,67
Other investment, net	43,98	150,22	367,35	300,78	341,14	226,66	-32,01	85,05	-183,27	169,42	170,81	-56,17
Trade credits, net	-82,02	97,97	144,58	76,94	267,44	45,39	7,13	146,54	-125,08	114,05	85,29	-24,20
Loans, net	-91,00	-96,83	29,31	41,51	75,39	219,87	54,83	13,51	-107,31	-26,28	22,46	-20,72
Currency and deposits, net	81,00	38,09	86,66	113,77	-9,81	-40,62	-135,01	-122,53	27,09	53,18	41,72	43,30
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	17,77	22,18
o/w Commercial Banks, net	-17,00	-69,64	23,43	61,37	-29,14	-28,77	-51,28	-93,26	-272,39	120,66	-15,73	7,47
o/w Individuals, net	98,00	107,73	63,23	52,40	19,33	-11,85	-62,52	-29,08	376,56	-136,27	39,68	13,65
Other, net	136,00	110,99	106,81	68,56	8,12	2,03	41,04	47,53	22,03	28,48	21,34	9,39
Gross official reserves ("-" = increase) <sup>3</sup>	-56,83	-41,91	-100,59	5,91	-31,81	-68,54	-128,39	-250,22	-82,48	130,57	-49,15	12,35
<b>ERRORS AND OMISSIONS</b>	95,39	100,58	18,26	21,62	-41,02	-12,55	160,92	64,00	57,19	-24,39	65,54	53,85

<sup>1</sup> Revised preliminary data

<sup>2</sup> Imports data are on f.o.b. basis in accordance with IMF V Balance of Payments Manual. Calculation of 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% and 2002-4.20%.

<sup>3</sup> Excluding monetary gold and exchange rate differences

## PENSION AND DISABILITY INSURANCE FUND (PDF)

In the first quarter of 2004, **PDF realized revenues** in the amount of Denar 6,848 million, i.e. by 2.0% more than in the same period last year. About 57.6% of the revenues are on the basis of salary contributions, where increase of 5% is noted. Revenues from the Budget of the Republic of Macedonia make up 30.8% of the total revenues and they are higher by 20.2% compared to the same period last year, while the revenues from the Employment Bureau for insurance of unemployed-welfare beneficiaries increased by 17.4% and their share in the total revenues is 6.4%.

**PDF expenditures** in the first quarter in 2004 amount to Denar 7,125 million and

they are higher by 8.2% in relation to the same period last year. 87.3% of the total expenditures are spent for payment of pensions, which is higher by 7.4% compared to the first quarter in 2003. Within this figure, 89.9% is regular pensions, 4.9% is 8% retroactive payment, followed by veteran pension, agricultural pension and for early-retired persons. Expenditures for health insurance contributions make up 14.8% in the total expenditures of PDF and they are higher by 11.1% on annual level.

**PDF deficit** in the first quarter of 2004 amounted to Denar 277 million, while it had surplus of Denar 128 million in the same period last year.

(in million of denars)

Types of revenues/expenditures	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Jan-March
<b>REVENUES</b>	<b>20.717</b>	<b>21.229</b>	<b>22.883</b>	<b>24.289</b>	<b>25.811</b>	<b>28.191</b>	<b>6.848</b>
Contribution from salaries	13.373	14.316	15.722	15.671	15.784	16.882	3.945
Contribution from income	239	311	311	331	283	307	83
Revenues from the Government Budget	3.618	3.266	4.174	5.744	6.961	7.741	2.112
Revenues from the private sectors	400	439	404	377	409	394	98
Revenues from individual farmers	74	65	58	41	61	71	11
Revenues from excises	691	632	804	716	688	677	152
Contributions from the Employment Fund for unemployed	961	868	1.101	1.126	1.404	1.536	436
Other revenues	122	45	74	73	29	65	10
Revenues from dividends	619	245	68	209	192	42	1
Revenues from new employment	419	841	167	0	0	0	0
Transferred income from the previous year	201	201	0	0	0	476	0
<b>EXPENDITURES</b>	<b>20.521</b>	<b>20.669</b>	<b>22.940</b>	<b>24.697</b>	<b>25.889</b>	<b>27.740</b>	<b>7.125</b>
Pensions	17.730	17.756	19.774	21.278	22.255	24.008	6.223
Regular pensions	16.912	16.977	18.948	19.041	19.982	21.667	5.597
War veteran pensions	464	458	505	514	518	499	129
Agricultural pensions	354	321	321	297	262	234	57
Retroactive payment of 8%	0	0	0	1.167	1.136	1.131	304
Early retirement by the Law from year 2000	0	0	0	112	103	121	24
Early retirement by the Law from year 2001	0	0	0	148	254	262	71
Compensation for body injury	63	69	72	72	83	80	20
Compensation for disability insurance	98	95	94	91	76	98	22
Employment and accomodations for disabled children	15	13	12	7	9	6	2
Health care contribution	2.321	2.450	2.672	2.805	2.934	3.184	790
Compensation for administration	133	132	141	153	165	172	28
Other expenditures	161	154	175	254	222	192	40
Capital expenditures	-	-	-	37	145	0	3
<b>BALANCE</b>							
Deficit / Surplus	196	560	-57	-408	-78	451	-277

Source: Internal data of the Ministry of Finance

## HEALTH INSURANCE FUND (HIF)

HIF revenues expenditures in the first quarter in 2004 amount to Denar 3,456 million and they are higher by 11.4% in relation to the same period last year. Health insurance contributions have the largest share (57.8%) in the revenues structure, and they are higher by 6.4%. PDF contributions make up 22.8% in the total revenues and they are higher by 14.7% in relation to the same period last year, and the contributions paid by the Employment Bureau for the unemployed persons make up 14.0% in the total revenues and they are higher by 7.0%. Large increase of Denar 152 million is realized in the item "other revenues", due to the fact that new categories of revenues are included, i.e. transfers based on decisions and revenues from co-financing.

**HIF expenditures** in the first quarter of 2004 increased by 12.7% compared to the same period last year and they reached Denar 3,060 million. The out-patient treatment costs (41.6%) make up the largest share in the expenditures and they are higher by 25.7%, followed by the hospital treatment costs (33.0%), which are higher by 6.0% in relation to the previous year. Costs for medicines in 2004 increased by 44.7% in relation to 2003 and they make up 13.7% in the total expenditures of HIF.

**HIF surplus** in the period January-March 2004 is Denar 8 million and it is lower compared to the first quarter in 2003 when it amounted to Denar 42 million.

(in million of denars)

Tupe of revenues / expenditures	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Jan.-March
<b>REVENUES</b>	<b>11.087</b>	<b>12.068</b>	<b>12.790</b>	<b>12.295</b>	<b>13.656</b>	<b>14.698</b>	<b>3.456</b>
Contributions	6.736	7.363	7.745	7.528	7.823	8.418	1.997
Contributions from the Pension Fund	2.309	2.417	2.649	2.616	3.075	3.184	790
Contributions from the Employment Fund	1.037	1.350	1.941	1.554	1.763	1.849	487
Contributions from the Ministry of Labour	45	0	0	48	54	64	14
Other revenues	851	938	455	70	734	1.064	168
Revenues on the basis of contracts for health insurance cards	109	0	0	0	0	0	0
Transfers from the Central Budget for mandatory health insurance	-	-	-	166	111	29	0
Transferred income from the previous year	0	0	0	313	96	91	1
<b>EXPENDITURES</b>	<b>13.689</b>	<b>11.692</b>	<b>12.463</b>	<b>12.205</b>	<b>13.611</b>	<b>14.678</b>	<b>3.448</b>
Outpatient expenditures	5.303	2.491	2.486	2.505	4.430	5.132	1.433
Hospital treatment	4.702	5.482	5.737	5.919	4.929	5.038	1.139
Costs for programs	214	125	105	306	123	21	0
Medicines	1.214	1.249	1.681	1.555	1.305	1.868	474
Dental care	638	667	687	522	521	630	0
Orthopedic expenses	208	154	143	111	134	150	55
Medical treatment abroad	290	161	70	90	144	221	38
Other treatment (contributions)	719	801	694	769	832	968	245
Administration	326	288	250	268	360	309	47
Equipment and maintenance	36	39	90	44	656	219	12
Other expenditures	41	234	200	48	23	32	5
Loans and interest payments	0	0	321	71	154	90	8
<b>BALANCE</b>							
Deficit/Surplus	-2.602	376	326	90	45	21	8

Source: Internal data of the Ministry of Finance

## EMPLOYMENT BUREAU

In the first quarter of 2004, Employment Bureau realized revenues in the amount of Denar 1,775 million. Revenues of Employment Bureau increased by 21.25% compared to the same period last year. Out of these revenues, only 16.4% are funds provided from employment contributions deducted from salary, which should be the essential financier of the activities and operation of Employment Bureau. On the other hand, 83.1% of the revenues are transfers from the Budget of the Republic of Macedonia. Within the structure of transfers from the Budget of the Republic of Macedonia, 75.1% are for covering the deficit of the Employment Bureau, 17.0% are intended for payment of pecuniary allowance to the persons from the loss-makers and the remainder is for public administration reform. In the period January-March 2004, revenues from contributions increased by 2.6% compared to the last year, while the transfers from the Budget in the same period increased by 25.5%.

**Expenditures** of Employment Bureau in the first quarter in 2004 amount to Denar 1,796 million and they are higher by 21.3% in relation to the same period last year. Thereby, 38.6% of the expenditures (or 21.2% more than the period January-March 2003) are intended for payment of unemployment benefit to unemployed, 28.0% (higher by 7.0%) are expenditures for health insurance of unemployed and 25.2% (higher by 14.7%) are expenses for pension and disability insurance. Active measures related expenses (for employment of disabled persons, for promotion of employment and for allowance for re-qualifications) make up 7.8% of the total expenditures of Employment Bureau. 3.2% of the total expenditures fall out to expenditures for professional service, and they are higher by 14% than the previous year.

In the first quarter of 2004, **Deficit** of Employment Bureau amounted to Denar 22 million.

(in million of denars)

Tupe of revenues / expenditures	1998	1999	2000	2001	2002	2003	2004 Jan.-March
<b>REVENUES</b>	<b>4.260</b>	<b>4.129</b>	<b>5.119</b>	<b>4.827</b>	<b>5.918</b>	<b>6.241</b>	<b>1.775</b>
Revenues from contributions	990	1.058	1.121	1.136	1.180	1.224	290
Contributions from wages	969	1.037	1.098	1.113	1.178	1.223	217
Contributions from self-employed	22	21	22	23	2	0	5
Contributions from the people who work abroad	0	0	0	0	0	1	0
Contributions from previous year	0	0	0	0	0	0	67
Revenues from the Government budget	3.261	3.066	3.990	3.677	4.726	5.002	1.476
For covering the deficit of the Employment Fund	2.737	2.575	3.470	3.170	3.742	3.958	1.108
For paying allowances to the employees of the loss-making enterprises	524	490	516	481	944	980	250
Public administration reform	-	-	-	26	19	3	20
Others	0	0	3	26	21	61	98
Other revenues	9	6	8	13	12	16	8
<b>EXPENDITURES</b>	<b>4.264</b>	<b>4.135</b>	<b>5.110</b>	<b>4.749</b>	<b>5.868</b>	<b>6.214</b>	<b>1.796</b>
Expenditures for the functions	4.084	3.970	4.913	4.571	5.658	6.005	1.739
Unemployment benefits	2.073	1.755	1.875	1.879	2.273	2.377	671
Contributions for health insurance	1.039	1.347	1.936	1.555	1.763	1.849	487
Contributions for pension and disability insurance	972	868	1.102	1.138	1.453	1.557	439
Transfers for employment of disabled persons	-	-	-	-	128	121	39
Payments according to the new Law	-	-	-	-	-	61	97
Compensation for training	-	-	-	-	41	40	5
Expenditures for the personnel	180	165	198	178	210	209	57
Wages and salaries	99	105	118	116	124	134	33
Allowances	14	17	19	18	22	20	5
Goods and other services	43	34	54	43	42	51	18
Current transfers	0	0	0	0	0	0	0
Interest payments	0	0	1	0	0	0	0
Capital expenditures	24	8	6	2	22	4	0
<b>BALANCE</b>							
Deficit / Surplus	-4	-6	9	78	50	27	-22

Source: Internal data of the Ministry of Finance

## NATIONAL AND REGIONAL ROADS FUND

In the period January–March 2004, National and Regional Road Fund collected revenues in the amount of Denar 607 million, or 10.5% more than the same period last year. The transfer from the Budget make up the largest share (48.2%) in the total revenues, and they are higher by 74.2% than in the first three months in 2003. Denar 177 million (29.2% of the total revenues) are collected on the basis of annual fee for motor vehicles (higher by 3.2%), while 24.2% of the total revenues are collected from pay-tolls (higher by 31.4%).

**Expenditures** of National and Regional Roads Fund in the first quarter of 2004 increased by 42.7% compared to the same period last year and they reach-

ed Denar 673 million. Majority of the expenses (49.4%) are made in the item investments where increase of Denar 212 million is noted. Denar 217 million or 41.9% of the total expenditures are spent for road maintenance (increase by 29.9%). Expenditures for local roads are lower by 57.1% and they participate with 4.5% in the total expenditures. Reduction of 66.1% is noted in the expenditures for studies, project designs, supervision, fees and material costs, which participate with 3.3% in the total expenditures.

In the first quarter of 2004, National and Regional Roads Fund had **deficit** in the amount of Denar 66 million.

(in million of denars)

Tupe of revenues / expenditures	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Jan.-March
<b>REVENUES</b>	<b>2.660</b>	<b>3.793</b>	<b>3.506</b>	<b>4.012</b>	<b>3.434</b>	<b>3.668</b>	<b>607</b>
Revenues from Budget	668	924	1.590	1.655	1.305	1.603	260
Paytoll by foreign motor vehicles	49	54	82	73	87	82	16
Annual fee for motor vehicles subject to registration	524	518	746	704	761	797	177
Paytoll for use of motorway	468	492	537	375	381	728	147
Foreign credit	939	1.793	538	1.098	862	418	0
Other revenues	12	13	14	21	2	39	8
Grants	-	-	-	87	36	1	0
<b>EXPENDITURES</b>	<b>2.660</b>	<b>3.793</b>	<b>3.506</b>	<b>4.013</b>	<b>3.420</b>	<b>3.661</b>	<b>673</b>
Investments	1.203	1.985	1.662	1.756	1.250	1.107	332
Expenditures for studies, projections, supervision, fees and material costs	0	0	179	286	289	205	22
Road maintenance	784	790	952	926	900	1.063	282
Repayment of loans	264	148	212	299	304	424	7
Funds for local roads	321	386	502	596	528	666	30
Other expenditures	89	142	0	0	0	46	0
Liabilities from the previous year	0	342	0	0	0	0	0
Liabilities towards the Bank Rehabilitation Agency	0	0	0	150	149	150	0
<b>BALANCE</b>							
Deficit / Surplus	0	0	0	-1	14	7	-66

Source: Internal data of the Ministry of Finance

# MACEDONIAN LONG-TERM SECURITIES STOCK EXCHANGE

Trading with third issue denationalization bonds commenced on 1 March 2004, which is a novelty in the supply of securities on the Macedonian Long-term Securities Stock Exchange and it is done with intermediation of the brokerage houses and the banks members of Macedonian Stock Exchange. The issue amounts to EUR 47 million.

The holders of can use these denationalization bonds for buying shares and stocks of enterprises owned by the Privatization Agency; shares and stocks of enterprises reserved for the previous owners pursuant to the Law on Transformation of Socially-owned Enterprises; purchase and payment of socially-owned flats; payment of claims transferred according to the Law on the Macedonian Asset Management Agency; buying state-owned property offered for sale with bonds, buying shares and stocks of state-owned capital in the process of its privatization; payment and fee for concession of state-owned property; buying state-owned property or payment of lease of state-owned property; payment of liabilities arising from this law.

On behalf of the Republic of Macedonia, in January 2004, the Ministry of Finance began issuance of treasury bills. The nominal value of a T-bill is Denar 10,000.00. Maturity period is three months. T-bills are issued and paid in nominal value, and are purchased in discount value. All domestic and foreign physical and legal entities can purchase T-bills, via all authorized banks in the Republic of Macedonia. T-bill auctions are carried out in line with the published calendar, i.e. twice a month (on Tuesday).

## Stock Exchange Indicators – January 2004

In January 2004, the total turnover on the Macedonian Long-term Securities Stock Exchange decreased by 35.1% compared to the previous month, and it amounts to Denar 149.8 million. Compared to December 2003, the average daily turnover dropped by 17.7% and it amounts to Denar 9.9 million on daily basis.

Total turnover with shares in the analyzed period amounts to Denar 42.3 million which is a drop by 44.4% compared to December 2003. Turnover with bonds amounts to Denar 106.4 million and it is lower by 19.3% than in December 2003.

In January 2004, 1,055 transaction were carried out in 15 trading days.

If we analyze the total turnover with government bonds, we can say that the turnover with government bonds for frozen foreign currency deposits in January amounts to Denar 56.19 million, and the average price of these bonds was 74.4% of the nominal value. which is an increase by 1.8 percentage points compared to the previous month. The average price of the first issue denationalization bonds is continuously growing and this month it reached 74.8% of the nominal value which in relation to the previous month is an increase of 4.4 percentage points. Also, the average price of second issue denationalization bonds increased by 4 percentage points and it amounts to 74.6% of their nominal value.

At the same time, the price of convertible certificates is 22.1% of the nominal value, which means a decline of

Stock Exchange Indicators - January 2004

	December 2003	January 2004	% Change
<b>TOTAL TURNOVER</b>			
Shares	76.212.088	42.348.495	-44,4
Bonds	131.898.468	106.473.070	-19,3
Other securities	22.943.367	1.065.175	-95,4
<b>TOTAL</b>	<b>231.053.923</b>	<b>149.886.740</b>	<b>-35,1</b>
<b>VOLUME (in securities)</b>			
Shares	79.676	114.664	43,9
Bonds (NV in EURO's	2.989.575	2.305.349	-22,9
Other securities (NV in EURO's)	81.176.455	4.796.332	-94,1
<b>MSEI</b>	<b>1,178,71</b>	<b>1,197,76</b>	<b>1,6</b>
<b>TOTAL NUMBER OF TRANSACTIONS</b>	<b>1.629</b>	<b>1.055</b>	<b>-35,2</b>
<b>NUMBER OF LISTED SECURITIES</b>	<b>98</b>	<b>92</b>	<b>-6,1</b>
<b>MARKET CAPITALIZATION (In Denars)</b>			
Shares	17.744.320.962	17.957.145.035	1,2
Bonds (NV in EURO's)	21.323.739.242	21.677.119.392	1,7
<b>Total</b>	<b>39.068.060.204</b>	<b>39.634.264.426</b>	<b>1,4</b>
<b>NUMBER OF TRADED SECURITIES - UNOFFICIAL MARKET</b>	<b>32</b>	<b>24</b>	<b>-25</b>
<b>NUMBER OF TRADING DAYS</b>	<b>19</b>	<b>15</b>	<b>-21,1</b>
<b>DAILY AVERAGE:</b>			
Turnover (denars)	12.160.733	9.992.449	-17,8
Volume (in securities)			
Number of transactions	86	70	-18,6
<b>NUMBER OF REPORTED TRANSACTIONS</b>	<b>33</b>	<b>6</b>	<b>-81,8</b>
<b>VALUE OF REPORTED TRANSACTIONS</b>	<b>431.051.452</b>	<b>35.626.400</b>	<b>91,7</b>
<b>NUMBER OF TRANSACTIONS - STATE SEGMENT</b>	<b>33</b>	<b>2</b>	<b>-93,9</b>
<b>VALUE OF TRANSACTIONS - STATE SEGMENT</b>	<b>84.381.215</b>	<b>67.739</b>	<b>-99,9</b>

5.7 percentage points compared to the previous month.

The official stock exchange index (SEI), as an indicator of the movement of prices of shares in January 2004 increased by 1.6% compared to the previous month and it amounts to Denar 1,197.76.

Within the total turnover on the Stock Exchange, 94.1% is realized on the official market, in the amount of Denar 140.9 million. Denar 7.8 million were realized on the unofficial market, which is 5.2% of the total turnover

on the Stock Exchange. The turnover with other types of securities amounts to Denar 1.06 million, or 0.7% of the total turnover.

In January, the largest share at the official market goes to the shares of Komercijalna banka AD Skopje, Makpetrol AD Skopje and Alkaloid AD Skopje.

6 block transactions are carried out in the total amount of Denar 35.62 million and it is a decline by 91.7% compared to the amount of block transactions realized in the previous month. Most noticeable was the trading with shares of Toplifikacija AD Skopje.

On the Macedonian Long-term Securities Stock Exchange, In January 2004, 2 transactions with state-owned shares were realized in the total value of Denar 67.73 million. Shares of In-komerc Skopje and GD Tikves Kavadarci were traded and they were realized with non-cash payment.

Stock Exchange Indicators – February 2004

In February 2004, the total turnover on the Macedonian Long-term Securities Stock Exchange decreased by 10.04% compared to the previous month, and it amounts to Denar 134.8 million. At the same time, the average daily turnover dropped by 15.66% and it amounts to Denar 8.4 million on daily basis.

The turnover with shares in February amounts to Denar 97.2 million and it is higher by 129.55% compared to the previous month. The turnover with bonds in this period amounts to Denar 37 million, and it is a drop by 65.17% compared to January.

In the analyzed period, 1,39416 transaction were carried out in 16 trading days. Although the number of realized transactions is by 32.13% higher than in the previous month, the total turnover at the Macedonian Long-term Securities Stock Exchange declined by 10.04% due to the lower value of individual transactions.

Analyzing the total turnover with government bonds, we can say that the turnover with government bonds for frozen foreign currency deposits in February 2004 amounts to Denar 21.45 million, the average price of which is 72.1% of the nominal value, which is a decrease by 2.3 percentage points compared to the previous month. The average price of first issue denationalization bonds declined by 4.1 percentage points and it amounts to 70.7% of their nominal value. Also, the value of second issue denationalization bonds declined by 4 percentage points and the average price of these bonds is 70.6% of their nominal value. The average price of convertible certificates is 22.4% of their nominal value and it is lower by 0.3 percentage points in relation to their nominal value.

The official stock exchange index (SEI), as an indicator of the movement of prices of shares, in February 2004 increased by 1.69% compared to the previous month and it amounts to Denar 1,217.97.

Within the total turnover at the Stock Exchange in February 2004, 90.1% of the turnover is realized on the official market in the amount of Denar 121.53 million. Denar 12.75 million were realized on the unofficial market, which is 9.5% of the total turnover on the Stock Exchange. The turnover with other types of securities amo-

## Stock Exchange Indicators - February

	January 2004	February 2004	% Change
<b>TOTAL TURNOVER</b>			
Shares	42.348.495	97.211.575	129,6
Bonds	106.473.070	37.084.537	-65,2
Other securities	1.065.175	541.954	-49,1
<b>TOTAL</b>	149.886.740	134.838.066	-10,0
<b>VOLUME (in securities)</b>			
Shares	114.664	93.125	-18,8
Bonds (NV in EURO's)	2.305.349	846.248	-63,3
Other securities (NV in EURO's)	4.796.332	2.456.727	-48,8
<b>MSEI</b>	1.197,76	1.217,97	1,7
<b>TOTAL NUMBER OF TRANSACTIONS</b>	1.055	1.394	32,1
<b>NUMBER OF LISTED SECURITIES</b>	92	92	0,0
<b>MARKET CAPITALIZATION (In Denars)</b>			
Shares	17.957.145.034	17.649.670.469	-1,7
Bonds (NV in EURO's)	21.677.119.392	21.189.452.406	-2,2
<b>Total</b>	39.634.264.426	38.839.122.875	-2,0
<b>NUMBER OF TRADED SECURITIES - UNOFFICIAL MARKET</b>	24	29	20,8
<b>NUMBER OF TRADING DAYS</b>	15	16	6,7
<b>DAILY AVERAGE:</b>			
Turnover (denars)	9.992.449	8.427.379	-15,7
Number of transactions	70	87	24,3
<b>NUMBER OF REPORTED TRANSACTIONS</b>	6	14	133,3
<b>VALUE OF REPORTED TRANSACTIONS</b>	35.626.400	150.720.513	323,1
<b>NUMBER OF TRANSACTIONS - STATE SEGMENT</b>	2	0	-100,0
<b>VALUE OF TRANSACTIONS - STATE SEGMENT</b>	67.739	0	-100,0

unts to Denar 541 thousand, or 0.4% of the total turnover.

The largest share in the turnover at the official market goes to the shares of Komercijalna banka AD Skopje which make up 41.1%, followed by the shares of Makpetrol AD Skopje which make up 13.5% and the shares of Alkaloid AD Skopje which make up 9.4% in the total turnover at the official market.

## Stock Exchange Indicators - March 2004

	February 2004	March 2004	% Change
<b>TOTAL TURNOVER</b>			
Shares	97.211.575	75.130.665	-22,7
Bonds	37.084.537	191.065.523	415,2
Other securities	541.954	1.344.963	148,2
<b>TOTAL</b>	<b>134.838.066</b>	<b>267.541.151</b>	<b>98,4</b>
<b>VOLUME (in securities)</b>			
Shares	93.125	83.844	-10,0
Bonds (NV in EURO's)	846.248	5.047.059	496,4
Other securities (NV in EURO's)	2.456.727	7.949.911	223,6
<b>MSEI</b>	<b>1,217,97</b>	<b>1,238,24</b>	
<b>TOTAL NUMBER OF TRANSACTIONS</b>	<b>1.394</b>	<b>1.911</b>	<b>37,1</b>
<b>NUMBER OF LISTED SECURITIES</b>	<b>92</b>	<b>92</b>	<b>0,0</b>
<b>MARKET CAPITALIZATION (In Denars)</b>			
Shares	17.649.670.469	17.625.922.248	-0,1
Bonds (NV in EURO's)	21.189.452.406	22.000.060.168	3,8
<b>Total</b>	<b>38.839.122.875</b>	<b>39.625.982.416</b>	<b>2,0</b>
<b>NUMBER OF TRADED SECURITIES - UNOFFICIAL MARKET</b>	<b>29</b>	<b>35</b>	<b>20,7</b>
<b>NUMBER OF TRADING DAYS</b>	<b>16</b>	<b>19</b>	<b>18,8</b>
<b>DAILY AVERAGE:</b>			
Turnover (denars)	8.427.379	14.081.113	67,1
Number of transactions	87	100	14,9
<b>NUMBER OF REPORTED TRANSACTIONS</b>	<b>14</b>	<b>13</b>	<b>-7,1</b>
<b>VALUE OF REPORTED TRANSACTIONS</b>	<b>150.720.513</b>	<b>122.717.550</b>	<b>-18,6</b>
<b>NUMBER OF TRANSACTIONS - STATE SEGMENT</b>	<b>0</b>	<b>0</b>	<b>0,0</b>
<b>VALUE OF TRANSACTIONS - STATE SEGMENT</b>	<b>0</b>	<b>0</b>	<b>0,0</b>

14 block transactions were realized in the total value of Denar 150.72 million. The registered block transactions in February amount to Denar 150.72 million. Within these block transactions, most noticeable is the trading with the shares of Procredit banka AD Skopje, Komercijalna Banka AD Skopje and Tabak Osiguruvanje AD Skopje.

## Stock Exchange Indicators – March 2004

In March 2004, total turnover of the Macedonian Long-Term Securities Stock Exchange increased by even 98.4% and it amounted to Denar 267.54 million. In addition, the average daily turnover, compared to the previous month, increased by 67.1% and amounted to Denar 14.08 million.

During this period, the turnover with shares amounted to Denar 191.06 million, which compared to the previous month is a significant increase by 415.2%. At the same time, the turnover with bonds increased by 148.2% compared to February and it amounted to Denar 1.34 million. The total number of realized transactions in March 2004 was 1,911 transactions for 19 trading days.

When analyzing the total turnover with government securities, it was concluded that the turnover with government bonds for frozen foreign currency deposits in March 2004 amounted to Denar 25.94 million, whereby the average price for these bonds was identical with the one in the previous month and amounted to 72.1% of the nominal value. First-issue denationalization bonds this month were sold at average price of 69.8% of the nominal value, which compared to the previous month was lower by 0.9 percentage points. At the same time, second-issue denationalization bonds in this period were traded at average price of 68.5% of the nominal value and, compared to February, it increased by 1.6 percentage points. In March 2004, Macedonian Long-Term Securities Stock Exchange commenced trading with third-issue denationalization bonds at average price

of 60.3%. Price of the convertible certificates amounted to 16.9% of their nominal value which, compared to the previous month, is a decrease by 5.5 percentage points.

The official Stock Exchange Index (SEI), as indicator of the share price movements. Increased this month by 1.7% compared to the previous one and it amounted to Denar 1,238.24.

In March 2004, 93.1% of the total turnover on the Macedonian Long-Term Securities Stock Exchange was realized at the official market in the total amount of Denar 249.19 million. Turnover in the amount of Denar 17 million or 6.4% of the total turnover on the Stock Exchange was realized at the unofficial market. During this

month, the turnover with securities on the Stock Exchange amounted to Denar 1.34 million or 0.5% of the total turnover.

The largest share in the total turnover with securities at the official securities market in March 2004 goes to the shares of Alkaloid AD Skopje, Makpetrol AD Skopje and Komercialna Banka AD Skopje.

During this period, total of 13 block transactions were realized in the amount of Denar 122.71 million. Out of the reported block transactions, the most notable was the trading with the shares of Sokomak Bitola, Investbanka AD Skopje and Teteks-Kreditna banka AD Skopje.

# MACEDONIAN STOCH EXCHANGE

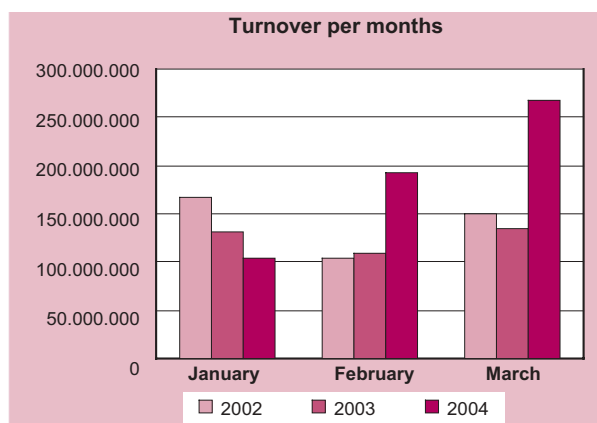
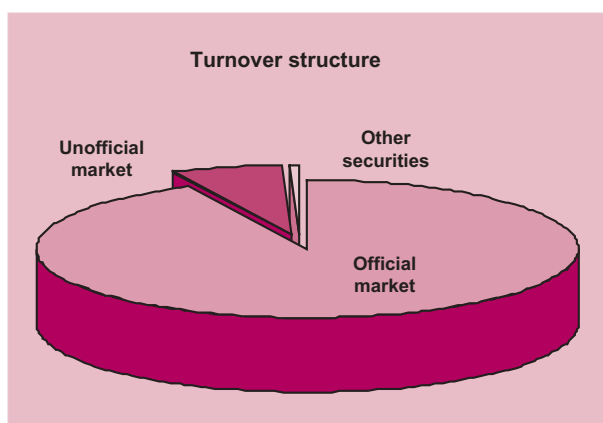
## QUARTERLY REPORT

### STOCH EXCHANGE INDICATORS

	January-March 2003	January-March 2004	% Change
<b>Total turnover</b>			
Shares	232.173.070	214.690.735	7,5
Bonds	122.172.065	334.623.130	173,9
Other securities	51.265.096	2.952.092	94,2
<b>Total turnover</b>	<b>405.610.234</b>	<b>552..265.957</b>	<b>36,2</b>
<b>VOLUME (in securities)</b>			
Shares	814,842	291,633	64,2
Bonds (NV in EURO's)	3.311.147	8.198.656	147,6
Other securities (NV in EURO's)	131.941.437	15.202.970	88,5
MSEI	1.080.62	1.238.24	14,6
<b>TOTAL NUMBER OF TRANSACTIONS</b>	<b>4,054</b>	<b>4..360.0</b>	<b>7,5</b>
<b>NUMBER OF LISTED SECURITIES</b>	<b>99</b>	<b>92</b>	<b>7,1</b>
<b>NUMBER OF TRADED SECURITIES - UNOFFICIAL MARKET</b>	<b>39</b>	<b>42</b>	<b>24,4</b>
<b>NUMBER OF TRADING DAYS</b>	<b>48</b>	<b>50</b>	<b>17,8</b>
<b>DAILY AVERAGE:</b>			
Turnover (denars)	8.450.213	11.045.319	30,7
Number of transactions	84	87	3,6
<b>NUMBER OF REPORTED TRANSACTIONS</b>	<b>22</b>	<b>33</b>	<b>50,0</b>
<b>VALUE OF REPORTED TRANSACTIONS</b>	<b>223.247.249</b>	<b>309.064.463</b>	<b>38,4</b>
<b>NUMBER OF TRANSACTIONS - STATE SEGMENT</b>	<b>10</b>	<b>2</b>	<b>80,0</b>
<b>VALUE OF TRANSACTIONS - STATE SEGMENT</b>	<b>45.055.259</b>	<b>67,739</b>	<b>99,8</b>

### TURNOVER STRUCTURE

Market segment	Turnover (denars)	Turnover (Euro's)	%	Number of transactions
Official market	511.710.056	8.349.204	92,7	4178
Unofficial market	37.603.809	613,54	6,8	137
Other securities	2.952.092	48,166	0,5	45
<b>TOTAL</b>	<b>552.265.957</b>	<b>9.010.910</b>	<b>100,0</b>	<b>4360</b>



## TURNOVER PER MOUNTHS

	January	February	March
2002	166.622.696	130.906.330	103.161.023
2003	103.276.652	109.427.243	192.906.339
2004	149.886.740	134.838.066	267.541.151

## OVERVIEW OF TRADING IN THE MOST LIQUID SHARES (OFFICIAL MARKET) JAN/MARCH 2004

No.	Name of the issuer	Turnover (denars)	Turnover (EURO's)	Participation in turnover (%)	Volume	Number of transactions	Market capitalization (denars)
1	Komercijalna banka-Skopje	51.069.770	833.376	28,8	18.076,0	137	1.155.161.827
2	Makpetrol Skopje	26.763.573	436.718	15,1	2.147,0	187	1.375.129.393
3	Alkaloid Skopje	22.503.830	367.194	12,7	11.802,0	368	2.447.373.163
4	Blagoj Gjorev Veles	10.852.324	177.092	6,1	16.421,0	42	356.014.200
5	Teteks Tetovo	10.284.250	167.803	5,8	33.175,0	21	141.603.970
6	Toplifikacija Skopje	9.960.560	162.532	5,6	6.848,0	109	640.595.700
7	Stopanska banka Bitola	9.586.500	156.418	5,4	3.393,0	20	703.273.032
8	Makedonija Turist Skopje	4.905.445	80.038	2,8	4.503,0	37	515.561.580
9	Skopski Pazar Skopje	4.737.307	77.330	2,7	1.658,0	14	303.166.552
10	Granit Skopje	3.928.845	64.098	2,2	42.614,0	165	260.424.000
	Others	22.492.522	367.005	12,7	88.936,0	359	9.727.618.832
	<b>TOTAL OFFICIAL MARKET</b>	<b>177.084.926</b>	<b>2.889.604</b>	<b>100,00</b>	<b>229.573,00</b>	<b>1.459</b>	<b>17.625.922.248</b>

## TOR 5 GAINERS

No	Issuer	January-March 2004 average price	January-March 2003 average price	% change January-March 2004/ January-March 2003
1	Komercijalna banka AD Skopje	2.687,7	1.817,3	47,9
2	Makpetrol AD Skopje	12.324,2	10.188,9	21,0
3	Alkaloid AD Skopje	1.896,9	1.589,9	19,3
4	Makedonija Turist AD Skopje	1.066,6	903,4	19,1
5	Skopski Pazar AD Skopje	2.541,5	2.175,0	16,8

## TOR 5 LOSERS

No	Issuer	January-March 2004 average price	January-March 2003 average price	% change January-March 2004/ January-March 2003
1	Replek AD Skopje	8.684,4	12.295,5	29,4
2	Evropa AD Skopje	915,0	1.227,7	25,5
3	Zito Vardar AD Veles	690,0	802,0	14,0
4	ToplifikacijaAD Skopje	1.451,6	1.551,0	6,4
5	Beton AD Skopje	1.498,0	1.505,1	0,5

## OVERVIEW OF THE TRADING WITH BONDS AND OTHER SECURITIES

	High	Low	Initial	Last	Average price	Volume	Turnover (denars)	Turnover (EURO's)
Government bonds - F/X deposits (RM 01)	79,7	70,0	73,0	73,1	72,9	2.302.117	103.592.048	1.690.220
Government bonds - Denationalisation I issue (RMDEN01)	79,9	66,1	73,4	72,0	71,7	86.627	3.911.095	63.813
Government bonds - Denationalisation II issue (RMDEN02)	80,4	65,0	72,5	68,8	71,2	1.523.926	69.321.048	1.131.073
Government bonds - Denationalisation III issue (RMDEN03)	65,0	55,0	64,9	61,0	60,3	4.285.986	157.798.939	2.574.495
Convertible certificates - Saving houses (RMKSF)	27,0	13,0	25,7	15,0	19,8	15.202.970	2.952.092	48.166

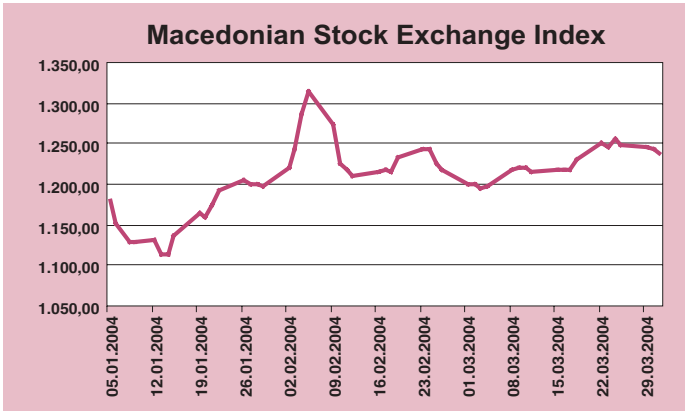
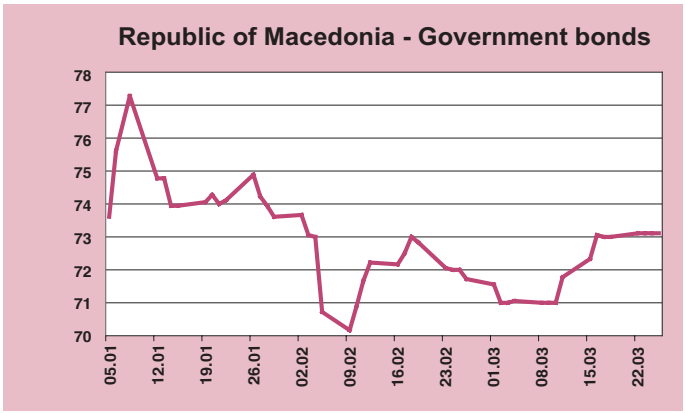
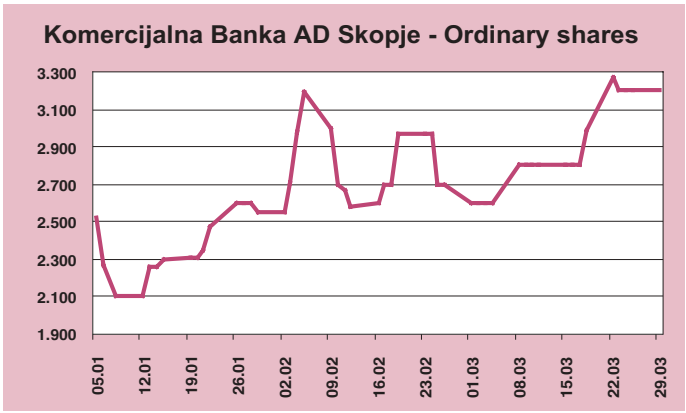
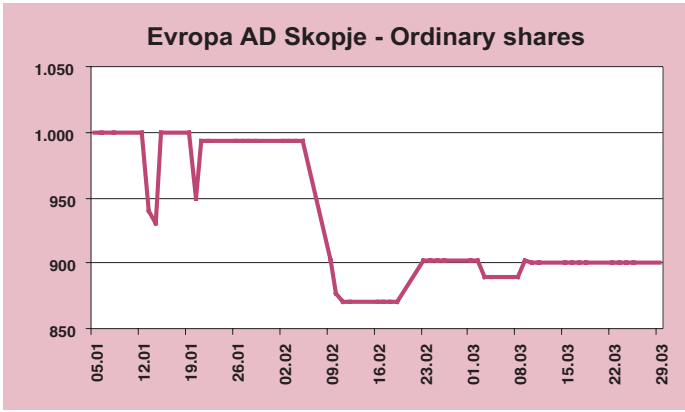
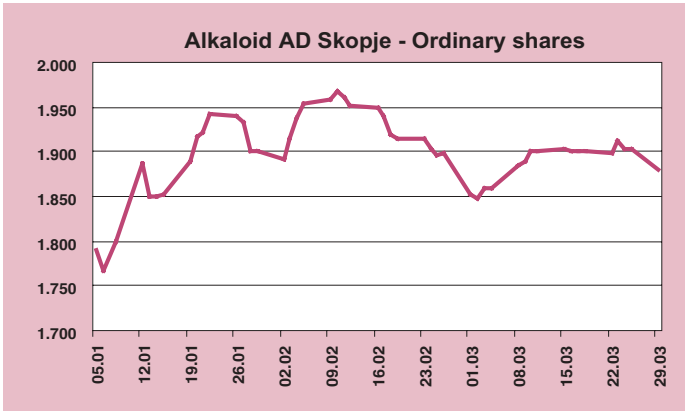
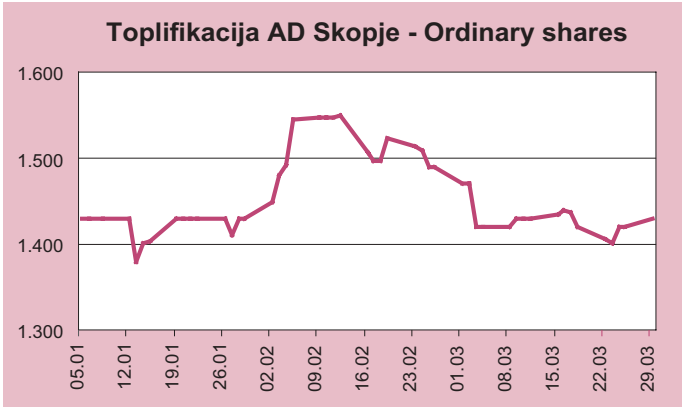
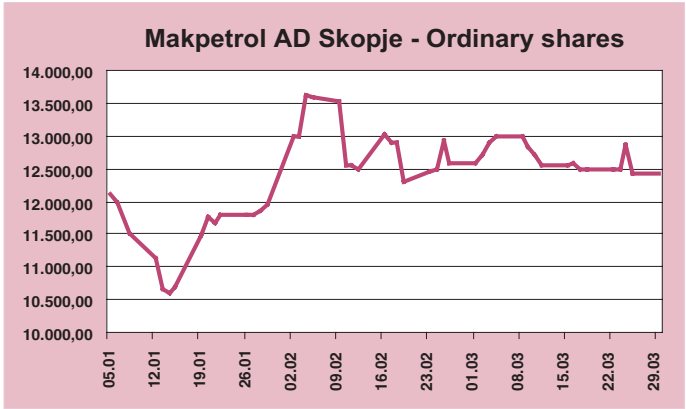
## BLOCK TRANSACTIONS

JANUARY - MARCH 2004

Name of the issuer	Date of transactions	Nominal value	Price per share (denars)	% of outstanding shares	Volume (shares)	Turnover (denars)
BIM AD Sveti Nikole	05.01.2004	200	2.400	14,65	1.488	3.571.200
Institut za arhitektura i urban. planiranje Ohrid	08.01.2004	1.000	1.000	54,73	544	544.000
Korab AD Debar	13.01.2004	50	3.055	20,39	92	281.060
Helmateks AD Skopje	19.01.2004	5,25	184	17,19	30.260	5.567.840
Zito Polog AD Tetovo	26.01.2004	100	1.600	8,97	5.028	8.044.800
Toplifikacija AD Skopje	28.01.2004	51,13	1.566	2,62	11.250	17.617.500
Beton AD Ohrid	03.02.2004	500	839	42,45	3.255	2.730.945
Granit AD Skopje	04.02.2004	5	94	2,47	71.566	6.727.204
Tabak Osiguruvanje AD Skopje	04.02.2004	500	32.000	5,05	280	8.960.000
Tabak Osiguruvanje AD Skopje	04.02.2004	500	31.000	3,95	219	6.789.000
Gradski Trgovski Centar AD Skopje	05.02.2004	50	1.850	0,16	3.146	5.820.100
Komercijalna Banka AD Skopje	05.02.2004	5.000	3.000	0,58	3.226	9.678.000
Masinopromet AD Skopje	10.02.2004	50	380	19,32	13.135	4.991.300
Jugotutun AD Sveti Nikole	11.02.2004	102,26	613	24,75	5.012	3.072.356
Jugotutun AD Sveti Nikole	12.02.2004	102,26	613	22,86	4.631	2.838.803
Stobi AD Veles	12.02.2004	51,13	1.532	42,26	4.652	7.126.864
ZIK Oranzerii AD Kumanovo	18.02.2004	100	509	64,65	4.849	2.468.141
Komercijalna Banka AD Skopje	23.02.2004	5.000	2.600	0,55	3.028	7.872.800
Prokredit banka AD Skopje	23.02.2004	5	306,44	25	250.000	76.610.000
Ohridska banka AD Ohrid	24.02.2004	2.650	2.650	0,79	1.900	5.035.000
EMO AD Ohrid	02.03.2004	60	276	7,8	28.709	7.923.684
Investbanka AD Skopje	09.03.2004	2.670	2.666	3,48	7.500	19.995.000
Proleter AD Skopje	09.03.2004	50	320	10,35	4.775	1.528.000
Teteks-Kreditna banka AD Skopje	09.03.2004	1.000	2.172	0,88	5.984	12.997.248
Teteks-Kreditna banka AD Skopje-prioritetni	09.03.2004	1.000	2.172	0,47	3.222	6.998.184
Makedonija Turist AD Skopje	16.03.2004	25,56	990	2,74	12.403	12.278.970
Europrofil AD s.Aldinci Krusevo	17.03.2004	5	96	33,06	23.146	2.222.016
Silika Minerali AD Mak. Brod	23.03.2004	3.065	320,5	37,49	3.432	1.099.956
Nova Trgovija 2003 AD Stip	24.03.2004	10	120	10,22	32.063	3.847.560
Fustelarko Borec AD Bitola	30.03.2004	51,13	1.400	4,51	3.669	5.136.600
Fustelarko Borec AD Bitola	31.03.2004	51,13	1.400	4,48	3.644	5.101.600
Sokomak AD Bitola	31.03.2004	100	2.452	60,5	14.641	35.899.732
Stopanska banka AD Bitola	31.03.2004	3.000	3.000	0,81	2.563	7.689.000
TOTAL					563.312	309.064.463

## LISTED COMPANIES ON MACEDONIAN STOCK EXCHANGE (report on trading january - march 2004)

Issuer	Nominal value	Number of shares	High	Low	Average price	Volume (shares)	Turnover (denars)	Turnover (EURO's)	Market capitalization (000 denars)	Market capitalization (000 Euro's)	Share turn-over
Agroservis Skopje	2.905 ДЕН	51.911	500	500	500,0	897	448.500	7.317	25.955	423	1,73
Ading Skopje	51,13 ЕМУ	48.300	3.060	2.754	2.907,0	41	113.220	1.847	133.018	2.170	0,08
Algreta Resen	100 ДЕМ	12.431	1.540	1.400	1.470,0	159	242.620	3.958	19.144	312	1,28
Alkaloid Skopje	25,56 ЕМУ	1.301.230	1.975	1.766	1.896,9	11.802	22.503.830	367.194	2.447.373	39.925	0,91
Beton Skopje	255,65 ЕМУ	43.684	1.500	1.490	1.498,0	1.174	1.758.816	28.704	65.260	1.065	2,69
Blagoj Gjorev Veles	25,56 ЕМУ	516.000	690	580	654,4	16.421	10.852.324	177.092	356.014	5.808	3,18
Vitaminka Prilep	51,13 ЕМУ	80.980	1.870	1.870	1.870	85	158.950	2.595	151.433	2.470	0,10
GD - Tikves Kavadarci	51,13 ЕМУ	68.000	200	200	200,0	6.915	1.383.000	22.562	13.600	222	10,17
GP Mavrovo Skopje	51,13 ЕМУ	248.249	1.350	951	1.155,9	507	625.914	10.213	236.085	3.851	0,20
Granit Skopje	5 ЕМУ	2.893.600	100	90	91,3	42.614	3.928.845	64.098	260.424	4.248	1,47
Evropa Skopje	51,13 ЕМУ	255.583	999	870	915,0	1.492	1.356.237	22.128	230.025	3.752	0,58
Zito Vardar Veles	50 ЕМУ	73.037	690	690	690,0	358	247.020	4.033	50.396	822	0,49
Zito Luks Skopje	100 ДЕМ	825.637	600	460	546,1	3.816	2.066.092	33.710	379.793	6.196	0,46
Zito Prilep Prilep	50 ЕМУ	68.379	610	610	610,0	105	64.050	1.045	41.711	680	0,15
ZK Pelagonija Bitola	51,13 ЕМУ	278.620	335	310	326,3	254	83.310	1.359	90.552	1.477	0,09
Investbanka Skopje	2.670 ДЕН	215.209	600	600	600,0	110	66.000	1.077	136.440	2.226	0,05
Internesenal Hotels AD Sk.	1 ЕМУ	530.554	600	600	600,0	15	9.000	147	318.332	5.193	0,00
Jaka tabak Radovis	51,13 ЕМУ	116.999	1.000	1.000	1.000,0	115	115.000	1.876	116.999	1.909	0,10
Karpos Skopje	200 ДЕМ	49.852	606	551	578,5	112	66.332	1.082	30.210	493	0,22
Komercijalna banka Skopje	5.000 ДЕН	552.935	3.289	2.100	2.687,7	18.076	51.069.770	833.376	1.305.283	21.293	3,27
Makedonija Turist Skopje	25,56 ЕМУ	452.247	1.150	930	1.066,6	4.503	4.905.445	80.038	515.562	8.410	1,00
Makpetrol Skopje	511,29 ЕМУ	112.382	13.995	10.560	12.324,2	2.147	26.763.573	436.718	1.375.129	22.433	1,91
Metalec Bitola	51,13 ЕМУ	10.248	1.604	1.604	1.604,0	13	20.852	340	16.438	268	0,13
Makoteks Skopje	35,9 ЕМУ	94.063	220	220	220,0	76	16.720	273	20.694	338	0,08
Ohridska banka Ohrid	2.650 ДЕН	235.149	2.649	2.200	2.409,3	865	2.174.548	35.476	586.741	9.572	0,37
Rade Koncar Skopje	25 ЕМУ	202.269	246	168	224,7	1.043	229.307	3.741	49.758	812	0,52
Replek Skopje	562,42 ЕМУ	17.020	9.801	8.000	8.684,4	41	351.615	5.737	136.160	2.221	0,24
RZ Institut Skopje	5,11 ЕМУ	113.392	60	60	60,0	6.075	364.500	5.947	6.804	111	5,36
RZ Inter-Transsped Skopje	5,11 ЕМУ	585.399	27	25	25,7	51.605	1.330.335	21.704	14.635	239	8,82
RZ Makstil Skopje	5,11 ЕМУ	14.622.944	102	92	97,0	35	3.270	53	1.345.311	21.946	0,00
RZ Tehnicka kontrola Skopje	5,11 ЕМУ	210.419	60	54	54,0	1.986	119.046	1.942	11.363	185	0,94
Rudnici Banjani Skopje	25 ЕМУ	65.502	620	620	620,0	670	415.400	6.777	40.611	662	1,02
Sileks Kratovo	43,77 ЕМУ	451.464	65	64	64,7	992	64.190	1.047	29.345	479	0,22
Skopski Pazar Skopje	51,13 ЕМУ	100.088	3.060	2.118	2.541,5	1.658	4.739.307	77.330	303.167	4.946	1,66
Stopanska banka Bitola	3.000 ДЕН	298.960	3.000	2.699	2.745,7	3.393	9.586.500	156.418	726.308	11.848	1,13
Teteks Tetovo	51,13 ЕМУ	456.787	310	310	310,0	33.175	10.284.250	167.803	141.604	2.310	7,26
Tetovska banka Tetovo	3.000 ДЕН	146.852	1.736	1.306	1.459,2	1.490	2.265.597	36.977	266.798	4.352	1,01
Tehnometal Vardar Skopje	51,13 ЕМУ	80.186	730	691	706,8	638	450.379	7.348	56.259	918	0,80
Toplifikacija Skopje	100 ДЕМ	450.000	1.550	1.380	1.451,7	6.848	9.960.560	162.532	640.596	10.450	1,52
Transkop-Patnicki soob. Bit.	100 ДЕМ	30.000	600	600	600,0	76	45.600	744	18.000	294	0,25
Tutunski kombinat Prilep	51,13 ЕМУ	509.050	751	600	677,0	1.206	787.016	12.840	313.066	5.107	0,24
Fustelarko Borec Bitola	100 ДЕМ	84.302	1.089	850	957,8	1.391	1.358.506	22.167	84.302	1.375	1,65
<b>TOTAL</b>		<b>27.559.913</b>				<b>223.603</b>	<b>172.036.840</b>	<b>2.807.198</b>	13.022.396	212.437	0,81



## TURNOVER PER MEMBERS

/ in denars\*

JANUARY - MARCH 2004

No.	Member	Trading in BEST system	% of trading in BEST system	Government	% Government	Block trades	% of Block trades	Total
1	<b>TN</b>	239.504.400	21,7	0	0	99.702.064	16,1	339.206.464
2	<b>BD</b>	109.560.881	9,9	0	0	215.663.680	34,9	325.224.561
3	<b>KB</b>	213.560.142	19,3	0	0	63.567.688	10,3	277.127.830
4	<b>MI</b>	87.646.300	7,9	0	0	58.424.000	9,5	146.070.300
5	<b>MK</b>	97.631.389	8,8	0	0	39.577.944	6,4	137.209.333
6	<b>SB</b>	76.153.981	6,9	0	0	57.745.968	9,3	133.899.949
7	<b>FR</b>	95.073.794	8,6	0	0	11.822.318	1,9	106.896.112
8	<b>EU</b>	61381780	5,6	0	0	0	0,0	61381780
9	<b>BB</b>	26.478.582	2,4	67.739	100	20.476.400	3,3	47.022.721
10	<b>OH</b>	36.789.972	3,3	0	0	10.070.000	1,6	46.859.972
11	<b>TK</b>	5.927.370	0,5	0	0	39.990.864	6,5	45.918.234
12	<b>BL</b>	35.304.264	3,2	0	0	1.088.000	0,2	36.392.264
13	<b>SL</b>	13.798.856	1,2	0	0	0	0,0	13.798.856
14	<b>PT</b>	5.720.201	0,5	0	0	0	0,0	5.720.201
	<b>Total</b>	<b>1.104.531.912</b>	<b>100,0</b>	<b>67.739</b>	<b>100</b>	<b>618.128.926</b>	<b>100,0</b>	<b>1.722.728.577</b>

\* double counter

## PRIVATIZATION OF THE LOSS-MAKING ENTERPRISES

The newly launched privatisation programme is now underway and an advisor has been appointed for the sales of 21 major enterprises. The sales are scheduled to be completed by April 2004. All of these enterprises have suffered significantly during the period of political instability in Macedonia and the Balkan region, but in a more settled environment many have the potential to be regain lost markets with new commercial and financial management. The larger companies have already drawn serious interest from international and local investors. For investors, this privatisation programme is an excellent opportunity to acquire good quality assets, with readily

available skilled workers in a low cost economy bordering the EU. The assets of these enterprises undergoing liquidation are offered for sale to the highest bidder, with no minimum price or conditions regarding future employment or investment.

The government believes that the best way to create employment is to encourage solid investment in Macedonia, not to set preconditions to sales that deter potential purchasers. The table below outlines the scheduled tender launch dates for all companies undergoing privatisation. All the international tenders will be open for a minimum of 1 calendar month.

### TENDERS CLOSED

Company	Estimated Launch date	Estimated deadline for tender bids	Business	Sale type
Astibo	26.02.2003	Tender closed	Garment production	Liquidation / Bankruptcy
Goteks	10.03.2003	Tender closed	Fabric production	Liquidation / Bankruptcy
Godel	09.04.2003	Tender closed	Leather	Liquidation / Bankruptcy
Silika	25.03.2003	Tender closed	Fireproof materials	Liquidation / Bankruptcy
Goteks II	14.05.2003	Tender closed	Fabric production	Liquidation / Bankruptcy
Makedonka tkaenini	28.05.2003	Tender closed	Textile	Liquidation / Bankruptcy
Nokateks	30.05.2003	Tender closed	Fabric production	Liquidation / Bankruptcy
Makedonka predilnica	16.07.2003	15.10.2003	Textiles	Liquidation / Bankruptcy
MZT FAM	30.07.2003	14.10.2003	Machine tools and metal cutting equipment	Liquidation / Bankruptcy
Mikron	10.10.2003	10.11.2003	Electrical motors and appliances	Liquidation / Bankruptcy
Frinko	08.10.2003	22.10.2003	Fridge & freezer production	Liquidation / Bankruptcy
Tehnika	13.10.2003	12.11.2003	Construction	Liquidation / Bankruptcy
FAS	03.11.2003	Tender closed	Buses	Liquidation / Bankruptcy
Hemteks	29.09.2003	Tender closed	Fibre production	Liquidation / Bankruptcy
Nova Makedonija	12.11.2003	Tender closed	Brand names	Liquidation / Bankruptcy
Porcelanka	19.11.2003	Tender closed	Tiles / Porcelain	Liquidation / Bankruptcy
Ruen	04.03.2004	05.04.2004	Motor vehicles parts	Liquidation / Bankruptcy
Nova Makedonija	15.03.2004	16.04.2004	Printing house	Liquidation / Bankruptcy

### TENDERS OPEN

Company	Estimated Launch date	Estimated deadline for tender bids	Business	Sale type
Zletovo	03.04.2004	29.04.2004	Mining	Liquidation / Bankruptcy
Toranica	03.04.2004	29.04.2004	Mining	Liquidation / Bankruptcy
Sasa	03.04.2004	29.04.2004	Mining	Liquidation / Bankruptcy
Godel	20.04.2004	19.05.2004	Leather	Liquidation / Bankruptcy

# MONEY AND SHORT-TERM SECURITIES MARKET

In January 2004, the turnover on the Money and Short-term Securities Market continued declining, reflected via monthly realization which is lower by 7.9% than the previous month, and it amounts to Denar 822.6 million. Compared to the same month last year, this year the turnover declined by 292%.

Demand for liquid assets in the analyzed period amounts to Denar 901.6 million, which compared to December 2003 is a decline of 11.8%, while compared to the January 2003 it is decline of 337.53%. The total supply of liquid assets on the Money Market in January is lower by 7.2% than in the previous month, while on annual level the supply in the analyzed period is lower by 233.13%.

The average weighted interest rate in January 2004 is 6.67% and compared to the previous month it is lower by 0.17 percentage points, while compared on annual basis it is lower by 8.53 percentage points.

In February 2004 the Money and Short-term Securities Market showed better performance than in January. Total turnover realized on the money Market this month is Denar 1.33 billion, and compared to January it is an increase by 61.55%. Compared

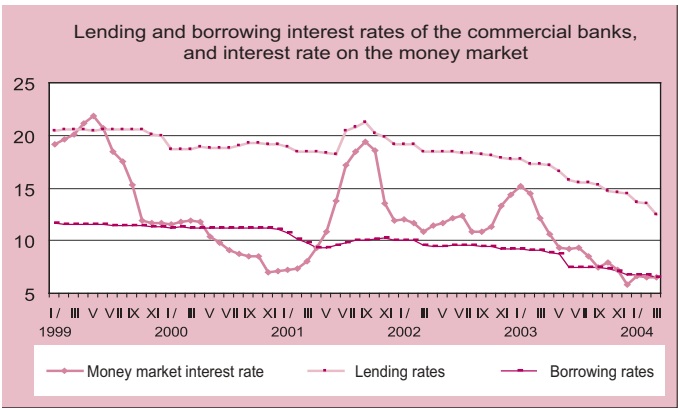
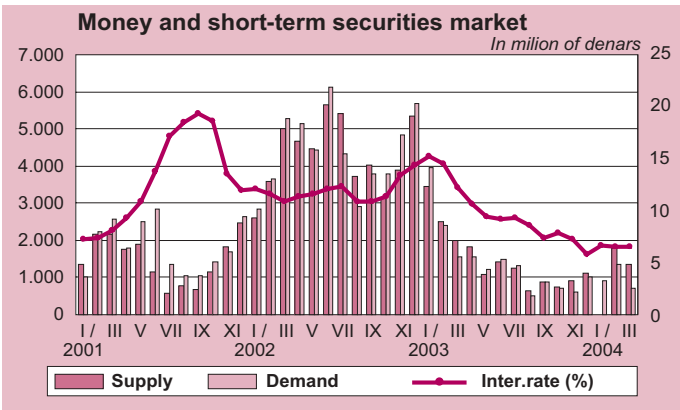
on annual level, the turnover in February declined by 74.4%.

In the analyzed period, the demand for liquid assets on the Money Market is Denar 1.35 billion and compared to January it is higher by 50.55%, while on annual level it is lower by 76.9%. Compared with the previous month, the supply of liquid assets increased by 73.7% and it amounts to Denar 1.80 billion, however on annual level it is lower by 38.85%.

The average weighted interest rate in February 2004 is 6.48%, which compared to the previous month is an increase of 0.03 percentage points, while analyzed on annual level it is lower by 7.96 percentage points.

The turnover on the Money and Short-term Securities Market in March 2004 is lower by as much as 98.3% in relation to the previous month. Analyzed on annual level, the turnover in March is lower by 121.6%.

The demand for liquid assets on the Money Market in the analyzed period is Denar 722 million and it is 88% drop compared to the previous month, while on annual level it is lower by 116%. At the same time, the supply of liquid assets on the Money



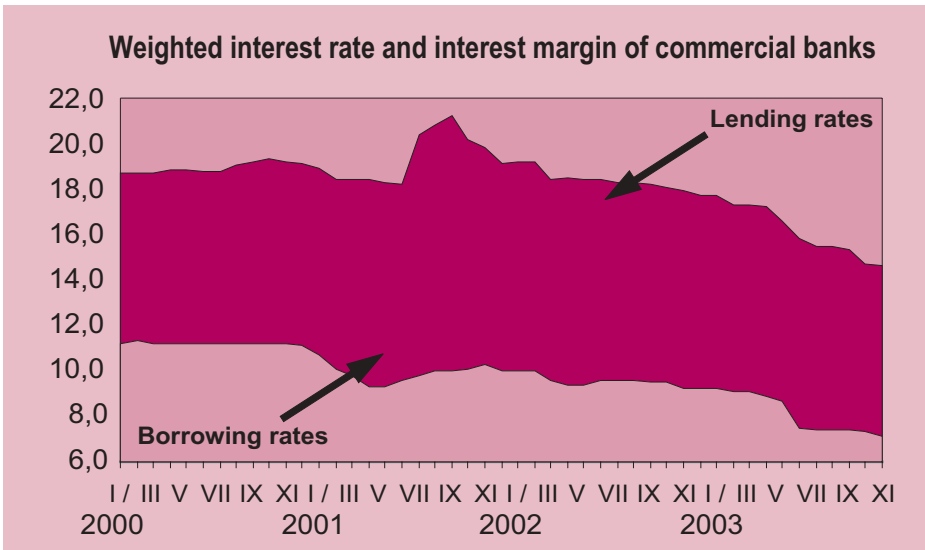
Money and short-term securities in 2002 and 2003 (by months)

	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	X.03	XI.03	XII.03	I.04	II.04	III.04
Total turnover (In million of denars)	3.008	2.970	3.843	5.213	3.224	2.330	1.493	1.350	979	1.371	1.204	476	837	659	560	894	823	1,337	674
Interest rate (% annual)	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	7,87	7,25	5,82	6,67	6,48	6,51

market is Denar 1.35 billion, and compared to the previous month it is a decline of 33%. Analyzed on annual level, the supply of liquid assets in March is lower by 45.9%.

February it is higher by 0.03 percentage points. Compared to march 2003, the average weighted interest rate in March 2004 is lower by 5.68 percentage points.

The average weighted interest rate in March is 6.51% and compared to



# DEPOSITS OF CITIZENS AND ENTERPRISES AT BANKS

## Deposits of citizens

The upward trend of the deposit potential of the banks continued in January 2004 as well. Thus, the total **deposits of citizens in January 2004** amounted to Denar 38,334 million and compared to the previous month, there was an increase by 1.8%, mostly as a result of the higher level of short-term deposits. At the same time, foreign exchange long-term deposits increased by 0.8% on monthly basis. Speaking of currency, there was a monthly increase by 1.6% and 1.9% regarding the Denar and the foreign exchange deposits respectively. At annual level, the increase of the total savings of the citizens in the first month this year reached 19%.

In **February 2004**, the increase of the total deposits of the citizens continued with moderate dynamics. As of 29th February 2004, the total deposits of the citizens amounted to Denar 38,870 million, and compared to January, they were higher by 1.4%, whereby increase was registered at all categories of deposits. There was more significant increase at the short-term foreign exchange deposits. On annual basis (February 2004 / February 2003), the total deposits of citizens are higher by 19.2%.

Total deposits of citizens in **March 2004** reached Denar 39,165 million, being a monthly increase of 0.8% in conditions of increase at all types of deposits (from the point of view of maturity and currency). Thereby, negative movements were registered in the structure of the deposits of citizens. Increased share of the short-term deposits and of the foreign exchange deposits were noted. Inter-annual growth rate of the total depo-

sits of citizens in March 2004 amounted to 19.5%.

## Deposits of enterprises

Deposits of enterprises in January 2004 amounted to Denar 15,828 million, which is an increase by 10.9% on monthly basis, mainly due to the increase of Denar and foreign exchange time deposits (1 month) of legal entities. Thereby, monthly increase of short-term deposits of enterprises amounted to 10.4% against the increase of the long-term deposits by 18.2%. Analyzed by currency, Denar deposits are higher by 4.5% against the more intensive increase of the foreign exchange deposits by 17.7%. Inter-annual growth rate of the total savings of enterprises amounts to significant 86% (as a reflection of the implemented legal possibility for free disposal with foreign currency funds).

Total deposits of enterprises in February 2004 amounted to Denar 14,633 million and were lower by 7.5% on monthly basis. In conditions of insignificantly lower level of deposits in national currency, the main reason for the drop is the foreign exchange deposits of the enterprises. Thereby, significant decrease was noted at the short-term foreign exchange time deposits (up to 1 month). The adverse dynamics of the long-term deposits is a result of the drop of the restricted deposits for instruments of payment operations with abroad. Compared to the same month last year, total deposits of enterprises are higher by 65%.

In March 2004, deposits of enterprises amounted to Denar 14,153 million and were lower on monthly basis by

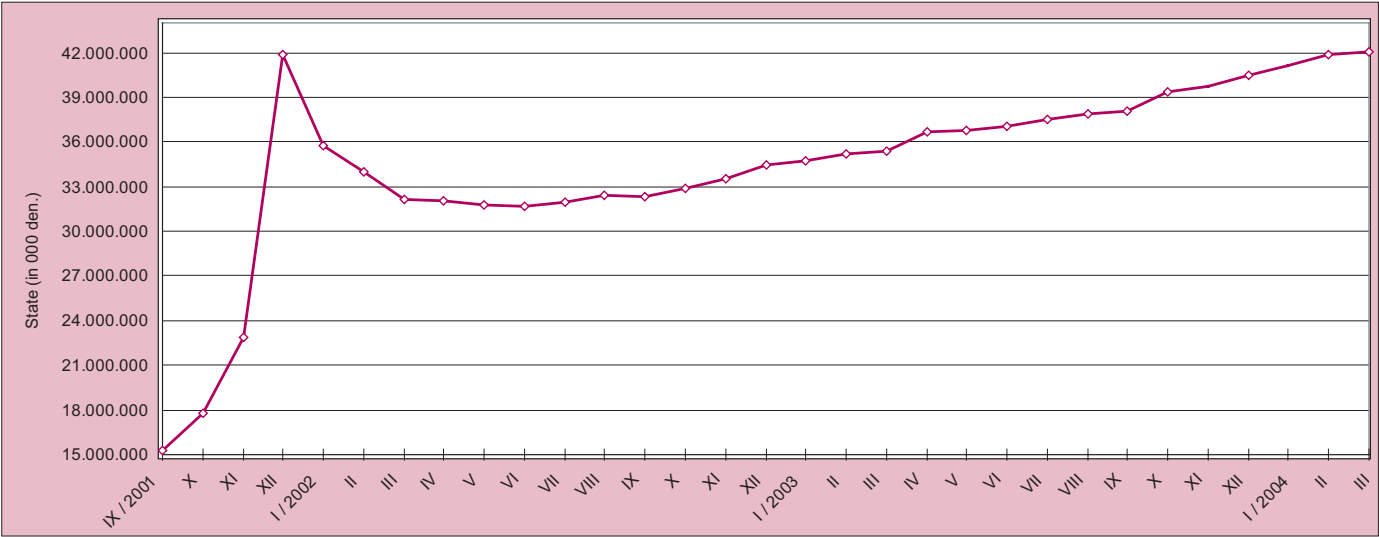
3.3%, mainly as a result of the lower level of short-term Denar time deposits (up to three months). On the other hand, an increase was registered at the foreign exchange sight deposits and at the restricted deposits. At inter-annual level, total deposits of enterprises increased by 45.4%.

### Deposit Insurance Fund

In March 2004 total funds of the Fund amounted to 3.2% of the total deposits of physical persons at the banks and saving houses. Out of the total

determined obligation related to indemnification, in the amount of Denar 109,281 million, during the analyzed period, the Deposit Insurance Fund paid Denar 258,000 for indemnification. As of March 2004 inclusive, the Fund paid 92.5% of the total determined obligation related to indemnification.

Deposit Insurance Fund carries out indemnification only for the deposits of physical persons at the banks and the saving houses being licensed by the National Bank to operate with deposits of physical persons.



## 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)

Credit line	Credit line in kind from Italy (equipment produced in Italy) Agent bank-Macedonian Bank for Development Promotion	KfW - Germany, Programme for crediting SME development Agent bank-Macedonian Bank for Development Promotion	Financial support for small and medium-size businesses (EAR and MBDP)
Amount	50,000 -2,000,000 €	50,000-400,000 €	Up to 30.000 EUR
Repayment period	Up to 7 years	Up to 8 years	Up to 5 years
Grace period	Up to 1.5 years	Up to 1 year	Up to 6 months
Annual interest rate	Fixed at 7% per annum	10% per annum (investments in manufacturing) 11% per annum (other investment)	Up to 10%, 10,5%
Guarantee	Mortgage, bank guarantee, deposit, securities	Mortgage, notes, pledge on movables, rights and securities, pledge on real estate	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,
Purpose of the credit	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	Purchase of equipment or machines, long-term financing of new projects. 20% of the total awarded credit may be intended for operating capital
Target groups	All SMEs except in the fields of trade, public administration, compulsory social protection, private households with employed members and exterritorial organizations and bodies	SMEs that have more than 51% 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.
Source of funds	Italy provided 12.7 million €, 8.5 million € out of which remain to be utilized. The funds will be used to create revolving fund.	KfW - Germany provided 15 million €, 871.000 € out of which remain to be utilized. The funds will be used to create revolving fund.	EU provided 7.9 milioni Euro's, 2.8 Euro's of which remain to be utilized.
Commercial bank that offer the credit	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	Izvozna i kreditna banka AD Skopje, Komercijalna banka AD Skopje, Ohridska banka AD Ohrid, Stopanska banka AD Skopje; Stopanska banka AD Bitola, Tutunska banka AD Skopje, KIB AD Kumanovo
Note:	One-off charge of 1.2% is paid for services, if such services are provided		Credits are used and repaid in denars

Credit line	Crediting small businesses (micro and small credits), KfW Agent bank-Macedonian Bank for Development Promotion	Crediting the production intended for export, from the funds from Macedonian Bank for Development Promotion	Credits from the credit line from International Bank for Reconstruction and Development (IBRD) for private sector development
Amount	50-15,000 € micro credits, up to 50,000 € small credits	30,000-2,000,000€	Up to 1,125,000 € for SMEs, Up to 75,000 € for individual agricultural producers
Repayment period	Up to 2 years	2-12 months (for export arrangements)	from 1 to 10 years
Grace period	Up to 3 months	/	Up to 3 years.(for fixed assets) Up to 2 years (for individual agricultural producers)
Annual interest rate	Up to 17% per annum for micro credits, up to 12% per annum for small credits	Depending on repayment period: 7,5% per annum (2 months) 8% per annum (4 months) 8,5% per annum (6 months) 9% per annum (12 months)	Variable, about 7% (LIBOR + 3% + banking costs)
Guarantee	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; pledge on movables and rights; pledge of valuables and securities.	Mortgage; pledge on movables and rights; pledge of valuables and securities.
Purpose of the credit	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 licenses. Permanent operating assets.
Target groups	Private companies, individuals, individual entrepreneurs, craftsmen, vendors and sole proprietor	Private export-oriented companies	Small and medium-size companies, individual farmers
Source of funds	Credit bank for Rehabilitation - KfW from Germany provided 6.7 million €. The funds will be used to create revolving fund.	Macedonian Bank for Development Promotion provided funds for this credit line. 7 million Euro's are used so far	Revolving fund of 100% utilized credit line from IBRD
Commercial banks that offer the credit	Izvozna i kreditna banka AD Skopje,Tutunska banka AD Skopje, Procredit bank AD Skopje, Moznosti DOO 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
Note:		Own participation 15%, other costs 2%, Commitment fee of 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 IFAD 1: Small and large credits for individual farmers	Credits from the credit line of the International Fund for Agriculture Development IFAD 1: Credits for small and medium- size enterprises	Credits from the credit line of the International Fund for Agriculture Development IFAD 2: Agricultural financial services
Amount	1,000-10,000 \$ (small ) 1,000-30,000 \$ (large)	1,000-75,000 \$	2000 \$ micro credits, 25000 \$ for primary agricultural production, 75000 \$ for processing agricultural products
Repayment period	1 to 6 years, depending on the purpose	1 to 6 years, depending on the purpose	1 to 7 years, depending on the credit
Grace period	3 months to 3 years, depending on the purpose	3 months to 3 years, depending on the purpose	6 months to 2 years, depending on the credit
Annual interest rate	6% per annum	6% per annum (7% for retail trade)	6% per annum (micro and credits for agriculture) 7% per annum (processing and trade with agricultural products)
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	Pledge on movables and rights (traktori, vozila, mehanizacija i drugo), pledge on real estate and other instruments acceptable for banks.
Purpose of the credit	1. Development of cattle breeding; 2. Production of plants	1. Development of small enterprises 2. Commercial trade	Improvement of the living standard of target population
Target group	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\$ 2.9 million out of which remain to be utilized. The funds will be used to create revolving fund.	IFAD (International Fund for Agricultural Development) provided US\$ 6.7 million, US\$ 2.9 million out of which remain to be utilized. The funds will be used to create revolving fund.	IFAD (International Fund for Agricultural Development) provided US\$ 7.5 million. The funds will be used to create revolving fund.
Commercial banks that offer the credit	Investbanka A.D Skopje	Investbanka A.D Skopje	Investbanka AD skopje, Komercijalna banka AD Skopje, Tutunska banka AD Skopje, Moznosti DOO Skopje and FULM
Note	Criteria: investment programme for large credits; obligatory participation of 30% in equipment, buildings and 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.	

Credit line	Development of small and medium-size companies from the Government of Netherlands Agent bank-Macedonian Bank for Development Promotion	Project for private sector development of the International Cooperation and Development Fund - Taiwan	Credit line for job creation in small and medium-size enterprises Council of European Development Bank
Amount	1. Credit 1: 1 - 10,000 Euro's 2. Credit 2: 15,000 - 75,000 Euro's 3. Credit 3: Up to 15,000 Euro's	Up to 400,000 US\$ for small and medium-size enterprises Up to 200,000 US\$ for agriculture	No limit
Repayment period	Up to 5 years	Up to 7 years for SMEs, Up to 5 years for agriculture	5 to 10 years
Grace period	Up to 1 year	1-3 years	1-3 years
Annual interest rate	Set individually by each institution	LIBOR +2.5%	6.4% - 6.9% (EURIBOR + 4%-4.5%)
Guarantee	In accordance with the credit policy of commercial banks - participants in the credit realization	Mortgage on real estate, pledge on equipment	Mortgage, pledge on equipment, other instruments acceptable for banks
Purpose of the credit	Investments in fixed assets and increase of the existing operating capital	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, procurement of machines and equipment, procurement of raw materials and spare parts, educational training
Target groups	Loan type 1: individual farmers, self-employed and entrepreneurs of micro enterprises; Loan type 2: small enterprises with 4 to 20 employees; Loan type 3: micro enterprises with up to 3 employees		SMEs from textile, leather, food industry and other branches that would enable job creation, except for the primary agricultural production.
Source of funds	The Government of Netherlands provided 7,2 mil. Euro,s 1,2 mil. Euro's out of which remain to be utilized. The funds will be used to create revolving fund	International Cooperation and Development Fund (ICDF) - Taiwan	Funds from the Council of Europe Development Bank (CEB) in the amount of 5.1 million € are fully utilized. Revolving fund was created from them, which continues to be utilized under the same conditions.
Commercial banks that offer the credit	Tutunska banka AD Skopje,IK banka AD Skopje, Stopanska banka AD Bitola, Mo`nosti DOO Skopje	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, Balkanska banka AD Skopje,
Note			According to information by banks, SMEs are not very interested in this credit line

Credit line	APEX Global Loan from European Investment Bank	Reinvestment of funds from the counterpart fund from foreign assistance (Decision, Official Gazette 51/2001)		
Amount	20.000 € to 12.500.000 €	The amount is not specified (up to 50% of the value of ptoject)		
Repayment period	5 to 7 years	Short-term credits	Long-term credits	
		Up to 9 monhts	Up to 5 years	
Grace period	1 year	3 months	1 year	
Annual interest rate	about 8%, or 9% (via Macedonian Bank for Development Promotion)	3%	3%	
Guarantee	In accordance with the credit policy of commercial banks - participants in the credit realization	Bank guarantee	Mortgage on real estate in ratio 2:1	
Purpose of the credit	Fixed assets and increase of the existing operating capital related to the project	Raw materials	Investments projects	
Target groups	Small and medium-size enterprises in all production-related activities	SMEs		
Source of funds	European Investment Bank provided 20 million €, 17.8 million € out if which remain to be utilized. The funds will be used to create revolving fund.			
Commercial banks that offer the credit	Komercijalna banka AD Skopje, Stopanska banka AD Skopje, Macedonian Bank for Development Promotion, Tutunska banka AD Skopje and Ohridska banka AD Ohrid	Ministry of Finance		
Note				

# FACTS ABOUT PRIVATIZATION

## CONDITIONS 31.12.2003

### CONDITIONS AT THE BEGINNING OF PRIVATIZATION

Sector	Number of companies	Number of employees	Equity in EUR
Manufacturing	403	149.174	1.101.109.147
Construction	117	33.499	118.205.995
Trade	385	20.773	252.619.574
Transport & Traffic	63	12.080	67.505.331
Finance & Services	120	4.417	26.247.146
Craft	58	3.017	9.376.752
Catering & Tourism	70	5.890	111.824.957
<b>TOTAL</b>	<b>1.216</b>	<b>228.850</b>	<b>1.686.888.902</b>

Source: Statistic provided by POS, december 31,1994

### ON-GOING PRIVATIZATION 31/12/2003

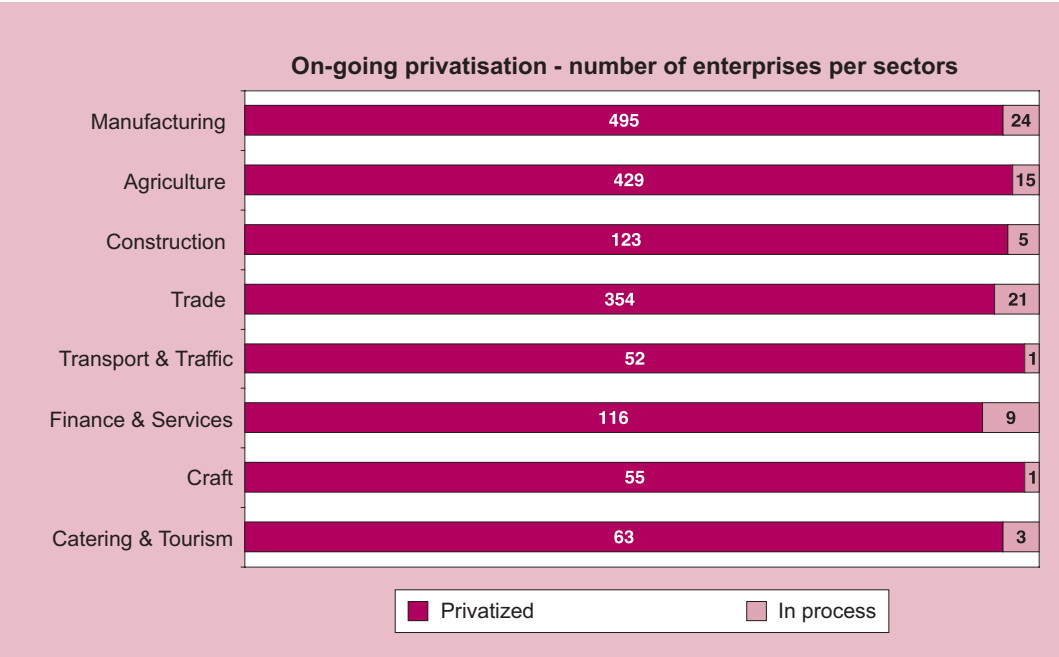
Sector	Number of companies	Number of employees	Equity in EUR
Manufacturing	24	4.385	17.635.539
Agriculture	15	1.160	10.013.480
Construction	5	133	4.750.073
Trade	21	1.503	6.500.869
Transport & Traffic	1	43	484.391
Finance & Services	9	155	531.569
Craft	1	75	184.065
Catering & Tourism	3	202	1.703.927
<b>TOTAL</b>	<b>79</b>	<b>7.656</b>	<b>41.803.913</b>

### FINISHED PRIVATIZATION 31/12/2003

Sector	Number of companies	Number of employees	Equity in EUR
Manufacturing	495	138.246	1.473.774.000
Agriculture	429	20.521	201.173.820
Construction	123	31.890	120.124.967
Trade	354	19.159	256.895.285
Transport & Traffic	52	7.260	40.260.965
Finance & Services	116	7.347	115.069.317
Craft	55	2.914	24.639.230
Catering & Tourism	63	4.281	93.728.168
<b>TOTAL</b>	<b>1.687</b>	<b>231.618</b>	<b>2.325.665.752</b>

ON-GOING PRIVATIZATION - NUMBER OF ENTERPRISES PER SECTOR

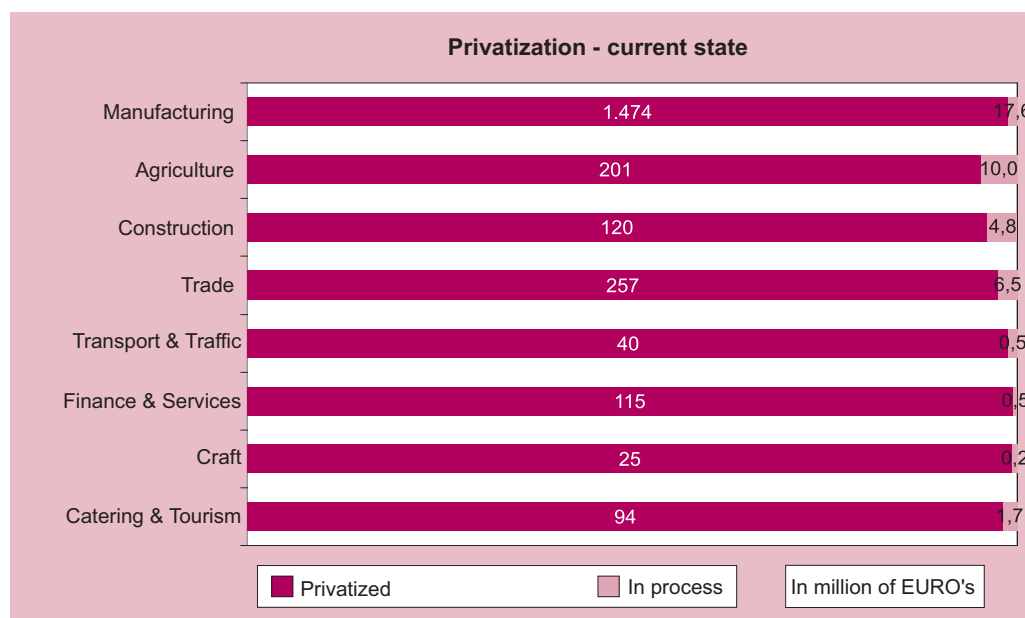
Sector	Privatized	In process
Manufacturing	495	24
Agriculture	429	15
Construction	123	5
Trade	354	21
Transport & Traffic	52	1
Finance & Services	116	9
Craft	55	1
Catering & Tourism	63	3
TOTAL	1.687	79



PRIVATIZATION - CURRENT STATE

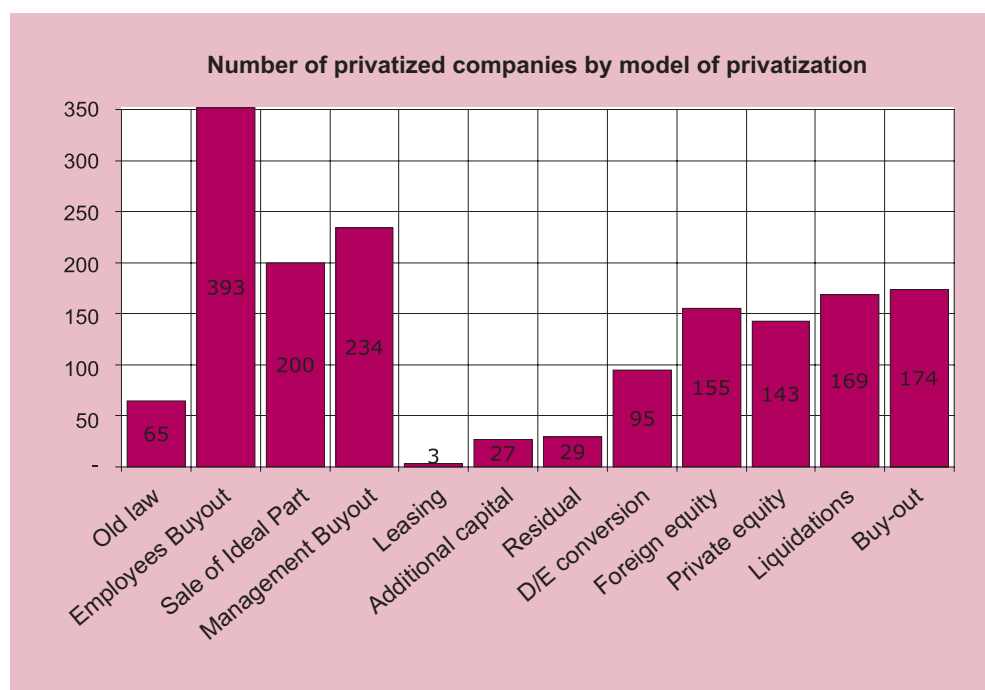
(EUR)

Sector	Privatized	In process
Manufacturing	1.473.774.000	17.635.539
Agriculture	201.173.820	10.013.480
Construction	120.124.967	4.750.073
Trade	256.895.285	6.500.869
Transport & Traffic	40.260.965	484.391
Finance & Services	115.069.317	531.569
Craft	24.639.230	184.065
Catering & Tourism	93.728.168	1.703.927
TOTAL	2.325.665.752	41.803.913



## NUMBER OF PRIVATISED COMPANIES BY MODEL OF PRIVATISATION

Model	Companies	Employees	Equity (EUR)
Old law	65	11.522	58.528.096
Employees Buyout	393	16.855	76.965.175
Sale of Ideal Part	200	25.904	326.129.029
Management Buyout	234	71.075	704.681.194
Leasing	3	-	595.839
Additional capital	27	7.620	96.739.753
Residual	29	14.962	145.654.379
D/E conversion	95	25.725	327.847.697
Foreign equity	155	1.843	25.257.846
Private equity	143	4.854	34.428.177
Liquidations	169	1.089	58.138
Buy-out	174	50.169	528.780.429
<b>TOTAL</b>	<b>1.687</b>	<b>231.618</b>	<b>2.325.665.752</b>



## IN BRIEF

### **Macedonia will have its credit rating done**

By end-August the Republic of Macedonia will finally get its rating done by Standard and Poor's. The Minister of Finance, Nikola Popovski, and the UNDP Resident Representative in Macedonia, Frode Mauring, signed an Agreement for Cooperation under which UNDP will donate US\$ 80,000 for the first credit rating of the country. "When we have the credit rating done, we will enter a new stage where we should have entered long ago so as not to be dependent only from the multilateral financial institutions. Now we can borrow at the world capital markets, borrow when we have a need, either on current or on long-term basis. This will also reduce the interest rates, and the investors will be able to get familiar with the economic conditions prior to making any investment decisions" Popovski said.

According to Frode Mauring, the positive effects will be reflected not only via reduction of bank interest rates, but also via faster economic growth, unemployment reduction and higher foreign direct investments in the country.



"Macedonia proved to be stable and this makes the investment climate favorable. I hope that Standard and Poor's will see this and it will have positive effect on the rating" Mauring said.

In addition to Standard and Poor's, Moody's will also prepare a credit rating for Macedonia, starting in June. GTZ provided donation for this purpose.

### **Merkator is interested to enter in the Republic of Macedonia**

Chain of supermarkets Merkator from Slovenia is interested to enter the country by opening sales center in Skopje. The president of the administration of this largest Slovenian trade and production company, Zoran Janovic, after his meeting with the Mayor of Skopje, Risto Penov and the President of Macedonia, Branko Crvenkovski, announced that three attractive locations in Skopje were offered to them, however they were waiting for the new government to be established and to fine-tune the conditions for entrance of this company in Macedonia. If all prerequisites for entrance of Merkator were met, the construction of this center would start at the end of the year or next spring. 400 persons would be employed in the sales center, and the overall investment would cost about EUR 25-30 million.

"The operating principle of this company is 40% Slovenian products, 40% domestic products and the remaining is imported products. Within time this ration may change in favor of domestic products. For illustration purposes, the share of Slovenian products in

Croatia is 20%, while the Croatian products participate with 44% in the sales" Jankovic said.

### **Farewell meeting of the Governor Ljube Trpeski with the bankers**

"Since our independence, the Republic of Macedonia several times faced exceptional challenges, but we managed to keep the banking system



aside from a systemic crisis. This makes me especially proud, since it is a rare case in the transition countries", said the Governor Ljube Trpeski at his farewell meeting. In addition, he emphasized the maintenance of low and stable inflation and the stability of the national currency as some of the remarkable achievements during his mandate. "Macedonia has a sound banking system that gained depositors' confidence. This is proved by the fact that when Euro currencies were changed into Euros, two-thirds remained in the banks" Trpeski said. The Minister of Finance, Nikola Popovski, praised Trpeski and emphasized the results in the macro-

economic stability where NBM played the key role. On behalf on the bankers, speech was given by the Director of Ohridska Banka, Najdenko Popovski, and also by the Chief of IMF Mission for Macedonia, Franek Rozwadowski.

### **Higher quotas for export of Macedonian wine into EU**

This year the export quota for EU market is 395,000 hectoliters compared to 300,000 as it was before. This is due to the fact that Macedonia added the concessions that arise from the Free Trade Agreement with Slovenia.

Thus, the Republic of Macedonia is the first country that completed the negotiations for Trade Protocol with EU, and at the same time negotiations are underway with other countries in the region. "The negotiations were mainly focused on dimensioning the trade with the new ten EU member states, and accent was put on the request by Slovenia to keep the quotas it has under the Free Trade Agreement with our country. We found a compromising solution for the Slovenian quotas to be reduced by 50% for pork, chicken and juices, while the trade with other products is under the quotas agreed with EU. The increase of quota is agreed only for butter, since we do not have domestic production of butter" explained Sande Dzambazovski, State Secretary of Agriculture and Leader of the Macedonian team of negotiations with EU.

The most positive effect from these negotiations is that new market of several million participants is opened

for our products, especially for agricultural products, and this is a challenge for higher quality and for finding strategy for placing the products on the market. On the other hand, the higher number of member states will mean higher import on the Macedonian market, which will impose higher competition.

### **Leasing industry still underdeveloped in Macedonia**

Financial leasing in Macedonia shows upward trend, but it has not yet reached the level in the other more advanced transition countries. This is the statement of the Deputy Minister of Finance, Dimko Kokaroski, given after the seminar "Policy and Training for Leasing Development". The major advantage for improvement of the financial leasing is the stimulus provided in the existing legal framework. It provides purchase of real estate and movables via leasing, and allows safe collection and efficient procedure for seizure of assets in case of default, Kokaroski pointed out. So far, the Ministry of Finance has issued licence for financial leasing to six firms: "Elbis", "Fonko", "Eurolizing", "Login sistemi", "Makkar", and "Arkada Makedonija".

### **Ministerial Conference for Regional Development in Tourism of Balkan Countries**

By signing the so-called Belgrade Protocol for Cooperation in Tourism, the Ministerial Conference for Regio-

nal Development in Tourism of SEE Countries. 8 Countries participated: Turkey, Greece, Serbia and Monte Negro, Macedonia, Bulgaria, Croatia, Bosnia and Herzegovina, Albania and Romania. By signing this Protocol, the ministers of tourism took a commitment to prepare a joint tourist product for SEE region and joint railway schedule to be offered to tourists from other countries. Although the Olympic Games in Athens as a major



event are missed from this aspect, there is a positive political will in SEE countries to jointly cooperate in the tourism. The Belgrade Protocol is a second important document of this type after the Athens Memorandum signed last year, and it should promote the cooperation among these countries and improve the tourist offer.

"Macedonia is a step forward in the area of tourism", said the Macedonian Minister of Economy, Stevce Jakimovski, who emphasized at this conference that last year the number of tourists increased by 20%, while the foreign currency inflow from accommodation is higher by 45.2%. The foreign currency inflow reached over US\$ 56 million, highest in the past 15 years.

### **Novelties of the capital market with regard to rules for company listing**

Securities and Exchange Commission prepared new registry of companies, so called publicly-owned companies, that should be listed on the official capital market. To that end, it prepared a new rulebook with tasks, manner and form of informing the potential investors by these publicly-owned companies. According to Securities and Exchange Commission registry, those are the companies that have at least EUR 1 million founding capital, at least 100 shareholders, or the companies that have new issue of securities. According to the same registry, 188 companies meet the conditions for listing. They will have to be listed on the capital market and be totally transparent in their operations, which means quarterly semiannual and annual reports on financial operations, as well as price-sensitive information that can have an impact on the market price of their shares offered for sale to potential investors.

Macedonian Stock Exchange reacted immediately after this. It also changed and sharpened the listing criteria in terms of transparency, so that in future the companies that want to sell their shares on the legal market and collect additional funding will have to go through much tougher criteria, but also to publicly estimate what they worth. According to the new and amended Stock Exchange listing rules, said the Director for Listing, Zvonko Popovski, only those companies that have at least EUR 2 million founding capital can be listed (instead of the so-far minimum of EUR 500,000). In addition, their shares must be owned by at least 200 shareholders, 25% instead of to so-far 30% of the shares.

Also, the Stock Exchange enhances the transparency of listed companies with compulsory quarterly income statement. These companies must also publish a calendar of dividends, i.e. report until the date when the dividend of shares is calculated, and within three months they must trade at least 0.3% of the total number of shares, including the block transactions.

It is expected that the new changed listing rules will allow many successful and renowned companies to list on the official market and to attract the investment community. Primerily the listing of Kjubi "Makedonija" is expected, as well as "Fersped", hotel "Metropol" from Ohrid, "Elektrometal" – Skopje, "Medicinska plastika" – Tetovo, Tutunska banka, "Sloboda"– Ohrid, "Hartija"– Kocani and many other companies that can attract serious investors and trading on the capital market.

### **The Minister of Finance at the WB/IMF Annual Dutch Constituency Meeting**

Delegation of the Ministry of Finance, headed by the Minister of Finance Nikola Popovski, attended the WB/IMF



Annual Dutch Constituency Meeting in Sarajevo. During his visit, the Minister Popovski met with his Dutch counterpart Gerit Zalm, with the Minister of Development and Cooperation, Agnes van Ardenne, as well as with the WB and IMF executive directors for Macedonia: Ad Melkert and Jeroen Kremers. Thereby, Melkert and Kremers presented the activities and current events in our constituency, and WB and IMF experts spoke about increase of credit potential of economies in transition, about public investments and fiscal policies in IMF programs, and about labour market policies, poverty reduction and sustainable development.

### **Petar Gosev is officially the new Governor of NBRM**

In his first statement given as a Governor of NBRM, Petar Gosev anno-



unced continuation of the so-far policy of low inflation and stable, but real denar exchange rate. "Stability and reality of the exchange rate will be a long-term policy of NBRM, regardless which exchange rate regime would be applied" Gosev said. In his view, there is a room for strengthening the monetary authority to the end of reaching the capacity, competence and analyticity of national banks in developed countries. Novelty in the work of the Governor will be his regular meetings with the Minister of Finance and with the Prime Minister.

### **Higher transparency for savings deposits**

All citizens in the country who have denar or foreign currency savings and want to put them in a bank, from now on will be able to more easily decide where to put them, especially if they are mostly interested in the interest rates the banks offer for their deposits. Since recently, a review of interest rates on denar and foreign deposits of physical persons in all business banks in the country, according to currency and maturity, is published on the website of the Ministry of Finance, [www.finance.gov.mk](http://www.finance.gov.mk). This data is submitted by the banks to the Ministry of Finance, and it is updated on daily basis. Interest rates are subject to change, according to banks business policy. This publication of interest rates of credit balance on one spot is to the end of simplifying the decision-making for depositing the money of the citizens, thus stimulating the savings.

### **S\$ 97.5 million foreign investments in 2003**

FDI in our country amounted to US\$ 97.5 million last year, said NBRM. Although it is a modest amount, NBRM data shows that it is by 20.4% higher than the last year. According to NBRM, most of the investments come from the Netherlands (US\$ 31.6 million), followed by Switzerland (US\$ 13.6 million), Bulgaria (US\$ 9.3 million), as well as from international financial institutions (US\$ 8.5 million).

For comparison only, US\$ 1.7 million were invested in Croatia last year. According to Croatian media, using the data of their Central Bank, out of the total foreign investments, the largest share, 40% (US\$ 760.3 million), is made on the basis of retained, i.e. reinvested profit. From the aspect of FDI, last year was the record for Croatia, primarily as a result of the sale of 25% of INA to the Hungarian company MOL for US\$ 505 million.

### **Macedonian farmers will produce with Israeli technology**

The delegation of Israeli company Agrounifood met with the farmers and processing entities from Pelagonija, and also with the Minister of Agriculture and Minister of Economy, Slavko Petrov and Stevce Jakimovski. At the beginning, Agrounifood plans to invest in vegetables, and the Israelis are mostly interested in investing in production of peppers, tomatoes, cucumbers and carrots. The Israeli company will provide the necessary seed material, production technology, expert assistance and irrigation sys-



tem "drop by drop". It will also provide credits for the overall production under 2.75% interest rate. The payment will be made via purchase of the overall production of first and second class, and Macedonian capacities will be engaged for its processing. This is a second Israeli-Macedonian cooperation in the field of agriculture, and the initiative in the amount of EUR 500,000 will start with testing lots.

### **Former SFRY gold distributed**

The distribution of SFRY gold was agreed at the meeting of successor countries in Zagreb. Yugoslavia has 8.5 tons of gold in Swiss and French banks. Macedonia will receive 7.5% of this, according to the distribution formula prepared by IMF. The largest share of the property of former SFRY goes to Serbia and Montenegro. Croatia gets 23%, Slovenia – 16%, Bosnia – 15.5% and Macedonia – 7.5%. The Agreement for succession of SFRY property came into force recently, after it was signed and ratified by all successor countries.

The next meeting on the succession is in Skopje at the end of this month. US\$ 220 million will be subject to distribution. These are SFRY funds in European banks. Out of these, Macedonia will receive US\$ 16.5 million.

The largest problem in the property distribution remains to be the money deposited in mixed-ownership banks.

### **Cold-rolling Plant and Polukonti have a new owner**

LNМ group, i.e. Mital purchased 44.5% of Cold-rolling Plant and 56.8% of Polukonti, thus becoming an owner of these two plants. Mital paid to Balkanstil 16.70 denars per share for both plants, i.e. total of EUR 4.19 million. Prior to that, in order to get the managing package of 51% in Cold-rolling Plant, Mital bought 6% of the shares owned by workers. Thus, Mital paid almost EUR 5.5 million to buy Cold-rolling Plant and Polukonti. By the time new management is appointed, the project will be managed by



Mr. Narendra Chaudhary. According to announcements of the new owner, the operations are to start by the end of the month.

### **Banking system stability improves**

Improvement of the banking system stability in the country is the general opinion that can be drawn from the report on banking supervision prepared by NBRM for 2003. According to CAMELS summary rating of banks, prepared each year by the Central Bank, for the first time in the supervision history one of the Macedonian banks was rated with 1, meaning the highest stability, i.e. lowest risk for depositors. In the past years, none of the banks ever received such rating by the monetary authorities. Five banks by end-2003 had rating 2, which is one bank less than in 2002. Number of banks with rating 3 increased from 3 banks in 2002 to 7 in 2003. However, the number of banks that received rating 4, meaning the bank has operation difficulties. In 2002, eight banks had rating 4, while in 2003 their number is reduced to four. However, in 2003 there are two banks with the worst rating – 5, and they are considered as problematic bank. This situation is the same as in 2002.

"Receiver was appointed at one of these banks in 2003, and in March 2004 bankruptcy procedure was initiated. The other bank rated with 5 shows stabilizing trends as a result of measures taken by NBRM and efforts by the management of the bank itself" NBRM states.

The rating of savings houses is also improved in 2003, i.e. number of savings houses with rating 2 is higher, while number of savings houses with rating 3 and 4 is reduced.

# THE END OF CHEAP MONEY

*Interest rates will soon have to rise in America, just as they already have in Britain and Australia*

Money has never been so cheap and so easy to obtain. The average of short term interest rates in America, Japan and Europe is at its lowest in recorded history - much to the delight of households and firms which have borrowed with wild abandon. America's Federal Reserve and other central banks slashed interest rates after the stockmarket bubble burst in 2000 because of concerns about deflation. But now the world economy looks much healthier than a year ago, so does it need such low interest rates?

There are many signs that inflation is on the rise again. In March America's core rate of consumer price inflation (excluding energy and food) unexpectedly jumped to 1.6%, from a low of 1.1% in January.

Financial markets now expect the Fed to start raising rates this summer. Some Fed officials, however, still think that they should hold off until consumer-price inflation itself rises further. That would be a mistake

As Japan's economy has strongly rebounded, its deflationary pressures have eased: in the year to February, consumer prices were no longer falling and producer prices rose for the first time for almost four years. In the euro area, inflation is starting to edge up again. In China, which was suffering from deflation little more than a year ago, inflation has risen to 3% and many economists expect it to exceed 5% before the end of the year. China is now exporting inflation rather than deflation, as its rapid

growth (officially 10% over the past year) and insatiable demand for raw materials have pushed up commodity prices worldwide.

Indeed, the entire world economy looks much livelier. Global GDP growth averaged nearly 6% at an annual rate in the second half of 2003, its fastest pace since 1999, and the International Monetary Fund has revised its forecast for growth this year upwards to a robust 4.6%. In America, consumers continue to spend as freely as ever. Retail sales soared by 9% in the year to the first quarter. And a big jump in employment in March may mean that firms are at last starting to create new jobs. Despite this, fewer jobs have been created in the current recovery than in any other since the 1930's. Even so, deflation no longer seems to be a serious risk, as Alan Greenspan, chairman of the Federal Reserve, acknowledged in testimony to Congress this week. The chance of a rise in American inflation is now probably higher.

## A sign of success

If so, the decline in the global inflation rate may be at an end. Almost 25 years ago, when America's inflation was into double digits, Paul Volcker, Mr Greenspan's predecessor, announced his "Saturday Night Special", a package of measures designed to curb inflation. That was a defining moment, and inflation peaked soon afterwards. Is another turning point in world inflation, but in the opposite direction, about to occur?

Higher inflation is precisely what the Fed and the Bank of Japan have been trying to achieve over the past year. At the start of this year, the average core inflation rate in the G7 economies was only 1% - too low for comfort. Most central bankers would prefer an inflation rate closer to 2%. But hold on. Isn't inflation supposed to be bad?

Not necessarily. A little bit more now should insure against a downward spiral of prices, which can be even more damaging than an upward spiral. Moreover, inflation seems unlikely to soar dangerously out of control, because most developed economies still have plenty of spare factory capacity and unemployment. In America, thanks to rapid productivity gains and moderate pay rises, unit labour costs are falling. Excess global capacity will also continue to weigh on the prices of manufactured goods. It is thus premature to start fretting about a new era of high inflation.

On the other hand, the Fed's position at its last policy meeting that it can afford to "be patient in removing its policy accommodation" - now looks complacent. Even without the prospect of an immediate inflationary threat, it is time for the Fed to start lifting interest rates. Many argue that there is no need for the Fed to tighten monetary policy until over capacity in America shrinks. That economic slack is indeed a reason why policy needs to stay fairly loose. But by some measures monetary conditions are currently at their loosest since the mid 1970's when inflation took off. So even a rise in interest rates would still leave monetary policy very loose.

### **Don't mention the B word**

Financial markets now expect the Fed to start raising rates this summer. Some Fed officials, however, still think that they should hold off until consumer price inflation itself



risers further. That would be a mistake. The liquidity that the Fed is pumping out is spilling largely into asset prices instead of conventional inflation, and that can be just as dangerous. Around the globe cheap money has encouraged excessive borrowing and speculation in housing and bonds. Consumers are stretching themselves with bigger mortgages and car loans. House prices have been pushed to record highs in relation to incomes and rents in many countries, including America, Britain, Australia and Spain. The build up of debt leaves economies vulnerable to a sharp fall in house prices or a rise in interest rates. Such concerns have been one reason why both the Bank of England and the Reserve Bank of Australia have raised interest rates recently.

America's super-loose monetary policy is fuelling potential bubbles abroad as well as at home. Around the globe, speculators are borrowing cheap dollars and investing the proceeds in higheryielding bonds in Brazil or South Africa, or in property in

Shanghai. In Asia heavy foreign-exchange intervention by central banks to hold down their currencies against the dollar have left economies overflowing with liquidity. This is why inflation is rising throughout Asia. The obvious solution is for these governments to allow their currencies to rise. Until they do so, the distorting effects of America's super-lax monetary policy will be magnified around the world.

It is time for the Fed to pull back on the throttle. A modest rise in rates now may dent economic growth in the short term. But the longer the Fed leaves rates so low, the greater the risk that a further surge in asset prices and debt will cause a nasty crash in the future. If that happens, then America's current low rate of inflation could tip into dangerous deflation the very thing the Fed was trying to avoid.

Taken from:  
"The Economist", april 24, 2004

## EU ENLARGEMENT:

# EFFECTS ON THE LABOUR MARKET IN THE FUTURE EU MEMBER STATES

*EU membership will lead to intensive restructuring of economies of SEE countries by higher percentage of laying off workers in certain sectors and creation of new jobs in the growing sectors. Hence, in the period before EU membership, main accent should be put on the policies for stimulating and not limiting the intra-sectoral and regional mobility of workers*

### Introduction

Political and economic assessment of EU enlargement towards East prioritizes the effects of this process on the labour market. This is due to the fact that the new level of salaries and unemployment rate caused by the enlargement will have direct impact on the social welfare both in the new and in the already integrated EU members. Social security and stability is a significant factor of the political stability in SEE countries.

Belke and Hebler (2001) have been analyzing the macroeconomic performances and the selection of labour market institutions in the SEE candidate countries since 1989, and they notice some significant similarities with the labour markets in continental Europe. In fact, the institutional structure of labour markets in some SEE countries (mainly Poland, Czech Republic and Hungary) have continental European rather than Anglo-American ("hire and fire") nature. The term 'market labour institutions' is defined in the wider sense of the word, i.e. it refers to the minimal wage, legal protection of employees, collective agreements, institutions competent for implementation of employment policy and like.

Due to the current 'problems' in the area of EU labour markets, the public debate on the reasons for such prob-

lems is increasingly present and vigorous. The economic literature in the last decade focuses more on the factor called hysteresis in unemployment – phenomenon when temporary shocks have permanent or semi-permanent effect on the conditions, in this case, on the labour market (e.g. Blanchard and Katz, 1997). When analyzing the labour market dynamics in Western Europe, the most frequent starting point is exactly the endurance of shocks caused by institutions operating in this market. Since joining EU means accepting the labour market institutions existing in the EU, the issue of hysteresis becomes ever more significant issue for the SEE countries (Boeri, Burda and Köllö, 1998).

Analyses also show other similarities between the labour markets in SEE countries and in the EU, thus we can conclude that these markets are domi-

#### Dimko Kokaroski PhD

is Deputy Minister of Finance of the Republic of Macedonia. He was born in Varos, Prilep. He graduated at the Faculty of Economics in Skopje, where he completed his post-graduate studies in the area of monetary credit issues. He acquired his PhD title in the area of monetary finance at the Faculty of Economics in Prilep in 1992. Mr. Kokaroski commenced his career at the Faculty of Economics in Prilep as junior assistant, and in 1998, he was elected as full-time professor of Monetary Economy, Foreign Exchange System and Foreign Exchange Operations. In addition, he also carries out the functions of Vice Dean at the Faculty of Economics in Prilep, Rector at "Ss. Kliment Ohridski" in Bitola, member of the Council of the NBRM, Chairman of External members Council, Chief of Department of Economics and Development. He is an author of more than 50 scholarly papers in the area of finance.



nantly of Western European type. For instance, the adjustment towards economic cycles and changes is mainly carried out via participation rate, i.e. the decision whether to participate in the labour market or to be inactive, while the salaries indicate low flexibility in the adjustment. Unemployment level and the type of regional disparities are also similar to the ones in Western Europe. Exactly due to such big similarity, Europe enlargement will not bring the potential benefits for the "new Europe" by creating competition among various institutions where the optimal ones will dominate and win.

European Community Social Charter has 12 paragraphs concerning issues of liberalism, vocation and salaries, improvement of standard of living, social protection, freedom of association and collective bargaining, vocational training, equal sex treatment, information and cooperation of workers, health protection and safety at work, protection of children and adolescents, as well as disabled persons

However, there are differences in some areas. They are most reflected in the field of protection of workers in case of illegal lay-off and in the differences in the historic directions of development of these two groups of countries that will impact the future development, due to which the SEE countries have more obvious need for increasing labour market flexibility.

The Republic of Macedonia recently applied for EU membership. Therefore, it would be useful to draw upon the experience of the transition countries that gained full EU membership in April 2004.

## **Accepting the labour market institutions. What does it mean for the new member states?**

EU institutions existing in this market segment are established by Acquis Communautaire. According to Belke and Hebler (2001), Acquis institutions are mainly motivated by social and political elements, rather than by the employment policy. That is why it is very interesting to see the effects from accepting the recently designed EU social policy over the employment in SEE countries.

European Community Social Charter has 12 paragraphs concerning issues of liberalism, vocation and salaries, improvement of standard of living, social protection, freedom of association and collective bargaining, vocational training, equal sex treatment, information and cooperation of workers, health protection and safety at work, protection of children and adolescents, as well as disabled persons. EU member states must apply the Social Charter principles only in the areas under the competencies of the Community, while regarding the other areas, each country may choose whether it will incorporate them in the national legislation or not. Signing the Social Charter is one of the basic prerequisites for EU membership.

EU definition of social dimension most often covers the following areas:

- system of benefits for persons in need, financed via taxes;
- social security system (pension, unemployment, health care and protection in case of accidents), financed via taxes or contributions;

- legal framework for corporations which guarantees the workers participation in decision-making;
- system of interregional income redistribution to the end of harmonizing the living conditions throughout Europe.

Accordingly, EU social dimension can be explained with the term "Social Cohesion Policy".

Social Cohesion Policy is most often "justified" by explaining that the development opportunities would be more positive in conditions of more homogenous European labour markets. At the same time, the common social policy of the new EU will eliminate the distortions that might occur as a result of "social dumping". Advocates of this theory of social dumping believe that countries with low level of social protection have comparative advantage against other countries due to lower labour costs. In this case, due to the competition of cheap and labour-intensive products and the possible capital outflow towards SEE, the other countries will also be forced to lower their social protection to remain competitive. Inevitably, the social dumping will result into downward adjustment, i.e. downward harmonization of social standards. Advocates of homogenous social system also argue that due to the international openness of markets of production factors, the social policy can be efficient only if run on supranational level.

The opposite arguments are based on the advantages of competition between the various social systems which, in conditions of cartelized markets of goods and production factors, will enable the SEE countries to get closer to the growth in the exist-

ing EU member states by using the specific local advantages. Thereby, the lower price of the factor labour in SEE countries due to the lower social protection does not mean dumping, since the price is set on real basis, for instance lower additional non-wage labour costs (paid annual vacation, travel allowances, food allowances etc.).

"The poorer" EU member states believe that the enlargement will make them lose their local advantages and that is why they put efforts and lobby for stronger social cohesion. However, Belke and Hebler (2001) concluded that the inability for social policy to be used as a parameter for efficient competition among EU member states will distort welfare of EU citizens, most probably reflected by rise in underemployment. According to Burda (1998), the EU Social Charter can cause serious rigidities on the labour market because



#### **Nikica Mojsoska Blazevski**

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. Blazevski 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 Mankiw, second edition, and second ass. Editorial chief of the Bulletin.

it protects the employed "insiders" from "the rich" EU member states from the competition by the workers in "the poorer" EU member states. Under this logic, if we take into account this cynical criticism, the joining of SEE countries into EU will mean transfer of labour market rigidities towards these poorer countries trying to get on track and have more competitive production environment due to lower labour costs and lower living standard. This will cause higher unemployment in these countries to be present for a longer period after EU membership. At the same time, it will lower the attractiveness of SEE countries for foreign direct investments and their competitiveness on the common market.

According to Burda (1998), the EU Social Charter can cause serious rigidities on the labour market because it protects the employed "insiders" from "the rich" EU member states from the competition by the workers in "the poorer" EU member states

The analysis by Boeri, Burda and Köllö (1998) of the labour market institutions in SEE countries shows that they have been largely designed according to the ones in continental Europe. This can be explained as an effort of the SEE countries to gain a profile similar to the EU one during the accession process, which will give them greater negotiating power. However, domestic economic and political factors have impact on the reform and promotion of these institutions. Therefore we can say that the initial impulse for institutional reform was domestic and populist one, while the additional source of inspiration for determining the final structure was external, i.e. Western European.

The compulsory acceptance of Acquis prior to EU association leaves little room for discussions about the contents and approach to reforms.

The enlarged European Social Union in the form of common rules against lay-off, on harmonization of minimum wage etc. will most probably cause further unemployment in SEE countries with low social standard in their initial period after joining EU. The harmonization of minimum wage and encouragement of SEE countries to run high salary policy should prevent bigger migration of workers from the new "peripheral" countries to the "center". For example, in the second half of 2002, the public administration salaries in Hungary nominally increased by 28%, while private sector salaries increased by 13%, and yet the rise of salaries was not related to the rise in productivity. In early 2003, the salaries further increased by 25% in the public, and by 9% in the private sector. 2002 inflation rate was 5.3%, while the projected inflation rate for 2003 is 4.6% (The Economist, 2003). The relatively high (financial) EU support of the efforts for convergence of SEE countries towards the EU was indirectly aimed at employment policy and prevention of migration.

Hence, the incorporation of EU legislation and case law could slower down the economic development of SEE countries and increase their unemployment rates. Thereby, since the EU rules are designed for the needs of "rich" economies with extensive social protection systems, the "transferability" of rules into the developing countries is low. However, we must take into account that the adoption of EU legislation will reduce the legal uncertainty in these countries, which most often is negative

factor for FDI, and will enable the SEE countries to make fast reforms as contrary to the existing EU member states that took decades to reform.

The impact of the new trade flows that will result from EU enlargement over the labour market will follow two opposite directions. The larger exports to EU have positive impact on employment, while the imports from EU will negatively impact the employment in SEE countries. The imports may also reduce the investments since the import competition puts pressure on the production and domestic investments. On the contrary, exports to EU will boost the investments since the higher export opportunities will lead to development of competitive export sector.

These are the arguments of the well-known theory that the higher competition, in this case caused by the international trade, stimulates economic restructuring. The short-term effects over employment are negative, but since the restructuring driven by market forces usually results into optimal allocation of resources, in absence of significant labour market rigidities, the negative effects are only transitory. But if we refer to the above comments regarding the inflexibility of the labour market institutions in EU, the initial negative effects from EU membership will be present for a longer time period.

Many authors try to explain and quantify the effects from EU enlargement towards East through the enlargement towards South that already took place (membership of Spain and Portugal). For example, Boeri, Burda and Köllö (1998), on the basis of Econometric Analysis of Time Series

argue that both the EU membership application and the de facto EU membership of "southern" EU member states increased the unemployment in these countries compared to then existing member states. Interestingly, these authors claim that the date of submission of EU membership application has larger impact than the membership itself. Expressed in figures, the application led to unemployment rise in Spain and Portugal compared to the "center" (France, Italy and Germany) from 14% to 22%. Taking into account that in the period prior to the EU membership such rise in unemployment was neither registered in Spain nor in Portugal, the figures indicate the potential negative effect of EU membership. By extrapolating the case of Spain in Poland, as a country with similar production structure, i.e. large share of agriculture employment in the total employment, EU membership will increase the unemployment rate from 1.5% to 2%. Due to the current low employment rate in Poland, this increase seems insignificant, however it is a matter of 33% increase.

However, we must take into account that the adoption of EU legislation will reduce the legal uncertainty in these countries, which most often is negative factor for FDI, and will enable the SEE countries to make fast reforms as contrary to the existing EU member states that took decades to reform

As we have already elaborated, these negative effects will surely be felt on short term. On long term their overcoming will depend on whether the country had established appropriate system of labour market institutions that promote branch mobility of work force and creation of jobs.



## Conclusions and recommendations for economic policy

The aim of this analysis is not to explain the reality, but rather to send a message to the countries that became new EU member states on 1 May 2004, but also to Macedonia that recently submitted an application for EU membership. The message is as follows: when making decisions about implementing the existing EU labor market institutions, SEE countries must pay attention to the need for such institutions to be able to adjust. Despite the benefits, EU membership (and the association process itself) brings burden in the sense of need for restructuring of the country. Negative effects may overwhelm the positive due to the institutional effects from adoption of the Acquis. In line

with the above, "too early" EU membership may cause negative effects if the new member states must apply the overall European regulation in the labour market area. In this case the countries lose their ability to easily adjust the labour market to the sectoral changes in the economy that will accompany the membership.

Accordingly, SEE countries can make a big mistake by adopting the labor market rigidities of continental Europe in the initial stage of transition (within EU), especially the ones in the area of small and medium enterprises or gray economy. Positive thing is that EU membership will lead to intensive restructuring of economies of SEE countries by higher percentage of laying off workers in certain sectors and creation of new jobs in the growing sectors. Hence, in the period before EU membership, main accent should be put on the policies for stimulating and not limiting the intra-sectoral and regional mobility of workers. This will be enhanced with the decentralization of collective bargaining and optimal design of unemployment benefits.

These views are not against the integration of Eastern Europe, but rather show that the integration model used at the moment causes significant costs, the majority of which are related to and are transferred via the labour market.

The experience of SEE countries in the EU membership process are useful both for the advocates of the economic policy and political factors. We will once again repeat the basic principles that we should apply:

- The application for EU membership itself has positive effects on the economic growth. Most often, this effect

results from the fact that the candidate status means commitment for intensification of reforms, for promotion of legal system (one of the largest problems for foreign investors), as well as higher inflow of FDI.

- Legislation in the field of employment and unemployment should be strengthened to the end of increasing inter-regional and inter-branch labour mobility, and flexible forms of employment that will increase the ability of economy for quick restructuring and expansion of certain sectors with comparative advantages at the expense of the decreasing sectors.

- Redesign of the social system is necessary, to the end of providing better social security, increasing the motivation for work and targeting the assistance to the really needy ones.

The overall adoption of the "European" social system should be seen from critical point of view due to different economies and social conditions in EU countries and in the Republic of Macedonia, and if such adoption is inevitable, it should be postponed for later on.

- Collective bargaining and the dialog between social partners in general must be promoted since the analyses of other countries (see Aidt and Tzannatos, 2001) show that in conditions of coordinated collective bargaining the economy can be easily adjusted to shocks, the real wages are more flexible in case of growth or decline in the economy, and the effectiveness in looking for job is higher.

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# NEED FOR MACROECONOMIC PROJECTIONS IN THE REPUBLIC OF MACEDONIA

*The basis for macroeconomic indicative planning in the Republic of Macedonia is the macroeconomic policy, providing the most indispensable instruments for realizing the projected development goals on the medium and the long run. Hence, today the planning in the Republic of Macedonia would enable to determine the strategic views regarding the objectives to be achieved in both the economic and the social development*

## Introduction



**Saso Kosev Ph.D.**

is a docent at the Faculty of Economics in Skopje. He graduated from the Faculty of Economics in 1995 and acquired his master's degree on the topic "Macroeconomic Planning in Modern Market Economies and in the Republic of Macedonia". He acquired his PhD title on the topic: "Application of the matrix on social accounts, with focus on the Republic of Macedonia". He attended and successfully passed specialist studies in the field of "Techniques of development planning" at the Institute of Social Studies in The Hague, the Netherlands. He participated in several projects, among which "National Strategy for economic development of the Republic of Macedonia" prepared by the Macedonian Academy of Science and Arts in cooperation with UNDP and The Vienna Institute for Comparative Economic Studies (WIIW) and "Transition of health sector in the Republic of Macedonia" prepared by the World Bank.

The 90's were years of big changes. A world has literary collapsed in front of us, considered by the most sober observers as stable, lasting and practically indestructible. The transformation of socialist into market economies is a monumental task for the makers of the economic policy, the international community and the economic profession in general. Economic reforms carried out in the ex-socialist countries, for its radicalism and comprehensiveness, are, without precedent, in the world economic history. The reason is simple: their objective is not reform and modification of the existing economic system, but rather its complete substitution. Such ambitiously set objective requires revolutionary changes in the institutional infrastructure, as well as in the manner of conducting the economic policy.

In such strong material, institutional and intellectual upturns, the understanding and the attitude towards macroeconomic projections is changing deeply and from scratch. A tendency has appeared for the projections to be treated as epochal historical failure, as source of number of deformities, as permanent and single reason for the final breakdown of many social and economic systems. It was a time of large re-examination during which almost all significant

attitudes turned into their opposites. There is a movement from one extreme to another, in line with the time that has brought full upturns in the so significant believes and values.

Following its independence and more intensive commencement of the transition process, the Republic of Macedonia has abandoned the system of social planning of the development. It has determined itself to establish and implement economic system of market economy, immanent to the developed market-oriented countries. Thereby, it has been overlooked that the planning of the development and the economic policy also takes significant place and role in the new market economy system with respect to the economic development of the countries and the companies as well, pointed out by the theoretical views and practices in many countries throughout the world. Planning the economic development and the economic policy is present, in various modalities, in all developed market economies. Observations point out that in the economic theory and practice, the belief that the market successfully regulates the development and that economic equilibrium can be established had long been abandoned. Macroeconomic projections in the countries with developed market economy are applied as an instrument to pre-

vent slumps and crises, to define the development strategy and to realize coordinated economic trends.

The experience in certain countries points out that the economies that have left the economic system of socialism and are in the transition process on the path towards building market economy system, need to apply macroeconomic projections as a precondition to exit the economic crisis they experience for a longer period of time, as well as for creation of conditions for stable and continuous development. This is of course a complex process and demands complex approach when institutionalizing the macroeconomic projections.

## **1. Why are macroeconomic projections necessary in the Republic of Macedonia?**

The changes are a dominant feature of the new social and economic development in the Republic of Macedonia. They should enable establishment of new paradigms of the social and economic development and social and economic operations. Their contents are presented via the democratic pluralistic social political system and via the democratic pluralistic social economic relations. The material and social-economic basis of these new relations is the pluralism of ownership, in all its forms, with dominant share and importance of the private ownership.

The need for social direction of the economic development and for implementation of a system for macroeconomic indicative planning is even more obvious in conditions of transition in which is our country, when the need for certain management activi-

ties by the state in the field of development is even more emphasized, mainly by the activities under the competence of the state (public sector, interventions in the economy, public finances, etc.).

Macroeconomic projections in the countries with developed market economy are applied as an instrument to prevent slumps and crises, to define the development strategy and to realize coordinated economic trends

Thereby, the basis for macroeconomic indicative planning in the Republic of Macedonia is the macroeconomic policy, providing the most indispensable instruments for realizing the projected development goals on the medium and the long run. Hence, today the planning in the Republic of Macedonia would enable to determine the strategic views regarding the objectives to be achieved in both the economic and the social development. It means that by carrying out more analyses, research and on the basis of a determined procedure, the goals and directions for the development of the country are defined, they are constantly estimated and adapted, the connection of the local with the national strategy is favoured, thus expressing the ambitions of the strategic planning. In conditions of operations on the basis of market criteria, and even more in conditions of transition, the connection between the planning and the economic policy becomes even stronger, and the planning becomes a function of the Government for the areas and activities which, pursuant to the Constitution and the laws, are under its competence. The planning document of the Government of the Republic of Macedonia should actually be a program of the government economic and social

policy on the medium term, with concrete commitments the Government of the Republic of Macedonia should take under certain programs (for public investments, public enterprises, interventions in the economy, local development, social activities, social sphere, public expenditures). Such system for indicative planning is compatible with the market economy and enables management of the public activities on the medium and the long run.

## **2. Institutional structure of the economic planning in the Republic of Macedonia**

The Institutional structure of the process of macroeconomic indicative planning is certainly the most important issue for conceptualizing the future system for economic planning in the Republic of Macedonia.

The most important role in the process of drafting, preparation and harmonization of the plans and the programs for macroeconomic development belongs to the Agency for Macroeconomic Models, Analyses and Studies (hereinafter "Agency"). The role of the Agency during the preparation of the macroeconomic policy and economic planning would be as follows: collection of economic information and preparation of macroeconomic studies, projections and analyses

When conceptualizing the institutional structure what should be taken into account is the experience and the results of the institutional structure of the systems for macroeconomic projections in the countries with developed market economy. I would like to emphasize that there are still no con-

crete proposals for changes of the present situation regarding the systemic solution for the issue of planning the economic development in the Republic of Macedonia. However, the experience so far points out (according to our estimate) that there is a need for institutional and systemic solution for the issue of national planning and economic development in the Republic of Macedonia.

Significant feature of the development and of the institutional structure of the macroeconomic projections in the Republic of Macedonia should be what is known as "economic triangle", that would mean link between:

- the State Statistics Office of the Republic of Macedonia;
- the Agency for Macroeconomic Models, Analyses and Studies; and
- the Ministry of Finance of the Government of the Republic of Macedonia (Department for Macroeconomic Analyses and Development Policy).

Their link and interdependence are essential for efficient functioning of the future institutional structure and mutual relations in the system for macroeconomic projections (Diagram 1).

The State Statistics Office collects, processes, analyses and publishes statistical data, studies and analyses encompassing numerous social and economic aspects from the development and the quality of living of the citizens. To that end, number of research and surveys are being conducted within the companies, households, public and private institutions on the territory of the Republic of Macedonia. All statistical research is conducted on the basis of statistical methodologies, largely harmonized with the international standards and clas-

sifications. The results from this research provide abundance of information on the Macedonian economy regarding the establishment, determining and realization of scientifically based and more efficient macroeconomic policy and projections.

The most important role in the process of drafting, preparation and harmonization of the plans and the programs for macroeconomic development belongs to the Agency for Macroeconomic Models, Analyses and Studies (hereinafter "Agency"). The role of the Agency during the preparation of the macroeconomic policy and economic planning would be as follows: collection of economic information and preparation of macroeco-

nomical studies, projections and analyses. The Agency would be the basic institutional and organizational unit for preparation and operationalization of macroeconomic models for the needs of both the Government and the Parliament when preparing the macroeconomic programs and plans, as well as other program-planned document for the future development. It would be one of the largest research institutions in the Republic of Macedonia that would regularly serve several ministries, committees appointed by the Government and the public by utilizing the "arsenal" of its macroeconomic models. The following should be included within the basic tasks of the Agency:

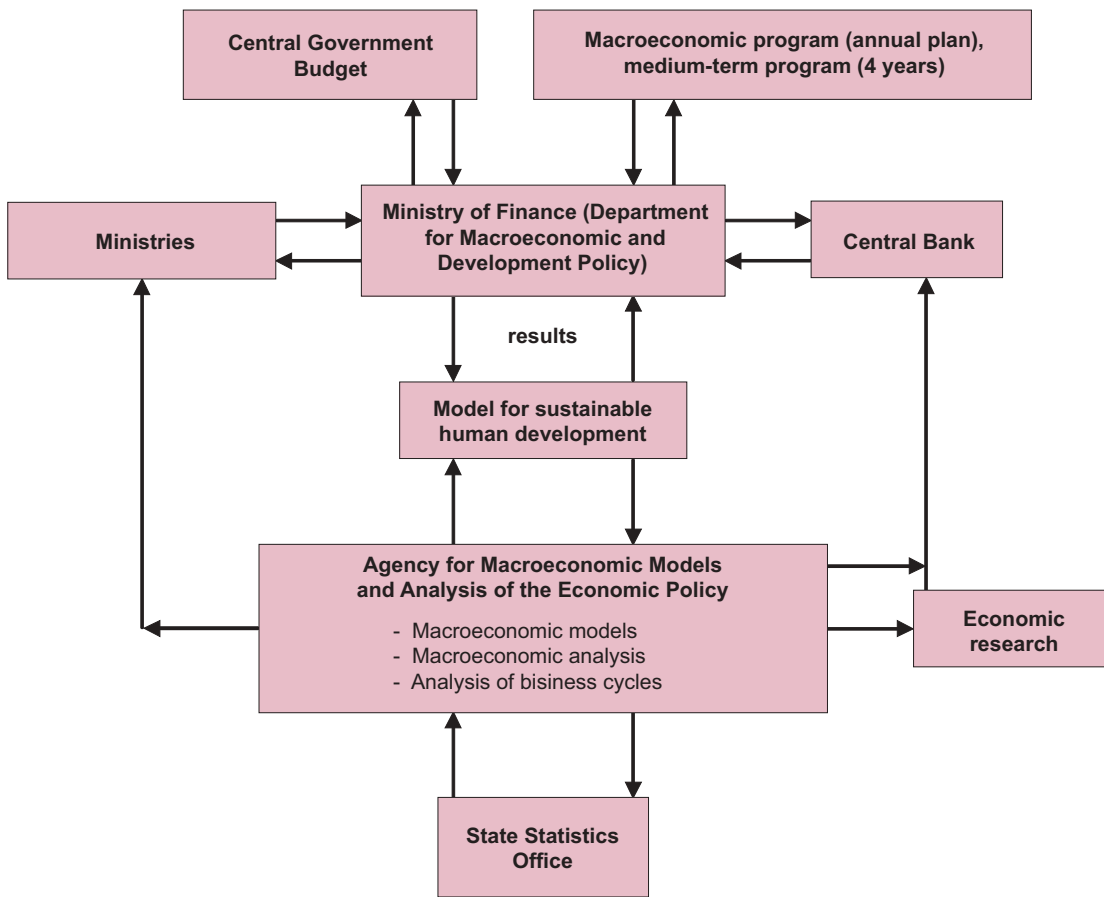


Diagram 1 Institutional framework of the system for indicative macroeconomic planning in the Republic of Macedonia

- analysis of the sectoral and structural effects from the process of approximation of the Republic of Macedonia towards EU;
- analysis of the global macroeconomic effects from the process of approximation of the Republic of Macedonia towards EU, together with the analysis of the structural problems; and
- econometric estimate/evaluation of the economic contents of the election programs of the political parties in the Republic of Macedonia. Thus, the democratic responsibility of the political parties in front of the voters will increase.

Thanks to the "invisible hand of the market" and the "visible hand of the plan", rational usage of the production factors and dynamic economic development of the national economy will be ensured. Thereby, the instruments of the economic policy and the other forms of planning and programming of the economic development of the national economy will be promoted

Department for Macroeconomic Analyses and Development Policies (within the Ministry of Finance) in direct cooperation with the National Bank and the other ministries would be responsible body for projections and planning of the development strategy and policy, for proposal of measures for the economic policy and for monitoring their implementation. This Department, as line body of the Government, in the field of macroeconomic planning should realize, in particular, the following activities and tasks:

- prepare draft strategy for development and for macroeconomic policy with the accompanying materials (do-

cumentation, studies, analyses and similar), that would mean operationalization of the basic goals and tasks determined by the Government and the Parliament;

- prepare document on development of the country on medium and long run (medium and long-term plan for a period of 5, i.e. 10-15 years);

- prepare studies and analyses of the situation, the development, the problems and the perspectives of the country and for certain areas, economic sectors, fields and branches;

- implement the measures and instruments of the economic policy;

- draft-plans and programs for cooperation with international organizations and institutions for development, and similar.

The Department for Macroeconomic and Development Policy should apply the macroeconomic models and macroeconomic studies and analyses prepared in the Agency for Macroeconomic Models, Analyses and Studies. It is understandable that during the preparation of the macroeconomic projections, programs and documents of the economic policy of the Government, the Department for Macroeconomic and Development Policy would also use the macroeconomic projections for the Macedonian economy prepared by OECD, IMF, the World Bank and other international institutions.

## Conclusion

The Government in the transition countries, and within the Republic of Macedonia, is responsible for defining and realizing efficient macroeconomic policy that creates conditions

for stable functioning of the market and for dynamic economic development. Such economic policy and the market with its economic character are solid basis for planning and determine its economic substance. The planning is related to the overall economic policy and all the activities of the state. Therefore, within the market systemic environment in the Republic of Macedonia, the planning and the economic policy will make a consistent unity of objectives, parameters, measures and means.

Thus, we should release our understanding of the planning from the frustrations from the past, i.e. from what is known as planning syndrome. In fact, it is essential to accept the modern concept of economic planning in both theory and practice. In light of this, as other market economies have done, manners and forms of modern macroeconomic policy need to be introduced. Regardless of whether our further development will accept explicit or implicit institutionalized type of economic planning, it is necessary, similar to the other developed market economies, to provide developed "arsenal" of management with the economic processes. It means

utilization of modern techniques and methods of planning and projections, as well as developed information system as basis for conducting efficient current and development policy. It also means for all government bodies and institutions, in parallel with the specialized planning institutions, to deal with the function of planning and economic policy, as well as to ensure adequate personnel and technical equipping for the needs of this significant function of modern state. In one word, transformation (transition) and reaffirmation of the planning in its contemporary meaning is necessary.

All the above-mentioned points to the fact that the planning and the market in social and economic system in the Republic of Macedonia are complementary mechanisms. Thanks to the "invisible hand of the market" and the "visible hand of the plan", rational usage of the production factors and dynamic economic development of the national economy will be ensured. Thereby, the instruments of the economic policy and the other forms of planning and programming of the economic development of the national economy will be promoted.

# IMF-SUPPORTED PROGRAMS AND ADJUSTMENT IN THE TRANSITION ECONOMIES

*Ultimately, after the first decade of transition, what can be drawn as a relevant conclusion is that the financial support by the IMF has secondary meaning. It is more important whether the transition economies are capable of creating their own vision and implementing it*

## Aleksandar Stojkov MA

is junior assistant in Economics at the Faculty of Law in Skopje. He has prior three-year work experience in the government sector, on managerial positions in the budget and macroeconomics departments in the Ministry of Finance. He underwent three-month professional education in the area of Applied Economics at the Joint Vienna Institute, as well as study tours on macroeconomic models in Netherlands and Poland and training on fiscal decentralization in Georgia, USA. Stojkov was engaged on projects by Bearing Point and the World Bank.

As a lecturer, he was included in the Formation Administrative Supérieure for civil servants, organized by the French Government and the Civil Servants Agency. Stojkov is president of the Center for Economic Analyses, an economic research center in Skopje. He acquired his MA title in the area of international economy, but besides that, he is especially interested in macroeconomics and fiscal economics. He is currently at his PhD studies at the Stratfordshire University in Great Britain.

The evaluation of the role of the IMF in the economic transformation of the former centrally planned economies poses double challenge. Every evaluation of its engagement should avoid the danger of attributing decisive role to the IMF in the economic transition; however, its significant engagement in the designing of policies in the transition period should not be underestimated.

The question whether these countries can be treated as a homogenous group is a serious methodological dilemma in the analysis of the IMF role in the transition economies. The danger of the fallacy of composition can lead to attributing the conclusions

reached for all transition economies to each transition economy, which according to the renowned Polish reformer, Mr. Leszek Balcerowicz is equal to the mistake of "attributing all mankind's illness to each person".

In principle, the positions of the IMF in the transition period largely correspond (corresponded) to the Washington Consensus, a controversial reform agenda proposed in 1989, which in a short period of time grew into a kind of unofficial manual for installing market economy in the countries in transition. Further below, we shall firstly elaborate the basic postulates of the Washington Consensus, then we will try to evaluate the IMF positions in relation to the dynamics of the economic transformation, the sequencing and the relative relevance of certain reform areas, as well as the scope of the reform agenda.

## Washington Consensus and market fundamentalism

The Washington Consensus sublimates the joint position of scientific circles in the United States on economic policy that should be followed by the developing countries and the transition economies. Consensually set reform priorities rested on the neoclassical (development) paradigm and in that sense, they favored macroeconomic stabilization, liberalization (of prices, interest rates, trade, entrance of de novo firms), privatization and structural reforms.



### The Washington Consensus – damaged brand name?

The promotion of the Washington Consensus is related to John Williamson, researcher from the Institute for International Economics in Washington, who prepared supporting document titled "Washington Consensus" for the Conference on the problems of Latin American nations (organized by this Institute) in 1989. The document contained 10 recommendations (the "ten commandments" of the Washington Consensus), which, according to Washington economists, would help the Latin American countries to overcome the debt crisis: 1) fiscal discipline; 2) reordering public expenditure priorities; 3) tax reform; 4) liberalization of interest rates; 5) a competitive exchange rate; 6) trade liberalization; 7) liberalization of inward foreign direct investment; 8) privatization; 9) deregulation; and 10) property rights. Since then, the Washington Consensus lived another two interpretations – as an extreme version of the market fundamentalism and as a synonym of neo-liberalism, which the international financial institutions are trying to impose on the developing countries and countries in transition. Due to that, today, the father of the Washington Consensus, with a deep regret concludes that the reform agenda he proposed to the Latin American nations in time became damaged brand name (see: Williamson, 2003).

Although the recommendations were primarily intended for Latin American countries, with small modifications, they were offered to the countries in transition, which, in the same period initiated the historical creative destruction of their centrally planned systems.

Faced with unsatisfactory knowledge of the functioning of the market economy and having very weak institutional capacity to support the envisaged reforms, most countries in transition decided to address the international financial institutions, primarily the IMF, seeking financial, technical and political support for the reforms<sup>1</sup>.

The fundamental overhauling of centrally-planned economies was not only a historical challenge for former socialist countries, but for the Fund's experts as well, with the only difference that for the former, the faith of hundreds of millions of citizens depended on the pending economic transformation, and for the latter,

testing of the validity of the recommendations from the Washington Consensus. What connected them was the common faith in rapid transformation into modern market economies.

There is irrefutable evidence that many governments in transition non-critically and obediently accepted the advices of the Washington economists. Still, some impartial scientific circles (which, understandingly, would not be scientific if they were biased) continuously pointed to the existence of serious flaws in the neo-liberal concept. The economic policies imposed by the Fund which faced hail of criticisms at the very beginning, could be categorized as follows:

- reform dynamics;
- optimum sequencing of reforms;
- importance attributed to certain policies/reforms;
- appropriateness of the list of reform priorities offered by the Washington Consensus.

<sup>1</sup> Turkmenistan and Slovenia are the only exceptions.

## Types of arrangements between the International Monetary Fund and the transition economies

At the beginning of the transition, the majority of countries from the former USSR and several countries from Eastern Europe (Bulgaria, Romania, Croatia, Macedonia, Moldavia) faced with a dramatic decline of the export, concluded "softly" conditioned systemic transformation facilities (STF). These arrangements were designed to bridge the period of seriously undermined macroeconomic stability and to prepare the national authorities to implement the regular stand-by arrangements.

The second group of countries, which succeeded in a relatively short period to redirect trade flows towards the developed economies (Poland, Hungary, Estonia, Lithuania, Latvia etc.) and/or to avoid the clearly unfavorable external shocks (Kazakhstan, Georgia etc.) immediately focused on stand-by arrangements.

Finally, the third group of countries (Albania, the Kyrgyz Republic etc.), which considered the biggest problems of their economies to be the economic growth and the structural adjustment, began the transition with the IMF ESAF arrangements. Only Slovenia and Turkmenistan decided to walk the transition path without IMF financial assistance.

In the subsequent choice of arrangements the IMF offered (the stage after the macroeconomic stabilization), new regrouping was made, in which part of the transition economies:

- exited the Fund's "orbit" (Poland, the Czech Republic, Slovakia);
- reoriented towards prevalent usage of stand-by arrangements (e.g. Bulgaria);
- after achieving macroeconomic stabilization (with the assistance of stand-by arrangements) engaged in more decisive fight against poverty via ESAF and PRGF arrangements (Albania, Macedonia, the Kyrgyz Republic etc.);
- after achieving macroeconomic stabilization (with the assistance of stand-by arrangements) prepared exit strategies via concluding precautionary arrangements – Croatia.

Although from today's aspect these debates are seemingly outdated and should be left to history, it is an indisputable fact that some countries in transition have not yet drawn relevant conclusions from their cooperation with the Fund. Due to that, we shall further try to present the modern views of the transition analysts regarding these issues.

### Shock therapy vs. gradualism?

Although most transition analysts were prone to interpret even the slightest sign of impatience by the IMF regarding reforms in transition countries as propagating shock therapy, it is a fact that the rapidity was not the fundamental creed of the

Fund's arrangement. Its experts in certain reform areas explicitly supported shock therapy, but that cannot be considered as feature of the overall reform strategies. Several reform strategies differentiated among the transition countries (Fund's clients) support this statement: shock therapy (i.e. cold-turkey or big-bang approach), rapid adjustment and gradual approach. The shock therapy as a reform strategy in the true sense of the word was applied solely in Eastern Germany (Gomulka, 2000).

The reform areas in which the IMF lobbied for radical action were price and interest rate liberalization, trade liberalization and privatization. The rapidity of these reforms was considered as exceptionally important since

the democracy opened "window of opportunities", i.e. offered a unique "period of exceptional policy" for their implementation.

In the more recent empiric literature there is almost a consensus that the recommendations for rapid price and interest rate liberalization were correct. Although the liberalization of administrative prices was the reason for emergence of relatively high inflation rates (so-called "corrective" inflation) in the early transition years, this move eliminated major part of the price distortions. Price liberalization enabled them to assume the role of true signal of the market conditions and to allocate resources in the points of most efficient use. The IMF recommendation on liberation of interest rates from administrative restraint also caused dramatic decline of investment activity, but the long-range benefits from the market-set price of capital exceeded the short-term (expressly) negative effects for the real sector.

Unfortunately, even from today's distance, transition analysts have still not presented a unified position regarding the appropriateness of radical approach in the area of trade liberalization.

Researches by international financial institutions show that the shock trade liberalization has not proved to be a bad choice. The conclusions of a World Bank study on transition economies' performances in the period 1990-1999 point to the fact that the

output in the current year depended on the cumulatively achieved liberalization in the previous years. In other words, the sooner the economy achieved (and maintained) high degree of liberalization, the sooner it grew higher<sup>2</sup>.

In principle, the positions of the IMF in the transition period largely correspond (corresponded) to the Washington Consensus, a controversial reform agenda proposed in 1989, which in a short period of time grew into a kind of unofficial manual for installing market economy in the countries in transition

The thesis of EBRD experts, according to which "a structure of economic activity comparable to market economies has been achieved more rapidly in countries that have quickly liberalized markets and trade than in those with gradual and uneven levels of reform" (Transition report 1999, EBRD). Still, these conclusions should be taken with reserve, since they do not take into account the specificities of individual countries, above all, the differences in the initial conditions in the transition countries.<sup>3</sup>

The economic policies imposed by the Fund which faced hail of criticisms at the very beginning, could be categorized as follows: reform dynamics, optimum sequencing of reforms, importance attributed to certain policies/reforms, and appropriateness of the list of reform priorities offered by the Washington Consensus

<sup>2</sup> The quantification of the degree of liberalization is via the composite index of liberalization, used by the EBRD.

<sup>3</sup> The initial conditions in the countries in transition (initial economic structure, distortions and initial readiness of the institutions) can explain as much as 51% of the variations in the average economic growth rate in the period 1990-1994 and 44% of the variations in economic growth in the period 1995-1999. (World Bank study, 2002).

Transition economies	Institutional reforms	Price liberalization	Fiscal/mo- netary stabilization	Financial system	Privatiza- tion	Trade system reforms	Liberaliza- tion of capi- tal transac- tions
Buch -1992			2	1		1	1/2
Dornbusch -1991	1	4	1	5	3	4	3/4/5
Fischer/Gelb -1991	1	2	1	4	1/3	2	5
Gelb-Gray -1991	1	1	1	3	1/3	1	3
Hinds -1991	1	2	1	3	1/4	2	
Lipton/Sachs-1990	1	1/2	1		3	1/2	
McKinnon-1991		3	1	2		3	4
Nuti – 1991	1	1	3		2	3	4
Roland -1991	1	3	3	2/4	2	3/4	2/3/4
Rybczynski-1991	1		2	1	2		

Source: Nsouli, Saleh et al, 2002.

Unlike the official rhetoric of the international financial institutions, the gradualists point to the frightening effects of the shock liberalization. In his best-seller book "Globalization and its discontents", the Nobel-prize winner Joseph Stiglitz uncompromisingly supports the gradual policy, implemented by Poland and China, which, according to him, are two success stories from the countries in transition. Poland initiated economic transformation via shock therapy, with strong support by the IMF, but sooner after that, it realized that the "success of the nation depended on the explicit rejection of the Washington Consensus doctrines".<sup>4</sup>

The reform areas in which the IMF lobbied for radical action were price and interest rate liberalization, trade liberalization and privatization. The rapidity of these reforms was considered as exceptionally important since the democracy opened "window of opportunities", i.e. offered a unique "period of exceptional policy" for their implementation

Although many underline that the Polish "radicalism" is more successful than the Hungarian "gradualism",

it is indisputable that the Polish transition model contained many elements of evolutionary approach. Poland took 10 years to reduce the inflation to 1% monthly, budget deficits remained high during the whole transition period, and the mass privatization was limited to only small enterprises. The Chinese economy, by following the gradual approach, managed to achieve exceptionally high growth rates, but it is still not an adequate example to compare with, since it did not underwent political, economic and institutional crisis during the 90's as was the case in the other transition economies.

The strategy of gradual liberalization does not have many supporters in the economic circles of the developed economies, although the adverse effects in the transition economies from the too rapidly implemented trade implementation, directed by the IMF, are more than obvious. By "generously" opening the borders to foreign goods, the relatively less efficient industries in these countries fell into disgrace of the external competition, due to which millions of jobs were destroyed. That contributed to serious deepening of the transformation slump, a fact that unpleasantly

<sup>4</sup> Statement of the former Deputy Prime Minister of Poland, Grzegorz W. Kolodko.

surprised even the IMF experts. As a result, some countries in transition that implemented the IMF arrangements and advices were compelled to pay "higher" adjustment costs (e.g. output sacrifice ratio) than those the economy of which was prepared to endure in the short run.

The positions of the IMF and the World Bank for uncompromising and radical action in the implementation of privatization were somewhat understandable, since they were based on the ideological fears of possible reincarnation of socialism. Besides the favorable political moment, additional arguments in favor of the rapid privatization were the efforts to:

- prevent asset stripping;
- relieve the budget (or the central bank) from the fiscal burden imposed by the inefficient public enterprises; and
- disrupt the disinvestments climate created in the moment the enterprises awaited the outcome from their ownership transformation.

reform process. Macro-financial stabilization is necessary to eliminate the distortions of relative prices and wrong market signals, generated by the high inflation, which is only one of the necessary conditions for liberalization of foreign trade. Should the high fiscal and quasi-fiscal deficits continue existing, implementation of successful and sustainable reforms in the trade system is less likely.

In the next step, as the empirical analyses show, besides the sectoral sequencing, it is necessary to pay attention to the intra-sectoral sequence: liberalization of domestic factors of production, above all, labour market, should precede the liberalization of final goods and services markets

With certain adjustments for the differences in the initial conditions, the success stories about the "graduated" economies in transition (e.g. Poland and the Czech Republic) are stories of decisively implemented institutional (and structural) reforms by responsible governments, which do not need additional credibility (and alibi)

## **Sequencing and relative importance of reforms**

Since the necessary political, economic and institutional changes cannot be incorporated at once, sequencing of reforms was required. The proper sequencing of policies should (have) prevent(ed) for the gains from the initial reforms to be eliminated by the consequent unsynchronized (although again, benevolent) actions.

The majority of researchers believe that fiscal and monetary stabilization and institutional reforms should be carried out at the beginning of the

## **Proposals for optimum sequencing of reforms in transition countries**

Finally, there is almost a broad consensus that liberalization of capital transactions should follow the achieved convertibility of capital account. "If domestic markets of factors of production are still distorted, when the capital account is liberalized, the capital inflows may enter the distorted sectors, further increasing the inefficiency of domestic production" (Saleh et al., 2002).

Taking into account the present body of knowledge on sequencing of reforms, the following "sequences" are underlined as the most serious flaws of this approach, favored by the Fund:

- early liberalization, before restructuring of enterprises;
- "instant" liberalization of final goods and services markets, simultaneously with factor markets (it may sound anti-globalist, but there are serious indications that at the beginning of the transition, the Fund functioned as a world trade organization. Placing itself as an agent of developed economies, it advised the transition economies to prematurely open their domestic markets).
- privatization with no regulatory framework. For example, the privatization of monopolies before setting competitive environment and/or regulatory framework meant only transformation of government monopoly into private one. That certainly had far-reaching adverse consequences for millions of consumers in the transition economies.

On the other hand, "advices" on partial liberalization of capital transactions, after convertibility of the current account is achieved, proved to be appropriate solutions. That did not impose an obstacle for inflow of foreign direct investments since the convertibility of the current account enabled repatriation of profit. In this context, recommendations for intra-sectoral sequencing were proper, i.e. first liberalization of the long-term capital flows, and then of the short term ones.

The relative significance the IMF attributes(ed) to certain reform areas is also subject to serious criticism.

Further on, we will elaborate part of the more convincing criticisms for the poor assessment of "weights" of certain reforms.

- Too much emphasis on macroeconomic stabilization. The usual remark of the critics is that in the case of transition economies as well, Fund's policies focused too much on economic stabilization. Even the Independent Evaluation Office (IEO) within the IMF observed that the drastic fiscal consolidation, recommended by the Fund, helped the micro-financing stabilization, but in many cases, it stifled economic growth. Structural reforms and institutional reforms did not get the deserved attention, at least not in the early years of transition.

- Limited use of income redistribution policy. According to western standards, centrally planned economies were too egalitarian, which was an unacceptable trade-off at the detriment of economic efficiency. Hence, the Fund's position to treat growing income inequality at the beginning of the transition as a kind of necessary sacrifice to efficiency is somewhat understandable. But what caused worries was the too high tolerance threshold for (ever growing magnitude of) this phenomenon, observed via the insufficient use of income redistribution policies. Although the official position of the Fund is that social safety nets are "interwoven" in its programs, many agree that they were insufficient. The following can be set out as reasons for the dissatisfactory social component of the Fund's programs: shock approach and mistakes in sequencing of reforms (which contributed to recessive trends in production) and inappropriate therapy (poor targeting of social transfers, absence of progressive taxation system etc.)

## REVIEW OF IMF ARRANGEMENTS TO TRANSITION COUNTRIES (1991-2003)

[illegible]

Note:

- SMP = Staff monitored program
- SBA = Stand by arrangements
- STF = Structural transformation facility
- EFF = Extended fund facility
- PRGF = Poverty reduction and growth facility

## Adequacy of reform scope

The most serious critic to the IMF approach towards transition economies is that it lacked holistic approach, i.e. it was limited only to economic and political aspects of the systemic transformation. By fully following only standard macroeconomic "recipes", it failed to suppress its *déformation professionnelle* and to more firmly support the building of institutional infrastructure in these economies.

In many cases, weak institutions proved guilty for the restoration of macroeconomic instability (stop-and-go policies), central banks failed to implement politically independent banking supervision or to oppose the monetization of excessive fiscal deficits, regulators were helpless in promoting competition policies...

But the Fund's position that development of institutions is a key element of economic growth did not go beyond

being declarative. The assistance offered on individual level (training of part of government officials), organizational level (via technical teams) and system level (formulation and implementation of policies) was insufficient to close the "institutional gap" in transition economies. According to the experience, what especially lacked was the support on organizational level, since the IMF teams were limited only to partial technical assistance in the ministries of finance and economy and the central banks.

Besides that, most transition analysts share the opinion that the Fund failed to provide satisfactory support for the type of institutions which form a foundation of democracy – "support to research centers, creation of room for public dialogue, support to independent media, education of new generation, that will know how democracies work" (Stiglitz, 2002). When solutions do not come via

public dialogue on crucial economic subjects, but via few-day conversations of small group of negotiators with the IMF mission (mainly behind closed doors), one cannot expect broad support for the designed policies. Still, we would not want to believe in conspiracy theories that it suits to the IMF to face weak negotiating counterpart, i.e. national governments with insufficient capacity to assess the Fund's recommended policies or formulate their own reform programs.

In that case, the gradual approach may prove to be more appropriate solution, provided, of course, it is followed by sustainable political support to the reforms. But the most serious problem following the gradualism is precisely the danger of it becoming deformed into strategy favoring status quo!

### **The right path to "graduation"?<sup>5</sup>**

The assessment of policies imposed by the Fund in the countries in transition cannot be implemented on the whole group. Although regrouping according to selected reform strategies is possible, it would still be more advisable to make empirical verification by using "case-by-case" approach. The answer to the question to what extent the IMF arrangements have helped in setting optimum trajectory of adjustment in the transition period depends on the following:

- initial conditions and degree of macro-economic instability in the arrangement beneficiary country (the more obvious the instability, the greater the need for radical action and financial support)

- credibility of the government policy (the governments with even short history of undisciplined policies were compelled to amply rely on IMF arrangements, via which they borrowed credibility) etc.;

- institutional capacity of transition economies (those which failed to pay proper attention to institutional reforms, became slow reformers, but also many-year beneficiaries of the IMF arrangements).

Ultimately, after the first decade of transition, what can be drawn as a relevant conclusion is that the financial support by the IMF has secondary meaning. It is more important whether the transition economies are capable of creating their own vision and implementing it.

With certain adjustments for the differences in the initial conditions, the success stories about the "graduated" economies in transition (e.g. Poland and the Czech Republic) are stories of decisively implemented institutional (and structural) reforms by responsible governments, which do not need additional credibility (and alibi).

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<sup>5</sup> The term "graduation", according to the Fund terminology, means a degree of economic and institutional development when there is no need for its arrangements.

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## SOME HILARIOUS, BUT USEFUL INVESTMENT TERMS

*What Nervous Nellie and her Aunt Millie want most is to "eat well, sleep well", especially after "cutting the melon"! But, if they "fall out of bed", or notice a "wrinkle", they suddenly pass "low ball" in order to save as many "nest eggs" as possible... Markets can be quite picturesque, so if you want to avoid being like "Aunt Millie" or to more easily survive the "baptism of fire", read carefully...*

### Alligator spread

A term referring to an unprofitable spread regardless of favorable market movements. This loss is due entirely to large commissions charged upon the transactions. Don't get caught in an alligator spread! This type of scenario will lead to a losing position even if you predict the market correctly. A term referring to an unprofitable spread regardless of favorable market movements. This loss is due entirely to large commissions charged upon the transactions. Don't get caught in an alligator spread! This type of scenario will lead to a losing position even if you predict the market correctly.

### Aunt Millie

An unsophisticated investor.

### Bai-kai

Two-sided market picture, in Japanese terminology applies mainly to international equities.

### Balloon loan

A long-term loan, often a mortgage, that has one large payment (the balloon payment) due upon maturity. A balloon loan will often have the advantage of very low interest payments, thus requiring very little capital outlay during the life of the loan. Since most

of the repayment is deferred until the end of the payment period, the borrower has substantial flexibility to utilize the available capital during the life of the loan. The major problem with such a loan is that the borrower needs to be self-disciplined in preparing for the large single payment, since interim payments are not being made. Balloon loans are often undertaken when refinancing or when a major cash flow event is anticipated. also called balloon note or bullet loan.

### Baptism of Fire

A difficult situation that a company or individual experiences. A baptism of fire will either weaken or strengthen the entity involved. For companies examples include initial public offerings, a CEO new to a suffering company, or a company that has survived hostile takeover attempts are examples.

### Blitzkrieg Tender offer

A takeover offer that is intended to be so attractive that very few objections will arise and



Zana  
Sokarovska

the takeover occurs swiftly. In German "blitz" means lightning, and "krieg" means war. Thus, a blitzkrieg (lightning war) refers to a surprise offensive that is both powerful and swift.

### Brought over the wall

Compelling a research Analyst of an Investment bank to work in the Underwriting department for a corporate client, therefore allowing for the transmission of insider information. Also called "Over the Chinese wall".

### Buba

Is the Bundesbank.

### Bulldog bond

Foreign bond issue made in London

### Bullet bond

A bond that is not able to be redeemed prior to maturity. A bullet bond is usually more expensive than a callable bond (in that the interest rate is lower), since the investor is protected against the possibility of the bond being called when market interest rates fall. Also called bullet bond.

### Chinese wall

Communication barrier between financiers at a Firm (investment

bankers) and traders. This barrier is erected to prevent the sharing of inside information that bankers are likely to have.

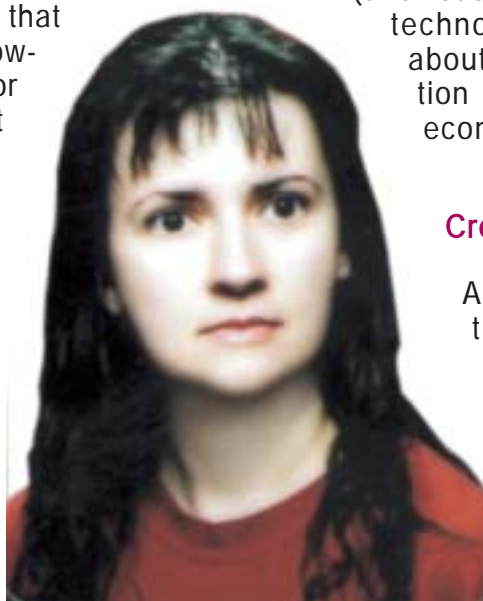
### Creative destruction

A term coined in 1942 by Joseph Schumpeter in his work, Capitalism, Socialism and Democracy, to denote a "process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one."

In other words, creative destruction occurs when something new kills an old thing. A great example of this is personal computers. The industry, led by Micro Soft and Intel, destroyed many mainframe computer companies - but in doing so, entrepreneurs created one of the most important inventions of this century. Schumpeter goes so far as to say that the "process of creative destruction is the essential fact about capitalism." Unfortunately, while a great concept, this became one of the most over-used buzzwords of the dotcom boom (and bust), with nearly every technology CEO talking about how creative destruction would replace the old economy with the new.

### Credit cliff

A slang term meaning that credit deterioration could be compounded by provisions such as rating triggers or financial covenants. These can put pressure on the company's liquidity



Maja  
Petrovska

or its business to a material extent. For example, a poorly performing company may get a credit rating downgrade, which makes the company's situation even worse by giving it a higher cost of capital. You can think of a highly leveraged company that is in financial trouble as teetering on the edge of a cliff. One false step and they'll be in a free fall!

### Cutting a Melon

A declaration of a large stock or cash dividend that is in addition to the regular distribution. The bigger the melon, the sweeter it tastes to investors!

### Daisy chain

Manipulation of the market by traders to create the illusion of active volume to attract investors.

### Death spiral

A type of loan undertaken by a company that desperately needs cash. It works like this: an investor lends the company money in exchange for convertible debt, which, like a convertible bond, typically has provisions that allow the investor to convert the bond into stock at below-market prices. These investors can then short the company's stock and try to drive its price down. The lower the stock goes, the more shares the investor will get when he or she converts. The investor then closes out his or her short position with the shares received from the conversion. The term death spiral was coined because companies' stocks often plunge drastically after they take on these types of loans.

### Dollar drain

A situation in which a country's imports from the U.S. exceed their exports to the U.S., which results in a reduction in their dollar reserves. The idea can also be applied to currencies of other countries.

### Dry powder

A slang term for cash reserves kept on hand to cover future obligations. For example, if a venture capitalist expects bad times in the IPO markets you might hear him say something like, "we want to keep enough dry powder around to keep funding our companies through these hard times."

### Dutch disease

The deindustrialization of a nation's economy that occurs when the discovery of a natural resource raises the value of that nation's currency, making manufactured goods less competitive with other nations, increasing imports and decreasing exports. The term originated in Holland after the discovery of North Sea gas.

### Eat well, sleep well

An adage used to explain the risk/return tradeoff. It means that the type of securities investors should invest their money into depends on whether they want to eat well or sleep well.

Emilija  
Sirkarovska



Investing in high-risk, high-reward securities will ensure that you eat well, but the risky nature of the securities might prevent you from sleeping at night. By contrast, investing safely means that you can sleep well, but the low rate of return will keep you from eating well.

### **Eat your own dog food**

An idiom describing the act of a company using its own products for day-to-day operations. A company that eats its own dog food suggests that it considers its own products the best on the market. This slang was popularized during the dot-com craze when companies did not implement their own software and thus could not even "eat their own dog food." An example would be a software company that creates operating systems but uses its competitor's software on its corporate computers.

### **Fall out of bed**

A sudden Drop in a stock's price resulting from failed or poor business deals gone bad or falling through.

### **Fidelity bond**

A debt obligation serving to protect an employer from loss in the event that its employees cause damages through dishonest or negligent action. Insurance companies and securities firms are often required to possess a fidelity bond.

### **Flip-flop note**

A note which enables investors to switch between two different kinds of debt.

### **Flipper**

A short-term investor or day trader who buys pre IPO shares, swiftly spinning them out into public markets for a quick profit. Flippers may hold a stock for only 24-48 hours.

### **Goldbrick shares**

A stock with only the surface appearance of quality and worth, that is in fact worth very little. The term goldbrick is normally used to describe objects that are fraudulent or a sham. It can also be applied to securities and the corporations that issue them.

### **Gridlock**

Is a condition whereby trading activity ceases or becomes extremely constrained. Frequently, the spreads between bids and offers widen dramatically and volume dries up. Therefore, there are very few, if any, trades.

### **Iceberg order**

Multiple orders that have been divided from a large single order and placed by participants in the market. The purpose is to hide the actual order quantity. When large participants, such as institutional investors, need to buy and sell large amounts of securities for their portfolios, they can divide the order into smaller parts. This reduces the price deviations associated with substantial changes in a particular stocks supply and demand.

### **Jekyll and Hyde**

1. A slang term describing the strengths and weaknesses of a company's financial statements.

2. A sudden increase or decrease in the value of an asset.

3. A senior manager's good and bad qualities or the polarized views between two key officers within a corporation. This term derives its name from R. L. Stevenson's *The Strange Case of Dr. Jekyll and Mr. Hyde*. Dr. Jekyll, the atypical good scientist, unleashes his dark side, nicknamed Mr. Hyde, through self-experimentation. Although Jekyll and Hyde have contradictory natures, they are one and the same person.

1. Companies have Jekyll and Hyde financial statements when they show strong performance at a first glance, but a closer look shows covert weaknesses.

2. Volatile stock that fluctuates widely in price would be an example of a Jekyll and Hyde.

3. If two officials of a company both have important goals, but their goals conflict with one another, it is a Jekyll and Hyde situation.

### Jumping the gun

Definition 1 - Trading on information which has not yet be revealed to the public.

Definition 2 - Illegally soliciting orders to buy a new security issue before SEC registration is complete.

### Kangaroos

Slang for Australian stocks.

### Lady Macbeth strategy

A corporate takeover strategy whereby a third party poses as a white knight to

gain trust, but then turns around and joins with unfriendly bidders. One of Shakespeare's most frightful but ambitious characters, Lady Macbeth devises a cunning plan for her husband, the Scottish general, to kill the Duncan, the King of Scotland. The success of Lady Macbeth's scheme is a result of her deceptive ability to appear noble and virtuous, thereby securing Duncan's trust in the Macbeths' honor and loyalty.

### Lobster trap

A strategy used by a target firm to prevent a hostile takeover. In a lobster trap, the company passes a provision preventing anyone with more than 10% ownership from converting convertible securities into voting stock. Examples of convertible securities include convertible bonds, convertible preferred stock, and warrants.

### Low ball

Slang for making an offer well below the fair value of an asset in hopes that the seller may be desperate to sell.

### Maple leaf

A gold, silver, or platinum coin minted in Canada that usually trades at slightly more than its current bullion value.

### Market cannibalization

The negative impact a new product has on the sales performance of a company's existing, related products. In other words, you are eating your own market:) For example, say Coca Cola puts out a new product called Coke2. Market cannibalization is

where customers buy Coke<sup>2</sup> instead of regular Coke. Although sales are up for the product, they are not increasing for the company overall. Investors always dig deeper, the company will likely not outright admit this is occurring.

### Mezzanine financing

The next stage of financing that follows venture capital financing.

### Mothballing

The preservation of a production facility without using it to produce. Machinery in a mothballed facility is kept in working order so that production may be restored quickly if needed. A desirable production strategy for a company that has high operating costs, mothballing allows a factory produce goods upon demand instead of on a continual basis.

### Nervous Nellie

An investor who isn't comfortable with investing and the risks associated with it. If a nervous Nellie ever does decide to invest, he or she is likely to liquidate the investment at any time.

### Nest egg

Assets set aside for a large future expense, such as a college education or retirement.

### One-man picture

When both bid and the offered prices of a broker come from the same source.

### Phantom stock plan

An employee benefit plan that gives selected employees (senior management) many of the benefits of stock ownership without actually giving them any company stock. Sometimes referred to as a shadow stock. Rather than getting physical stock, the phantom stock is "pretend." However, it follows the actual price movement of the company stock, paying out profits as cash or check.

### Plain vanilla

A term that refers to a relatively simple derivative financial instrument, usually a swap or other derivative that is issued with standard features.

### "Ponzi" schemes

Ponzi schemes are a type of illegal pyramid scheme named for Charles Ponzi, who duped thousands of New England residents into investing in a postage stamp speculation scheme back in the 1920s. Ponzi thought he could take advantage of differences between U.S. and foreign currencies used to buy and sell international mail coupons. Ponzi told investors that he could provide a 40% return in just 90 days compared with 5% for bank savings accounts. Ponzi was deluged with funds from investors, taking in \$1 million during one three-hour period-and this was 1921!

Any investment program that offers impossibly high returns and pays these returns to early investors out of the capital contributed by later investors. Sometimes called a pyramid scheme because the structure must be supported by a broader and broader base of gullible investors as time passes.

### Poop and scoop

A highly illegal practice occurring mainly on the Internet: A small group of informed people attempt to push down a stock by spreading false information and rumors. If they are successful, they can purchase the stock at bargain prices. Poop and scoop is the opposite of pump and dump.

### Pork chop

An arrangement on the floor of the NYSE whereby clerks cover the booth of a floor broker and accept orders, phone calls, and associated tasks. The clerks in charge of maintaining the booths are directly compensated by the floor brokers who own them. This arrangement is beneficial to the floor brokers as it allows them to handle business outside the floor on the NYSE while still taking orders and maintaining trading requirements.

### Pump and dump

A highly illegal practice occurring mainly on the Internet. A small group of informed people buy a stock before they recommend it to thousands of investors. The result is a quick spike in the price followed by an equally quick downfall. The people who have bought the stock early sell off when the price peaks. Many pump and dump sites tend to recommend companies that are OTC and have a small float. The small float means more volatility. It is virtually impossible to make money from these web sites unless you are the proprietor. The SEC eventually busts all of them.

### Rainmaker

A valuable employee, manager or sub-contracted person who brings new business to a company.

### Razor - razorblade model

A business tactic involving the sale of dependant goods for different prices. One good is sold at a discount, while the second dependant good is sold at a considerably higher price. If you've ever purchased razors and their replacement blades, you know this business method well. The razors are practically free, but the replacement blades are extremely expensive. The video game industry is another user of this pricing strategy. They sell the game consoles at a relatively low price, recouping the lost profits on the high priced games.

### Sandwich lease

A leasing arrangement in which an entity leases property from one party and leases that same property to another party. In this arrangement, the entity is both a lessee and a lessor, so it both pays and collects rent on the same property.

### Saucer

A technical analysis term used to describe a chart on which the price of a security has made a bottom and is moving up.

### Smoking gun

Something that serves as indisputable evidence or proof, especially of a crime. Here is an example of the term in everyday usage from CNN.com on

February 6, 2002: "Maybe there was no proof before, but there is now; a secret memo - personally handed to Cheney by Ken Lay, which helps explain why the White House is so skittish about Enron and why Cheney and Bush stubbornly refuse to release the records of those energy task force meetings. The memo was obtained by the San Francisco Chronicle and reported exclusively there last week. This is the Enron smoking gun."

### Soft landing

A term used to describe a rate of economic growth high enough to avoid recession, but slow enough to avoid high inflation. When the economy is growing at strong rate, the Fed will try to engineer a soft landing by raising interest rates enough to slow the economy down without putting it into recession. Alan Greenspan is a master at the soft landing.

### Sour bond

A bond issue that has defaulted on interest or principal payments, and will thus trade at a large discount and a poor credit rating.

### Spiders - SPDR

A slang term for the Standard & Poor's Depository Receipts, an exchange traded fund (ETF) that represents ownership in the S&P 500 Index. Spiders allow smaller individual investors to invest in the S&P 500. The term comes from the ticker symbol, which is SPDR.

### Suicide pill

A defensive strategy taken by a company to prevent a hostile takeover. However, the target company engages in an activity that may actually ruin the company, instead of merely halting the takeover. Also known as the "Jonestown Defense." This is an extreme version of the poison pill.

### Sunshine laws

State and federal laws requiring most regulatory meetings and decisions to be made available to the public.

### Take a bath

A slang term used to describe a situation in which an investor experiences a large loss from an investment or speculative position. Investors holding shares that declined significantly are said to have taken a bath.

### Teaser rate

A very low but very temporary introductory rate on an adjustable rate mortgage or credit card.

### Ten-bagger

A stock which rises tenfold.

### Torpedo stock

A declining stock that will most likely continue to decline. The idea is that the stock is sinking much like a battleship would after being struck by a torpedo.

### Triple Witching

An event that occurs when the contracts for stock index futures, stock index options, and stock options all expire on the same day. Triple Witching Days happen four times a year: the 3rd Friday of March, June, September, and December. It is sometimes referred to as Freaky Friday.

The final trading hour for that Friday is the hour known as triple witching. In this final hour the markets are quite volatile as traders are quickly offsetting their option/futures order before the closing bell. If you are a long-term investor, then triple witching has minimal impact.

### Vanilla issue

A security issue that has no unusual features.

### Vulture capitalist

1. A slang word for a venture capitalist who deprives an inventor of control over their own innovations and most of the money they should have made from the invention.

2. A venture capitalist who invests in floundering firms in the hopes that they will turn around. Like them or not, many vulture capitalists make more money than the venture capitalists do.

### Vulture fund

A fund that buys securities in distressed investments, such as high-yield bonds in (or near) default or equities that are in (or near) bankruptcy.

Like the name implies, these funds are like circling vultures patiently waiting to pick over the remains of a rapidly weakening animal. The goal is high returns at bargain prices.

### Wallpaper

The name given to stocks, bonds, and other securities that have become worthless. The implication is that the certificates are worthless and you may as well wallpaper your house with them. Former dot.com companies that went bankrupt are good examples of wallpaper stocks.

### War babies

A name given to securities in companies that are defense contractors. Also known as defense stocks. A good example of this are firms that build aircrafts and ammunition. When a war is imminent, these stocks tend to outperform the market because of the potential for increased business.

### War chest

Slang for cash a corporation sets aside for a takeover attempt or to defend against a hostile takeover. For example, you might hear "look for XYZ company to make an acquisition soon; they've been selling off assets recently in order to build up their war chest."

### White elephant

Any investment that nobody wants because it is unprofitable. The term 'White Elephant' is derived from Thai-

land, where an albino (white) elephant was given to unfavored people by the ruler. Because these elephants were sacred and not permitted to work, it was a burden to the owner as it would eat up all the owner's money until he/she became destitute.

### White-shoe firm

Slang for broker-dealers who are strongly against hostile takeover practices. The white-shoe firm's name is derived from the white buck shoes that

were a fashion requirement within elite social organizations in the 1950s.

### Wrinkle

A feature of a new product or security intended to entice a buyer.

### Yo-yo stock

A highly volatile stock that moves up and down like a yo-yo.

## HOW TO PEP UP GERMANY'S ECONOMY

*Germany needs to do much more than tinkering if it is to rescue its stalled economy*

Like Chairman Mao, Gerhard Schröder has published a little red book. Nearly 6m copies of the German chancellor's colourful tract explain to the people how Agenda 2010, the economic reform process unveiled in March 2003, is supposed to be changing their lives. Health, education, labour, training, tax, social security, family welfare, unemployment benefit and pensions are distinct areas of reform. But they all form one glorious building site that should restore Germany to its rightful place as the most productive, most competitive country in Europe. "Germany", asserts the little book, "is on the move."

Well, no it isn't, says a frustrated business community from the Rhine to the Oder. From its position as the economic powerhouse of Europe, Germany has stumbled badly since reunification in 1990, and it is showing few signs of new momentum. Its GDP, once among the most dynamic in the European Union, has grown by a meagre annual average of 1.4% over the past decade, half the EU average and well below America's 3.3%. Only 4 of the EU's 15 members before enlargement on May 1st have a lower income per head. It says much about Germany's relative decline that it now relies on the much poorer accession countries to help lift it above the latest EU measure of average income.

One feature of Germany's stagnation is its poor record on jobs. Since 1993, the number of jobs in Germany has grown by only 0.2% annually, against

a rate of 1.3% in the rest of the EU. Unemployment has been stubbornly high at around 4m, and figures released this week did little to dispel the gloom: this year joblessness has risen for four months in a row to 4.4m. Meanwhile the government is bickering about its macroeconomic policies, debating whether to abandon previously agreed budget deficit levels in a belated effort to stimulate growth (see pages 13 and 29).

A consequence is that many German businesses, especially those small and nimble enough to move elsewhere, are seriously considering relocation abroad. Even those bent on keeping their head-quarters in Germany say they are likely to shift as much of their workforce abroad as they can.

A recent poll by Handelsblatt, a leading business newspaper, and Droege & Company, a consultancy in Düsseldorf, asked 3,500 company directors whether the government's structural reforms had affected their business in the first quarter of the year. "Not at all", said 75% of the respondents. Another 15% said the overall effect was "negative". Compared with previous quarters the poll showed increasing pessimism about Germany as a business location. Three-quarters of respondents said business conditions had failed to improve or had got worse (see chart i on next page).

In March, Ludwig Georg Braun, the president of DIHK, the federation of chambers of commerce and industry,

said firms should not wait for reforms to change things in Germany, but turn eastward to the accession countries joining the Euro-pean Union on May 1st. Mr Schroder re-sponded angrily, calling this exhortation an "unpatriotic act".

Health, education, labour, training, tax, social security, family welfare, unemployment benefit and pensions are distinct areas of reform. But they all form one glorious building site that should restore Germany to its rightful place as the most productive, most competitive country in Europe

But why are businesses so urgently considering a move out of Germany? Apart from the high level of taxation-the highest in Europe the simple answer, and one not properly addressed by Mr Schroder or his Agenda 2010, is German labour law.

Germany will not truly be on the move until the rules on hiring and firing are radically altered. Yet Agenda 2010 does no more than tinker with them. Since the beginning of this year, job protections have been loosened, but only by a little.

Software AG, a globally active firm based in Darmstadt, wanted to lay off around 200 staff at the end of last year. The new rules certainly made it easier and the firm was quick to take advantage of them; but the lay-offs still took three painful months. In America the same exercise took two weeks, and in Britain four. "It is getting better," says Matthias Faust, Software AG'S head of human resources. But when his company is back in hiring mode, where is it most likely to add staff? "Can I honestly advise the

board to hire in Germany rather than in a country where it's easier to lay people off again?" he asks rhetorically. It is not just firing that is difficult: German labour relations are hedged about with troublesome rules.

At the core is the position of the workers' representative, the Betriebsrat. Co-determination between management and employees is a worthy principle which, in its 1960s heyday, helped to build strong German companies, maintaining harmony between workers and employers. But that was during Germany's Wirtschaft - swunder, a period of high growth following the post-1945 reconstruction. Now the Betriebsrat has too much power, especially in smaller companies, including the right to determine how bonuses are distributed and to object to the relocation of an employee to Germany from abroad-including from EU member states.

Any company with five employees or more can be landed with a Betriebsrat if the workers decide they want one. "Can you imagine", says an employment expert, "the anxiety in a small law firm, with four staff and one part-time worker, about the implications of taking on another worker if one of them gets sick?"

A measure of its lack of radicalism, Agenda 2010 simply steers clear of the law that governs the Betriebsrat. Mr Schroder's weak Social Democrat / Green coalition is hampered by its lack of a majority in the Bundesrat, the upper house. This makes any controversial legal changes difficult. So Mr Schroder has decided not to touch this area of labour-market law at all.

## Faint praise

In fact, Mr Schroder's growing political weakness is the main reason why his reforms are stalling, and why companies have lost confidence in any rapid change. His party has less than 30% support in the polls, the lowest since he took office. His only consolation is that 80% of the public doubt the opposition could do any better.

On the first anniversary of Agenda 2010, business leaders were lukewarm about the achievements so far and said the reforms had not gone far enough. Heinrich von Pierer, chief executive of Siemens, said the direction was right, but "concrete steps" were needed to promote innovation and growth. Jiirgen Hambrecht, head of BASF, a chemical firm, praised the direction too, but not the speed, warning politicians to look somewhat further than just the next election. Unfortunately, there are 12 regional elections this year, and European parliamentary elections in June. Economists expect any new decisions on Agenda 2010 to turn bland and voter-friendly, with plenty of talk about education and innovation, but not much action.

Corporate tax reform has been a stop-start process, leaving companies uncertain about future tax bills and benefits. The level of basic corporate tax is still the highest in western Europe, at 38.7%, compared with 35.4% in France, 34% in Austria (falling to 25% next year) and 12.5% in Ireland. There are many ways for companies to reduce this burden, but they tend to favour the larger firms. Cynics say that is because the architect of tax reform, Heribert Zitzelsberger, was previously head of the tax department at Bayer, a chemical giant.

For big companies Germany is a kind of tax haven, according to Lorenz Jarass, an economics professor at Wiesbaden University. In aggregate, the top 30 listed companies tend to get more credits back from the government than they pay in tax. For example, in 2002, DaimlerChrysler reclaimed a net EUR 1.2 billion (\$1.5 billion), while the tax payments of Thyssen Krupp and Lufthansa netted out at zero. That sort of thing irks the smaller, Mittelstand companies, which insist they are the backbone of the German economy, employing 70% of the workforce, accounting for 46% of investment and creating 70% of all new jobs. There are fewer ways open for them to reduce their tax bills. The option of offsetting last year's losses against this year's tax, for example, has been greatly curtailed since the start of this year.

One feature of Germany's stagnation is its poor record on jobs. Since 1993, the number of jobs in Germany has grown by only 0.2% annually, against a rate of 1.3% in the rest of the EU. Unemployment has been stubbornly high at around 4m, and figures released this week did little to dispel the gloom; joblessness has risen for four months in a row to 4.4m.

Every third German company now wants to locate at least part of its production in central Europe, says Heiko Stiepelmann, spokesman of the Building Industry Federation. His industry has been particularly hard hit. It has long been heavily supported by subsidies, such as those for building private homes. But since 1995 employment in the building industry has fallen from 1.4m to 814,000. Building firms are finding financing a problem for several reasons. Banks are reluc-

tant to lend or give guarantees because of their own tougher capital regulations, while fierce competition means firms cannot raise prices, as they normally have done, to build capital coming out of a recession.

Modern Germans, it seems, are prepared to put up with a great deal before endorsing an abrupt change of direction. But, then, no one can be quite sure how they will respond until Mr Schroder, or some other political leader, truly sticks his neck out and demands that they face reality

The pressure on them to cut costs and wage packets is immense. There is hardly a midsize builder that does not employ foreign workers, says Mr Stiepelmann. Lower wage levels in the neighbouring eastern countries are a gathering threat. For the next seven years firms from the ten accession countries may not set up shop in Germany, but this respite should not make German builders complacent. "Building firms must invest in the east as well," says Mr Stiepelmann. He argues that they cannot hope to compete on labour costs, but should play to their skills as "project and facility managers".

### **Tough talking**

IG Bau, the building workers' union, is one of the few to understand the gravity of the situation. This year it did not even attempt a round of wage negotiations. Unions in other industries have been less co-operative. IG Metall, Germany's biggest blue-collar union, had a showdown last year in eastern Germany. Although it was forced to back down, Jiirgen Peters, its leader, retained enough credibility to be el-

ected to another term. Mr Peters then negotiated modest wage increases throughout Germany, showing that unions remain a force to be reckoned with, at least among firms that are still unionised. In eastern Germany, union membership is declining.

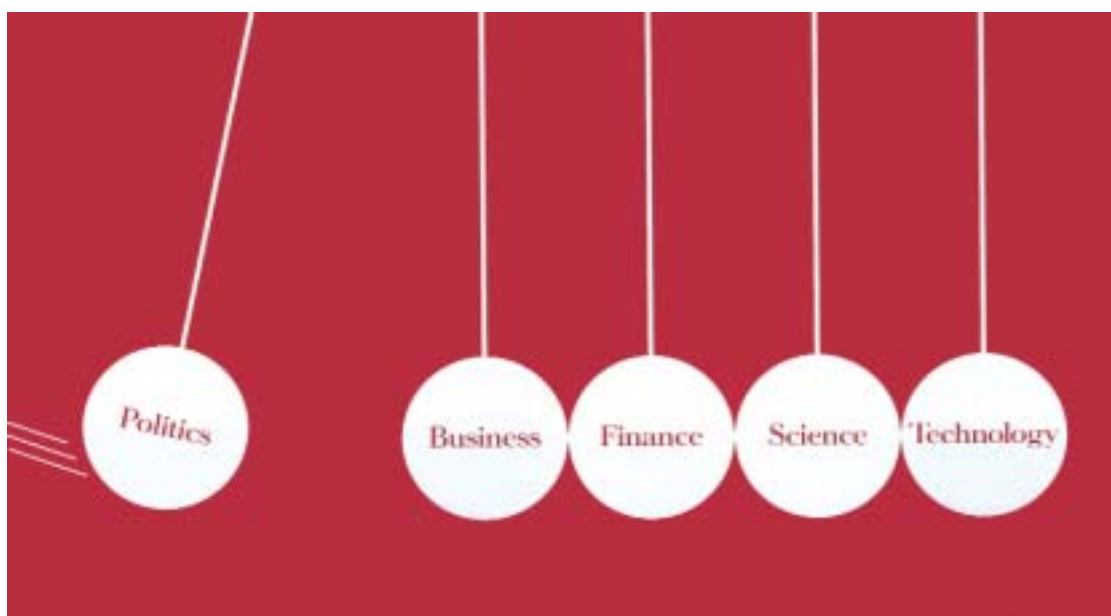
Meanwhile, Siemens is locked in negotiations with IG Metall and other unions over the employment conditions for a new mobilephone handset factory in North Rhine Westphalia. Mr von Pierer has threatened that, if projected costs cannot be lowered by 30% in the next few weeks, he will move the project to Hungary. Such tactics are needed to take the wind out of the unions' sails.

The unions just do not understand economics, complains one German economist. They believe there is a finite number of jobs to go round and do not see that reducing a workforce or even locating operations abroad can make a company more competitive and thus able to create new jobs at home. Professional economists in general are frustrated by the government's handling of the reforms. This may partly be sour grapes: the Hartz Commission, established to reform the labour market and create new jobs, has sociologists on board but not a single economist.

If they had been included, economists might have offered a few useful observations, such as disabusing the unions' belief that wage hikes invariably stimulate demand. Baron Munchhausen, the legendary German braggard, once boasted that he rescued himself from a swamp by grabbing his own forelock and pulling himself out, followed by the horse he was sitting on. Michael Burda, an economics professor at Berlin's Humboldt

University, uses this image to illustrate why Germany must shake off its illusions and reduce its labour costs. Workers in Germany earn an average of \$26 an hour, compared with \$21 in America and \$17 in France and Britain. In neighbouring eastern Europe, where the German unions' stiffest competition lies, the average is around \$4 an hour.

millions on publicity and flashy new premises. Its original boss, Florian Gerster, was fired in January for overspending on consultants. His high salary and flamboyant lifestyle did not sit well with the agency's poor record for getting people back to work, especially the long-term unemployed of whom Germany has proportionally more than rival big economies.



Unfortunately, Germany suffers from another economic affliction, claims Mr Burda. He cites William Baumol, an American economist, who pointed out in 1967 that productivity in services lags productivity in manufacturing, because most services, such as health care and teaching, are difficult to automate. So developed economies are spending an everincreasing proportion of their wealth on services. In Germany, observes Mr Burda, productivity gains in services have been particularly sluggish.

One of the Hartz Commission's most dubious achievements was to revamp the Federal Agency for Jobs into a commercial-style operation that spent

### Ersatz employment

One much-trumpeted government measure has been the introduction of "mini-jobs", casual jobs that pay between EUR 400 and EUR 800 a month. These have attracted around im people. But Viktor Steiner of DIW, the German Institute for Economic Research in Berlin, has argued that these jobs are cannibalistic. They have tempted the young and the old out of full-time employment rather than attracting the long-term unemployed. Options to take early retirement or quit the labour market have been too cushy. From 2005, unemployment benefits will no longer last indefinitely, but will stop after a year-

a long overdue change and those who consistently refuse job offers will be penalised.

These areas of reform unemployment benefit, mini-jobs, reallocating benefits and spending more on education and training - do not delight hard-nosed entrepreneurs. The last thing a costcutting company wants is to have to spend more on training and other welfare contributions that do not directly help its business. Yet the government has been dithering about whether or not to levy fines on companies that have not filled their training quota.

This vacillation, combined with sudden turns and a cacophony of conflicting proposals, characterises the government's approach to the reforms. For example Manfred Stolpe, minister for construction and transport, and the only east German in the cabinet, recently called for fresh efforts to enliven the labour market in the former East Germany with new wage subsidies. There was an immediate protest: surely the wage subsidies should be applied in the west as well? So Mr Stolpe extended the plan to cover the entire country, a hugely backward step. The last thing Germany needs are new, expensive wage subsidies which will have to be paid for by those already in employment.

Despite years of public discussion about labour-market reforms, the truth is that the debate has sadly lost sight of the basic obstacles to economic recovery:

- European economic and monetary union in January 1999, although enthusiastically endorsed by Germany, has robbed it of the means to adjust interest rates and exchange rates to optimise its own economic recovery.

- Reunification with East Germany has been colossally expensive, costing EUR 1.25 trillion since 1990, and still consuming 4% of GDP in transfers, with the added burden of 20% unemployment in the region.

- The country's federal power structure, spread over 16 independent Lander, was deliberately designed after the second world war to weaken the ability of a central government to impose radical reform, and it is proving all too effective.

- The country's cumbersome and expensive labour laws are a crippling anachronism in a globalised, service-driven and hightech world economy.

### Money in, jobs out?

There are a few mildly optimistic voices to be heard. German businessmen, like farmers, tend to talk doom and gloom, says David Marsh, managing director at Droege, the consultancy. He argues that they never expected much from Mr Schroder's reforms and have been pleasantly surprised even by what little has been achieved.

Investment flows in and out of Germany paint a less than gloomy picture, he says. The net capital flow is positive, which means more corporate and portfolio investment is coming in than going out. However, the sums are modest compared with the flows in and out until 2002-especially after discounting the EUR180 billion purchase of Mannesmann by Vodafone in 2000. Nevertheless, non-German private-equity firms continue to buy and restructure German companies, seeing value in them despite their location. Indeed, Mr Marsh believes that many German companies today are undervalued.

A few companies are defying Germany's reputation and are quietly investing in a German-based future. AMD, an American chip manufacturer, is building a second plant in Dresden at a cost of about EUR 2 billion. While AMD has laid off 2,000 people worldwide, it managed to keep up its numbers in Dresden, though it put some workers on short-term contracts. "The Saxons are a highly flexible people," says Hans Deppe, head of AMD'S Dresden operation. That includes local authorities, which have been quick to approve and support investment plans. BMW, a successful carmaker, is building a new EUR 1.3 billion plant in Saxony.

But these are exceptions. Most business people simply long for the government to get on with it, as Margaret Thatcher did in Britain in the 1980's. However, that would be very un-German. The postwar consensus model remains robust, even if the German economy no longer is. Modern Germans, it seems, are prepared to put up with a great deal before endorsing an abrupt change of direction. But, then, no one can be quite sure how they will respond until Mr Schroder, or some other political leader, truly sticks his neck out and demands that they face reality.

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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 Runteovski  
[dejan.runteovski@finance.gov.mk](mailto:dejan.runteovski@finance.gov.mk)

**SECOND ASS. EDITOR-IN-CHIEF**

Nikica Mojsoska-Blazevski  
[nikica.mojsoska@finance.gov.mk](mailto:nikica.mojsoska@finance.gov.mk)

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NID MIKENA - Bitola

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Zana Sokarovska  
Emilija Sirkarovska  
Maja Petrovska  
Aleksandar Argirovski

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