

BULLETIN

MINISTRY OF FINANCE
REPUBLIC OF MACEDONIA

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Skopje, April - June 2004

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Во претходниот број на Билтенот, во статијата "Забавни и корисни термини од областа на економијата" по грешка е испуштено името на еден од авторите - Александар Аргировски. Во името на редакцискиот одбор, се извинуваме за направениот пропуст.

HONOURABLE,

The moment you start reading the new edition of the Bulletin of the Ministry of Finance, we would already be entering the ninth month of this year. September is always an exciting month, bringing changes, new impressions and expectations for better results in the period to come.

Still, before we start listing the ongoing activities and the one ahead of us, we will go backwards for several months, to be more precise in July this year, so as to mark one exceptionally important event for our country. In fact, at the end of July, the Republic of Macedonia was given the first official sovereign credit rating (BB with positive prospects in the coming period), prepared by the international rating agency Standard and Poor's. Rating estimate of a country determines both the present and the future creditworthiness - i.e. the total financial capacity and the readiness to pay its own financial liabilities. By acquiring credit rating, the Republic of Macedonia has an open approach to the international capital markets and a possibility for alternative sources of financing the balance of payments and the external account, instead of the so-far borrowing through credits at the international financial institutions.

Thus, the Republic of Macedonia does not belong any more among the rare countries in the region and in Europe that do not have a credit rating.

In addition, the Ministry of Finance, as usual, is proceeding with many activities commenced in the past period, whereby some of them, due to their earnestness and the timing, can

be freely called historical. I mainly mean the preparation related to the forthcoming EU Questionnaire, which according to the recent announcements, will be handed over to the Republic of Macedonia at the beginning of October. We are aware that it is a matter of a historical ceremony, the successful completion of which will depend on the speed and the dynamics with which the country will tread on the path to the European integration. Therefore, it is my utmost pleasure to point out that the preparations for this activity are proceeding well, coordinators and participants to bear the largest burden are selected and will be directly involved in the process of answering the questionnaire, team are established, all channels and relations among the competent ministries are established. In short, the activities are in their final stage. The Government of the Republic of Macedonia and the Ministry of Finance are ready to meet the challenges imposed by the EU. It is understandable that the Republic of Macedonia will be extended a great assistance from abroad, from the countries that have already successfully treaded this path (mainly Slovenia, Croatia and Bulgaria), and we are sincerely grateful for that.

In parallel, the preparations related to the upcoming IMF Mission are on going, to take place approximately



Dimko Kokaroski PhD
Deputy Minister of Finance

in the same period, i.e. the beginning of October. This mission was preceded by successful completion of other arrangement Macedonia had concluded with the IMF. In fact, on 2nd August 2004, IMF Board of Executive Directors reviewed the Second Review of the Stand-By Arrangement, as well as the ex-post analysis of the experience from the so-far arrangements between the IMF and Macedonia, whereby, it has been concluded that our country has successfully completed the Stand-By Arrangement and met all formal criteria for monitoring the program performance. It has enabled the realization of the two essential macroeconomic goals under the Arrangement - maintenance of low inflation and reduction of the budget deficit to a low, but sustainable level. Attainment of these goals is especially important since it has been realized in complex political conditions and implementation of the Peace Framework Agreement at the same time.

This time subject to negotiations will not be short-term arrangements, because the Fund will ask for conclusion of a new, medium-term arrangement with the Republic of Macedonia, strongly reform oriented, and we sincerely believe that we will be given support.

In addition to these activities we pointed out, not least important are the ones related to the preparations for the coming mission of another

international financial institution - the World Bank, the representatives of which, according to the announcements, will arrive at the end of this month. Also, preparations of the 2004 Supplementary Budget are gaining pace, which should be in front of the Parliament in the same period. Further, we will also mention the preparations regarding the concept of the 2005 macroeconomic policy, as a document determining and setting the terms and conditions under which the Macedonian economy will exist in the forthcoming period.

Finally, I hope that this text will create clearer picture of the situation and the circumstances under which we prepared this edition of the Bulletin. I also believe we have managed to bring closer the challenges the Ministry of Finance will face in near future. Still, we have found strength and we have tried this time as well to offer you a quality and deluxe edition, containing relevant topics and data about the trends in the Macedonian economy. I am happy to say that I believe we have succeeded in our intentions.

Enjoy reading the new 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 1)				Current account balance 2)			
	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, 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	Construction	Wholesale and retail trade; repair of motor vehicles, motorcycles	Hotels and restaurants	Transport, storage and communication	Financial intermediation and real estate, renting	Public administration and defense	Imputed banking services	Value added	Net taxes on production	GDP
		A+B	C+D+E	F	G	H	I	J+K+O	L+M+N				
1998	I	2,0	8,3	-15,3	5,4	5,7	33,1	-0,9	-0,7	9,5	4,3	5,7	4,5
	II	3,8	6,5	1,3	3,7	3,7	35,2	-0,4	-0,3	11,3	4,8	6,1	5,0
	III	3,4	-2,2	16,7	-3,2	15,4	23,1	0,5	2,7	16,1	2,7	3,8	2,8
	IV	4,0	-5,3	22,7	-3,2	3,0	17,2	0,8	3,1	17,5	1,3	2,5	1,4
	98/97	3,3	1,4	7,7	0,4	7,3	26,5	0,0	1,2	13,5	3,2	4,5	3,4
1999	I	0,7	-9,0	14,4	-6,1	31,4	9,7	1,5	5,7	-2,3	0,0	-1,9	-0,3
	II	1,6	-5,3	27,0	-4,9	30,6	14,7	1,6	5,4	-2,0	3,0	1,1	2,7
	III	1,5	15,6	3,3	10,9	12,9	21,0	2,3	2,9	0,7	8,8	7,0	8,5
	IV	-0,2	6,3	1,3	11,2	28,2	22,7	2,3	2,6	0,9	6,4	4,5	6,1
	99/98	0,9	1,7	10,4	3,0	24,7	17,2	1,9	4,1	-0,7	4,6	2,7	4,3
2000	I	2,4	16,3	4,1	37,7	-7,1	13,4	2,4	1,0	0,5	11,4	15,1	12,0
	II	3,6	17,1	-9,9	4,6	-14,8	11,1	2,5	1,3	0,8	5,6	9,0	6,1
	III	1,2	1,8	5,3	-8,7	-9,6	10,1	2,7	-0,8	1,9	0,6	3,9	1,0
	IV	-3,1	4,5	12,5	-12,7	-13,1	0,7	3,2	-1,1	3,7	-0,3	3,0	0,2
	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
2004*	I	0,9	-25,0	4,0	4,9	1,3	2,6	2,2	2,2	-0,7	-3,6	-3,6	-3,6

Source: State Statistical Office

GROSS DOMESTIC PRODUCT (PRODUCTION APPROACH)

In millions of denars At current prices

NACE Section	Description	1998	1999	2000	2001	2002 ¹	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

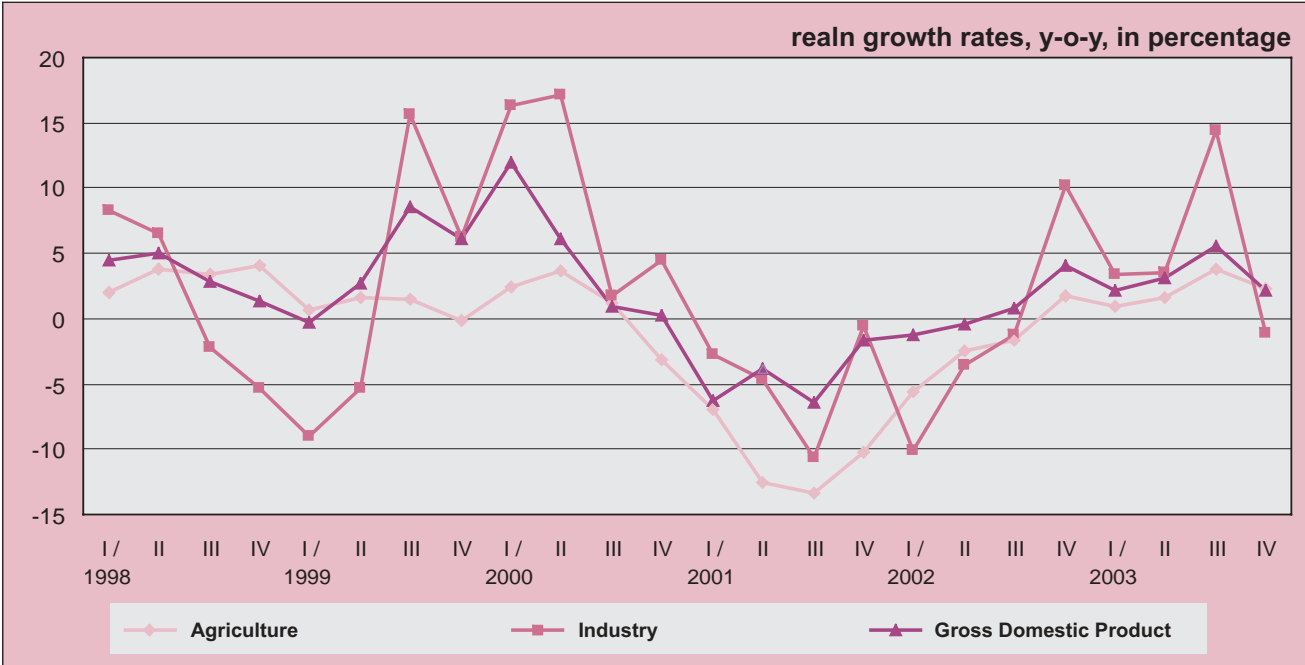
Percentage change from the same period previous year, if otherwise not stated

	2000	2001	2002	2003	2003				2004			
					Q - 1	Q - 2	Q - 3	Q - 4	Q - 1	Q - 2	Q - 3	Q - 4
REAL SECTOR												
Production real rates of change												
Gross domestic product	4,6	-4,5	0,9	3,2	2,1	3,1	5,6	2,1	-3,6			
Industrial production	3,5	-3,1	-0,8	4,5	3,4	3,5	14,4	-1,1	-25,0	-19,2	-26,6	-6,7
nominal rates of change												
Investment in machines and equipment	20,8	-16,9	16,4	-7,7	-27,0	9,7	4,0	-12,5	7,1			
Prices												
Costs of living	5,8	5,5	1,8	1,2	0,0	0,6	0,8	1,9	1,6	-0,7	-0,6	-0,5
Industrial producer prices	8,9	2,0	-0,9	-0,3	1,4	-0,4	0,0	-0,3	-1,5	-0,9	0,2	2,3
Competition of the industry												
Productivity	6,0	0,5	3,0	13,1	20,3	10,3	21,0	-6,4	-28,0	-13,4	-21,4	0,4
Unit labour cost	-4,7	-0,7	0,2	-10,3	-19,6	-9,2	-17,5	5,4	45,1	20,4	34,1	6,9
Real unit labour cost	-12,5	-2,7	1,1	-10,1	-22,8	-9,5	-18,0	8,0	50,6	21,5	33,9	4,5
Stock exchange prices of the major Macedonian export and import products												
Crude oil Brent	28,3	24,4	25,0	28,9	31,4	26,1	28,4	29,5	32,0	33,4	37,9	35,2
Lamb	261,9	291,2	330,3	388,4	356,7	375,8	394,5	426,5	458,6	457,4	448,8	455,2
Nickel	8,638,0	5,944,7	6,772,0	9,629,0	8,343,0	8,372,0	9,371,0	12,432,0	14,729,0	12,848,0	11,118,0	13,534,0
Copper	1,813,0	1,578,3	1,559,0	1,779,0	1,663,0	1,641,0	1,753,0	2,059,0	2,731,0	2,949,0	2,734,0	2,687,0
Lead	45,4	47,6	45,3	51,5	45,9	45,6	51,1	63,4	84,4	75,4	80,9	87,0
Zink	112,8	88,6	77,9	82,8	78,6	77,4	82,1	93,0	107,0	103,3	102,8	102,0
Steel cold rolled coilsreat	385,8	299,2	328,3	444,6	400,0	410,0	478,3	490,0	520,0	600,0	600,0	625,0
Steel hot rolled coilsreat	295,8	216,5	246,7	320,2	306,7	320,0	324,2	330,0	401,7	500,0	500,0	525,0
EXTERNAL SECTOR												
nominal rates of change in dollar amount												
Export of goods (FOB)	11,0	-12,7	-3,7	22,2	20,4	34,7	16,8	28,4	22,1	-0,4	-1,6	3,1
Import of goods (CIF)	17,9	-19,4	16,3	15,3	19,7	25,8	10,7	8,3	13,8	23,3	42,0	37,0
Trade balance (in millions of US \$)	-771	-533	-849	-937	-238,0	-225,1	-212,4	-76,1	-246,0	-113,0	-99,2	-127,3
Current account of the balance of payments (in millions of US \$)	-236	-38	-324	-277	-109,0	-64,3	-25,5	-66,0	-139,0	-82,7	-60,2	-87,7
Foreign exchange reserves (in millions of US \$) " " means decrease	235,6	37,8	-41,0	169,0	-113,0	-62,0	16,0	169,0	218,0	158,0	101,0	57,0
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	1,561,0	1,648,0	1,655,0	1,771,0	1,774,0	1,753,0	1,782,0	1,775,0

	2000	2001	2002	2003	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	61,31	61,29	61,21	61,28	61,28	61,29	61,24	61,30
Denar / USA \$	65,89	68,04	64,73	49,05	57,18	54,08	54,49	52,36	49,94	51,03	51,08	50,50
GOVERNMENT FINANCE												
nominal rates of change												
Revenues	22,5	-10,3	10,1	-7,4	-5,7	1,8	-10,6	-3,0	10,3	3,8	1,0	-0,5
Tax revenues	22,1	-6,9	14,0	-9,6	-7,8	-2,0	-12,0	-4,7	5,7	3,3	15,6	-3,9
VAT	75,2	-1,8	19,8	3,2	4,5	21,3	-4,0	27,2	25,3	16,3	37,1	-0,4
Expenditures	12,7	27,0	-0,1	-13,8	-18,3	-10,2	-18,6	4,9	5,2	13,9	-3,8	-0,1
Current expenditures	1,8	31,9	17,2	-1,2	-2,4	7,3	-2,6	2,4	5,7	7,7	-4,5	0,9
Capital expenditures	94,5	28,3	11,8	-447,0	-71,2	-54,4	-57,7	103,5	-34,3	256,4	19,5	-6,5
Central budget balance (in millions of denars)	6,285	-12,490	7,343	-2,551	337,0	-155,0	-38,7	-288,0	1,002,0	120,0	-122,0	366,0
General budget balance (in millions of denars)	5,905	-13,171	-13,019	-2,496	-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	-19,1	5,3	-18,6	-7,2	3,8	5,3	10,3	7	8,4	4,9
Credit to private sector	17,2	7,3	12,7	15,8	9,9	9,3	9,0	15,8	18,9	29,2	25,9	25,9
Cash in circulation	16,6	48,5	0,0	0,3	-13,4	-5,2	-13,8	0,3	9,2	7,6	4,6	4,7
M1	22,6	5,6	4,6	1,1	-8,6	-3,5	-6,8	1,1	9,1	16,6	15,6	8,6
M2	29,4	61,9	-7,0	15,9	7,3	15,8	13,9	15,9	18,1	21,9	24,6	20,1
M4	25,6	56,7		13,2	5,2	12,4	11,4	13,2	15,4	21,1	23,6	18,9
Foreign exchange reserves / M4 (denars)	106,3	117,4	93,8	88,6	90,9	91,9	98,8	88,6	92,9	87,5	85,0	83,6
Foreign exchange reserves / M1	165,0	188,2	150,5	150,7	157,8	161,9	172,1	150,7	161,7	179,5	170,8	166,9
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	22,452	24,193	24,964	8,312	25,648	33,495	41,869	51,190
Number of new employed on full time	63,987	63,346	74,341	49,661	12,693	16,184	15,564	5,220	16,153	20,655	25,904	31,870
Wages												
Nominal net wages	5,5	3,5	6,9	4,8	6,3	7,1	3,3	1,5	4,0	2,9	6,4	3,9
Real net wages	-0,3	-1,9	5,0	3,6	6,3	6,5	2,5	-0,4	2,4	3,6	7,0	4,1
Consumer basket	2,5	5,2	2,7	-0,7	-1,0	-1,6	0,0	-0,1	0,7	-2,6	-2,5	-3,2
Social protection												
Number of pensioners	241,221	247,200	249,421	254,267	250,355	251,166	251,589	254,267	254,353	255,143	256,274	256,917
Number of households that receive social protection	77,309	80,160	82,673	64,453	60,954	62,739	63,173	64,453	64,584	64,163	64,832	64,594
Number of persons that receive unemployment benefits	35,046	41,375	46,772	47,324	44,125	45,484	44,596	47,324	53,273	51,304	51,509	51,221

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

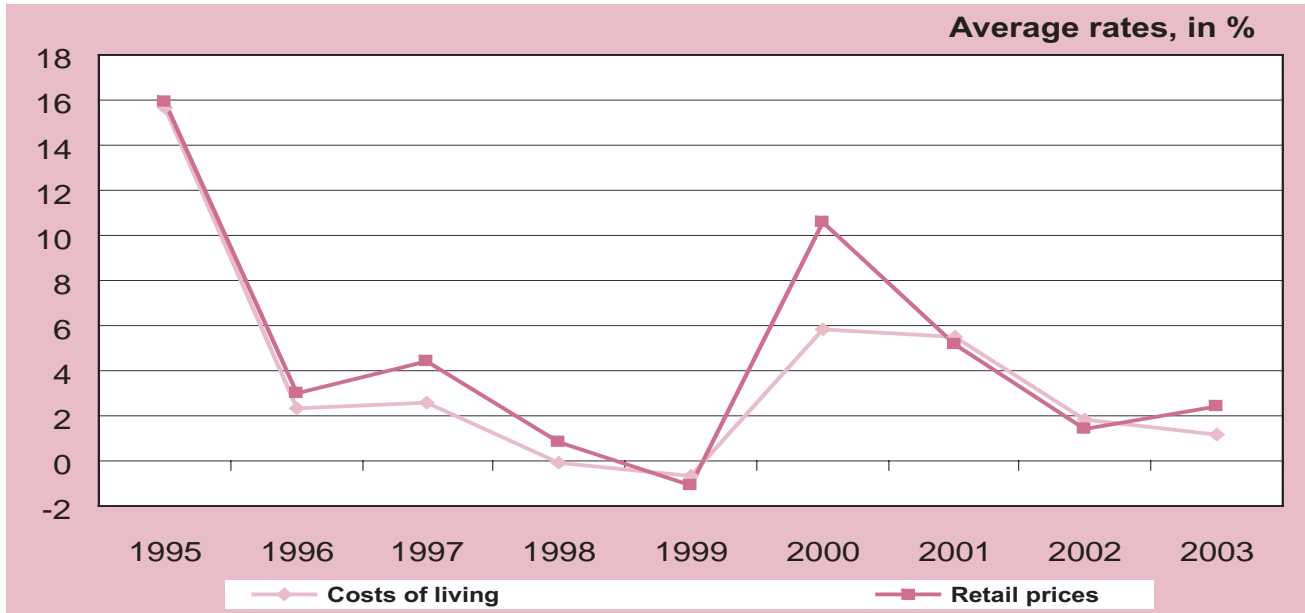


- In million USD dollars	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002 ²⁾
Gross Domestic Product ¹⁾	3.450	3.389	3.351	3.390	3.458	3.575	3.730	3.899	3.723	3.755

- In USD dollars	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002 ²⁾
Gross Domestic Product ¹⁾	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
Costs of living	15,7	2,3	2,6	-0,1	-0,7	5,8	5,5	1,8	1,2
Retail prices	15,9	3	4,4	0,8	-1,1	10,6	5,2	1,4	2,4

End of period, in percentages

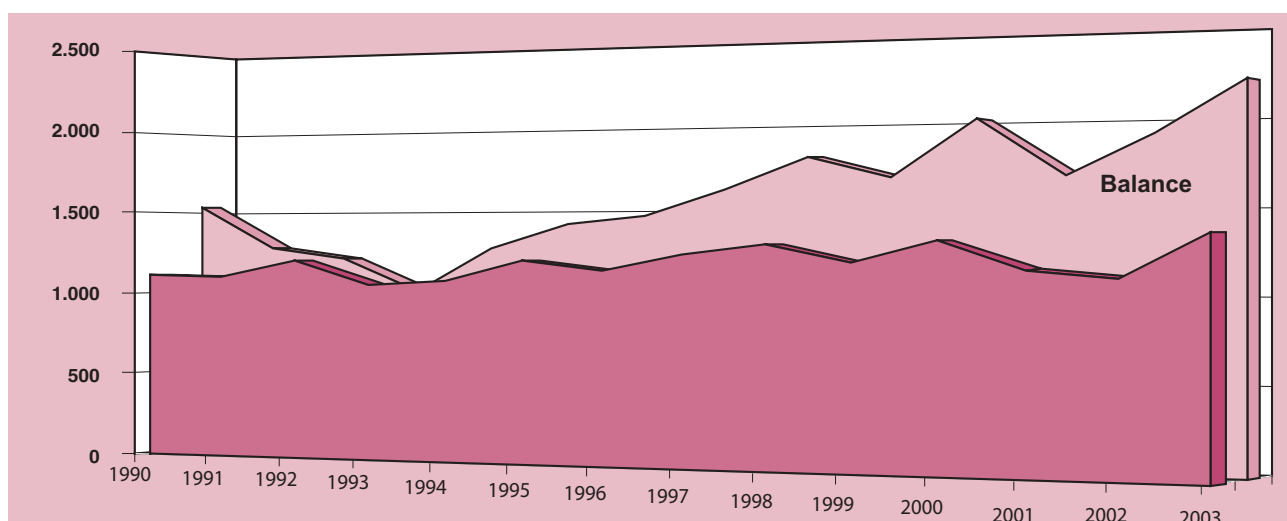
	1995	1996	1997	1998	1999	2000	2001	2002	2003
Costs of living	8,8	-0,7	2,7	-2,4	2,4	6,1	3,7	1,1	2,6
Retail prices	9,2	0,2	4,5	-1	2,3	10,8	1,2	2,2	2,9



FOREIGN TRADE

In millions US dollars

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Export of goods	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
Import of goods	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
Balance	-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
	Q2	365,6	681,3	-315,8	62,6	90,0	-27,4	84,0	63,4	20,6
2003	I	78,6	159,0	-80,4	18,7	22,6	-3,9	11,3	15,0	-3,7
	II	94,7	152,5	-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
	IV	116,3	237,8	-121,5	17,5	27,0	-9,4	25,8	22,5	3,3
	V	126,9	222,2	-95,3	24,1	29,9	-5,8	28,6	22,6	6,0
	VI	122,4	221,3	-98,9	20,9	33,1	-12,2	29,7	18,3	11,4

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
14,1	11,5	2,7	29,1	45,4	-16,2	54,2	72,4	-18,1	4,7	71,6	-66,8
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	24,0	-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
3,5	4,6	-1,1	10,8	13,9	-3,1	19,6	23,2	-3,6	1,7	27,7	-26,0
4,6	3,5	1,1	9,0	14,7	-5,6	17,4	24,7	-7,3	1,7	24,7	-22,9
6,0	3,4	2,6	9,3	16,8	-7,5	17,3	24,5	-7,2	1,3	19,2	-17,9

SHORT-TERM ECONOMIC DEVELOPMENTS

JUNE 2004

SUMMARY OF THE MOST IMPORTANT SHORT-TERM ECONOMIC DEVELOPMENTS IN JUNE 2004

- Industrial production increased by 24.2% on monthly basis.

- On cumulative basis, industrial production decreased by 21.6% in the period January - June 2004.

- In the period January - June 2004, average inflation amounted to 0.3%.

- Stock exchange prices of steel and steel iron increased, simultaneously with the nickel price increase.

- Export of goods increased by 3.1% on monthly basis, simultaneously with the increase of export of goods by 12.1%.

- Foreign trade deficit in the period January - June 2004 amounted to US\$ 595 million.

- External debt of the Republic of Macedonia decreased on monthly basis by US\$ 6.7 million (US\$ 1,755 million).

- Central government budget surplus in the first half of 2004 in the amount of Denar 638 million.

- Level of gross foreign exchange reserves of NBRM, compared to the previous month, decreased by US\$ 12 million (US\$ 860 million).

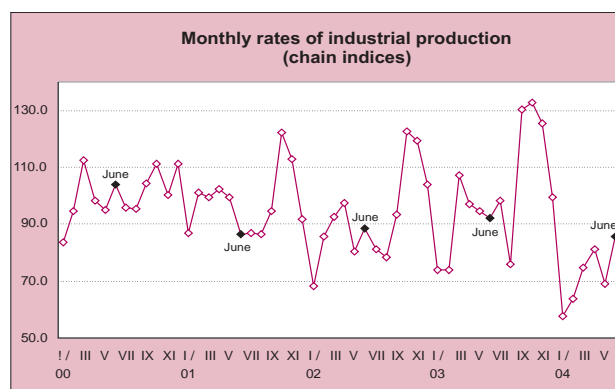
- Total number of new employments in the period January - July 2004 increased by 8.5% (compared to the same period last years).

1. REAL SECTOR

1.1. Industrial production

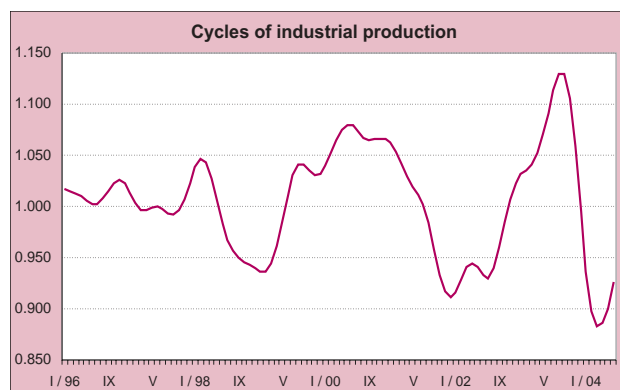
Following the decline of the industrial production in May 2004 on monthly basis, in June 2004 the economic activity intensified, whereby the industrial production increased by 24.2% compared to the previous month. Such performance contributed for the decline of the industrial production to amount to 21.6% in the first half of 2004 in relation to the same period last year, which is far below the expectations for this period.

Positive feature of the trends in the industry in June 2004 are certainly the positive tendencies in almost all branches of the processing industry, having the key role in the total industrial production index. Increase on monthly basis was recorded in the processing industry (13.9%), textile industry, oil industry, chemical industry (38.7%) and metalworking industry (33.4%). An exception to this was only the construction material industry (drop by 12,3%), as well as the electricity generation (- 5,3%).



Source: State Statistics Office

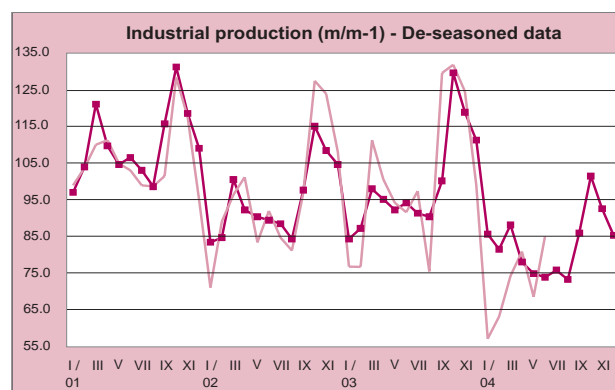
Still, what is the most important for the Macedonian economy at the moment is the high increase in the production by 47.5% on monthly basis with respect to the basic metals, the highest monthly increase in 2004. This industrial branch covers the steel industry and the production of ferrosilicon and ferronickel, which, last year, were the main driving force of the economic growth, while this year, due to the non-functioning of certain large capacities, they were the main reason for the drop in the industrial production in the first half of this year. Thus, restarting the production, mainly in "Balkanstil" following its taking over by the foreign investors, will also have strong positive influence over the developments in the other sectors in the economy to the end of achieving far more favourable results in the second half of this year.



Source: Internal calculations of the Ministry of Finance

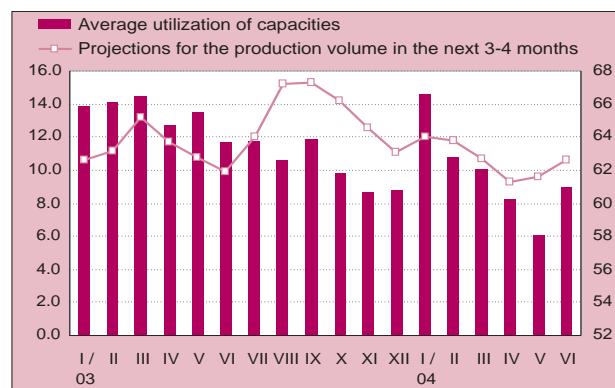
At the same time, there was also an increase in the de-seasoned industrial production on monthly basis, this time by 16.5% in relation to May 2004, which has been the highest increase in the last 9 months. However, on annual basis, the drop of the de-seasoned production is continuous eight months in a row now. Due to these reasons, burdened by the divergent movements during this year,

it is still very difficult to determine whether the Macedonian economy will reach the bottom of the economic cycle, and experience gradual economic recovery in the coming period.



Source: State Statistics Office

Results from the June survey of the business tendencies in the processing industry favour the gradual revitalization of the industry. Unlike last month when the average utilization of the industrial capacities reached the lowest level in the last several years (only 58.1%), in June 2004, the average utilization of the capacities was 61%, which is, of course, one more indicator not in favour of the competitiveness of the Macedonian industry. Worth mentioning is the fact that second month in a row, the expectations are growing in terms of the production output in the next 3 - 4 months.

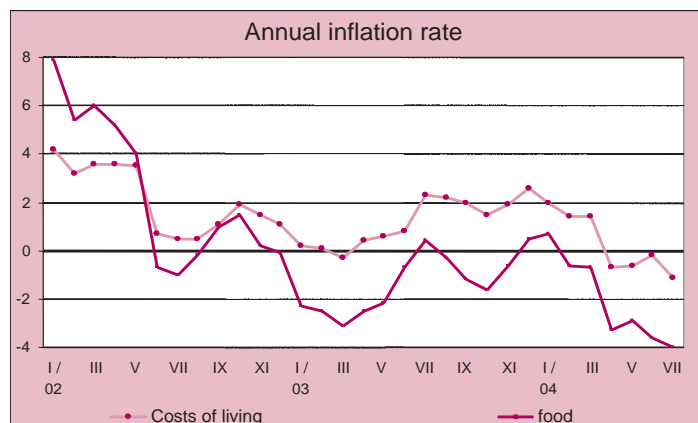


Source: State Statistics Office

1.2. Prices

In July this year, deflationary trends continued in the Macedonian economy, initiating exceptionally low average inflation rate (measured through the costs of living) in this period¹ of only 0.3%.

In July 2004, costs of living dropped by 1.2% compared to the previous month, being the highest monthly decrease in the last 9 years. Thereby, deflationary trends in 2004 were interrupted only in May, after which the costs of living re-entered the negative inflation zone.



Source: State Statistics Office

Main reason for such movements in the inflation (both in relation to the previous month and on annual level) is certainly the deflationary trends at the products in the category food and alcohol beverages (accounting for almost half of the total CPI index), which in July 2002 decreased by 2.2% compared to June this year, and even by 4% compared to July 2003, thus being the highest drop in the past several years. In addition to the seasonal factor, i.e. the regular reduction of the prices of these products during the summer period, the increased import of these products at

lower customs tariffs, initiated by the entrance of the Republic of Macedonia in the WTO, also had large influence on such evolvement of the events.

Within the CPI index, in July 2004 (compared to the previous month), prices of services increased by 0.7%, while on cumulative basis, in the period January - July 2004, they were higher by 3.5%.

Regarding the retail price index, which is usually a slightly higher compared to the CPI index, there was a reduction by 1% on monthly basis, while compared to the same month last year, retail prices were lower by 1.1%.

By the end of the year, i.e. during the remaining five months, slightly higher inflation rates are expected, mainly as a result of the usual seasonal price increase at the end of the year, coupled with the price increase of the oil derivatives initiated by the historically highest oil prices at the world market. Still, apart from such expectations, average inflation in 2004 almost certainly will not exceed the threshold of 1%.

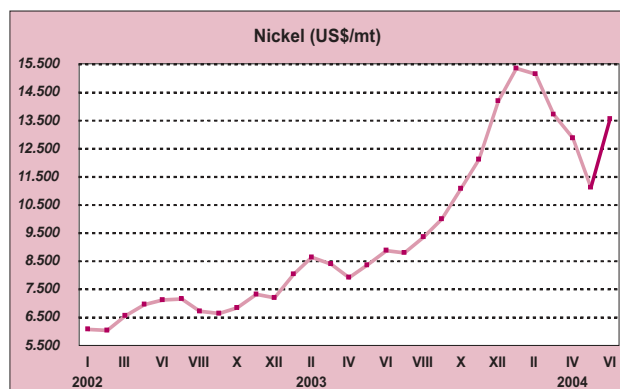
1.2.1 Stock Exchange Prices

In June this year, upward price trend was present at the world stock exchanges at most of the products usually having highest share in the trading structure. An exception to this was only the oil, which, on monthly level, decreased by 7.2% followed by the price pick realized the previous month, when the price of Brent crude oil reached US\$ 37.92 per barrel. However, according to the estimates

¹January – July 2004/January – July 2003

of the stock exchange analysts, reduction of oil price will probably last short, and in the next month already it is expected for the stock exchange price of this strategic product to surge. Just to remind you, oil price increased by 22.7% on annual level (June 2004/June 2003).

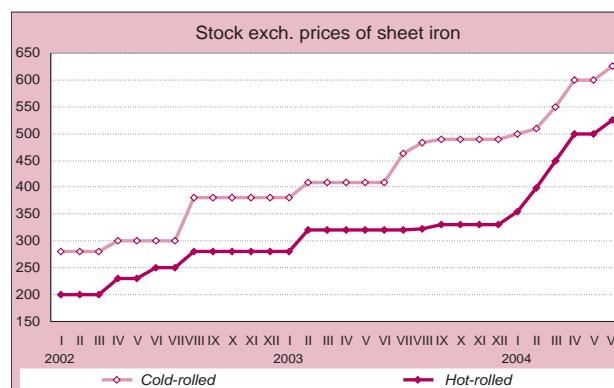
From the point of view of the Macedonian economy, what is especially encouraging is the fact that the price of nickel increased again at the end of the first half of 2004. Actually, following the continuous drop in the price in the last five months this year when the nickel lost 27.5% of the price, in June 2004, stock exchange price of this metal surged by 21.7% and reached US\$ 13,534 per metric tone, being a return to the price level this product had at the beginning of the year.



Source: World Development Prospects, Pink Sheets

With respect to the other products, more significant increase of the stock exchange prices was recorded at the sheet iron, where upward price trend is permanently present during the last two years. Nevertheless, price increase at these products is especially distinct in 2004, as a result of the increased demand for these products at the world stock exchanges, induced mainly by the expansion of the

Chinese economy. Thus, on monthly level, price of steel iron increased by 4.2% regarding cold rolled sheet iron and by 5% regarding hot rolled sheet iron, while on annual level, price increase reached 52.4% and 64.1% respectively. Unlike the previous month, this time, price of iron remained almost unchanged.



On cumulative basis, in the first half of this year (compared to the same period last year), the volume of the total foreign trade of the Republic of Macedonia increased by 23.7%, whereby export of goods increased by 11.5%, and import of goods increased by 18.6% at the same time. Initiated by such developments, foreign trade deficit continuously increased, whereby in the first six months of 2004, it reached an amount of US\$ 595 million, which is by US\$ 133 million (28.8%) more compared to the same period last year.

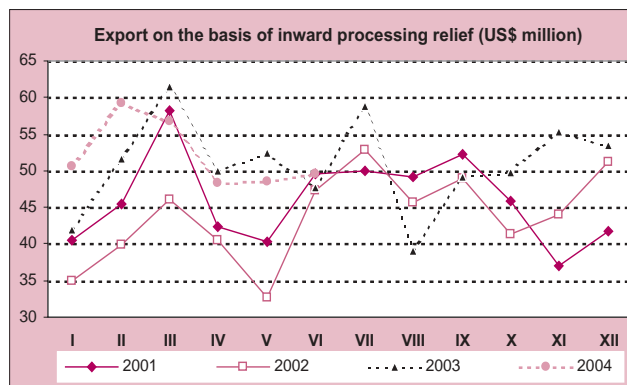


Source: State Statistics Office

Small increase of the import of goods in June 2004 was mainly due to the increased export of clothes (by US\$ 1.9 million or 5.5%), fruit and vegetables (by around US\$ 1.7 million or around 31%), steel and iron (by US\$ 1.8 million or 7.7%), fish and fish products (by US\$ 1 million), as well as oil and oil products. Drop in the export is recorded at the tobacco, meat and meat products, as well as medical and pharmaceutical products. Temporary import accounts for 40.4% of the total export, still making the export structure unfavourable.

With respect to the regional structure of the export, in the period January - June 2004, 58% of the total exported goods are placed on the European Union market, while regarding import

this figure is 51.1%. Germany, Serbia and Montenegro, Greece, Italy and Croatia remain to be our major partners, the share of which is around 71.6% of the total export realized in the first half of this year.



Source: State Statistics Office

The tendency of unfavourable realization of the free trade agreements with Bulgaria and Slovenia has continued this year as well. Foreign trade deficit with these two countries only is US\$ 123.4 million, which is around 24.5% of the total deficit realized in the first half of this year.

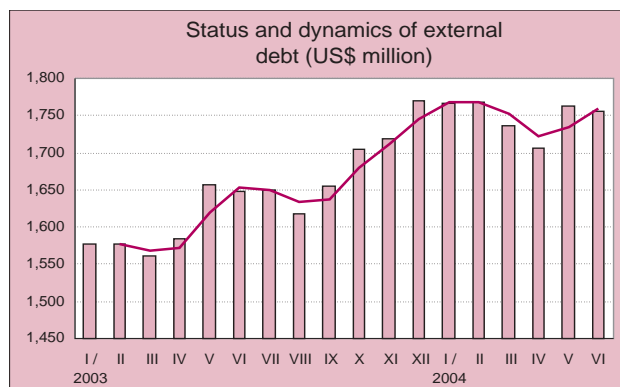


Source: State Statistics Office

2.2 External Debt

At the end of June 2004, external debt of the Republic of Macedonia amounted to US\$ 1,755 million, which is a decrease by US\$ 6.7 million com-

pared to the previous month. Decrease of the debt is a result of the higher repayments against utilization of funds, as well as the realized negative exchange rate differences due to Dollar appreciation against other currencies.



Source: National Bank of the Republic of Macedonia

Regarding the structure of the external debt, more than half goes to the multilateral creditors, while the private ones account for 33% and the bilateral ones - 14%. Largest individual creditors are IDA with US\$ 363 million and the London Club of Creditors with US\$ 238 million.

During June, funds in the amount of US\$ 8 million were disbursed from foreign creditors, whereby the largest part, or US\$ 3.6 million, was from official creditors (US\$ 2.8 million from IBRD, EBRD and IDA). In the first six months of this year, funds in the amount of US\$ 95 million were disbursed mainly from multilateral creditors (IBRD, IDA, EIB and EBRD - US\$ 58 million).

In terms of the liabilities towards abroad, in June, US\$ 10.5 million was repaid, US\$ 9 million out of which as principal. Cumulatively, in the first half of 2004, repaid liabilities towards abroad reached an amount of US\$ 119 million, US\$ 98 million out of

which as principal. Most of the liabilities were repaid towards the private creditors (US\$ 50 million).

In June 2004, outstanding liabilities towards abroad amounted to US\$ 10 million, or total of US\$ 21 million in the period January - June. Most of these liabilities originate from the private sector.

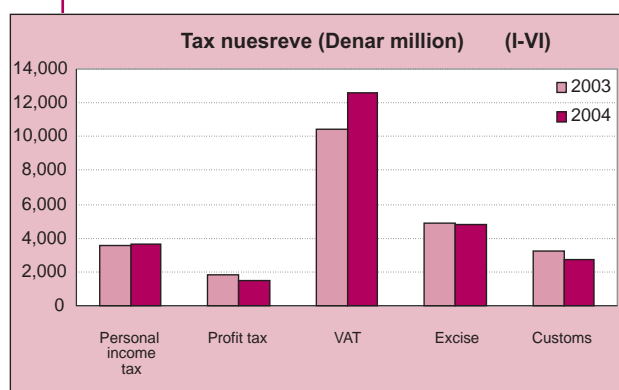
Additional foreign cumulation, in a form of newly concluded credits, amounted to US\$ 11 million during June, all from private creditors. Thus, the total amount of new credits concluded during the first six months amounted to US\$ 57 million, US\$ 43 million out of which were from private creditors.

According to the repayment schedule of the National Bank of the Republic of Macedonia, during the rest of the year (July - December 2004), liabilities towards abroad in the amount of US\$ 117 million fall due, US\$ 88 million out of which as principal.

3. FISCAL SECTOR

In the first semester of 2004, total revenues of the central government budget amounted to Denar 27,991 million, which is an increase by 5.7% compared to the same period last year. Increase of the total revenues was mainly due to the increase of VAT revenues, which in this period were higher by Denar 2,167 million, i.e. by 20.8%. Out of the total projected tax revenues in the 2004 Budget of the Republic of Macedonia in the amount of Denar 52,785 million, Denar 25,536 million or 48.4% were realized in the first six months, which is insignificant deviation from the projections for this period.

Regarding VAT, in the period January - June 2004, revenues collected were in the amount of Denar 12,582 million, which is an increase by 20.8%, i.e. by Denar 2,167 million more compared to the same period in 2003. Thereby, what should be taken into account is the fact that last year (starting 1st January) there was change in the VAT tax rates, causing revenue increase on this basis. What certainly contributed to the better revenue performance on this basis was the larger engagement by the PRO, as well as the higher volume of collected VAT on import. At the same time, such performance was also higher by 2.4% compared to the projected VAT revenues for this period of 2004.



Source: Ministry of Finance

Apart from the expected effect from the abolishment of the excises on cars (starting 1st January 2004), revenues on the basis of excises in the first half reduced by only 2.3%, i.e. Denar 111 million, compared to the same period last year, whereby they reached the amount of Denar 4,807 million. Decrease of revenues on this basis was a result of the lower revenues from excise on tobacco products and alcohol beverages, in the amount of Denar 192 million.

Personal income tax revenues during the first six months of 2004 reached the amount of Denar 3,661 million,

i.e. Denar 102 million (or 2.8%) more in relation to the same period last year. With respect to the projected revenues on this basis, there was a reduction by 3.9%, i.e. by Denar 150 million.

In the first six months this year, compared to the same period last year, there was a notable decline of the revenues on the basis of customs by 16% (in relation to the plan, revenues were reduced by 4.6%), mainly as a result of the reduction of the customs tariffs pursuant to the WTO Agreement and the Stabilization and Association Agreement with the EU.

In the period January - June 2004, total expenditures of the central government budget amounted to Denar 27,354 million, which is by 4% or Denar 1,057 million more compared to the same period in 2003.

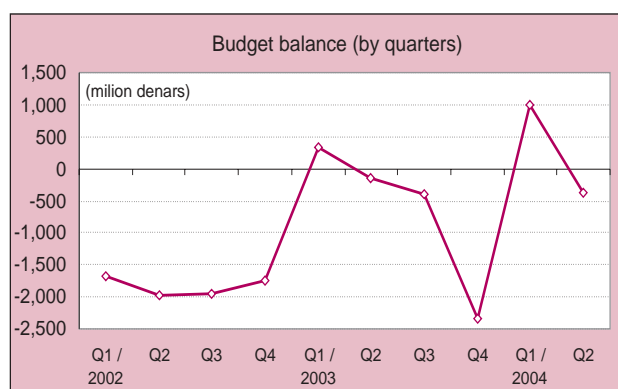
With respect to the total expenditures in the central government budget, expenditures related to wages and salaries and allowances account for 38.3%, which is almost at identical level as in the first half of last year. The realized small increase in absolute amount of Denar 473 million was a result of the commencement of what is known as salary decompression of the civil servants. In June only, salaries and allowances were higher by Denar 139 million compared to the same month last year.

Regarding the transfers (37.9% in the total expenditures of the central government budget), in the first six months, there was an increase by Denar 557 million, or by 5.7%, generated by the increase of the regular transfers to the Pension and Disability Insurance Fund of Macedonia and the Employment Fund. Thus, transfers to the Pension and Disability Insurance Fund of Macedonia were higher by 15.8% or

by Denar 543 million in relation to the same period last year.

During the first six months of 2004, capital expenditures of the Republic of Macedonia amounted to US\$ 1,964 million. Despite the increased spending on this basis in the second quarter this year (Denar 1,279 million), still the realized capital expenditures were far from the projected Denar 6,191 million for the whole 2004. With respect to this item, it is expected for the expenditures on this basis to rapidly increase in the coming period.

In the period January-June 2004, trends in the fiscal sector initiated surplus in the central government budget in the amount of Denar 638 million.



Source: Ministry of Finance

4. MONETARY SECTOR

4.1. Monetary Developments

Maintenance of price stability and stable Denar foreign exchange rate have also continued in June 2004, by applying monetary policy measures and appropriate use of instruments of monetary regulation. Higher budget spending during June was compensated with the auction of central bank bills.

Banking system liquidity slightly increased by 0.8% on monthly basis. In conditions of net sale of foreign exchange at the foreign exchange market by the National Bank and higher average amount of central bank bills, the increased liquidity reflected the higher spending of the government and the lower level of ready money in circulation.

At the end of June, the level of central bank bills reached the amount of Denar 4,009 million, whereby the bigger interest in investing in central bank bills did not lead to change in the average weighted interest rate, which remained at identical level of 7.55%. During this month², NBRM also changed the type of central bank bills auction and started applying the unlimited bid- amount, at fixed determined interest rates (5% for central bank bills with maturity of 7 days and 8% for the ones with maturity of 28 days).

Regarding the total Denar government deposits at the NBRM, in June 2004, there was a decrease on monthly basis by 2.7%. The decrease was more evident at the beginning of the month, as a result of the regular payment of salaries and payment of interest and principal for the denationalization bond. Two treasury bill auctions took place in June, at which an inflow was realized in the amount of Denar 428 million, in conditions of lower demand against the offered amount. Thereby, the average weighted interest rate amounted to 8.32% and 8.43%.

Total credits by the banks to the private sector realized monthly increase by 1.9%, having the credits in both domestic and foreign currency increased at the same time. Increase by 3.5% was noticed at the short-term Denar

² Starting 9th June 2006.

credits to the citizens (consumer and framework credits), while there was a decrease on monthly basis by 1.4% with respect to the short-term Denar credits to the enterprises. At the same time, long-term Denar credits to both the citizens (6%) and the enterprises (5.6%) increased.

4.2. Monetary Aggregates

In June 2004, ready money in circulation did not experienced major change and amounted to Denar 13,324 million, which, on monthly level, was a small increase by 1%. Such increase, accompanied by decrease of the deposit funds (as a result of the lower amount of funds on the transaction accounts of the enterprises and the citizens), lead to almost unchanged level of M1 money supply.

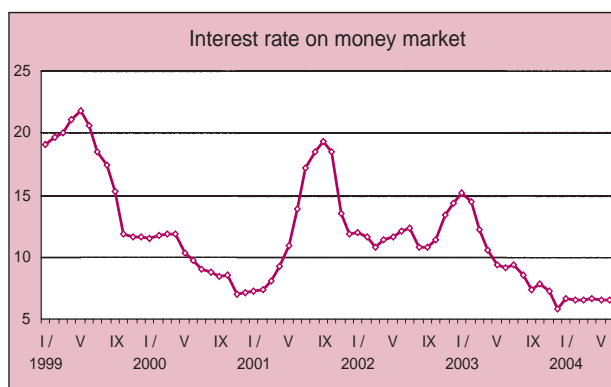
Identical trends were also present at M2 monetary aggregate, which increased by 0.8% on monthly basis, determined by the increase of the short-term Denar deposits. In conditions of reduced long-term deposit potential, the broadest defined monetary aggregate M4 increased by 0.1% on monthly basis.

4.3. Money Market

In June 2004, there were no larger changes on the money and short-term securities market, whereby the volume of realized transactions retained the same level as the previous month, i.e. Denar 1,131 million. Thus, the interest rate of 6.52% remained unchanged as well.

With respect to the interest rate policy of the commercial banks, in June 2004, there were no significant changes. Weighted interest rate on three-

month Denar deposits amounted to 6.52% (6.5% in May), while the average weighted interest on debit balances for short-term Denar credits remained unchanged (12.46%) on monthly basis, thus the interest margin was reduced to 5.9 percentage points.



Source: National Bank of the Republic of Macedonia

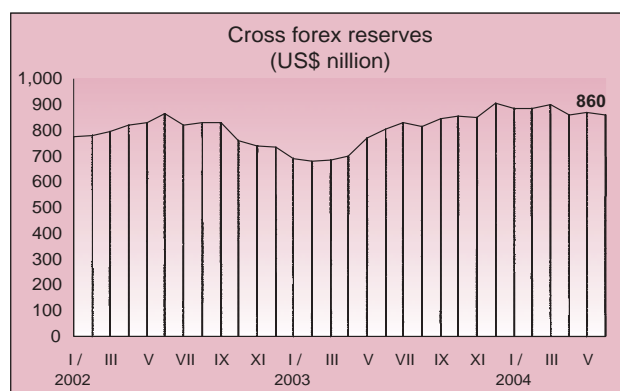
4.4. Foreign exchange Trends

In June 2004, total realized turnover on the foreign exchange market was in the amount of US\$ 306.6 million, which was an increase by 4% compared to the previous month. Demand for foreign exchange by the enterprises exceeded the supply by 39.4%, whereby part of the needs for foreign exchange by the banks was covered through NBRM, which intervened on the foreign exchange market with net sale of foreign exchange, contributing to maintenance of Denar exchange rate stability against the Euro.

Average Denar exchange rate against the Euro was Denar 61.31 for EUR 1 (unchanged level in relation to May), while the Denar exchange rate against the US Dollar, on monthly level, depreciated by 0.6%, whereby at the end of the month, it was Denar 51.38 for US\$ 1. Total turnover on the exchange market amounted to US\$ 125 million, which was a monthly increase by 3.5%, in conditions of

higher foreign exchange supply than demand by US\$ 42 million.

As of 30th June 2004 inclusive, gross foreign exchange reserves of the Republic of Macedonia amounted to US\$ 860 million, which is a decrease by US\$ 12 million compared to the previous month. Decrease of the reserves was determined by the outflow of foreign exchange on the basis of the transactions with the commercial banks on the foreign exchange market, as well as the negative exchange rate differences.



Source: National Bank of the Republic of Macedonia

5. LABOUR MARKET

5.1. Employment

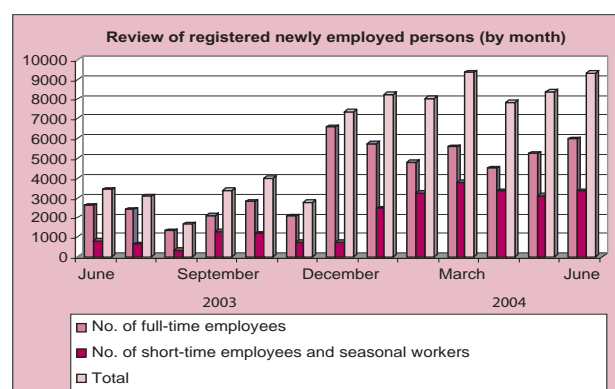
In the period January-July 2004, (according to the data by the Employment Bureau), total of 59,896 persons were employed in the Republic of Macedonia, which is by 4,714 persons, or 8.5% more compared to the same period last year. Out of this number, 37,081 persons were employed as full-time, while 22,815 persons were employed as part-time employees.

This number includes the newly employed persons in the records and

off the records in the Employment Bureau. Second category covers the persons who were not registered as unemployed, such as students, inactive persons, as well as persons who have changed their work.

According to the regional structure of employment, most employments were realized in Skopje or 34%, followed by Bitola - 9.7%, Ohrid - 7.6%.

According to the recent data by the State Statistics Office, 262,726 workers were registered in the first five months of 2004. This number was estimated on the basis of the monthly reports, and in relation to the previous month, it was reduced by 0.4 percentage points.



Source: Employment Bureau

5.2. Unemployment

Registered unemployment at the end of July 2004 amounted to 395,308 persons, which is a decrease by 416 persons compared to the previous month. Compared to the end of 2003, the number of unemployed persons is higher by 4,947 persons or by 1.3%.

Persons at the age between 15-30 account for 33% in the total unemployment, persons at the age between 30 - 50 account for 48%, while 19% of the unemployed persons goes to the ones

at the age above 50. Men participate with 57.1% in the total unemployment.

Educational structure of the unemployed is extremely unfavourable, since most of them (48%) are unskilled, 34% have completed intermediate specialist's training, 18% are skilled and highly skilled.

5.3. Beneficiaries of unemployment benefit and right to health insurance

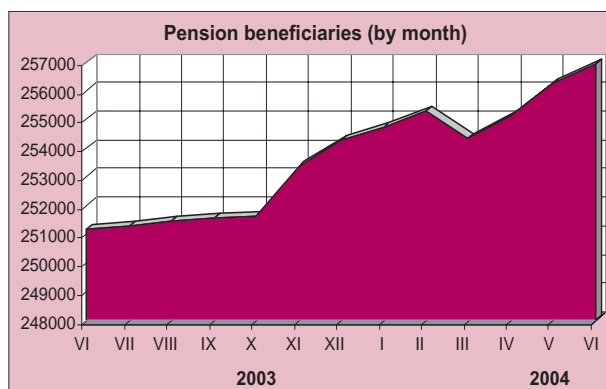
Number of beneficiaries of pecuniary allowance at the end of June 2004 amounted to 51,221 persons (12.9% of the total number of unemployed), which is an increase by 12.6% annually.

In June, the number of registered unemployed persons being registered in the Bureau for health insurance amounted to 249,776 persons (63.1% of the persons registered in the Bureau), which is an increase by 6.9% annually.

5.4. Pension Beneficiaries

According to the recent available data, in June this year, the number of pension beneficiaries amounted to 256,917 persons, which is by 643 persons more compared to the previous month, while in relation to June 2003, the number of pensioners increased by 5,751 persons or by 2.3%.

Average pension in June 2004 amounted to Denar 7,410, meaning that there was insignificant decrease compared to the previous month, while in relation to June 2003, it was increased by 3.6% in real terms. Ratio between the average pension in June 2004 and the average net paid salary in May 2004 amounted to 59%.

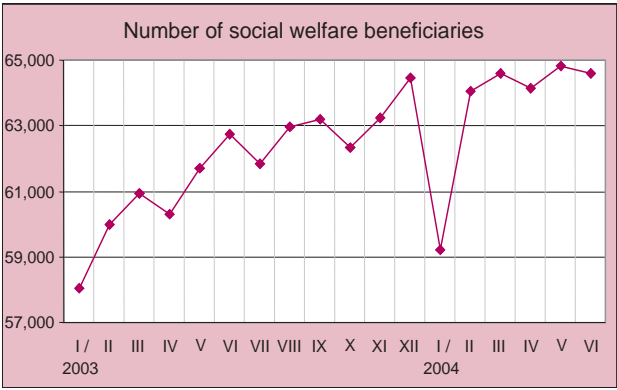


Source: Pension and Disability Insurance Fund of Macedonia

5.5. Beneficiaries of Social Welfare

Denar 141.9 million was paid in June 2004 for 64,594 beneficiaries of social welfare, which is a decrease by 238 persons (0.4%) compared to the previous month. On annual basis, there was an increase by 3%. Number of beneficiaries of permanent pecuniary allowance in June was lower by 295 persons and amounted to 4,865 beneficiaries, while with respect to the beneficiaries of social welfare on the basis of third person care, there was a slight increase and amounted to 19,735 persons.

³ The comparison is made with the average salary from the previous month since data on salaries are received with one-month delay.



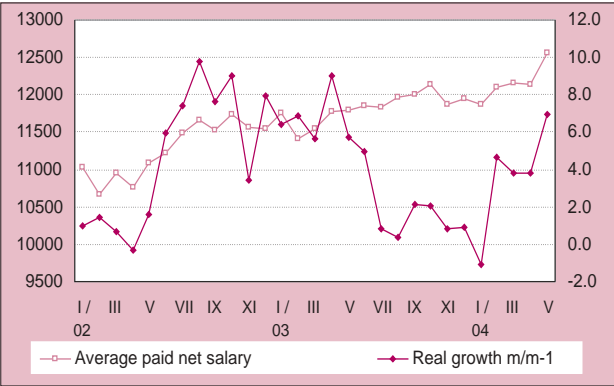
Source: Ministry of Labour and Social Policy

5.6. Average Net Salary

In May 2004, average paid monthly net salary per employee amounted to Denar 12,551, which is a nominal increase by 3.6% compared to April and an increase by 3.1% in real terms. Compared to the same month last year, average paid monthly net salary in May 2004 was increased by 6.4% in nominal terms, while the increase in real terms was 7%.

Highest monthly increase was registered at the activity "production of motor vehicles, sidecars and semi-sidecars" (by 63.8%). Analyzed by sectors (monthly), highest increase by 13.2% was registered in the sector „agriculture“, followed by „industry“ (2.2%) and „services“ (2.3%).

In May 2004, 24.3% of the workers in the Republic of Macedonia did not receive salary, meaning that, in relation to the previous month, this rate increased by 0.9 percentage points.



Source: State Statistics Office

EXTERNAL DEBT

At the end of June 2004, external debt of the Republic of Macedonia amounted to US\$ 1,755 million, which is a decrease by US\$ 6.7 million compared to the previous month. Decrease of the debt is most a result of the realized negative exchange rate US\$ 5.8, differences due to Dollar appreciation against other currencies.

Regarding the structure of the external debt, more than half goes to the multilateral creditors, while the private ones account for 33% and the bilateral ones - 14%. Largest individual creditors are IDA with US\$ 363 million and the London Club of Creditors with US\$ 238 million.

During June, funds in the amount of US\$ 8 million were disbursed from foreign creditors, whereby the largest

part was from official creditors. In the first six months of this year, funds in the amount of US\$ 95 million were disbursed mainly from multilateral creditors (IBRD, IDA, EIB and EBRD).

In terms of the liabilities towards abroad, in June, US\$ 11 million was repaid, US\$ 9 million out of which as principal. The liabilities towards official creditors amounted to US\$ 7 million and the other liabilities were repaid towards private creditors.

In June 2004, outstanding liabilities towards abroad amounted to US\$ 10 million (US\$ 9 million out of which as principal). Additional foreign cumulation, in a form of newly concluded credits, amounted to US\$ 11 million during June, all from private creditors.

EXTERNAL DEBT OF THE REPUBLIC OF MACEDONIA ¹

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	30.06. 2004
Official creditors	1.004	1.031	1.033	980	1.048	1.032	1.096	1.106	1.193	1.188
Multilateral creditors	684	714	716	688	756	766	823	844	920	940
IMF	114	113	82	71	67	64	65	62	68	55
IBRD	115	117	123	124	145	149	156	169	181	192
IFC	55	57	57	33	18	19	20	19	17	15
IDA	179	222	250	255	295	302	326	343	358	363
EIB	54	68	67	75	102	103	110	108	116	120
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	49
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
Bilateral creditors	320	317	316	292	292	266	273	262	273	248
Commercial creditors	394	407	405	464	501	528	552	548	577	587
London club	243	250	253	262	254	249	249	243	243	238
Others	151	157	152	202	247	279	304	305	334	349
Banks and financial institutions	27	26	32	143	181	197	216	217	213	218
Enterprises	124	131	120	59	66	82	87	88	121	130
TOTAL	1.398	1.438	1.438	1.444	1.549	1.561	1.648	1.655	1.770	1.755

¹ Long-term and medium debt

TOTAL EXTERNAL DEBT PER DEBTORS *

In millions US dollars

	1997	1998	1999	2000	2001	2002	30.06. 2003	31.12. 2003	30.06. 2004
Total external debt	1.139	1.437	1.490	1.489	1.506	1.611	1.696	1.813	1.813
Public sector	1.007	1.222	1.305	1.330	1.222	1.333	1.383	1.487	1.474
Government	775	890	975	1.066	1.052	1.141	1.178	1.257	1.247
Government (Government liabilities)	767	864	932	1.018	1.010	1.101	1.138	1.215	1.207
Road fund		18	33	48	42	40	40	41	40
Health fund	1	1	3	0	0	0	0	0	0
Others	7	7	7	0	0	0	0	0	0
NBM	99	114	113	96	71	67	65	68	55
Public enterprises	133	218	217	168	99	125	140	162	171
Private sector	132	215	185	159	284	278	313	325	339
Banks	92	110	93	66	97	110	112	86	64
Enterprises	40	105	92	93	187	168	201	240	275

* Short, medium and long-term debt

EXTERNAL DEBT PER CREDITORS

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

Source: National Bank of the Republic of Macedonia

REPAYMENT OF DEBT PER CREDITORS (January - June 2004)

(in million of USA dollars)	Total	Principal	Interest
Total (principal and interest)	119.49	98.41	21.08
Official creditors	62.41	48.28	14.13
Multilateral creditors	36.83	27.10	9.73
IMF	12.50	12.10	0.40
IBRD	8.33	5.25	3.08
IFC	2.29	2.00	0.29
IDA	1.48	0.06	1.42
EIB	6.79	4.46	2.33
EUROFIMA	0.00	0.00	0.00
CEDB	0.24	0.00	0.24
EBRD	3.82	3.10	0.72
EU	0.19	0.00	0.19
IFAD	0.02	0.00	0.02
EAR	0.11	0.11	0.00
Bilateral creditors	25.57	21.17	4.40
Reschedule 1995	34.39	11.23	3.16
Unrescheduled debt	0.59	0.58	0.01
Reschedule 2000	4.73	4.43	0.30
New credits	5.84	4.92	0.92
Private creditors	57.08	50.13	6.95
London club	7.63	5.23	2.40
Others	49.44	44.90	4.54
Banks and financial institutions	40.07	37.35	2.72
Enterprises	8.36	7.54	0.82

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
Per creditors									
Principal	33	47	53	86	103	111	145	184	185
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
Interest	13	32	72	57	53	54	60	51	51
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
Total (principal and interest)	47	79	125	143	155	165	205	235	236
Per debtors									
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
Total (principal and interest)	0	79	125	143	155	164	204	235	237

Source: National Bank of the Republic of Macedonia

CENTRAL GOVERNMENT BUDGET OF THE REPUBLIC OF MACEDONIA

	2001	2002				
TOTAL REVENUES	52.829	58.160	12.789	13.690	13.563	13.840
Tax Revenues	47.716	54.389	11.879	12.363	12.152	12.770
Personal Income Tax	7.248	7.513	1.678	1.881	1.835	2.108
Profit Tax	3.006	2.624	1.187	639	778	667
VAT	17.132	20.521	4.869	5.546	5.077	5.683
Excises	10.830	10.715	2.331	2.587	2.961	2.685
Import Duties	6.111	6.336	1.655	1.587	1.395	1.503
Other Taxes	275	340	130	122	103	121
Tax on Financial Transactions	3.111	6.336	28	0	1	1
Utility Taxes	3	4	1	1	1	1
Non Tax Revenues	4.349	3.170	773	1.167	1.280	820
Profit of Public Financial Institutions	1.847	1.057	135	597	866	209
Administrative Taxes and Charges	1.061	1.092	311	342	318	398
Other Administrative Taxes	486	205	42	208	53	67
Other Non Tax Revenues	32	35	285	20	44	146
Capital Revenues	349	601	137	160	123	135
Foreign Donations	415	0	0	0	0	0
TOTAL EXPENDITURES	65.575	65.503	12.454	13.843	13.950	16.185
Curebt Expenditures	44.017	51.591	11.744	12.817	12.531	13.892
Wages and Allowances	16.407	18.338	4.953	5.058	4.909	5.314
Goods and Services	6.358	8.715	1.328	1.771	1.497	2.318
Transfers	16.950	20.576	4.440	5.359	5.524	5.782
Pension Fund	5.215	6.538	1.665	1.766	2.065	1.809
Employment Fund	3.548	4.111	1.020	1.083	1.096	1.161
Other Transfers	2.349	3.404	413	907	948	996
Refugees	582	391	84	72	51	53
Structural Reforms	239	1.387	386	294	348	631
Public Administration Reforms	944	442	93	129	105	202
Interest	4.212	3.401	774	629	562	478
Domestic	1.066	1.179	127	385	86	352
Foreign	3.146	2.222	647	244	476	126
Guaranties	90	561	249	0	39	0
Capital Expenditures	7.723	8.636	450	924	1.372	2.291
Fixed Assets	3.589	2.718	250	288	388	811
Capital Transfers	2.211	2.476	151	596	817	1.232
Commodity Reserves	546	418	0	0	0	0
International Financial Institutions	35	22	0	15	0	3
Telecom Projects	1.342	3.002	49	25	167	245
Crisis Related Expenditures	13.835	5.276	260	102	48	2
BUDGET BALANCE	-12.746	-7.343	335	-153	-387	-2.345
FINANCING	12.746	7.343	-335	153	387	2.345
Inflow	19.272	13.430	1.333	2.928	2.001	4.322
Privatisation Receipts	10.837	5.177	409	1.344	2.014	906
Foreign Donations	0	2.641	668	850	0	1.042
Capotalisation	604	0	0	0	0	0
Foreign Loans	763	1.548	0	1.506	1.163	1.104
Deposits	5.399	4.029	256	-772	-1.176	1.270
BIS	1.169	0	0	0	0	0
Outflow	6.526	6.087	1.668	2.775	1.614	1.977
Repayment of Principal	3.550	6.087	1.668	2.775	1.614	1.977
Foreign	3.543	3.602	1.533	373	1.482	294
Domestic	7	2.485	135	2.402	132	1.683
Purchase of Bonds	2.976	0	0	0	0	0

Total 2003	I	II	III	Q1	IV	V	VI	Q2	Total 2004
53.881	4.506	4.058	5.538	14.102	4.775	4.706	4.409	13.890	27.992
49.163	4.118	3.869	4.569	12.556	4.527	4.468	3.985	12.980	25.536
7.502	505	576	657	1.738	715	581	627	1.923	3.661
3.271	140	300	518	958	178	153	175	506	1.464
21.175	2.161	1.926	2.016	6.103	2.401	2.231	1.847	6.479	12.582
10.564	885	634	830	2.349	718	923	818	2.458	4.807
6.140	349	380	499	1.228	477	541	478	1.496	2.724
476	78	53	49	180	35	39	40	114	294
31	0	0	0	0	3	0	0	3	3
4	0	0	0	0	0	0	1	1	1
4.040	331	147	893	1.371	164	202	385	751	2.122
1.807	68	0	725	793	26	49	219	294	1.087
1.369	98	123	137	358	109	131	135	375	733
370	20	20	24	64	21	19	29	69	133
495	145	4	7	156	8	3	2	13	169
555	57	42	76	175	84	36	38	158	333
0	0	0	0	0	0	0	0	0	0
56.432	4.149	4.210	4.741	13.100	4.895	4.583	4.775	14.253	27.353
50.984	4.041	4.063	4.311	12.415	4.405	4.258	4.311	12.975	25.390
20.234	1.719	1.655	1.761	5.135	1.759	1.757	1.833	5.349	10.484
6.914	470	651	676	1.797	626	561	527	1.714	3.511
21.105	1.549	1.635	1.740	4.924	1.765	1.875	1.792	5.432	10.356
7.305	669	670	671	2.010	659	647	658	1.964	3.974
4.360	433	446	421	1.300	479	424	500	1.403	2.703
3.264	42	180	144	366	191	315	197	702	1.068
259	14	17	13	44	15	14	15	43	87
1.659	44	62	91	197	56	128	64	248	445
528	36	37	35	108	38	35	36	109	217
2.443	303	94	134	531	254	65	160	479	1.010
950	12	12	57	81	222	57	99	378	459
1.493	291	82	77	450	32	8	61	101	551
288	0	28	0	28	1	0	0	1	29
5.037	108	147	430	685	490	325	464	1.279	1.964
1.737	96	140	77	313	122	165	158	445	758
2.796	11	6	347	364	354	149	191	694	1.058
0	0	0	0	0	0	0	0	0	0
18	0	0	0	0	0	3	7	10	10
486	1	1	6	8	14	8	108	130	138
412	0	0	0	0	0	0	0	0	0
-2.551	357	-152	797	1.002	-120	122	-366	-364	638
2.551	-357	152	-797	-1.002	120	-122	366	364	-638
10.585	316	469	-371	414	1.740	151	810	2.701	3.115
4.673	68	0	20	88	0	0	0	0	88
2.560	490	0	0	490	0	0	0	0	490
0	0	0	0	0	0	0	0	0	0
3.773	1.020	0	0	1.020	1	0	0	1	1.021
-422	-1.360	264	-612	-1.708	1.153	-302	612	1.463	-245
0	98	205	221	524	586	453	199	1.238	1.762
8.034	673	317	426	1.416	1.620	273	444	2.337	3.753
8.034	673	317	426	1.416	1.620	273	444	2.337	3.753
3.682	669	317	294	1.280	0	0	103	103	1.383
4.352	4	0	132	136	1.620	273	341	2.234	2.370
0	0	0	0	0	0	0	0	0	0

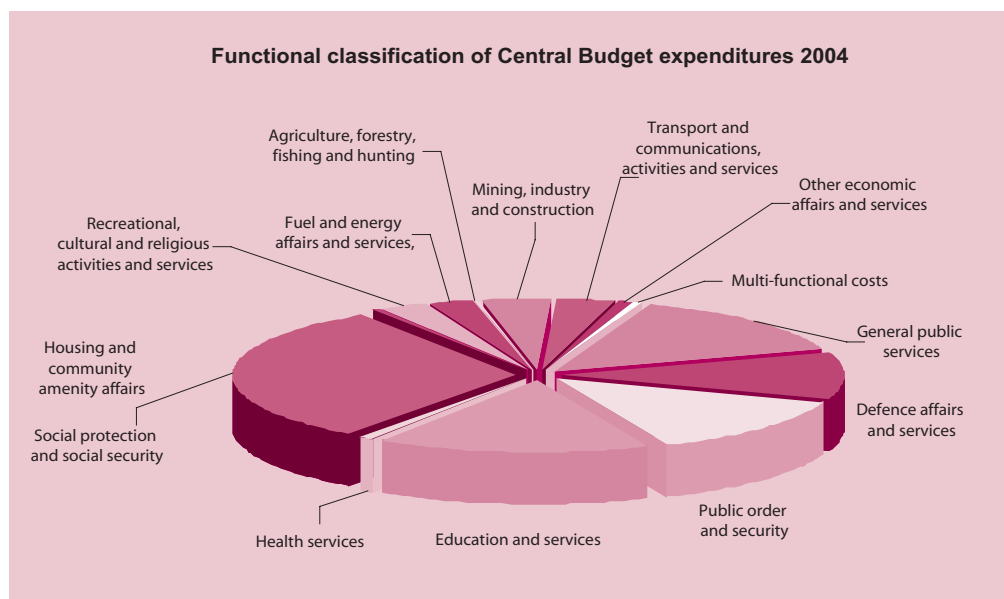
CENTRAL BUDGET OF THE REPUBLIC OF MACEDONIA

	2000 Final statement	2001 Final statement	2002 Final statement	2003 Supplemental budget	2004 Budget
TOTAL REVENUES	65.713.522.924	69.688.034.455	71.981.222.938	67.490.170.000	66.666.000.000
REVENUES (TAX AND NON-TAX)	56.760.081.090	50.447.329.542	58.896.097.958	56.179.000.000	56.861.000.000
TAX REVENUES	51.120.246.193	47.715.732.355	54.389.136.894	50.932.000.000	52.785.000.000
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	-	-
NON-TAX REVENUES	5.639.834.897	2.731.597.187	4.506.961.064	5.247.000.000	4.076.000.000
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
CAPITAL REVENUES	2.616.577.764	10.660.015.021	7.193.569.639	3.596.000.000	2.835.000.000
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
TRANSFERS AND DONATIONS	4.155.269.452	6.484.077.606	3.808.557.430	3.760.170.000	2.257.000.000
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
DOMESTIC LOANS	0	1.333.471.478	480.521.896	0	2.000.000.000
BORROWING FROM ABROAD	2.181.594.618	763.140.808	1.584.121.754	3.800.000.000	2.713.000.000
REVENUES FROM REPAYMENT OF LOANS	-	-	18.354.261	155.000.000	0
TOTAL EXPENDITURES	57.689.326.704	68.520.623.429	71.700.272.895	67.490.170.000	66.666.000.000
CURRENT EXPENDITURES	46.985.485.342	57.496.087.268	56.314.747.304	52.946.575.000	53.421.299.000
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
CAPITAL EXPENDITURES	5.186.477.309	7.140.072.243	8.366.132.516	5.629.770.000	6.171.007.000
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
LENDING, EQUITY PARTICIPATION AND DEBT REPAYMENT	5.517.364.053	3.884.463.918	7.019.393.075	8.913.825.000	7.073.694.000
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				
TOTAL		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	General public services	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	Defence affairs and services	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	Public order and security	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	Education and services	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	Health services	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	Social protection and social security	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	Housing and community amenity affairs	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	Recreational, cultural and religious activities and services	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	Fuel and energy affairs and services	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	Agriculture, forestry, fishing and hunting	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	Mining, industry and construction	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	Transport and communications, activities and services	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	Other economic affairs and services	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	Multi-functional costs	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	Support of Strategic priorities	-	-	-	-	348	-	-	-	-	0,5	-	-	-	-	0,1
Transactions related to the public debt services that are not classified by major groups		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)¹

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	I-V/2004
CURRENT ACCOUNT												
Goods, net	-82,54	-262,94	-298,91	-339,85	-286,14	-269,29	-32,46	-75,28	-235,43	-361,92	-278,17	-285,32
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	-427,82
Import, f.o.b.2	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	600,70
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	-1,028,52
Income, net	-154,47	-155,12	-200,51	-156,16	-137,74	-59,60	41,83	47,05	-15,79	-24,65	-2,56	-36,00
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	-20,76
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	-11,27
Official	85,80	123,70	163,95	182,34	292,63	350,21	463,66	613,53	343,06	498,45	607,87	199,26
Private	28,00	44,00	27,01	51,58	7,46	37,39	72,69	132,30	48,65	100,50	103,36	22,83
CAPITAL AND FINANCIAL ACCOUNT												
Capital account, net	57,80	79,70	136,94	130,76	285,17	312,82	390,97	481,23	294,41	397,95	504,51	176,43
Capital transfers, net	-12,85	162,37	280,65	318,23	327,15	281,84	-128,46	11,28	178,23	386,31	212,62	199,83
Official	0,00	30,04	1,70	0,00	0,00	-1,79	0,00	0,31	1,30	8,25	-6,69	-3,21
Other	0,00	30,04	1,70	0,00	0,00	0,00	0,00	0,31	3,64	9,81	-6,60	-3,21
Acquisition/disposal of non-produced, nonfinancial assets	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Financial account, net	0,00	0,00	0,00	0,00	0,00	-1,79	0,00	0,00	-2,34	-1,56	-0,09	0,00
Direct investment, net	-12,85	132,33	278,95	318,23	327,15	283,63	-128,46	10,97	176,93	378,06	219,31	203,04
Portfolio investment, net	0,00	24,02	9,51	11,23	15,74	117,72	31,80	176,23	442,32	77,72	94,26	83,60
Other investment, net	0,00	0,00	2,68	0,31	2,08	7,79	0,14	-0,09	0,36	0,35	3,39	1,93
Trade credits, net	43,98	150,22	367,35	300,78	341,14	226,66	-32,01	85,05	-183,27	169,42	170,81	100,31
Loans, net	-82,02	97,97	144,58	76,94	267,44	45,39	7,13	146,54	-125,08	114,05	85,29	98,47
Currency and deposits, net	-91,00	-96,83	29,31	41,51	75,39	219,87	54,83	13,51	-107,31	-26,28	22,46	-16,30
o/w Monetary Authorities, net	81,00	38,09	86,66	113,77	-9,81	-40,62	-135,01	-122,53	27,09	53,18	41,72	1,95
o/w Commercial Banks, 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 Individuals, net	-17,00	-69,64	23,43	61,37	-29,14	-28,77	-51,28	-93,26	-272,39	120,66	-15,73	-42,20
Other, net	98,00	107,73	63,23	52,40	19,33	-11,85	-62,52	-29,08	376,56	-136,27	39,68	21,97
Gross official reserves ("-" = increase) ³	136,00	110,99	106,81	68,56	8,12	2,03	41,04	47,53	22,03	28,48	21,34	16,19
ERRORS AND OMISSIONS	-56,83	-41,91	-100,59	5,91	-31,81	-68,54	-128,39	-250,22	-82,48	130,57	-49,15	17,20
	95,39	100,58	18,26	21,62	-41,02	-12,55	160,92	64,00	57,19	-24,39	65,54	85,49

¹ Revised preliminary data

² Imports data are on f.o.b. basis in accordance with IMF V Balance of Payments Manual. Calculation of c.i.f. 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%.

³ Excluding monetary gold and exchange rate differences

PENSION AND DISABILITY INSURANCE FUND (PDF)

In the first half of 2004, Pension and Disability Insurance Fund realized **revenues** in the amount of Denar 14,003 million, being an increase by 3.7% compared to the same period last year. Most of the revenues, i.e. 58.4%, were revenues on the basis of salary contributions, where an increase by 4.5% was realized. Budget revenues account for 30% in the total revenues of the Fund and were increased by 14.7% compared to the same period last year, while the revenues from the Employment Bureau for insurance of unemployed persons, beneficiaries of pecuniary allowance, increased by 19.8% and their share in the total revenues was 6.3%.

Fund **expenditures** in the first half of 2004 amounted to Denar 14,300 million and

increased by 4.5% compared to the same period last year. With respect to payment of pensions, 87.2% of the total expenditures were spent, meaning an increased by 5.6% compared to the first half of 2003. Thereby, 79% of the pensions were paid as regular pensions, 3.7% as 8% retroactive pension, military pensions, agricultural pensions and pensions for early retirements. Expenditures related to health care contribution accounted for 11% in the total expenditures of the Pension and Disability Insurance Fund.

Deficit of the Pension and Disability Insurance Fund amounted to Denar 298 million in the first six months of 2004.

(in million of denars)

Types of revenues/expenditures	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Jan-June
REVENUES	20.717	21.229	22.883	24.289	25.811	28.191	14.003
Contribution from salaries	13.373	14.316	15.722	15.671	15.784	16.882	8.179
Contribution from income	239	311	311	331	283	307	182
Revenues from the Government Budget	3.618	3.266	4.174	5.744	6.961	7.741	4.187
Revenues from the private sectors	400	439	404	377	409	394	197
Revenues from individual farmers	74	65	58	41	61	71	18
Revenues from excises	691	632	804	716	688	677	312
Contributions from the Employment Fund for unemployed	961	868	1.101	1.126	1.404	1.536	884
Other revenues	122	45	74	73	29	65	28
Revenues from dividends	619	245	68	209	192	42	16
Revenues from new employment	419	841	167	0	0	0	0
Transferred income from the previous year	201	201	0	0	0	476	0
EXPENDITURES	20.521	20.669	22.940	24.697	25.889	27.740	14.301
Pensions	17.730	17.756	19.774	21.278	22.255	24.008	12.483
Regular pensions	16.912	16.977	18.948	19.041	19.982	21.667	11.305
War veteran pensions	464	458	505	514	518	499	257
Agricultural pensions	354	321	321	297	262	234	112
Retroactive payment of 8%	0	0	0	1.167	1.136	1.131	534
Early retirement by the Law from year 2000	0	0	0	112	103	121	46
Early retirement by the Law from year 2001	0	0	0	148	254	262	132
Compensation for body injury	63	69	72	72	83	80	42
Compensation for disability insurance	98	95	94	91	76	98	55
Employment and accomodations for disabled children	15	13	12	7	9	6	3
Health care contribution	2.321	2.450	2.672	2.805	2.934	3.184	1.565
Compensation for administration	133	132	141	153	165	172	71
Other expenditures	161	154	175	254	222	192	78
Capital expenditures	-	-	-	37	145	0	4
BALANCE							
Deficit / Surplus	196	560	-57	-408	-78	451	-298

Source: Internal data of the Ministry of Finance

HEALTH INSURANCE FUND (HIF)

Revenues of the Health Insurance Fund amounted to Denar 7,095 million in the first half of 2004, which is an increase by 4.7% compared to the same period last year. Analyzed by revenue structure, the highest share (58.8%) goes to the health insurance contributions, where an increase by 4.7% was realized. Pension and Disability Insurance Fund contributions account for 22% in the total revenues of HIF and were increased by 15% compared to the same period last year, while the contributions from the Employment Bureaus for employment of unemployed persons account for 13.9% in the revenues and they increased by 8.4%. There was a big increase by Denar 354 million with respect to the other revenues, mainly, due to the inclusion of new categories of rev-

enues, i.e. transfers with decision and revenues from co-financing.

At the same time, Fund **expenditures** in the first six months of 2004 amounted to Denar 7,126 million, i.e. increased by 8.9%, compared to the same period last year. The highest share in the expenditures goes to the outpatient's costs (40.3%), which increased by 22%, as well as the expenditures related to the hospital treatment (33.5%), which compared to the previous year slightly decreased. Expenditures related to pharmaceuticals were higher by 49.6% compared to 2003 and accounted for 13.9% in the Fund expenditures.

In the period January–June 2004, Health Insurance Fund realized **deficit** in the amount of Denar 31 million.

(in million of denars)

Tupe of revenues / expenditures	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Jan.-June
REVENUES	11.087	12.068	12.790	12.295	13.656	14.698	7.095
Contributions	6.736	7.363	7.745	7.528	7.823	8.418	4.170
Contributions from the Pension Fund	2.309	2.417	2.649	2.616	3.075	3.184	1.565
Contributions from the Employment Fund	1.037	1.350	1.941	1.554	1.763	1.849	986
Contributions from the Ministry of Labour	45	0	0	48	54	64	28
Other revenues	851	938	455	70	734	1.064	345
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
EXPENDITURES	13.689	11.692	12.463	12.205	13.611	14.678	7.126
Outpatient expenditures	5.303	2.491	2.486	2.505	4.430	5.132	2.871
Hospital treatment	4.702	5.482	5.737	5.919	4.929	5.038	2.389
Costs for programs	214	125	105	306	123	21	0
Medicines	1.214	1.249	1.681	1.555	1.305	1.868	989
Dental care	638	667	687	522	521	630	0
Orthopedic expenses	208	154	143	111	134	150	148
Medical treatment abroad	290	161	70	90	144	221	71
Other treatment (contributions)	719	801	694	769	832	968	508
Administration	326	288	250	268	360	309	120
Equipment and maintenance	36	39	90	44	656	219	17
Other expenditures	41	234	200	48	23	32	11
Loans and interest payments	0	0	321	71	154	90	2
BALANCE							
Deficit/Surplus	-2.602	376	326	90	45	21	-31

Source: Internal data of the Ministry of Finance

EMPLOYMENT BUREAU

In the first half of 2004, Employment Bureau (EB) realized total **revenues** in the amount of Denar 3,751 million. In this period, revenues of EB increased by 25% compared to the same period last year. Out of these revenues, only 16.2% were funds provided by the employment contribution that is to be the main financial source for the activities and the functioning of EB. On the other hand, 83.4% of the revenues are subsidies from the Budget of the Republic of Macedonia. With respect to the budget subsidies structure, 71.5% are on the basis of covering the deficit of the Bureau, 18.2 are intended for payment of pecuniary allowance to the employees from the loss-making enterprises and the rest is related to the public administration reform. In the period January–June 2004, revenues from contributions increased by 3.2% compared to the last year, and the subsidies from the Budget increased by 30% in the same period.

EB expenditures in the first half of 2004 amounted to Denar 3,715 million, which is an increase by 24% compared to the same period last year. Thereby, 38.7% of the expenditures were related to the payment of pecuniary allowance to the unemployed persons (unemployment benefit), 27.3% were costs related to health insurance of the unemployed persons and 24.7% for pension and disability insurance. Active measures – related costs (for employment of disabled persons, employment encouragement and allowance for re-qualification) accounted for 8.9% in the total expenditures of EB. Regarding the total expenditures, 2.9% accounted for the expenditures of the expert service, and in relation to the same period last year, these expenditures increased by 6.7%.

In the first quarter of 2004, Employment Bureau realized **surplus** in the amount of Denar 36 million.

(in million of denars)

Tupe of revenues / expenditures	1998	1999	2000	2001	2002	2003	2004 Jan.-June
REVENUES	4.260	4.129	5.119	4.827	5.918	6.241	3.751
Revenues from contributions	990	1.058	1.121	1.136	1.180	1.224	606
Contributions from wages	969	1.037	1.098	1.113	1.178	1.223	518
Contributions from self-employed	22	21	22	23	2	0	11
Contributions from the people who work abroad	0	0	0	0	0	1	1
Contributions from previous year	0	0	0	0	0	0	75
Revenues from the Government budget	3.261	3.066	3.990	3.677	4.726	5.002	3.128
For covering the deficit of the Employment Fund	2.737	2.575	3.470	3.170	3.742	3.958	2.235
For paying allowances to the employees of the loss-making enterprises	524	490	516	481	944	980	569
Public administration reform	-	-	-	26	19	3	41
Others	0	0	3	26	21	61	283
Other revenues	9	6	8	13	12	16	17
EXPENDITURES	4.264	4.135	5.110	4.749	5.868	6.214	3.717
Expenditures for the functions	4.084	3.970	4.913	4.571	5.658	6.005	3.605
Unemployment benefits	2.073	1.755	1.875	1.879	2.273	2.377	1.397
Contributions for health insurance	1.039	1.347	1.936	1.555	1.763	1.849	986
Contributions for pension and disability insurance	972	868	1.102	1.138	1.453	1.557	891
Transfers for employment of disabled persons	-	-	-	-	128	121	39
Payments according to the new Law	-	-	-	-	-	61	282
Compensation for training	-	-	-	-	41	40	10
Expenditures for the personnel	180	165	198	178	210	209	109
Wages and salaries	99	105	118	116	124	134	66
Allowances	14	17	19	18	22	20	10
Goods and other services	43	34	54	43	42	51	33
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
BALANCE							
Deficit / Surplus	-4	-6	9	78	50	27	37

Source: Internal data of the Ministry of Finance

NATIONAL AND REGIONAL ROADS FUND

In the period January – June 2004, Regional and National Road Fund collected **revenues** in the amount of Denar 1,689 million, which is an increase by 22.3% compared to the same period last year. The highest share in the total revenues goes to the revenues from the Budget (52.1%), which increased by 76.4% compared to the first six months last year. On the basis of annual fee for road motor vehicles, Denar 434 million or 25.7% were collected in relation to the total revenues, while 19.6% out of the total revenues were collected from the fee for usage of highways, where there was an increase by 8.5%.

Expenditures of the Road Fund in the first half of 2004 amounted to Denar 1,750. Most of the expenditures (44.5%) were made in the part related to investments. Regarding road maintenance Denar 508 million was spent, or 29% of the total expenditures. Funds related to local roads accounted for 11.4% in the total expenditures. Expenditures related to studies, projections, surveillance, fees and material cost accounted for 3.3% in the total expenditures.

In the first quarter of 2004, Road Fund realized **deficit** in the amount of Denar 62 million.

(in million of denars)

Tupe of revenues / expenditures	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Jan.-June
REVENUES	2.660	3.793	3.506	4.012	3.434	3.668	1.689
Revenues from Budget	668	924	1.590	1.655	1.305	1.603	880
Paytoll by foreign motor vehicles	49	54	82	73	87	82	35
Annual fee for motor vehicles subject to registration	524	518	746	704	761	797	434
Paytoll for use of motorway	468	492	537	375	381	728	331
Foreign credit	939	1.793	538	1.098	862	418	0
Other revenues	12	13	14	21	2	39	9
Grants	-	-	-	87	36	1	0
EXPENDITURES	2.660	3.793	3.506	4.013	3.420	3.661	1.750
Investments	1.203	1.985	1.662	1.756	1.250	1.107	803
Expenditures for studies, projections, supervision, fees and material costs	0	0	179	286	289	205	57
Road maintenance	784	790	952	926	900	1.063	508
Repayment of loans	264	148	212	299	304	424	122
Funds for local roads	321	386	502	596	528	666	199
Other expenditures	89	142	0	0	0	46	23
Liabilities from the previous year	0	342	0	0	0	0	0
Liabilities towards the Bank Rehabilitation Agency	0	0	0	150	149	150	38
BALANCE							
Deficit / Surplus	0	0	0	-1	14	7	-61

Source: Internal data of the Ministry of Finance

MACEDONIAN LONG-TERM SECURITIES STOCK EXCHANGE

Stock exchange indicators – April 2004

The total trading on the Macedonian Long-Term Securities Stock Exchange in April 2004 declined by 8.9% in relation to the previous month and it amounts to Denar 243.84 million. Compared to March 2004, the average daily trading increased by 23.7% and it amounts to Denar 17.4 million. During this month, the total trading in shares amounted to Denar 49.07 million, which is a 34.7% decline. The trading in bonds reached a value of Denar 186.62 million and it notes a decline of 2.3% compared to the trading in March.

In April this year, a total number of 1,632 transactions were executed during 14 days of trading.

The trading in government bonds for old foreign currency saving in April 2004 amounted to Denar 22.09 million, whereby the average price of these government bonds was 71.6% of the face value, which is a 0.5 percentage points decline in relation to the previous month. The average price of the denationalization bonds from the first issue is 68.9% of the face value, which is a decline by 0.9 percentage points. The average price of the denationalization bonds from the second issue in relation to the previous month increased by 0.2 of the face value and it is 68.7% of the face value. Denationalization bonds from the third issue were sold at 64.1% of the face value, which is an increase by 3.8 percentage points. Simultaneously, the price of the convertible certificates was 19.5% of the face value, which is an increase by 2.6 percentage points in relation to the previous month.

The official stock exchange index (MSEI) declined by 3% compared to the previous month and it amounted to Denar 1,201.09.

Stock Exchange Indicators - April 2004

	March 2004	April 2004	Change (%)
TOTAL TURNOVER			
Shares	75.130.665	49.007.539	-34.8
Bonds	191.065.523	186.625.287	-2.3
Other securities	1.344.963	8.139.638	505.2
TOTAL	267.541.151	243.842.464	-8.9
VOLUME (In securities)			
Shares	83.844	136.570	62.9
Bonds (NV in EURO's)	5.047.059	4.652.745	-7.8
Other securities (NV in EURO's)	7.949.911	35.783.428	350.1
MSEI	1,238,24	1,201,09	-3.0
TOTAL NUMBER OF TRANSACTIONS	1.911	1.632	-14.6
NUMBER OF LISTED SECURITIES	92	78	-15.2
MARKET CAPITALIZATION (In Denars)			
Shares	17.625.922.248	17.445.390.131	-1.0
Bonds (NV in EURO's)	22.000.060.168	21.643.143.167	-1.6
Total	39.625.982.416	39.088.533.298	-1.4
NUMBER OF TRADED SECURITIES - UNOFFICIAL MARKET	35	29	-17.1
NUMBER OF TRADING DAYS	19	14	-26.3
DAILY AVERAGE:			
Turnover (denars)	14.081.113	17.417.319	23.7
Number of transactions	100	116	16.0
NUMBER OF REPORTED TRANSACTIONS	13	12	-7.7
VALUE OF REPORTED TRANSACTIONS	122.717.550	275.948.818	124.9
NUMBER OF TRANSACTIONS - STATE SEGMENT	0	4	0.0
VALUE OF TRANSACTIONS - STATE SEGMENT	0	6.445.637	0.0

90.3% of the total trading on the Stock Exchange was realized on the official market, in the amount of Denar 220.08 million. The realized trading on the unofficial market amounted to Denar 15.6 million or 6.4% of the total trading on the stock exchange. Trading in other securities amounted to Denar 8.13 million or 3.3% of the total trading. The largest share in percentage of the trading was the one of the shares of Alkaloid AD Skopje, Stopanska banka AD Bitola, Toplifikacija Skopje and Tetovska banka AD Tetovo.

In this period, total of 12 block transactions were executed in the total amount of Denar 275.94 million, being an increase by 124.9%, compared to the previous month. The most notice-

Stock Exchange Indicators - May 2004

	April 2004	May 2004	Change (%)
TOTAL TURNOVER			
Shares	49.007.539	76.510.880	56.1
Bonds	186.625.287	110.426.945	-40.8
Other securities	8.139.638	3.625.744	-55.5
TOTAL	243.842.464	190.563.569	-21.8
VOLUME (in securities)			
Shares	136.570	286.487	109.8
Bonds (NV in EURO's)	4.652.745	2.764.897	-40.6
Other securities (NV in EURO's)	35.783.428	13.895.444	-61.2
MSEI	1,201,09	1,188,73	-1.0
TOTAL NUMBER OF TRANSACTIONS	1.632	1.470	-9.9
NUMBER OF LISTED SECURITIES	78	78	0.0
MARKET CAPITALIZATION (In Denars)			
Shares	17.445.390.131	17.684.897.803	1.4
Bonds (NV in EURO's)	21.643.143.167	21.815.830.277	0.8
Total	39.088.533.298	39.500.728.080	1.1
NUMBER OF TRADED SECURITIES - UNOFFICIAL MARKET	29	32	10.3
NUMBER OF TRADING DAYS	14	17	21.4
DAILY AVERAGE:			
Turnover (denars)	17.417.319	11.209.622	-35.6
Number of transactions	116	86	-25.9
NUMBER OF REPORTED TRANSACTIONS	12	11	-8.3
VALUE OF REPORTED TRANSACTIONS	275.948.818	292.956.851	6.2
NUMBER OF TRANSACTIONS - STATE SEGMENT	4	3	-25.0
VALUE OF TRANSACTIONS - STATE SEGMENT	6.445.637	1.268.530	-80.3

able was the trading in shares of the Cold-Rolling Plant AD Skopje.

Two transactions of state-owned shares were executed, in total value of Denar 5.15 million. The shares of the enterprises Elenica – Strumica and Javor Consulting – Bitola were traded. In this period, two transactions with state-owned stocks were executed, in the total value of Denar 1.29 million.

Stock exchange indicators - May 2004

In May 2004, the total turnover of the Macedonian Stock Exchange amounted to Denar 190.6 million and compared to the previous month, it showed a decline by 21.8%. The average daily trading volume in this period amounted to Denar 11.2 million, which is a 35.6% decline.

The share trading amounted to Denar 76.5 million, and in relation to the previous month, it is an increase by 55.9%. The value of the bonds trading volume reached Denar 110.4 million, which is a decline by 40.8%.

In May 2004 year, a total number of 1.470 transactions were executed during 17 days of trading.

The trading in government bonds for old foreign currency saving in May this year amounted to Denar 31.55 million, whereby the average price was 71.51% of the face value, which is a 0.1 percentage points decline in relation to April. The average price of the denationalization bonds from the first issue showed increase by 1.1 percentage points and it amounts to 70% of the face value. Simultaneously, the value of the denationalization bonds from the first second also showed increase by 0.6 percentage points, whereby the average price of these bonds amounted to 69.31% of the face value. The average price of the denationalization bonds from the third issue, in this period, amounted to 61.85% of the face value, i.e. a decline by 2.25 percentage points. Simultaneously, the average price of the convertible certificates was only 10.19% of the face value, which is a decline by 9.3 percentage points.

For the first time, treasury bills were traded on the Macedonian Stock Exchange in May 2004, whereby the average price of these securities was 98.72% of the face value, whereby a trading volume in the amount of Denar 2.27 million was realized.

As an indicator of the movement of prices, the official stock exchange indicator (MSEI) declined by 1% in relation to the previous month and it amounted to Denar 1,188.73.

Stock Exchange Indicators - June 2004

86% of the total trading on the Stock Exchange was realized on the official market, (Denar 163.9 million), while the trading realized on the unofficial market amounted to Denar 23.02 million or 12.1% of the total trading on the stock exchange. Trading in other securities amounted to Denar 3.62 million or 1.9% of the total trading.

The largest share, in percentage, is the one of the shares of Blagoj Gorev –Veles (19.7%), then the shares of Uslugi –Skopje (14.7%) and the shares of Komercijalna banka AD Skopje (10.5%) in the total trading volume on the official market of the Macedonian Stock Exchange.

In the fifth month of the year, 12 block-transactions were realized in the total value of Denar 292.95 million. Also, a total of 3 transactions of state-owned shares were executed, in total value of Denar 1.26 million.

Stock exchange indicators - June 2004

The total turnover on the Macedonian Long-Term Securities Stock Exchange in June 2004 declined by 35.4% in relation to May and it amounts to Denar 257.94 million. The average daily trading volume increased by 27.8%, and it amounted to Denar 14.4 million.

During this month, the total turnover of shares amounted to Denar 126.69 million, which is 65.6% increase on monthly basis. The trading in bonds reached Denar 130.03 million (17.8% increase in relation to May 2004).

In June, a total number of 1.615 transactions were executed during 18 days of trading. As an indicator of the movement of prices, the official stock exchange indicator (MSEI) in June this year declined by 3.2% and it amounted to Denar 1,150.27.

	May 2004	June 2004	Change (%)
TOTAL TURNOVER			
Shares	76.510.880	126.689.588	65.6
Bonds	110.426.945	130.031.626	17.8
Other securities	3.625.744	1.215.040	-66.5
TOTAL	190.563.569	257.936.254	35.4
VOLUME (in securities)			
Shares	286.487	517.282	80.6
Bonds (NV in EURO's)	2.764.897	3.284.285	18.8
Other securities (NV in EURO's)	13.895.444	16.002.742	-1.2
MSEI	1,188,73	1,150,27	-3.2
TOTAL NUMBER OF TRANSACTIONS	1.470	1.615	9.9
NUMBER OF LISTED SECURITIES	78	78	0.0
MARKET CAPITALIZATION (In Denars)			
Shares	17.684.897.803	17.314.681.694	-2.1
Bonds (NV in EURO's)	21.815.830.277	21.444.557.023	-1.7
Total	39.500.728.080	38.759.238.717	-1.9
NUMBER OF TRADED SECURITIES - UNOFFICIAL MARKET	32	25	-21.9
NUMBER OF TRADING DAYS	17	18	5.9
DAILY AVERAGE:			
Turnover (denars)	11.209.622	14.329.792	27.8
Number of transactions	86	90	4.7
NUMBER OF REPORTED TRANSACTIONS	11	9	-18.2
VALUE OF REPORTED TRANSACTIONS	292.956.851	233.306.740	-20.4
NUMBER OF TRANSACTIONS - STATE SEGMENT	3	1	-66.7
VALUE OF TRANSACTIONS - STATE SEGMENT	1.268.530	526.640	-58.5

69.7% of the total trading on the stock exchange was realized on the official market, in the amount of Denar 179.68 million, while the trading realized on the unofficial market amounted to Denar 77.04 million (29.9% of the total trading volume). Trading in other securities amounted to Denar 1.22 million or 0.5% of the total trading.

In June 2004, the largest share in percentage of the trading was the one of the shares of Alkaloid AD Skopje, Blagoj Gorev Veles, Makpetrol Skopje, Komercijalna banka AD Bitola and Toplifikacija Skopje.

In this period, total of 9 block transactions were executed in the total amount of Denar 233.3 million, being a decline by 20.4%, compared to the value of the block transactions realized the previous month.

MACEDONIAN STOCH EXCHANGE

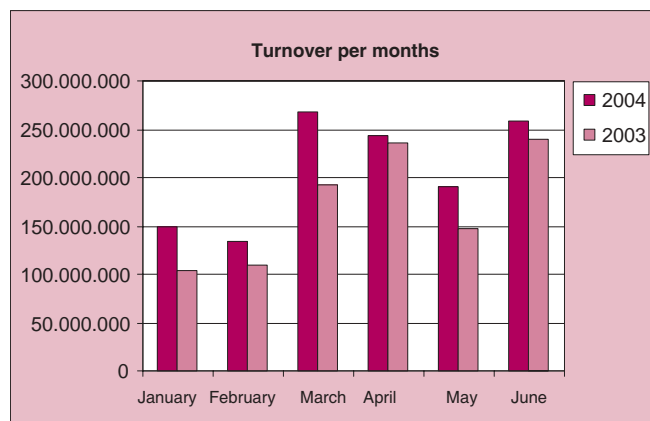
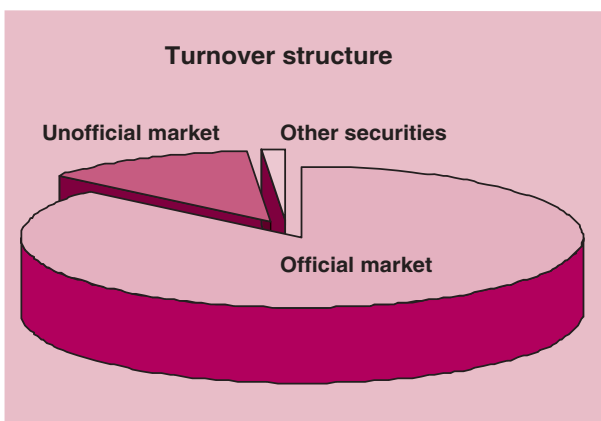
HALF YEAR REPORT

STOCH EXCHANGE INDICATORS

	January-June 2003	January-June 2004	% Change
TOTAL TURNOVER			
Shares	384.710.719	466.968.742	21.4
Bonds	519.736.032	761.706.988	46.6
Other securities	123.734.781	15.932.513	-87.1
TOTAL	1.028.181.532	1.244.608.243	21.0
VOLUME (in securities)			
Shares	1.254.883	1.231.972	-1.8
Bonds (NV in EURO's)	14.776.727	18.900.583	27.9
Other securities (NV in EURO's)	333.862.015	80.884.584	-75.8
MSEI	995,22	1.150,27	15.6
TOTAL NUMBER OF TRANSACTIONS	8.593	9.077	5.6
NUMBER OF LISTED SECURITIES	100	78	-22.0
MARKET CAPITALIZATION (In Denars)			
Shares	16.390.910.330	17.314.681.694	5.6
Bonds (NV in EURO's)	20.833.306.546	21.44.557.023	2.9
Total	37.224.216.876	38.759.238.717	4.1
NUMBER OF TRADED SECURITIES - UNOFFICIAL MARKET	54	51	-5.6
NUMBER OF TRADING DAYS	98	99	-
DAILY AVERAGE:			
Turnover (denars)	10.491.648	12.571.800	19.8
Number of transactions	88	92	4.5
NUMBER OF REPORTED TRANSACTIONS	56	65	16.1
VALUE OF REPORTED TRANSACTIONS	2.454.891.711	1.111.276.871	-54.7
NUMBER OF TRANSACTIONS - STATE SEGMENT	73	10	-86.3
VALUE OF TRANSACTIONS - STATE SEGMENT	283.531.885	8.308.546	-97.1

TURNOVER STRUCTURE

Market segment	Turnover (denars)	Turnover (Euro's)	%	Number of transactions
Official market	1.075.387.825	17.545.050	86.4	8.526
Unofficial market	153.287.905	2.500.506	12.3	347
Other securities	15.932.513	259.933	1.3	204
TOTAL	1.244.608.243	20.305.489	100,0	9.077



TURNOVER PER MOUNTHS

	January	February	March	April	May	June
2004	149.886.740	134.838.066	267.541.161	243.842.464	190.563.569	257.936.254
2003	103.276.652	109.427.243	192.906.339	236.178.776	147.525.976	238.866.546

OVERVIEW OF TRADING IN THE MOST LIQUID SHARES (OFFICIAL MARKET) JAN/JUNE 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	63.810.397	1.041.269	20,3	22.578.0	215	1.009.188.750
2	Makpetrol Skopje	36.193.440	590.561	11,5	2.922.0	286	1.236.202.000
3	Alkaloid Skopje	50.060.296	816.719	16,0	25.798.0	623	2.604.737.153
4	Blagoj Gorev Veles	29.464.949	480.872	9,4	41.709.0	108	464.400.000
5	Teteks Tetovo	15.411.340	251.452	4,9	49.714.0	59	141.603.970
6	Toplifikacija Skopje	19.019.579	310.311	6,1	13.815.0	203	562.500.000
7	Stopanska banka Bitola	16.255.100	265.192	5,2	6.057.0	41	696.420.000
8	Granit Skopje	9.602.085	156.644	3,1	105.650.0	413	260.424.000
9	RZ Uslugi Skopje	7.859.199	128.222	2,5	157.149.0	13	95.871.687
10	Fustelarko Borec Bitola	6.954.906	113.495	2,2	7.608.0	63	73.099.800
	Others	59.049.546	963.388	18,8	210.854.0	735	10.170.234.335
	TOTAL OFFICIAL MARKET	313.680.837	5.118.125	100.00	643.854.00	2.759	17.314.681.695

TOR 5 GAINERS

No.	Issuer	January-June 2003 average price	January-June 2004 average price	% change January-June 2004/ January-June 2003
1	Komercijalna banka AD Skopje	1.793.6	2.719.7	51.6
2	Makpetrol AD Skopje	10.027.8	12.257.1	22.2
3	Skopski Pazar AD Skopje	2.196.4	2.588.3	17.8
4	Alkaloid AD Skopje	1.634.1	1.922.4	17.6
5	Granit AD Skopje	81,7	90,5	10.8

TOR 5 LOSERS

No.	Issuer	January-June 2003 average price	January-June 2004 average price	% change January-June 2004/ January-June 2003
1	Ading AD Skopje	3.825.0	2.521.8	34,1
2	Evropa AD Skopje	1.148.0	873,0	24,0
3	Zito Vardar AD Veles	793,3	690,0	13,0
4	Toplifikacija AD Skopje	1.494.9	1.372.6	8,2
5	Beton AD Skopje	1.502.4	1.481.4	1,4

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	71.5	72.2	4.301.288	191.257.584	3.120.365
Government bonds - Denationalisation I issue (RMDEN01)	79.9	64	73.4	64.1	70.1	179.317	7.828.581	128
Government bonds - Denationalisation II issue (RMDEN02)	80.4	62.0	72.5	63	69.6	2.351.941	103.846.296	1.694.330
Government bonds - Denationalisation III issue (RMDEN03)	65.0	55.0	64.9	62.2	62	12.068.037	458.774.528	7.484.499
Convertible certificates - Saving houses (RMKSF)	27.0	3.0	25.7	4.1	15.1	80.884.354	13.661.953	223
Ministry of Finance- Government securities 2004/07-91	98.72	98.72	98.72	98.72	98.72	230	2.278.560	37.032

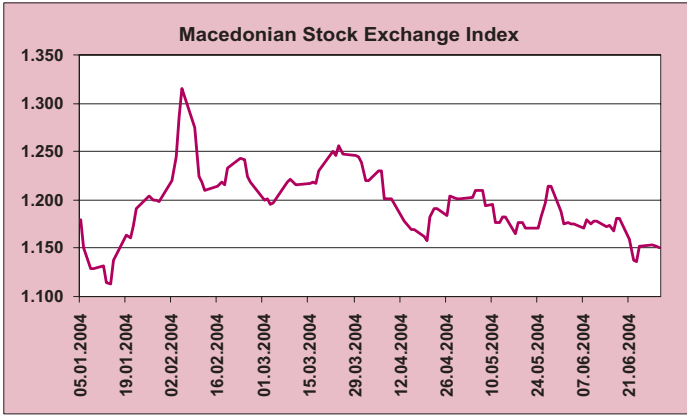
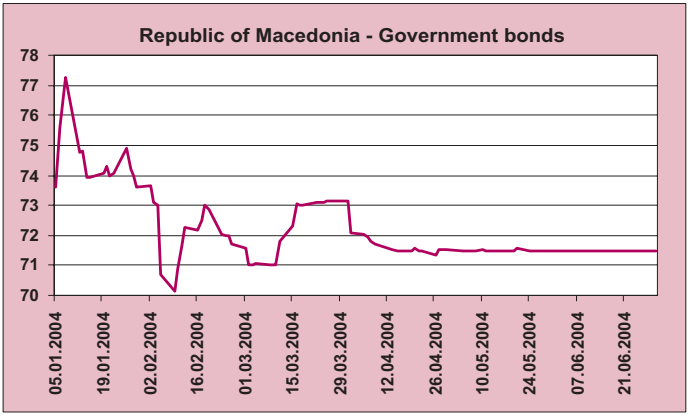
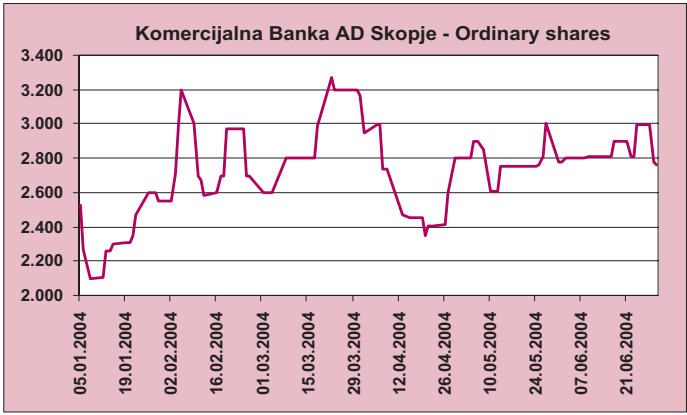
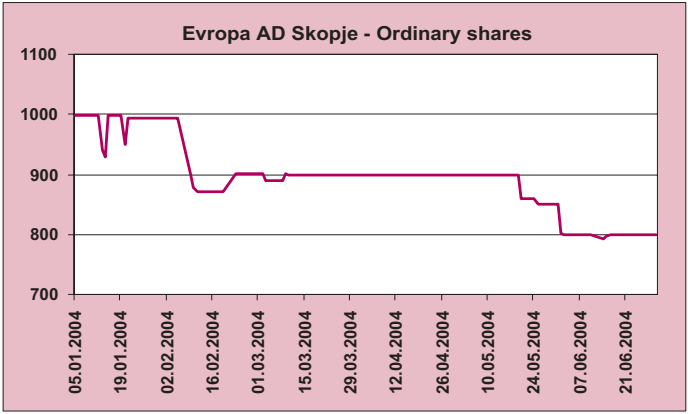
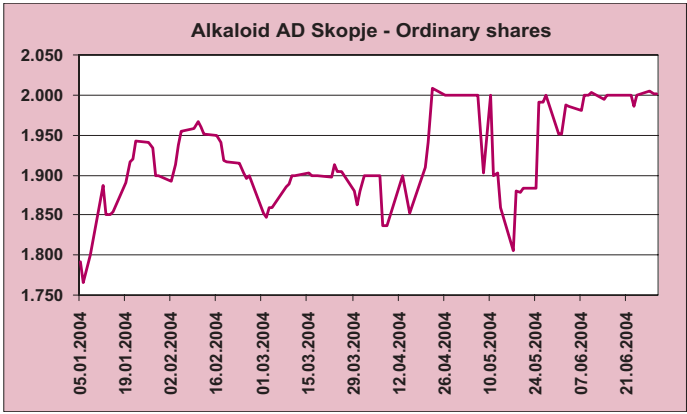
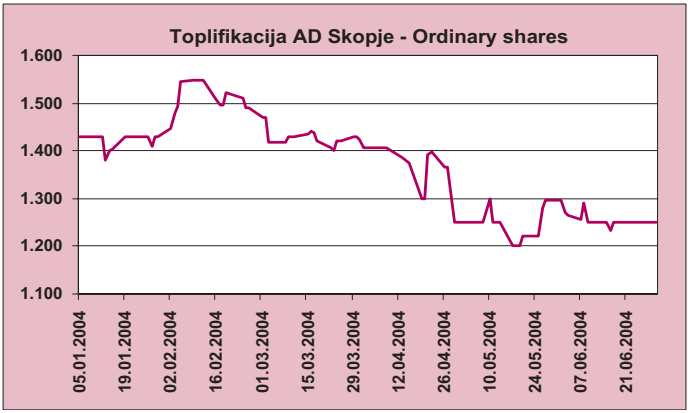
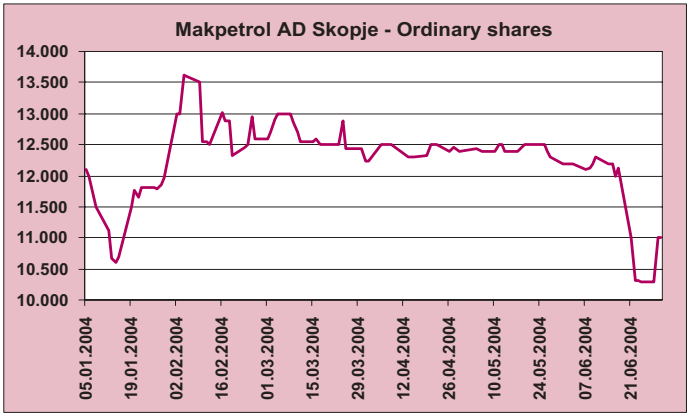
BLOCK TRANSACTIONS

JANUARY - JUNE 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 DEM	2.400	14.65	1.488	3.571.200
Inst. za arhitek. i urb. PLAN Ohrid	08.01.2004	1.000 DEN	1.000	54.73	544	544.000
Korab AD Debar	13.01.2004	50 EMU	3.055	20.39	92	281.060
Helmateks AD Skopje	19.01.2004	5,25 EMU	184	17.19	30.260	5.567.840
Zito Polog AD Tetovo	26.01.2004	100 DEM	1.600	8.97	5.028	8.044.800
Toplifikacija AD Skopje	28.01.2004	51,13 EMU	1.566	2.62	11.250	17.617.500
Beton AD Ohrid	03.02.2004	500 DEM	839	42.45	3.255	2.730.945
Granit AD Skopje	04.02.2004	5 EMU	94	2.47	71.566	6.727.204
Tabak Osiguruvanje AD Skopje	04.02.2004	500 EMU	32.000	5.05	280	8.960.000
Tabak Osiguruvanje AD Skopje	04.02.2004	500 EMU	31.000	3.95	219	6.789.000
Gradski Trgovski Centar AD Skopje	05.02.2004	50 EMU	1.850	0.16	3.146	5.820.100
Komercijalna Banka AD Skopje	05.02.2004	5.000 DEN	3.000	0.58	3.226	9.678.000
Masinopromet AD Skopje	10.02.2004	50 DEM	380	19.32	13.135	4.991.300
Jugotutun AD Sveti Nikole	11.02.2004	102,26 EMU	613	24.75	5.012	3.072.356
Jugotutun AD Sveti Nikole	12.02.2004	102,26 EMU	613	22.86	4.631	2.838.803
Stobi AD Veles	12.02.2004	51,13 EMU	1.532	42.26	4.652	7.126.864
ZIK Oranzerii AD Kumanovo	18.02.2004	100 DEM	509	64.65	4.849	2.468.141
Komercijalna Banka AD Skopje	23.02.2004	5.000 DEN	2.600	0.55	3.028	7.872.800
Prokredit banka AD Skopje	23.02.2004	5 EMU	306.44	25	250.000	76.610.000
Ohridska banka AD Ohrid	24.02.2004	2.650 DEN	2.650	0.79	1.900	5.035.000
EMO AD Ohrid	02.03.2004	60 DEM	276	7.8	28.709	7.923.684
Investbanka AD Skopje	09.03.2004	2.670 DEN	2.666	3.48	7.500	19.995.000
Proleter AD Skopje	09.03.2004	50 EMU	320	10.35	4.775	1.528.000
Teteks-Kreditna banka AD Skopje	09.03.2004	1.000 DEN	2.172	0.88	5.984	12.997.248
Teteks-Kreditna banka AD Skopje-prioritetni	09.03.2004	1.000 DEN	2.172	0.47	3.222	6.998.184
Makedonija Turist AD Skopje	16.03.2004	25,56 EMU	990	2.74	12.403	12.278.970
Europrofil AD s.Aldinci Krusevo	17.03.2004	5 EMU	96	33.06	23.146	2.222.016
Silika Minerali AD Mak. Brod	23.03.2004	3.065 DEN	320.5	37.49	3.432	1.099.956
Nova Trgovija 2003 AD Stip	24.03.2004	10 DEM	120	10.22	32.063	3.847.560
Fustelarko Borec AD Bitola	30.03.2004	51,13 EMU	1.400	4.51	3.669	5.136.600
Fustelarko Borec AD Bitola	31.03.2004	51,13 EMU	1.400	4.48	3.644	5.101.600
SOKOMAK AD Bitola	31.03.2004	100 DEM	2.452	60.5	14.641	35.899.732
Stopanska banka AD Bitola	31.03.2004	3.000 DEN	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 - june 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 turnover
Agroservis Skopje	2.905 DEN	51.911	500	500	500.0	897	448.500	7.317	25.955	423	1.73
Ading Skopje	51,13 EMU	48.300	3.060	2.754	2.907.0	41	113.220	1.847	133.018	2.170	0.08
Algreta Resen	100 DEM	12.431	1.540	1.400	1.470.0	159	242.620	3.958	19.144	312	1.28
Alkaloid Skopje	25,56 EMU	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 EMU	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 EMU	516.000	690	580	654.4	16.421	10.852.324	177.092	356.014	5.808	3.18
Vitaminka Prilep	51,13 EMU	80.980	1.870	1.870	1.870	85	158.950	2.595	151.433	2.470	0.10
GD - Tikves Kavadarci	51,13 EMU	68.000	200	200	200.0	6.915	1.383.000	22.562	13.600	222	10.17
GP Mavrovo Skopje	51,13 EMU	248.249	1.350	951	1.155.9	507	625.914	10.213	236.085	3.851	0.20
Granit Skopje	5 EMU	2.893.600	100	90	91.3	42.614	3.928.845	64.098	260.424	4.248	1.47
Evropa Skopje	51,13 EMU	255.583	999	870	915.0	1.492	1.356.237	22.128	230.025	3.752	0.58
Zito Vardar Veles	50 EMU	73.037	690	690	690.0	358	247.020	4.033	50.396	822	0.49
Zito Luks Skopje	100 DEN	825.637	600	460	546.1	3.816	2.066.092	33.710	379.793	6.196	0.46
Zito Prilep Prilep	50 EMU	68.379	610	610	610.0	105	64.050	1.045	41.711	680	0.15
ZK Pelagonija Bitola	51,13 EMU	278.620	335	310	326.3	254	83.310	1.359	90.552	1.477	0.09
Investbanka Skopje	2.670 DEN	215.209	600	600	600.0	110	66.000	1.077	136.440	2.226	0.05
Internesenal Hotels AD Sk.	1 EMU	530.554	600	600	600.0	15	9.000	147	318.332	5.193	0.00
Jaka tabak Radovis	51,13 EMU	116.999	1.000	1.000	1.000.0	115	115.000	1.876	116.999	1.909	0.10
Karpos Skopje	200 DEM	49.852	606	551	578.5	112	66.332	1.082	30.210	493	0.22
Komercijalna banka Skopje	5.000 DEN	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 EMU	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 EMU	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 EMU	10.248	1.604	1.604	1.604.0	13	20.852	340	16.438	268	0.13
Makoteks Skopje	35,9 EMU	94.063	220	220	220.0	76	16.720	273	20.694	338	0.08
Ohridska banka Ohrid	2.650 DEN	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 EMU	202.269	246	168	224.7	1.043	229.307	3.741	49.758	812	0.52
Replek Skopje	562,42 EMU	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 EMU	113.392	60	60	60.0	6.075	364.500	5.947	6.804	111	5.36
RZ Inter-Transsped Skopje	5,11 EMU	585.399	27	25	25.7	51.605	1.330.335	21.704	14.635	239	8.82
RZ Makstil Skopje	5,11 EMU	14.622.944	102	92	97.0	35	3.270	53	1.345.311	21.946	0.00
RZ Tehnicka kontrola Skopje	5,11 EMU	210.419	60	54	54.0	1.986	119.046	1.942	11.363	185	0.94
Rudnici Banjani Skopje	25 EMU	65.502	620	620	620.0	670	415.400	6.777	40.611	662	1.02
Sileks Kratovo	43,77 EMU	451.464	65	64	64.7	992	64.190	1.047	29.345	479	0.22
Skopski Pazar Skopje	51,13 EMU	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 DEN	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 EMU	456.787	310	310	310.0	33.175	10.284.250	167.803	141.604	2.310	7.26
Tetovska banka Tetovo	3.000 DEN	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 EMU	80.186	730	691	706.8	638	450.379	7.348	56.259	918	0.80
Toplifikacija Skopje	100 DEM	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 DEM	30.000	600	600	600.0	76	45.600	744	18.000	294	0.25
Tutunski kombinat Prilep	51,13 EMU	509.050	751	600	677.0	1.206	787.016	12.840	313.066	5.107	0.24
Fustelarko Borec Bitola	100 DEM	84.302	1.089	850	957.8	1.391	1.358.506	22.167	84.302	1.375	1.65
TOTAL		27.559.913				223.603	172.036.840	2.807.198	13.022.396	212.437	0.81



TURNOVER PER MEMBERS

/ in denars*

JANUARY - JUNE 2004

No.	Member	Trading in BEST system	% of trading in BEST system	Government	% Govern- ment	Block trades	% of Block trades	Total
1	CL	54.640.829	2.2	0	0	935.703.316	42.1	990.344.145
2	KB	697.042.608	28.0	5.241.674	63.1	112.701.144	5.1	814.985.426
3	TN	459.713 .306	18.5	526.640	6.3	327.343.164	14.7	787.583.110
4	BD	196.064.323	7.9	0	0	215.663.680	9.7	411.728.003
5	MK	155.823.595	6.3	0	0	215.222.829	9.7	371.046.424
6	MI	151.293.502	6.1	241.956	2.9	130.962.936	5.9	282.498.394
7	SB	220.711.672	8.9	0	0	57.745.968	2.6	278.457.640
8	FR	180.946.620	7.3	1.026.574	12.4	37.660.718	1.7	219.633.912
9	EU	104.538.565	4.2	0	0	71.863.867	3.2	176.402.432
10	BB	65.587.135	2.6	1.271.703	15.3	45.270.056	2.0	112.128.894
11	OH	80.881.001	3.2	0	0	20.076.400	0.9	100.957.401
12	BL	79.934.137	3.2	0	0	12.348.800	0.6	92.282.937
13	TK	16.936.800	0.7	0	0	39.990.864	1.8	56.927.664
14	PT	25.102.394	1.0	0	0	0	0.0	25.102.394
	Total	2.489.216.487	100,0	8.308.547	100	2.222.553.742	100,0	4.720.078.776

* 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	Tender closed	Textiles	Liquidation / Bankruptcy
MZT FAM	30.07.2003	Tender closed	Machine tools and metal cutting equipment	Liquidation / Bankruptcy
Mikron	10.10.2003	Tender closed	Electrical motors and appliances	Liquidation / Bankruptcy
Frinko	08.10.2003	Tender closed	Fridge & freezer production	Liquidation / Bankruptcy
Tehnika	13.10.2003	Tender closed	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	Tender closed	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

Turnover on the Money and Short-Term Securities Market in April 2004 increased, shown through increased realization by 50.17% in relation to the previous month and amounted to Denar 1,012.2 million. Compared to the same month last year, the turnover this year was decreased by 33.40%.

During the analyzed period, demand for liquid assets amounted to Denar 1,245.2 million, which, compared to March, is an increase by 72.46%. With respect to the same month last year, in March this year, demand for liquid assets on the Money Market was decreased by 24.62%.

In April, total supply of liquid assets on the Money Market amounted to Denar 1,153.2 million, and in relation to the previous month, it was decreased by 14.98%. On annual level, the supply on the Money Market, during the analyzed period, was lower by 57.94%.

Average weighted interest rate in April 2004 amounted to 6.66%, and compared to the previous month, it was higher by 0.15 percentage points, while in relation to the same month last year, it decreased by 3.93 percentage points.

In May 2004, turnover in the amount of Denar 1,128 million was realized on

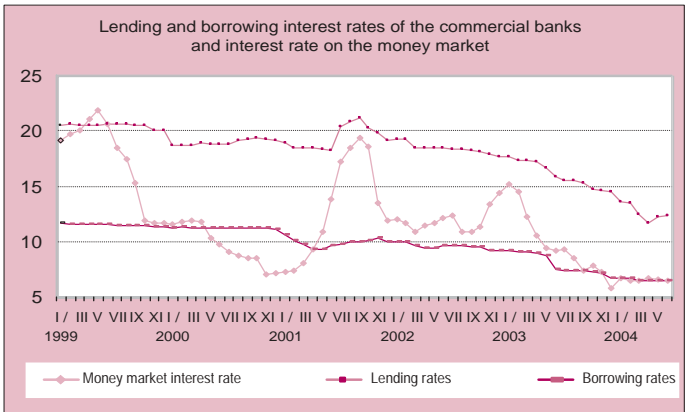
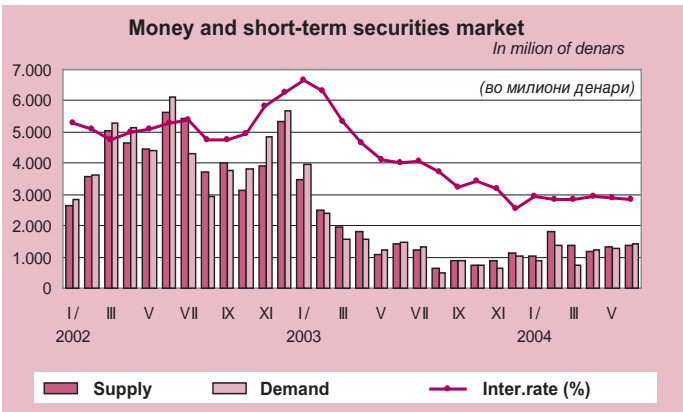
the Money and Short-Term Securities Market, which, in relation to the previous month, increased by 11.44%. Compared to May last year, the turnover on the Money Market in May this year dropped by 33.40%.

Demand for liquid assets in May amounted to Denar 1,290 million, and in relation to the previous month, it was increased by 3.59%. Compared to the same month last year, the demand in May this year increased by 3%.

During the analyzed period, supply of liquid assets amounted to Denar 1,308 million, and in relation to the previous month, it was higher by 13.42%. Compared to the same month last year, the supply of liquid assets in May this year increased by 21.90%.

Average weighted interest rate in May 2004 amounted to 6.55%, and compared to the previous month, it was lower by 0.11 percentage points. With respect to the same month last year, average weighted interest rate in May this year, was lower by 2.81 percentage points.

Turnover on the Money and Short-Term Securities Market in June 2004 increased, shown through increased monthly realization by 0.26% and it amounted to Denar 1.13 million.



Money and short-term securities in 2003 and 2004 (by mounths)

	I.03	II.03	III.03	IV.03	V.03	VI.03	VII.03	VIII.03	IX.03	X.03	XI.03	XII.03	I.04	II.04	III.04	IV.04	V.04	VI.04
Total turnover (In million of denars)	3,224	2,330	1,493	1,350	979	1,371	1,204	476	837	659	560	894	823	1,337	674	1,012	1,128	1,131
Interest rate (% annual)	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	6,66	6,55	6,51

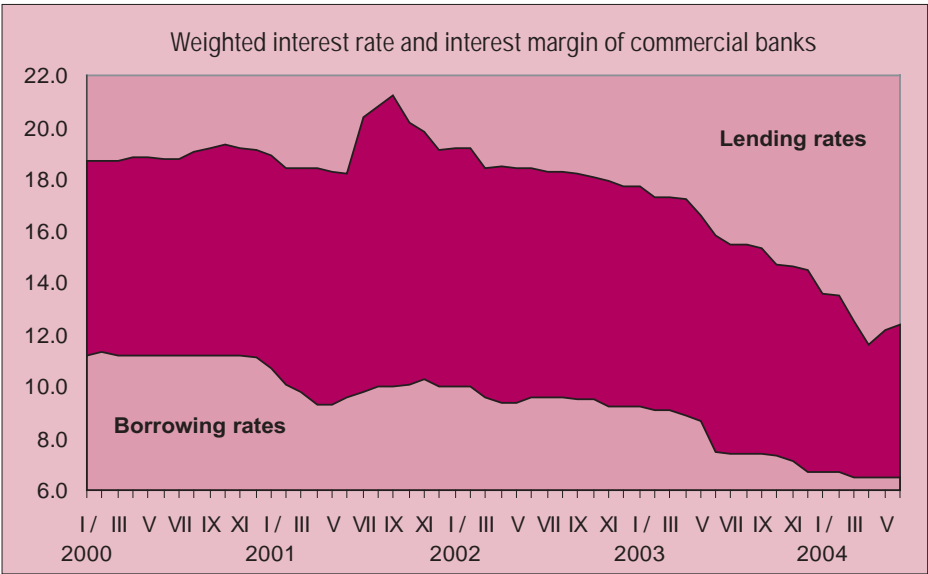
Compared to the turnover in June last year, the turnover in June this year dropped by 18.3%.

During the analyzed period, demand for liquid assets amounted to Denar 1.43 billion, which in relation to the previous month, it was an increase by 10.93%, while compared to the same month last year, in June this year, the demand for liquid assets dropped by 3%.

Supply of liquid assets in June 2004 amounted to Denar 1.36 billion, and

compared to May this year, it was higher by 4.7%. Compared to June last year, the demand in June this year dropped by 3.65%.

Average weighted interest rate during the analyzed period amounted to 6.51%, and compared to the previous month, it was lower by 0.04 percentage points. With respect to the same month last year, average weighted interest rate in June this year was lower by 2.65 percentage points.



DEPOSITS OF CITIZENS AND ENTERPRISES AT BANKS

Upward trend of deposits of citizens and of enterprises at the banks has also continued in the first month of the second quarter of 2004.

Deposits of citizens

Total deposits of citizens in **April 2004** reached Denar 40,672 million, which is a monthly increase by 3.8%. The increase was mainly due to the additional available income of the citizens, created by the payment of part of the government bonds related to the old foreign currency savings. Thereby, larger part of the paid funds were kept in Denar sight deposits, while the remaining funds were re-distributed as Denar time deposits, foreign exchange sight deposits and short-term foreign exchange time deposits. On annual level, increase of total deposits of citizens in April this year amounted to 20%.

Total deposits of the citizens in **May 2004** were almost unchanged compared to the previous month, whereby there was an insignificant reduction by 0.1%. Within the structure of the deposits of the citizens, there were reductions at both the Denar and foreign exchange sight deposits (by 4.2% and by 0.3% respectively), while regarding the other categories of deposits, an increase was recorded. Such movements point out to partial re-distribution of the funds received with the payment of government bonds for the old foreign currency savings (from sight deposits to time deposits). From the point of view of maturity, monthly increase of long-term deposits amounted to 0.2%, while monthly reduction by the same percentage was noted at the short-term deposits. Inter-annual growth rate of the total deposits of citizens amounted to 19.2%, when there

was significant increase of the foreign exchange sight deposits.

Total deposits of the citizens in June 2004 amounted to Denar 41,395 million and were higher by 1.9% compared with the previous month. Certain changes were made within the structure of the total deposits. Thereby, reduction was noted at the long-term saving deposits of the citizens (20.3%), and there was slight even increase at the other categories of deposits. This even increase of the deposits pointed out to the fact that the citizens have reoriented from long-term saving to time deposits up to one year. This month more intensive saving was noted in foreign currency, which increased by 1.5% compared to the previous month. Thereby, intensive increase was also noted at the sight saving deposits of the citizens in foreign currency. Annual change of the total deposits amounted to Denar 7,187 million, i.e. were higher by 21%, as a result of the increase of sight saving deposits in foreign currency and the short-term time foreign exchange deposits.

Deposits of enterprises

Deposits of enterprises in **April 2004** amounted to Denar 14,881 million. Thereby, the dynamics of the total deposits of the enterprises was mainly determined by the movements of the short-term deposits, which amounted to Denar 13,835 million, i.e. monthly increase by 5.3%, in relation to the long-term deposits, the amount of which was Denar 1,046 million. Thus, the increase of both Denar and foreign exchange sight deposits, as well as the higher level of time foreign exchange deposits of the enterprises up to one month, contributed

to monthly increase of the deposits of enterprises by 5.1% and their annual increase by 30.4%.

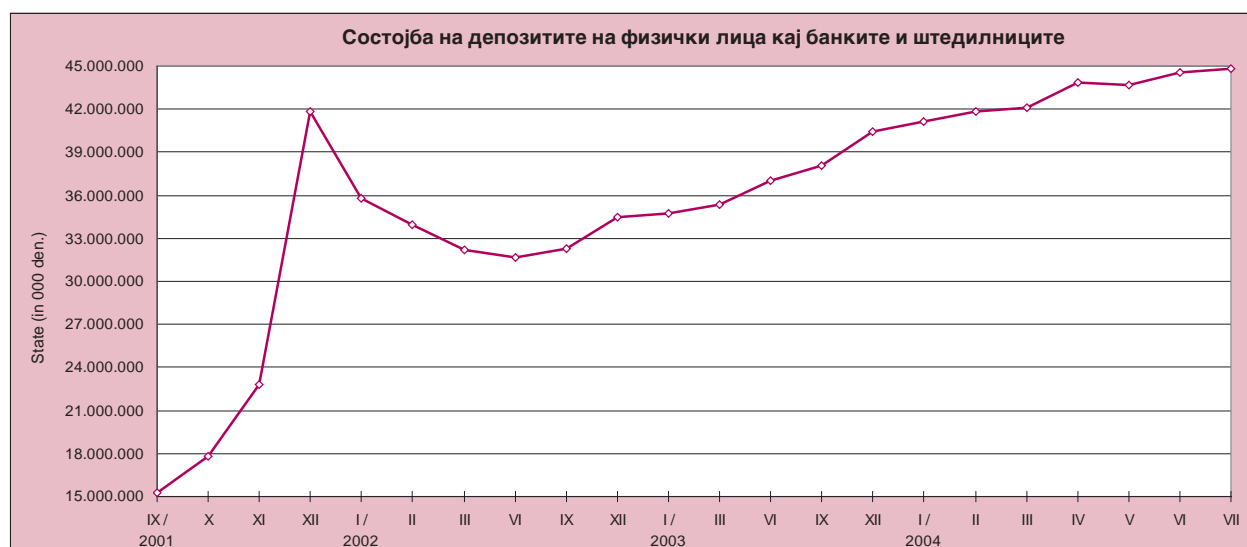
In **May 2004**, total deposits of enterprises reached Denar 17,098 million, which is an increase by 14.9% on monthly level, in conditions of significant increase of short-term Denar and foreign exchange deposits. Thus, monthly increase of short-term deposits of enterprises amounted to 15.6%, while Denar and foreign exchange deposits increased by 11.8% and 17.7% respectively on monthly level. On annual level, total deposits of enterprises were higher by 50.5%, which was mainly due to the increase of short-term foreign exchange deposits of the enterprises (sight foreign exchange deposits and time foreign exchange deposits up to one month).

In **June 2004**, total deposits of the enterprises amounted to Denar 16,354 million, i.e. decreased by 4.4% compared with the previous month. The reason for this is the decrease of the Denar time deposits of the enterpris-

es, i.e. the short-term ones, from Denar 15,997 million in May to Denar 15,381 million in June, and the long-term ones, from Denar 1,101 million in May to Denar 973 million in June. On annual level, total deposits were higher by 37.3%. Inter-annual change of deposits of enterprises was mainly determined by the increase of the current accounts of the enterprises in foreign exchange, as well as the short-term time foreign exchange deposits of the enterprises.

Deposit Insurance Fund

In April 2004, total funds of the Fund amounted to 3.13% 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 58,000 for indemnification. As of April 2004, the Fund paid 92.5% of the total determined obligation related to indemnification.



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 months	Up to 5 years	
		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 of 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, Tutumska 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
TOTAL	1.216	228.850	1.686.888.902

Source: Statistic provided by POS, december 31,1994

ON-GOING PRIVATIZATION 31/12/2003

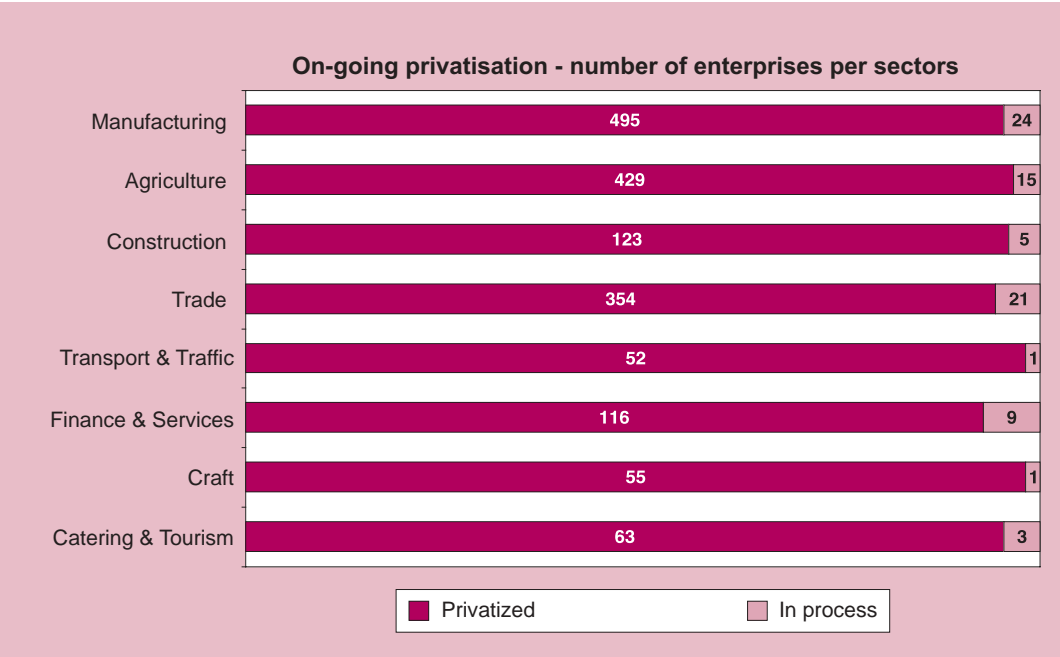
Sector	Number of companies	Number of employees	Equity in EUR
Manufacturing	24	4.385	17.635.539
Agriculture	15	1.160	10.013.480
Construction	5	133	4.750.073
Trade	21	1.503	6.500.869
Transport & Traffic	1	43	484.391
Finance & Services	9	155	531.569
Craft	1	75	184.065
Catering & Tourism	3	202	1.703.927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

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
TOTAL	1.687	231.618	2.325.665.752

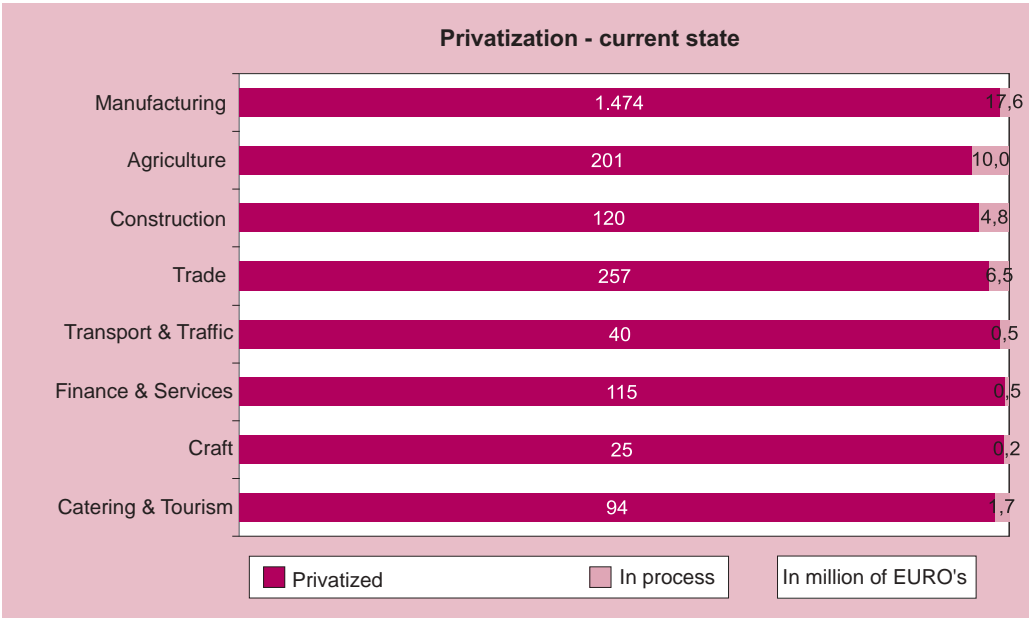
ON-GOING PRIVATIZATION - NUMBER OF ENTERPRISES PER SECTOR

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



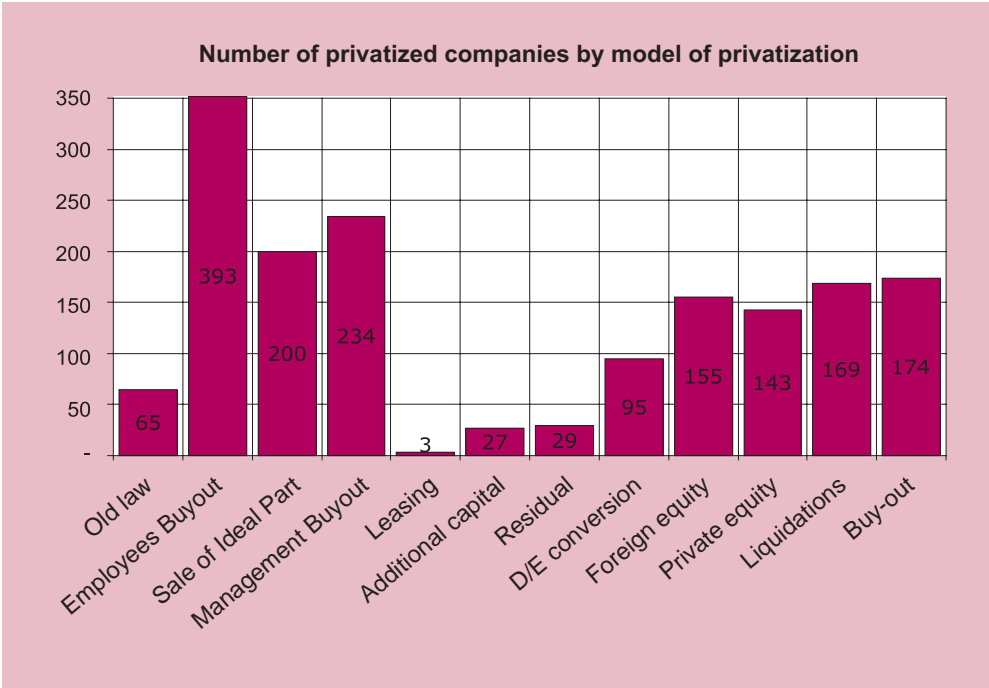
PRIVATIZATION - CURRENT STATE

(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
TOTAL	1.687	231.618	2.325.665.752



IN BRIEF

Successful completion of Stand-By Arrangement with the IMF

IMF Board of Executive Directors. On 2nd August 2004, reviewed the Second Review of the performance of Stand-by Arrangement and the ex-post analysis of the so-far arrangement of the IMF with the Republic of Macedonia. It was concluded that the Republic of Macedonia has successfully completed the Stand-by Arrangement and has met all formal criteria to monitor the program performance. It enabled for two core macroeconomic objectives of the Arrangement to be realized – maintenance of low inflation and reduction of the budget deficit to low, sustainable level. Realization of these objectives is especially important in terms of what has been achieved in complex political conditions and implementation of the Ohrid Framework Agreement at the same time. IMF Executive Directors have congratulated the Government of the Republic of Macedonia on implementing sound fiscal and monetary policy and stressed the need to retain the same policy by the end of 2004, meaning keeping the targeted level of budget deficit for the second half of this year, maintaining low inflation, keeping the foreign exchange reserves at the level of 4-month import, dynamic even spending of budget funds to the end of avoiding the negative effect on the interest rates, as well as good coordination of both the monetary and the fiscal policy. Regarding foreign trade and balance of payments, the need was pointed out to diversify the export, as well as to attract new greenfield investments in the export-oriented activities. It will boost the economic growth, and, at the same time, will contribute to improvement of the position of the BOP current account.

In addition, it was pointed out that in order to realize more dynamic and long-term economic growth, it is necessary to continue with aggressive implementation of the reform activities. Thereby, of special importance are the judiciary reforms, reforms in the public sector, the health, corporate governance, anti-corruption activities and business climate improvement. The Board has expressed its readiness to support these activities, most probably by concluding medium-term arrangement with the Republic of Macedonia, having strong reform orientation.

As a result of the successful implementation of the Arrangement, the IMF has approved the disbursement of the funds from the last two tranches of the Stand-By Arrangement in the amount of SDR 8 million, which is US\$ 11.7 million, soon expected to be recorded in the foreign exchange reserves of the NBRM.



Factoring – new financial instrument in Macedonia

The objective of the project to be implemented next year by the organization for development of enterprises in Southeast Europe - SEED is to introduce the factoring as new financial instrument on the Macedonia market and the potential business possibility for the banks and the enterprises. As financial instrument, the factoring is still not present in Macedonia, but the experts expect for it to start to be applied by September this year. "This financial service is most requested by the exporters who are over indebted by providing funds. Factoring will enable increase of the export and of the activities out of the countries", - said representative by the Macedonian Bank for Development Promotion.

NBRM increases interest on Central Bank bills

National Bank of the Republic of Macedonia decided to increase interest rate on Central Bank bills by 0.5%. By adopting this decision, as the NBRM said, it is expected for Denar activities in the country to further increase, as well as the policy of stable exchange rate and low inflation to continue, as set in the planned macroeconomic policy.



"Ruen" from Kocani sold

Patric Rosa, owner of Diemo Holding SA Luxembourgian company, became owner of the largest Macedonian producer of mechanical couplings, Ruen, Kocani. By paying EUR 220,000 and announcing the payment of the reminder of EUR 2.2 million by 13th September, Ruen buyer formally marked the entrance in the factory. New owner announced that in the next three year it will invest additional four million Euros, as well as that 750 workers, out of the former 1,050, will be returned to work.

Diemo Holding is a company the owners of which are French businessmen who reactivated Fenimak and Jugohrom. Last several years intensive preparations have been on-going to the end of installing new, modern technology in Ruen to follow the development of the world automobile industry.

Anti-Money Laundering Law adopted

In future, when there is transaction up to EUR 15,000 and more. The identity of the client will have to be determined, while the exchange offices will have to determine the identity of the persons every time it is a matter of an amount exceeding EUR 2,500. This is the basis of the Law on Anti-Money Laundering, the MPs adopted in the Parliament in summary procedure. Minister of Finance, Nikola Popovski, during the amendment-related debate, pointed out that one of the objectives of this Law is to reduce cash payment for larger amounts of money. This Law, as stated in the text, would provide system of preventive measures and activities against

money laundering and financing terrorism, which is in compliance with the provisions in the international documents. At the same session, Law on Customs Administration was also adopted, which regulates the organizational structure, scope of operations and competencies of the custom officers.

Republic of Macedonia received credit rating

At the end of July 2004, Standard and Poor's international rating agency, gave the Republic of Macedonia the first sovereign long-term credit rating



BB with positive prospects in the coming period. These positive prospects indicate that the rating agency expects for the credit rating of the Republic of Macedonia to increase in the coming period.

Key factors for the positive estimate are the rapid progress in terms of the political stability, led by the Framework Agreement and the perspectives for EU membership, macroeconomic stability, moderate levels of foreign borrowing of the country and moderate to low budget deficit.

On its way to membership in EU, the Republic of Macedonia will have to overcome certain weaknesses, such as improvement of the sustainable political stability, resolving the structural imbalances in the economy and the unemployment issue. Improve-

ment of the rating of the Republic of Macedonia will depend on the progress in these areas. Having this explanation in mind, the Republic of Macedonia received the first official sovereign credit rating by an independent rating agency, being also the basis for development of positive credit history. It means that the Republic of Macedonia does not belong any more among the rare countries in the region and in Europe that do not have a credit rating.

Rating estimate of a country determines both the present and the future creditworthiness - i.e. the total financial capacity and the readiness to pay its own financial liabilities. By acquiring credit rating, the Republic of Macedonia has an open approach to the international capital markets and a possibility for alternative sources of financing the balance of payments and the external account, instead of the so-far borrowing through credits at the international financial institutions. The received sovereign credit rating is a precondition for estimate of the rating of the private sector as well. The rating is estimated with the letters A to D, whereby triple A is the highest rating a country can obtain. Rating with triple B upwards is interpreted as investment rating and the countries having obtained such rating are considered as quite secure to invest in.

Just as a comparison, Standard and Poor's international rating agency has given Romania an estimate of BB, and has given Bulgaria, one month ago, an investment rating BBB - the same as to Croatia. At the end of March this year, Bosnia and Herzegovina also received its first sovereign credit rating B3 by Moody's rating agency.

"Porcelanka" porcelain factory facing re-starting

Following the re-sale of "Porcelanka" porcelain factory from Veles to a Swiss company for EUR 800,000 after two-year stoppage, this significant capacity is preparing to start operations.

At the moment, 25 expert workers from several enterprises in the city have been called, and they are responsible for the preparation of the production plan for normal operations. In the following days, they will work in the production plant for ceramics plates, and then they will continue in the other plants where they will reconstruct the machines. In order to start the production, part of the former workers in "Porcelanka" will be called, who after several decades of engagement in the factory remained without job and now are registered in the Employment Bureau as unemployed persons.

According to the determined program, production in "Porcelanka" will be run gradually. Thus, after activating the production plants for porcelain and ceramics plates, and production of construction elements is planned for those not available in Macedonia, but demanded on the external markets. In addition, the owners plan to open the doors of "Porcelanka" to foreign investors, thus creating a possibility to employ larger number of skilled workers.

Lease Agreement for "Bunargik" signed

Minister of Transport and Communications, Mr. Agron Buxhaku, and the Director of "Glendor Estate Limited", a company from Wales, Ovein Livelin, signed Agreement for Long-Term

Lease of urban land and facilities in the free economic zone "Bunargik", located near Skopje. By signing the Agreement, the Welsh company officially will manage this free economic zone in the next 50 years, with a possibility to extend the deadline for another 25 years.



Concrete realization of the Bunargik Agreement will contribute to the development of the Macedonian economy, as well as attracting foreign investments, as one of the priorities of the Government, stated Minister Buxhaku. Director of Glendor Estate Limited, Ovein Livelin, said that the official marketing regarding the operations of the zone will start immediately and that eight companies have shown interest for investments, and they expect for this number to increase.

Buxhaku and Livelin stressed the importance of the zone in terms of job creation, which will depend on the nature and the quality of the investors.

Glendor Estate Limited was selected for founder and manager of the Bunargik zone in February this year on international tender, announced by the Government in December last year. This company committed itself to develop 20% of the zone in the first five years, 50% in 10 years, while it will be fully developed in 15 years.

Silmak works at full steam

The furnaces in Silmak in Jegunovce produce 150 tons of ferro alloys. Due to the specificity of the technological process, the production is performed continuously during the weekends and the holidays as well. Silmak management said that the production of ferro alloys in the plant "Electro metallurgy" is above the planned. It is one of the primary tasks the management of Silmak has set in the last plan, which is in the stage of implementation. The whole production in this largest producer of ferro alloys in Macedonia is export oriented. According to the data, in the first seven months of the current year, over EUR 20 million has been realized from export. The last contingent of ferro alloys was delivered for Turkey, but there is also export to the former Yugoslav republics - Bosnia and Herzegovina, Serbia and Montenegro, as well as Germany, Italy, Greece and in other European countries.

As a result of the conquered markets, continuity in the production and empty storehouses, improved economic and financial situation, it is soon expected for one more group of laid-off workers to be employed, as completing the undertaken obligation under the sale and purchase agreement for the former loss-making enterprise Jugohrom.

First tranche under the loan from the World Bank disbursed

At the end of August, funds from the first tranche under the loan from the World Bank in the amount of US\$ 10 million were deposited on the account of the Ministry of Finance, intended for the Public Sector Management Adjust-

ment Loan 2, being part of the 2004 - 2006 Country Assistance Strategy of the World Bank, for budget and ba-



lance of payments support during 2004. Receiving the funds was a result of the successful performance of the Second Review of the Stand-By Arrangement and the ex-post analysis of the experience from the so-far arrangements between the IMF and Macedonia, as well as the successful realization of the activities to fulfill the conditionality from the first tranche envisaged in the PSMAL Arrangement matrix.

Fulfilling the conditionalities for disbursement of the first tranche means successful completion of part of the reform activities envisaged under the PSMAL 2 Arrangement, enabling creation of efficient public administration, sustainable budget system and increased control over the operations in all segments of the public sector. The second tranche in the amount of US\$ 20 million is expected to be approved by the World Bank by the end of 2004, following the fulfillment of all other conditionalities. By receiving the first tranche under the Public Sector Management Adjustment Loan 2, the Government of the Republic of Macedonia has committed to continue the structural reforms in all sectors, thereby putting special emphasis on the structural reforms in the public sector, which will contribute to the creation of efficient public administration aimed towards sustainable economic development.

Macedonian - Israeli company for agricultural production to be registered

The initiative to introduce cooperation with the Israel company Unifood, introduced by the Association of Farmers of Macedonia, will be registered as mixed Macedonia - Israeli company. As the Association stated, the company will work within the Institute of Agriculture in Skopje. The management team of the Israeli corporation has planned to establish cooperation regarding 10,000 hectare arable land, on which toma-



toes, peppers, cucumber and carrots will be grown. According to the so-far negotiations, Unifood will supply the farmers with propagating material, mineral fertilizers and pesticides, and will also build irrigation system "drop-by-drop", which will cost around EUR 100,000 per hectare. The Israeli will also offer expert assistance for realizing high yields.

Delegation from Johnson Control American company in Macedonia

Johnson Control American company explores the possibilities to invest in the business in the country, although according to the announcements of their top management, the concrete

deal cannot be expected immediately. Delegation from this corporation arrived in Macedonia, in order to explore the possibilities for cooperation together with our top government officials. Following the meeting, it was agreed for Johnson Control to send its expert team in the country in order to observe the investment possibilities and the strategic areas of interest, with prior prepared questionnaire and investment scenarios. According to official government statement "The company intends to establish permanent relations and partnership for a longer period". Unofficially, the company has a plan with different alternatives to expand its business in the country, starting from opening its own production, i.e. Greenfield investments, to business cooperation with certain Macedonian enterprises. In fact, Johnson Control could open its own company in our country, which would deal with preparation of software solutions for the needs of its firms throughout the world, or would establish business cooperation with certain Macedonian companies, among which are "Amak SP" from Ohrid, "Ruen"-Kocani, plant of "Sileks" from Kratovo producing seats, "Viza bus", "11 Oktomvri" bus factory.

Prime Minister Kostov presented the current security and political situation in the country to the delegation, as well as the activities of the Government to prevent corruption, the priorities for economic development and membership in EU, and the strategy for promotion of the small enterprises. "Companies and institutions in the Republic of Macedonia are quite aware that the interested investors to enter Macedonia are led by the idea of profit, not by altruism. That is why we are ready to work to develop the awareness towards market economy", the Prime Minister pointed out.



Block transactions would be used only for amounts above Denar 5 million

Following the recommendations by the Security and Exchange Commission, Macedonian Stock Exchange harmonized the procedure for conclusion and reporting the block transactions. The amendments envisage sale of block transactions of above EUR 5 million.

Maximum number of participants in the sale through block transactions is increased to 30. Initial version of the changes proposed by the Stock Exchange envisages participation of only 10 buyer and sellers in one block transaction, and the brokerage houses reacted the most to it.

Changes in the procedure followed after the Commission, in June, anno-

unced moratorium for the block transactions. After the recent amendments, block transactions can be applied only if their value is up to Denar 5 million at the most, whereby the same person is not allowed to appear as both the buyer and the seller. In addition, one broker cannot represent the buyer and the seller of shares at the same time. Offered price at block transaction at all stock exchange markets must not deviate more than 20% from the average one in the last 30 days, or in relation to the nominal value of the shares.

Interest on collateral loans reduced from 14% to 11%

Interest on collateral loans is reduced from 14% to 11%, decided National Bank Council. Collateral loans are used by the banks as last resort, after having exhausted all other possibilities to provide the necessary liquid assets. NBRM said that this measure was adopted due to the fact that the banks have used collateral loans rarely, because they were expensive. By becoming cheaper, the banks can use them often, instead of keeping unused reserves from liquidity.

NBRM Council adopted a decision to increase the percentage of the allowed daily use of reserve requirement from the present 60% to 80% by the banks. "This means that the banks can use up to 80% of the assets, on daily basis, which they keep as reserve requirement at the NBRM, but at the end of the month they will again have to meet the whole amount of the reserve requirement", explained the NBRM. This measure is also aimed at improving the liquidity management of the banking institutions. NBRM said that these measures could indirectly influence the rational-

ization of the banking operations and the reduction of their costs. Yesterday the Governor of the NBRM informed the Council members that within the package of measures undertaken for better liquidity management at the banks, in addition to the decisions by the Council, there will be changes in the operational work of the NBRM, being under direct responsibility of the Governor.

In addition, the amount with which the NBRM appears on the foreign exchange market is now increased from EUR 15,000 to EUR 100,000. "So far when the banks asked to buy foreign exchange from the NBRM, they had to buy at least EUR 15,000, while now the lowest amount is EUR 100,000. Our objective is to direct the banks to trade more among themselves, rather than to call in the NBRM for small amounts of foreign exchange", explained the National Bank.

Goteks textile factory from Gostivar re-started

Weaving plant in the former textile giant Goteks from Gostivar is again put into operation. Seven months following the buying of this loss-making enterprise by Eksim Komerc, 56 looms were re-activated, as well as the accessory machines which are operated by forty or so workers now.

It is planned at the beginning of September to re-start another sixty or so looms, as well as other plants in the factory for finalizing the textile, allowing for over 100 textile workers to be engaged. The start of the production in the new company was opened by the Minister of Economy, Stevco Jakimovski, pointing out that the Ministry

of Economy and the banks will engage in improvement of the working conditions in the area of textile. This capacity used to employ more than 600 workers, but due to huge losses, it was liquidated.

Export from the Strumica region increased by 3% in the first half this year

Economy in Strumica in the first six months this year realized US\$ 20 million, which is by 3% more compared to the same period last year. Many different goods were exported such as tobacco, wine, lamb, vegetables, ready-made clothing, foot wear, sanitary products, etc. According to the data by the local analysts, most of the goods and services were exported in Serbia and Montenegro, Germany, Italy, Greece and USA, but the export is also constantly rising in Bulgaria, Bosnia and Herzegovina, Slovenia, Austria, Romania, Russia and Ukraine.

Largest exporters in the Strumica region, according to the amount of the realized foreign exchange inflow, are Strumica Tabak tobacco company, the factory for sanitary ceramics Macedonia, Geras Cunev and Edinstvo fashion ready-made clothing, Ograzden nonmetal mine, wine cellar and agro-industrial complex as a whole.

It is expected this year for the export of goods and services from the Strumica region to reach over US\$ 40 million, and the import around US\$ 45 million.

BEYOND INTEGRATION

The core economic concern is the weak growth performance of Europe relative to the rest of the world and especially the United States. Underlying this concern are the problems of sagging long-term trends in the growth of productivity, the use of labor resources, and looking forward-the dwindling size of the workforce because of population aging

Ten new members joined the European Union (EU) on May 1 in the biggest enlargement of the community since its inception. Just 15 years after the fall of the Berlin Wall, eight Central and Eastern European countries joined, along with Cyprus and Malta, expanding the EU's membership by two-thirds, its land area by a fourth, and its population by a fifth (to over 450 million). This latest step in European integration is expected to further help cement peace and promote prosperity throughout the continent. But the occasion is clouded by the considerable misgivings in Europe and elsewhere about the EU's ability to adjust to changing economic circumstances.

The core economic concern is the weak growth performance of Europe and particularly of the 12 countries at the epicenter of European integration that use the euro as their common currency relative to the rest of the world and especially the United States. Underlying this concern are the problems of sagging long-term trends in the growth of productivity, the use of labor resources, and looking forward the dwindling size of the workforce because of population aging.

But these structural worries gain immediacy from fears about the short term as well. With the euro area still just emerging from a prolonged slowdown and seemingly **dependent on exports for growth**, the euro having appreciated steeply against the U.S.

dollar, and the U.S. current account deficit at 5 percent of GDP, prospects for the global as well as the European economy rest to a large extent on whether Europe can improve its domestically generated growth performance. Adding weight to these concerns are the perceptions that the euro area's fiscal and monetary policies are excessively oriented toward preserving medium-term stability and insufficiently focused on sustaining demand in the short term. In tandem with continuing concerns about the implication of aging populations for long-term growth and fiscal sustainability, tensions stemming from immigration, and international criticism of the high levels of protection afforded to agriculture, it is clear that enlargement has occurred at a time of considerable doubt and misgiving about the integration enterprise.

To gain some perspective on these issues, it is useful to step back and look at the broad sweep of Europe's postwar economic history. This article seeks to provide a framework for understanding the main issue - whether and how the core EU social and economic model can deliver robust growth, or whether attaining robust growth requires adaptation of the European model. Looking forward, such a perspective suggests that prospects are neither as bleak as observers sometimes think nor as rosy as European policy choices might suggest.

* Opinions in this text are author's and they should not totally represent the attitude of Ministry of Finance

Europe's twin impulses

Although many factors played a role, postwar developments can be viewed as reflecting two broad-based, ebbing and flowing, and sometimes contrary impulses: toward social solidarity and equity, on the one hand, and financial discipline and economic efficiency, on the other. The historical roots of these preferences run deep. The solidarity dimension stems from a widely shared desire for social peace and cohesion, with roots in the welfare policies inherited from the late 19th century, the political and social upheavals of the first half of the 20th century that culminated in World War II, and the relative homogeneity of Europe's populations. The discipline dimension, perhaps surprisingly, seems to have similar roots. Most cited is the case of Germany, where the deep desire for economic stability can be traced back to the devastating hyperinflation of the early 1920s. These twin impulses led many countries to develop increasingly generous pay-as-you go social insurance systems—systems that took care of social spending within a disciplined, self-financing framework. Along the way, continental Europe's corporatist traditions, topped by various forms of "social partnership," cemented the structure, for good or ill, through all echelons of society.

Although many factors played a role, postwar developments can be viewed as reflecting two broad-based, ebbing and flowing, and sometimes contrary impulses: toward social solidarity and equity, on the one hand, and financial discipline and economic efficiency, on the other

These preferences still obtain today. Fundamentally, continental Europe is

committed to a financially disciplined welfare state. Robust growth is on everyone's agenda, as exemplified by the call at the EU summit in Lisbon in March 2000 to turn Europe into "the world's most dynamic and competitive economy." But the quest for growth is also where the differences emerge. To put it simply: can growth best be achieved through discipline (and more supply-oriented approaches that would require adapting the social model) or through solidarity (and approaches that might require, if not a loosening of financial discipline, more spending)? While the differences are fundamental, the two sides are careful not to question, at least loudly, the core value of the other: the welfare state and financial discipline. The reason is simple: a combination of the two has been the revealed preference of the electorate for decades and remains so today. Hence, the general tenor of economic policies has been to call for both, as the Lisbon Declaration does.

Momentum toward integration

Solidarity and discipline have propelled European integration throughout the postwar period, with solidarity as the stepping-stone. On the heels of two disastrous world wars, it provided the momentum for removing barriers and raising living standards through convergence in per capita incomes a process known as real convergence. In this respect, the EU's beginnings are traceable to the European Coal and Steel Community, set up in 1952. This led to two further milestones of real convergence: the Treaty of Rome (1957), which established the European Economic Community (a customs union with common external tariffs and a common agricultural policy); and the Single

European Act (1986), which committed all members to creating a single EU market for goods, services, capital, and labor.

In time, this impulse toward European integration was balanced by more discipline, perhaps most evident in the institutional developments designed to ensure price and financial stability throughout the union so-called nominal convergence. Initially, discipline was provided by the Bretton Woods exchange rate system. But its breakdown in the early 1970s set off a scramble for a new nominal anchor, which culminated, in the late 1970s, in the European Monetary System. The exchange rate mechanism (ERM) of this system constrained exchange rate fluctuations among the participating countries, with Germany emerging as the undisputed nominal anchor country. However, continued nominal divergences and the associated pressures on exchange rates within the ERM highlighted the need for more convergence of macroeconomic policies. Matters were brought to a head in the early 1990s when the liberalization of capital movements and German unification prompted the 1992 crisis in the ERM, hastening the ratification of the Maastricht Treaty and the road map for Economic and Monetary Union (EMU). Besides exchange rate criteria, potential member countries were now obliged to meet other nominal convergence criteria as well, particularly for inflation, fiscal deficits, and government debt. The treaty's fiscal provisions were later fleshed out in regulations known as the Stability and Growth Pact (SGP). At the beginning of 1999, 11 EMU members irrevocably fixed their exchange rates and adopted the euro as their single currency, and the newly constituted European Central Bank (ECB) took

on the task of conducting a single monetary policy for the euro area.

Fundamentally, continental Europe is committed to a financially disciplined welfare state. Robust growth is on everyone's agenda, as exemplified by the call at the EU summit in Lisbon in March 2000 to turn Europe into "the world's most dynamic and competitive economy."

The impulse to deeper economic integration was accompanied by a like-spirited widening of its reach as the EU expanded by leaps and bounds a process set to continue even after the latest enlargement round (see map, page 8). The European Coal and Steel Community comprised six countries in the heart of Europe (Belgium, France, Germany, Italy, Luxembourg, and Netherlands). Successive waves of enlargements in 1973 (Ireland, Denmark, and United Kingdom), 1981 (Greece), 1986 (Portugal and Spain), and 1995 (Austria, Finland, and Sweden) boosted EU membership to 15 countries by the time plans for EMU had gelled into an operational blueprint. With the latest expansion on May 1 of this year, the EU family has grown to 25 countries with considerable economic and cultural diversity a diversity that will only increase. Bulgaria and Romania are well advanced in their negotiations and are set to join in the next few years. Decisions on the timing of Turkey's negotiations are also pending. The states of the Western Balkans are next in line, with Croatia's application already given the green light by the EU Commission. In a step that reaches beyond integration, the EU's "Wider Europe Neighborhood" initiative encompasses 14 countries to its east and south and aims to develop a "ring of friends" with which the EU desires to have peaceful and coopera-

tive relations on the basis of shared values. Iceland, Norway, and Switzerland remain outside the EU.

Integration has been a major source of European growth. It was part and parcel of Europe's rapid real convergence with the United States during much of the postwar period, with the creation of the common market being widely credited as having significantly boosted intra-area trade and regional growth. Indeed, the evidence points to further positive trade effects in the euro area following the establishment of EMU. Moreover, despite earlier fears to the contrary, trade with non-EU countries has, over time, also increased.

Besides exchange rate criteria, potential member countries were now obliged to meet other nominal convergence criteria as well, particularly for inflation, fiscal deficits, and government debt. The treaty's fiscal provisions were later fleshed out in regulations known as the Stability and Growth Pact (SGP)

In the same vein, promotion of nominal convergence particularly through the Maastricht criteria and the establishment of EMU **engendered** a disciplining of fiscal and monetary policies, a convergence of inflation back to low single digits throughout Europe, and, for a while at least, a spurt of reforms among most future members. Indeed, by the 1990s, the EU had deservedly become a beacon throughout Eastern Europe for sound macroeconomic policies and aspirations for higher levels of real income, as well as democracy, solidarity, and human rights: becoming a member of the club became the priority of governments and one that enabled them to muster the popular support needed to overcome the challenges of transition.

Waning growth

While integration spurred higher growth, in good part by inducing change at the national level, its positive effects were gradually supplanted by the less benign effects of domestic rigidities.

It did not start out that way. During the early years, Europe's model effectively delivered on all counts: social cohesion, financial discipline, and rapid growth. Real convergence toward U.S. levels was seemingly effortless in the first three decades of the postwar period, as incomes, employment, investment, consumption, and wealth spiraled upward in a virtuous circle. Convergence was fostered, in part, by the externally imposed discipline of the Bretton Woods system and the relatively good inflation and financial performances associated with it.

The next three decades proved difficult, however. The combination of two large oil shocks, an increasingly generous welfare system, and unrealistic income expectations built up during the period of rapid catch-up growth together with the financial indiscipline associated with the breakdown of the Bretton Woods framework resulted in marked macroeconomic instability and imbalances. Indeed, experiments with activist Keynesian stabilization policies during the 1970s were unsuccessful, and such policies became discredited, particularly in Germany. In the end, the system reverted to the paradigm. It protected the jobs and real incomes of those already employed, but it also **reasserted financial discipline by increasingly accepting the German mark as its anchor**. The outcome was large increases in labor taxation that ultimately undermined employment but stimulated investment. This strength-

ened labor productivity and preserved the competitiveness of those with jobs.

With unemployment trending upward, the system adjusted further. Wage moderation together with measures to lower the cost of labor and relax labor market restrictions, particularly for new entrants to the job market, yielded hefty increases in employment from the mid-1990s.

Overall, however, Europe's performance remained unenviable. Per capita incomes remained stuck at about 75 percent of U.S. levels up to the mid-1990s, with rapid increases in labor productivity being offset by weakness in employment. Per capita incomes later slipped to close to two-thirds of U.S. levels as productivity growth sagged in Europe and accelerated in the United States in the second half of the 1990s. Negative perceptions of this lackluster performance of the euro area were compounded by even larger, and better-known, differences in GDP growth stemming from transatlantic differences in population growth.

Too much stability and discipline?

The slowing of growth is often ascribed in good part to the EU's (or the euro area's) "stability bias," that is, its unwillingness to engage in countercyclical demand management policies, which would involve boosting demand (through lower interest rates and larger fiscal deficits) when growth is weak and dampening demand (through higher interest rates and smaller fiscal deficits or surpluses) when it is strong. As suggested earlier, Europe's macroeconomic policy



frameworks do indeed spring in considerable measure from the impulse toward discipline, that is to say, from a will to contain what is viewed as the cumulation of monetary and fiscal risks—ultimately pernicious to growth—associated with unrestrained political and social processes. Since the 1970s, in particular, the emphasis has been on establishing and preserving medium-term stability and not on managing aggregate demand in the short run through countercyclical policies. This bent is clear from the ECB's Maastricht Treaty mandate: "the primary objective . . . shall be to maintain price stability." It is also clear from the treaty's provisions on ensuring sound government finances: "Member states shall avoid excessive government deficits," where compliance with this commandment is assessed relative to reference values of 3 percent of GDP for the fiscal deficit and 60 percent for the debt-to-GDP ratio.

This manifest emphasis on stability tends to prompt misunderstandings about macroeconomic policies. Criticism that European institutions are

insufficiently mindful of cyclical considerations falls on deaf ears. This leads observers to think that the criticisms are even more justified than initially thought. And the fact that policies have, in practice, been fairly sensitive to the economic cycle gets lost amid the din. This gap between rhetoric and reality has beset both the ECB and the SGP.

In this vein, the ECB is criticized for taking insufficient account of cyclical conditions in setting interest rates, to which it responds that this is to misunderstand its mission. Its mantra has consistently been price stability now and forever. In fact, however, it has largely behaved like an inflation targeter, mindful of the implications of growth for inflation.

Nevertheless, differences in per capita incomes exist between the United States and virtually every EU country, and the larger issue is whether they reflect excessive solidarity or a “social choice”- that is, a willingness to forgo higher per capita incomes for certain social goals, such as increased leisure

The situation is further complicated by the de facto evolution of Europe’s policy frameworks over the past few years toward more cyclically attuned approaches. One example is the gradual narrowing of the ECB’s definition of price stability from 0–2 percent to, in effect, 1–2 percent and, most recently, to “close to but below 2 percent” inflation. Another is the gradual acceptance of the role of the automatic fiscal stabilizers, of estimates of cyclically adjusted balances to measure the underlying fiscal position, and of the objective of achieving underlying balance in the medium term in SGP-linked assessments of

fiscal policies. The system is seeking solutions that twin discipline with good demand management policies.

That said, the contrast between European and U.S. approaches to macroeconomic policies remains: the Europeans take a more medium-term view, in good part because the welfare system (solidarity) protects those adversely affected by the vicissitudes of the cycle; the United States is more proactive in securing short-run growth and employment, in good part because there is less such protection. Given these differences in structure, comparative assessments of macroeconomic policies need to focus more on growth and inflation outcomes than on the cyclical shifts in policy stance. In that regard, it may be noted that, measured in terms of the cyclical volatility of output or employment, Europe’s performance is comparable to, if not better than, that of the United States. Perceptions to the contrary mainly reflect something more enduring: the longer-term weakening of growth in Europe.

Unaffordable solidarity?

Many view Europe’s weakening growth as a reflection of its overly generous welfare arrangements, which, by muffling incentives to work and protecting businesses and workers from the disciplines of competition, have exacted an inordinate cost in terms of per capita incomes. In this view, this has led to large-scale underutilization of labor resources and slowed incorporation of new technologies and adjustment to shifting sources of comparative advantage.

The reality is more mixed. Europe has undertaken many reforms over the years, some of which have begun

to pay off. Many have been designed to strengthen the demand side of the labor market, in the form of either wage moderation and other measures to lower the cost of labor or measures that make labor markets more flexible and encourage new entrants. In the same vein, the single market initiative sought to combat “eurosclerosis” by setting in motion deep and wide-ranging reforms in product and financial markets. These reforms continue to run their course. The resulting increase in competition is boosting efficiency, including in the use of labor in those markets.

These policies have achieved more than is often recognized. The euro area generated almost 10 million jobs between 1997 and 2003, 2 million more than the United States. Although the surge in employment has slowed productivity growth, this could reflect transitional adjustment problems. The payoff to reforms often takes decades, not years, to accrue, and Europe’s employment performance should continue to improve. The uneven distribution of growth across Europe is also noteworthy. It has been especially weak in Germany, the country where labor market reforms have been most delayed. Elsewhere, growth and employment have tended to be more robust. Indeed, they have been strongest in the smaller, more open economies, partly because the interaction of solidarity and discipline has led to more encompassing and proactive policies in these countries. This is also true of the Scandinavian countries, which have the strongest welfare systems.

Nevertheless, differences in per capita incomes exist between the United States and virtually every EU country, and the larger issue is whether they reflect excessive solidarity or a

“social choice”—that is, a willingness to forgo higher per capita incomes for certain social goals, such as increased leisure. About half of the difference between U.S. and European per capita incomes is tied to the fact that Europeans work fewer hours per person: about 1,500 hours a year versus 1,800 in the United States (see Chart 2). Many observers in Europe view this as a preference for leisure over work at the going wage. A contrary view, which starts from the observation that annual working hours in the United States and Europe were the same 30 years ago, is that the current gap reflects the large disincentives to work imposed over the past 30 years, implicitly in an attempt to “share” employment. With Europe about to shift from an era of a plentiful supply of workers to one of a dwindling labor supply because of aging, growth prospects hinge in part on who is right and whether incentives, if they are important, will be changed.

While past reforms may ultimately improve performance in the years ahead, growth is still likely to disappoint, and discipline and bad times are still likely to remain an essential spur to reform. But discipline-induced structural adjustment is not the best option

Be this as it may, change is in the offing, partly because there is a will to be better prepared for the effects of globalization and new technologies. Change will also be necessitated by the economics of aging populations and discipline. Without change, fiscal policies in many countries are on an unsustainable course, with public debt ratios rising steeply. If nothing else, therefore, the desire for financial discipline should again force

adjustment. What remains open, however, is whether the adjustment will enhance growth. Many governments have chosen to deal with aging not by streamlining the welfare system but by shifting budgets into surplus. This reduces the interest payable on the public debt, making governments better able to afford the coming increases in public spending on pensions and health without undermining the fiscal position. This approach, very much in the tradition of the financially disciplined welfare state, leaves incentive systems unchanged, however, and does little to improve future growth prospects.

Looking ahead

With solidarity and discipline seen as the keystones of Europe's postwar economic history, the continent may be viewed as still seeking to bring them into greater harmony.

The implications for the long term are more significant: here, the unresolved tensions between solidarity and discipline remain deeply problematic, particularly at the national level. Because of solidarity-based tendencies to preserve the status quo, electorates resist forward-looking reforms and insist on tangible, direct, and immediate evidence of a problem before accepting that it should be address-

ed. Hence, the approach to reforms tends to be partial and episodic even though deep, forward-looking, and increasingly politically difficult reforms are widely seen to be necessary if growth is to be robust.

Thus, while past reforms may ultimately improve performance in the years ahead, growth is still likely to disappoint, and discipline and bad times are still likely to remain an essential spur to reform. Indeed, if the foregoing analysis is anywhere near the mark, obituaries for the SGP are missing the point. But discipline-induced structural adjustment is not the best option. Instead, what is needed is a more forward-looking and thoroughgoing approach to reform whereby solidarity and discipline are reconciled through policies that generate higher long-term growth. This is not impossible. Some of the smaller countries have achieved a measure of success this way. However, achieving thoroughgoing reform at the national level particularly in the larger economies will require skill (and perhaps some luck). But most of all, it will require a willingness by policymakers and the electorates to look beyond the current election cycle.

Taken from:
"Finance and development", June, 2004

MONETARY POLICY IN FUNCTION OF DEVELOPMENT AND STABILITY OF THE NATIONAL ECONOMY

The stability and the reputation of the monetary institutions are the most important instrument for the realization of optimal monetary policy directed towards stabilizing the inflationary expectations and maintaining the economic growth on the level of the potential

Achieving and maintaining price stability is a cornerstone of sound monetary policy. Price stability promotes economic growth and welfare via enhancing the efficiency of market mechanism, alleviating long-term planning, minimizing distortions occurring via interaction of inflation and tax legislation, accounting rules, financial agreements etc. Price stability also enhances economic welfare via promoting the stability of production and employment. Policies of maintaining low and stable inflation contribute in anchoring the inflationary expectations by economic entities on a low level, thus promoting long run decisions (B. S. Bernanke, 2003, p.1).



In present-day conditions, this view is accepted by all central banks in the world. There is a broad-based consensus that, when conducting monetary policy, the central bank should rely on the following six principles¹:

1. On the long run, there is "no trade-off" between inflation and unemployment, so one can choose a combination between inflation rate and employment. On the long run, inflation inevitably leads to rise in unemployment. Increase of the money supply is neutral on medium and long run, i.e. monetary expansion has lasting effects only on the price level, however, not on the output and unemployment.
2. Depreciation of the foreign exchange rate improves competitiveness towards abroad only temporarily.
3. The business community invests only if it expects permanent economic growth and stable economic environment. Inflation is a cost, regardless whether from the aspect of allocation of resources (costs for efficient allocation) or from the aspect of long-term economic growth.
4. Monetary policy affects the inflation rate with certain time lag, the duration of which is uncertain and its intensity variable, thus disabling the central bank to control inflation periodically (from one to another period). Interest rates are primary instrument in the combat against inflation and they can be reduced after the decline of inflationary pressures. Low interest rates lead to higher inflation, and

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¹ Mr. Leigh-Pemberton, BIS Review, No. 185/1991, p. 5, Paul R. Masson, Miguel A. Savastano, and Sunil Sharma, The Scope for Inflation Targeting in Developing Countries, IMF Working Paper, WP/97/130, October 1997, pp. 5-6.

* Opinions in this text are author's and they should not totally represent the attitude of Ministry of Finance

positive interest rates indicate sound growing economy.

5. There is no acceptable level of inflation. As soon as the monetary policy is loosened or the price stability discredited, the inflation accelerates.

Money is not neutral on the short run, i.e. monetary policy has significant transitory effect on large number of real variables, such as output and employment. Still, there is imperfect understanding of the nature and/or size of these effects, of the period in which they manifest and the mechanism via which monetary impulses transfer on the other parts of the economy

These principles of conducting monetary policy are based on the Friedman (1968) – Phelps (1967) model of existence of natural unemployment rate. The natural unemployment rate, i.e. the potential rate of economic growth is determined by supply factors and it can be modified on the long run only by implementing structural reforms. On the short run, it is fixed in size. Accordingly, on the long run, the economy may face potential rate of economic growth which cannot be accelerated by the rise of inflation. Therefore, long-term structural reforms are key for increasing the long-term economic growth. Therefore, when the economy moves along the path of potential economic growth, the inflation level stabilizes with no permanent tendencies to accelerate or decelerate the inflation rate.

However, the level on which the inflation rate should be stabilized in order to achieve long-term economic growth determined by supply factors, i.e. the level of price stability, should be a long-term objective of the monetary policy. Thereby, stability of prices

does not mean long-term fixation of the inflation rate on a certain digit. Targeting certain digit of inflation is unreasoned (A. Greenspan in B. Woodward, 2000, p. 170). "Price stability is achieved when the inflationary expectations become favourable, thus the consumers and the business circles do not take into account the inflation as a factor when making decisions on purchasing or investment" (A. Greenspan in B. Woodward, 2000, p. 170). From this aspect, the realized inflation rates in the past are relevant for the purpose of maintaining the economic growth on the level of the potential only if they have a key influence on the emergence of inflationary expectations.

Very low inflation, i.e. deflation is also a major problem for the economy. In such case, the aggregate demand is insufficient for maintaining long-term economic growth on the level of the potential one. Even more, due to the very low inflation, or deflation, the change of the relative prices by separate products cannot be identified. Due to that it is very difficult to distinguish profitable from unprofitable projects since the profitability declines in general. Also, very low inflation and deflation are especially detrimental if the financial system is weak, and the indebtedness of the enterprises and the population high. In such conditions, the debt burden increases and the functioning of financial markets aggravates. The process of "debt deflation" (term promoted at the beginning of the 20th century by the US economist Irving Fisher) was a significant factor for the deflation and the depression in the United States in the 1930s. The "debt deflation" also played important role in the creation of economic problems in Japan in the period of the 1980s and the 1990s.

The role of the institutions of monetary policy

The stability and the reputation of the monetary institutions are the most important instrument for the realization of optimal monetary policy directed towards stabilizing the inflationary expectations and maintaining the economic growth on the level of the potential (Barro and Gordon 1983). From that point of view, it is especially useful to consider the optimal arrangement of the monetary institutions, using the past experience and the theory of incomplete contracts. According to this theory, frameworks are set on the format of the agreements, if certain aspects of them cannot be verified (applied) via external enforced execution of the agreement. From the aspect of the monetary policy, there are two related different aspects of the commitment problem. Firstly, the inability to realize the commitment by force, since the monetary arrangements can always be changes in conditions of non-existence of external institution for enforced implementation, so the institutional arrangements for conducting optimum monetary policy are not set once and for all (Mervyn King, 2004, p.4).

Differences in propensities can affect the variations of the monetary arrangements designed in different periods. Typical examples are the public opinion in Germany after the hyperinflation before the World War I, the public opinion in the advanced countries after the high inflation in the '70s and '80 and the public opinion at the beginning of the transformation process, when the transition economies faced high inflation. The public position, after these episodes of high inflation was focused on designing

monetary arrangements that would ensure running monetary policy that will preserve the stability of the national currency.

At the same time, since all possible variations in the behavior of the economic entities are unknown and due to the continuous acquiring of new knowledge, optimum monetary arrangement cannot be realized once and for all and no monetary rule can be set that applies forever. Thus, permanent commitments are impossible. Fixing permanent monetary rule means giving up in advance of all knowledge and experience we would acquire in future. Due to that, no monetary rule is rooted deep into the decision-making process of the monetary authorities, such as is its raising on a level of a law. Instead, a monetary arrangement is set, creating and maintaining stable and trustworthy monetary institutions. The status and the objectives of such monetary institutions can be incorporated in the law or the Constitution, but still, the optimum monetary rule should be open to change as a result of the learning process and of the gained experience.

Price stability is key for making investment decisions on the long run, for proper allocation of resources in profitable projects and acceptance of calculated risks

Accordingly, optimum monetary arrangement is the one that implements that monetary rule which at that moment is believed to be optimum monetary strategy and it shall be revoked only if the public opinion changes the collective position on what should the monetary rule be.

Examples for sustainability of monetary rules in certain countries

Sound and stable monetary institutions play important role in the maintenance of stable and low inflation at the level of potential growth of the economy. The importance of the monetary institutions regarding the choice and the promotion of monetary rules will be illustrated with several cases.

Experience with high and variable inflation can be important factor in the creation of the public opinion with respect to designing of monetary institutions and monetary rules for the control of inflation

Argentina is the first case. After the years of hyperinflation in 1991, it was decided to peg the exchange rate of the Argentine peso to the US dollar. After the hyperinflation and the weak monetary institutions, the introduction of currency board was the main element for implementing successful stabilization strategy. However, after a certain period, the fixed peso foreign exchange rate in relation to the US dollar weakened the international competitiveness and required maintenance of high real interest rates, which stopped the growth of the economy since 1997. It would have been much better for the economy if more flexible exchange rate regime was applied in the earlier phases (Jurgen Stark, 2004). The crisis reached its peak in 2001, when GDP dropped by one fifth. It became clear that the fixed exchange rate of the peso against the US dollar is politically and economically unsustainable. In January 2002, the peso devaluated by 40% in relation to the US dollar, and then more flexible foreign exchange rate regime was applied. The costs for the economy were

enormous: collapse of the banking system, collapse of the currency that was pegged to the US dollar for one decade, five-year slump and declaration of external debt default.

Argentina reached 2003 with low inflation and 8% GDP growth. However, the structural reforms and building efficient and stable institutions remain permanent priorities in Argentine agenda.

Brazil is the second case. In 1998, Brazil accepted regime of adjustment of the foreign exchange rate after preannounced crawling peg. However, the degree of adjustment of the exchange rate was not in accordance with the expectations of the financial markets and the fundamental factors determining the foreign exchange rate. In September 1998, the interest rates doubled, from 20% to 40%, in order to defend the foreign exchange rate. That stabilized the foreign exchange rate temporarily, but the high real interest rates stopped the economic growth without reducing the distrust of the financial markets. But the high interest rates of 40% became unsustainable and in January 1999, the foreign exchange regime adjusted after preannounced crawling peg was terminated.

These two examples confirm the fact that the monetary rules are not permanently set. High interest rates can support the foreign exchange rate stability due to the uncovered interest parity. However, that ignores the fact that the high interest rates, used to defend the fixed foreign exchange actually threaten the very sustainability of the fixed regime and increase probability for its termination (Mervyn King, 2004).

The third example is the monetary rules the US Federal Reserve applies since end-2000. Facing the worst

slump since 1930s that hit the US primarily in the unemployment level, monetary authorities focused on accelerated relaxation of the monetary policy and depreciation of the US dollar exchange rate (The Economist March 13th 2004). Money was never cheaper in the United States. Interest rate on the money market reduced from 6.25% at end-2000 to 1% from the mid-2003. Real interest rate on the money market became negative (- 0.9%). At the same time, in two and a half years, the US\$ depreciated by 39% in relation to the euro and 18% in relation to the Japanese yen. According to the model of the Board of Governors of the Federal Reserve, 10% depreciation of the US\$ has the same effect as 0.5% reduction of interest rates. In the case of Europe, the effect is the opposite, 10% appreciation of the euro has the same effect as 1% increase of the interest rates. At the same time, major fiscal expansion occurred, resulting in increase of the budget deficit by 4.9% of GDP at the end of 2003.

The company profitability, the driving force of the economic growth, restored. In 2003 the share yields (Dow Jones Industrial Average) in the US raised by 21%. The US economy in the fourth quarter of 2003 grew by 7.8%. Throughout 2003 GDP grew by 3.8%. The United States moved from the slump and from the zone of very low inflation. Price stability remained at 2.2%.

The fourth example is the suspension of the procedure for excessive budget deficits, a key characteristic of the Stability Pact and the economic growth of the European Monetary System in December 2003.

“The institutional structure of the monetary union creates the condition for public confidence in the euro and

it rests upon two pillars: stability-oriented monetary institutions, ensured with the Maastricht Agreement for their establishment and the pact on stability and economic development. Both pillars are undermined, leaving the European Monetary Union in serious trouble” (Ernst Welteke, 2003).

Besides maintaining the price stability, the optimum monetary rule should disable redistribution of income and welfare to the benefit of certain interest groups at the detriment of others via maintaining interest rates and foreign exchange rate based on the fundamental factors (Stokey, 2002).

The continued weak economic activity (0.5% GDP growth in 2003), could not be stimulated only via cheap money policy. Low interest rates (nominal-2%, real – 0.3%) were insufficient for stimulating domestic consumption. The strong euro in relation to the US dollar disables the export-based rebound. Growth had to come via the stimulation of budget spending, especially in Germany and France, which were most affected by the slump. That resulted in exceeding budget deficits over the set cap of 3% of GDP (France 4% of GDP, Germany 4.1% of GDP). There are requirements to permanently terminate the pact on stability and economic growth. “The pact on stability and economic development is ineffective and bad for our economies. We should seek more flexible and more sophisticated rules” - Loukas Tsoukalis, 2004, p. 15). The inflation remained at 2.2%.

The fifth example are the advanced transition economies, which since May 1, 2004 became members of the European Union. They transformed their monetary rules from ones based on non-flexible foreign exchange rate

regime and endogenous monetary growth to a monetary rule with flexible foreign exchange rate regime and direct inflation targeting: the Czech Republic in 1998, Poland in 1999 and Hungary in 2001. Slovenia continued applying the rule of monetary targeting in conditions of flexible foreign exchange regime, fully following the tradition of the Deutsche Bundesbank prior to the introduction of the euro. The reputation and the stability of the monetary institution enabled them to suppress the inflationary expectations and the business circles and the population to observe the prices as stable even in conditions when the inflation rate ranged between 4%-6%: the Czech Republic 3.2% (average 1998 – 2003 with variations from 6.8% to 0.6%), Hungary 8.2% (average 1998 – 2003 with variations 11.2% to 5.3%), Poland 5.3% (average 1998 – 2003 with variations from 9.8% to 0.9%), and Slovenia 7.3% (average 1998 – 2003 with variations from 8.9% to 6.4%). Thereby in the period of direct inflation targeting and flexible foreign exchange rate regime, in Poland, the Czech Republic and Hungary, higher price stability was achieved (lower inflation) in relation to the prior monetary rule when non-flexible foreign exchange rate regime was applied. Thus it was proved that the foreign exchange rate regime (fixed and flexible) is irrelevant for maintenance of price stability in conditions of existence of stable monetary institutions with high reputation.

The countries with weak monetary institutions are forced to a fixed foreign exchange rate regime as an intermediary objective of the monetary policy, in order to use the currency to which the national currency is pegged (In the case of Macedonia, the euro) to import the reputation and the trust of the respective foreign monetary institution (the European Central Bank)

The monetary rules enabled these countries to maintain real interest rates on the money market between -0.5 and +2.5%, prices on their financial markets to be in accordance with the fundamental factors, high profitability, which drives the business world and inflow of capital, price stability and economic growth at the level of the potential one.

Thus in 2003 the average share yield in the world was 29%. In the United States, the share yield was 21%, in Europe 11% and in the emerging economies 64%. In the advanced transition economies the share yield ranged between 15 and 18% (Financial Times, December 27/28, 2003, p. 1). Accordingly, it is estimated that the fundamentals that move the economy are sound and that the period of low economic growth has past.

Application of the monetary rules in the Republic of Macedonia

Fundamental economic rule used by the monetary authorities in the Republic of Macedonia for maintaining price stability is pegging the denar exchange rate to the euro. This monetary strategy is used since October 1995. Until the end of 2001, the denar exchange rate was pegged to the German mark, and since 2002 it is pegged to the euro. Besides the fact that the rule on pegging the denar exchange rate has actually applied since October 1995, until the end of 1996 the monetary authorities were announcing the money supply as the intermediary objective of the monetary policy. The announcement of the fixed foreign exchange rate as an intermediary objective of the monetary policy started in 1997. However, the announcement of the money supply growth rate continued, although in such

conditions the growth of the monetary aggregates and the interest rates become variables that are subordinated and are to the end of supporting the pegged denar exchange rate to the euro.

eign exchange rate, but maximum variability (instability) is produced in the other prices on the financial markets, especially the interest rates. At the same time, the stability of the economic

Ultimate and intermediary objectives of monetary policy

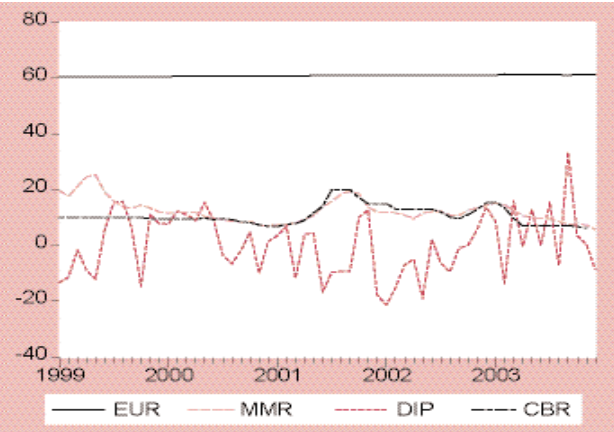
ПРОЕКЦИИ				ИНДИКАТИВЕН ТАРГЕТ		ПОСТИГНУВАЊЕ		
	Цел стапка на инфлација (крај на период)	Таргет	Стапка на раст	Монетарен агрегат	Стапка на раст	Стапка на инфлација* (крај на период)	Курс МКД/ЕУР (крај на период)	Монетарен (крај на период)
1992	2408.4	M1	755.1	-	-	1925.2	14.97	704.5
1993	434.2	M1	268.3	-	-	229.6	50.37	236.6
1994	70.0	M3- денар	81.0	-	-	55.4	51.26	56
1995	17.8	M1	23.0	-	-	9.2	51.81	10.4
1996	6.0	M1	12.5	-	-	0.2	52.08	0.4
1997	2.0	МКД/ДЕН	стабилен	M1	9.1	4.5	60.48	13.4
1998	5.0	МКД/ДЕН	стабилен	M1	11.0	-1	60.59	11.5
1999	3.0	МКД/ДЕН	стабилен	M2-денар	11.4	2.3	60.62	33.5
2000	4.0	МКД/ДЕН	стабилен	M2-денар	13.5	6.1	60.79	17.5
2001	1.2	МКД/ДЕН	стабилен	M2-денар	12.1	3.7	60.96	11.3
2002	2.5**	МКД/ЕУР	стабилен	M2-денар	7.4	1.8**	61.07	7.9
2003	3.0**	МКД/ЕУР	стабилен	M2-денар	9.6	1.2**	61.29	15.4
2004	2.8**	МКД/ЕУР	стабилен	M2-денар	11.7			

* до 1999 инфлација мерена преку цени на мало, а од 2000 инфлација мерена преку трошоци на живот

** просечна инфлација

By accepting the fixed foreign exchange rate as an intermediary objective of monetary policy, the monetary authorities simultaneously accept that they will not conduct monetary policy, which is independent from the country for the currency of which the foreign exchange rate of national currency is pegged. That means that the monetary growth in the national economy becomes endogenous variable determined by the monetary growth in the country to the currency of which the foreign exchange rate is pegged in order to maintain the fixed foreign exchange rate regime (Kool, Tatom, 1994). Thereby the country that chooses the fixed foreign exchange rate regime as its intermediary objective of monetary policy cannot have any other economic variable for its permanent objective. Stability of one price on the financial markets is ensured – the for-

growth is also threatened. Instead of minimizing the variations in inflation and the output, absolute stability of the foreign exchange rate is achieved, at



denar/euro foreign exchange rate, interest rates on the money market, industrial output

the detriment of the high variability in the level of the interest rates and the real sector – output and employment.

Foreign exchange rate is not considered as an important price. It does not affect the balance of payment current account, the external competitiveness, the capital inflow and the outflow, the profits, the economic growth, the share prices, the inflation, the interest rates etc. On the contrary, since the price of the domestic currency is not set on the foreign exchange markets and does not include the information coming on the financial markets, the fixed foreign exchange rate on the long run (as in the case of Argentina) can become counterproductive. The country loses its external competitiveness, the real interest rates are high, the profitability declines, the foreign capital inflow decreases, the economic growth is below the potential one, or, in the extreme cases, the country can face continued stagnation.

The soundness and the confidence in the monetary institutions are fundamental criterion when selecting the foreign

exchange rate regime for the transition economies. If the transition economies are capable of developing sound fiscal, financial and monetary institutions that can induce confidence by the society that they will be oriented towards maintaining price stability, then the monetary policy can be used to stabilize the economy – price stability on the level of the potential economic growth. In such conditions, monetary bodies can choose their own monetary rule and opt between fixed or flexible foreign exchange rate regime (Guillermo A. Calvo and Frederic S. Mishkin, June 2003, p. 16). From that aspect, the strengthening of the institutions and their reputation is key also for the selection of the optimum monetary rule.

From that aspect, building stable, trustworthy and responsible institutions is a priority. “The key to success of the emerging economies is not the selection of foreign exchange rate regime, but the soundness of the fun-

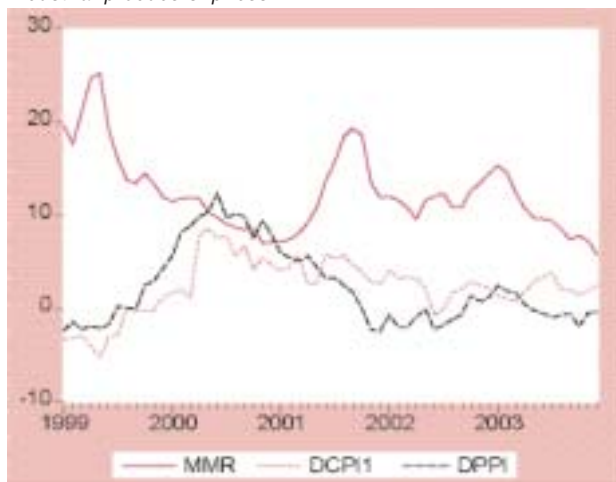
<i>Основни макроекономски индикатори</i>	1998	1999	2000	2001	2002	2003
Бруто домашен производ	3.4	4.3	4.5	-4.5	0.9	3.2
Индекс на трошоци на живот (просек)	-0.1	-0.7	5.8	5.5	1.8	1.2
Индекс на трошоци на живот (крај на година)	-2.4	2.4	6.1	3.7	1.1	2.4
Индекс на цени на производители (просек)	4.0	-0.1	8.9	2.0	-0.9	-0.3
Индекс на цени на производители (крај на година)	-3.9	4.2	-1.5	-2.4	1.1	-0.2
Салдо на консолидарниот буџет	-1.7	0.2	2.5	-7.2	-5.7	-1.0
Салдо на тековната сметка (% од БДП)	-7.5	-0.9	-2.1	-6.9	-8.7	-6.3
Курс (ден/ЕУР (просек)	60.54	60.62	60.73	60.91	60.98	61.30
М2 денар стапка на раст (дек./дек.)	11.1	33.5	17.5	11.3	7.9	15.4
М2 стапка на раст (дек./дек.)	14.4	29.7	24.4	66.3	-8.0	18.8
Каматна стапка на пазар на пари (годишен просек)	18.1	11.6	7.2	11.9	11.9	9.9
Каматна стапка на благајнички записи на НБРМ (годишен просек)	8.5	9.9	8.9	13.7	12.6	8.2
Реални плати (годишна стапка на раст)	3.8	3.6	-0.3	-1.9	5.0	3.4
Продуктивност на трудот во индустријата (1998 = 100)	100.0	106.4	112.9	112.8	114.3	126.9
Индекс на македонската берза - МБИ (крај на година)				978.0	1094.7	1178.7
Индекс на македонската берза - МБИ (стапка на раст - крај на година)					11.9	7.7

*проценки

Извор: Министерство за финансии. Државен завод за статистика, НБРМ

damental macroeconomic institutions in the country,... less attention should be paid to the issue on which exchange rate regime is more acceptable, the

Interest rates on the money market, costs of living and industrial producers' prices



fixed or the flexible, and greater attention should be paid to the fundamental setting of the institutions (Guillermo A. Calvo and Frederic S. Mishkin, June 2003, p. 5).

The monetary rule now applying delivers very low inflation rate, being on the verge of deflation. The costs of living in February grew with an annual rate of 1.4% (2.8% projected for 2004). At the same time, measured via the prices of the industrial producers, Macedonian faces deflation. They decline fourteen months in a row. In February 2004 in relation to the same month of the previous year, they declined by 1.8%. The real interest rates on the money market, due to the support to the fixed foreign exchange rate, are maintained at exceptionally high level of +7% annually (higher annual real interest rate on the money market is maintained in Brazil +10%). Thereby, the fixed foreign exchange rate regime, from an intermediary objective of the monetary policy, was transformed into an ultimate objective of the monetary policy. In conditions of decline of inflation,

due to the need to sustain fixed foreign exchange rate and certain level of foreign exchange reserves, the interest rates on the money market increased from 6.5% to 8%.

The profitability in the economy is low and ranges between 1 to 2%. The share index on the Macedonian Stock Exchange in 29% increased by 7.7%, which makes them unattractive for investors, when the world stock exchanges bear yield of 29%, and the yield on the stock exchanges in the emerging economies is 64%.

The present monetary rule became unsustainable from the aspect of the price at which the real sector is disposed. The profitability is low and does not stimulate investments and inflow of foreign capital. Accordingly, the economic growth remains weak and insufficient to absorb the high unemployment. Industrial output declines for four successive months and the unemployment remains permanently high (35%).

The monetary rule and the weak micro-economic restructuring do not provide driving force for the business and the economic growth. There are no investors who will invest in Macedonia, given the very low yield.

In recent years, many emerging market economies faced financial crises, macroeconomic instability with economic stagnation and contraction of the economic activity. These include Bulgaria (1997), the Czech Republic (1998), Russia (1998), East Asia (1997), Argentina (2001-2002), Turkey (2000-2001) etc. After these developments, an active debate is ongoing on the selection of the optimum monetary rule and an appropriate foreign exchange rate regime that would contribute to the maintenance of the macroeconomic stability – price stability at the level of the potential economic growth. The

fact that this debate is ongoing in conditions when the market mechanism still functions, without deeply rooted distortions, means an advantage for Macedonia. It is an advantage

that we can learn from the experience of others. Thereby, building stable, efficient and trustworthy monetary institutions increase the range of solutions and reduce the risk.

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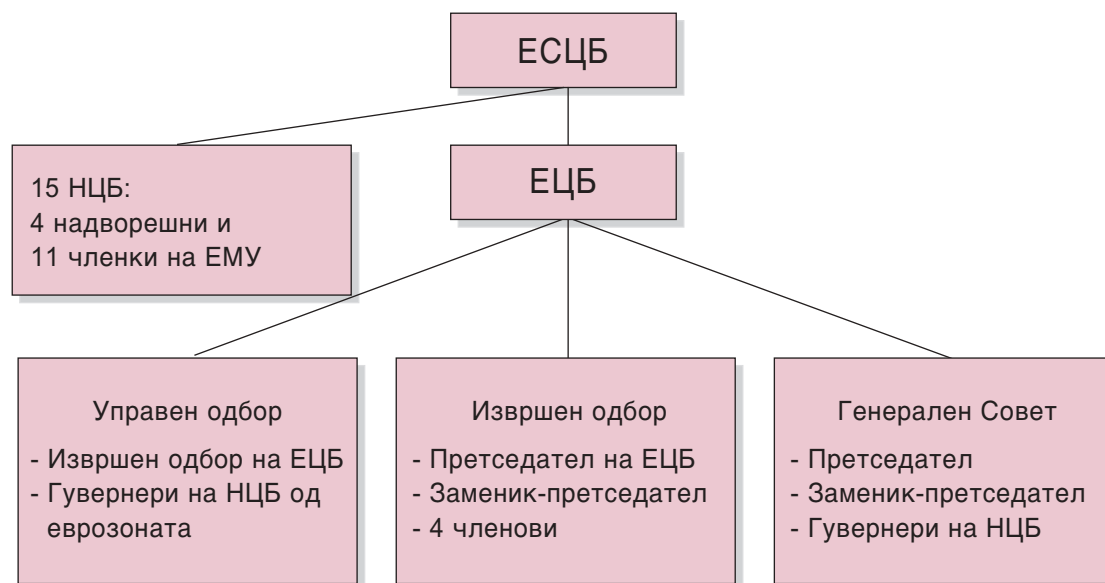
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ECB DECISION-MAKING AND THE EFFECTS OF THE EU ENLARGEMENT

The integration of monetary policy, being a next step in the process of economic integration, requires certain modifications of the decision-making in the ECB. The goal of the proposed reforms is to ensure greater efficiency during the process as well as to achieve balance between the needs of various member states

The EU enlargement process (which still continues after the entering of the 10 new members in May 2004) requires institutional changes due to the increasing number of member countries participating in the decision-making process. This issue particularly refers to the decision-making in terms of the monetary policy of the **eurozone**, which could become increasingly complex with the new

The European System of Central Banks (ESCB) comprises of the European Central Bank (ECB) and the national central banks (NCB's) of all EU member states. On the other hand, the Eurosystem refers to the ECB and the NCB's of the EMU members. The central banks of the countries not part of the eurozone do not have the right to be part of the decision-making nor the implementation of the monetary policy in the eurozone.



countries becoming members of the European Monetary Union (EMU). Furthermore, the rapid increase in the number of member states is followed by great discrepancy between the **old** and the **new** member states.

Currently, the ESCB is being governed by the decision making bodies of the ECB, the **Governing Council** and the **Executive Board**.



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* Opinions in this text are author's and they should not totally represent the attitude of Ministry of Finance



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The Executive Board comprises the President and the Vice-President of the ECB, and 4 other members with proven monetary or banking experience. The board members are elected with a common decision by the governments of the member states under a recommendation of the EU Council (after it has consulted the European Parliament and the Governing Council of the ECB). The Executive Board is responsible for the implementation of the monetary policy in accordance with the decisions of the Governing Council, and can have other responsibilities delegated from the Governing Council.

The roles of the Governing Council (comprised of the Executive Board and the governors of the NCB's that participate in the eurozone) are the following:

- to make decisions on the monetary policy in order to fulfill the aims of the Eurosystem;
- to determine the goals of the monetary policy as well as the ways to meet its short-term goals;
- to provide a framework for implementation of the established goals.

The EU countries which are not part of the eurozone can participate in monetary decision-making through the **General Council**. The General Council comprises the President, Vice-President of the EU and the governors of all NCB's of the EU. The main tasks of the General Council are to implement the third phase of the accession to the EMU to those countries that haven't adopted the euro yet.

With regard to the future enlargement of the EMU, the ECB was asked to give its proposal for the reforms of the decision-making process. This need is mainly determined by two factors:

a) the future enlargement will result in a significant increase of the share of small countries which are in the process of economic expansion. The conditions and needs of these countries in terms of monetary policy are different from those of most current eurozone members.

b) the increased number of participants in the Governing Council of the ECB could lead to inefficient discussion regarding the economic activity of the EMU, thus resulting in inappropriate monetary decision-making (The Governing Council, currently functioning under the one country – one vote rule, requires simple majority for most decisions, including decisions with regard to the interest rate policy¹).

In conditions of centralized monetary policy and decentralized fiscal policy, the monetary decisions can become more complex with the enlargement of the monetary union

Even without the future enlargement of the EMU, the Governing Council has already a large number of seats (it currently has 18 members compared to 12 voting members at the U.S. Federal Open Market Committee). Assuming all current EU countries become part of the eurozone, the number of people in the Governing Council will reach 33, which could seriously jeopardize the efficiency of the decision-making process. For the above mentioned reasons, the possible alternatives of the future decision-making process are based on several principles: a) rotation, b) representation (forming of constituencies) and c) executive decisions (delegation to technocrats).

a) The idea of rotation assumes that the composition of the Governing Council

¹In case of equal number of votes, the President has the casting vote.

remains unchanged, however sub-groups with voting rights will form in which countries will rotate in a given time schedule. The advantage of this voting system is the fewer members with voting power, but the disadvantage is that the members which do not have the right to vote at a current period will not be able to take part in the decision-making process (no continuity);

b) The principle of representation assumes forming groups of central bankers which would delegate its voting rights to a representative (system of constituencies similar to that at IMF’s Board of Directors). The advantage of this mechanism is again the reduced number of people with voting power, however the disadvantage is

c) The executive decision system gives the possibility to delegate running monetary policy to a monetary council consisting of experts, not considering the nationality of these people. This alternative would solve the problem of overcrowding the Council as well as the problem of regional bias. On the other hand, this would mean losing valuable information about the specific characteristics of the economies that the national representatives bring. Furthermore, the weakness of this alternative is the potential of dominance of representatives from larger countries (due to larger pressure from this countries to place their own nationalities, as well as due to a “demographic effect” resulting from the fact that larger (and more developed) co-

Advantages and disadvantages of the alternatives

	Rotation of member states	Representation (forming of constituencies)	Weighted voting	Delegation to a monetary policy council
Solving the "number problem"	yes [*]	yes [*]	no	yes
Solving the "small countries' bias"	yes ^{***}	yes ^{***}	yes	yes
Building sens of common European identity	no	no ^{**}	no	yes ^{****}
Can be viewed as democratically legitimate	yes ^{***}	yes ^{***}	yes	no

* providing non-voting members do not participate in discussions.

** unless one regards building identity within smaller groups as a step to European identity building. This point could be debatable. Heisenberg (2003) claims that grouping of member states might help in building the common European identity.

*** debatable, might depend on details.

**** unless the MPC is exclusively dominated by large countries.

Source: ECB decision-making and the status of the Eurogrup in the enlarged EMU

that the representatives could stand for the interest of their own group (rather than act as experts on monetary policy of the EMU);

untries have more “human talent” due to the demographics and due to the fact that richer countries attract more human talents.

Based on the strengths and weakness of the different decision-making mechanisms, the ECB gave its proposal² on the 3rd of February 2003 (after the acceptance of the Nice Treaty). The proposal of the ECB is based on the rotation principle, where as the economic strength of the country is also being considered. The ECB considers the proposal to be in line with the need for more efficient and timely decision-making with regard to the future enlargement of the eurozone.

If the principle of one country – one vote is retained, monetary policy would be under the influence of the interests of the new member states, and thus the monetary decisions would not always reflect the preferences of the EMU as a whole

According to the ECB's proposal, all governors of the NCB's will have the right to participate in the discussion of the Governing Council, yet the voting process will be based on rotation. The rotation mechanism should be the following:

- the members of the Executive Board will retain their votes at all times;
- the governors of the NCB's will not have more than 15 votes;
- the 15 votes will rotate in two or three groups (two for EMU with 16 to 21 members, and three groups for EMU with more than 21 members);
- the five biggest economies according to ECB's ranking³ will be in the first group and will receive 4 votes;

- the 11 remaining votes will be allocated to the second group if two groups exist;

- if three groups exist, both the second and the third group will have equal number of members and 8 votes will go to the second group, and the remaining 3 votes will go to the third group.

ECB's proposal also states that the decision-making process will not be reformed until the number of countries in the EMU reaches 19.

It seems that ECB's proposal has the intention to achieve a balance between the one country- one vote principle and the principle of representation. Furthermore, it reduces the possibility for strong influence from the new small member states. However, this proposal does not eliminate the problem with too many voting members. The ranking criteria are also criticized, because it does not take into consideration the population of the countries and it allows small countries with large GDP and financial sector to have a larger role.

On the 21st of March, the ECB proposal was accepted by the EU Council, which indicates that the proposal will enter into force once it is ratified by all member states. However, this doesn't mean that other alternatives won't be considered in the meanwhile, which could remove the weaknesses of the ECB proposal.

²The proposal requires changes to be made in Article 10.2 of the Statute of the ESCB and ECB.

³The countries will be ranked according to their share in EMU GDP (weigh 5/6) and the share in the total aggregated balance sheet of monetary financial institutions (weigh 1/6).

Estimated allocation of countries to groups (according to the proposed ECB methodology and the ranking based on shares in ECB capital)

	Euro - 22 Current euro zone plus 10 countries that joined the EU in May 2004 without the UK, Sweden and Denmark (ranked using the ECB methodology)	Euro - 25 Current EU countries (ranked using the ECB methodology)	Euro - 25 (ranked by share in ECB capital)
Group 1 (4 voting rights)	Germany France Italy Spain Netherlands	Germany UK France Italy Spain	Germany UK France Italy Spain
Group 2 (11 voting rights)	Belgium Austria Ireland Poland Portugal Greece Luxemburg Finland Czech Republic Hungary Slovakia	Netherlands Belgium Sweden Austria Denmark Ireland Poland Portugal Greece Luxemburg Finland Czech Republic Hungary	Poland Netherlands Belgium Sweden Austria Greece Portugal Denmark Czech Republic Hungary Finland Ireland Slovakia
Group 3 (3 voting rights)	Slovenia Lithuania Cyprus Latvia Estonia Malta	Slovakia Slovenia Lithuania Cyprus Latvia Estonia Malta	Lithuania Slovenia Latvia Luxemburg Estonia Cyprus Malta

Note: Classification is based on estimated 2002 data (2001 data in the last column). EU candidate economies on average are growing faster than most of current EU countries so as times passes one should expect gradual changes in the ranking.

Source: Gros (2003) and Lommatzsch and Tober (2002).

GLOBALIZATION OF FINANCIAL FLOWS AND MODERN BANKING

It is believed that the international flow of capital played that role since the globalization of international finance, i.e. financial services were faster, more dynamic and more comprehensible

Globalization of international financial flows

Theoretic research in the last thirty years point to the conclusion that the international trade was not the basic catalyst for accelerating the global economic integration. Abandonment of the fixed foreign exchange rates in the 1970s lead to accelerated increase of financial flows since that opened the gates of short-term capital.

The usage of certain currencies in the international financial transactions should be added to these data. The world trade is mainly realized in US dollars (around 50%), in European currency around 30% and in Japanese yen around 6%. The holdings of the total assets (private and public) are disproportionately denominated in US dollars. Still, the usage of one currency or another as an international means of payment is reflected on the international capital market. If

Share of the three economic superpowers			
Indicators	USA	EU	Japan
1. Share in the world BDP (in 1998)	20.7	20.4	8.0
2. Share in the world export (ex-intra-EU) in 1998	15.2	14.7	6.1
3. Share in the world trade	50.0	31.0	6.0
4. Share in the long-term securities in the world 1998	37.2	34.5	17.0
5. Share in the debt of the developing countries (1996)	50.2	15.8	18.1
6. Share in the total foreign exchange reserves (1995)	56.4	25.8	7.1
7. Share in the foreign exchange transactions (1995)	41.5	35.0	12.0

Source: Robert N. McCalley, William R..White "The Euro and European Financial Markets" London, 1999

It is considered that on the international market, the daily trade grew from US\$ 15 billion in 1973 to US\$ 880 billion in 1992, i.e. US\$ 1,300 billion in 1995 and it still tends to further rise. Here is another data: from 1980 to 1993 the international sale and purchase of finances grew from little less than 10% of GDP in US, Germany and Japan to 135% in US, 170% in Germany and 80% in Japan.

The following table shows the level of globalization in the area of financial transactions in the world:

one takes into account the fact that the daily turnover average on the prompt, the forward and the swap market in 1995 amounted to US\$ 1,572 billion, and at the end of 2000 around US\$ 1,900 billion, than it becomes clear why there is a exhaustive "clash" between separate currencies of the major participants on the financial markets. This "fight" is not only for prestige, but also for something more – for profit.

The answer to the question about which are the factors affecting the

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globalization of the financial markets, is that basically, there are three groups of factors:

The first group comprises deregulation and liberalization of the market and the activities of the participants in the financial markets, realized in certain financial centers in the world and the increase of the level of international competition.

The second group comprises the technical and technological progress (e-money, e-finance, e-banking) enabling easier control and monitoring to the end of achieving faster flow of information;

The third group comprises the higher degree of institutionalization of the international financial markets, i.e. the level of internationalization of the financial markets and the harmonization of the rules of conduct on the financial markets.

Special attention deserves the issue on investment in conditions of stabilization, or how to achieve faster and more positive globalization process via different investment. Modern investment in conditions of globalization should enable achieving better balance between opportunities and risks. This, in essence, means that the integration in the global economy should be accompanied by investments from which the people throughout the world would benefit, especially the poor. Investments should be made in better national policies and with better economic cooperation.

In the light of that, the recent theoretic researches point to the following several directions for investment intended to create better conditions for realization of fast and successful globalization:

1. Existence of ever increasing dependence. This means that no country in the world can impose its influence over other countries. At the same time, attention is increasingly paid to the risks arising from the more developed and more advanced countries when they are advocating resolution of problems on the markets in the developing countries and on their markets;

2. Respecting the own responsibility as a kind of natural counterweight to freedom, human dignity and national identity. Own responsibility should be respected by the countries when they pass individual and joint investment decisions;

3. Realization of the principle of solidarity among all countries in the combat against poverty throughout the world. This means respecting the efforts for achieving economic, social and environmental sustainable development when designing and realizing investment policy;

4. Respecting equal rights for all. This essentially means respecting the rule of law within the countries and the public in the decision-making process on international level. Respecting the internationally accepted standards and rules of conduct as rules of the game in the global economy; and

5. Respecting the rules of conduct: different approach in different conditions. Two premises should be respected thereby: experiences of people should be considered as part of the planet's treasury and the competition between the economic models should be taken as healthy approach towards the global economy.

Respecting and practicing the aforementioned directions points to the

need to reform the IMF in accordance with the needs for more successful and just realization of globalization. These reforms would basically be realized in the following areas:

- Providing better social institutions for the countries that implement sound policies;
- Clearer and more predictable policies for approach to the Fund's facilities;
- Existence of better mechanisms for management with the unsustainable government debts; and
- Greater willingness by member states to assist to the end of making IMF facilities a basis for creation of confidence within the international monetary and financial system.

At the same time, member states should be supported in the utilization of certain "mitigators" in the combat against instability and risks in the global economy. That means appropriate changes in the regimes of inter-currency values, better debt and reserve management, stable budgets, leaving room for maneuvering in hard times, efficient and diversified sectors and more efficient nets of social institutions.

When speaking of globalization of the international financial flows, another issue deserves special attention. This is globalization of the markets of financial derivatives which are increasingly used by the companies, banks, insurance companies, world organizations, governments and other participants in the increasingly dynamic financial transactions

If we understand the globalization as transformation of the world market, as movement from group of national to a single financial market, where business entities from different coun-

tries compete against one another, when minimum or no barriers exist, then the globalization of the financial markets is one of the basic forms of change on the market of financial derivatives. In such a system, the volume and the usage of financial derivatives expands abruptly, to the end of limiting the risk, for speculative purposes or in order to envisage the future market trends. The financial derivatives are used the most for adjusting the portfolio, faster and cheaper in relation to other modalities, but also for completing the arbitration of the price discrepancies on the financial market. In the modern globalized conditions, the financial derivatives are increasingly used by the companies, banks, insurance companies, world organizations, governments and other participants in the increasingly dynamic financial transactions. Globalization also stimulates the activities on the market of financial derivatives. Similar are the effects of the opening of new stock exchange, the introduction of new financial product and the expansion of the global flows of financial transactions.

At the same time, the pressure by the competition and the increase of the demand for monetary and derivative instruments, traded between the time zones, fosters the stock markets in various regions to establish trade relations and to start working 24 hours a day. This is especially being realized on the basis of an agreement between the European and the Asian stock markets.

Such connection of the stock markets weakens the pressures in time of market peaks, thus contributing towards further globalization of the financial markets.

Globalization – determinant of the development of the financial techniques

In the developed market economies, the financial techniques, especially when it comes to securitization of the banking operations, develop to the end of more direct connection of the commercial banks with the open, globalized financial market, in order to ensure higher liquidity rate of their assets.

Three important elements, interconnected and mutually conditioned, characterize the accelerated development of the financial flows in the world. We are speaking of the following:

- changing the structure of the financial flows and the entities and their importance on the global financial market;
- changing the financial activities and the financial operations; and
- proliferating the instruments referring to the financial market.

It is a matter of high-quality and liquid bonds that suppress the banking loans at the benefit of expansion of the securities. The fast development of the financial market and the financial transactions in the United States lead to creation of new financial technique in the operations of the banks, the so-called securitization.

Unlike before, now the term securitization refers to a process of issuance of securities via providing mortgage or other property. The securitization creates new structures of bonds matching the interests of the investors. It is actually repackaging old loans into monetary flows of the created bonds.

The globalization of the financial transactions increasingly affects the operations of the traditional stock markets throughout the world. The globalization process

creates conditions in which the traders do not need to come on the formally institutionalized market, since the computer operations enables them to successfully complete stock market operations, regardless of the location of the traders. Still, the traditional stock markets continue to be important world financial institutions where significant stock market operations are carried out. The so far development of the stock market operations points to the fact that the traditional stock markets that will be capable of enduring the technologic race, will be in a condition to overtake the operations from the rival centers and that the existing national financial centers will be replaced in the future with lesser number of international financial centers.

When speaking about the development of new financial techniques, above all, we think of the securitization of the banking operations, a term which points to a process of transformation of the loans into bonds that can be traded on the market

Taking that as a starting point, one should expect that in the future, only three to five large financial and banking sectors would exist in the world. In the light of this, I would like to mention the following as well: if we take the size of the domestic financial market as a starting point, the most significant financial market would be the one in New York. If we consider jointly the financial markets of the countries within the European Union that have accepted the single currency, then those financial markets, considered jointly, are the size of the financial market in the United States. If we take into account the value of the market capitalization of the firms registered for operation on the stock markets in relation to GDP, the London financial market has a leading position. Information on the size of the largest stock markets in the world are given in

The largest stock markets in the world in 1997		
Stock market	Market capitalization	Share in GDP (%)
New York	9.5	120
London	2.0	150
Tokyo	2.0	55
Frankfurt	1.0	39
Paris	less than one	50

Source: *The Economist*, January 1998

In 1997, the London financial center was on the first position with regard to the volume of the financial transactions and the international bank crediting. We should add that the London bankers are on the top position worldwide regarding consulting services regarding integration and acquisition of firms, with regard to various firms. Also, the London bankers have sovereign rule the international bond markets since they realize _ of the trade in international bonds. Due to that, London is the leading world net exporter of financial services.

In the last several years, new techniques in the financial operations and the financial transactions swiftly expand throughout the world. For example, the stock markets introduce in their operations a newly designed agreements made in order to compete with the financial instruments on the over-the-counter market, and to simultaneously strengthen the mutual trade relationships. The surge of the market transactions is most observed in the area of short-term instruments for interest rates, shares and currencies. There are the so-called “flex” options that combine some of the usual advantages of the OTC options, with financial guarantees and price transparency for the financial products traded on the stock markets.

Commercial banking in conditions of globalization

The globalization process in general, and especially in the area of finances contributes to the increase of competition among the commercial banks and at the same time affects the development and the diversification of the banking products on the finance markets.

In such conditions, the modern banking is largely free from legal and other regulatory measures. The globalization of the banking operations actually erased the global limits of the world financial markets, and the e-money exchange all other forms of money, and the time necessary to realize mass banking operations is measured in seconds.

In order to see the essence of the new concept of banks, and also the new banking system, one needs to see the following:

1. In order to provide efficiency, effectiveness and competitiveness of banks, and at the same time to maintain the risk within normally acceptable limits, the banks need to find new ways and methods and procedures in their operations;
2. The management of the commercial banks is based on designing and making decisions in interconnected systems; manager system, operative system and information system. More precisely, the management decisions are based on the strategic plans and the marketing plans on the modern banking products;
3. In the developed market economies, the banks are the most typical representatives of the market institutions on the capital market;

4. In the developed market economies, the banks put efforts to expand their markets by developing banking habits of tendency towards preference to use banking services among all strata of the population;

5. Marketing the products in banking is more significant than in the trading with products. There is no patenting of products, and due to that the competitors can swiftly copy the successful products and services. In order to avoid that situation, banks in the market economies use the so-called branding strategy, i.e. they give name to their products; and

6. The present-day modern banks seek for leadership in all significant points and levels of organizational structure.

Hence, we can surely emphasize that there are visible changes in the international banking, especially in the types of banking operations, as a result of, above all, the following:

- reduction of profitability of banks due to the increasingly severe competition among the banks, and between the banks and the other financial institutions that have developed banking operations;
- replacing of the traditional loans extended by the banks with issuance of securities on the basis of the expected cash flow on the specific properties, i.e. a phenomenon of a modern type of securitization which is actually off-balance category;
- separation of the securities operations from the traditional banking operations;
- realization of the so-called disintermediation, meaning changing the balance financing of the depositary institutions into off-balance financing on the capital market;

Securitization in the modern banking operations

Older studies and textbooks in the area of banks and banking, one can read that the banks are depositary and credit institutions. That definition of the term and the essence of banks and banking operations is slowly being abandoned and left to the history. The factors leading to such change of the term and the essence of banks are the following:

- The deregulation in the area of banking operations in the 1970s, resulting in reduced control in the banks and to increased investment in bad loans, which in certain countries caused bank crises. Such changes in the banking systems and the banking operations are present not only in the market economies, but also the transition countries;
- The emerging financial markets, being very attractive for the corporations, are becoming major competitors of the banks and the banking operations;

The development of the international trade, the liberalization of the banking operations, the termination of the measures in the area of foreign exchange control, the globalization of the market and the fast development of the information technology and the e-banking, resulted in an emergence of a trend of creation of global banks, and thus, a trend of banking industry.

- Non-banking entities, dealing with financial transactions, with their competitive advantages, in certain regard crowd-out the banks from the financial markets;
- The new behavior of banks and the emergence of new banking operations are a result of the condition in the banks' balances as well. These conditions point to the emergence of the so-

called financial frailties meaning deterioration of the quality of the property and decline of profit.

In 1998, of the 50 largest banks in the world, 17% of them, or just 9 banks, held over 50% of their capital abroad. The practice of the so-far and the present-day banking operations points to the conclusion that the biggest competitors of the commercial banks in the banking, and the financial operations in general, the institutional investors, appear most frequently in the following forms: open-end funds, hedge funds, venture capital companies, investment companies etc. All those collect funds on the market and use them for portfolio investments.

Regardless of the fact that the new type of operations on the capital market has certain positive traits, such as providing satisfactory level of capital and its efficient usage, better control over the bank structure, useful mechanism for rehabilitation of banks and provision of cheaper mobilization of financial resources than the bank loans, except for United States and France, it has not found favourable ground in the other developed market economies

But, In some countries, this type of financial operations is even prohibited.

Regarding securitization of credits, the so called structured securitized credits, this is a matter of a certain type of hybrid form, which provides a combination of traditional banking credits, having features of corporation bonds. The traditional banking credits are illiquid until the maturity date, and thereby the banks absorb that risk. However, the corporation bonds are liquid on the capital market, and they pass the valuation of their rating by agencies, thus having better diversified risk structure. Hence,

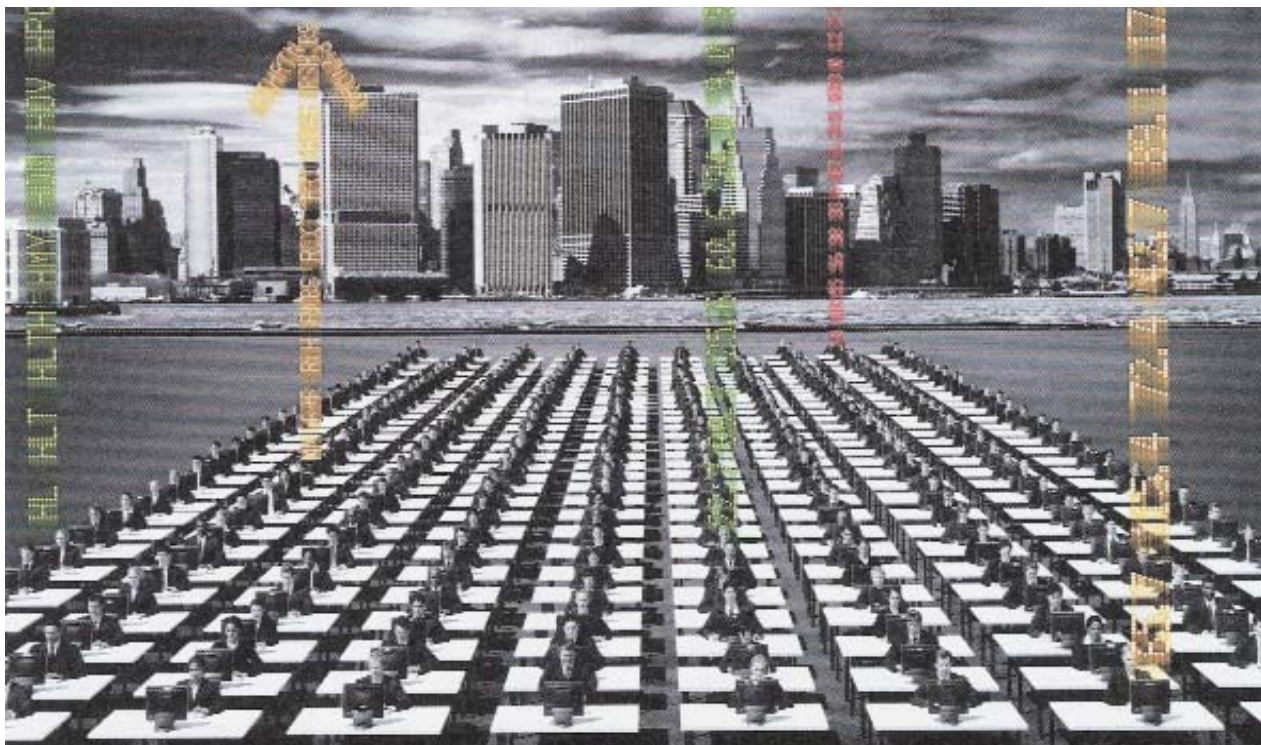
the securitized credits are a combination of the aforementioned two types of financing. According to some opinions, they will become major and prevalent technology for credit financing. In the so-far practice, the securitized credits are a subject to primary sale after their issue, but there is also a possibility for their sale on the secondary market as well.

The relatively small loans, approved to large number of beneficiaries, should they be creditworthy, of course, have the best possibility for transforming the banking loans into securitized credits. The process of securitization of credits has five phases:

- In the **first**, initial phase, the commercial bank approves a loan in the form of traditional bank credit, and another financial institution issues bonds;
- The **second** phase is called structuring and during this phase, programming of the new structural features of the bonds is carried out; More precisely, it is a re-packaging of the monetary flows of the initial loans into monetary flows of the newly-created bonds;
- The **third** phase is improvement of the credits via including several financial institutions which participate in the guaranteeing processes with regard to the payment of the obligations towards the investors;
- The sales of the securitized credits is carried out in the **fourth** phase since then the primary sale is carried out of the bonds issued on the basis of coverage in the form bank loans. There is also a possibility to sell these bonds on the secondary market, thus aiming to place the securities in the assets of the institutional investors; and
- The fifth phase, which is actually servicing carried out by the banks that have approved the loan, or this can be carried out by a pool created by a bank consortium. Thereby the flows of the

newly-created bonds should be equalized with the monetary flows of the primary bank loans.

is transferred to the final investors, which assume that risk;



When conducting securitization of credits, the commercial banks achieve certain advantages, such as:

- Increase of the liquidity of banks, since the concept according to which the loans of the banks are grouped in pools and on that basis, new bonds can be issued, is a favorable mechanism for the banks that ensures liquidity. The banks can convert part of their placements into bonds and immediately sell them on certain capital markets, which enables adjustment of the portfolio structures to the new conditions;
- The securitization of the credits enable the banks to increase the profitability of their operations since the reduction of the required capital rate in relation to the total loan capital creates a possibility to increase the rate of return of the share capital;
- The sale of the credits reduces the interest rate risk since the fixed rate risk

- There is also a reduction of the credit risk since the quality of the credit improves. Several types of financial institutions can participate in the so-called improvement of credits, and the depositary institutions need only to maintain the capital rate in accordance with the risk exposure;

- The securitization enables the management of the banks and the financial institutions a better control over the balance structure since the securitization is used together with other risk management techniques, especially if derivatives are used, and finally;

- The securitization of the credits can be a useful mechanism in the resolution of the problem of reducing the assets.

Besides the advantages, the securitization of the credits has certain disadvantages: We will mention several such disadvantages:

a) the securitization of credits reduces the key role of the commercial banks as financial intermediaries;

b) the strong connection between the commercial banks and the central monetary institution is reduced; and

c) that cannot but affect the design and the implementation of the credit policy of the commercial banks and the monetary policy of the central bank.

Second, this is an inevitable process in every part of the every-day operations, especially in the area of economic, financial and banking transactions;

Third, if the globalization is an inevitable so-called natural process of organization and operations than it cannot be used for any special national or regional interests by countries that can and use certain monopoly, especially in the area of international financial flows;

Fourth, the globalization should be understood and treated as process of transformation of the world market, a process of creation of a single financial market from the so-far existing many financial markets and centers;

Fifth, the globalization in the area of international finance conditioned the development of new financial techniques. The expansion of these financial techniques will be accelerated with the further development of the banking industry and the standardization of the international financial operations.

If the globalization is an inevitable so-called natural process of organization and operations than it cannot be used for any special national or regional interests

Conclusion

The above-presented facts point to the following conclusions:

First, the social character of the production process requires opening of the borders of the national economies and creation of conditions for broad markets on the world level or at least on regional level;

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MISSION STATEMENT OF PROCREDIT BANK IN REPUBLIC OF MACEDONIA

In their initial phase of operations, the institutions focus on lending. Over time, as they add deposit-taking and other banking services demanded by our customers, the institutions gradually develop into full-service banks

Mission statement of ProCredit Bank

ProCredit Bank Macedonia is a development-oriented full-service bank. We offer excellent customer service and a wide range of banking products. In our credit operations, we focus on lending to micro, small and medium-sized enterprises, as we are convinced that these businesses create the largest number of jobs and make a vital contribution to the economies in which they operate. Our bank explicitly avoids all speculative lines of business and issues large loans only in exceptional cases, thus minimising the risk associated with such activities.

Our shareholders – most of whom are major, well-established international institutions – expect a sustainable return on investment, but are not primarily interested in short-term profit maximisation.

We invest extensively in the training of our staff in order to create an enjoyable and efficient working atmosphere, and to provide the friendliest and most competent service possible for our customers.

Approach of ProCredit Banks

As of the end of May 2004, our network of institutions had a credit portfolio of around EUR 750 million outstanding to around 340,000 customers. This works

out to an average loan size of EUR 2,200. And as of May 31, 2004, only 1% of this overall credit volume was in arrears (> 30 days). This means that it is precisely the small borrowers we serve who are good, reliable customers.

In view of these experiences and the high level of portfolio quality that characterizes lending to our target group, over the past five years the network partners have established 18 target group-oriented financial institutions with a combined total of over 200 branches and 4,600 employees in Eastern Europe, Latin America and Africa. Our five-year planning envisages a loan portfolio volume of over EUR 2.5 billion for 2008, with over 450 branches and about 10,000 employees. Such growth can be financed only if, in addition to maintaining a successful lending business, we also succeed in deepening the trust of our depositors. By the end of 2003, the network had already a total deposit volume of around EUR 550 million. We are confident that by the end of 2008 this figure will be over EUR 2 billion.

In their initial phase of operations, the institutions focus on lending. Over time, as they add deposit-taking and other bank-

Ralf Reitemeier, born 1963, graduated in Economy at Justus-Liebig-Universität in Gießen; worked several years in the German Sparkasse, in Nicaragua and Paraguay for the German Chamber, before he joined IPC GmbH, Frankfurt in 1995. After serving as a Loan Adviser to the Caja Municipales in Peru, he was assigned in 1997 to FEED Bank in Albania, to set up the banking operations. In 1999 he performed similar tasks at Micro Enterprise Bank (MEB) Bosnia. As Deputy General Manager he was in a team setting up the Micro Enterprise Bank (MEB) Kosovo in 1999, and the Micro Finance Bank (MFB) in Belgrade, Serbia and Montenegro, in 2001. Since July 2003 he is General Manager of the ProCredit Bank, Macedonia.



* Opinions in this text are author's and they should not totally represent the attitude of Ministry of Finance

ing services demanded by our customers, the institutions gradually develop into full-service banks – without, however, losing their special character and their focus on the SME target group.

The network institutions are profit-oriented, but at the same time the major shareholders retain their commitment to developmental goals. They do not see profit maximization as the sole objective of the banks' activities. In 2003, the ROE for all of the institutions in the network in hard currency, after deduction of profit taxes, was 12%.

Shareholders of ProCredit Banks

The shareholder body, comprising international financial institutions and investment companies, applied to the National Bank of the Republic of Macedonia (NBRM) on March 12 2003 for a licence to operate a "micro-finance bank", which was issued on July 1 2003. Ten days later the bank was legally established under the name of ProBusiness Bank and on September 15 2003 it was renamed ProCredit Bank.



The major shareholders in the network institutions are Internationale Micro Investitionen (IMI) - Frankfurt, the KfW Group-Frankfurt, the IFC- Washington, the EBRD - London, FMO - Den Haag. IMI can be considered the strategic investor of this group. The shareholders of IMI are, to a large extent, the same institutions which hold shares in the individual network institutions. Through share swaps and sales, IMI's direct stakes in the individual institutions are increasing every year.

At EUR 6 million, the bank's authorised share capital is well in excess of the EUR 4 million minimum required by the "law on microfinance".

The main bodies of ProCredit Bank are the Managing Board, the Executive Body, the Risk Management Board, and the Auditing Committee.

The bank's Assembly consists of the representatives of the shareholders of the bank and meets at least once a

SHAREHOLDER	SECTOR	HEADQUARTERS	SHARE	PAID-IN CAPITAL IN EUR
KfW	Banking	Frankfurt,	20.8%	1.250.000
IFC	Investment	Washington, USA	15.8%	950.000
EBRD	Banking	London, UK	20.8%	1.250.000
IMI	Investment	Frankfurt, Germany	25.8%	1.550.000
FMO	Investment	Hag, Netherlands	16.7%	1.000.000
TOTAL			100%	6.000.000

year. The members of the Auditing Committee are appointed by the Assembly. The Managing Board consists of at least five members, representing the shareholders, and meets at least once per month. Three members chosen from this Board are also members of the Risk Management Committee.

The operations of the bank are directed by the Executive Body, which comprises two persons, the General Manager and the Deputy General Manager.

Branch Network



Pro Credit Bank started initially with 2 branches (Skopje and Tetovo) and 2 credit outlets (Kumanovo and Gostivar), which have been upgraded to branches in December 2003. The concentration in cities of the northern part of Macedonia allowed to minimize the management and control costs. Tetovo was selected as the location for the first branch outside of Skopje in part because there are fewer bank branches in Tetovo than in other cities in Macedonia, which in turn means that it can be expected that there will be less competition from other financial institutions. A second reason is that there are many micro entrepreneurs in Tetovo who have indicated that they would be very interested in obtaining a loan. Due to the high demand on the retail services, the 2 credit Outlets in Kumanovo and Gostivar have been upgraded to full fledge branches, offering all retail services as payment operations and deposit facilities.

3 Additional branches will be opened during 2004, Bitola* in February and Strumica* in March, and a second branch in Skopje*. By the end of year 2005, a total of 14 branches all over Macedonia are planned.

Results after 10 months of operation in Macedonia

The first months of operation proved to be a challenging, but also a highly successful period for our bank. Our institution, which began operations in July 2003 under the name “ProBusiness Bank” and was later renamed “ProCredit Bank”, has achieved some very important goals.

Lending to the private business sector is ProCredit Bank’s core business. 3,783 loans have been disbursed at a total volume of over EUR 17.6 million. The high quality of the loan portfolio is clear evidence of the sound and rigorous credit analysis carried out by our loan officers. Thanks to a high level of customer satisfaction, good word of mouth, and the professionalism of our client advisers, we are already managing the accounts of more than 6,400 clients, who have executed more than 41,200 payment transactions at a total volume of EUR 66.5 million through their accounts. Among the many clients who have chosen our bank are several of the major international organisations engaged in supporting the political and economic development of Macedonia.

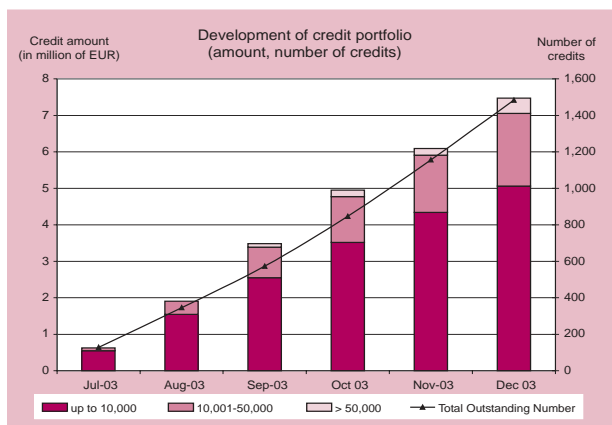
Establishing the bank in accordance with the law on microfinance banks, we completed the set-up process and created a basis for further expansion. All necessary operating licences were granted on time, enabling us to offer all types of retail banking services to the general public. In addition to our head office in Skopje, we have so far established a total of four branches

These impressive results have been achieved through the hard work of a talented, dedicated and enthusiastic team. Our 191 staff members – employees and trainees – are 26 years of age on average. The majority of them

are young economists who received their first banking experience in our network banks in neighbouring countries; they were selected from among several thousand applicants in a rigorous recruiting process carried out through our assessment centre.

Our business plan for 2004 sets ambitious goals, including the expansion of our branch network, the broadening of our loan product range, an increase in the volume of customer deposits held in savings accounts and time deposit accounts, and the introduction of several innovative new services, such as an ATM network and the sale of treasury bills and government bonds.

We are proud of the results we have achieved during the first months of operation, and we are convinced that, as a new and unique financial institution supporting Macedonian small businesses, we are making a genuine contribution to the development of the Macedonian economy.



Initially ProCredit Bank provided three well-structured business loan products, namely the ProInstant Loan (up to EUR 10,000), the ProStandard Loan (up to EUR 50,000) and the Pro Active Loan (up to EUR 100,000). The bank was quickly recognised by the micro, small and medium enterprises in the country as a key provider of lo-

ans for the development of their activities. At the beginning of November, a new credit product was launched, the ProExpress Loan. This was the first loan to be disbursed in local currency (up to the MKD equivalent of EUR 2,000), and was immediately well received by our business customers. Since February 2004 all of its loan products of ProCredit Bank are available in MKD.

Organizational Structure and Staff development

The Head Office of ProCredit Bank is located in Skopje. It is run as a cost centre and therefore as a separate organisational unit comprising the Executive Body and the Internal Audit department, as well as general administrative units such as accounting, the business operations departments, IT, administration and procurement, the legal and organisational department, marketing, treasury and personnel management. The internal auditor is appointed by the Managing Board and acts independently from the Executive Body. The task of the Internal Audit department is to undertake continuous and comprehensive monitoring of the bank's operations, i.e.

- monitoring for compliance with internal procedures and policies;
- assessment of the overall level of efficiency in the performance of banking operations; and
- monitoring for compliance with legal provisions.

Like the Head Office, each Branch is also run as a separate profit centre, making the results achieved by the individual branches more transparent and easier to compare.

Each branch manager is responsible for the operations of his/her branch

within the guidelines and authorisation limits set by the Executive Body. Branch managers are authorised to approve loans and take many other executive decisions. This high degree of autonomy for branches benefits the clients, who receive prompt decisions at the branch and do not have to wait for additional approval from the Head Office.

At the end of May 2004 ProCredit Bank employed a total of 191 staff members, including 55 trainees. Their average age is 27. The bank's personnel policies are designed to promote long-term relationships between the bank and the employee. Generally speaking, performance is always rewarded. A bonus system is in place for loan officers, who in addition to their fixed basic salary can qualify for a flexible incentive payment that encourages individual effort by rewarding good results. Career opportunities within ProCredit Bank are earned primarily on the basis of the employee's performance and his/her behaviour. Length of service, previous positions, age and sex are all-unimportant when it comes to deciding whether a staff member deserves promotion to a more challenging position.

The bank's HR development programme ranges from basic training courses for every new employee, followed by on-the-job training, to specialised courses and seminars, to individual coaching. We are proud that the quality of our staff is considered exemplary for the local banking sector, and needless to say we will make every effort to maintain and improve this standard

ProCredit Bank applies an equal opportunities policy to its employees and job applicants. This means that no one shall be discriminated against on the grounds of gender, sexual orienta-

tion, age, disability, marital status, creed or religion, skin colour, or ethnic or national origin.

ProCredit Bank selects and trains young staff, many of whom receive additional training abroad within the network of ProCredit Banks. As a newly established bank that expects to grow rapidly, both in terms of regional expansion and business volume, ProCredit Bank offers its staff excellent opportunities to develop their careers by taking on increasing responsibility in line with their personal development. We are well aware of the fact that we cannot expand faster than we train and develop our human resources.

The bank's HR development programme ranges from basic training courses for every new employee, followed by on-the-job training, to specialised courses and seminars, to individual coaching. We are proud that the quality of our staff is considered exemplary for the local banking sector, and needless to say we will make every effort to maintain and improve this standard in the years to come.

ProCredit Bank encourages its employees to take responsibility for developing their own skills. Senior officer and coordinator positions were created in order to reward the professional competence and interpersonal skills of those who gain promotion, and to encourage them to pass on their know-how to junior colleagues. Skill-enhancing activities take place within the

bank and are based on planning dialogues and individual performance reviews that measure an employee's achievements against the benchmarks set for each operational unit. When implementing the bank's business plan we concentrate on aligning operational benchmarks with individual competence. This also allows us to go beyond the conventional yearly budgeting exercise as the central tool for steering business development.

Aware that our team of competent staff members is the bank's strongest asset, we seek to attract the most highly qualified and highly motivated employees. One of the preconditions for building such a team is a well-organised and transparent selection process for new trainees. All of the 191 individuals (staff and trainees) working for ProCredit Bank were selected in Macedonia.

During the recruitment drive that took place in September and October 2003, more than 1,300 people applied for one of the trainee positions that had been advertised in the local media. This huge number of applicants demonstrates the level of trust in ProCredit Bank as an employer. In the end, 41 young trainees embarked on their traineeship; some of them remained in ProCredit Bank's nationwide branch network, while others were sent abroad to one of our sister banks. ProCredit Bank is setting new standards for the banking sector in the selection of new staff.

EURO TURNS FIVE: EUROPE'S GRAND EXPERIMENT

The birth of the euro marked a watershed in the postwar history of European integration. Fifty years of endeavor to create a closer union and a cooperative future for the people of Europe, in many ways, culminated in the advent of the single currency

This January marked the five-year anniversary of the European single currency the euro. A historic milestone in the process of European integration, the euro has created a new monetary reality for 300 million Europeans that few would have believed possible a generation ago. While the future course of this “grand monetary experiment” remains unknown, the euro has already seen significant changes in its brief existence. Like most five-year-olds, the euro has had its share of ups and downs, and its role both within Europe and overseas continues to evolve and expand.

History in the making

The birth of the euro marked a watershed in the postwar history of European integration. Fifty years of endeavor to create a closer union and a cooperative future for the people of Europe in the aftermath of the Second World War, in many ways, culminated in the advent of the single currency. The process that led to Economic and Monetary Union (EMU) with the euro as its currency was accomplished in three distinct stages.

The initial stage was the removal of all restrictions on capital movements between member states by July 1990. With the full liberalization of capital, the European “single market” had a deeper financial dimension. Greater fluidity of financial markets, however, also raised the stakes on possible tensions within an exchange rate regime of currency bands. The second and third stages

provided for a compact enshrined in the Treaty of European Union (Maastricht Treaty), setting the groundwork for the euro. Maastricht specified nominal criteria for the adequate convergence of the economies of future participants in the euro in four areas: inflation, interest rates, exchange rates, and government finances. The second stage also laid out the blueprint for a new institutional architecture to form and operate the currency area, including the establishment of the European Monetary Institute as the precursor to a European central bank. The third stage commenced on January 1, 1999, when 11 countries fixed their exchange rates to the euro.

New monetary and fiscal architecture

Adopting the single currency also meant adopting a single monetary policy. Under the Maastricht Treaty, the independent European Central Bank (ECB) safeguards the euro's value by pursuing its primary objective maintaining price stability. What became of the national central banks? They now comprise, together with the ECB, what is known as the “euro system”: a network responsible for defining and implementing monetary policy, ensuring the smooth operation of payment systems, conducting foreign exchange operations, and managing official foreign reserves.

Governors of the national central banks within the euro system, together

with the ECB's executive board, constitute the ECB's Governing Council the main decision-making body responsible for formulating monetary policy for the area. Making this unprecedented transfer of monetary sovereignty a success depended critically on the credibility of this new supranational institution. Lacking a track record, the ECB has drawn on the experience and credibility of the national central banks in building its reputation. The ECB has come of age in a very short time, owing to its substantial institutional independence and a clear monetary policy strategy aimed at price stability, the meaning of which has more recently been clarified as consumer price inflation "below but close to 2 percent."

Adopting the single currency also meant adopting a single monetary policy. Under the Maastricht Treaty, the independent European Central Bank (ECB) safeguards the euro's value by pursuing its primary objective maintaining price stability

Monetary union also has implications for members' public finances. While the ECB conducts a single monetary policy, fiscal and structural policies remain the responsibility of each member, albeit with the stipulation that national policies be regarded "as a matter of common concern." One implication is that the monetary integrity of the euro area needs to be supported by sound fiscal budgets. To ensure areawide fiscal discipline, the Maastricht Treaty obligates members to avoid "excessive fiscal deficits," as defined more fully in the Stability and Growth Pact. The pact's principal aim is to maintain sound government finances as a permanent feature of EMU through its monitoring and (if necessary) penalty components. The pact aims to promote budgetary policies that would support a

stability-oriented monetary policy without resorting to excessive fiscal deficits during the course of normal cyclical fluctuations.

Queuing up for the euro

Along with new institutions, the euro area's geography has changed since the single currency's creation. Since Greece's entry as the twelfth member in 2001, the euro area covers all but three members of the European Union prior to its enlargement this past May: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain. When ratifying the Maastricht Treaty, the United Kingdom and Denmark were granted "opt outs" from replacing their national currencies with the euro while leaving the option open for the future. Sweden was granted a derogation but not permanent exemption and so is required to adopt the euro, but not by a fixed date. Of these three countries, only Denmark currently maintains the Danish krone's rate of exchange against the euro well within narrow ($\pm 2^{1/4}$ percent) fluctuation bands of EMU's transitional exchange rate mechanism, ERM2.

All 10 countries that joined the European Union in May are expected to adopt the euro, though no deadline has been set. In addition to the other convergence criteria specified in the Maastricht Treaty, a country intending to adopt the euro must undergo at least two years of exchange rate stability in ERM2. With the current diversity of exchange rate arrangements in these countries, the prospect of wider euro adoption will thus entail a shift toward greater use of the euro, first as a reference and intervention currency and, eventually, as domestic money. Nevertheless, deciding whether it is

preferable to adopt the euro sooner or later or at all, as in the case of the United Kingdom and Denmark is a complex issue. Fundamentally, each country must determine for itself at what point the benefits of conformity such as the promise of greater trade and financial integration with the euro area outweigh the costs notably, accepting a “one size fits all” monetary policy.

Currency without borders

On the global stage, the euro has played a role second only to the U.S. dollar. For its part, the ECB neither promotes nor hinders the internationalization of its currency. Nevertheless, given the euro area’s economic size and the legacy of its national currencies, the euro’s role as an “international currency” was both immediate and far-reaching from its inception. The uses of an international currency can be categorized in terms of the same functions associated with domestic money as a unit of account, a medium of exchange, and a store of value.

The euro is used as a settlement currency for about half of the euro area’s external trade flows. As a parallel currency for cash-based transactions, the euro’s use is more difficult to assess because these trades usually go unrecorded and sometimes involve activities in the informal, or underground, economy. Bank data on net currency shipments euro banknotes sent abroad minus those received indicate that more than 30 billion Euro’s, or nearly 10 percent of all euros in circulation, was provided to nonarea residents during the euro changeover from January 2002 through June 2003.

The euro’s most important international role in the private sector has been as a currency of denomination for

financial assets. For example, the share of euro-denominated debt (issued by nonresidents) has risen steadily since 1999 and now accounts for nearly one-third of the outstanding stock of international debt securities, behind only U.S. dollar denominated debt (see chart). In international loan markets, the respective shares of euro and dollar loans to nonresidents are similarly distributed (37 percent and 46 percent).

As a reserve asset, the dominant currency in official holdings of foreign reserves remains the U.S. dollar although the euro has seen its relative share rise steadily from 12.7 percent at end-1999 to 18.7 percent at end-2002

In terms of the euro’s official uses, reference and intervention currency functions tend to be closely intertwined. In 2003, 51 countries and territories outside the euro area relied on the euro as their reference or anchor currency or as part of a currency basket peg. A number of EU accession countries and countries in the western Balkans and Africa use the euro as the sole anchor currency. Moreover, Russia maintains in its currency basket peg a 60–40 split between the U.S. dollar and the European single currency. As a reserve asset, the dominant currency in official holdings of foreign reserves remains the U.S. dollar although the euro has seen its relative share rise steadily from 12.7 percent at end-1999 to 18.7 percent at end-2002. As the currency area’s map continues to be redrawn, and backed by the ECB’s credibility, the euro’s reach in global trade and finance will likely continue to expand.

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