

# BULLETIN

**4 2003**

MINISTRY OF FINANCE  
REPUBLIC OF MACEDONIA

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Skopje, April 2003



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## **HONORABLE,**

As we promised in the last issue of the Bulletin of the Ministry of Finance, from this month we continue the regular monitoring and publishing of the latest economic trends on monthly basis.

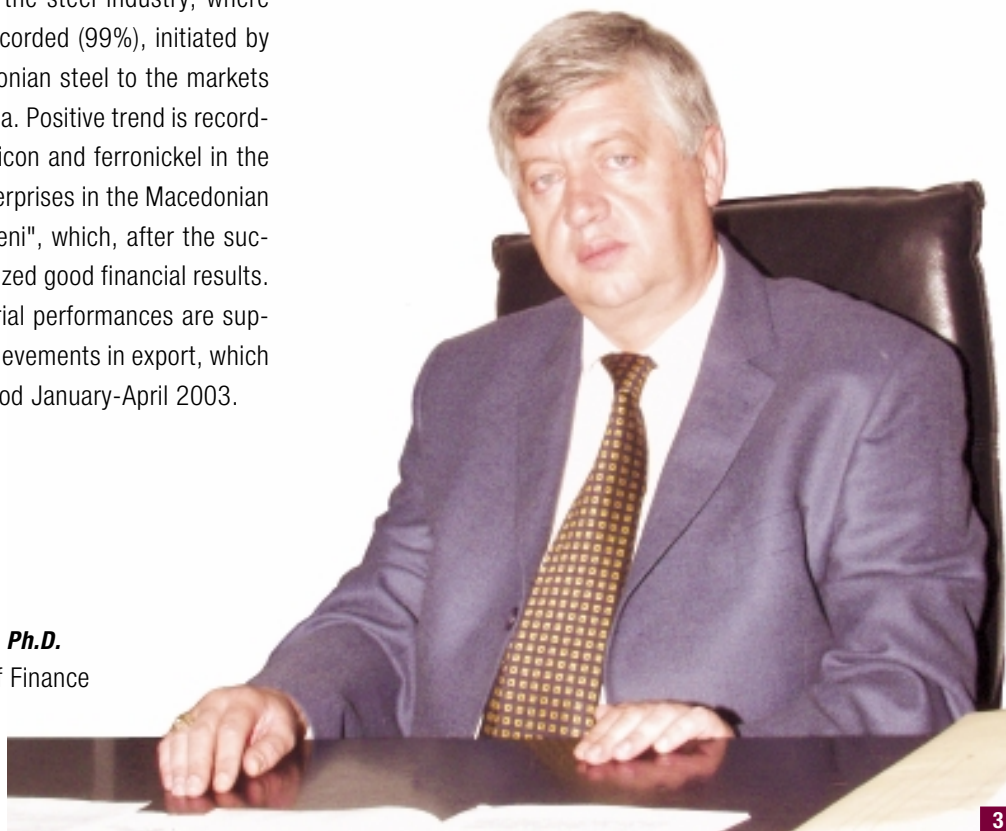
After the negative events, which were inevitable feature of the economic area in the past several years, in April 2003, the gradual consolidation of the Macedonian economy continued. The most recent reports by the State Statistics Office can support that conclusion. According to the reports, GDP growth in the first quarter of 2003 was 2.2%, with positive growth rates realized in almost every sector. This is the third subsequent quarter in which the Macedonian economy is in the zone of positive economic growth, and it is good news in terms of increased dynamics of the economic activity in the next period. Simultaneously, the realization in the first quarter is in line with the projections agreed with the IMF Mission during their last visit of the Republic of Macedonia.

The Macedonian industry also shows good results, which, in the first four months of this year, compared to the same period of the last year, increased by 2.4%. The growth of the industrial output is led by the steel industry, where very high growth rates were recorded (99%), initiated by the increased export of Macedonian steel to the markets of the People's Republic of China. Positive trend is recorded at the production of ferrosilicon and ferronickel in the former largest loss-making enterprises in the Macedonian economy - "Jugohrom" and "Feni", which, after the successful restructuring, have realized good financial results. In this period, the good industrial performances are supplemented by the excellent achievements in export, which increased by 23.7% in the period January-April 2003.

In April 2003, the long-announced adjustment of the VAT rates finally occurred, which caused numerous polemics in the public. With this move, the general VAT rate was reduced from 19% to 18% and certain groups of products previously taxed with the preferential 5% rate were transferred to the groups of products now being taxed with the general 18% rate. In line with the projections of the Ministry of Finance, and contrary to the speculations in the public, the adjustments of the rates had almost no impact on the price stability. The inflation rate, measured via the costs of living in the first three months, was only 0.1%, while the initial impact from the rate adjustments caused moving of the general price level by 1.6% in relation to March.

One of the features of this period is certainly the restrictive fiscal policy, implemented by the Government of the Republic of Macedonia, in line with the Arrangement agreed with the IMF. The positive results are already apparent, and as a response to the disciplinary fiscal policy, the National Bank of the Republic of Macedonia in April

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this year made an additional adjustment of the interest rates it determines, whereby the NBRM discount rate was reduced from 8% to 6.5%, while the interest rate on Lombard facilities was reduced from 17.5% to 16%. Simultaneously, a decision was passed to move to volume tenders in the treasury bills auctions, i.e. the interest rate on treasury bills with 28 days maturity period is fixed on 7%. Such NBRM policy is expected to yield significant drop of the interest rates which the commercial banks determine on the credits they extend to the economic entities, to the end of stimulating the economic activity in the country.

Still, in this period, major priority of the Government of the Republic of Macedonia, pursuant to the 2003 macroeconomic policy, is employment encouragement. Thereby, the employment policy is directed towards establishing mechanisms for urgent discontinuation of the rise of unemployment and restoration of the disturbed labor market functions. Hence, in 2003, the basic elements of the government employment policy are the active employment encouragement measures, reforms and modernization of

institutions acting on the labor market (mainly the Employment Bureau) and providing greater flexibility with respect to the new employments. To that effect, the Government has already adopted the Law on Employment Encouragement, granting to the employers the right to refund of the paid salary contributions in the period of 2 years for the newly-employed persons. The planned expenditures for the implementation of this Law amount to around EUR 15 million annually or 0.3% of the projected GDP.

Enjoy reading the Bulletin of the Ministry of Finance.

Best regards,

Dimko Kokaroski, PhD

Deputy Minister of Finance

## BASIC MACROECONOMIC INDICATORS

Annual data for Republic of Macedonia

		1993	1994	1995	1996	1997	1998	1999	2000	2001 *	2002 *
Real GDP	%	-7.5	-1.8	-1.1	1.2	1.4	3.4	4.3	4.5	-4.5	0.7
Inflation (average)	%	362	128	15.7	2.3	2.6	-0.1	-0.7	5.8	5.5	1.8
Inflation (end of period)	%	248.2	55.4	8.8	-0.7	2.7	-2.4	2.4	6.1	3.7	1.1
Implicit deflator	%	442.1	151.9	17.1	2.9	3.4	1.4	2.7	8.2	3.6	
Budget balance (Central budget and funds)	% of GDP	-13.4	-2.9	-1.2	-0.5	-0.4	-1.7	0.0	2.5	-6.1	-3.1
Exchange rate (average)	DEN/1USD	23.6	43.2	38.0	40.0	49.8	54.5	56.9	65.9	68.1	64.7
Exchange rate (end of period)	DEN/1USD	44.6	40.6	38.0	41.4	55.4	51.8	60.3	65.3	69.2	58.6
Export (F.O.B.)	USD bill.	1.06	1.08	1.20	1.15	1.20	1.31	1.19	1.32	1.15	1.11
Import (C.I.F.)	USD bill.	1.01	1.27	1.42	1.46	1.59	1.91	1.78	2.08	1.68	1.96
Trade balance	USD bill.	0.05	-0.19	-0.22	-0.31	-0.39	-0.60	-0.59	-0.76	-0.53	-0.85
Current account balance	USD bill.	0.02	-0.16	-0.22	-0.28	-0.27	-0.31	-0.11	-0.11	-0.24	-0.32
As % of GDP	%	0.8	-4.7	-4.9	-6.3	-7.2	-8.7	-3.0	-3.1	-8.6	-8.7
Foreign exchange reserves	USD bill.	0.12	0.16	0.27	0.27	0.28	0.33	0.48	0.71	0.79	0.73
Import coverage (reserves / import)	months	1.4	1.6	2.3	2.2	1.9	2.1	3.2	4.1	4.9	4.4
External debt <sup>1)</sup>	USD bill.	1.14	1.26	1.44	1.17	1.13	1.47	1.49	1.49	1.48	1.55
As % of GDP	%	45.5	37.2	32.3	26.5	30.3	41.0	40.0	38.2	39.8	41.8

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

\* Estimation or preliminary data

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

## SELECTED MACROECONOMIC INDICATORS IN THE EUROPEAN UNION ACCESSION CANDIDATES

	Real GDP				Consumer prices <sup>1)</sup>				Current account balance <sup>2)</sup>			
	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004
European Union accession countries	-	3.9	3.9	4.5	21.1	15.8	10.2	7.5	-2.8	-3.3	-3.6	-3.4
Bulgaria	4.0	4.0	5.0	5.5	7.5	5.8	3.0	4.1	-6.2	-3.4	-5.5	-4.6
Czech Republic	3.1	2.0	1.9	3.3	4.7	1.8	1.1	3.0	-5.7	-5.3	-5.8	-5.3
Estonia	5.0	5.0	4.9	5.2	5.8	4.3	3.6	2.9	-6.1	-10.1	-5.0	-5.1
Hungary	3.8	3.3	3.6	3.9	9.2	5.3	5.3	4.8	-3.4	-4.1	-4.8	-4.6
Latvia	7.9	6.1	5.5	6.0	2.5	1.9	3.0	3.0	-9.6	-8.7	-8.5	-7.1
Lithuania	5.9	5.9	5.3	5.7	1.3	0.3	2.1	2.5	-4.8	-5.4	-5.8	-5.4
Poland	1.0	1.3	2.6	4.1	5.5	1.9	1.1	2.4	-3.9	-3.5	-3.7	-4.0
Romania	5.7	4.9	4.9	5.0	34.5	22.5	16.2	11.6	-6.0	-3.4	-4.5	-4.5
Slovak Republic	3.3	4.4	4.0	4.2	7.3	3.3	8.8	7.5	-8.6	-8.2	-6.6	-6.3
Slovenia	3.0	2.9	3.2	3.8	8.4	7.5	5.7	5.0	0.2	1.8	1.9	1.7
Turkey	-7.5	6.7	5.1	5.0	54.4	45.0	24.7	14.5	2.3	-1.0	-1.8	-1.1

1) Annual average

2) Percent of GDP

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

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

		Agriculture, hunting, forestry and fishing	Mining and quarrying, manufacturing, electricity and gas	Construction	Wholesale and retail trade; repair of motor vehicles, motorcycles	Hotels and restaurants	Transport, storage and communication	Financial intermediation and real estate, renting	Public administration and defense	Imputed banking services	Value added	Net taxes on production	GDP
		A + B	C + D + E	F	G	H	I	J + K + O	L + M + N				
<b>1998</b>	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
	<b>98/97</b>	<b>3.3</b>	<b>1.4</b>	<b>7.7</b>	<b>0.4</b>	<b>7.3</b>	<b>26.5</b>	<b>0.0</b>	<b>1.2</b>	<b>13.5</b>	<b>3.2</b>	<b>4.5</b>	<b>3.4</b>
<b>1999</b>	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
	<b>99/98</b>	<b>0.9</b>	<b>1.7</b>	<b>10.4</b>	<b>3.0</b>	<b>24.7</b>	<b>17.2</b>	<b>1.9</b>	<b>4.1</b>	<b>-0.7</b>	<b>4.6</b>	<b>2.7</b>	<b>4.3</b>
<b>2000</b>	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
	<b>00/99</b>	<b>1.0</b>	<b>9.4</b>	<b>2.6</b>	<b>3.0</b>	<b>-11.3</b>	<b>8.5</b>	<b>2.7</b>	<b>0.1</b>	<b>1.7</b>	<b>4.1</b>	<b>7.5</b>	<b>4.5</b>
<b>2001*</b>	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
	<b>01/00</b>	<b>-10.8</b>	<b>-4.6</b>	<b>-14.4</b>	<b>-0.8</b>	<b>-4.5</b>	<b>-8.3</b>	<b>2.1</b>	<b>-2.3</b>	<b>-10.5</b>	<b>-4.4</b>	<b>-5.1</b>	<b>-4.5</b>
<b>2002*</b>	I	-2.7	-13.9	-11.0	7.6	-8.8	9.0	0.6	2.3	6.3	-2.2	-2.2	-2.2
	II	2.2	-7.7	-3.7	6.3	6.9	5.3	-0.5	0.7	10.9	-0.6	-0.6	-0.6
	III	3.6	-5.6	0.8	5.8	21.7	9.9	-0.4	0.5	15.8	1.0	1.0	1.0
	IV	6.2	5.5	-3.0	6.5	9.4	13.3	-0.1	1.9	11.4	4.3	4.3	4.3
	<b>02/01</b>	<b>2.3</b>	<b>-5.1</b>	<b>-3.7</b>	<b>6.5</b>	<b>7.4</b>	<b>9.4</b>	<b>-0.1</b>	<b>1.3</b>	<b>11.0</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>

\* Preliminary data

Source: State Statistical Office

GROSS DOMESTIC PRODUCT (PRODUCTION APPROACH)

In millions of denarsAt current prices

NACE Section	Description	1998	1999	2000	2001 <sup>1)</sup>	Indices 2001/2000
A	Agriculture, hunting and forestry	22.224	23.094	23.756	22.933	96.5
B	Fishing	52	29	14	24	71.4
C	Minerals and stone mining	1.584	1.620	1.856	1.312	-29.3
D	Manufacturing	35.202	36.764	40.926	39.587	-3.3
E	Electricity, gas and water supply	8.868	9.203	10.381	10.041	-3.3
F	Construction	11.267	10.880	13.361	11.801	-11.7
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	21.914	22.383	25.402	26.076	2.7
H	Hotels and restaurants	3.063	3.984	3.463	3.410	-1.5
I	Transport, storage and communication	14.309	17.233	21.261	21.694	2.0
J	Financial intermediation	7.229	6.977	7.342	7.420	1.1
K	Real estate, renting and business activities	5.206	5.890	7.466	8.304	11.2
L	Public administration and defence; compulsory social security	12.067	14.351	14.333	14.445	0.8
M	Education	8.030	8.769	8.266	8.048	-2.6
N	Health and social work	8.310	8.592	8.987	8.690	-3.3
O	Other community, social and personal service activities	4.887	4.967	5.217	5.548	6.3
P	Imputed rents	9.058	9.597	10.465	10.631	1.6
	Minus: Imputed banking services	5.036	5.017	5.153	4.738	-8.1
A	Value added	168.235	179.316	197.344	195.230	-1.1
B	Net taxes on production	26.747	29.694	39.045	38.611	-1.1
A + B	GROSS DOMESTIC PRODUCT	194.979	209.010	236.389	233.841	-1.1

1) Preliminary data.

GROSS DOMESTIC PRODUCT (EXPENDITURE APPROACH)

	In millions of denars				In %			
	1998	1999	2000	2001	1998	1999	2000	2001
GROSS DOMESTIC PRODUCT	194.979	209.010	236.389	233.841	100.0	100.0	100.0	100.0
(current prices)								
Final consumption	180.582	188.702	218.986	221.770	92.6	90.3	92.6	94.8
Household consumption	141.078	145.693	175.965	163.791	72.4	69.7	74.4	70.0
Government consumption	39.504	43.009	43.021	57.979	20.3	20.6	18.2	24.8
Gross capital formation	43.408	41.171	50.683	42.760	22.3	19.7	21.4	18.3
Gross fixed capital formation	33.982	34.710	38.332	34.716	17.4	16.6	16.2	14.8
Change in stocks	9.426	6.461	12.351	8.044	4.8	3.1	5.2	3.4
Export of goods and services	80.343	88.143	114.209	99.091	41.2	42.2	48.3	42.4
Export of goods (FOB)	70.618	67.988	87.161	78.625	36.2	32.5	36.9	33.6
Export of services	7.147	14.367	9.971	15.894	3.7	6.9	8.4	6.8
Purchases of non-residents	2.579	5.788	7.077	4.572	1.3	2.8	3.0	2.0
Import of goods and services	109.355	109.007	147.489	129.780	56.1	52.2	62.4	55.5
Import of goods (FOB)	92.845	90.554	123.910	107.166	47.6	43.3	52.4	45.8
Import of services	16.510	18.543	23.579	22.614	8.5	8.8	10.0	9.7

Source: State Statistical Office



**BASIC SHORT-TERM ECONOMIC TRENDS***Percentage change from the same period previous year, if otherwise not stated*

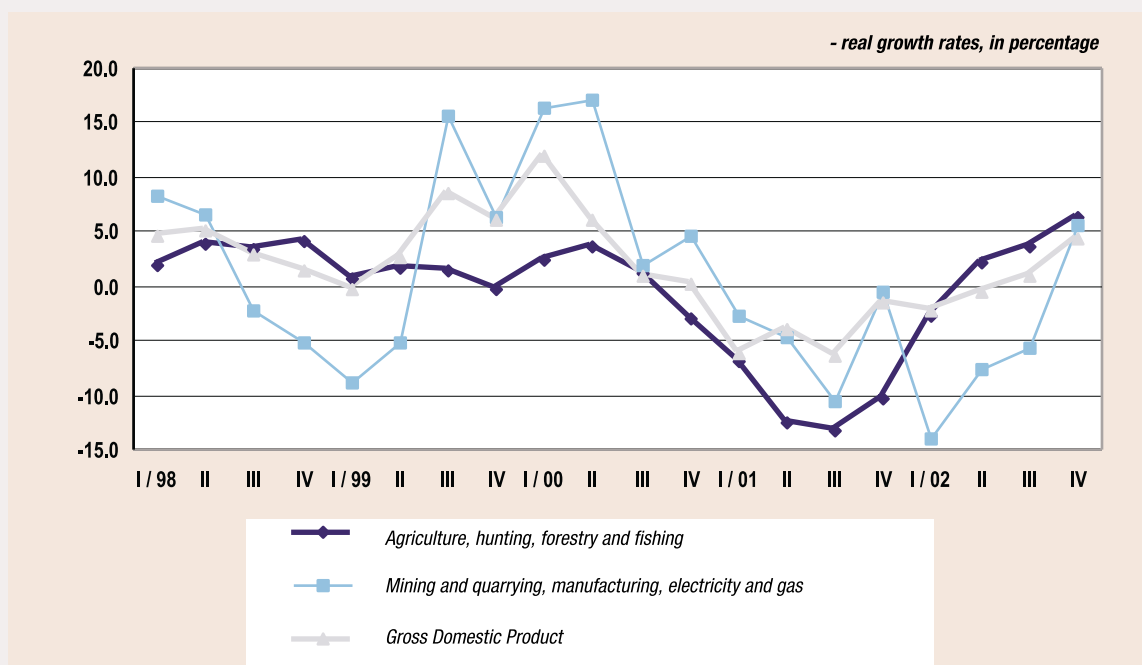
	2000	2001	2002	2002				2003			
				Q1	Q2	Q3	Q4	January	February	March	April
<b>REAL SECTOR</b>											
<b>Production</b>											
<i>real rates of change</i>											
Gross domestic product	4.6	-4.5	0.7	-2.2	-0.6	1.0	4.3				
Industrial production	3.5	-3.1	-5.3	-13.9	-7.7	-5.6	5.5	8.4	-13.7	15.8	3.5
<i>nominal rates of change</i>											
Investment in machines and equipment	20.8	-16.9	16.4	48.1	22.8	-0.6	5.1				
<b>Prices</b>											
Costs of living	5.8	5.5	1.8	3.7	3.5	-0.9	0.9	0.2	0.1	-0.3	0.0
Industrial producer prices	8.9	2.0	-0.9	-1.9	-1.0			1.9	1.3	1.1	1.5
<b>Competition of the industry</b>											
Productivity	6.0	0.5	3.0	-3.2	6.7	13.9	21.8	18.3	-10.1	25.3	20.3
Unit labour cost	-4.7	-0.7	0.2	2.2	-4.4	-6.6	-13.1	-15.7	9.4	-21.5	-19.6
Real unit labour cost	-12.5	-2.7	1.1	9.1	0.4	-3.6	-15.9	-17.8	7.5	-22.7	-22.8
<b>Stock exchange prices of the major Macedonian export and import products</b>											
<i>Prices in US \$</i>											
Crude oil Brent	28.3	24.4	25.0	21.2	25.1	26.9	26.8	31.3	32.7	30.3	31.4
Lamb (c/kg)	261.9	291.2	330.3	311.1	319.2	339.7	351.5	360.4	358.2	352.2	356.7
Nickel	8,638.0	5,944.7	6,772.0	6,203.0	6,946.0	6,883.0	7,104.0	8,026.0	8,623.0	8,379.0	8,343.0
Copper	1,813.0	1,578.3	1,559.0	1,557.0	1,611.0	1,516.0	1,554.0	1,648.0	1,684.0	1,659.0	1,663.0
Lead	45.4	47.6	45.3	49.1	45.5	43.0	43.5	44.5	47.6	45.7	45.9
Zink	112.8	88.6	77.9	79.5	78.2	76.6	79.8	78.1	78.5	79.1	78.6
Steel cold rolled coilsreat	385.8	299.2	328.3	280.0	300.0	353.0	380.0	380.0	410.0	410.0	410.0
Steel hot rolled coilsreat	295.8	216.5	246.7	200.0	236.7	270.0	280.0	280.0	320.0	320.0	306.7
<b>EXTERNAL SECTOR</b>											
<i>nominal rates of change in dollar amount</i>											
Export of goods (FOB)	11.0	-12.7	-3.7	-16.7	-7.2	3.3	6.3	15.9	14.9	29.5	20.7
Import of goods (CIF)	17.9	-19.4	16.3	11.8	13.5	31.3	16	1.0	3.8	54.4	19.6
Trade balance (in millions of US \$)	-771	-533	-849	-200	-196	-184	-270	-79.9	-56.4	-100.2	236.4
Current account of the balance of payments (in millions of US \$)	-236	-38	-324	-104.3	-59.2	-37.1	-123.9				
Foreign exchange reserves (in millions of US \$) "—" means decrease	235.6	37.8	-41.0	22.0	68.0	-34.0	-97.0	-43.0	-10.0	3.0	-50.0
Medium and long-term external debt (end of period, in millions of US \$)	1,438.0	1,444.0	1,549.0	1,417.0	1,482.0	1,491.0	1,549.0	1,556.0	1,554.0	1,541.0	1,560.0



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

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 <sup>2)</sup>
<b>Gross Domestic Product<sup>1)</sup></b>	3,450	3,389	3,351	3,390	3,458	3,575	3,730	3,899	3,723

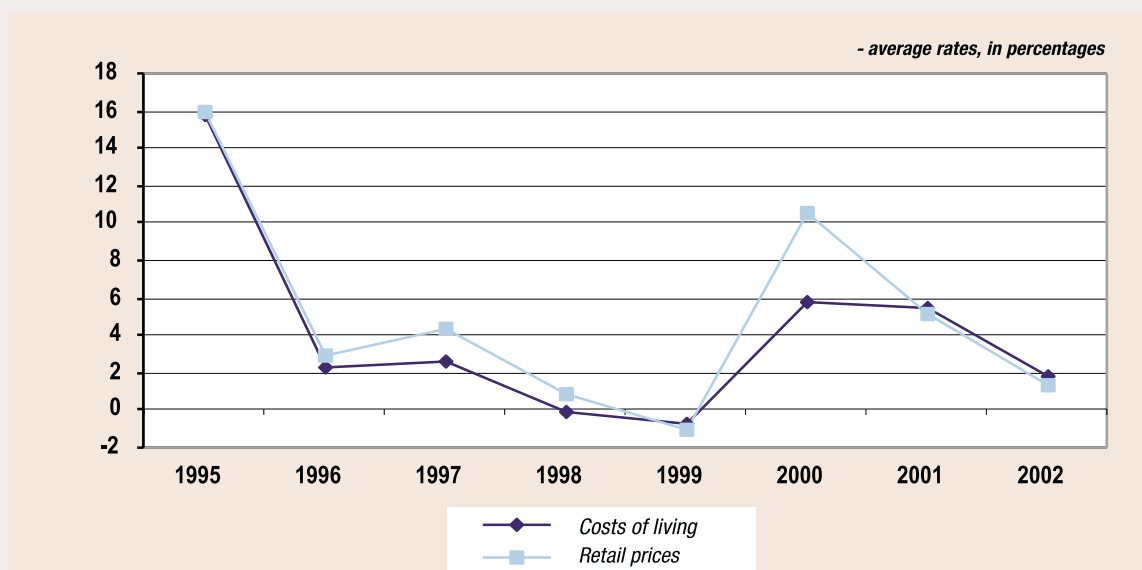
In USD dollars

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

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

2) Previous data

## PRICES



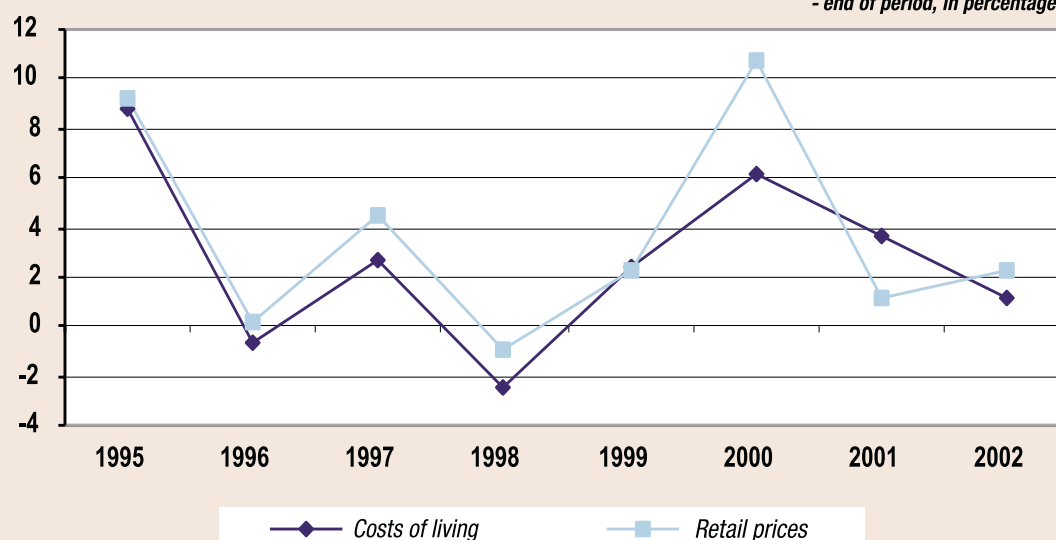
Average rates, in percentages

	1995	1996	1997	1998	1999	2000	2001	2002
<b>Costs of living</b>	15.7	2.3	2.6	-0.1	-0.7	5.8	5.5	1.8
<b>Retail prices</b>	15.9	3.0	4.4	0.8	-1.1	10.6	5.2	1.4

End of period, in percentages

	1995	1996	1997	1998	1999	2000	2001	2002
<b>Costs of living</b>	8.8	-0.7	2.7	-2.4	2.4	6.1	3.7	1.1
<b>Retail prices</b>	9.2	0.2	4.5	-1	2.3	10.8	1.2	2.2

- end of period, in percentages

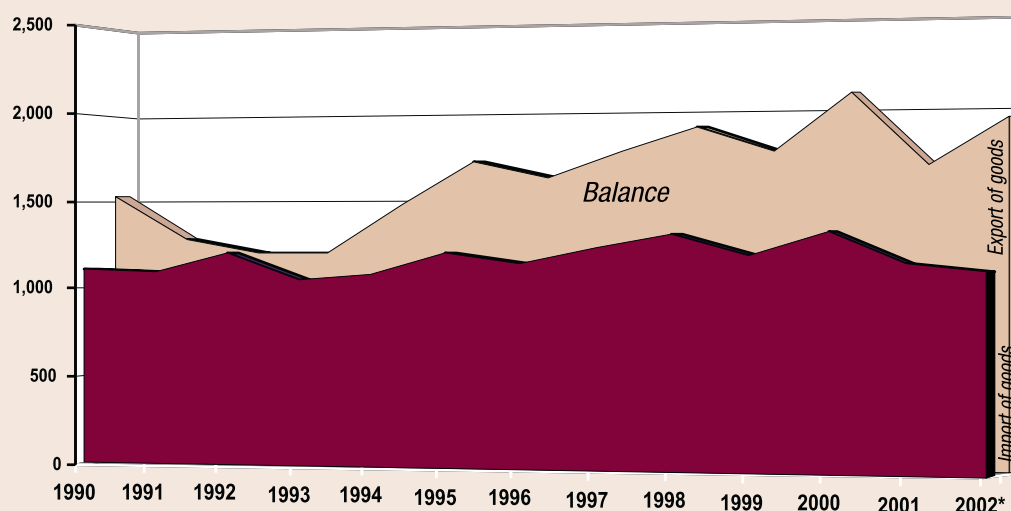


## FOREIGN TRADE

In millions US dollars

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002*
<b>Export of goods</b>	1,113	1,096	1,199	1,055	1,086	1,204	1,148	1,237	1,311	1,192	1,323	1,155	1,105
<b>Import of goods</b>	1,531	1,274	1,206	1,199	1,484	1,719	1,627	1,779	1,915	1,776	2,094	1,688	1,952
<b>Balance</b>	-418	-178	-7	-144	-398	-515	-479	-542	-604	-584	-771	-533	-847

\* Preliminary data



FOREIGN TRADE

(In millions US dollars)

		Total			Germany			Serbia and Monte Negro		
		Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
1997		1,236.8	1,778.5	-541.7	199.0	239.0	-40.0	273.6	206.0	67.6
1998		1,310.7	1,914.7	-604.0	286.0	255.2	30.8	240.0	245.6	-5.6
1999		1,191.3	1,776.2	-584.9	254.3	245.8	8.5	254.5	183.9	70.6
2000		1,322.6	2,093.8	-771.2	257.5	253.3	4.2	335.2	190.4	144.8
2001		1,155.0	1,687.6	-532.6	237.5	213.3	24.2	266.8	157.2	109.6
2002		1,096.3	1,967.6	-871.3	231.4	288.2	-56.8	222.4	188.3	34.1
1998	Q1	274.5	377.7	-103.2	66.8	46.9	19.9	50.9	53.2	-2.3
	Q2	299.5	418.4	-118.9	65.6	64.5	1.1	66.3	60.8	5.5
	Q3	313.0	439.4	-126.4	72.1	57.6	14.5	66.8	61.9	4.9
	Q4	349.8	543.0	-193.2	76.1	86.2	-10.1	56.0	69.7	-13.7
1999	Q1	254.0	345.4	-91.4	69.1	49.5	19.6	26.6	41.5	-14.9
	Q2	250.6	364.9	-114.3	58.4	58.2	0.2	20.3	26.6	-6.3
	Q3	343.4	476.7	-133.3	67.2	59.4	7.8	115.1	46.7	68.4
	Q4	343.5	589.2	-245.7	59.6	78.7	-19.1	92.5	69.1	23.4
2000	Q1	331.1	606.8	-275.7	66.1	80.9	-14.8	78.8	47.8	31.0
	Q2	317.7	481.0	-163.3	56.9	52.7	4.2	76.3	47.3	29.0
	Q3	345.1	470.6	-125.5	70.8	55.0	15.8	82.8	47.3	35.5
	Q4	328.7	535.4	-206.7	63.7	64.7	-1.0	97.3	48.0	49.3
2001	Q1	291.5	400.4	-108.9	69.0	52.8	16.2	62.3	34.9	27.4
	Q2	285.3	416.6	-131.3	52.9	59.0	-6.1	74.1	39.2	34.9
	Q3	295.7	378.9	-83.2	61.9	42.8	19.1	62.9	33.4	29.5
	Q4	282.5	491.7	-209.2	53.7	58.7	-5.0	67.5	49.7	17.8
2002	Q1	243.4	443.3	-199.9	60.7	56.2	4.5	46.9	38.2	8.7
	Q2	263.9	459.7	-195.8	53.8	69.1	-2.5	53.4	47.8	5.6
	Q3	288.6	494.5	-205.9	60.1	75.1	-9.9	55.8	47.7	8.1
	Q4	300.4	570.1	-269.7	56.8	87.8	-31.0	66.3	54.6	11.7
2001	I	82.3	118.6	-36.3	20.6	18.8	1.8	18.6	10.3	8.3
	II	98.4	131.2	-32.8	23.9	16.0	7.9	25.0	11.3	13.7
	III	110.8	150.6	-39.8	24.5	17.9	6.6	18.7	13.2	5.5
	IV	95.9	130.8	-34.9	16.2	15.9	0.3	25.1	12.8	12.3
	V	88.9	146.6	-57.7	15.5	23.3	-7.8	25.0	11.1	13.9
	VI	100.5	139.2	-38.7	21.2	19.8	1.4	23.9	15.3	8.6
	VII	97.1	133.2	-36.1	22.6	17.2	5.4	21.3	10.1	11.2
	VIII	92.3	118.6	-26.3	17.4	13.6	3.8	17.5	10.7	6.8
	IX	106.3	127.1	-20.8	21.9	12.1	9.8	24.0	12.6	11.4
	X	102.6	161.0	-58.4	18.8	17.6	1.2	25.3	15.1	10.2
	XI	97.9	158.7	-60.8	16.0	19.0	-3.0	22.6	18.7	3.9
	XII	82.0	172.0	-90.0	18.9	22.1	-3.2	19.8	16.0	3.8
2002	I	68.3	155.6	-87.3	17.7	15.6	2.1	13.0	9.6	3.4
	II	82.5	145.1	-62.6	20.6	21.9	-1.3	17.0	12.5	4.5
	III	92.6	142.6	-50.0	22.4	18.7	3.7	16.9	16.1	0.8
	IV	88.8	150.9	-62.1	15.8	20.7	-4.9	19.5	19.2	0.3
	V	76.7	146.8	-70.1	15.1	23.8	-8.7	19.4	12.4	7.0
	VI	98.4	162.0	-63.6	22.9	24.6	-1.7	20.9	13.0	7.9
	VII	113.5	185.7	-72.2	22.1	26.7	-4.6	28.1	15.4	12.7
	VIII	89.0	149.2	-60.2	18.7	20.6	-1.9	21.8	16.8	5.0
	IX	102.6	154.1	-51.5	21.3	20.3	1.0	22.8	14.4	8.4
	X	100.3	183.7	-83.4	16.3	23.8	-7.5	25.0	16.3	8.7
	XI	95.5	183.1	-87.6	19.6	26.1	-6.5	22.8	15.7	7.1
	XII	104.6	203.3	-98.7	20.9	37.9	-17.0	18.5	22.6	-4.1
2003	I	79.0	158.8	-79.8	18.7	22.6	-3.9	11.3	15.0	-3.7
	II	94.7	151.1	-56.4	21.9	21.7	0.2	15.5	15.2	0.3
	III	120.0	220.2	-100.2	26.1	24.7	1.4	19.5	20.0	-0.5
	IV	117.3	182.8	-65.5	22.2	20.6	1.6	22.5	15.3	7.2

Source: State Statistical Office

FOREIGN TRADE

(In millions US dollars)

USA			Italy			Greece			Russia		
Export	Import	Balance	Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
117.0	83.4	33.6	43.6	96.0	-52.4	99.0	130.0	-31.0	26.6	69.2	-42.6
174.0	101.6	72.4	91.9	109.1	-17.2	83.1	112.9	-29.8	26.1	90.9	-64.8
136.1	54.7	81.4	77.6	92.7	-15.1	85.9	164.5	-78.6	15.1	91.2	-76.1
165.6	83.0	82.6	90.8	111.1	-20.3	84.1	201.5	-117.4	10.3	191.8	-181.5
99.7	51.5	48.2	88.7	107.7	-19.0	101.4	184.0	-82.6	13.9	139.4	-125.5
77.2	57.7	19.5	88.4	111.7	-23.3	111.7	202.6	-90.9	13.5	123.6	-110.1
32.7	17.4	15.3	21.1	20.6	0.5	19.4	24.9	-5.5	5.9	24.2	-18.3
45.3	18.9	26.4	23.0	30.0	-7.0	21.3	26.6	-5.3	7.6	25.9	-18.3
51.2	19.4	31.8	21.9	24.4	-2.5	20.9	30.3	-9.4	5.8	14.4	-8.6
44.8	45.9	-1.1	25.9	34.1	-8.2	21.5	31.1	-9.6	6.8	26.4	-19.6
34.5	12.5	22.0	21.9	14.6	7.3	20.4	24.8	-4.4	3.0	27.9	-24.9
32.5	12.7	19.8	19.4	23.4	-4.0	23.5	34.1	-10.6	3.3	9.2	-5.9
27.8	12.3	15.5	16.6	26.2	-9.6	18.4	39.6	-21.2	3.9	31.1	-27.2
41.3	17.2	24.1	19.7	28.5	-8.8	23.6	66.0	-42.4	4.9	23.0	-18.1
49.6	16.3	33.3	25.4	29.4	-4.0	19.7	43.1	-23.4	2.6	60.8	-58.2
48.6	16.5	32.1	27.4	29.3	-1.9	18.4	42.3	-23.9	2.7	38.6	-35.9
37.5	23.4	14.1	18.1	25.4	-7.3	23.5	55.3	-31.8	2.1	33.2	-31.1
29.9	26.8	3.1	19.9	27.0	-7.1	22.5	60.8	-38.3	2.9	59.2	-56.3
28.4	13.4	15.0	24.0	19.2	4.8	21.2	40.2	-19.0	2.8	53.4	-50.6
23.4	15.6	7.8	21.4	23.3	-1.9	24.3	38.7	-14.4	3.7	31.7	-28.0
26.9	11.7	15.2	24.3	29.5	-5.2	30.6	51.1	-20.5	3.3	26.9	-23.6
21.0	10.8	10.2	19.0	35.7	-16.7	25.3	54.0	-28.7	4.1	27.4	-23.3
17.6	17.9	-0.3	26.7	24.4	2.3	19.2	45.9	-26.7	3.4	49.4	-46.0
18.5	15.6	2.9	25.1	26.0	-0.9	27.5	49.1	-21.6	3.6	22.3	-18.7
16.5	10.7	5.8	21.2	29.4	-8.2	30.1	51.9	-21.8	3.5	13.3	-9.8
24.6	13.5	11.1	15.4	31.9	-16.5	34.9	55.7	-20.8	3.0	38.6	-35.6
10.5	6.7	3.8	5.8	5.0	0.8	5.8	8.4	-2.6	1.0	21.0	-20.0
9.3	2.4	6.9	8.1	6.6	1.5	6.3	14.5	-8.2	0.7	18.1	-17.4
8.6	4.2	4.4	10.1	7.6	2.5	9.1	17.2	-8.1	1.0	14.3	-13.3
7.3	4.7	2.6	7.2	7.5	-0.3	8.0	10.2	-2.2	1.0	9.6	-8.6
8.4	5.3	3.1	5.9	7.4	-1.5	8.2	12.4	-4.2	1.5	12.8	-11.3
7.7	5.6	2.1	8.3	8.4	-0.1	8.1	16.1	-8.0	1.2	9.3	-8.1
9.6	3.2	6.4	8.9	11.4	-2.5	8.0	17.1	-9.1	0.9	9.1	-8.2
9.4	4.1	5.3	7.0	9.2	-2.2	12.5	15.8	-3.3	1.2	8.5	-7.3
7.9	4.4	3.5	8.4	8.8	-0.4	10.1	18.1	-8.0	1.3	9.3	-8.0
5.2	3.6	1.6	8.6	9.7	-1.1	10.0	20.7	-10.7	1.3	8.6	-7.3
10.3	4.4	5.9	5.5	10.9	-5.4	8.8	17.7	-8.9	1.9	8.2	-6.3
5.5	2.9	2.6	4.9	15.2	-10.3	6.5	15.6	-9.1	0.9	10.6	-9.7
4.4	5.9	-1.5	7.8	7.0	0.8	5.1	16.7	-11.6	1.1	29.5	-28.4
5.5	8.5	-3.0	8.3	7.8	0.5	6.4	14.7	-8.3	1.1	11.4	-10.3
7.7	3.5	4.2	10.6	9.6	1.0	7.7	14.5	-6.8	1.2	8.5	-7.3
5.3	3.6	1.7	6.2	8.6	-2.4	13.4	19.9	-6.5	1.3	2.4	-1.1
3.5	3.6	-0.1	4.4	11.2	-6.8	9.0	17.5	-8.5	1.0	2.4	-1.4
8.0	6.8	1.2	6.7	12.5	-5.8	10.8	22.5	-11.7	1.1	1.7	-0.6
5.8	5.8	0.0	6.9	14.8	-7.9	10.8	27.4	-16.6	1.8	2.5	-0.7
6.5	3.4	3.1	4.9	6.8	-1.9	8.0	28.5	-20.5	1.1	2.5	-1.4
5.5	3.2	2.3	7.3	7.6	-0.3	9.8	18.6	-8.8	1.8	3.2	-1.4
7.2	3.4	3.8	6.0	11.0	-5.0	12.9	14.6	-1.7	1.7	16.9	-15.2
5.3	4.0	1.3	4.2	9.4	-5.2	9.5	18.6	-9.1	0.8	19.1	-18.3
12.1	6.1	6.0	5.2	11.5	-6.3	12.5	22.5	-10.0	0.5	2.6	-2.1
6.7	5.2	1.5	9.1	7.3	1.8	8.2	43.9	-35.7	0.5	1.7	-1.2
5.1	3.9	1.2	7.3	6.0	1.3	17.0	22.4	-5.4	0.5	2.1	-1.6
4.9	4.7	0.2	9.6	8.3	1.3	15.2	31.5	-16.3	1.5	21.2	-19.7
3.5	4.5	-1.0	8.9	10.4	-1.5	17.3	31.5	-14.2	0.9	5.1	-4.2

# SHORT – TERM ECONOMIC DEVELOPMENTS

**April 2003**

## SUMMARY OF THE MOST IMPORTANT SHORT-TERM ECONOMIC DEVELOPMENTS IN APRIL 2003

- *Industrial production declined by 9.7% on monthly level;*
- *Inflation of 0.1%, measured through the Consumer Price Index;*
- *Export decreased by 2.2% on monthly level;*
- *Import decreased by 17% on monthly level;*
- *Trade deficit in April was lower by 34.6% in relation to the previous month;*
- *Central Budget realized a surplus in the amount of Denar 655 million in the first four months of the year;*
- *External debt increased by 1% in relation to the previous month;*
- *NBRM discount rate decreased from 8% to 6.5%, Lombard credits from 17.5% to 16%, and the interest rate on Central Bank bills was fixed at 7%;*
- *NBRM gross foreign exchange reserves increased by US\$ 17 million, i.e. 2.5% in relation to March;*
- *Foreign exchange savings of economic entities reached the highest level;*
- *Average interest rate on the money market was 10.6%, being the lowest in the last two years;*
- *According to data from the Employment Bureau, 8,300 new employments were realized in April 2003*

### 1. GENERAL ECONOMIC DEVELOPMENTS

After the excellent performance of the Macedonian industry in the past month, certain slowdown of the dynamics took place in April 2003, as well as a 9.7% drop of the industrial production on monthly level. Decline of production was noted in larger number of industry branches, including the so-far leading steel industry and the production of non-ferrous metals. However, one should point out the fact that negative developments in April 2003 were mainly a result of the high comparison basis from the previous month, when exceptionally high rates of monthly increase of the industrial production were noted, exceeding 40%. On the other hand, food, tobacco and construction industries realized positive results for several consecutive months.

In April 2003, Consumer Price Index was 1.4% higher in relation to the previous month, which is the highest monthly inflation rate this year. Reason for such increase is the change of VAT rates that led to one-off increase of prices of certain groups of products. According to the expectations, rate change did not largely influence the average inflation rate, which was 0.1% in the first four months of the year. Primary reason for such low inflation rate is the deflationary tendencies in the "Goods" category (-0.7%), unlike the services that increased by 6.7%.

External debt of the Republic of Macedonia amounted to US\$ 1,560 million at the end of April, which is an increase of 1% compared to the previous month. In this period, funds from abroad in the amount of US\$ 14 million were disbursed - the highest amount disbursed since the beginning of the year, thus amounting to US\$ 29 million

in the period January-April 2003, which is a decrease of 51% in relation to the same period last year.

With respect to the foreign trade, export of goods declined by 2.2%, while the import of goods declined by 17%, resulting in decrease of trade deficit from US\$ 100.3 million in the previous month to US\$ 65.6 million in April 2003. Such decrease of export was mainly a result of the significant reduction of inward processing operations, conditioned by the seasonal character of the production in the textile industry. At the same time, there were positive tendencies at the regular export, which increased by 15.4% in relation to the previous month.

Regarding the fiscal policy, total Central Budget revenues amounted to Denar 17,387 million in the period January-April 2003, which is a decrease of 6% in relation to the same period last year. At the same time, the contraction and maintenance of disciplined fiscal policy reduced the total Central budget expenditures by 19%, amounting to Denar 16,732 million. As result, the Central Budget realized surplus in the amount of Denar 655 million in the analysed period.

With respect to monetary developments, in direction of gradual relaxation of the monetary policy, the National Bank of the Republic of Macedonia made an additional adjustment of the interest rates under its control, decreasing the discount rate from 8% to 6.5%, and the interest rate on Lombard facilities from 17.5% to 16%. At the same time, the interest rate on Central Bank bills with maturity period of 28 days was fixed at 7%. Taking into account the high level of correlation of the interest rates on the money market and the Central Bank bills, the interest rate on the money market also declined and reached an average of 10.6% in April 2003, which is a decline of 1.6 percentage points in relation to the previous month and the lowest level in the past two years. However, such changes in the monetary policy did not result in more significant decrease of the banks' interest on debit balances, which continue to maintain the irrationally high level and represent main obstacle for accelerating the crediting activities of the banks, an subsequently of the economic activity in the country.

At the end of April 2003, gross foreign exchange reserves amounted to US\$ 701 million, which is an increase of US\$

17 million, or 2.5% compared to the previous month. In this month, the total foreign exchange deposits of economic entities further increased by US\$ 30 million, or 5% in relation to March.

Finally, one should emphasize the fact that in April 2003, the tendency of further increase of the number of newly-employed persons in the Macedonian economy continued, whereby 8,300 persons were additionally employed, according to data from the Employment Bureau.

## 2. REAL SECTOR

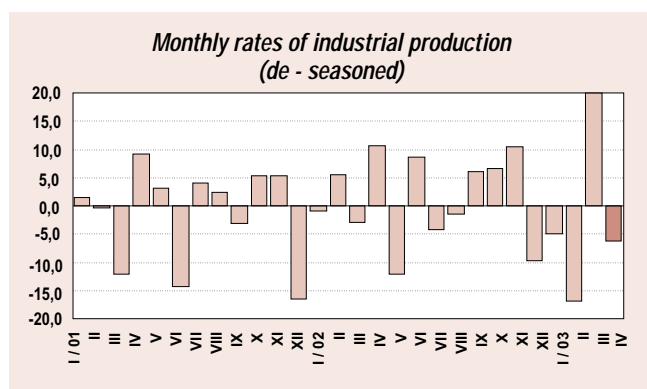
### Industrial production

Seasonal variations in the industrial production present in the previous period also continued in the second quarter of 2003. After the excellent performance of the Macedonian industry in March, industrial production dropped in April 2003, which is usual, followed by poor performance in almost all industry branches. On monthly level, industrial production declined by 9.7%. However, one should point out the fact that poor results in April 2003 were mainly a result of the high comparison basis from the previous month, when exceptionally high rates of monthly increase were realized by the Macedonian industry, exceeding 40%.

The growing tendency in the food industry that started in the previous month, which follows after exceptionally poor performance of this industry branch, registered at the beginning of the year, could be mentioned as positive characteristic of the industrial production in April 2003. According to the newest data, food industry realized an increase of 27.6% in April, which, in addition to the positive rates realized in tobacco industry in three consecutive months, is a solid base for further expansion of the processing industry.

The expansion of the industry for production of construction materials, which started in March and continued with even stronger dynamics, is also characteristic, initiating high level of activities in the domestic construction business, expected to last until the end of the year, mainly as result of the change of the VAT rate for sale of new flats starting from January 1, 2004.

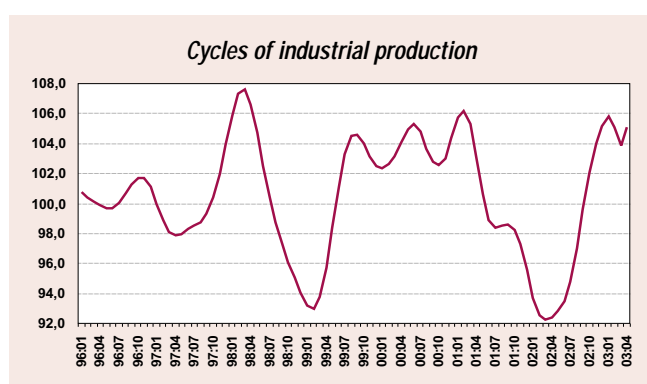




Source: Ministry of Finance

At the same time, de-seasoned industrial production (seasonal influences excluded) realized a monthly reduction of 6.1% in relation to the previous month, and 1.1% on an annual level, mainly as result of the negative developments in the textile, oil, and metal processing industries.

On the other hand, on cumulative basis, figures show quite different picture. In the period January-April 2003, compared to the same period last year, industrial production increased by 2.4%. This time, growth was driven by the processing industry, especially the steel industry, which had very high growth rates (99%), initiated by the increased export of Macedonian steel on the markets of the Peoples' Republic of China. Positive developments were also indicated in the production of ferrosilicon and ferronickel in the former largest loss-making enterprises in the Macedonian economy "Jugohrom" and "Feni", which realize good financial results after their successful restructuring.



Source: Ministry of Finance

Taking into account the performance in the past four-month period, the direction to which Macedonian industry will continue to move is still uncertain, i.e. whether it will approach to the zone of declining cycle, which would

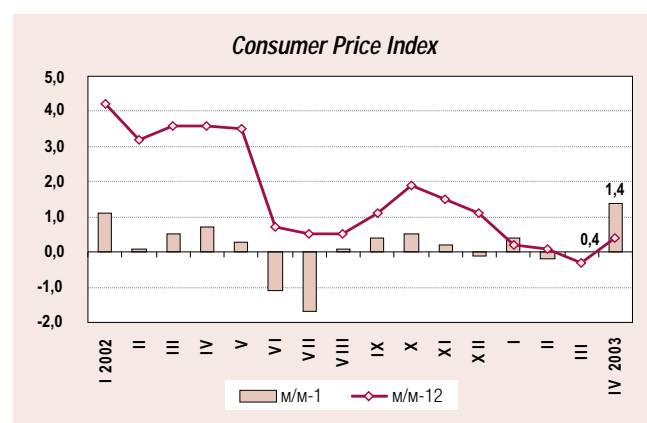
mean a mild drop of the industrial production, or these are short oscillations, after which recovery would follow, as well as repeated growth of industrial production.

## Prices

### Consumer Price Index

Changes of the VAT rate (larger number of products previously taxed under preferential tax rate will now be taxed under the general tax rate), led to mild price increase. Consumer Price Index increased by 1.4% in April 2003, in relation to the previous month, and 0.4% in relation to April 2002. This indicates the limited impact the increase of VAT rate had on the inflation rate in the Republic of Macedonia.

Cumulatively, the Consumer Price Index is higher by 0.1% in the period January-April 2003, in relation to the same period last year. In April 2003, compared to the previous month, there was an increase in the following groups: Hygiene and Health (5.8%), Traffic Means and Services (1.8%), Nutrition and Housing (1.1%), Tobacco and Beverages, Clothing and Footwear (0.5%).



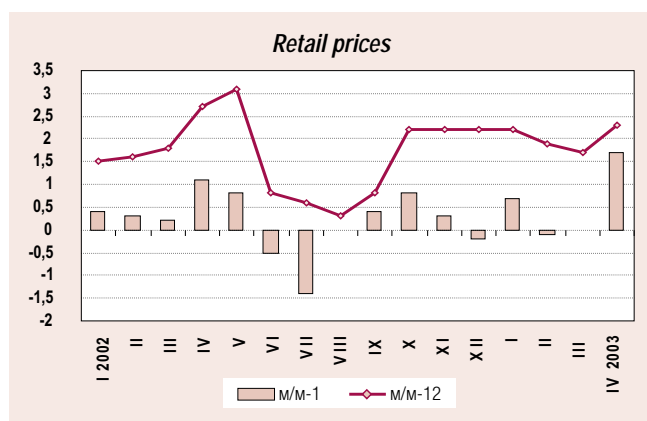
Source: State Statistics Bureau

Reviewed by structure, regarding the Consumer Price Index, there was a monthly increase at the prices of goods by 1.2%, while the services increased by 2.3%.

### Retail Prices

Retail Price Index was higher by 1.7% in April 2003 in relation to the previous month. In relation to the same month last year, this Index was higher by 2.3%, and cumulatively for the first four months in 2003, compared to the same period last year, the Retail Price Index was

higher by 2.0%. An increase of the Index on monthly level was indicated in the following groups: Services (3.1%), Non-food industrial products (0.9%), Beverages (1.7%), Industrial- food products (0.2%).

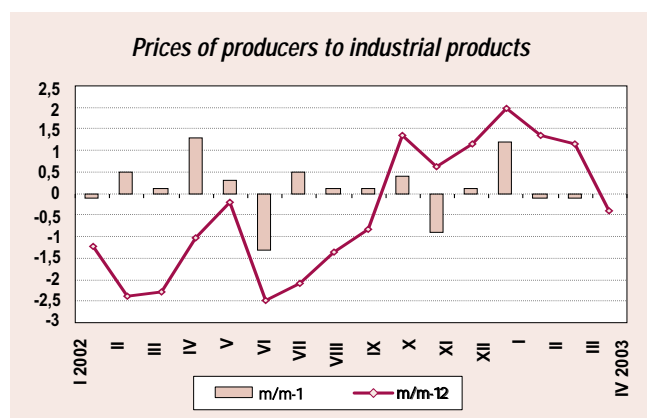


Source: State Statistics Bureau

### Prices of producers of industrial products

Prices of producers of industrial products remained at the same monthly level. However, should we compare April 2003 to the same month last year, prices of producers of industrial products dropped by 0.4%. Prices of producers of industrial products were higher by 1% in the period January-April 2003, in relation to the same period last year.

The maintenance of the same level of the index of prices of producers of industrial products on monthly level was result of the decrease indicated at the energy (0.7%), and capital products (1.9%), and the increase registered at the intermediate products, except energy (0.3%) and non-durable general consumption goods (0.5%).



Source: State Statistics Bureau

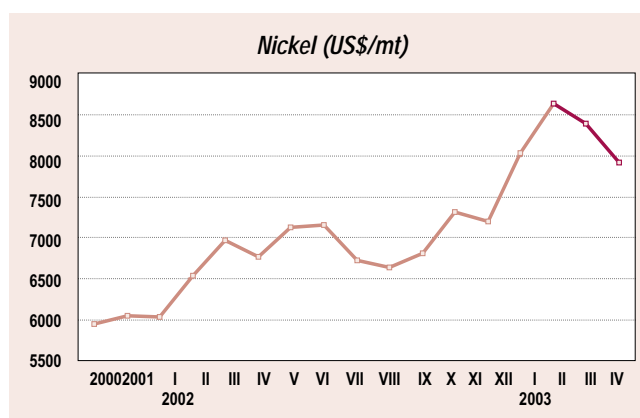
### Commodity Prices

Movements of prices of those products traded on the world markets in April 2003 confirmed the estimates of stock exchange analysts that the period of rapid growth of stock exchange prices initiated by the Iraqi crisis would end and that stabilization period and gradual decrease of prices would commence.

The best indicator for reducing the panic that was present on the world stock markets was the decline of the price of the most wanted precious metal in the first quarter of the year - the gold. In fact, in the first three months, price of gold rose at the 1997 level, mainly as result of the fear the investors had, who believed that in this period it is safer to have gold instead of securities in their portfolios.

On monthly level, largest drop was noticed at the crude Brent oil, the stock exchange of which decreased by even 17.9%, reaching the price level it had in November last year. The reduction of oil price came as result of the large reduction of premiums against war risk, mainly due to the completion of the military intervention in Iraq. Regarding the actual situation on the world political scene, the oil price is expected to stabilize, in the coming period, on its actual level with small monthly oscillations.

The reduction of stock exchange prices was evident at almost all more significant products. The movement of the world price of nickel is of our special interest, and it decreased by 5.6% in April 2003, in relation to the previous month. The reason for such decrease is identical as the one for the remaining products and represents yet another confirmation for the heavy impact Iraqi conflict had on the world stock exchanges. However, despite this, the nickel price level of US\$ 7,910 per one metric ton (\$/mt) in April 2003 is still far above the minimum price enabling cost-efficient production of the only Macedonian producer of this metal.



Source: World Development Prospects (Pink Sheets)

The decreasing tendency of stock exchange price was present at the other non-ferrous metals, primarily copper, zinc and lead, which lost almost identical percentage of their price, or expressed in figures, there was a decrease of 4.3%, 4.6%, and 4.4%, respectively.

As far as the steel industry is concerned, after the price increase of steel products in February this year, we are expecting a stabile period for several months without any larger price changes. There were some minor variations at the price of steel, whereby reduction of 1% was registered in relation to the previous month.

## Agriculture

### Spring sowing

After longer dry period and the rains that improved the situation of autumn grain crops, activities have been intensified for successful and timely sowing of spring crops.

As of May 10, 2003, 85.3 thousand hectares were sowed with spring crops, or around 55% of planned areas. Since there is no lack of intermediate products and the sowing is ongoing with accelerated dynamics, all areas are expected to be sowed by the end of the spring sowing.

Structurally, according to the 2003 plan, 65% of grain crops have already been sowed (wheat 112%, rye 100%, corn 55% and rice 74%), as well as 13% of industrial crops, 61% of vegetables, and 72% of fodder.

The reduced sowing of industrial crops by around 25% compared to the planned is characteristic for this period. Tobacco was planted on only 1% of areas, sunflower on 33%, and sugar beet on 42% of the planned areas. One of the main reasons for the small intensity of sowing is the heavy rain.

The so-far spring sowing, as of April 2003, compared to the same period last year, had some smaller volume due to the delayed start of sowing at almost all groups of crops.

### Purchase of the more significant agriculture products

In April 2003, compared to the same month last year, the value of the total purchase increased by 20.7%, basically due to the increased purchase from the individual producers by 43%, while the sale of own enterprise production increased by 9.5%.

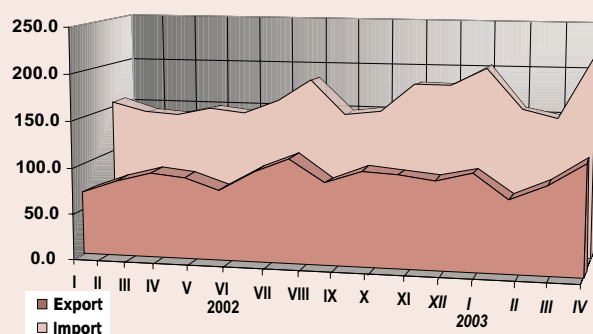
In the period January-April, a total of 23.1 million kilograms of raw leaf tobacco were purchased by the enterprises-purchasers. Largest quantities were purchased from the type Prilep (Denar 7.1 million, with average price of 77.10), and Jaka (8 million kilograms, with average price of 71.50). The oriental type of tobacco Prilep has a share of 59% in the total purchase of tobacco, while Jaka has 39%. 48.21% of the total quantities of purchased tobacco have been paid for in this period, while the remaining quantities have only been taken over, and they have not been paid for yet.

## 3. EXTERNAL SECTOR

### Foreign trade

Foreign trade usually declines in April on monthly basis. In April 2003, in relation to the previous month, export of goods decreased by 2.2%, while the import of goods decreased by 17%, reducing the trade deficit from US\$ 100.3 million in March to US\$ 65.6 million in April 2003.

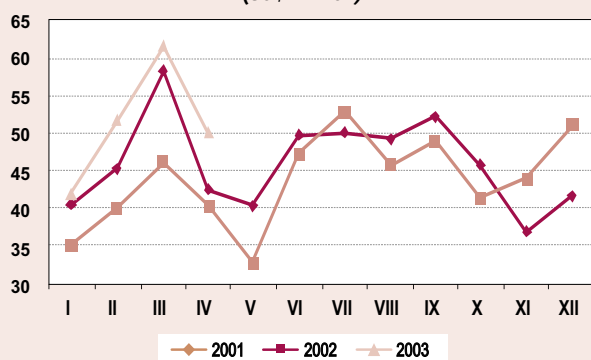
*Export and import of goods realized in 2002 and 2003  
(by months, previous data)*



Source: State Statistics Bureau

The monthly reduction of export is due to the significant 19% decrease of inward processing operations (IPO), determined by the seasonal character of production in the textile industry (transition of production from summer to winter ready-made clothing). The significantly decreased export of clothing and footwear confirms this statement. Consequently, the structural share of inward processing operations in the total export decreased by 9 percentage points.

**Export of IPO realized in 2001, 2002 and 2003  
(US\$ million)**

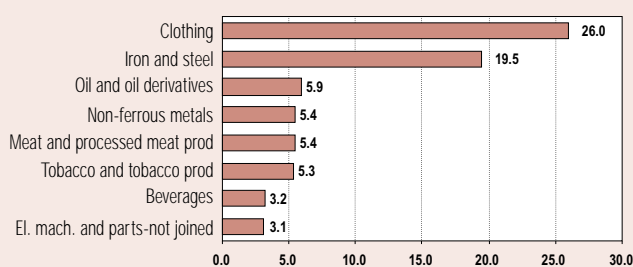


Source: State Statistics Bureau

However, one should emphasize the positive tendency of the regular export<sup>1</sup>, which increased by 15.4% in April 2003 on monthly level, which is favourable with respect to the development prospects of the Macedonian economy.

Monthly increase of regular export is result of the increased export, primarily of meat and processed meat products, mainly due to the high seasonal increase of export of lamb, which had the highest amount in April (approximately US\$ 9 million), as well as oil and oil derivatives.

**Export of more important groups of products by SITC  
(April 2003, structure in %)**



Source: State Statistics Bureau

The inter-annual export analysis indicates positive developments, whereby export increased by 32.1% in April 2003 in relation to April 2002. 23.7% export growth was also registered on cumulative basis (I-IV 2003/I-IV 2002).

**Export by economic purpose\***

	2003 (in US \$)		monthly change (%)
	march	april	
<b>Intermediate products</b>	58,530,600	61,762,405	5.5
<b>Instruments of labor</b>	1,814,439	1,796,067	-1.0
<b>General consumption goods, total</b>	59,616,721	53,691,574	-9.9
Food	6,102,076	10,495,297	72.0
Beverages and tobacco	5,567,802	4,832,105	-13.2
Clothing and footwear	41,702,721	32,231,751	-22.7
Furniture	238,361	401,713	68.5
Textile (except clothing)	1,402,193	1,160,304	-17.3
Medical, pharmaceutical products and cosmetics	3,051,982	2,840,432	-6.9
Other general consumption goods	1,551,586	1,729,971	11.5
Unclassified	22,740	38,449	69.1
<b>Total</b>	119,984,501	117,288,495	-2.2

Source: State Statistics Bureau, previous data

The analysis of exported products by economic purpose indicates on negative movements, i.e. increase of export of intermediate products, as well as decrease of export of general consumption goods.

Analysed by economic groups of countries, in April, export decreased by 3.6% in the dominant partner - EU in relation to March this year. However, cumulatively, as result of the realization of the Interim Trade Agreement, export in EU increased by 26.4% in the period January-April 2003 in relation to the same period last year.

**Export and import of goods in the Republic of Macedonia**

	I - IV - 2002		I - IV - 2003	
	US \$ million	structure in %	US \$ million	structure in %
<b>Export of goods - total</b>	332	100.0	411	100.0
- EU	182	54.8	230	56.0
- other countries	150	45.2	181	44.0
<b>Import of goods - total</b>	594	100.0	713	100.0
- EU	246	41.4	328	46.0
- other countries	348	58.6	385	54.0

Source: State Statistics Bureau, previous data

<sup>1</sup> Total export reduced by the inward processing operations.

Germany, Serbia and Montenegro, Greece, Italy, and USA remained to be our largest partners, the share of which in the export covers 64.4% of the total export.

Cumulatively, in the first four months, Greece was the most significant trade partner in the foreign trade of the Republic of Macedonia (having structural share of 16.2%), most of all due to the larger urgent import of oil in this period.

#### The largest trade partners (I - IV - 2003)

	structure in %
<b>EXPORT</b>	100
out of which:	
Germany	21.6
Serbia and Montenegro	16.7
Greece	12.7
Italy	12.7
USA	8.5
<b>TOTAL</b>	64.7
<b>IMPORT</b>	100.0
out of which:	
Greece	18.1
Germany	12.6
Serbia and Montenegro	9.2
Bulgaria	6.4
Slovenia	5.2
<b>TOTAL</b>	51.5

Source: State Statistics Bureau, previous data

Import of goods in April 2003 significantly declined by 17% in relation to March, however, it increased by 21.2% in relation to the same month last year. The high monthly reduction was mainly a result of the reduction of import of oil and oil derivatives (after the urgent import last month), as well as to the decrease of import of chemical products, food products, and beverages and tobacco. On cumulative basis, import increased by 20% in the first four months of 2003. Such movements of export and import conditioned 15.3% higher trade deficit in the first four months of 2003, in relation to the same period last year, amounting to US\$ 302 million.

#### Import of road vehicles

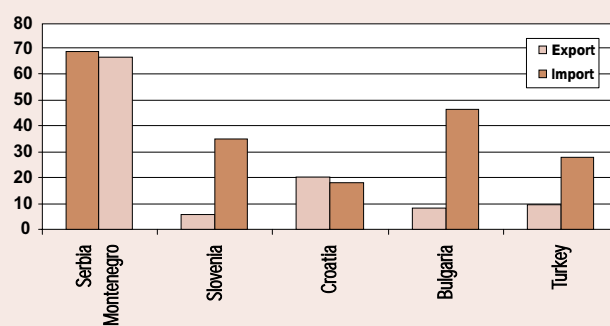
	US \$ million				
	2001	2002	2003	rates 2002/2001 (ln%)	rates 2003/2002 (ln%)
<b>I</b>	4.8	6.2	10.8	29.2	74.2
<b>II</b>	6.2	12.3	7.1	98.4	-42.3
<b>III</b>	4.6	9.9	9.7	115.2	-2.0
<b>IV</b>	4.8	9.4	8.2	95.8	-12.8
<b>V</b>	4.7	11.9		153.2	
<b>VI</b>	4.6	10.9		137.0	
<b>VII</b>	4.7	10.8		129.8	
<b>VIII</b>	3.0	9.4		213.3	
<b>IX</b>	4.7	9.8		89.4	
<b>X</b>	5.0	11.3		126.0	
<b>XI</b>	6.4	10.9		70.3	
<b>XII</b>	7.7	18.5		140.3	
<b>Total</b>	61.2	130.4		113.1	

Source: State Statistics Bureau, previous data

The import of road vehicles in 2002, in relation to 2001, increased by more than twice as much mainly as result of the Amendments to the Law on Customs Tariffs, i.e. reduction of import customs duties for cars.

The tendency of unfavourable realization of the free trade agreements also continued in April. Significantly higher import than export continued to be realized with Bulgaria, Slovenia, and Turkey. The trade deficit with these three countries alone amounted to US\$ 85.4 million, which represents 28.3% of the trade deficit realized in the country in the first four months of 2003, therefore the positive effects from the concluded free trade agreements fall behind.

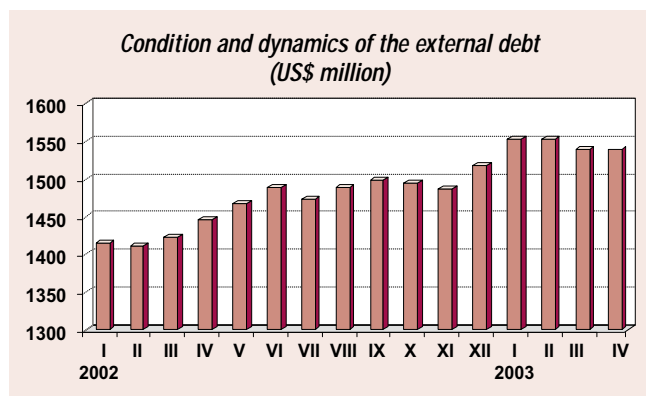
#### Export and import with countries with which free trade agreements are being realized (January - April 2003, US\$ million)



Source: State Statistics Bureau

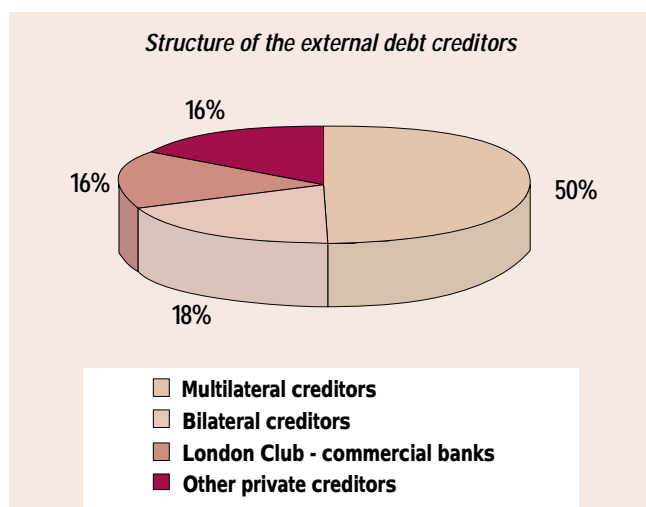
## External debt

The external debt of the Republic of Macedonia<sup>2</sup> amounted to US\$ 1,560 million at the end of April 2003, and it increased by 1% in relation to the previous month<sup>3</sup>. The monthly increase of the debt was due to the higher amount of disbursed funds than the repaid liabilities to the foreign creditors, as well as to realized exchange rate differences during the month.



Source: National Bank of the Republic of Macedonia

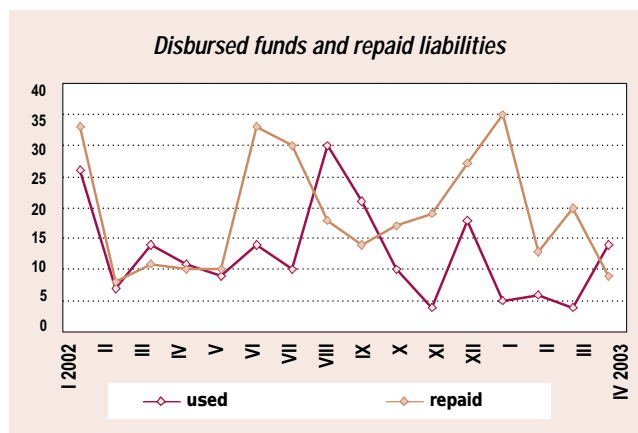
The debt structure by creditors remained unchanged, whereby 68% of the external debt is towards official creditors, and the remaining share refers to the debt towards private creditors. With respect to the official creditors, 50% of it goes on multilateral creditors, which is by 2.7 times more than the debt towards bilateral creditors. The biggest single private creditor is the London Club of Creditors with US\$ 249 million, and within the official creditors: IBRD (International Bank for Reconstruction and Development) and IDA (International Development Association) amounting to US\$ 456 million.



Source: National Bank of the Republic of Macedonia

In April 2003, funds in the amount of US\$ 14 million were disbursed from foreign creditors, which is the highest amount since the beginning of the year. Compared to the previous month, it is higher by more than three times. Disbursed funds were primarily from bilateral and private creditors. The total amount of disbursed funds in the period January-April 2003 was US\$ 29 million, and compared to the same period last year, they have been drastically reduced by 51%.

At the same time, liabilities in the amount of US\$ 8.8 million were serviced towards abroad, US\$ 5.3 million of which for principal, and US\$ 3.5 million for interest. Almost half of the repaid liabilities were towards bilateral creditors, whereby the largest part refers to repayments to the Paris Club, for the 1995 Debt Reschedule. Paid liabilities to abroad have been reduced by 49% on monthly basis, and they are significantly lower than the average in the first three months of the year.



Source: National Bank of the Republic of Macedonia

In April, new credits in the amount of US\$ 30 million were concluded, US\$ 28 million of which refer to the IMF Arrangement, and the remaining is from private creditors.

According to the Repayment Schedule of the National Bank of the Republic of Macedonia, liabilities in the amount of US\$ 138 million will mature in the period May-December 2003, US\$ 108 million of which for principal and US\$ 30 million for interest.

In April, the outstanding liabilities on the basis of principal and interest amounted to US\$ 1.9 million, and cumulatively (for the first four months of the year) they amounted to US\$ 10 million.

<sup>2</sup> According to previous data from the National Bank of the Republic of Macedonia, whereby data refer to the debt on the basis of used medium-term and long-term credits.

<sup>3</sup> Data on the external debt as of March 31, 2002 was revised by the National Bank of the Republic of Macedonia from US\$ 1539.5 million to US\$ 1540.7 million.

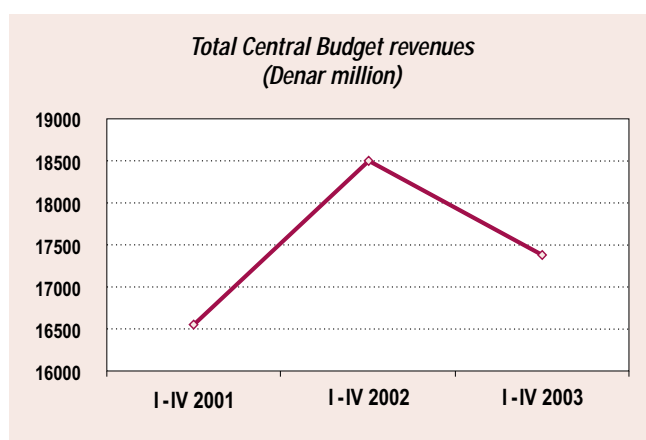


## 4. FISCAL SECTOR

### Central Budget revenues

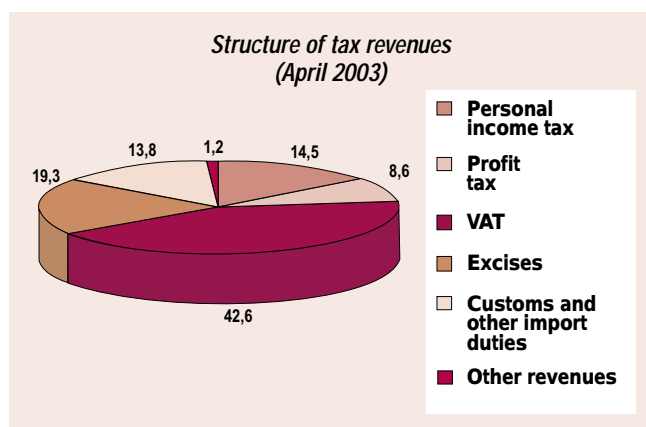
In the first four months of 2003, the Central Budget revenues amounted to Denar 17,387 million, thus decreasing by 6% compared to the same period last year. Such reduction of revenues was primarily due to the abolishment of the Financial Transactions Tax.

Monthly revenues in April amounted to Denar 4,601 million, which is a decrease of 1.1% in relation to the previous month, i.e. 3.8% in relation to April 2002.



Source: Ministry of Finance

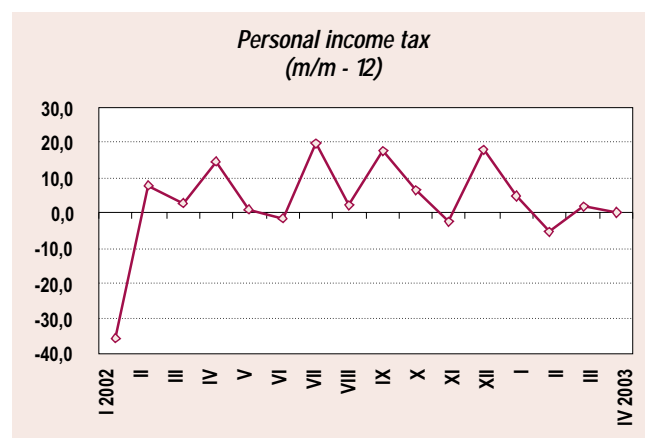
In the structure of tax revenues realized in the first four months of the year (Denar 16,260 million), VAT (42.6%) and excises (19.3%) still have the largest share.



Source: Ministry of Finance

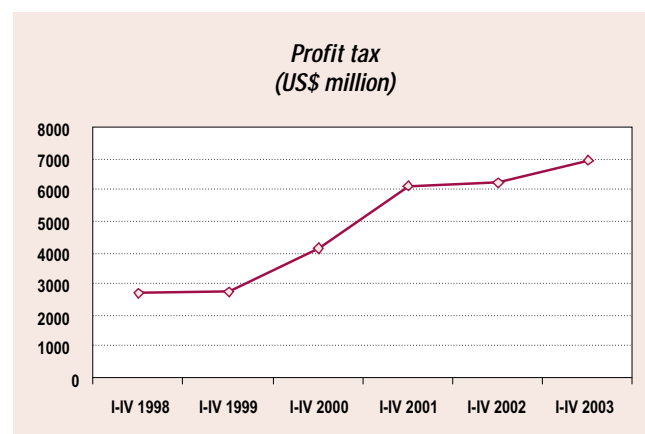
Revenues in the amount of Denar 2,354 million were realized in the period January-April 2003 on the basis of personal income tax, i.e. the same amount like in the first four months of 2002.

Denar 676 million were realized in April alone, which is by 10.8% higher in relation to the previous month, or by 0.3% higher in relation to the same month last year. Revenues from personal income tax were by 1.2% lower in April, than the ones planned. Poorer collection of revenues on the basis of this tax was due to the bad material and financial operations of companies, primarily of the high number of companies with blocked giro accounts that do not pay the salaries, or they fail to perform the payment through the payment operations institutions.



Source: Ministry of Finance

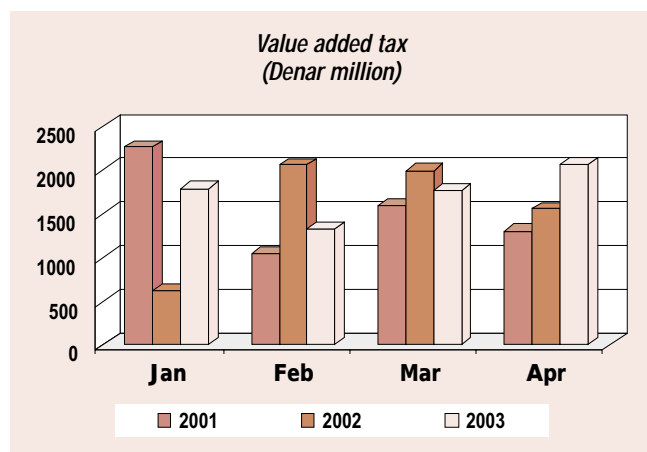
Revenues in the amount of Denar 1,395 million were realized in the period January-April 2003 on the basis of profit tax, which are by 26.6% higher in relation to the revenues realized in the same period in 2002. Denar 209 million were realized in April alone, which is by 64.7% lower in relation to the previous month, due to the fact that payments in this month are on the basis of advance payments unlike the previous month, when additional payments were made upon annual accounts.



Pursuant to the agreed Arrangement with the IMF, VAT rate was adjusted in April 2003. The general VAT rate was reduced from 19% to 18%, and at the same time, certain groups of products (except food products)



taxed under the preferential 5% VAT rate were transferred in the group of products taxed under the general 18% VAT rate. VAT revenues amounted to Denar 2,064 million in April, or 17.3% more in relation to the previous month and 32.8% more in relation to April last year.

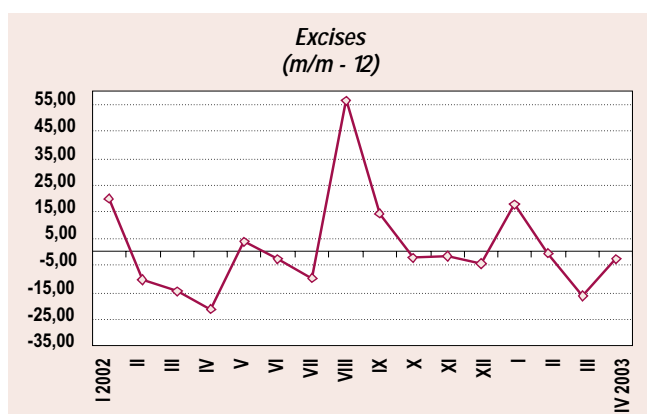


Source: Ministry of Finance

Denar 6,933 million were realized in the period January-April 2003 on the basis of VAT, i.e. by 11.5% more in relation to the same period in 2002.

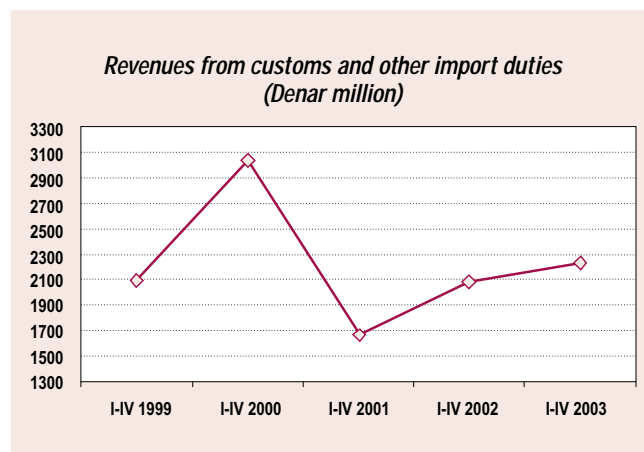
The average monthly realization of VAT was Denar 1,733 million in the period January-April 2003, and it was by 11.5% higher in relation to the average monthly realization in the same period in 2002.

With respect to revenues from excises, a slight 2.5% decrease was registered in April in relation to the same period last year, while on cumulative basis, excises revenues were lower by 0.5% in the first four months of 2003 in relation to the previous year. Such decrease was result of the lower revenues realized from oil derivatives, cars, and alcoholic beverages.



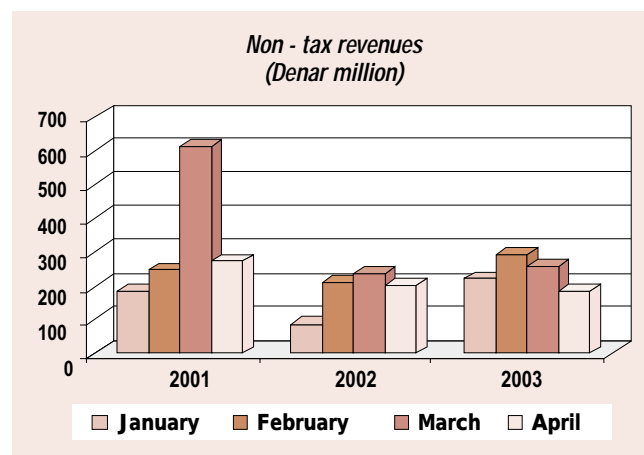
Source: Ministry of Finance

The tendency of improving the collection of customs revenues continued in April 2003 as well. Thereby, collection was improved by 7.6% in the period January-April 2003 in relation to the same period last year. Revenues in the amount of Denar 582 million were realized in April alone, which is higher by 18.8% in relation to the same month in 2002.



Source: Ministry of Finance

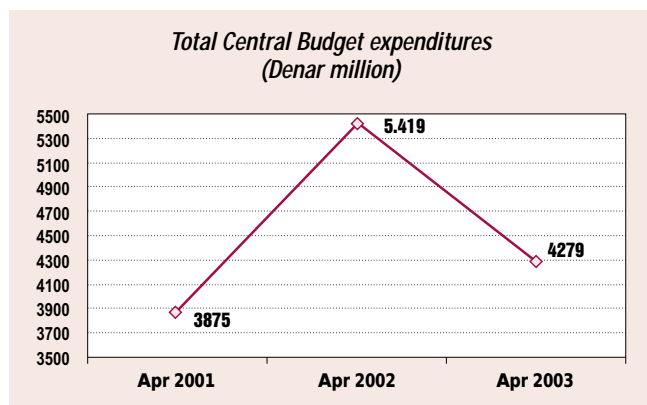
Non-tax revenues amounted to Denar 959 million in the first four months of 2003, which is an increase of 30.5% compared to the same period last year. In April, non-tax revenues amounted to Denar 186 million, and they were lower by 7% in relation to April 2002.



Source: Ministry of Finance

## Central Budget expenditures

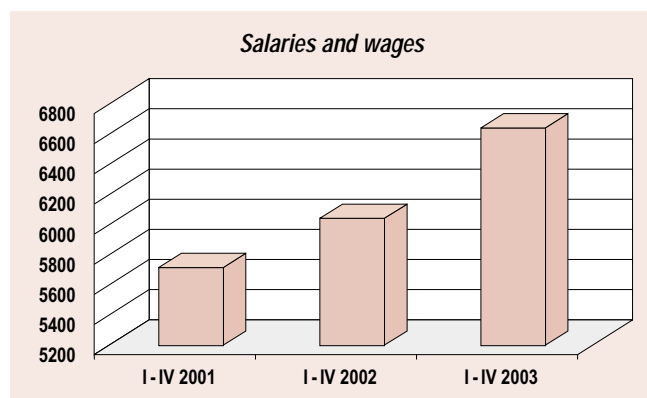
In the period January-April 2003, the total Central Budget expenditures amounted to Denar 16,732 million and are by 19% lower compared with the same period last year. It is an indicator for consolidation and disciplining of the fiscal policy that follows after the irrationally high Budget expenditures in the previous year.



Source: Ministry of Finance

The analysis of the expenditure structure indicates that in general, a significant reduction was registered in all items, except for the items for salaries and contributions, transfers to the Pension Fund and costs for structural reforms.

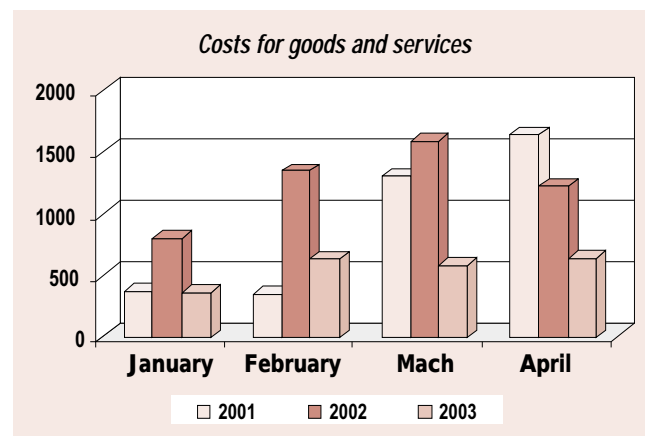
The expenditures for salaries, wages and contributions in April amount to Denar 1,683 million, which, in comparison with the same month last year is an increase of 10.4%. In the first four months of 2003, these expenditures amounted to Denar 6,636 million and are by 14.4% higher compared with the same period in 2002. This increase is due to the increase of the salaries in the public administration (June 2002) and it is within the projected expenditures.



Source: Ministry of Finance

In the period January-April 2003, Denar 2,214 million were spent from the Central Budget of the Republic of

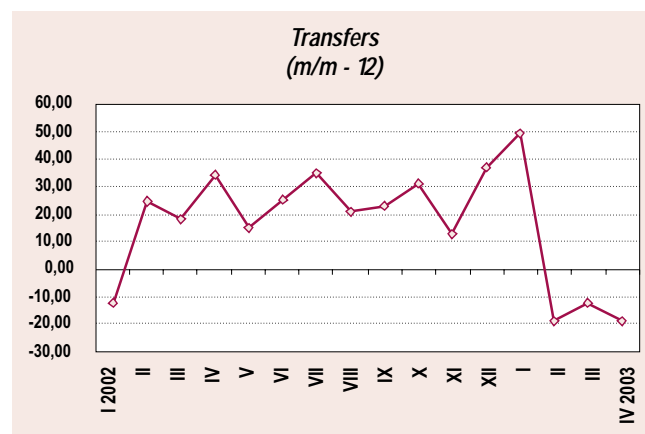
Macedonia for goods and services, which is 55.3% less compared with the same period last year. In April only, Denar 636 million were spent, which, compared with the same month last year is a reduction of 48%. Such drastic reduction of the expenditures is mainly a result of the disciplined policy of the Government of the Republic of Macedonia and refers to the savings realized on this basis.



Source: Ministry of Finance

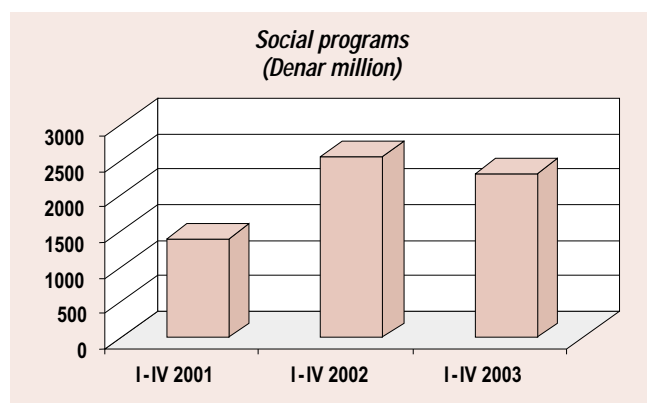
With the stabilization of the security situation and return of a large part of the displaced persons to their homes, the expenditures for the displaced persons in the first four months were decreased by 17.2%, compared with the same period last year.

The transfer payments from the Budget of the Republic of Macedonia were reduced by 4.8% in the period January-April 2003 compared with the same period last year. In April only, compared with the same month last year, the transfers were reduced by 18.9%, whereas with respect to the previous month, they were reduced by 9%.



The reduction of the transfers is mainly due to the reduction of the social transfers, which are by 23.1% lower than in the first four months of 2002. In April 2003, the transfers were reduced by 3.4% at an annual level. This reduction is a result of the efficiency of the

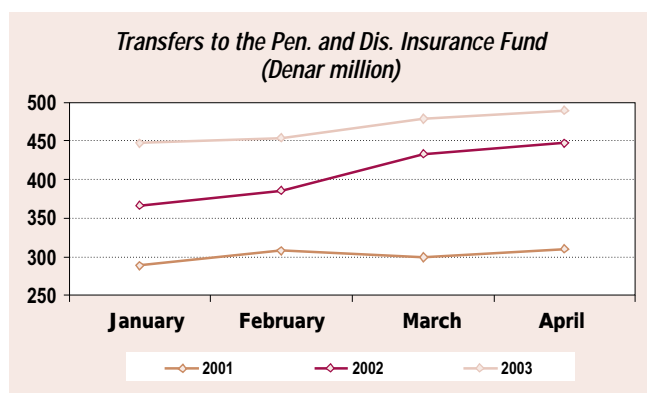
employees in the Ministry of Labour and Social Policy and the improvement of the records for the welfare beneficiaries.



Source: Ministry of Finance

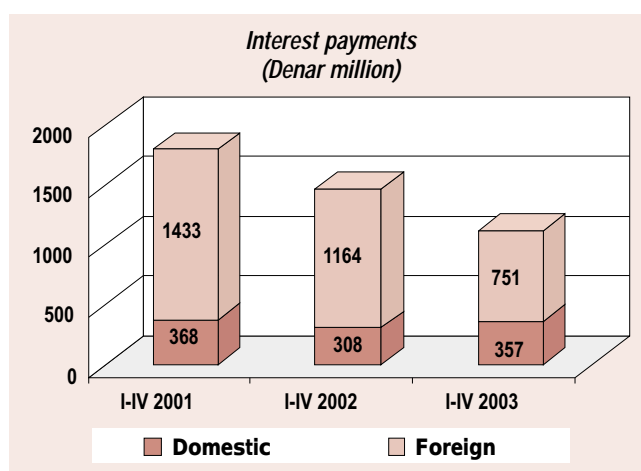
In the part of social transfers, during the four months of 2003 with respect to the same period last year, the transfers to the Employment Fund were reduced by 13.2%, whereas the welfare transfers were reduced by 23.1%.

Only with respect to the transfers towards the Pension and Disability Insurance Fund, an increase of 9.3% was registered at annual level, whereas cumulatively in the first four months, the transfers were increased by 14.6%. The reason for this increase is consequence of the increase of state administration salaries in June 2002.



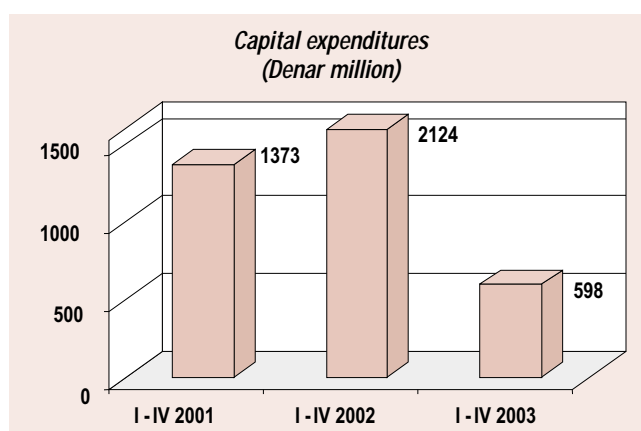
Source: Ministry of Finance

In the part of the interest payments in April, Denar 334 million are paid, Denar 230 million on the basis of the domestic borrowing and Denar 103 million on the basis of foreign borrowing. In the period January-April 2003, Denar 1,109 million were spent on this basis, which compared to the same period last year is a decrease of 24.7%.



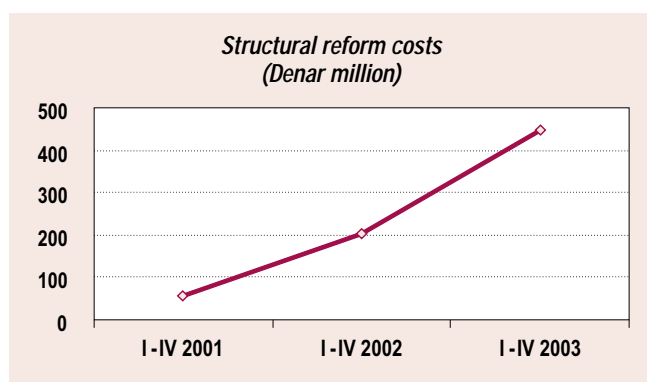
Source: Ministry of Finance

A significant reduction of 71.8% on a cumulative basis was registered at the capital expenditures as well, which, in the first four months of the year amounted to Denar 599 million. In April only, Denar 150 million were spent on this basis, i.e. by 73.2% less compared with April 2002.



Source: Ministry of Finance

In the part of structural reforms, the budget support in the first four months of 2003 amounted to Denar 446 million, which is an increase of Denar 242 million with respect to the same period last year. The majority of the expenditures is intended for payment of the unemployment benefits and severance payments.



Source: Ministry of Finance

For the purposes of public administration reform in the period January-April 2003, Denar 132 million were spent, which is a decrease of 24.3% compared with the same period last year. The majority of the funds were spent for early retirement (Denar 92 million).

The conduction of a relatively balanced and disciplined Budget policy set conditions in the first four months of 2003 for realization of a Central Budget surplus in the amount of Denar 655 <sup>4</sup> million. It should be emphasized that in April 2003, Denar 995 million were received, funds from the succession of the former SFRY.

## 5. MONETARY SECTOR

### Monetary regulation

The disciplined fiscal policy, in accordance with the agreed Stand-by arrangement with the International Monetary Fund, as well as the stabilization of the economic situation in the country, created assumptions for gradual relaxation of the monetary policy. To this effect, in April, the National Bank of the Republic of Macedonia made additional adjustment to the interest rates it determines. The discount rate of the NBRM was reduced from 8% to 6.5%, whereas the interest rate on the Lombard facilities from 17.5% to 16%. At the same time, a decision was also made by which volume tender is applied during the Central Bank bill auctions, whereby the interest rate on the Central Bank bills with a maturity of 28 days is fixed at 7%. Such NBRM policy is expected to lead to more significant reduction of the interest rates of the

commercial banks they determine for the credits to the economic entities with a final objective of encouraging the economic activity in the country.

In April 2003, all components of the NBRM balance acted in a direction of creation of base money (increased by Denar 1,591 million). Thereby, the most significant amount of base money was created via the Central Bank bill auctions (Denar 729 million) and via the net domestic assets (Denar 506 million), mainly as a result of the drop of the denar government deposits with NBRM by 10%. Additional Denar 356 million were created through the net foreign exchange assets as well, since the foreign exchange supply on the foreign exchange market was higher than the demand.

(Monthly change in million denars)	XIII.02	I.03	II.03	III.03	IV.03
<b>Withdrawal of base money</b>	-2288	-4504	-303	-591	0
<i>Net FX assets</i>	-2288	-3654	-303		
<i>Net domestic assets</i>				-591	
<i>Central Bank bills</i>		-852			
<b>Base money crediting</b>	3721	1817	12	425	1591
<i>Net FX assets</i>				358	356
<i>Net domestic assets</i>	2558	1817	-42		506
<i>Central Bank bills</i>	1163		54	67	729
<b>Net effect</b>	1433	-2687	-291	-166	1591

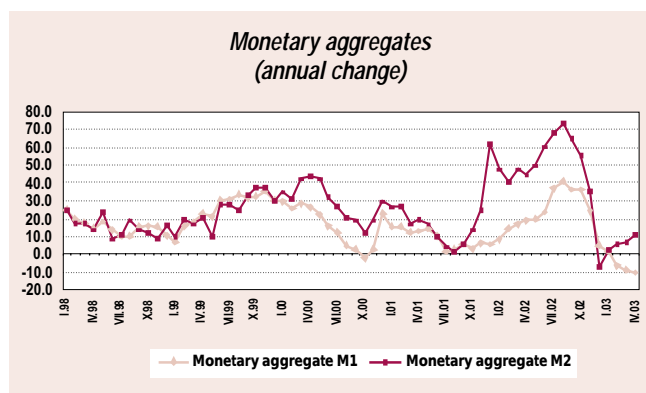
From a point of view of the base money components, the increase of 10.5% in April is due to the increase of the cash in circulation by 7.3% and the liquidity of the banks by 23%, primarily due to the significant increase by 28% on the giro accounts in the banks. This also conditioned allocation of a relatively high percentage of meeting the reserve requirement in April 2003 by 128%.

### Monetary aggregates

The Monetary aggregate M1<sup>1</sup> was increased in April 2003 by 2.1% compared with the previous month, as a result of the increase of the cash in circulation. Simultaneously, the deposit money (current and giro accounts) was reduced by 3%, which corresponds to the monthly reduction in the industrial production. The monetary aggregate M2 in April 2003 had a monthly increase of 5.9% in conditions of increase of the short-term deposits of 7%.

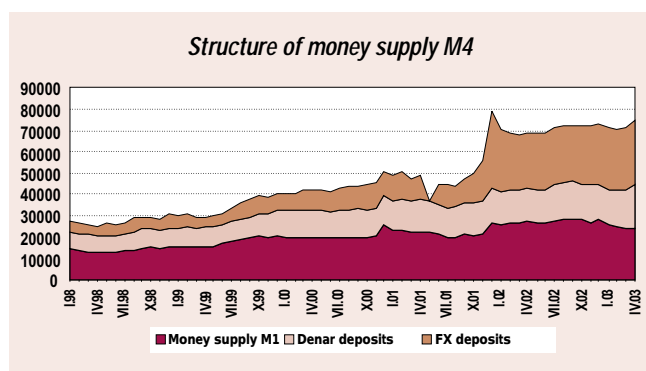
<sup>4</sup> The Central Budget surplus is calculated without financing

<sup>5</sup> The most narrowly defined monetary aggregate that covers the cash in circulation and the denar deposit money.



Source: National Bank of the Republic of Macedonia

The most broadly defined monetary aggregate M4 at the end of April amounted to Denar 74.7 billion, which is an increase of 5.2% compared to the previous month and 8% increase compared to the same month last year. Thereby, the monthly increase is due to the increase of the foreign exchange component of 4.2% and the denar component of 5.9%. The overall non-government sector deposits in April were increased by 6.6%, whereby the analysis of the maturity structure shows a significant increase of 7.9% of the short-term non-government deposits with a simultaneous reduction of the non-government sector long-term deposits by 2.3%.

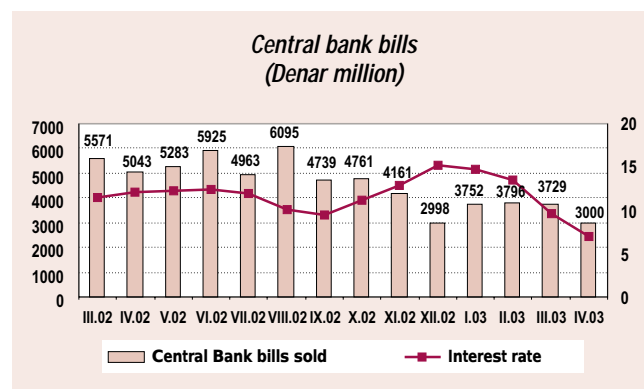


Source: National Bank of the Republic of Macedonia

## Central Bank bills

As of April 30, 2003, the total amount of the sold Central Bank bills is Denar 3 billion, which, in comparison to the previous month is a reduction of Denar 729 million, or 19.5% whereby the Central Bank bills acted in a direction of creating money. At the beginning of April, the NBRM Council made a decision for transition towards volume tender of Central Bank bills, whereby the interest rate of the Central Bank bills with a maturity of 28 days is fixed at 7%. Such policy of NBRM corresponds with the relatively balanced Budget policy in the first four months

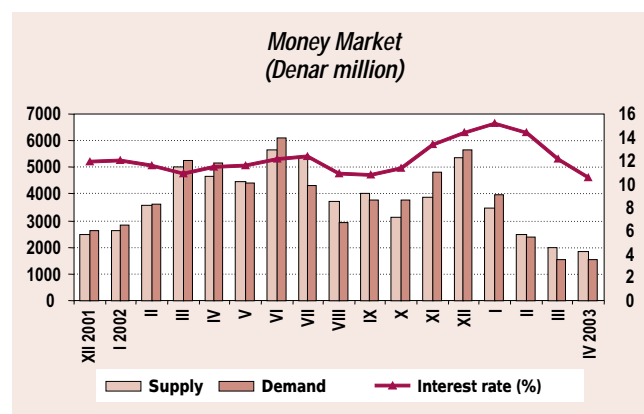
of 2003, stabilization of the economic situation as well as the favourable developments on the foreign exchange market.



Source: National Bank of the Republic of Macedonia

## Money and short-term securities market

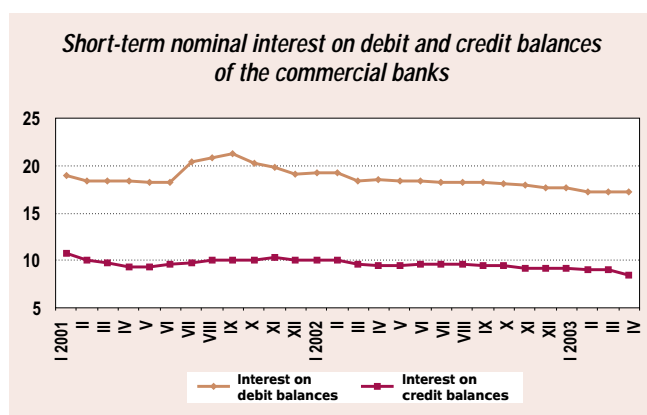
The total turnover on the money and short-term securities market in April 2003 with respect to the previous month was reduced by 9.6%. Thereby, there is a reduction both in the supply of liquid assets by 8% and in the demand by 0.5%, whereby, the supply exceeded the demand in this month as well by 17.4%. Taking into consideration the high correlation of the interest rates on the money market and Central Bank bills, in April 2003, the average weighted interest rate on the money market was additionally reduced to 10.6%, which is the lowest level in the last two years.



Source: National Bank of the Republic of Macedonia

## Interest rate policy of the commercial banks

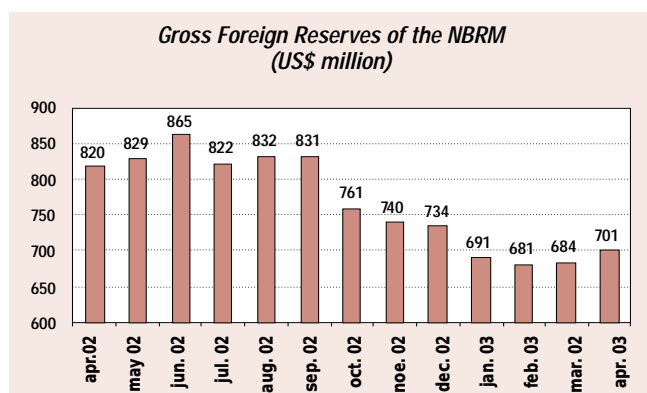
The interest rate policy of the commercial banks is still characterized with relatively high interest on debit balances and interest on credit balances. Thus, in April 2003, average weighted nominal interest on debit balances amounted to 17.3%, which compared to the previous month is an insignificant decrease. Interest on credit balances also noted an insignificant drop of 0.3 percentage points (8.9% in April 2003), which actually contributed to small increase of the interest margins (in April 2003, it amounted to 8.4 percentage points). As a result of the changes in the interest rate policy of the NBRM, it is expected in the coming period for the commercial banks to also reduce the interest on debit balances, leading to intensification of the economic activity in the Republic of Macedonia.



Source: National Bank of the Republic of Macedonia

## Gross foreign exchange reserves

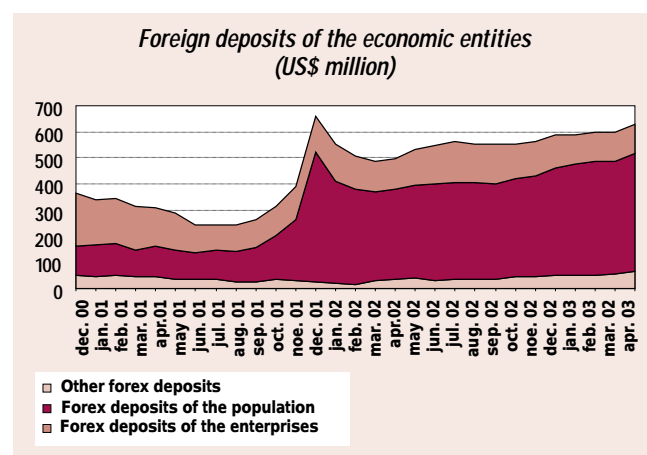
The gross foreign exchange reserves at end-April 2003 amounted to US\$ 701 million, which compared to the previous month, is an increase by US\$ 17 million or 2.5%. The increase of foreign exchange reserves is mainly result of the higher inflows of foreign exchange funds compared to the outflows on the basis of the external debt repayment.



Source: National Bank of the Republic of Macedonia

## Foreign exchange deposits of the economic entities

In April 2003, the total foreign exchange deposits of the economic entities amounted to US\$ 632 million, which compared to the previous month is an increase by US\$ 30 million, i.e. 5%. The increase is due to the surge of the foreign exchange deposits of the enterprises by US\$ 11 million, or by 20%, and the surge of the foreign exchange deposits of the citizens by 3.5%, i.e. US\$ 15 million.



## 6. LABOUR MARKET

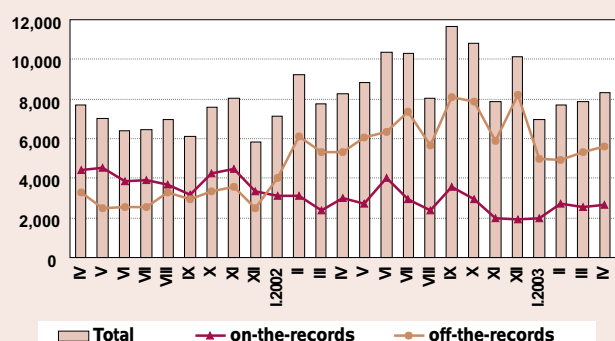
The main features of the labour market in April 2003 were increase of the number of the unemployed persons registered in the Employment Bureau, decrease of the number of persons beneficiaries of unemployment benefit, as well as the further tendency of increase of the number of new employments.

### Employment

In April, 8,300 persons were employed, or, compared to the total number of unemployed persons, only 0.02% out of them were employed. Thus, the positive trend of increase of the number of realized employments during 2003 continues, whereby in April, the increase was 5.9% on monthly basis, i.e. 0.2% annually. This increase is mainly due to the off-the-records employment, which includes the persons who entered the labour market for the first time (young persons having finished education and persons at different age, previously not being active) and those who changed the working post. The employments registered in the Employment Bureau participate with 33.3% in the total realized employments in April.



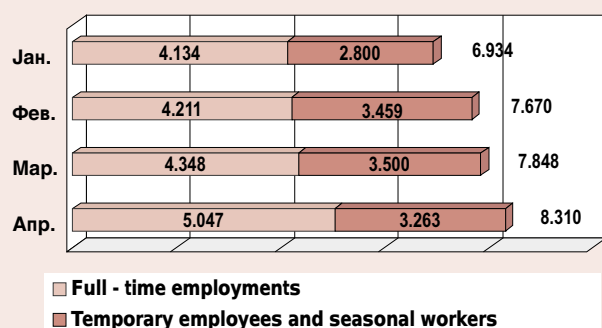
**Realized employments  
(on-and off-the-records)**



Source: Employment Bureau of the Republic of Macedonia

Thereby, 60.7% of the realized employments cover the full-time employments. At annual level, the full-time employments decrease by 10.1%, while the number of the temporary employees and seasonal workers increased by 21.9% (despite the monthly decline by 6.8%).

**Realized full - time and temporary employments  
in 2003**



Source: Employment Bureau of the Republic of Macedonia

From the point of view of the regional structure of the employments, 30.7% of the employments were realized in Skopje, i.e. only 3 persons find jobs out of each 100 unemployed persons from this municipality. In Bitola, 11.7% was realized out of the total employments, i.e. 4-5 persons found job in April out of each 100 unemployed persons, while in Stip, this ratio is 5 persons out of each 100 registered unemployed persons.

## Unemployment

During April 2003, 6,899 persons were registered for the first time as unemployed, 38% out of which were women. This inflow of new unemployed persons is by 8.5% higher compared to the previous month, i.e. by 2.1% higher compared to April last year. Despite the monthly increase of the number of new on-the-records employments, the higher number of newly registered unemployed persons leads to increase of the number of unemployed persons. According to the data from the Employment Bureau, in April 2003, 383.9 thousand persons in the Republic of Macedonia are jobless, which is a moderate increase by 0.8% compared to the previous month. At annual level, the increase of the registered unemployed persons is 3.1%.

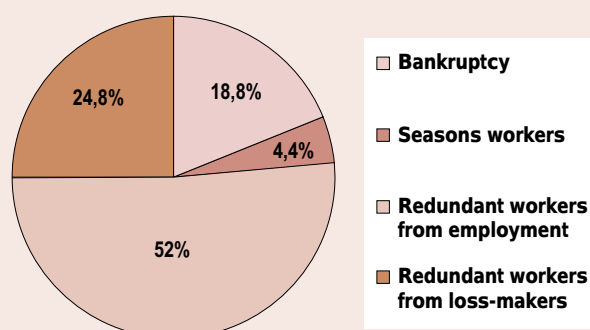
What is of concern is the fact that greatest part of the unemployment is concentrated in the age group from 20 to 34, i.e. 46.8% of the persons at that age are unemployed, pointing to the insufficient utilization of the working potential in the country. The education structure of the unemployed persons is extremely unfavourable, given that 48.4% of the unemployed are unqualified workers, 17.9% are qualified, and only 5.2% are with community college and university education. Due to this precisely, most of the new employments are employments of persons not registered in the Employment Bureau (off-the-records of the Bureau). Also, 68 MAs and 7 Ph.D.s are unemployed. The unemployment in the cities participates with 65.5% in the total unemployment, and analysed by municipalities, the highest unemployment is present in Skopje (23% out of the total number of unemployed persons), Kumanovo, (8.6%), Tetovo, Prilep and Bitola.

## Beneficiaries of unemployment benefits and right to health insurance

The tendency of reduction of the absolute number of unemployed persons, exercising the right to unemployment benefits that began in November 2002, continues. In fact, in April 2003, additional reduction of the number of unemployed persons, beneficiaries of unemployment benefits, on monthly basis (0.8%) was noted. Still, compared to April 2002, the number of unemployed persons using such benefit was increased by 0.8%.



*Review of the beneficiaries of unemployment benefit according to the basis to exercise the right to benefits*



Source: Employment Bureau of the Republic of Macedonia

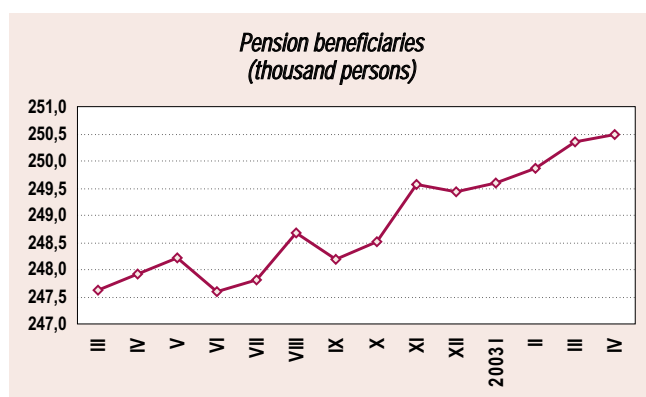
In addition to the 44.1 thousand beneficiaries of pecuniary allowance, 190.2 thousand persons exercise the right to health insurance on other bases, thus, the total number of beneficiaries of health insurance is 234.3 thousand persons, being 61% of the registered unemployed persons in the Employment Bureau.

## 7. SOCIAL TRENDS

### Pension beneficiaries

In April 2003, according to the data from the Pension and Disability Insurance Fund (PDIF), the total number of pension beneficiaries increased by 137 persons, reaching the number of 250,492 persons.

Compared to April 2002, the number of pension beneficiaries was increased by 2,581 persons, i.e. by 1%.



Source: Pension and Disability Insurance Fund of the Republic of Macedonia

Average pension in April 2003 amounted to Denar 7,154, which compared to the previous month is an insignificant increase, while compared to April 2002, it was increased on real terms by 8.8%.

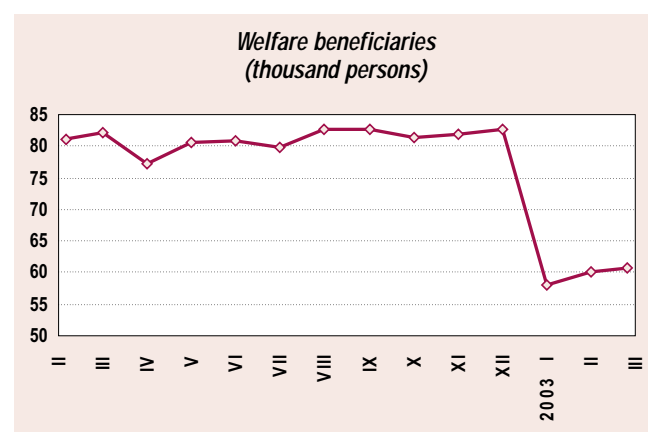
The ratio between the average pension in April<sup>6</sup> 2003 and the average paid net salary in March 2002 amounts to 62%.

Out of the 250,492 pension beneficiaries, 88.3% receive pension up to Denar 11,170, and 11.7% receive pension above Denar 11,170.

In April 2003, Denar 1,796.6 million were paid for pensions to 250.5 thousand to pension beneficiaries.

### Welfare beneficiaries

According to the latest data by the Ministry of Labour and Social Policy, in March 2003, Denar 148.4 million was paid to 60,954 disadvantaged households. The right to permanent pecuniary aid was exercised by around 5,153 beneficiaries, while on the basis of third person's care and assistance, around 19,751 beneficiaries exercised this right.



Source: Ministry of Labour and Social Policy

From regional point of view, most welfare beneficiaries are registered in the city of Skopje (21.4% out of the total number of beneficiaries).

Compared to the previous month, the number of welfare beneficiaries increased by 957 persons or 1.6%, while compared to the same month last year, it decreased by 21,145 persons<sup>7</sup>.

<sup>6</sup> The comparison is made with the average salary from the previous month, since the data on salaries are processed with one-month lag.

<sup>7</sup> The decrease is result of the changes in the Decision on determination of the criteria, the manner and the procedures for exercising the right to welfare, dated December 2002.

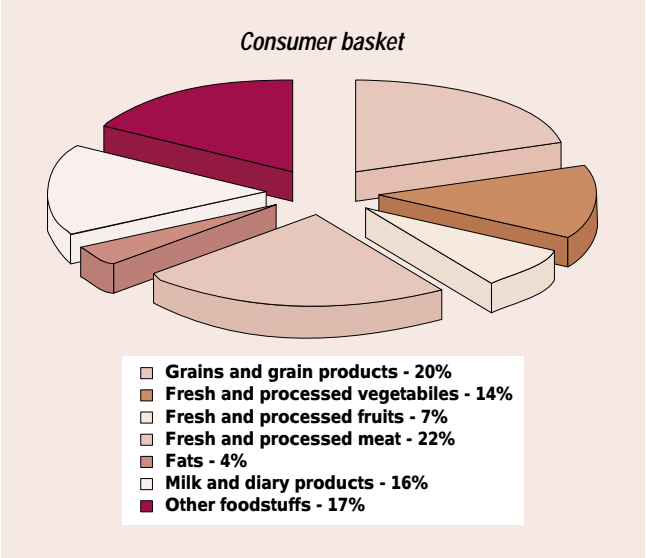
### Consumer basket

The value of the consumer basket for food and beverages<sup>8</sup>, in April, amounted to Denar 10,344, and compared to the previous month, it is higher by 1.2%.

The increase of the value is noticed at “fresh and processed vegetables” (7.3%), “wheat and grains” (1.0%), “milk and dairy products” (0.9%) and “other food products” (0.4%).

Decline is noticed at “fresh and processed meat” (1%), while the value of the groups “fresh and processed fruit” and “fats” is at the last-month level. Still, compared to the same month last year, it is lower by 2.4%.

Highest percentage of the consumer basket still goes to the group “fresh and processed meat” and “wheat and grains”.



### Average net salaries

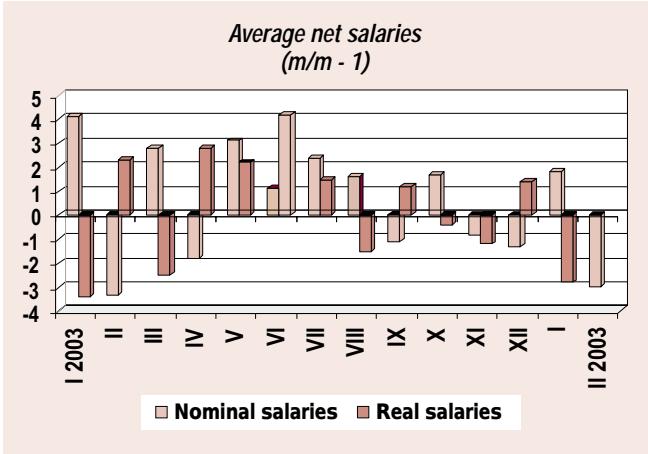
According to the State Statistics Bureau, in March 2003, the average monthly paid net salary per worker amounted to Denar 11,545, being nominal increase by 1.2% and real increase by 1.2% compared to the previous month.

Analyzed by sectors of activity, an increase is noted in the agriculture by 11.4%, in the industry by 2.9%, while the one in the services amounts to 0.8%.

The highest increase of the average paid net salary is recorded in the “air traffic” (by 140.8%).

The average monthly paid net salary in March 2003, compared to March 2002, is by 5.3% higher in nominal terms, and by 5.6% in real terms.

In March 2003, 25.2% of the workers in the Republic of Macedonia did not receive salary.



Source: State Statistics Bureau

<sup>8</sup> All products falling under the category “food and beverages”, comprising the basket, are determined as average monthly needs of a four-member non-agricultural household, and that list of products is constant (same products - same quantities) during one year.

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

Type of revenues	Actual in Jan - Dec 2001	Actual in Jan - Dec 2002	2002				2003				
			Q - 1	Q - 2	Q - 3	Q - 4	January	February	March	Q - 1	April
1	2	3	4	5	6	7	8	9	10	11	12
TOTAL REVENUES AND GRANTS	63,109	67,571	17,879	15,743	16,889	17,060	4,119	4,040	5,705	13,863	5,695
REVENUES (TAX AND NON-TAX REVENUES)	50,965	56,933	13,420	13,403	14,343	15,767	3,995	3,964	4,690	12,649	4,570
TAX REVENUES	47,566	54,388	12,886	12,617	13,807	15,078	3,772	3,670	4,434	11,876	4,384
Taxes on income, profits, and capital gains	10,255	10,139	2,713	2,183	2,414	2,829	680	980	1,204	2,864	885
Personal income tax	7,248	7,514	1,680	1,818	1,845	2,171	482	586	610	1,678	676
Profit tax	3,007	2,625	1,033	365	569	658	198	395	593	1,186	209
Domestic taxes on goods and services	27,813	31,236	6,987	7,216	8,290	8,743	2,696	2,059	2,445	7,199	2,878
Sales tax and VAT (since April 1, 2000)	17,132	20,521	4,661	4,574	5,291	5,995	1,780	1,329	1,760	4,869	2,064
Excises	10,681	10,715	2,326	2,642	2,999	2,748	916	729	685	2,330	814
Taxes on international trade and transactions	6,111	6,338	1,589	1,561	1,398	1,790	301	594	760	1,655	582
Custom duties	4,821	5,232	1,282	1,279	1,163	1,508	248	509	653	1,411	463
Other custom duties	1,290	1,106	307	282	235	282	52	85	106	244	119
Other taxes	0	4	2	2	0	0	0	0	0	0	0
Other taxes not elsewhere classified	0	4	2	2	0	0	0	0	0	0	0
Taxes on specific services	1	1	0	0	1	0	0	0	0	0	0
Communal taxes	1	1	0	0	1	0	0	0	0	0	0
Fees for usage or licences for carrying out the activity	275	337	83	76	78	100	65	38	27	130	39
Licences for carrying out the activity	257	314	77	71	72	94	64	36	27	127	38
Motor vehicles fees	18	22	5	5	6	6	1	2	0	3	1
Financial Transaction Tax	3,111	6,335	1,513	1,579	1,626	1,617	30	-1	-1	28	0
NON-TAX REVENUES	3,399	2,546	535	786	536	689	222	295	256	773	186
Entrepreneurial and property income	1,822	935	133	435	245	122	87	17	31	135	51
Profit from additional activities of the government institutions	0	0	0	0	0	0	0	0	0	0	0
Revenues from public financial and non-financial insitutions	1,095	546	109	227	98	112	28	17	31	77	51
Other property income	727	389	24	208	147	10	58	0	0	58	0
Fees and charges	1,060	1,093	281	280	246	286	92	110	109	311	112
Fines	144	118	28	27	24	39	8	25	14	46	12
Court fines	448	404	106	121	72	105	32	46	44	122	49
Administrative fees	468	571	146	132	150	143	52	40	51	142	50
Other government services	486	204	101	62	20	21	18	12	12	42	20
Other non-tax revenues	31	315	21	9	25	260	26	156	103	284	3
CAPITAL REVENUES	463	1,381	142	112	915	212	46	29	62	137	29
Sale of capital assets	439	433	122	82	87	142	42	27	54	124	24
Sale of land and intangible assets	24	949	20	30	828	71	4	2	8	14	5
TRANSFERS AND DONATIONS	415	2,641	1,713	928	0	0	0	0	668	668	0
Transfers from other levels of government	0	0	0	0	0	0	0	0	0	0	0
Foreign donations	415	2,641	1,713	928	0	0	0	0	668	668	0
General and current donations	415	2,641	1,713	928	0	0	0	0	668	668	0
PRIVATIZACION AND CONCESSION RECEIPTS	8,834	5,033	1,050	1,271	1,631	1,081	78	46	285	409	100
SUCCESSION RECEIPTS	1,669	-	-	-	-	-	-	-	-	-	995
BORROWING FROM ABROAD	763	1,584	1,555	29	0	0	0	0	0	0	1
International development organisations	763	1,584	1,555	29	0	0	0	0	0	0	1

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

Type of expenditures	Actual in Jan - Dec 2001	Actual in Jan - Dec 2002	2002				2003				
			Q - 1	Q - 2	Q - 3	Q - 4	January	February	March	Q - 1	April
1	2	3	4	5	6	7	8	9	10	11	12
TOTAL EXPENDITURES	68,885	71,692	16,978	16,179	19,877	18,659	4,018	3,818	4,236	12,071	5,691
CURRENT EXPENDITURES	42,595	56,301	13,567	13,216	13,799	15,719	3,555	3,640	3,966	11,161	4,025
Wages, salaries and allowances	12,105	18,339	4,278	4,384	4,674	5,003	1,649	1,638	1,665	4,952	1,683
Wages and salaries	10,674	11,702	2,761	2,839	2,915	3,187	1,050	1,042	1,064	3,156	1,074
Allowances	1,430	6,637	1,517	1,545	1,759	1,816	599	596	601	1,796	609
Goods and other services	14,302	13,988	3,755	3,146	2,845	4,241	367	634	584	1,582	641
Travel and subsistence expenses	2,093	382	109	121	70	82	14	17	21	52	37
Utilities	488	425	79	114	110	122	14	22	44	80	63
Heating expenditures	481	834	348	192	98	195	41	62	51	154	121
Materials	9,467	870	190	179	179	321	129	358	237	724	174
Transport expenses	483	8,258	2,297	1,936	1,647	2,377	51	53	62	166	74
Current (routine) maintenance	91	502	66	107	96	233	24	30	31	115	15
Contractual services	650	1,224	259	351	217	397	60	64	75	199	112
Other operational expenditures	552	1,287	377	96	318	495	33	24	31	88	39
Reserves	-	207	31	50	108	18	1	4	6	11	6
Current transfers	12,715	20,573	4,344	5,045	5,381	5,803	1,462	1,345	1,632	4,439	1,470
Transfers to governmental institutions	1,303	11,239	2,654	2,757	2,763	3,066	899	909	933	2,741	924
Transfers to non-profit institutions	10,108	1,022	774	90	86	72	3	12	11	26	0
Transfers on the basis of subsidies	1,305	0	0	0	0	0	0	0	0	0	0
Transfers to households and individuals	-	8,312	917	2,198	2,532	2,665	560	424	688	1,672	546
Interest payments	3,463	3,402	1,190	641	899	672	77	23	81	181	231
Interest on domestic loans	499	1,180	74	453	144	509	23	23	81	127	230
Interest on foreign loans	2,975	2,222	1,116	188	755	163	54	0	0	54	1
CAPITAL EXPENDITURES	3,928	8,366	1,494	2,008	3,069	1,795	149	178	121	448	151
Acquisition of capital assets	2,520	5,419	1,042	1,240	2,200	936	58	99	121	278	96
Acquisition of land and intangible assets	20	24	8	1	15	0	0	0	0	0	0
Acquisition of buildings	341	129	112	1	6	9	0	0	0	0	0
Furniture and office equipment	174	423	121	105	82	116	3	5	5	13	8
Purchase of motor vehicles	69	51	2	5	28	16	0	0	14	14	0
Feasibility studies, project preparation and design	6	122	4	11	104	2	0	0	0	0	16
Plant, equipment and machinery	818	33	0	2	19	12	0	0	0	0	0
Construction, renovation and improvement	660	3,675	629	857	1,560	629	45	83	77	205	62
Substantial and special maintenance	433	542	132	108	168	134	10	11	25	46	10
Purchase of commodity reserves	-	418	34	148	218	18	0	0	0	0	0
Capital transfers	1,408	2,947	452	767	868	860	91	79	0	170	55
Capital transfers to governmental institutions	1,316	1,901	284	526	371	719	91	60	0	151	54
Capital transfers to local self-government units	92	1,045	168	240	497	141	0	19	0	19	1
Capital transfers to individuals and non-profit organizations	-	0	0	0	0	0	0	0	0	0	0
LENDING, EQUITY PARTICIPATION AND DEBT REPAYMENT	3,470	7,025	1,917	955	3,009	1,144	314	0	148	462	1,515
Lending and equity participation	211	927	251	184	266	226	232	0	17	249	5
Domestic loans and equity	294	905	251	167	266	221	232	0	17	249	0
Foreign loans and equity	-	22	0	17	0	5	0	0	0	0	5
Amortisation (repayment of principal)	3,259	6,098	1,666	771	2,743	918	82	0	131	213	1,510
Domestic debt	7	2,485	0	502	1,229	754	4	0	131	135	1,510
Foreign debt	3,251	3,613	1,666	269	1,514	164	78	0	0	78	0

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

<i>In million denars</i>	<b>2001</b>	<b>2002</b>				<b>2002</b>		
		<i>January</i>	<i>February</i>	<i>March</i>	<i>Q - 1</i>	<i>April</i>	<i>May</i>	<i>June</i>
	<b>Actual</b>	<b>Actual</b>				<b>Actual</b>		
<b>TOTAL REVENUES AND GRANTS</b>	<b>51,812</b>	<b>4,961</b>	<b>4,267</b>	<b>4,252</b>	<b>13,479</b>	<b>4,877</b>	<b>4,526</b>	<b>4,793</b>
<b>TAX REVENUES</b>	<b>47,565</b>	<b>4,060</b>	<b>4,499</b>	<b>4,483</b>	<b>13,041</b>	<b>4,539</b>	<b>4,205</b>	<b>4,000</b>
<i>Taxes on income and profits</i>	<b>10,253</b>	<b>711</b>	<b>1,018</b>	<b>984</b>	<b>2,713</b>	<b>743</b>	<b>680</b>	<b>760</b>
<i>Individual income tax</i>	7,247	460	621	599	1,680	674	563	581
<i>Profit tax</i>	3,006	251	397	385	1,033	69	117	179
<b>Domestic taxes on goods and services</b>	<b>27,814</b>	<b>1,397</b>	<b>2,787</b>	<b>2,803</b>	<b>6,987</b>	<b>2,389</b>	<b>2,538</b>	<b>2,289</b>
<i>VAT</i>	17,133	621	2055	1985	4,661	1554	1652	1368
<i>Excises</i>	10,681	777	731	818	2,326	835	886	921
<b>Import duties</b>	<b>6,111</b>	<b>12</b>	<b>754</b>	<b>823</b>	<b>1,589</b>	<b>490</b>	<b>585</b>	<b>485</b>
<i>Other taxes <sup>1)</sup></i>	<b>3,387</b>	<b>1,940</b>	<b>-61</b>	<b>-127</b>	<b>1,752</b>	<b>917</b>	<b>402</b>	<b>466</b>
<b>Non-tax revenue</b>	<b>3,370</b>	<b>84</b>	<b>215</b>	<b>239</b>	<b>538</b>	<b>201</b>	<b>242</b>	<b>269</b>
<i>Capital revenue</i>	<b>462</b>	<b>46</b>	<b>46</b>	<b>49</b>	<b>141</b>	<b>43</b>	<b>28</b>	<b>41</b>
<i>Foreign grants</i>	<b>415</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<i>Other Central Government revenues <sup>3)</sup></i>	<b>0</b>	<b>770</b>	<b>-493</b>	<b>-519</b>	<b>-242</b>	<b>94</b>	<b>51</b>	<b>482</b>
<b>TOTAL EXPENDITURES</b>	<b>65,412</b>	<b>4,480</b>	<b>5,142</b>	<b>5,604</b>	<b>15,228</b>	<b>5,418</b>	<b>4,805</b>	<b>8,942</b>
<b>CURRENT EXPENDITURE</b>	<b>55,525</b>	<b>4,016</b>	<b>4,290</b>	<b>4,841</b>	<b>13,146</b>	<b>4,60</b>	<b>3,993</b>	<b>7,976</b>
<b>Goods and services</b>	<b>36,232</b>	<b>2,081</b>	<b>2,860</b>	<b>3,067</b>	<b>8,008</b>	<b>2,746</b>	<b>2,393</b>	<b>2,342</b>
<i>Wages and salaries</i>	16,407	1,282	1,526	1,471	4,279	1,524	1,411	1,448
<i>Goods and nonlabor services</i>	19,825	799	1,334	1,596	3,729	1,222	982	894
<b>Refugee-related expenditure</b>	<b>582</b>	<b>0</b>	<b>35</b>	<b>68</b>	<b>103</b>	<b>31</b>	<b>40</b>	<b>2</b>
<b>Transfers</b>	<b>14,511</b>	<b>985</b>	<b>1,295</b>	<b>1,567</b>	<b>3,846</b>	<b>1,538</b>	<b>1,361</b>	<b>5,478</b>
<i>Pension Fund (net of PR, SR, ER)</i>	4,056	366	386	433	1,185	447	423	533
<i>Social programs</i>	7,263	399	655	882	1,935	623	651	4,451
<i>Social Assistance program</i>	3,192	0	282	557	839	287	279	294
<i>Employment Fund (severance pay and retraining)</i>	3,584	399	373	324	1,096	337	320	311
<i>Others</i>	487	0	0	0	0	0	52	3,846
<i>Subsidies</i>	160	37	1	43	81	167	47	2
<i>Other transfers</i>	3,032	183	253	209	645	301	240	492
<b>Interest</b>	<b>4,201</b>	<b>950</b>	<b>100</b>	<b>139</b>	<b>1,189</b>	<b>285</b>	<b>199</b>	<b>154</b>
<i>Domestic</i>	1,066	25	25	23	73	235	195	22
<i>Foreign</i>	3,134	925	75	116	1,116	50	4	132
<b>CAPITAL EXPENDITURE</b>	<b>7,380</b>	<b>303</b>	<b>701</b>	<b>527</b>	<b>1,531</b>	<b>557</b>	<b>582</b>	<b>738</b>
<i>Fixed investment</i>	5,133	292	508	376	1,176	391	413	526
<i>Net lending</i>	0	0	0	0	0	0	0	0
<i>Equity</i>	35	0	0	0	0	5	5	7
<i>Capital transfers</i>	2,211	11	193	151	355	161	164	205
<b>RESERVES</b>	<b>166</b>	<b>5</b>	<b>7</b>	<b>16</b>	<b>28</b>	<b>13</b>	<b>21</b>	<b>14</b>
<b>RE-PAYMENT OF PENSION OBLIGATIONS</b>	<b>1,158</b>	<b>98</b>	<b>95</b>	<b>94</b>	<b>287</b>	<b>107</b>	<b>97</b>	<b>95</b>
<b>STRUCTURAL REFORMS</b>	<b>239</b>	<b>1</b>	<b>9</b>	<b>89</b>	<b>99</b>	<b>105</b>	<b>77</b>	<b>86</b>
<b>PUBLIC ADMINISTRATION REFORMS</b>	<b>944</b>	<b>57</b>	<b>41</b>	<b>38</b>	<b>136</b>	<b>37</b>	<b>35</b>	<b>33</b>
<b>BALANCE</b>	<b>-13,600</b>	<b>481</b>	<b>-876</b>	<b>-1,352</b>	<b>-1,749</b>	<b>-541</b>	<b>-279</b>	<b>-4,149</b>
<b>FINANCING</b>	<b>13,600</b>	<b>-481</b>	<b>876</b>	<b>1,352</b>	<b>1,749</b>	<b>541</b>	<b>279</b>	<b>4,149</b>
<b>Domestic</b>	<b>-5,772</b>	<b>573</b>	<b>-2</b>	<b>-559</b>	<b>14</b>	<b>-469</b>	<b>232</b>	<b>4,166</b>
<i>Central bank</i>	-5,527	610	-35	-756	-181	222	47	910
<i>Commercial banking system</i>	-287	114	147	16	277	-1,049	344	141
<i>Other domestic financing</i>	42	-151	-114	181	-82	358	-159	-385
<i>TAT Certificate</i>	0	0	0	0	0	0	0	3,500
<b>Foreign</b>	<b>-5,171</b>	<b>-1,058</b>	<b>867</b>	<b>1,895</b>	<b>1,704</b>	<b>844</b>	<b>0</b>	<b>-80</b>
<i>Disbursements</i>	761	0	990	2,278	3,268	930	0	27
<i>Grants</i>	0	0	945	768	1,713	901	0	27
<i>Loans</i>	761	0	45	1,510	1,555	29	0	0
<i>Amortization (-)</i>	-3,560	-1,058	-123	-383	-1,564	-86	0	-107
<i>Rescheduling / Other Financing</i>	-2,372	0	0	0	0	0	0	0
<b>Privatization receipts</b>	<b>24,543</b>	<b>4</b>	<b>11</b>	<b>17</b>	<b>31</b>	<b>166</b>	<b>47</b>	<b>63</b>

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

## OF THE REPUBLIC OF MACEDONIA

2002	2002				2002				2002	2003				2003
Q - 2	July	August	September	Q - 3	October	November	December	Q - 4	Total	January	February	March	Q - 1	April
	Actual				Actual				Actual	Actual				
14,196	4,820	3,371	4,543	12,734	5,011	4,508	7,238	16,756	57,162	4,263.0	3,696.0	5,363.0	13,322.0	3,171
12,744	5,015	4,121	4,388	13,524	5,142	4,218	5,718	15,078	54,387	4,070	3,472	4,335	11,877.0	4,384
2,183	904	723	787	2,414	870	830	1,129	2,829	10,139	680	981	1,203	2,864.0	885
1818	661	572	612	1845	652	615	904	2,171	7,514	482	586	610	1,678.0	676
365	243	151	175	569	218	215	225	658	2,625	198	395	593	1,186.0	209
7,216	3,186	2,411	2,693	8,290	3,266	2,351	3,126	8,743	31,236	2,696	2,058	2,445	7,199.0	2,878
4574	2268	1343	1,680	5291	2390	1393	2212	5,995	20,521	1,780	1329	1760	4,869.0	2,064
2642	918	1068	1,013	2999	876	958	914	2,748	10,715	916	729	685	2,330.0	814
1560	582	449	366	1397	433	541	815	1,789	6,335	301	594	760	1,655.0	582
1,785	343	538	542	1423	573	496	648	1,717	6,677	393	-161.0	-73.0	159.0	39
712	210	112	133	455	158	118	414	690	2,395	222	295.0	256.0	773.0	186
112	34	31	59	124	79	45	76	200	577	46	29.0	62.0	137.0	30
0	0	0	0	0	0	0	0	0	0	0	0	0	0.0	0
627	-439	-893	-37	-1,369	-368	126	1,030	788	-196	-75	-100	710	535	-1,430
19,166	6,565	5,244	5,677	17,487	5,602	4,331	7,735	17,669	69,550	4,382	3,869	4,202	12,454.0	4,279
16,568	5,353	3,762	4,378	13,494	4,393	3,785	6,780	14,959	58,168	3,995	3,421	3,818	11,234.0	3,926
7,481	2,663	2,241	2,520	7,424	2,363	2,365	4,501	9,229	32,142	2,015	2,268	2,248	6,531.0	2,319
4,383	1,622	1,431	1,621	4,674	1,630	1,673	1,700	5,003	18,339	1,650	1,638	1,665	4,953.0	1,683
3,098	1,041	810	899	2,750	733	692	2,801	4,226	13,803	365	630	583	1,578.0	636
73	51	6	0	57	43	0	113	156	389	29.0	29.0	26.0	84.0	29
8,376	1,945	1,412	1,753	5,111	1,558	1,390	2,026	4,975	22,308	1,430	1,049	1,365	3,844.0	1,244
1,403	431	437	441	1,309	445	441	613	1,499	5,395	448.0	455.0	479.0	1,382.0	489
5,725	739	660	658	2,058	694	680	684	2,059	11,778	631	468	599	1,698.0	617
860	292	290	297	879	287	289	288	864	3,442	284	98	207	589.0	277
968	352	316	359	1,027	340	352	328	1,020	4,109	310	311	311	932.0	311
3,898	95	54	2	152	67	39	69	175	4,225	37	59	81	177.0	29
216	81	0	6	87	57	64	100	221	606	232.0	0.0	17.0	249.0	0
1,032	694	315	648	1,657	362	205	629	1,196	4,530	118.0	126.0	270.0	514.0	139
638	694	103	105	902	429	30	140	599	3,328	521	75	179	775.0	334
452	98	22	23	143	394	23	92	509	1,177	23.0	23.0	81.0	127.0	230
186	596	81	82	759	35	7	48	90	2,151	498.0	52.0	98.0	648.0	103
1,877	850	1,122	1,058	3,030	894	260	629	1,783	8,221	150	179	121	450.0	150
1,330	664	748	834	2,246	481	131	364	976	5,728	58	73	119	250.0	92
0	0	0	0	0	0	0	0	0	0	0	0	0	0.0	0
17	0	0	0	0	0	5	0	5	22	0	0	0	0.0	0
530	186	374	224	784	413	124	265	802	2,471	91	60	0	151.0	54
48	28	48	19	95	4	2	10	16	187	1.0	4.0	5.0	10.0	0
299	90	93	93	276	93	93	93	280	1,142	93	96	94	283.0	5
268	212	187	96	495	184	156	187	527	1,389	109	138	137	384.0	62
106	32	32	33	98	33	35	36	103	443	34	31	27	92.0	39
-4,970	-1,745	-1,873	-1,134	-4,753	-591	177	-497	-913	-12,387	-120	-172	1,161	869	-1,108
4,970	1,745	1,873	1,134	4,753	591	-177	497	913	12,387	120	172	-1,161	-869	1,108
3,930	2,582	1,191	1,380	5,154	585	-183	606	1,010	10,114	994	294	-1,259	29	247
1,179	2,213	1,323	1,134	4,670	577	-352	2,096	2,321	7,989	910	31	-794	147	1,074
-564	-339	435	596	692	-92	166	407	481	886	0	0	0	0	0
-185	708	-567	-350	-208	100	3	-1,897	-1,792	-2,261	84	263	-465	-118	-827
3,500	0	0	0	0	0	0	0	0	3,500	0	0	0	0	0
764	-886	-153	-449	-1,488	0	0	-115	-115	862	-873	-121	99	-895	861
957	0	0	0	0	0	0	0	0	4,222	0	0	668	668	0
928	0	0	0	0	0	0	0	0	2,641	0	0	668	668	0
29	0	0	0	0	0	0	0	0	1,583	0	0	0	0	0
-193	-886	-153	-449	-1,488	0	0	-115	-115	-3,360	-951	-121	-569	-1,641	-134
0	0	0	0	0	0	0	0	0	0	78	0	0	78	995
276	49	835	203	1,087	6	6	6	18	1,411	0	0	0	0	0

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



**BUDGET - CENTRAL GOVERNMENT**

	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
	<i>Final statement</i>	<i>Final statement</i>	<i>Final statement</i>	<i>Final statement</i>	<i>Budget</i>
<b>TOTAL REVENUES</b>	<b>50,493,469,454</b>	<b>65,713,522,924</b>	<b>69,688,034,455</b>	<b>71,981,222,939</b>	<b>67,374,067,000</b>
<b>REVENUES (TAX AND NON-TAX)</b>	<b>44,728,175,441</b>	<b>56,760,081,090</b>	<b>50,447,329,542</b>	<b>58,914,452,219</b>	<b>54,626,067,000</b>
<b>TAX REVENUES</b>	<b>41,858,828,319</b>	<b>51,120,246,193</b>	<b>47,715,732,355</b>	<b>54,389,136,894</b>	<b>51,819,067,000</b>
<i>Taxes on income, profits and capital gains</i>	<i>12,793,078,777</i>	<i>13,585,772,246</i>	<i>10,254,737,418</i>	<i>10,137,596,494</i>	<i>10,686,067,000</i>
<i>Personal income tax</i>	<i>10,233,016,110</i>	<i>10,792,594,721</i>	<i>7,248,441,986</i>	<i>7,513,310,319</i>	<i>7,902,067,000</i>
<i>Profit tax</i>	<i>2,559,325,945</i>	<i>2,793,156,390</i>	<i>3,006,295,432</i>	<i>2,624,286,175</i>	<i>2,784,000,000</i>
<i>Other taxes on income, profit and capital gains</i>	<i>736,722</i>	<i>21,135</i>	<i>0</i>	<i>0</i>	<i>0</i>
<b>Domestic taxes on goods and services</b>	<b>20,631,883,947</b>	<b>29,733,381,841</b>	<b>27,961,320,393</b>	<b>31,235,879,139</b>	<b>34,678,000,000</b>
<i>Value Added Tax (since 1.4.2000)</i>	<i>9,958,866,206</i>	<i>17,452,340,371</i>	<i>17,131,342,296</i>	<i>20,521,036,109</i>	<i>23,582,000,000</i>
<i>Excises</i>	<i>10,673,017,741</i>	<i>12,281,041,470</i>	<i>10,829,978,097</i>	<i>10,714,843,030</i>	<i>11,096,000,000</i>
<b>Taxes on international trade and transactions</b>	<b>8,302,773,971</b>	<b>7,733,381,467</b>	<b>6,110,877,520</b>	<b>6,336,011,440</b>	<b>6,151,000,000</b>
<i>Custom duties</i>	<i>6,802,005,702</i>	<i>6,040,495,875</i>	<i>4,819,861,730</i>	<i>5,230,636,744</i>	<i>5,077,902,000</i>
<i>Other import taxes and duties</i>	<i>1,500,768,269</i>	<i>1,692,885,592</i>	<i>1,291,015,790</i>	<i>1,105,374,696</i>	<i>1,073,098,000</i>
<b>Other taxes</b>	<b>123,627,594</b>	<b>62,644,972</b>	<b>168,830</b>	<b>4,430,649</b>	<b>4,000,000</b>
<i>Taxes on specific services</i>	<i>7,464,030</i>	<i>5,065,667</i>	<i>2,619,857</i>	<i>3,359,937</i>	<i>2,969,000</i>
<i>Fees for usage and permissions for performing activities</i>	<i>-</i>	<i>-</i>	<i>274,734,772</i>	<i>336,132,096</i>	<i>297,031,000</i>
<i>Financial transactions tax</i>	<i>-</i>	<i>-</i>	<i>3,111,273,565</i>	<i>6,335,727,139</i>	<i>0</i>
<b>NON-TAX REVENUES</b>	<b>2,869,347,122</b>	<b>5,639,834,897</b>	<b>2,731,597,187</b>	<b>4,525,315,325</b>	<b>2,807,000,000</b>
<i>Entrepreneurial income and property income</i>	<i>798,125,658</i>	<i>1,133,367,383</i>	<i>1,151,786,583</i>	<i>931,379,088</i>	<i>970,000,000</i>
<i>Fees and charges</i>	<i>1,156,606,788</i>	<i>1,215,770,217</i>	<i>1,061,498,244</i>	<i>1,091,976,541</i>	<i>1,120,000,000</i>
<i>Other government services</i>	<i>127,316,281</i>	<i>324,812,933</i>	<i>486,087,458</i>	<i>205,764,069</i>	<i>482,000,000</i>
<i>Other non-tax revenues</i>	<i>632,921,803</i>	<i>349,306,600</i>	<i>32,224,902</i>	<i>2,296,195,627</i>	<i>235,000,000</i>
<b>CAPITAL REVENUES</b>	<b>15,437,592</b>	<b>2,616,577,764</b>	<b>10,660,015,021</b>	<b>7,193,569,640</b>	<b>3,685,000,000</b>
<i>Sales of capital assets</i>	<i>15,437,592</i>	<i>2,616,577,764</i>	<i>9,714,039,661</i>	<i>6,244,440,021</i>	<i>3,322,000,000</i>
<i>Sales of land and intangible assets</i>	<i>-</i>	<i>-</i>	<i>945,975,360</i>	<i>949,129,619</i>	<i>363,000,000</i>
<b>TRANSFERS AND DONATIONS</b>	<b>2,419,089,626</b>	<b>4,155,269,452</b>	<b>6,484,077,606</b>	<b>3,808,557,430</b>	<b>4,105,000,000</b>
<i>Transfers from other levels of government</i>	<i>32,283,095</i>	<i>716,822,828</i>	<i>5,407,618,545</i>	<i>1,167,411,059</i>	<i>1,250,000,000</i>
<i>Foreign donations</i>	<i>2,386,806,531</i>	<i>3,438,446,624</i>	<i>1,076,459,061</i>	<i>2,641,146,391</i>	<i>2,855,000,000</i>
<b>DOMESTIC LOANS</b>	<b>0</b>	<b>0</b>	<b>1,333,471,478</b>	<b>480,521,896</b>	<b>0</b>
<b>BORROWING FROM ABROAD</b>	<b>3,330,766,795</b>	<b>2,181,594,618</b>	<b>763,140,808</b>	<b>1,584,121,754</b>	<b>4,958,000,000</b>
<b>TOTAL EXPENDITURES</b>	<b>49,761,209,035</b>	<b>57,689,326,704</b>	<b>68,520,623,429</b>	<b>71,700,272,895</b>	<b>67,374,067,000</b>
<b>CURRENT EXPENDITURES</b>	<b>42,088,365,187</b>	<b>46,985,485,342</b>	<b>57,496,087,268</b>	<b>56,314,747,304</b>	<b>52,973,090,000</b>
<b>Wages, salaries and allowances</b>	<b>15,996,631,927</b>	<b>16,285,267,541</b>	<b>16,407,589,066</b>	<b>18,337,661,335</b>	<b>20,952,657,000</b>
<b>Goods and other services</b>	<b>5,646,765,633</b>	<b>6,293,788,729</b>	<b>19,985,061,676</b>	<b>13,991,420,289</b>	<b>7,545,858,000</b>
<b>Current transfers</b>	<b>18,227,967,627</b>	<b>22,790,409,470</b>	<b>17,494,812,744</b>	<b>20,586,832,339</b>	<b>21,585,221,000</b>
<b>Interest payments</b>	<b>2,217,000,000</b>	<b>1,616,019,602</b>	<b>3,608,623,782</b>	<b>3,398,833,341</b>	<b>2,889,354,000</b>
<b>CAPITAL EXPENDITURES</b>	<b>2,407,296,601</b>	<b>5,186,477,309</b>	<b>7,140,072,243</b>	<b>8,366,132,516</b>	<b>5,608,190,000</b>
<b>Acquisition of capital assets</b>	<b>1,312,799,356</b>	<b>3,230,738,464</b>	<b>5,117,069,331</b>	<b>5,418,620,859</b>	<b>3,060,116,000</b>
<b>Capital transfers</b>	<b>1,094,497,245</b>	<b>1,955,738,845</b>	<b>2,023,002,912</b>	<b>2,947,511,657</b>	<b>2,548,074,000</b>
<b>LENDING, EQUITY PARTICIPATION AND DEBT REPAYMENT</b>	<b>5,265,547,247</b>	<b>5,517,364,053</b>	<b>3,884,463,918</b>	<b>7,019,393,075</b>	<b>8,792,787,000</b>
<b>Lending and equity participation</b>	<b>2,942,547,247</b>	<b>3,956,462,261</b>	<b>334,943,165</b>	<b>931,369,212</b>	<b>717,000,000</b>
<b>Amortization (debt repayment)</b>	<b>2,323,000,000</b>	<b>1,560,901,792</b>	<b>3,549,520,753</b>	<b>6,088,023,863</b>	<b>8,075,787,000</b>





**BALANCE OF PAYMENTS OF THE REPUBLIC OF MACEDONIA (annual data)<sup>1</sup>***(In million US\$)*

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>CURRENT ACCOUNT</b>										
<b>Goods, net</b>	-82.54	-262.94	-298.91	-339.85	-286.14	-269.29	-32.46	-75.28	-235.43	-324.48
Export, f.o.b.	42.82	-184.92	-222.78	-314.67	-386.13	-515.09	-495.81	-690.41	-523.23	-767.56
Import, f.o.b. <sup>2</sup>	1055.30	1086.35	1204.05	1147.44	1236.81	1291.52	1189.98	1320.73	1153.33	1110.49
<b>Services, net</b>	-1012.48	-1271.27	-1426.83	-1462.11	-1622.94	-1806.61	-1685.79	-2011.14	-1676.56	-1878.05
Income, net	-154.47	-155.12	-200.51	-156.16	-137.74	-59.60	41.83	47.05	-15.79	-24.63
o/w : interest, net	-56.69	-46.60	-39.57	-51.35	-54.90	-44.82	-42.15	-45.44	-39.46	-30.61
Current transfers, net	-56.69	-46.60	-39.73	-56.42	-54.88	-44.34	-41.41	-39.15	-33.59	-20.26
Official	85.80	123.70	163.95	182.34	292.63	350.21	463.66	613.53	343.06	498.32
Private	28.00	44.00	27.01	51.58	7.46	37.39	72.69	132.30	48.65	100.37
<b>CAPITAL AND FINANCIAL ACCOUNT</b>										
<b>Capital account, net</b>	-12.85	162.37	280.65	318.23	327.15	281.84	-128.46	11.28	178.23	353.88
Capital transfers, net	0.00	30.04	1.70	0.00	0.00	-1.79	0.00	0.31	1.30	8.06
Official	0.00	30.04	1.70	0.00	0.00	0.00	0.00	0.31	3.64	9.82
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.64	9.93
Acquisition/disposal of non-produced, nonfinancial assets	0.00	0.00	0.00	0.00	0.00	-1.79	0.00	0.00	0.00	-0.11
<b>Financial account, net</b>	-12.85	132.33	278.95	318.23	327.15	283.63	-128.46	10.97	176.93	345.82
Direct investment, net	0.00	24.02	9.51	11.23	15.74	117.72	31.80	176.23	442.32	77.32
Portfolio investment, net	0.00	0.00	2.68	0.31	2.08	7.79	0.14	-0.09	0.36	0.59
Other investment, net	43.98	150.22	367.35	300.78	341.14	226.66	-32.01	85.05	-183.27	137.34
Trade credits, net	-82.02	97.97	144.58	76.94	267.44	45.39	7.13	146.54	-125.08	65.66
Loans, net	-91.00	-96.83	29.31	41.51	75.39	219.87	54.83	13.51	-107.31	-26.28
Currency and deposits, net	81.00	38.09	86.66	113.77	-9.81	-40.62	-135.01	-122.53	27.09	69.49
o/w : Monetary Authorities, net	0.00	0.00	0.00	0.00	0.00	0.00	21.20	-0.19	-77.08	68.79
o/w : Commercial Banks, net	-17.00	-69.64	23.43	61.37	-29.14	-28.77	-51.28	-93.26	-272.39	137.03
o/w : Individuals, net	98.00	107.73	63.23	52.40	19.33	-11.85	-62.52	-29.08	376.56	-136.33
Other, net	136.00	110.99	106.81	68.56	8.12	2.03	41.04	47.53	22.03	28.48
Gross official reserves ("-" increase) <sup>3</sup>	-56.83	-41.91	-100.59	5.91	-31.81	-68.54	-128.39	-250.22	-82.48	130.57
<b>ERRORS AND OMISSIONS</b>	95.39	100.58	18.26	21.62	-41.02	-12.55	160.92	64.00	57.19	-29.39

Source: National Bank of the Republic of Macedonia

1) Revised preliminary data

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

3) Excluding monetary gold and exchange rate differences

## PENSION AND DISABILITY INSURANCE FUND

In the period January-April 2003, the Pension and Disability Insurance Fund realized revenues in the amount of Denar 8.562 billion, which in relation to the same period last year is a 6% drop. Thereby, the reduction of total revenues is due to the decline of all Fund's revenues, except for the excise revenues and revenues from dividends and sale of securities. Thereby, the salary and income contributions noted 5.2%, i.e. 11% decline respectively, and more significant decline was noted at the Budget revenues by 8.1%.

The structural analysis of the Budget transfers shows that, same as in the previous period, most part of the transfers is intended for covering the current deficit of the Employment Bureau (Denar 1.243 billion).

Total expenditures of the Pension and Disability Insurance Fund in the first four months of 2003 reached a level of Denar 8.313 billion, which in relation to the same period of the last year is 8% decline. The reduction of total expenditures is due to the decrease of all expenditures of the Pension and Disability Insurance Fund, except for the expenditures for hiring and for placement of disabled children in boarding school, **noting a 58% increase.**

Hence, in the January-April 2003 period, the Pension and Disability Insurance Fund of the Republic of Macedonia realized deficit in the amount of Denar 514 million, whereby the deficit in the first four months of 2003 is by Denar 245 million, or 91% higher than the one of the same period last year.

(in million of denars)

Types of revenues/expenditures	1998	1999	2000	2001	2002	2003
	Actual	Actual	Actual	Actual	Actual	Jan - April
<b>REVENUES</b>	<b>20,717</b>	<b>21,229</b>	<b>22,883</b>	<b>24,289</b>	<b>25,811</b>	<b>8,562</b>
Contribution from salaries	13,373	14,316	15,722	15,671	15,784	5,220
Contribution from income	239	311	311	331	283	100
Revenues from the Government Budget	3,618	3,266	4,174	5,744	6,961	2,380
Revenues from the private sectors	400	439	404	377	409	119
Revenues from individual farmers	74	65	58	41	61	26
Revenues from excises	691	632	804	716	688	203
Contributions from the Employment Fund for unemployed	961	868	1,101	1,126	1,404	495
Other revenues	122	45	74	73	29	9
Revenues from dividends	619	245	68	209	192	10
Revenues from new employment	419	841	167	0	0	0
Transferred income from the previous year	201	201	0	0	0	0
<b>EXPENDITURES</b>	<b>20,521</b>	<b>20,669</b>	<b>22,940</b>	<b>24,697</b>	<b>25,889</b>	<b>9,076</b>
Pensions	17,730	17,756	19,774	21,278	22,255	7,866
Regular pensions	16,912	16,977	18,948	19,041	19,982	7,096
War veteran pensions	464	458	505	514	518	173
Agricultural pensions	354	321	321	297	262	86
Retroactive payment of 8%	0	0	0	1,167	1,136	381
Early retirement by the Law from year 2000	0	0	0	112	103	37
Early retirement by the Law from year 2001	0	0	0	148	254	93
Compensation for body injury	63	69	72	72	83	27
Compensation for disability insurance	98	95	94	91	76	31
Employment and accommodations for disabled children	15	13	12	7	9	2
Health care contribution	2,321	2,450	2,672	2,805	2,934	1,043
Compensation for administration	133	132	141	153	165	57
Other expenditures	161	154	175	254	222	50
Capital expenditures	-	-	-	37	145	0
<b>BALANCE</b>						
Deficit / Surplus	196	560	-57	-408	-78	-514

Source: Internal data of the Ministry of Finance

## HEALTH INSURANCE FUND

In the first quarter of 2003, total revenues of the Health Insurance Fund of the Republic of Macedonia amounted to Denar 4.360 billion, which in relation to the same period of the last year is an increase by Denar 147 million or 3.5%. Thereby, the increase is mainly due to the increased collection of contributions by 10%, as well as the increase of the contributions from the Ministry of Labor and Social Policy by 17%. Simultaneously, the contributions collection from the Employment Bureau declined by 2.4% and the contribution collection from the Pension Fund by 1.8%.

Salary contributions prevail in the revenue structure of the Health Insurance Fund, reaching a level of Denar 2.620 billion in the observed period.

Simultaneously, in the period January-April 2003, the Health Insurance Fund realized expenditures in the amount of Denar 4.298 billion, which in relation to the same period of the last year is an increase by Denar 180 million or 4%. Such an increase is a result of the following: a) 25% increase of outpatient-related expenditures, b) 21.5% increase of dental protection expenditures c) 31% increase of expenditures for treatment abroad, d) 10% reduction of expenditures for hospital treatment, e) 30% decline of orthopedic expenditures. Hospital treatment and outpatient-related expenditures continue to prevail in the Health Insurance Fund expenditures structure.

The Health Insurance Fund realized surplus in the amount of Denar 65 million in the first four months of 2003.

(in million of denars)

Tupe of revenues / expenditures	1998	1999	2000	2001	2002	2003
	Actual	Actual	Actual	Actual	Actual	Jan-April
<b>REVENUES</b>	<b>11,087</b>	<b>12,068</b>	<b>12,790</b>	<b>12,295</b>	<b>13,656</b>	<b>4,360</b>
Contributions	6,736	7,363	7,745	7,528	7,823	2,620
Contributions from the Pension Fund	2,309	2,417	2,649	2,616	3,075	888
Contributions from the Employment Fund	1,037	1,350	1,941	1,554	1,763	610
Contributions from the Ministry of Labour	45	0	0	48	54	20
Other revenues	851	938	455	70	734	26
Revenues on the basis of contracts for health insurance cards	109	0	0	0	0	0
Transfers from the Central Budget for mandatory health insurance	-	-	-	166	111	105
Transferred income from the previous year	0	0	0	313	96	91
<b>EXPENDITURES</b>	<b>13,689</b>	<b>11,692</b>	<b>12,463</b>	<b>12,205</b>	<b>13,611</b>	<b>4,298</b>
Outpatient expenditures	5,303	2,491	2,486	2,505	4,430	1,593
Hospital treatment	4,702	5,482	5,737	5,919	4,929	1,524
Costs for programs	214	125	105	306	123	1
Medicines	1,214	1,249	1,681	1,555	1,305	428
Dental care	638	667	687	522	521	164
Orthopedic expenses	208	154	143	111	134	46
Medical treatment abroad	290	161	70	90	144	63
Other treatment (contributions)	719	801	694	769	832	299
Administration	326	288	250	268	360	91
Equipment and maintenance	36	39	90	44	656	14
Other expenditures	41	234	200	48	23	5
Loans and interest payments	0	0	321	71	154	70
<b>BALANCE</b>						
<b>Deficit/Surplus</b>	<b>-2,602</b>	<b>376</b>	<b>326</b>	<b>90</b>	<b>45</b>	<b>62</b>

Source: Internal data of the Ministry of Finance

## EMPLOYMENT BUREAU

In the period January-April 2003, total revenues of the Employment Bureau reached a level of Denar 1.959 billion, which in relation to the same period last year, is a 2.8% increase. This increase is mainly a result of the 6% increase of the revenues from contributions and the 2% increase of the Central Budget transfers. Thereby, within the salary-related revenues, there is an increase of revenues from salary contributions, as well as the contributions from self-employed persons, while there is a decrease at contributions paid by the employees temporary working abroad.

The structural analysis of the Budget transfers shows that, same as in the previous period, most part of the transfers is intended for covering the current deficit of the Employment Bureau (Denar 1.243 billion).

Total expenditures of the Employment Bureau of the Republic of Macedonia in the period January-April 2003 amount to Denar 1.961 million, which in relation to the same period last year is an increase by Denar 69 million, i.e. by 3.6%. Thereby, the expenditures for the function increased by 3%, while the expenditures for expert service declined by 14%.

Within the expenditures for the function, the funds earmarked for pecuniary allowance for the unemployed noted an increase by 1.1%, the health insurance contributions noted a decline by 1.9% and the funds for pension and disability insurance noted a decline by 2% in relation to the same period last year.

In the first four months of 2003, the Employment Bureau of the Republic of Macedonia realized a deficit in the amount of only Denar 2 million.

(in million of denars)

Tupe of revenues / expenditures	1998	1999	2000	2001	2002	2003
	Actual	Actual	Actual	Actual	Actual	Jan-April
<b>REVENUES</b>	<b>4,260</b>	<b>4,129</b>	<b>5,119</b>	<b>4,827</b>	<b>5,918</b>	<b>1,959</b>
<b>Revenues from contributions</b>	990	1,058	1,121	1,136	1,180	392
Contributions from wages	969	1,037	1,098	1,113	1,178	392
Contributions from self-employed	22	21	22	23	2	0
Contributions from the people who work abroad	0	0	0	0	0	0
<b>Revenues from the Government budget</b>	3,261	3,066	3,990	3,677	4,726	1,561
For covering the deficit of the Employment Fund	2,737	2,575	3,470	3,170	3,742	1,243
For paying allowances to the employees of the loss-making enterprises	524	490	516	481	944	316
Public administration reform	-	-	-	26	19	2
Other	0	0	3	26	21	0
<b>Other revenues</b>	9	6	8	13	12	6
<b>EXPENDITURES</b>	<b>4,264</b>	<b>4,135</b>	<b>5,110</b>	<b>4,749</b>	<b>5,868</b>	<b>1,961</b>
<b>Expenditures for the functions</b>	4,084	3,970	4,913	4,571	5,658	1,891
Unemployment benefits	2,073	1,755	1,875	1,879	2,273	733
Contributions for health insurance	1,039	1,347	1,936	1,555	1,763	610
Contributions for pension and disability insurance	972	868	1,102	1,138	1,453	506
Transfers for employment of disabled persons	-	-	-	-	128	32
Compensation for training	-	-	-	-	41	10
<b>Expenditures for the personnel</b>	180	165	198	178	210	70
<b>Wages and salaries</b>	99	105	118	116	124	44
<b>Allowances</b>	14	17	19	18	22	7
<b>Goods and other services</b>	43	34	54	43	42	18
<b>Current transfers</b>	0	0	0	0	0	0
<b>Interest payments</b>	0	0	1	0	0	0
<b>Capital expenditures</b>	24	8	6	2	22	1
<b>BALANCE</b>						
<b>Deficit / Surplus</b>	<b>-4</b>	<b>-6</b>	<b>9</b>	<b>78</b>	<b>50</b>	<b>-2</b>

Source: Internal data of the Ministry of Finance

## NATIONAL AND REGIONAL ROADS FUND

In the period January-April 2002, the National and Regional Roads Fund realized revenues in the amount of Denar 686 million, which in relation to the same period last year is a 14% drop. The decline is above all due to the 55% reduction of the Budget transfers, as well as 43% reduction of the pay toll. Simultaneously, the registration fee, pay toll as well as revenues on the basis of utilization of foreign credits noted significant increase.

Total expenditures of the National and Regional Roads Fund in the first 4 months of 2003 amounted to Denar 680 million, which in relation to the same period last year

is a 25% decrease. Thereby, the reduction is due to the decline of all comprising elements of total expenditures, save the credit repayment-related expenditures, noting 8.5% increase.

Most part of the National and Regional Roads Fund expenditures refer to road maintenance, being in the amount of Denar 323 million, i.e. 47.5%.

In the first four months of 2003, the National and Regional Roads Fund recorded a surplus in the amount of Denar 6 million.

(in million of denars)

Tupe of revenues / expenditures	1998	1999	2000	2001	2002	2003
	Actual	Actual	Actual	Actual	Actual	Jan-April
<b>REVENUES</b>	<b>2,660</b>	<b>3,793</b>	<b>3,506</b>	<b>4,012</b>	<b>3,434</b>	<b>686</b>
Revenues from Budget	668	924	1,590	1,655	1,305	149
Paytoll by foreign motor vehicles	49	54	82	73	87	15
Annual fee for motor vehicles subject to registration	524	518	746	704	761	247
Paytoll for use of motorway	468	492	537	375	381	171
Foreign credit	939	1,793	538	1,098	862	97
Other revenues	12	13	14	21	2	6
Grants	-	-	-	87	36	1
<b>EXPENDITURES</b>	<b>2,660</b>	<b>3,793</b>	<b>3,506</b>	<b>4,013</b>	<b>3,420</b>	<b>680</b>
Investments	1,203	1,985	1,662	1,756	1,250	140
Expenditures for studies, projections, supervision, fees and material costs	0	0	179	286	289	81
Road maintenance	784	790	952	926	900	323
Repayment of loans	264	148	212	299	304	63
Funds for local roads	321	386	502	596	528	73
Other expenditures	89	142	0	0	0	0
Liabilities from the previous year	0	342	0	0	0	0
Liabilities towards the Bank Rehabilitation Agency	0	0	0	150	149	0
<b>BALANCE</b>						
<b>Deficit / Surplus</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1</b>	<b>14</b>	<b>6</b>

Source: Internal data of the Ministry of Finance



# MACEDONIAN EXCHANGE

## Stock Exchange Indicators - April 2003

In April 2003, total turnover on the Macedonian Long-Term Securities Stock Exchange increased by 22.4% in relation to the one in March and it amounts to Denar 236 million. On the basis of the total turnover, there is an increase of the average daily turnover, reaching a daily amount of Denar 13 million.

Total turnover of shares in the analyzed period amounts to Denar 58 million, which is 49.1% decline in relation to the turnover in the previous month.

Unlike the decline of the total turnover of shares, total turnover of bonds in April noted significant increase by 142.6% in relation to the one in March and it amounts to Denar 131 million, whereby the average price of government bonds for the “old” foreign currency saving amounts to 57.2% of the face value, meaning a reduction by 6.6 percentage points in relation to March this year. Simultaneously, the average price of government denationalization bonds from the first issue reached a price of 55.2% of the face value, meaning a decline of the average price by 6.87 percentage points in relation to the previous month. The average price of government denationalization bonds from the second issue is 50.8% of the face value, meaning price decline by 1.5 percentage points in relation to the one in March this year. The price of convertible certificates in April 2003 amounts to 35.5% of the face value, meaning a decline by 2.4 percentage points in relation to March this year.

The official stock exchange index (SEI), as an indicator of the share price movement, declined by 1.4% in April compared to the previous month and reached an amount of Denar 1,066.00.

In April 2003, the highest turnover was realized on the official market in the amount of Denar 163 million, meaning 69.13% of the total turnover. Simultaneously, at the unofficial market of the Stock Exchange, turnover in the amount of Denar 27 million or 11.4% of the total Stock Exchange turnover was realized. The sale of other securities amounted to Denar 45 million or 19.43% of the total Stock Exchange turnover.

In the analyzed period, the highest percentage share in the turnover on the official market on the Stock Exchange were the ones of Toplifkacija AD Skopje, Makpetrol Skopje and Agricultural Enterprise Pelagonija - Bitola.

In April 2003, total of 9 block transactions were realized in the amount of Denar 241 million, whereby the most

## Stock Exchange Indicators - April 2003

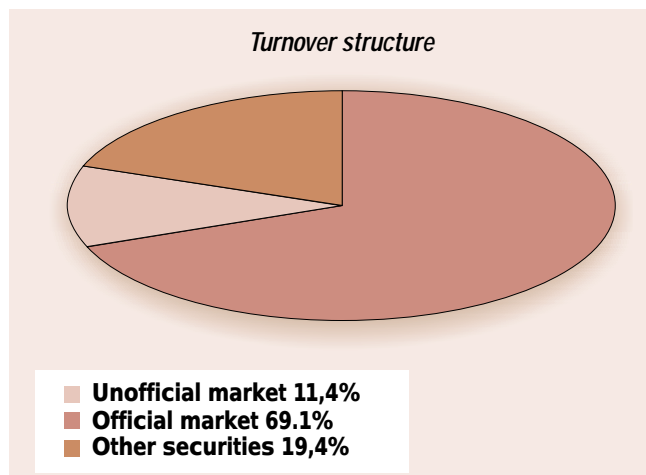
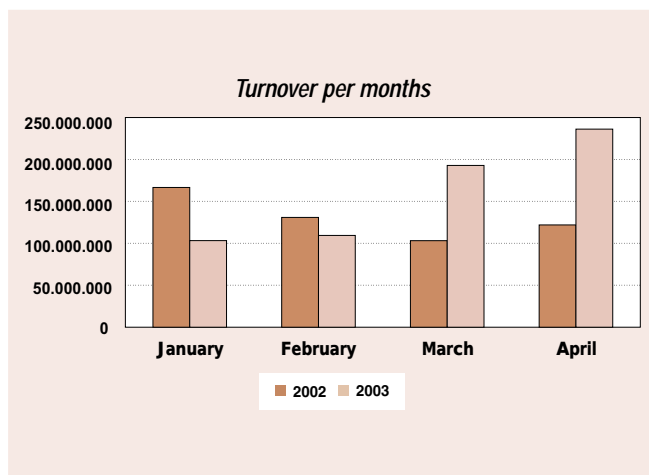
	March 2003	April 2003	% change
<b>TOTAL TURNOVER</b>			
Shares	115,506,540	58,768,944	-49.1
Bonds	54,220,176	131,515,199	142.6
Other securities	23,179,623	45,894,633	98.0
<b>TOTAL</b>	192,906,339	236,178,776	22.4
<b>VOLUME (in securities)</b>			
Shares	556,257	258,121	-53.6
Bonds (NV in EURO's)	1,492,609	4,201,983	181.5
Other securities (NV in EURO's)	59,612,733	119,832,561	101.0
<b>MSEI</b>	1,081	1,066	-1.4
<b>TOTAL NUMBER OF TRANSACTIONS</b>	1,777	1,500	-15.6
<b>NUMBER OF LISTED SECURITIES</b>	99	99	0.0
<b>MARKET CAPITALIZATION (In Denars)</b>			
Shares	14,166,794,628	14,425,506,770	1.8
Bonds (NV in EURO's)	22,730,863,833	20,416,398,996	-10.2
<b>TOTAL</b>	36,897,658,461	34,841,905,766	-5.6
<b>NUMBER OF TRADED SECURITIES - UNOFFICIAL MARKET</b>	25	27	8.0
<b>NUMBER OF TRADING DAYS</b>	17	17	58.8
<b>DAILY AVERAGE:</b>			
Turnover (denars)	11,347,432	13,892,869	22.4
Number of transactions	105	88	-16.2
<b>NUMBER OF REPORTED TRANSACTIONS</b>	7	9	28.6
<b>VALUE OF REPORTED TRANSACTIONS</b>	66,219,464	241,096,813	264.1
<b>NUMBER OF TRANSACTIONS - STATE SEGMENT</b>	7	2	-71.4
<b>VALUE OF TRANSACTIONS - STATE SEGMENT</b>	26,334,144	101,616,089	285.9

significant one is the trading with the securities of Izvozna i Kreditna Banka AD Skopje, G.P. Pelagonija AD Stip and Alkaloid AD Skopje. The value of the registered block transactions increased by 264.1% in relation to the one in March 2003.

The securities of the following two state-owned enterprises were traded in April: MAKOTEKS AD Skopje and 9 Maj AD Negotino. Their total value amounts to Denat 101 million, meaning an increase in the value of the transactions of the government segment by 285.9% in relation to the previous month.

In the analyzed period, 99 securities were listed on the Stock Exchange, same number as in the previous month, and the trading was conducted 17 days.

## MACEDONIAN STOCK EXCHANGE



### TURNOVER STRUCTURE

Market segment	Turnover in denars	Turnover in EURO's	%	Number of transactions
Official market	163,274,199	2,665,637	69.1	▼ 1,239
Unofficial market	27,009,944	441,099	11.4	▼ 75
Other securities	45,894,633	749,395	19.4	▼ 186
<b>TOTAL</b>	<b>236,178,776</b>	<b>3,856,131</b>	<b>100</b>	<b>▼ 1,500</b>

### OVERVIEW OF TRADING OF THE MOST LIQUID SHARES (OFFICIAL MARKET) APRIL 2003

No.	Name of the issuer	Turnover (denars)	Turnover (EURO's)	Participation in turnover(%)	Number of transactions	Market capitalization (denars)
1.	Makpetrol Skopje	3,887,761	63,480	12.24	52	1,131,835,084
2.	Toplifikacija Skopje	6,717,943	109,643	21.15	43	696,924,000
3.	Komercijalna banka Skopje - ordinary	2,427,053	39,629	7.64	25	668,467,890
4.	Zito Luks Skopje	1,387,000	22,643	4.37	8	454,100,350
5.	Ohridska banka Ohrid	1,511,000	24,680	4.76	11	363,150,260
6.	Evropa Skopje	1,576,066	25,732	4.96	17	281,141,300
7.	Replek Skopje	1,473,200	24,063	4.64	1	197,432,000
8.	Komercijalna banka Skopje - Preference	1,390,660	22,703	4.38	20	146,368,560
9.	Zemjod. komb. Pelagonija Bitola	3,461,363	56,490	10.90	5	89,144,469
10.	Kiro Cucuk Veles	1,767,000	28,843	5.56	1	80,497,700
	Others	6,159,954	100,618	19.40	288	10,316,445,157
	<b>TOTAL OFFICIAL MARKET</b>	<b>31,759,000</b>	<b>518,524</b>	<b>100.00</b>	<b>471</b>	<b>14,425,506,770</b>

## OVERVIEW OF THE TRADING WITH BONDS AND OTHERS SECURITIES

	High	Low	Initial	Last	Average price	Volume	Turnover (denars)	Turnover (EURO's)
Government bonds - F/X deposits (RM 01)	63.1	55.1	62.5	56.7	57.16	407,124	14,529,174	237,222
Government bonds - denationalisation I issue (RMDEN01)	55.2	55.1	55.2	55.1	55.16	4,204	141,976	2,319
Government bonds - denationalisation II issue (RMDEN02)	55.1	47	49.9	55	50.78	3,790,655	116,844,049	1,907,572
Convertible certificates - saving houses (RMKSF)	39.8	33.6	36	35	35.54	119,832,561	45,894,633	749,395

## OVERVIEW OF THE TRADING OF GOVERNMENT AUCTIONS

April 2003

Name of the issuer	Date of transaction	Nominal value	Price per share (denars)	Turnover (shares)	Turnover (denars)	% of nominal value	Type of payment
Makoteks AD Skopje	08/04/03	35,9 EMU	2,195	40,151	88,131,445	100	government sec.
9 Maj AD Negotino	24/04/03	100 DEM	2,188	6,163	13,484,644	70	government sec.
<b>TOTAL</b>				<b>46,314</b>	<b>101,616,089</b>		

## OVERVIEW OF BLOCK TRANSACTIONS

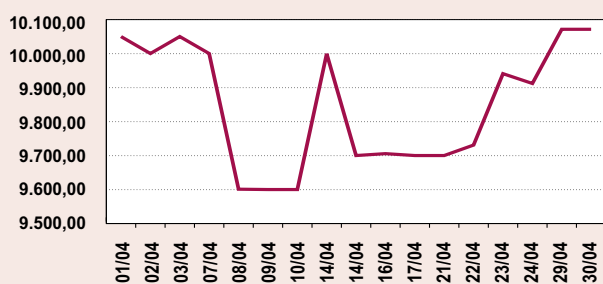
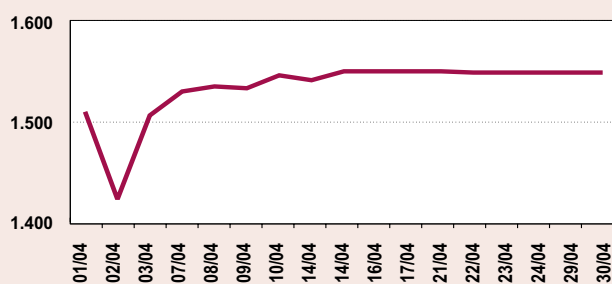
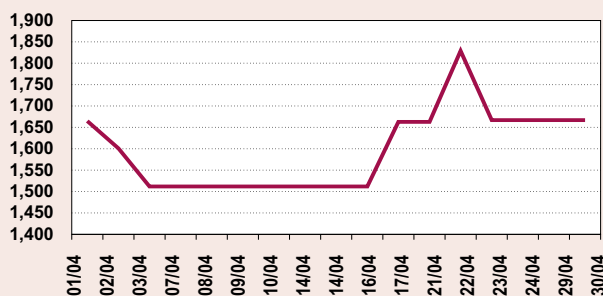
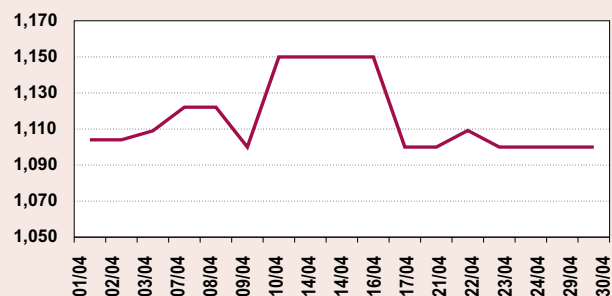
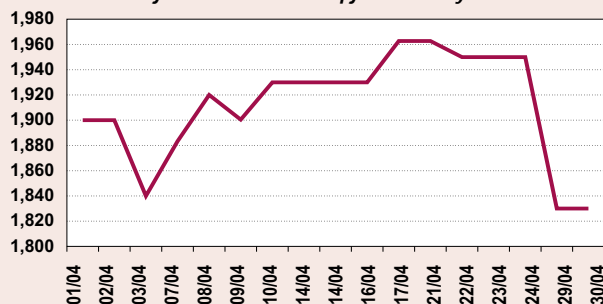
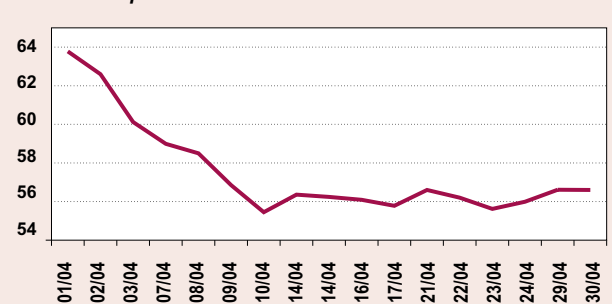
April 2003

Name of the issuer	Date of transaction	Nominal value	Price per share (denars)	% of outstanding shares	Volume (shares)	Turnover (denars)
Mokel EE II AD Bitola	03/04/03	100 DEM	250	86.32	14,200	3,550,000
Alkaloid AD Skopje	07/04/03	25,56 EMU	2,000	0.2	2,634	5,268,000
Alkaloid AD Skopje	14/04/03	25,56 EMU	2,000	0.22	2,885	5,770,000
Izvozna i kreditna banka AD Skopje	15/04/03	10.000 DEN	11,120	2.2	900	10,008,000
Izvozna i kreditna banka AD Skopje	15/04/03	10.000 DEN	11,120	3.3	1,350	15,012,000
Alkaloid AD Skopje	17/04/03	25,56 EMU	2,000	0.29	3,757	7,514,000
Biljana konfekcija i trikotaza banka AD Skopje	22/04/03	100 DEM	343	44.33	5,068	1,738,324
GP Pelagonija AD Stip	22/04/03	500 DEM	120.75	64.65	72,923	8,805,452
Tutunska Banka AD Skopje	29/04/03	1.000 DEN	3,069.77	11.2	59,754	183,431,037
<b>TOTAL</b>					<b>163,471</b>	<b>241,096,813</b>

**LISTED COMPANIES ON MACEDONIAN STOCK EXCHANGE**  
**REPORT ON TRADING 1.4.2003 - 30.4.2003**

ISSUER	Nominal value	High price	Low price	Initial price	Last price	Number of tran- saction	Value	Quan- tity	Number of trading days
<b>Official market</b>									
<b>First market - common stock</b>									
Algreta Resen	100 DEM	1,400.00	1,400.00	1,400.00	1,400.00	1	84,000	60	1
Alkaloid Skopje	25,56 EMU	1,829.00	1,512.00	1,665.00	1,667.00	12	19,150,901	9,635	8
Blagoj Gorev Veles	25,56 EMU	569	518	518	569	3	108,700	200	2
Beton Skopje	255,65 EMU	1,500.00	1,400.00	1,400.00	1,500.00	65	1,071,800	715	13
Galeb Ohrid	50 EMU	2,134.00	2,000.00	2,000.00	2,134.00	4	238,338	112	1
Grad. institut Makedonija Skopje	100 DEM	6,300.00	6,300.00	6,300.00	6,300.00	1	88,200	14	1
Granit Skopje	5 EMU	88	75	80	88	27	624,627	7,787	9
Metalec Bitola	51,13 EMU	1,600.00"	1,500.00	1,500.00	1,600.00	2	77,600	49	2
Evropa Skopje	51,13 EMU	1,150.00"	1,099.00	1,109.00	1,100.00	17	1,576,066	1,416	9
EMO Ohrid	60 DEM	380	380	380	380	2	36,100	95	2
Zito Luks Skopje	100 DEM	550	500	500	550	8	1,387,000	2,531	2
Zito Vardar Veles	50 EMU	885	885	885	885	1	70,800	80	1
Zemjod. komb. Pelagonija Bitola	51,13 EMU	330	305	311	305	5	3,461,363	11,333	2
Jaka tabak Radovis	51,13 EMU	1,100.00	1,100.00	1,100.00	1,100.00	1	22,000	20	1
Kiro kukuk Veles	153,38 EMU	3,100.00	3,100.00	3,100.00	3,100.00	1	1,767,000	570	1
Komercijalna banka Skopje	5000 DEN	2,000.00	1,830.00	1,900.00	1,830.00	25	2,427,053	1,277	12
GP Mavrovo Skopje	51,13 EMU	1,500.00	1,500.00	1,500.00	1,500.00	1	1,500	1	1
Mlaz Bogdanci	35 EMU	494	450	450	490	4	158,560	328	4
Makpetrol Skopje	511,29 EMU	10,120.00	9,600.00	10,050.00	10,001.00	52	3,887,761	393	16
Makedonija Turist Skopje	25,56 EMU	970	850	900	900	9	1,123,110	1,266	4
Ohridska banka Ohrid	2650 DEN	1,930.00	1,320.00	1,320.00	1,930.00	11	1,511,000	977	7
OHIS Skopje	100 DEM	342	342	342	342	1	2,394	7	1
Rade Koncar Skopje	25 EMU	160	160	160	160	17	243,520	1,522	6
Replek Skopje	562,42 EMU	11,600.00	11,600.00	11,600.00	11,600.00	1	1,473,200	127	1
RZ Ekonomika Skopje	5,11 EMU	91	68	91	70	112	1,169,648	13,564	16
Stopanska banka Bitola	3000 DEN	2,900.00	2,900.00	2,900.00	2,900.00	2	87,000	30	2
Sileks Kratovo	43,77 EMU	64	64	64	64	1	17,920	280	1
Skopski Pazar Skopje	51,13 EMU	2,300.00	2,200.00	2,300.00	2,200.00	2	45,000	20	2
Tehnometal Vardar Skopje	51,13 EMU	693	600	603	605	22	268,036	437	11
Toplifikacija Skopje	100 DEM	1,550.00	1,405.00	1,519.00	1,549.00	43	6,717,943	4,378	12
Transkop-Patnicki soob. Bitola	100 DEM	600	600	600	600	1	22,200	37	1
<b>First market - preferred stock</b>									
Komercijalna banka Skopje	1000 DEN	870	780	830	780	20	1,390,660	1,667	9
<b>First market - bonds</b>									
R. Macedonia - foreign exchange deposit		63.1	55.1	62.5	56.7	314	14,529,174	407,124	16
R. Macedonia - denationalization 01		55.2	55.1	55.2	55.1	2	141,976	4,204	1
R. Macedonia - denationalization 02	1 EUR	55.1	47	49.9	55	452	116,844,049	3,790,655	17
<b>Total official market</b>						<b>1,242</b>	<b>181,826,199</b>	<b>4,262,911</b>	
<b>Non - official market</b>									
<b>Non - official market - common stock</b>									
29 Noemvri Skopje	460 DEM	2,000.00	2,000.00	2,000.00	2,000.00	5	64,000	32	4
Zivin. farma Belimbegovo Skopje	10 DEM	47	47	47	47	1	64,813	1,379	1
Biljana Konfekcija Prilep	100 DEM				343	1	1,738,324	5,068	1
Vardar Gradsko	10 DEM	45	45	45	45	1	7,335	163	1

ISSUER	Nominal value	High price	Low price	Initial price	Last price	Number of transaction	Value	Quantity	Number of trading days
DZSPP Goce Delcev s. Trubarevo	100 DEM	2,200.00	2,200.00	2,200.00	2,200.00	1	79,200	36	1
Gradski Trgovski Centar Skopje	100 DEM	1,900.00	1,900.00	1,900.00	1,900.00	1	100,700	53	1
Zito Jug Kavadarci	100 DEM	1,550.00	1,550.00	1,550.00	1,550.00	3	212,350	137	2
Izvozno i kreditna banka Skopje	10000 DEN				11,120.00	2	25,020,000	2,250	1
Ineks Drim Struga	100 DEM	3,200.00	3,200.00	3,200.00	3,200.00	1	1,056,000	330	1
Jugotutun Skopje	153,27 DEM	3,200.00	3,200.00	3,200.00	3,200.00	2	233,600	73	1
Karaorman Skopje	100 DEM	166	166	166	166	1	94,952	572	1
KJUBI Makedonija Skopje	100 DEM	499	450	499	450	4	74,401	160	2
Masinski servis Kavadarci	100 DEM	979	600	979	600	4	1,827,056	1,994	2
Metalpromet Prilep	100 DEM	390	390	390	390	1	345,150	885	1
Makedonska banka Skopje	4000 DEM	2,000.00	1,890.00	2,000.00	1,890.00	2	1,671,150	876	2
Makedonija Gostivar	100 DEM	2,302.00	2,302.00	2,302.00	2,302.00	1	140,422	61	1
Makmetal Skopje	100 DEM	3,150.00	3,150.00	3,150.00	3,150.00	1	28,350	9	1
Makedonija soobrajaj Skopje	100 DEM	1,000.00	1,000.00	1,000.00	1,000.00	1	70,000	70	1
Mokel EE II AD Bitola	100 DEM				250	1	3,550,000	14,200	1
Napredok Gostivar	10 DEM	1,200.00	1,200.00	1,200.00	1,200.00	1	148,800	124	1
Pelagonija Stip	500 DEM				120.75	1	8,805,452	72,923	1
PKB Skopje Skopje	90 DEM	694	694	694	694	1	152,680	220	1
Pelagonija Trans Prilep	100 DEM	1,500.00	1,500.00	1,500.00	1,500.00	16	501,000	334	12
Rudnik Demir Hisar s. Sopotnica	10 DEM	250	250	250	250	5	155,000	620	3
Skopski saem Skopje	100 DEM	2,287.00	2,287.00	2,287.00	2,287.00	1	571,750	250	1
Sovremen dom Prilep	5,11 EMU	40	40	40	40	6	6,763,160	169,079	6
Slovin Jugokokta Skopje	10 DEM	276	180	276	180	2	6,994,908	25,443	2
Tabak osigur. i reosigur. Skopje	1000 DEM	31,000.00	31,000.00	31,000.00	31,000.00	1	1,860,000	60	1
Tutunska banka Skopje	1000 DEN	1,900.00	1,601.00	1,900.00	1,900.00	4	184,787,017	60,496	3
Trgojug Skopje	50.30 DEM	500	500	500	500	1	1,068,000	2,136	1
Crven trendafil Skopje	32 DEM	300	300	300	300	2	25,800	86	1
<b>Non - official market - preferred stock</b>									
Тутунска банка Скопје	1000 DEN	3,070.00	1,603.00	1,900.00	3,070.00	6	1,343,387	545	5
<b>Total non - official market</b>						<b>81</b>	<b>249.554.757</b>	<b>360.664</b>	
<b>Other securities</b>									
<b>Government securities</b>									
Convertible certificates	1 Denar	39.8	33.6	36	35	186	45,894,633	119,832,561	14
<b>Other securities - total</b>						186	45,894,633	119,832,561	
<b>Government market</b>									
<b>Government - noncash payment</b>									
9-ti Maj Negotino	100 DEM	2,188.00	2,188.00	2,188.00	2,188.00	1	13,484,644	6,163	1
Makoteks Skopje	70 DEM	2,195.00	2,195.00	2,195.00	2,195.00	1	88,131,445	40,151	1
<b>Government market - total</b>						2	101,616,089	46,314	
<b>TOTAL ALL MARKETS</b>						1,511	578,891,678		

*Makpetrol AD Skopje - ordinary shares**Toplifikacija AD Skopje - ordinary shares**Alkaloid AD Skopje - ordinary shares**Evropa AD Skopje - ordinary shares**Komercijalna Banka AD Skopje - ordinary shares**Republic of Macedonia - Government bonds***TURNOVER PER MEMBERS (IN DENARS)\***

April 2003

Rang	Member	Trading in BEST system	% of trading in BEST system	Block	% of block	Government auctions	% of Government auctions	Total
1	TN	201,080,885	42.57	101,616,089	50	384,472,978	79.73	687,169,951
2	MI	37,024,993	7.84	88,131,445	43.36	26,154,000	5.42	151,310,438
3	KB	89,823,385	19.02	0	0	21,526,648	4.46	111,350,033
4	BD	30,385,586	6.43	13,484,644	6.64	50,040,000	10.38	93,910,230
5	FR	34,804,842	7.37	0	0	0	0	34,804,842
6	MK	28,387,470	6.01	0	0	0	0	28,387,470
7	BB	20,029,804	4.24	0	0	0	0	20,029,804
8	BL	13,285,906	2.81	0	0	0	0	13,285,906
9	SB	10,669,499	2.26	0	0	0	0	10,669,499
10	SL	6,491,911	1.37	0	0	0	0	6,491,911
11	PT	373,272	0.08	0	0	0	0	373,272
	<b>TOTAL</b>	<b>472,357,552</b>	<b>100</b>	<b>203,232,178</b>	<b>100</b>	<b>482,193,626</b>	<b>100</b>	<b>1,157,783,356</b>

\* Double counted



## MEMBERS OF THE MACEDONIAN STOCK EXCHANGE

### Bro-dil AD

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Tel: 02/298 851, 298 852; fax: 02/118670"  
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### Broker SB AD

Adress: Gradski zid blok 10, 1000 Skopje  
Tel:02/295 295; fax 02/295551  
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### KB Broker AD

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### Makos-Invest Broker AD

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

### MAK Broker AD

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

### Tutunskabroker AD

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

### Balkanska Banka Skopje AD

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

### Fer[ped Broker AD

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

### Postel Broker AD

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

### Bitola Broker AD

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

### Eksport Import Banka AD

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

### Sileks Banka AD

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

## MONEY AND SHORT-TERM SECURITIES MARKET

In **April 2003** the money and short-term securities market recorded declined activity compared to March 2003, manifested via the reduced total turnover of money realized among the commercial banks. In the analyzed period, the total turnover realized on the money and short-term securities market amounted to Denar 1.3 billion and in relation to March 2003 is by Denar 143 million or by 9.6% lower.

The average daily realization on the money and short-term securities market in April 2003 amounted to Denar 64 million and is lower in relation to the previous month, when it amounted to Denar 116 million.

Aggregate demand for liquid assets during this month amounted to Denar 1.5 billion, meaning a decline by Denar 7.4 million compared to the demand for liquid assets in March 2003, i.e. 0.47% decline of the aggregate demand. Also, the aggregate demand for liquid assets on the money market noted 8% decline in this month compared to March 2003 and it amounts to Denar 1.8 billion.

In the analyzed period, the average weighted interest rate was 10.6% and is by 1.6 percentage points lower in relation to **March 2003**.

In April 2003, a total of 280 transactions were performed for a 21-day period in which trading on the money market was conducted.

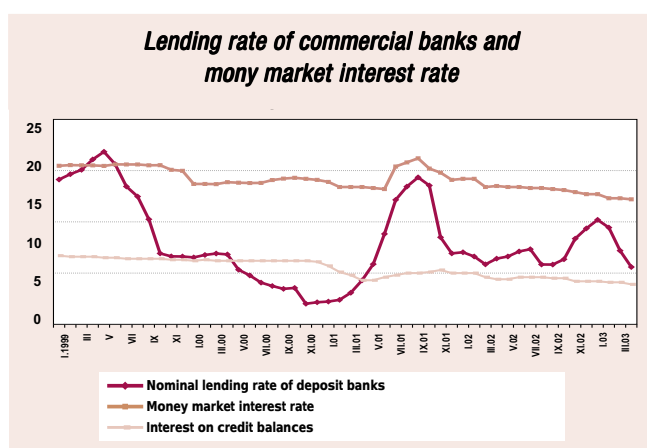
The total realized turnover in May 2003 amounted to Denar 979 million, meaning a decline by 27.5% in relation to the turnover realized in the previous month.

There is a decrease in the average daily turnover on the basis of the reduction of the overall realized turnover, and it amounts to Denar 48.9 million.

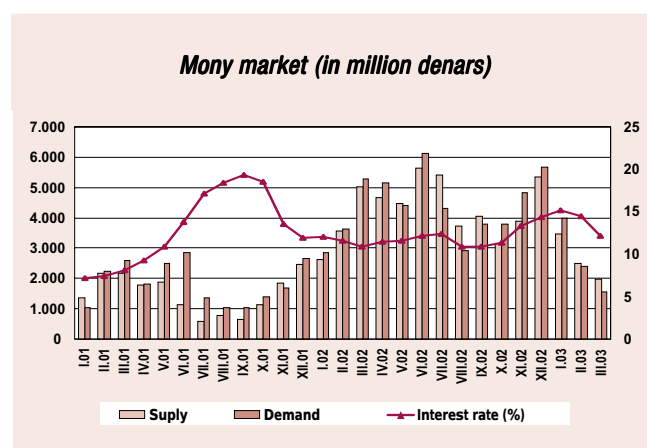
During the analyzed period, the aggregate demand for liquid assets amounted to Denar 1.2 billion, meaning a decline by Denar 334 million, i.e. 21.6% in relation to April 2003. Also, the aggregate demand for liquid assets in May 2003 declined by 41.1% in relation to the previous month and it amounts to Denar 1.07 billion.

Since in May 2003 the supply of liquid assets significantly declined in relation to the previous month, the average weighted interest rate declined by 1.23 percentage points and it amounts to 9.36%.

In the analyzed period, a total of 235 transactions were performed for a 20-day period in which trading on the money market was conducted.



Source: National Bank of the Republic of Macedonia



Source: National Bank of the Republic of Macedonia

### Money market 2002 and 2003 year (monthly)

	I.02	II.02	III.02	IV.02	V.02	VI.02	VII.02	VIII.02	IX.02	X.02	XI.02	XII.02	I.03	II.03	III.03	IV.03
Total turnover (in million of denars)	2,491	3,390	4,888	4,473	4,145	5,631	3,938	2,460	3,008	2,970	3,843	5,213	3,224	2,330	1,493	1,350
Interest rate (% annual level)	12.03	11.62	10.85	11.41	11.62	12.11	12.33	10.84	10.83	11.35	13.36	14.36	15.20	14.44	12.19	10.59

# DEPOSITS OF PHYSICAL PERSONS AT BANKS AND SAVINGS HOUSES

In **April 2003**, deposits of physical persons at banks and savings houses reached an amount of Denar 36.6 billion, i.e. EUR 599.3 million, meaning a 3.6% increase in relation to March 2003.

Compared to April 2002, deposits of citizens in April 2003 are by Denar 4.5 billion, i.e. by 12.5% higher.

When analyzing the currency structure of deposits, in April this year, one can note that 30.8% of the total deposits are Denar deposits, meaning an increase by 1.4 percentage points in relation to the previous month, while the share of the foreign currency deposits in the total deposits is 69.2%.

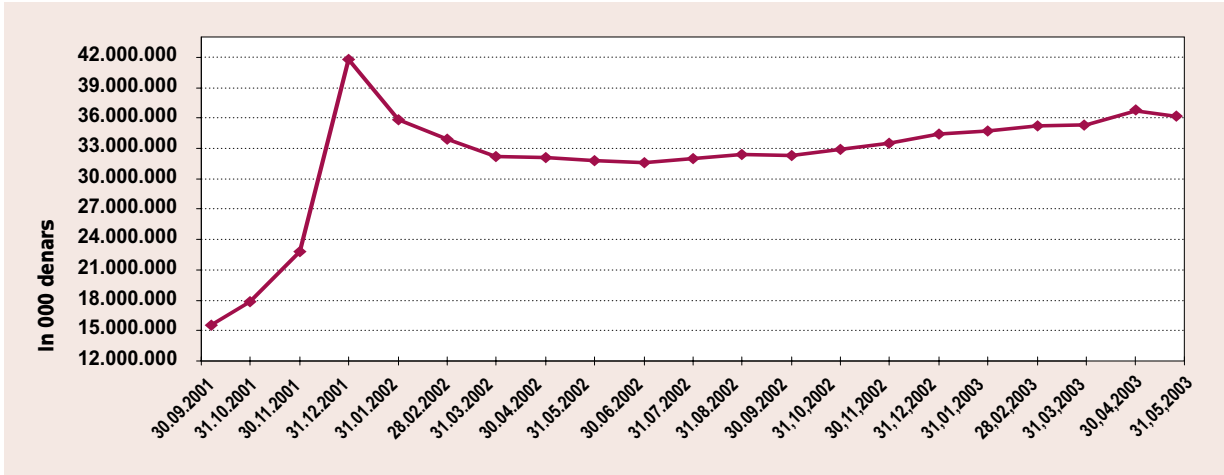
With respect to the maturity structure of the deposits, in April 2003, 56.3% of the total deposits are sight deposits and they amount to Denar 20 billion. The remaining 43.7% are time deposits and they amount to Denar 16 billion. Compared to March, in April 2003, the share of the sight deposits in the total deposits, at the expense of the share of time deposits, increased by 0.94 percentage points.

Deposits of physical persons at banks and savings houses reached an amount of Denar 36.7 billion, i.e. EUR 598.8 million in **May 2003**, meaning insignificant increase of the total deposits at banks and savings houses by 0.2% in relation to April 2003.

Compared to May 2002, deposits of citizens in May this year are by Denar 5.01 billion, i.e. by 15.8% higher.

From the aspect of the currency structure of deposits, 30.7% of the total deposits are Denar deposits and the remaining 69.3% are foreign currency deposits. In relation to the previous month, in May 2003, the share of Denar deposits in the total deposits decreased by insignificant 0.08 percentage points at the expense of the share of foreign exchange deposits.

With respect to the maturity structure of the deposits, in May 2003, 56.2% of the total deposits are sight deposits and they amount to Denar 20.6 billion, while the remaining 43.8% are time deposits in the amount to Denar 16 billion. In the analyzed period, the share of the time deposits increased by 0.11 percentage points at the expense of the share of time deposits.



Source: Deposits insurance fond

**CREDIT LINES FOR SMALL AND MEDIUM - SIZE ENTERPRISES****provided and guaranteed by the Government of the Republic of Macedonia**

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

<b>Credit line</b>	<b>Credit line in kind from Italy (equipment produced in Italy) Agent bank-Macedonian Bank for Development Promotion</b>	<b>KfW - Germany, Programme for crediting SME development Agent bank-Macedonian Bank for Development Promotion</b>	<b>German-Macedonian Fund for crediting repatriates from Germany. Agent bank-Macedonian Bank for Development Promotion</b>
<b>Amount</b>	50,000 - 2,000,000 €	50,000 - 400,000 €	10,000 - 150,000 €
<b>Repayment period</b>	Up to 5.5 years	Up to 4 years	Up to 8 years
<b>Grace period</b>	Up to 1.5 years	Up to 1 year	Up to 2 years
<b>Annual interest rate</b>	Fixed at 7% per annum	Variable (depending on the semi-annual EURIBOR interest) At the moment it is 11% per annum	Fixed at 8% per annum
<b>Guarantee</b>	Mortgage, bank guarantee, deposit, securities	Mortgage, notes, pledge on movables, rights and securities, pledge on real estate	Mortgage on real estate, obligatory relationship or bank guarantee, deposit, securities
<b>Purpose of the credit</b>	Projects which provide production, modernization, completion of the technological process and elimination of bottle necks	Modernization and expansion of existing private SMEs and establishment of new ones. Minimum 70% of the credit for fixed assets; Maximum 30% of the credit may be used for working capital	Initiation of operations of new companies, taking over existing companies, active partnership of existing companies, expansion of existing companies not older than 3 years
<b>Target groups</b>	SMEs that meet the conditions of the credit policy of Macedonian Bank for Development Promotion	SMEs that have more than 51% private ownership	Production, rendering services, construction or agricultural SMEs with over 51% private ownership (trade is excluded). The founder must be repatriate from Germany, returned after 1 January 1991
<b>Source of funds</b>	Italy provided 12.7 million €, 9 million € out of which remain to be utilized. The funds will be used to create revolving fund.	KfW - Germany provided 15 million €, 3.2 million € out of which remain to be utilized. The funds will be used to create revolving fund.	DEG - Germany and the Ministry of Finance of the Republic of Macedonia provided 10.2 million €, 9.8 million € out of which remain to be utilized. The funds will be used to create revolving fund.
<b>Commercial bank that offer the credit</b>	Balkanska banka Skopje, Eksport import banka Skopje, Izvozna i kreditna banka Skopje, Invest banka Skopje, Komercijalna banka Skopje, Makedonska banka Skopje, Ohridska banka Skopje, Radobank Skopje, Stopanska banka Skopje, 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 Skopje, Radobank AD Skopje, Stopanska banka AD Skopje, Tutunska banka AD Skopje	Balkanska banka AD Skopje, Eksport import banka AD Skopje, Izvozna i Kreditna banka AD Skopje, Invest banka AD Skopje, Komercijalna banka AD Skopje, Makedonska banka AD Skopje, Ohridska banka AD Skopje, Radobank AD Skopje, Stopanska banka AD Skopje, Tutunska banka AD Skopje
<b>Note:</b>			

<b>Credit line</b>	<b>Crediting small businesses (micro and small credits)</b>	<b>Crediting the production intended for export, from the funds from Macedonian Bank for Development Promotion</b>	<b>Programme for crediting investments of small and medium-size enterprises, from the funds from Macedonian Bank for Development Promotion</b>
<b>Amount</b>	50,000 - 15,000 € micro credits, up to 50,000 € small credits,	50,000 - 400,000 €	50,000 - 400,000 €
<b>Repayment period</b>	Up to 2 years	4 - 15 mounts (for export arrangements)	Up to 4 years
<b>Grace period</b>	Up to 3 mounts	/	Up to 1 year
<b>Annual Interest rate</b>	Up to 20% per annum for micro credits, up to 15% per annum for small credits	Fixed at 11 % per annum	11 %
<b>Guarantee</b>	Blank note with a statement certified by notary, with at least two guarantors; Crossed check with statement certified by notary, Note and/or crossed check from other solvent legal entities - guarantors; Mortgage; pledge on movables and rights; pledge of valuables and securities; checks; other upon necessity acceptable for the bank. When evaluating the credits, special credit technology is applied which is focused on social and economic situation of the entrepreneur and his business, regarding the collateral.		Mortgage on real estate, notes, pledge on movables, rights and securities, pledge on real estate
<b>Purpose of the credit</b>	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 machines, tools, licences etc., up to 70% of the credit; arrangement and adaptation of construction facilities which are within the planned project, up to 20% of the credit; financing working capital, up to 30% of the credit
<b>Target groups</b>	Private companies, individuals, individual entrepreneurs, craftsmen, vendors and sole proprietor	Private export-oriented companies	Legal entities that have more than 50% private ownership; newly-established - the investor must have previous experience as physical person for at least 4 years in such business and must guarantee his/her whole personal property
<b>Source of funds</b>	Credit bank for Rehabilitation - KfW from Germany provided 6.7 million €, 5.7 million € out of which remain to be utilized. The funds will be used to create revolving fund.	Macedonian Bank for Development Promotion provided funds for this credit line - 31.5 million €. The funds will be used to create revolving fund.	Macedonian Bank for Development Promotion provided funds for this credit line, 4.5 million € out of which were utilized. The funds from credit repayment will be intended for the Programme for financing export-oriented production.
<b>Commercial bank that offer the credit</b>	Izvozna i kreditna banka AD Skopje, Tutunska banka AD Skopje,	Balkanska banka AD Skopje, Eksport import banka AD Skopje, Izvozna i kreditna banka AD Skopje, Invest banka AD Skopje, Komercijalna banka AD Skopje, Makedonska banka AD Skopje, Ohridska banka AD Ohrid, Radobank AD Skopje, Stopanska banka AD Skopje, Stopanska banka AD Bitola, Tetovska banka AD Tetovo, Tutunska banka AD Skopje	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
<b>Note:</b>		Own share 15%, other costs 2%, Commitment fee of 0.50% per annum	Own share 1 at least 15%



<b>Credit line</b>	<b>Credits from the credit line of the International Fund for Agriculture Development IFAD 1: Small and large credits for individual farmers</b>	<b>Credits from the credit line of the International Fund for Agriculture Development IFAD 1: Credits for small and medium-size enterprises</b>	<b>Credits from the credit line of the International Fund for Agriculture Development IFAD 2: Agricultural financial services</b>
<b>Amount</b>	1,000 - 10,000\$ (small) 1,000 - 30,000\$ (large)	1,000 - 75,000\$	2,000\$ micro credits, 25,000\$ for primary agricultural production, 75,000\$ for processing agricultural products
<b>Repayment period</b>	1 to 6 years, depending on the purpose	1 to 6 years, depending on the purpose	
<b>Grace period</b>	3 months to 3 years, depending on the purpose	3 months to 3 years, depending on the purpose	
<b>Annual interest rate</b>	6% per annum	6% per annum	
<b>Guarantee</b>	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	
<b>Purpose of the credit</b>			Improvement of the living standard of target population
<b>Target groups</b>	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
<b>Source of funds</b>	IFAD (International Fund for Agricultural Development) provided US\$ 6.7 million, US\$ 4.9 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\$ 4.9 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.
<b>Commercial bank that offer the credit</b>	Investbanka A.D. Skopje	Investbanka A.D. Skopje	
<b>Note:</b>	Criteria: investment programme for large credits; obligatory participation of 30% in equipment, buildings and obligatory insurance of goods in insurance company and restrictive endorsement of the Policy at the benefit of the bank. The bank does not approve cash, but it makes procurement at the account of the client from supplier chosen by the client itself.	Criteria: investment programme for large credits; obligatory participation of 30% in equipment, buildings and obligatory insurance of goods in insurance company and restrictive endorsement of the Policy for the benefit of the bank. The bank does not approve cash, but it makes procurement at the account of the client from supplier chosen by the client itself.	The implementation of this credit line is in initial phase. The conditions for awarding the credits are being defined, as well as the selection of commercial banks.



<b>Credit line</b>	<b>Credits from credit line by International Bank for Reconstruction and Development (IBRD) for private sector development.</b>	<b>REVOLVING FUNDProject for private sector development of the International Cooperation and Development Fund - Taiwan</b>	<b>Credit line for job creation in small and medium - size enterprises REVOLVING FUND</b>
<b>Amount</b>	Up to 1.125.000 € for SMEs Up to 75.000 € for individual agricultural producers	Up to 400.000 US\$ for small and medium - size enterprises Up to 200.000 US\$ for agriculture	No limit
<b>Repayment period</b>	1 to 10 years	Up to 7 years for SMEs, Up to 5 years for agriculture	5 to 10 years
<b>Grace period</b>	Up to 3 years (for fixed assets) Up to 2 years (for individual agricultural producers)	1 - 3 years	1 - 3 years
<b>Annual interest rate</b>	Variable about 7% (LIBOR + 3% + banking costs):	LIBOR + 2,5%	about 9% (EURIBOR + 5.3%)
<b>Guarantee</b>	Mortgage, pledge	Mortgage on real estate, pledge on equipment	Mortgage, pledge on equipment, other instruments acceptable for banks
<b>Purpose of the credit</b>	Procurement of new equipment, current operating assets, construction works, engineering, consultant services and licences. Permanent operating assets	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
<b>Target groups</b>			SMEs from textile, leather, food industry and other branches that would enable job creation, except for the primary agricultural production.
<b>Source of funds</b>	Revolving fund from the utilized credit line from IBRD	International Cooperation and Development Fund (ICDF) - Taiwan	Funds from the Council of Europe Development Bank (CEB) in the amount of 5 million € are fully utilized. Revolving fund was created from them, which continues to be utilized under the same conditions.
<b>Commercial bank that offer the credit</b>	Investbanka AD Skopje, Komercijalna banka AD Skopje, Ohridska banka AD Ohrid, Stopanska banka AD Bitola	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
<b>Note:</b>	Own participation of 20% of the accounting value of the project. Commitment fee of 0.75%		The funds cannot be used for agricultural projects, except for processing and additional processing of agricultural products.

<b>Credit line</b>	<b>APEX Global Loan from European Investment Bank</b>	<b>Support to SMEs development by the Dutch Government - Macedonian Enterprise Development Foundation</b>	<b>Support to SMEs via Counterpart Funds established with foreign aid from Japan and other countries.</b>
<b>Amount</b>	20,000 € to 12,500,000 €	10,000 € for individual farmers with 7.25% annual interest rate, 17,000 € for micro entrepreneurs with 18% annual interest rate, 50,000 € from small enterprises with 8 - 12% annual interest rate	The amount is not defined, it is determined depending on the specific project
<b>Repayment period</b>	5 to 7 years	3 to 5 years	9 months to 5 years
<b>Grace period</b>	1 year	6 months - 1 year	3 months to 1 year
<b>Annual interest rate</b>	about 8%, or 9% (via Macedonian Bank for Development Promotion)	7.25% to 12%	0 - 3%
<b>Guarantee</b>	In accordance with the credit policy of commercial banks - participants in the credit realization	In accordance with the credit policy of commercial banks - participants in the credit realization	Mortgage on real estate in ratio 2:1 for equipment. Bank guarantee for spare parts and raw materials.
<b>Purpose of the credit</b>	Fixed assets and increase of the existing operating capital related to the project	Support of the employment opportunities and development of micro and small businesses	Raw materials, intermediate materials, spare parts
<b>Target groups</b>	Small and medium-size enterprises in all production - related activities	Micro and small enterprises and individual farmers.	
<b>Source of funds</b>	European Investment Bank provided 20 million €, 17.7 million € out of which remain to be utilized. The funds will be used to create revolving fund.	Dutch Government provided 7 million €, 4 million € out of which remain to be utilized. The invested funds were used to create revolving fund which provides additional 2.5 million €.	At the moment there are 9 million Denars unallocated from the Counterpart Fund Japan and other foreign aid
<b>Commercial bank that offer the credit</b>	Komerijalna banka AD Skopje, Stopanska banka AD Skopje	Tutunska banja AD Skopje, Radobank AD Skopje, Saving house Moznosti	The funds are allocated via the Counterpart Fund Division in the Ministry of Finance, pursuant to the relevant Government decisions
<b>Note:</b>			In some cases 50% own participation

<b>Credit line</b>	<b>Credit programme for SMEs from PHARE/NEPA</b>	<b>Micro-credit line for SMEs from CARDS-EU</b>
<b>Amount</b>	Up 1,800,000 MKD	Up to 30,000 €
<b>Repayment period</b>	3 - 5 years	Up to 5 years
<b>Grace period</b>	Up to 6 months	Up to 6 months
<b>Annual Interest rate</b>	Not lower than 10 %	Up to 10%
<b>Guarantee</b>	Blank note certified by notary, crossed check with a statement certified by notary, mortgage on real estate - minimum 130% of the credit amount, depositing valuables and securities etc.	Blank note certified by notary, crossed check with a statement certified by notary, note and/or crossed check by other solvent legal entities - guarantors, mortgage minimum 130% of the credit amount, collateral on immovable assets minimum 130% of the credit amount, depositing valuables and securities, bank guarantee, PHARE Fund provides guarantee collateral fund
<b>Purpose of the credit</b>	Purchase of equipment or machines, long-term financing of new projects. Upon NEPA approval, the bank may allow up to 10% of the total awarded credit to be intended for operating capital.	Purchase of equipment or machines, long-term financing of new projects. 20% of the total awarded credit may be intended for operating capital
<b>Target groups</b>	Legal entities having more than 20 employees. Business is not older than 5 years and at least 51% of the principal is in private ownership.	Legal entities having more than 20 employees. Business is not older than 5 years and at least 51% of the principal is in private ownership or they have just commenced their business.
<b>Source of funds</b>	FARE - NEPA arrangement	CARDS - EU
<b>Commercial bank that offer the credit</b>	Izvozna i kreditna banka AD Skopje, Komerijalna banka AD Skopje, Komerijalno investiciona banka AD Kumanovo, Ohridska banka AD Ohrid, Stopanska banka AD Bitola, Tutunska banka AD Skopje	Selection required
<b>Note:</b>	One-off compensation of costs 1 %	70% of the placement borne by PHARE Fund, and 30% by the commercial banks. 20% of the total assets are own guarantee fund of PHARE

# FACTS ABOUT PRIVATIZATION

## CONDITIONS 31.3.2003

### 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 & Trafic	63	12,080	67,505,331
Finance & Services	120	4,417	26,247,146
Craft	58	3,017	9,376,752
Catering & Tourisam	70	5,890	111,824,957
<b>TOTAL</b>	<b>1,216</b>	<b>228,850</b>	<b>1,686,888,902</b>

Statistic providet by POS, December 31, 1944

### ON - GOING PRIVATIZATION 31/3/2003

Sector	Number of companies	Number of employees	Equity in EUR
Manufacturing	25	5,348	16,878,118
Agriculture	16	1,240	10,457,074
Construction	6	146	4,773,549
Trade	22	2,968	6,957,661
Transport & Trafic	1	43	484,391
Finance & Services	10	167	522,614
Craft	1	75	184,065
Catering & Tourisam	3	202	1,703,927
<b>TOTAL</b>	<b>84</b>	<b>10,189</b>	<b>41,961,399</b>

### FINISHED PRIVATIZATION 31/3/2003

Sector	Number of companies	Number of employees	Equity in EUR
Manufacturing	500	137,603	1,476,089,764
Agriculture	429	20,593	201,535,330
Construction	122	31,877	120,064,477
Trade	352	17,682	257,511,836
Transport & Trafic	53	7,322	40,487,806
Finance & Services	116	7,350	122,516,046
Craft	55	2,914	24,639,230
Catering & Tourisam	63	4,281	93,216,876
<b>TOTAL</b>	<b>1,690</b>	<b>229,622</b>	<b>2,336,061,365</b>

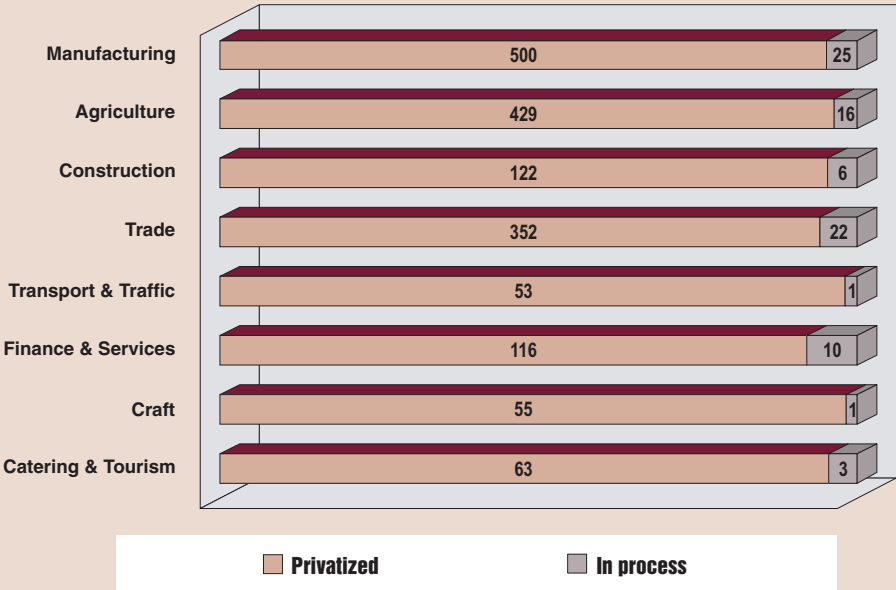
### ON-GOING PRIVATIZATION - NUMBER OF ENTERPRISES PER SECTORS

Sector	Privatized	In process
Manufacturing	500	25
Agriculture	429	16
Construction	122	6
Trade	352	22
Transport & Trafic	53	1
Finance & Services	116	10
Craft	55	1
Catering & Tourisam	63	3
<b>TOTAL</b>	<b>1,690</b>	<b>84</b>

**ON-GOING PRIVATIZATION - NUMBER OF EMPLOYEES BY SECTORS**

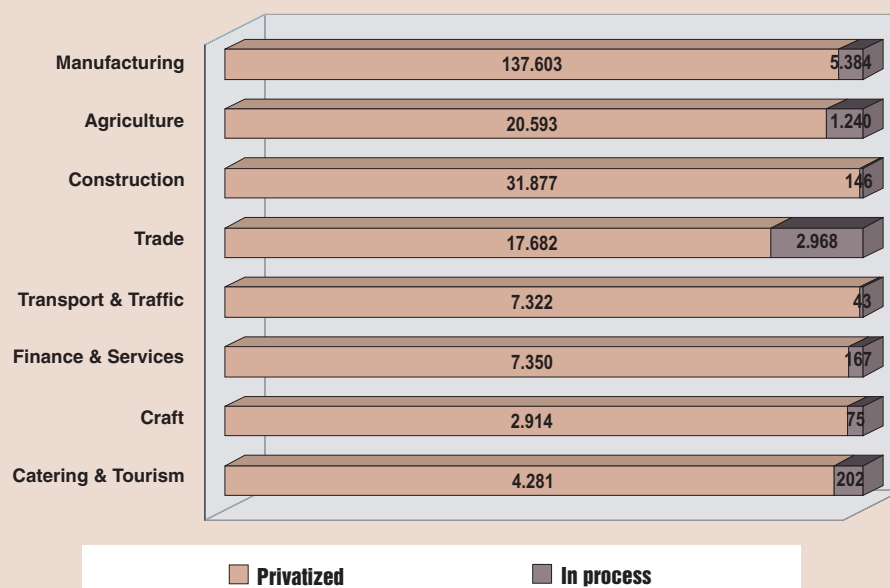
<i>Sector</i>	<i>Privatized</i>	<i>In process</i>
<i>Manufacturing</i>	137,603	5,384
<i>Agriculture</i>	20,593	1,240
<i>Construction</i>	31,877	146
<i>Trade</i>	17,682	2,968
<i>Transport &amp; Trafic</i>	7,322	43
<i>Finance &amp; Services</i>	7,350	167
<i>Craft</i>	2,914	75
<i>Catering &amp; Tourisam</i>	4,281	202
<b>TOTAL</b>	<b>229,622</b>	<b>10,225</b>

*On - going of privatization - number of enterpises by sectors*

**PRIVATIZATION - CURRENT STATE****(EQUITY IN EUR)**

<i>Sector</i>	<i>Privatized</i>	<i>In process</i>
<i>Manufacturing</i>	1,476,089,764	16,878,118
<i>Agriculture</i>	201,535,330	10,457,074
<i>Construction</i>	120,064,477	4,773,549
<i>Trade</i>	257,511,836	6,957,661
<i>Transport &amp; Trafic</i>	40,487,806	484,391
<i>Finance &amp; Services</i>	122,516,046	522,614
<i>Craft</i>	24,639,230	184,065
<i>Catering &amp; Tourisam</i>	93,216,876	1,703,927
<b>TOTAL</b>	<b>2,336,061,365</b>	<b>41,961,399</b>

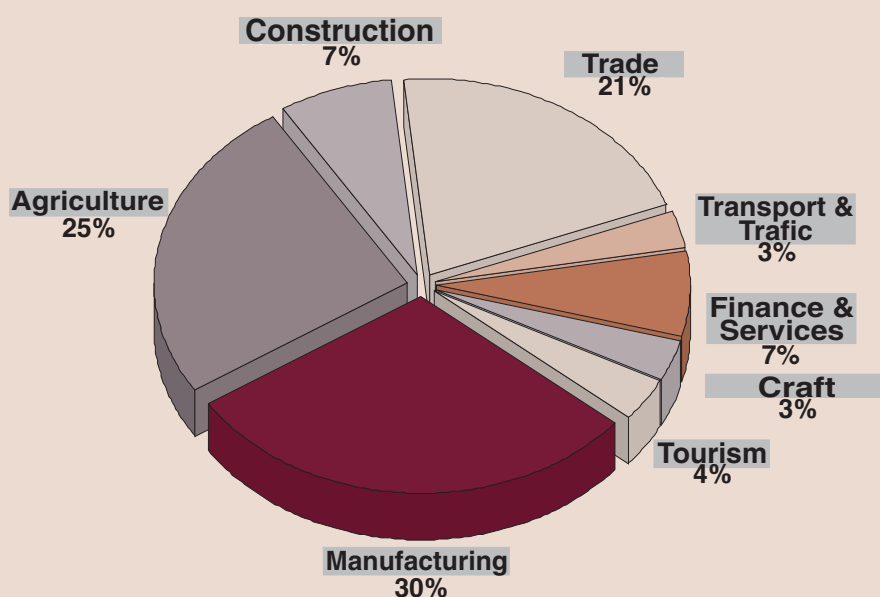
### On-going privatization - number of employees by sectors



### NUMBER OF PRIVATIZED COMPANIES BY SECTORS

Sector	Privatized
Manufacturing	500
Agriculture	429
Construction	122
Trade	352
Transport & Traffic	53
Finance & Services	116
Craft	55
Catering & Tourism	63
<b>TOTAL</b>	<b>1,690</b>

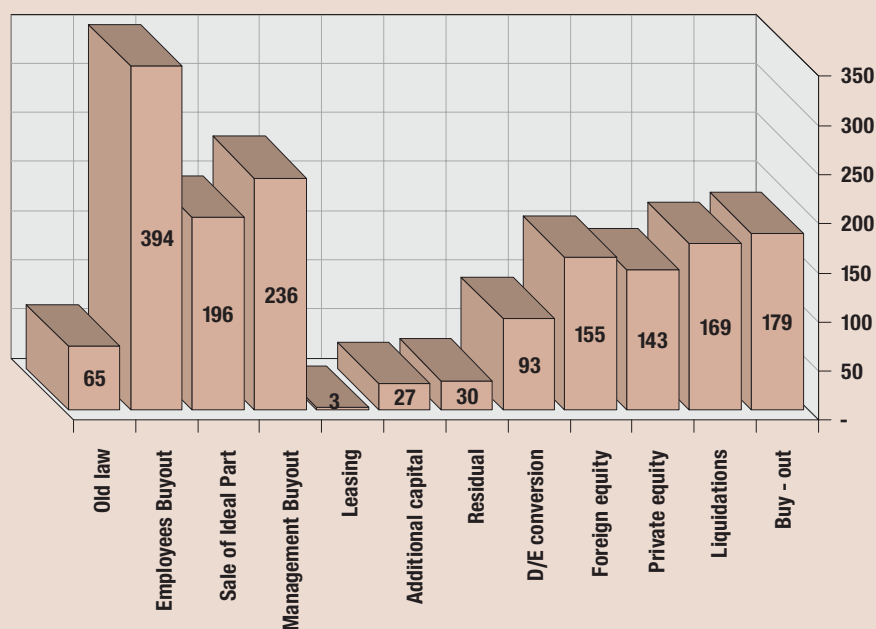
### Number of privatized companies by sectors



## EQUITY IN PRIVATIZED COMPANIES - BY MODEL

<i>Model</i>	<i>Equity in EUR</i>
Old law	58,528,096
Employees Buyout	77,192,016
Sale of Ideal Part	323,228,451
Management Buyout	707,503,552
Leasing	595,839
Additional capital	96,739,753
Residual	153,110,972
D/E conversion	324,198,184
Foreign equity	25,257,846
Private equity	34,428,177
Liquidations	58,138
Buy - out	535,220,340
<b>TOTAL</b>	<b>2,336,061,364</b>

**Number of privatized companies  
by model of privatization**

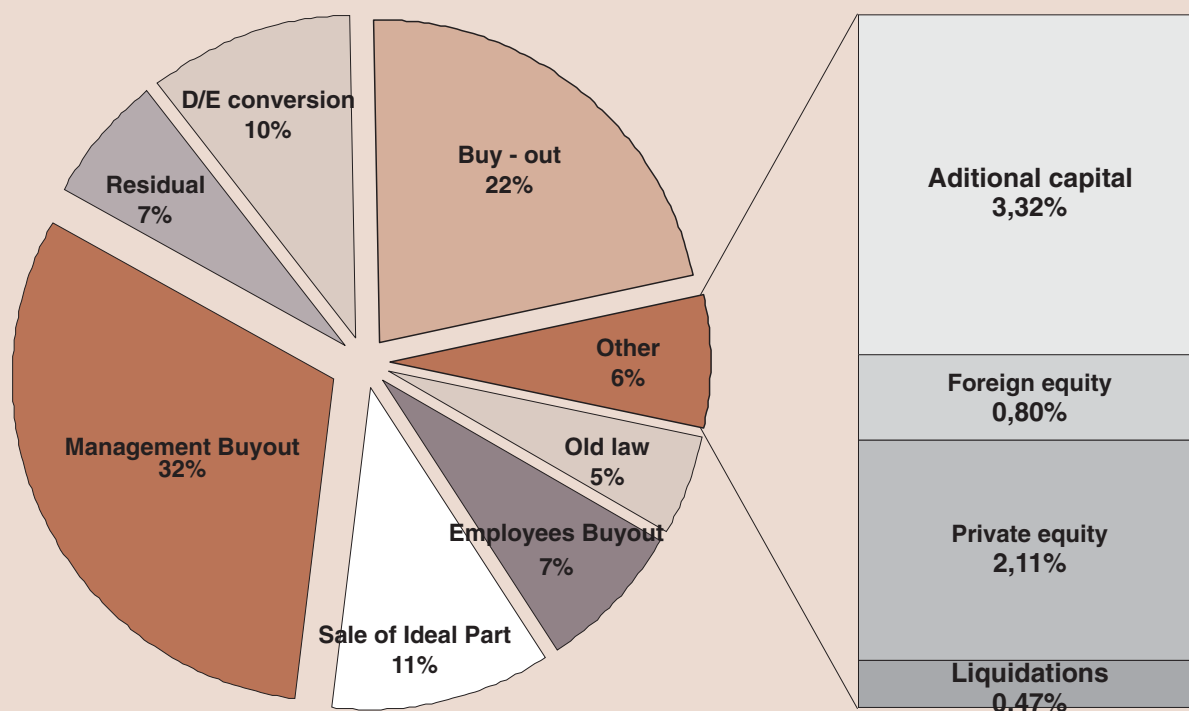


## EMPLOYEES IN PRIVATIZED COMPANIES BY MODEL

<i>Model</i>	<i>Employees</i>
Old law	11,522
Employees Buyout	16,917
Sale of Ideal Part	25,770
Management Buyout	71,381
Leasing	-
Additional capital	7,620
Residual	14,972
D/E conversion	23,286
Foreign equity	1,843
Private equity	4,854
Liquidations	1,089
Buy - out	50,386
<b>TOTAL</b>	<b>229,622</b>



### Employees in privatized companies by model



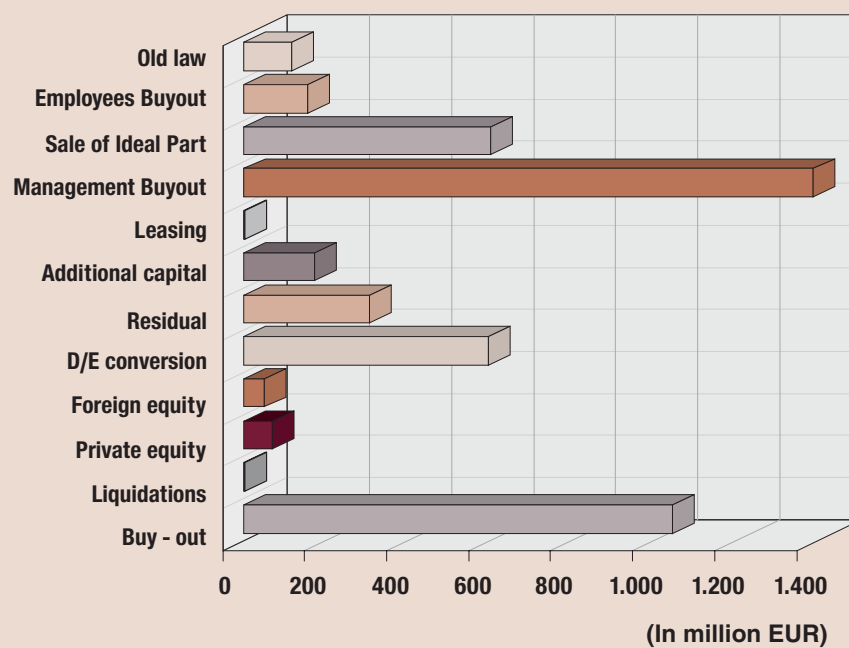
### NUMBER OF PRIVATIZED COMPANIES BY MODEL OF PRIVATIZATION

Model	Companies	Employees	Equity in EUR
Old law	65	11,522	58,528,096
Employees Buyout	94	16,917	77,192,016
Sale of Ideal Part	96	25,770	323,228,451
Management Buyout	36	71,381	707,503,552
Leasing	3	230	595,839
Additional capital	27	7,620	96,739,753
Residual	30	14,972	153,110,972
D/E conversion	93	23,286	324,198,184
Foreign equity	55	1,843	25,257,846
Private equity	43	4,854	34,428,177
Liquidations	69	1,089	58,138
Buy - out	79	50,138	535,220,340
<b>TOTAL</b>	<b>1,690</b>	<b>229,622</b>	<b>2,336,061,364</b>

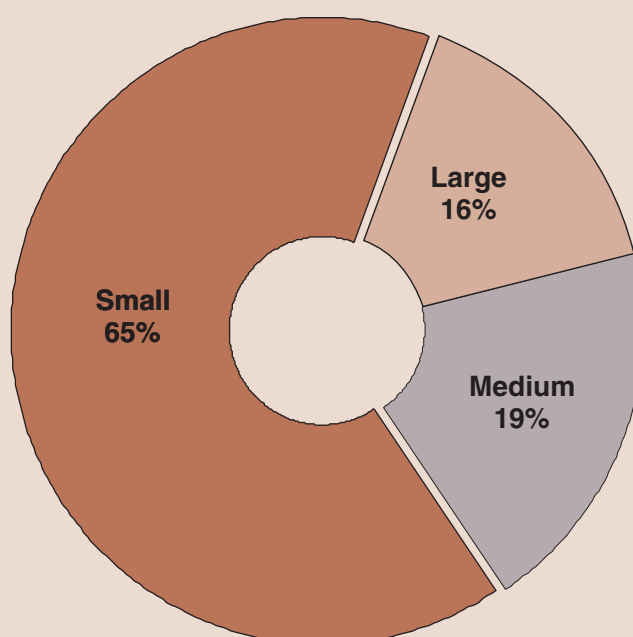
### NUMBER OF PRIVATIZED COMPANIES BY SIZE

Size	Number of companies	Equity in EUR
Large	264	1,638,938,360
Medium	329	469,076,363
Small	1,097	228,046,643
<b>TOTAL</b>	<b>1,690</b>	<b>2,336,061,366</b>

### Equity in privatized companies - by model



### Number of privatized companies by sectors



# IN BRIEF

## CREDIT AGREEMENT SIGNED WITH THE WORLD BANK

The credit agreement with the World Bank in the amount of US\$ 16.7 million, intended for the Public Sector Management Adjustment Project in Macedonia, was signed by the acting Ambassador of the Republic of Macedonia to the USA, Goce Georgievski on behalf of the Macedonian Government. The credit will be used on favourable IDA conditions which means a repayment period of 35 years with included 10-year grace period, without interest and fee of 0,75 % paid for the disbursed funds.

The World Bank Board of Directors approved the credit as early as on April 9, 2002, but due to the absence of Arrangement with the International Monetary Fund (IMF), the World Bank postponed the formal signing of the Agreement. The credits funds are intended for balance-of-payments support, i.e. for servicing the liabilities of the Republic of Macedonia towards the foreign creditors and it is expected for them to be disbursed during the next days.

## THE CONSTRUCTION OF HEC "KOZJAK" IS IN A FINAL STAGE

By accumulation the lake of HEC "Kozjak, the beginning of the last stage of the construction of the hydro power plant was marked.

"We are entering in the final stage of this project, the value of which is US\$ 180 million and which is one of the largest investments in the Republic of Macedonia: stated the Prime Minister Branko Crvenkovski during the ceremony. The start of the accumulation, which is expected to be completed in seven to nine months, creates conditions for commencement of the operations of the first aggregate for electricity production by March the next year, while the second one should commence its operations by September the next year.

The construction of "Kozjak" that started in 1994, is financed by Electric Energy Company of Macedonia (ESM). The General manager of ESM, Pande Lazarov, informed that HEC "Kozjak" will produce 160 million kW/h electric energy.



In addition to this hydro power plant, the construction of the planr "Matka 2" on the Treska river will start in September. Together with the existing plant "Matka 1" and "Kozjak" this plant should yield approximately 250 million kw/h electric energy. Lazarov announced that ESM plans, in addition to the construction of these three electric energy plants on the Treska river, a construction of two electric energy plants on Crna Reka and 18 electric energy plants on the Vardar river, thus the usage of the water potential in the country that is 21% will become closer to the one in Europe which is 50%, said he.

## COUNTRIES-SUCCESSORS RECEIVED THE MONEY FROM THE US BANKS

Macedonia received US\$ 17.8 million, i.e. 7.5 % of the funds the former SFRY deposited in the commercial banks with a head office in the USA.

The funds were transferred to the account of the National Bank of the Republic of Macedonia on April 29, and they will be an integral part of the foreign exchange reserves of NBRM.

The deadline for de-blockage of the US\$ 225 million that were deposited, was April 15, the period by which the five countries successors to former SFRY should have submitted separate request for de-blocking of the funds and for receiving the funds that belong to them.

Despite of the initial agreement of the countries-successors to present a joint request, it was not done since they had different positions. It is expected that the European banks, where the former SFRY kept a part of its foreign exchange reserves, will proceed according to the same principle, i.e. Macedonia will receive 7.5% of these funds as well.

**NEW GRANT FROM THE GOVERNMENT OF THE USA FOR SMALL AND MEDIUM ENTERPRISE DEVELOPMENT IN MACEDONIA- US\$ 12 MILLION FOR THE PRIVATE SECTOR**

The Government of the USA will soon award to Macedonia US\$ 12.055 million, with main objective of acceleration of the private sector development. The Minister of Finance, Petar Gosev, the US Ambassador Laurence Butler and the acting director of the USAID, Alfreda Bruer, signed yesterday the first amendment to the Agreement for this grant.

This is second strategic goal prepared by USAID together with the Ministry of Finance.

"This is the first time to do such a thing for Macedonia and it will help us to allocate our funds very fast and to support

the economic programs that have central role for this Government", said Butler yesterday.

Several projects will be financed with this grant. First, strengthening of the financial sector, i.e. of the main financial institutions and systems in the country, as well as the public institutions regulated by them.

It will be followed by the technical assistance for financial services, as well as improvement of the corporate governance and harmonization of the Macedonian commercial laws with the new Company Law. This is a second part of this grant. The first one was awarded last year in the amount of US\$ 2.12 million.

The whole grant will be realized by September 2005 and it is expected to amount to US\$ 26 million. Recently, the USA granted to Macedonia US\$ 12 million, funds pledged at the Donors' Conference, intended for balance-of-payments support.

**OPEN BALKAN TOURIST EXCHANGE**

The 14. Balkan Tourist Exchange took place at the Skopje fair at which 40 direct and indirect participants presented their programs.

The fair was opened by the State Secretary of the Ministry of Economy, Gorgi Petrusev, who said that the World Tourist Organization anticipates for the tourist arrangements to increase to 1.5 billion until 2020 and that the revenues from the tourism will increase the percentage of the participation in the national income of the country.

"The development of the tourism in the country from its independence is not on a satisfactory level", Petrusev emphasized adding that the Government makes efforts for commencement of a positive trend of economic growth of the country, including the tourism. He emphasized that the amendments to the existing Law on Catering and Tourist Activity are prepared, and it is expected to define soon tourist sector development strategy.

**THE SLOVENIAN PRESIDENT JANEZ DRNOVSEK VISITS MACEDONIA**

The Slovenians will compensate the political discrepancies they have with Macedonia on economic plan- that was the point of the visit of the President Janez Drnovsek to Macedonia, accompanied by four ministers and a large economic delegation.





The Slovenian President announced that as Chairman of CEFTA, he will invest maximum efforts for accession of Macedonia to this regional organization, and he disclosed publicly that he will share his experience with Macedonia and he will provide technical and expertise assistance with respect to the reforms and Euro integrations, and he will provide political support when the accession of Macedonia will be considered.

However, the visit of the Slovenian President yesterday was overshadowed by the huge trade deficit Macedonia has



with Slovenia and which, according to the official assessments, is experienced as tendentious government politics, because there is a lack of desire to eliminate the trade barriers with years, and even more, they are maintained intentionally.

According to the official data, during the last year the export of goods from Macedonia to Slovenia amounted to around US\$ 21 million, whereas the import of products reached as much as US\$ 129 million. As the President Boris Trajkovski announced, in order to even these differences, the Minister of Finance, Petar Gosev will visit Ljubljana, while new forms of economic cooperation will be sought through the businessmen forum organized within the visit.

#### **INCREASED COLLECTION OF THE TAX REVENUES BY 1.5%**

In the first four months of the year, the planned tax revenues were over realized by 1.55% according to the most recent data from the Public Revenue Office. Expressed in numbers, if in this period the state planned to collect denar 13.644 billion from the tax payers, the amount that came

as an inflow in the state cash register was by denar 210 million higher, i.e. it reached a level of denar 13.854 billion.

There has been an especially high over performance with respect to the profit tax, on the basis of which for the first four months of the year, denar 1.054 billion should have been collected, but as opposed to this, of the companies that are paying this tax, denar 1.378 billion were collected in the Budget, i.e. 30.7% more than the already projected amount.

The personal income tax should have brought to the state denar 2.479 billion, but only denar 2.364 billion were received from it, which means that the plan was realized with 95.38%, i.e. there is under-performance of 4.62 %.

The amount of the revenues that should have been collected from the VAT which, according to the numbers, is the tax that contributes the most to the Budget revenues is denar 6.8 billion, but denar 6.9 billion were realized, by which the projections were exceeded by 2.04 percentage.

As oppose to the VAT, there was under-performance of the excises by five percent, i.e. instead of denar 3.310 billion which is the amount that should have been collected, the Public Revenue Office collected denar 3.144 billion. Still, as Vaskoski explains, such what is known as "disciplining" of the companies is due to the big number of controls conducted by the PRO in the past period.

More precisely, a part of these funds is also due to detected uncollected taxes in certain companies and their forced collection, as well as interests from uncollected taxes that were collected from the taxpayers.

#### **LAW ON EMPLOYMENT ENCOURAGEMENT-ADOPTED**

With 66 voices for and 7 against, the Parliament of the Republic of Macedonia adopted the Law on Employment Encouragement, intended for the most vulnerable categories of unemployed in the country, redundancies, social cases and loss makers, since they, according to the Law, will have priority in the employment. On the other hand, the employers will be encouraged to employee these vulnerable categories of unemployed through several benefits incorporated in the Law, but also by many protective mechanism so as to prevent the possible abuses.

With this Law, the Government anticipates employment of a significant number of persons working so far on the black market.

The Minister of Labour and Social Policy, Jovan Manasijevski emphasized that it is expected to employ 17,000 to 20,000 persons with the implementation of this Law in a period of two years. Each employment will cost Euro 1,300 for the state.



#### **THE CUSTOMS ADMINISTRATION WITH NEW WEB SITE**

The Customs Administration of the Republic of Macedonia prepared a new web site the objective of which is to increase the transparency of the operations and to bring the citizens and beneficiaries closer to it.

According to the Director, Ljubomir Mihajlovski, the new web site is an attempt to make a short presentation of the Macedonian Customs Administration and to improve the operations of the service, to increase the transparency as well as better cooperation and exchange of experience in the customs operations.



The web site is a contemporary portal solution created on the basis of the portal system "Web architect", and it is based on the newest ASP.NET technology "Microsoft".

#### **THE CREDIT FOR THE SECOND SECTION OF SKOPJE BY-PASS IS AGREED**

Under the auspices of the International Support Group, established within the Stability Pact, a seminar on the topic "Implementation of the Transport infrastructure Basic Network in Southeastern Europe" was held in Skopje.

The participants in the seminar, the countries-participants in the Regional Balkan Infrastructure Study REBIS from Macedonia, Bosnia and Herzegovina, Croatia, Serbia and Montenegro and Albania presented reports for development of several transport sectors. The Macedonian presentation was on the institutional i.e. structural reforms that will be realized in the road sector, and above all, the role and activities of the Regional and National Road Fund, the largest investor in the road network in the country, as well as for JP "Makedonija pat" engaged in its maintenance.

Thereby, it was referred to the fact that these days the negotiations with the European Bank for Reconstruction and Development were completed successfully for a credit in the amount of around Euro 40 million intended for the second stage of Skopje by-pass and the section Smokvica-Gevgelija. A part of these funds will be used for institutional reform and transformation of JP "Makedonija pat". It is a three-year plan where the maintenance of the national, regional and local roads will be placed on a competitive basis, whereby domestic and foreign companies for maintenance of the road network in the country will apply at competitive tender.

So far, sections of Corridor X in a length of 104.4 km or 60.5% are built, 15.4 km or 9% are in a stage of construction, while 52.7 km or 30.5% of the total sections are not built yet.

With respect to Corridor VIII that connects Macedonia with Albania and Bulgaria, sections that are 86.5 km long i.e. 28.7% were built, 25 km or 8.3% are in construction stage, while 190.4 km or 63 % are not constructed yet.

### THE TELEPHONE UNIT IS BY 15% MORE EXPENSIVE

"Makedonski Telekomunikacii" made new rebalancing of the prices, whereby it increased the subscription amount and the amount of a minute of conversation in the domestic traffic and it reduced the prices of the international traffic as well as some other services. Since May 1, the monthly subscription is increased from the current 300 to 340 denars, while for the legal entities from 600 to 680 denars.

This increase is by 13 percent, but realistically it is much higher since the beneficiaries will no longer receive 80 free units as discount. The price of the unit the length of which remains the same (up to six minutes in the cheap and up to three minutes in the expensive tariff) is increased from the existing 1.2 to 1.38 denars (15 %).

Simultaneously, "minimum" package is introduced where the subscription is 220 denars, but on condition that during the month up to 80 units are spent that will be charged with a price of 1.5 denar, and each additional unit will cost double -3 denars. All these prices are without VAT.

The last adjustment to the prices is the third one after the sale of the company and it is in accordance with the concession agreement according to which the prices in the domestic traffic until the expiry of the monopoly will be increased according to the determined methodology, and in the international traffic they are reduced, so that it can reach the level of the prices in the European Union.



### THE FIRMS OWE EURO 215 MILLION TO THE FUNDS

The pension and disability insurance contributions in Macedonia are not paid for more than one fourth of the total number of employees, or 91,868 persons, due to which they cannot exercise their right to pension. Out of them, 58,228 persons are in a labour relation, while the rest are employees from the loss-making companies.

According to the data from the Pension and Disability Insurance Fund, the total amount of the debt on the basis of unpaid contributions, amounted to Euro 165 million at the end of the last year, out of which the amounts of the unpaid contributions from the larger enterprises are higher, in the amount of Euro 73 million, as well as Euro 35 million from the loss-making companies covered with the FESAL-2 arrangement to which the years of service for insurance, in accordance with the Government decision, are recognized as paid.

According to the data of the Health Insurance Fund, the last year ended with unpaid health insurance contributions in the amount of Euro 38 million, out of which Euro 37 million is a debt from the enterprises that do not pay contributions at all, and the rest is from companies that did not pay the contribution, but obtained blue health insurance cards for their employees.

The amount of the unpaid contributions in the Employment Bureau is Euro 12 million, so that, together with the amounts of unpaid contributions in the Pension and Disability Insurance Fund and Health Fund, the total amount of the debts on this basis is Euro 215 million. The information on the unpaid contribution was subject to discussion at the last session of the Economic and Social Council at which the representatives of the Government, Chamber and the Trades Union, accepted the possible, short-term measures for overcoming the alarming conditions with the contributions that will be submitted to the Government for adoption these days.

They include the measure according to which the Government should make a special decision on the manner of payment of the outstanding liabilities on the basis of salary allowances for the companies the accounts of which are blocked.



## THE NON-PRIVATIZED CAPITAL WILL BE SOLD ON THE STOCK EXCHANGE

The privatization, through sale by means of an auction on the Stock Exchange of remaining part of the government shares and shares in, will be completed at the end of this year, i.e. as the Government proposes.

"The Government orientation is to focus itself on the post-privatization period and an end will be put to the twelve-year story", outlined the Minister of Economy, Ilija Filipovski.

The Privatization Agency prepared the Action Plan and procedure according to which the completion of the privatization of the remaining part of the socially and state-owned capital will be performed by the end of the year in an accelerated manner.

The sale will be mainly carried out according to the model of Stock Exchange sale auction, although according to the words of the Agency Director, Bosko Stefanovski, some packages owned by the Government, and which are part of the portfolio of large and going concern companies will be sold through a public tender, according to the Government program.

According to the Director of the Privatization Agency the minority packages that are with clear data will be offered first by the middle of May, i.e. the packages for which there are no disputes in the records of the Agency, Central Register and the Central Securities Depository.

They will be followed by the packages that were offered at the Stock Exchange so far, but are not sold yet (either they are offered at their face value or are already with 30%

discount). Finally, the third cycle will cover the majority packages of shares from the good portfolios.

"The ones for which it will be estimated that are of a special significance for the government, will be sold through a public tender", Stefanovski said.

The Agency has already prepared the Action Plan for such sale and the last reconciliation with the Central Securities Depository and the Central Register is made these days, after which, in accordance with the Law, the media campaign and offer at the Stock Exchange will commence.

## GERMAN ASSISTANCE FOR CONSERVATION OF THE PRESKA LAKE AND POVARDARIE

The projects "Conservation of the Prespa Lake environment" and the "Program for irrigation of southern area of Povardarie" received yesterday financial support for their realization from the Government of FR Germany, as a result of the bilateral development financial and technical cooperation between the Macedonian and German Government.

The Ministry of Environment, received an irrevocable financial aid for reconstruction of the existing water treatment station in Ezerani and for construction of a new sewage network in two inhabited places in the amount of Euro 2.75 million, while the funds in the amount of Euro 1.53 million were donated for the project of the Ministry of Agriculture, Forestry and Water Economy that anticipates reconstruction of the systems for irrigation of the agricultural areas in the southern region of the Vardar river.

## REALIZATION OF THE NATIONAL SYSTEM FOR ANIMAL IDENTIFICATION AND REGISTRATION

The system for animal identification and registration will commence with inventory of all farms, a procedure which will be realized in the period from May 1 to June 31, 2003 by establishing a national register of farms and cattle in the Veterinary Directorate.

This register will be used for preparation of individual books for the farms for each cattle breeder. With the preparation of such book, the details for each animal can be located, with guidelines with instructions, identification card and



register of the breeding grounds, cards for notifying about the movement etc.

After having sublimed all data, it is anticipated that by the end of the year all books on the farms should be submitted to each breeding ground in Macedonia by the authorized Regional Veterinary Station, which will function as a regional system for animal identification and registration.

The central database will provide information for determining the origin of each animal and the contacts it had with other animals thus establishing an indirect control of the contagious diseases.

“A direct reason for implementation of this project is meeting the standards set by the EU, in order to introduce control of trading animal origin products, at the same time enabling access to the markets of the European Community member states and protection against the large reduction of the animal origin products prices. This is also an obligation undertaken by Macedonia with the Stabilization and Association Agreement with EU”, Rajkovceska said.

The project is a part of the fund of Euro 8 million of the EU for financing the program for support of the agriculture in Macedonia that assists the agricultural sector reforms.

# DEBT: HOW MUCH IS TOO MUCH?

If a country or government accumulates debt beyond what it is able to service, a debt crisis can erupt with potentially large economic and social costs. For this reason, it is important to gauge how much debt an economy or government can safely handle

*Christina Daseking*

As part of the work on vulnerability indicators, economists are looking at what level of debt is sustainable for an economy and how much is too much. Borrowing from abroad can help countries grow faster by financing productive investment, and it can also cushion the impact of economic disruptions. But if a country or government accumulates debt beyond what it is able to service, a debt crisis can erupt with potentially large economic and social costs. For this reason, it is important to gauge how much debt an economy or government can safely handle. This assessment is particularly relevant in emerging market economies that rely heavily on global capital markets to meet their large financing needs.

## Assessing debt sustainability

What exactly is debt sustainability? It may be defined as a situation in which a borrower is expected to continue servicing its debts without an unrealistically large future correction to its balance of income and expenditure. Conversely, debt becomes unsustainable when it accumulates at a faster rate than the borrower's capacity to service it. Working out what level of debt is sustainable requires an assessment of how outstanding stocks of liabilities are likely to evolve over time, as well as assumptions about future interest rates, exchange rates, and trends in income. Like any assessment requiring assumptions about the future, this is difficult to get right.

Assessing debt sustainability requires three steps:

- *forming a view of how outstanding stocks of liabilities are likely to evolve over time relative to the economy's (or the government's) ability to pay;*

- *examining how the outlook would change under plausible shocks; and*
- *assessing whether the results may lead to an unsustainable situation, as defined above.*

The first step involves projecting the flows of revenues and expenditures-including those for servicing debt-as well as key macroeconomic variables, such as interest rates, rates of economic growth, and exchange rate changes (given the currency denomination of the debt). To the extent that these variables are influenced by government policies, projections of debt dynamics depend on policy variables as well as on macroeconomic and financial market developments that are intrinsically uncertain.

Given the uncertainties, it is important to explore, in a second step, what the risks are. Among the main ones are higher costs of financing, which may reflect general developments in financial markets-including possible spillover effects from other countries in difficulty-or funding problems specific to the country in question. Similarly, a sharp exchange rate depreciation, possibly-though not necessarily-in the aftermath of the collapse of an exchange rate peg, can drastically increase the burden of foreign-currency-denominated debt. Indeed, as some recent cases have shown, once a crisis erupts, the magnitude of capital outflows can result in exchange rate adjustments far in excess of any initial estimates of overvaluation, as happened, for example, in Indonesia during its 1997-98 crisis.

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

Another important source of uncertainty surrounding projections of debt and debt service is contingent claims—such as those associated with either explicit or implicit guarantees of debt or bank deposits. Many contingent claims, by their nature, pass unnoticed in normal times but are more likely to be exercised in crises. Such claims have been a key feature in recent emerging market crises, in which defaults in one sector have spilled over to others. But contingent claims are exceedingly difficult to measure in practice, both because amounts subject to such claims are often unknown and because the terms of the claims—the precise circumstances in which they would turn into actual liabilities—are often unknowable.

**Debt sustainability may be defined as a situation in which a borrower is expected to continue servicing its debts without an unrealistically large future correction to its balance of income and expenditure. Conversely, debt becomes unsustainable when it accumulates at a faster rate than the borrower's capacity to service it**

The third step—and arguably the most difficult in a debt sustainability assessment—is defining a threshold at which debt is deemed to become unsustainable. Such thresholds have been established in certain instances for particular groups of countries. For heavily indebted poor countries, for example, levels above 200 percent for the net present value of debt as a share of export earnings were empirically associated with a significantly higher incidence of debt restructurings. For other nonindustrial countries, there is some evidence that a 40 percent debt-to-GDP ratio is a turning point at which risks of debt exposures start to increase. However, this result reflects the typical conditions in the countries studied, including a relatively low level of foreign assets. More generally, a serious note of caution is required when applying a debt threshold to individual countries. No single threshold can reliably define the turning point at which a country's debt will prove unsustainable, as country-specific factors and circumstances beyond the debt ratio play important roles. For example, higher debt ratios are less worrisome for countries with faster export growth, a larger share of exports to GDP, and a larger share of domestic-currency debt.

Ultimately, assessments of sustainability are probabilistic: one can normally envisage some states of the world in

which a country's debt would be sustainable and others in which it would not. There is always an element of judgment involved in assessing whether an individual country's debt exceeds prudent levels.

### How the IMF is tracking debt

So, given the critical role of debt in many crises, what is the IMF currently doing to assess debt levels and whether they are risky or sustainable? As part of its monitoring of economies around the world, the IMF staff prepares

- *medium-term projections of the balance of payments and of fiscal developments—a staple of the IMF's work on member countries, particularly as part of an IMF lending program;*
- *assessments of medium-term current account and real exchange rate sustainability, which have a bearing on public and external debt sustainability, especially when there is significant foreign-currency-denominated debt; and*
- *financial sector stability assessments, a more recent addition to the IMF's toolkit; they help identify the vulnerability of the financial sector to various shocks, with potentially important implications for the contingent liabilities of the government.*

Building on these elements, the IMF has recently developed a standardized framework for assessing debt sustainability. The framework explores both fiscal and external debt sustainability and centers on the IMF's baseline medium-term projections for a country's economy. Beyond the baseline projections for public and external debt, the framework incorporates a standard set of sensitivity tests that generate the debt dynamics under alternative assumptions about key variables (including economic growth, interest rates, and the exchange rate). These alternative assumptions are calibrated on the basis of each country's own history, as reflected in averages and volatility of the respective variables in the past.

The new framework may be useful in three different situations. For countries that have moderately high indebtedness but are not facing an imminent crisis, the framework can help identify vulnerabilities—that is, how the country might eventually stray into “insolvency territory.” For countries that are on the brink, or in the midst, of a crisis, experiencing severe stress characterized by high borrowing costs or lack of market access, the

framework can be used to examine the plausibility of the debt-stabilizing dynamics articulated in the program projections. Finally, in the aftermath of a default, the framework can be used to explore the debt dynamics following a potential restructuring.

### **How would the IMF's analytical framework have performed in a real case?**

Taking Turkey in 1999 as an example, would the new framework have helped in highlighting vulnerabilities? The answer is yes. Even though projections at the time did not appear excessively optimistic relative to past experience, the framework would have raised flags about Turkey's external debt situation in the event of adverse shocks.

To find out whether the framework would have been useful, IMF economists ran sensitivity tests of Turkey's external vulnerability as it would have been viewed at the time of the approval of the 1999 IMF arrangement. Under the IMF-supported program, the external debt ratio was projected to increase by 10 percent of GNP, though much of this corresponded to an increase in central bank reserves, so that net external debt was to remain roughly constant (in fact, to decline by about 2 percent of GNP between 1998 and 2001). However, the debt ratio actually rose by almost 30 percent of GNP. How did the IMF staff miss the mark by such a large margin? The main source of error was the trade deficit, which, during 1999-2000, was some 6 percent of GNP greater than projected. This reflected, in part, the steep rise in oil prices, but also underestimation of the responsiveness of imports to higher income. In addition, Turkey's unexpected exit from the exchange rate peg in early 2001 raised debt levels substantially. What would the framework

have predicted? Using five-year averages for the key parameters, it would have projected that net debt would increase by 6 percent of GNP, rather than the 2 percent of GNP decline projected under the program. More important, the sensitivity tests would have highlighted the risks to the projection. In particular, the outcome of a 7 percent of GNP increase in the debt ratio between 1998 and 2000 (prior to the devaluation) was within the two-standard deviation shocks (this range captures most of the risks to the scenario) to either the interest rate, the real GDP growth rate, or the noninterest current account deficit. Moreover, the two devaluation scenarios—either the two-standard deviation shock to the U.S. dollar deflator growth rate, or the standard 30 percent devaluation shock—would have generated an eventual outcome in excess of the 30 percent increase in the net debt ratio observed between end-1998 and end-2001.

Application of the framework is still new but will be progressively expanded to a wide range of countries, both for surveillance purposes and to inform decisions about IMF financial support of programs, with appropriate modifications in light of initial experience. Although the purpose is to provide greater uniformity and discipline for sustainability assessments, it is not intended that the framework be applied in a completely mechanical and rigid fashion: depending on country circumstances, there may be good reasons for deviating from it to some extent. At the same time, the basic logic of undertaking baseline sustainability analyses and calibrated sensitivity tests should apply across countries. Finally, in interpreting the results generated by the framework, additional factors need to be considered, such as the structure of the debt (in terms of its maturity composition, whether it is contracted on fixed or floating rates, whether it is indexed, and by whom it is held) as well as various other vulnerability indicators. Information provided by markets, including expectations of interest rates and spreads embedded in the position and shape of yield curves, access to new borrowing, and whether there have been interruptions in such access or difficulties in issuing long-term debt, will also put the figures in perspective.

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# INTERNATIONAL RULES FOR FINANCIAL SUPPORT OF EXPORT

The fact that the private insurance companies are mainly led by the interests for profit and they insure only reasonable level of risk against the increased needs to expand the markets in areas with high risks, has led to development of various patterns of government support for the export-oriented activities, which, inter alia, also includes the insurance of the export credits the domestic exporters extend to the foreign buyers

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## Introduction

The export, i.e. the expansion of the supply in the global market offers great possibilities for profit and it is mostly a basic condition for survival in the sharp fight among competitors. On the other hand, although the gain is large, the risks related to the export operations are also large. The greatest concern when concluding international trade deals is connected to the collection of claims of exporters from their foreign buyers. The basic problem in the collection of such claims results from the time gap between the moment when the foreign buyer receives the delivered goods and the moment when he performs the payment of the agreed price (which in fact is crediting of the foreign buyer).

The problems regarding the collection of claims on the basis of realized export (export credits) stimulated the development of range of techniques for risk reduction. Of course, not

a single technique, method or financial instrument for international payments can fully eliminate the risks. The

selection of methods for collection of export credits depends on many factors: legislation, terms and conditions offered by the competition,

credibility of the buyer, risks characteristic for the country of the buyer, value of the delivery, legislation in the country of the buyer regarding the trade and financial restrictions etc. One of the most frequent forms for covering the risks from exposure to foreign buyers, i.e. reduction of the risks related to export credits, is their insurance in specialized insurance companies.

Export credit insurance was firstly introduced in the countries with market economies, in conditions when the economic expansion and the need for continuous economic development forced their economic entities to expand their markets in the developing countries, as well as on markets which from various reasons (economic instability, undeveloped legislation and business moral, political instability) provide lower certainty regarding the collection of claims on the basis of commercial deliveries or financial credits. At the same time, the sharp fight among the competition forces them to offer favourable terms and conditions regarding the deferred payment and sale on credit, which increases the risks.

Taking into account the increased needs of the exporters for protection of their interests and demands, the large insurance companies with huge financial potential, in their pursue to expand the volume of their operations and to attract new and permanent clients, start offering insurance for

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

the collection of the claims of the economic entities that export.

However, the fact that the private insurance companies are mainly led by the interests for profit and they insure only reasonable level of risk against the increased needs to expand the markets in areas with high risks, has led to development of various patterns of government support for the export-oriented activities, which, inter alia, also includes the insurance of the export credits the domestic exporters extend to the foreign buyers. Thereby, the insurance is conducted under the terms and conditions and for the level of risks the private insurers are not ready to accept.

### **Rules for government subsidies to the export in the OECD countries**

The practice of government subsidies for the export via insurance and/or guaranteeing the export credits and foreign exchange claims appeared before the Second World War, by establishing state institutions through which such kind of support is provided. However, following the Second World War, the practice of government subsidies for the export via various patterns of crediting and insurance under preferential terms has gained in its volume, and the basic source of competitiveness of the products was exactly the volume of financial subsidies provided by the state, not the productivity and the competitiveness of the products themselves.

Due to this, in 1976, the OECD member states commenced the process of harmonizing their policies for financial support of the export via crediting the foreign purchasers of goods and services. This process resulted in signing the "Arrangement on Guidelines for Officially Supported Export Credits", providing institutional framework for coordination and harmonization of the government programs for financial support for the export among the countries signatories, especially when it is a matter of export of capital goods, construction of infrastructure facilities, civil engineering works, and similar. The main objective of the Arrangement is to encourage the sound competitiveness among the exporters from the countries signatories, i.e. competitiveness relying on the quality and the price of the products and services, rather than on the government programs for subsidies for the export. Actually, through

this Arrangement, the terms for government financial support of the export are unified, and the unfair competitiveness among the exporters from these countries is prevented. The Arrangement entered into force in 1978, as a kind of "gentlemen's agreement", and today, it is an integral part of the regulations of the European Union.

The Arrangement refers to what is known as "official support"<sup>1</sup> of the export of goods and services in a form of direct crediting, refinancing, insurance of foreign exchange claims and guarantees with repayment period of two and more years. Basically, the arrangement sets limits for the deadlines and the terms and conditions for the government support to the export, including determination of the floor of own share of the foreign buyer (minimum possible percentage of advance payment), interest rate ceiling under which the official support credits are extended, and similar. Also, the arrangement contains provisions defining the cases in which deviations can be made from the basic provisions, as well as provisions for mutual informing and exchange of information among the member countries, procedure for incorporation of new provisions and review of the arrangement.

**Export credit insurance was firstly introduced in the countries with market economies, in conditions when the economic expansion and the need for continuous economic development forced their economic entities to expand their markets in the developing countries, as well as on markets which from various reasons (economic instability, undeveloped legislation and business moral, political instability) provide lower certainty regarding the collection of claims on the basis of commercial deliveries or financial credits**

The arrangement does not apply to agricultural commodities, as well as export of weapons and military equipment, subject to special regulations. The arrangement also does not refer to subsidy for the export of private sources of financing, in which case the manner and the terms and conditions for financing depend on the market mechanisms and the laws.

<sup>1</sup> "Official support" means programs for financial support to the export-oriented production, realized via specialized government agencies or companies, or via private financial institutions, realizing such programs on behalf and for the account of the government and with government capital and/or guarantees.



## 1. Basic elements of the arrangement

### Advance Payment

Pursuant to the provisions in the arrangement, the foreign purchaser has to make advance payments of a minimum of 15% of the export contract value, meaning the invoice value of the goods and services, including the interest on the export credits, and excluding the local costs in the country of the importer. The payment has to be made prior to the starting point of the credit or up to the starting point of the credit at the latest. In general, the starting point of the credit is the date of acceptance of the exported goods and/or services, i.e. the date when the purchaser acquires the title of the imported items.

**The Arrangement on Guidelines for Officially Supported Export Credits refers to what is known as "official support" of the export of goods and services in a form of direct crediting, refinancing, insurance of foreign exchange claims and guarantees with repayment period of two and more years**

### Maximum Repayment Term

The maximum repayment term depends on the importer's country, whereby all countries are divided into two categories, i.e. countries with GNP per capita above certain limit (category 1) and below certain limit (category 2). This classification is essentially determined by the World Bank, while the limit, i.e. the indicative amount of GNP per capita changes every year.

- *Category 1 (rich countries) - maximum repayment term is 5 years;*
- *Category 2 (all other countries) - maximum repayment term is 10 years.*

Official export support shall not be provided if there is clear evidence that the contract has been structured with a purchaser in a country, which is not the final destination of the goods exclusively with the aim of obtaining more favourable repayment terms.

The principal and the interest of an export credit are repaid in semi-annual or annual instalments, with the first instalment of the principal and interest to be made no later than six months after the starting point of credit.

## Interest Rates

If the official export support is provided in a form of crediting or refinancing, it is mandatory to apply the provisions on minimum interest rates, known as Commercial Interest Reference Rates (CIRRs<sup>2</sup>). These rates are established according to the following principles:

- *CIRRs represent the commercial interest rates in the domestic market of the currency of the export contract;*
- *CIRRs closely correspond to the interest rates upon which credits are extended to first-class domestic borrowers;*
- *CIRRs are based, where appropriate, on the funding cost of fixed interest-rate finance over a period of no less than five years;*
- *CIRRs should not distort domestic competitive conditions; and*
- *CIRRs closely correspond to interest rate under which credits are extended to first-class foreign borrowers.*

They are determined for 13 main currencies, whereby the yield of 5-year government bonds or 3, 5 or 7-year government bonds are used as basis, in compliance with the credit repayment terms. The arrangement envisages for the member states to choose the basis for determining their CIRRs. These rates change on monthly basis and are published in the OECD bulletins.

The interest rates applied for a certain transaction shall not be fixed for a period longer than 120 days. In any case, the variable interest rate shall, in no case, be lower than the CIRR (at the moment of concluding the contract), i.e. than the short-term market interest rates. The arrangement prohibits the application of what is known as "cosmetic interest rates", i.e. hidden subsidizing of the interest rate via fictitious increasing of the value of the export contracts or other adjustments in the contracts.

<sup>2</sup> For latest CIRR, see <http://www.oecd.org/pdf/M00028000/M00028393.pdf>

Table 1:

**Changes in the Commercial Interest  
Reference Rates - CIRR<sup>3</sup>**

Currency		15-06-2003 14-07-2003	15-05-2003 14-06-2003
<b>Australia (dollar)</b>		5,61	5,91
<b>Canada (dollar)</b>	<=5 years	4,55	4,93
	>5 to 8.5 years	4,94	5,36
	>8.5 years	5,29	5,70
<b>Czech Republic (koruna)</b>		3,83	3,92
<b>Denmark (krone)</b>	<= 5 years	3,63	4,05
	> 5 to 8.5 years	4,04	4,53
	> 8.5 years	4,40	4,89
<b>Hungary (forint)</b>		7,07	7,46
<b>Japan (yen)</b>	<= 5 years	1,08	1,12
	> 5 to 8.5 years	1,19	1,24
	> 8.5 years	1,33	1,42
<b>Korea (won)</b>		5,61	5,96
<b>New Zeland (dollar)</b>		6,04	6,38
<b>Norway (krone)</b>		5,31	5,79
<b>Poland (zlotys)</b>		5,86	...
<b>Sweden (krona)</b>	<= 5 years	4,40	4,79
	> 5 to 8.5 years	4,77	5,17
	> 8.5 years	4,90	5,30
<b>Switzerland (franc)<sup>4</sup></b>	<= 5 years	1,90	2,17
	> 5 to 8.5 years	2,43	2,74
	> 8.5 years	2,85	3,18
<b>Great Britain (pound)</b>	<= 5 years	4,60	4,81
	> 5 to 8.5 years	4,87	5,12
	> 8.5 years	5,05	5,30
<b>USA (dollar)</b>	<= 5 years	2,75	3,06
	> 5 to 8.5 years	3,52	3,93
	> 8.5 years	4,07	4,47
<b>EUR</b>	<= 5 years	3,50	3,84
	> 5 to 8.5 years	4,03	4,37
	> 8.5 years	4,43	4,79

### Minimum Premium

The states signatories of the arrangement providing financial support to the export through direct crediting, refinancing, export credit insurance and guarantees, charge risk premium that is not less than the minimum premium benchmarks (MPB) determined for each country

- exporter, depending on the sovereign credit risk and the country credit risk.

Sovereign credit risk is the full faith and credit of the state bodies, represented through the Ministry of Finance or the Central Bank.

**If the official export support is provided in a form of crediting or refinancing, it is mandatory to apply the provisions on minimum interest rates, known as Commercial Interest Reference Rates (CIRRs)**

Country credit risk is the assessment of whether a country will be able to service its external debts in the future. It consists of five elements, as follows:

1. *general moratorium on repayments of the external debt, decreed by the importer's/ borrower's/guarantor's government or by that agency of a country through which repayment is effected;*
2. *political events and/or economic difficulties arising outside the country of the notifying Participant or legislative/administrative measures taken outside the country of the notifying Participant which prevent or delay the transfer of funds paid over in respect of the credit;*
3. *legal provisions adopted in the importer's/ borrower's country declaring repayments made in local currency to be a valid discharge of the debt, notwithstanding that, as a result of fluctuations in exchange rates, such repayments, when converted into the currency of the credit, no longer cover the amount of the actual debt, i.e. the amount at the date of the transfer of funds;*
4. *any other measure or decision of the government of a foreign country which prevents repayment under a credit; and*
5. *cases of force majeure occurring outside the country of the notifying Participant, i.e. war (including civil war), expropriation, revolution, riot, civil disturbances, cyclones, floods, earthquakes, eruptions, tidal waves and nuclear accidents.*

<sup>3</sup> A CIRR is fixed for each currency of the Participants to the Arrangement. CIRRs are set on the 15th of each month. CIRRs for the period from 15 June 2003 until 14 July 2003 are listed below (the previous month's rates are listed in the second column)

<sup>4</sup> Effective as of 15 March 2003, Switzerland adopts the Three-tier CIRR system

The level of MPB is determined so as to reflect the country risk, set according to the Quantitative Country Risk Model<sup>4</sup>. This model is based on three groups of risk indicators:

1. *Payment experience of the Participants: historical data on how the country repaid its credit liabilities towards the countries of the notifying Participants; special attention is paid to the countries having been approved the rescheduling of their liabilities towards the Paris Club of Creditors, monitoring the way they service their liabilities after weighted mean date of the reschedule; also, servicing the liabilities towards the other international financial organizations is taken into consideration.*
2. *Financial situation of the Participant: is estimated on the basis of the liquidity indicators (such as the ratio between the external short-term liabilities and the foreign exchange reserves), solvency indicators (like the relation between the long-term liabilities and GDP), indicators of sensitiveness to crises situations (export diversification etc).*
3. *Economic situation of the country: indicators are used for the current realization of economic, fiscal, and monetary policy, as well as structural indicators of long-term nature used to measure the potential for economic growth (level of income, domestic savings rate, economic growth rate) and measures for the level of diversification of the national economy.*

The methodology for the model includes number of different steps, including an estimate of the three groups of indicators, as well as combination of flexible weights giving specific importance to the determined indicators within the groups, as well as to the determined groups within the model as a whole.

On the basis of the results, i.e. the risk estimates, countries are divided into 7 different risk categories, marked with numbers from 1 to 7, whereby each next group means higher risk of the countries. Countries - members of the arrangement agree that the quantitative result received through the model can be adjusted on the basis of qualitative estimates and other risk factors that have not been imputed in the model, thus receiving the final grade and risk classification of a certain country.

**Table 2:**

*Classification of risk of the countris members of the arrangment (April 4, 2003)*

Country	Risk category
Albania	7
Argentina	7
Armenia	7
Bulgaria	5
Bosnia and Herzegovina	5
Poland	2
Macedonia	7
Croatia	4
Czech Republic	2
Estonia	3
China	2
Cuba	7
Hungary	2
latvia	3
Slovenia	2
Serbia and Montenegro	7
Russia	5

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## 2. Rules of the Bern Union

The Bern Union (International Union of Credit and Investment Insurers) is an international association of institutions that deal with credit and investment insurance against commercial and non-commercial risks. It was established in 1934 by four members from France, Italy, Spain, and the United Kingdom, and today its membership includes 50 members and observers from 40 countries in the world. Members of the Bern Union are institutions of great significance within their countries, but also on international level, for supporting the export and foreign investments. Without active participation of the Bern Union members, it is almost impossible to provide financial resources for realization of international projects of any scope, especially in the developing countries. The Bern Union has a central role in the world trade, with respect to export and foreign investments.

The statute of the Bern Union stipulates that its primary mission is to work towards realization of the following goals:

- *International acceptance of sole principles for insuring export credits, establishment and maintenance of discipline and harmonization of the conditions for crediting the international trade;*
- *International cooperation in the encouragement and creation of favorable investment climate,*

<sup>4</sup> For broader elaboration of the model, see "Financing the Economic Development and Export", Naumovski, Manakovski, Bislimovski, Petrushev - MBPR Edition, 2000

*development of sole principles for insuring foreign direct investments;*

- *Providing exchange of information, assistance, knowledge, and advice regarding the commercial and political risks that are immanent for the insurance of export credits, political risks immanent for the insurance of foreign direct investments and other issues related to the abovementioned topic.*

### Rules for the conditions of export credits

The basis of these agreements is the determination of 7 categories of goods and services, for which rules are determined on 5 different grounds, as follows:

- *Defining the goods and services that fall under certain category;*
- *Starting point of the credits;*
- *Repayment periods;*
- *Advance payment - share of the credit beneficiary; and*
- *Dynamics and structure of repayment.*

The definition of starting point of the export credits is important for the calculation of maximum possible deadlines for export credits for each of 7 categories of goods and services. Starting point is the moment when the purchaser takes over the goods/services, which can be physical takeover or takeover of documents gaining the title over the goods/services.

With respect to the repayment periods, they are the maximum possible periods for repayment of the export credits. On the meeting of the Committee for Insurance of Export Credits, held in April, 1994, the following definitions were agreed, which will refer to different forms of financial export support:

- *Short-term credits - refer to credits up to 1 year; and*
- *Medium-term credits - refer to credits exceeding 1 year, whereby it was agreed that it is no longer necessary to have formal difference between medium-term and long-term credits. Should such distinction prove to be needed in some cases, long-term credits are credits exceeding 5 years.*

Advance payment is part of the value of delivered goods/services that cannot be credited, i.e. part paid by the purchaser as down payment, and dynamics and structure of repayment are the manner, conditions, and dynamics of amortization of export credits.

### Future of the export insurance

In the past ten years of XX century, export insurance experienced drastic changes, the driving force of which

were the processes of globalization, intensification of cross-border competition, and the IT development. High number of government agencies for export insurance privatized the short-term insurance against commercial risks, and some did this with the short-term insurance against political risks. This was primarily due to the increased capacity of private insurers for accepting export insurance against commercial risks, as well as increased expertise, scope and quality of available information that enable for the private sector to penetrate gradually in the area of insurance against non-commercial risks, which are traditionally under government monopoly.

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Financial crises that stroke the developing countries in the second half of 1990s (Mexico, Russia, "Asian tigers") also had a big influence on the export insurance. Although the crisis was overcome from today's perspective, the fact remains that in order to prevent occurrence of similar crises in future, countries must undergo difficult structural changes and adjustments. Without this, they will face limited access to the international money markets because of increased risk for investment.

Structural changes should provide the necessary economic and legal framework for expansion of private investment. However, it takes more than good laws and regulative for the market economies to function well - a consistent and persistent application of such laws and regulative is needed, without exceptions. Painful and difficult experiences of some countries showed that difficulties and heavy losses, unproductive investments, loses of capital, material and human resources, frustrations and fear of the other private investors, as well as a limited access to the international financing sources are immanent should the private initiative is forced without previously creating all necessary prerequisites. This way, as stated by the President of the World Bank, Mr. Wolfenson, "private initiative is turned into drainage that outflows the precious economic resources, instead of being the driving force of economic growth".

# RISK MANAGEMENT AS A SEGMENT OF CORPORATE GOVERNANCE

Although the segment risk management is only partially mentioned in this White Paper, it is exceptionally important segment which deserves to be presented in more details; therefore, in the future, the topic corporate governance elaborated in the abovementioned book will be upgraded via various works



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The national promotion of OECD "White Paper of Corporate Governance in Southeast Europe" in June is a direct reason to review the link between risk management and corporate governance or to simply write something about corporate governance.

Although the segment risk management is only partially mentioned in this White Paper, it is exceptionally important segment which deserves to be presented in more details; therefore, in the future, the topic corporate governance elaborated in the abovementioned book will be upgraded via various works.

During the past transition period in Macedonia, as well as in the majority of transition countries, it was realized that there are significant problems in financial reporting, which is a basis for proper development of corporate governance. As presented in the abovementioned White Paper, "Transparency and disclosure is a central pillar of effective corporate governance practices and the functioning of capital markets. Without access to regular, timely, reliable and comparable information, investors will not be able to evaluate corporate prospects and make informed investment and voting decisions. This will result in a higher cost of capital and a poorer allocation of resources".

However, the experience shows that transparency and data disclosure can be fully accepted as a concept by the management of companies, but it is not sufficient if such data is not realistic picture of the situation. This problem of risk management, or more precisely the risk of compliance with the legal and internal regulation indirectly undermines the basis of corporate governance in the sphere of transparency and data disclosure. This is a problem that burdens not only the transition countries, but also the developed western economies of EU member states and the USA. Particular proof are the cases of Enron, Worldcom and HealthSouth. In all these cases the following question is raised: "What were the basic deficiencies in the internal control procedures that led to inefficiency of the set corporate governance system?" As details for these scandals were coming to light, it was becoming clear that the problem was hidden all the time in the internal control and risk management system. Then, the question is raised, why the majority of articles referring to these cases addressed the corporate governance and accounting problems? The answers explains that all these companies "lost their ground", the basis of efficient corporate governance, i.e. internal controls and ethical limit beyond which one must not go.

One of the definitions of internal control, as a mechanism of risk management, is that it is a process carried out by the company management

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board, management and other persons with special rights and responsibilities, in order to reach reasonable assurance that the following is achieved:

- *Effectiveness and efficiency in operations;*
- *Financial reporting with sufficient quality so that decisions can be reached on its basis;*
- *Compliance with legal and other acts.*

In order for this type of risk to be placed on solid grounds, from corporate governance view, the managers are expected to, at least once a year beyond their everyday obligations, to perform assessment of the risk and control mechanisms within their mandates and responsibilities. Each manager should reassess the current and planned changes, identify the risk, determine the appropriate control mechanisms that will mitigate the risk, establish effective monitoring processes and evaluate the efficiency of such controls. Furthermore, managers should report about their findings to higher managerial level, up to their CEOs. The final result is covering the overall organizational structure from the base to the top, until the final effect is reached, i.e. reporting to audit board and management board.

In the world practice, there are cases at the banks where the management publicly discloses the findings from its own assessment of effectiveness and efficiency of control of financial reporting and external auditors are obliged to attest this finding of the management. In this manner, this process helps the managers to establish mutual communication and communication with the CEOs and Board of Directors about the dynamic issues that have impact of the risk exposure, "appetites" for risk exposure, as well as controls in the companies.

The risk assessment of this kind is a useful tool in the assessment of successfulness of separate types of products and services offered by the companies and banks, at the moment of elaboration of business strategies. The final decision depends on the outcome from this joint assessment of the risk, which provides coverage of all separate spheres in the operations, i.e. direction for the particular basic guidelines of strategic planning. Unfortunately, the practice shows that risk assessment is not very common in the companies worldwide. Certain surveys conducted in the USA show that 45% of the surveyed directors of companies said that they do not have formal process for identification of risks

in the operations. Although such survey was not conducted in Macedonia, it is very likely that this percentage would be much higher. In fact, that is proven by data on financial operations of Macedonian companies and the level of illiquidity and financial indiscipline in the Republic of Macedonia. It is not necessary to go far, one just needs to start from the amount of unpaid liabilities towards banks where termination of delivery contracts is given as a reason for failure to settle liabilities, as well as various seemingly "banal" operative risks (undelivered raw materials, too much stocks of imported goods as a result of the poor assessment of absorption power at the domestic market), poor reconciliation of currency structure of inflows and outflows (collection in one currency, payment in another currency) and like.

**Transparency and disclosure is a central pillar of effective corporate governance practices and the functioning of capital markets. Without access to regular, timely, reliable and comparable information, investors will not be able to evaluate corporate prospects and make informed investment and voting decisions. This will result in a higher cost of capital and a poorer allocation of resources**

In such conditions, the question is raised what is worth for the banks to have formal mechanisms for risk management, which in certain cases are understood and applied effectively and efficiently, if they do not have solvent clients to cooperate with. Fortunately, banking system legislation of Macedonia is completely clear regarding the treatment of risks and their securing and at least this segment is one of those where we have somewhat more successful risk management. All omissions in this area have subjective nature and they can be subject to long debates and elaborations.

If one should continue with the remaining aspects of the risks and their impact on the corporate governance, it is unavoidable to mention that although directors are not expected to know all details and particulars in the operations, nor to monitor each separate transaction, they are still responsible for the decisions reached regarding the level of risk that a company will undertake and the



monitoring it will put in place for risk surveillance. We cannot accept full transfer of responsibility for certain activities only to the direct executors, without the manager being responsible for certain scope of operations. This is especially emphasized when it is a matter of deterioration in control procedures or violation of legality in cases when the responsible manager was aware of that.

**The experience shows that transparency and data disclosure can be fully accepted as a concept by the management of companies, but it is not sufficient if such data is not realistic picture of the situation**

Internal controls must correspond with the level of risk and complexity of the company. One of the obligations of the management that supports the realization of this concept of internal controls is monitoring the internal control, so that the managers can reasonably and with great deal of certainty expect that their orders are executed. They remain responsible to engage individual managers that have their own integrity to comply with the management instructions (management board), to ensure legality in the operations, to make decisions on the basis of proven data, and what is most important to be competent. We can also add that it is advisable, in the sense of revising procedures, to reassess the operations of managers periodically, to reassess the initial estimates for their individual qualities.

**In the world practice, there are cases at the banks where the management publicly discloses the findings from its own assessment of effectiveness and efficiency of control of financial reporting and external auditors are obliged to attest this finding of the management**

Risk management in securing legality in the operations and compliance with the internal acts is a process that must be coordinated on several levels within organizations. Every control function or surveillance process of certain activities contains common elements for successful securing the legality and application of internal acts. Although the diversification of products and services, size and business of an organization have impact on the specific aspects of management and realization of efficient process of internal control, the common elements

are something that applies to all and it is necessary to exist in every system.

### **Responsibility of the Board of Directors and the management**

The Board of Directors and the management cannot delegate the responsibility for the system of securing legality in the operations and compliance with the internal acts of the company. It is clear that certain activities in this sphere are transferred to lower level of managers in the company, however that does not release the management and the Board of Directors from the responsibility for designing and securing system effectiveness and efficiency. These bodies are obliged to ask and secure periodical reports on the application and compliance with the legislation and the list of problems that occur in such process. In similar manner, the compliance with the internal acts and procedures can be checked, as a step towards securing legality. The Board of Directors should identify the weaknesses in the compliance and undertake initiative for timely response to the end of achieving compliance with the legislation. For this purpose, it should be certain that the aforementioned network of risk control, which covers both the horizontal and vertical organization of risk management, is adequately set and functions properly. The banks can be taken as an example again, where the basis of management is set from the top to the base, however the network of risk management fully covers all segments of operations. For example, contrary to the top management which independently bears the responsibility for the global direction of decision-making regarding the risks, it cannot check the risks up to the lowest level of operations. However, it is obliged to set a system in which the bank teller, the internal controllers and auditors, the lawyer who conducts certain dispute in court on behalf of the bank or the marketing personnel who develop new products will be adequately linked and will create a unity in the process of risk management. This unity can be reached via open sharing of information and adequate locating and delegating the rights, responsibilities and competencies for realization of rules and procedures.

### **Structure**

The function of protecting the legality and compliance depends from the size and complexity of the organization. However, the compliance officers should have access to all executive levels. One of the advantages of the existence of independent control of compliance and risk management is the preparation of independent opinion and identification of weaknesses, which cannot be

identified within separate organizational parts. The compliance officers are right hand of the management, Board of Directors and Audit Board via creation of unbiased attitude to projects and products introduced in certain part of the companies or banks. This comes as a result of the fact that they are not released from the commitment for introduction of certain product "at any cost" and can more objectively see where the legal regulation will be violated or where greater risk exposure will be caused.

### Scope of the compliance control

Compliance officers are obliged to prepare annual plan of activities in which they will list their priorities, planned monitoring process and their implementation. The new laws, newly-introduced legal provisions, as well as the amendments to the existing laws should be subject to appropriate estimate from the aspect of application and effects they cause in the company. Consequently to such changes, amendment is made to the internal regulation and policies, and the better-organized companies organize training of employees, which depending on the size and complexity of the changes may last one-day or longer.

In the areas where the legally prescribed penalties and measures are stricter, previous analysis of the compliance is made, the findings for incompliance are determined, as well as measures to be undertaken and additional reporting is conducted. In this sense, the management and the Board of Directors are informed about all deviations from the legislation that are unacceptable and can have significant impact on the company or the bank. Compliance officers are obligatorily involved in the monitoring of corrective activities and they check the planned activities for compliance, general planned activities set prior to the introduction of the legal amendment and effects they cause.

### Monitoring the compliance

Internal audit should conduct its own independent review of the effectiveness and efficiency of operations in the units responsible for compliance. It should include activities that will assure the internal audit that the compliance reports contain correct data, quality information and that there is adequate training of employees and prompt corrective measures are undertaken. Internal audit is completely independent from the compliance control, which is a result, primarily, of the

application of principle of double control, but also certain organizational solutions. For example, common solution especially in the banks in the USA is dislocating the compliance officers from the sectors in which they work and the regulation they deal with, because subjectivity and partiality may occur, as a result of the relationships between employees. Additional internal control is used to check the full compliance with the obligations the compliance officers have.

I would like to present the following recommendations:

- *Board of Directors - the real responsibility of the Board of Directors in securing efficiency in risk management is reflected on the overall management process of the company or the bank and shows the success in the corporate governance.*
- *management bodies and top management - securing effective and quality reporting and data disclosure within the company or the bank, as well as maintaining high moral and ethical standards (especially from the aspect of internal hiding of information), is the only manner of quality risk management.*

**In the present conditions prevailing in the Republic of Macedonia, one cannot say that there is high level of risk management, as a segment of the corporate governance. In the real sector it is minimal, however step forward is the fact that in the banks it is placed on relatively satisfactory level**

In the present conditions prevailing in the Republic of Macedonia, one cannot say that there is high level of risk management, as a segment of the corporate governance. In the real sector it is minimal, however step forward is the fact that in the banks it is placed on relatively satisfactory level. Unfortunately, incidental cases of incompliance in certain banks taint the overall sector, which puts under question the basic concept. Finally, it is not important whether we talk about the real sector or the financial one, about listed or unlisted companies, the problems that arise from the deficiencies in the quality risk management, and hence in the overall corporate governance, leave permanent consequences on the operations of the companies, their image, but also in the overall life and relation with the domestic entities.

# FISCAL DECENTRALIZATION AS PART OF THE GENERAL DECENTRALIZATION PROCESSES

Regardless of the reasons, decentralization - transfer of the fiscal, political and administrative competencies to the lower government levels - occur everywhere with different dynamics and in different manner

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## 1. General Patterns

Typically, post-Bretton-Woods era has developed the approach, according to which an emphasized role should be given to the central government in order to drastically change the development effects. There was a belief that in the poor countries, the most appropriate manner of generating and investing in scarce funds to the end of development, consistent with the macroeconomic stability, were the national plans and programs.

By the mid 90s, this was the main message not only to the Bretton-Woods institutions - the International Monetary Fund and the World Bank, but also to the rest of the multilateral and many bilateral institutions. As a result of this policy, certain progress was achieved, however, with some deficiencies covering the environmental damages, loosing civil freedoms, corruption and very little information on the local public services - clean water, health care, education, social care, as well as discussions on poverty reduction. These were the deficiencies in the era when the central government expanded enormously.<sup>1</sup>

Now, the belief regarding what is necessary to reach development objectives has changed, even drastically in some countries. The World Bank, in its Report on entrance in the 21<sup>st</sup> century, point out that, in addition to the globalization, the localization - the wish for self-determination and power devolution - is the main "world shaping force, in which the development will be defined and implemented" in the first decade of this century. The report also acknowledges that "the defining of the globalization and localization forces", which at first sight seem to be contradictory, often arise from same factors and complement each other.

In the 90s, more attention was paid on the decentralization process. The reasons for emerging and escalation of the phenomenon are versatile and numerous. In some Western countries, the reviewing of the existing system of fiscal relations among different levels of government emerged from the request by certain regions (for instance, in Canada and Germany). Within the European Union, it arose from the political debates conducted among the member countries, regarding the functions to be performed by the European Union. In the countries in transition, following the collapse of the centralistic systems, new systems of fiscal federalism were to be established. The decentralization in these countries is seen as key dimension for national transition from command to market economy. Thus, the reforms in the relations between the central and the local authorities are of special significance. The restructuring of these relations is of essential importance due to the close connection of this key political issue with the efficient resource mobilization, privatization, social safety and stabilization in these countries. Fiscal federalism was also considered in some developing countries from the point of view of its compatibility with the macroeconomic stabilization (for instance, Argentina, Brazil, India).

However, regardless of the reasons, decentralization - transfer of the fiscal, political and administrative competencies to the lower government levels - occur everywhere with different dynamics and in different manner. This world trend is based on the generally accepted principle of subsidiarity<sup>2</sup> and the understanding that it results in improved efficiency in providing the public services, i.e. more efficient allocation of the resources in the economy.

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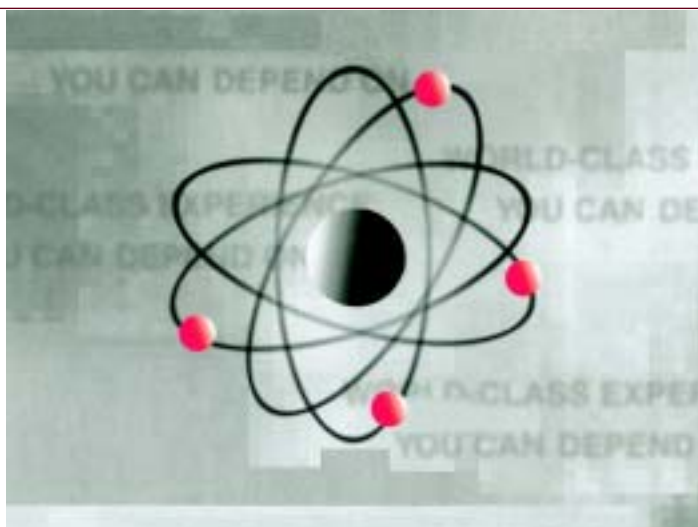
1 According to Robert D. Ebel and Serdar Yilmaz, 2002, "On the Measurement and Impact of Fiscal Decentralization", IMF, p.2.

## 2. Decentralization Modalities/Gradations

The very definition of decentralization refers to the complexity of the term, i.e. the multi-dimensional aspects arising from this phenomenon. Decentralization is not easy to define. It can appear in many forms and dimensions. Numerous institutional restructuring fall under this category or several variants function simultaneously in one country, even in a separate sector. Thus, the need arises to carefully and necessarily distinguish several modalities/forms of decentralization. Mainly, differences are made among de-concentration, delegation and devolution. The "decentralization" occurring in many unitary countries is actually de-concentration. In addition, some function in the federal countries can be de-concentrated, where the central government holds strong interest in ensuring the rendering of those services. The key issue regarding delegation and devolution, as forms of decentralization, is the balancing of the central and local government interests. Devolution is more frequent form of decentralization. It refers to the situation in which the central government transfers several decision-making powers, financing powers and management to quasi-autonomous local government units.

In addition to this gradation, five types or aspects of decentralization are distinguished in the governance theory. The first aspect/type, what is known as structural decentralization, refers exclusively to the number of the government bodies; decentralization according to the volume of issues for which the sub-national authorities can decide autonomously; resource decentralization - according to how the government resources are distributed among the government levels; electoral decentralization, according to whether lower government levels are elected or whether they are appointed by the central government; and institutional decentralization, according to the extend of formalizing the rights and the procedures of the sub-national authorities in the central decision-making process.

Whatever form it may take, the process of delegating the responsibilities among different government bodies is mandatory related to several instruments from the fiscal, political and economic sphere. In fact, this factor defines the volume by which the relations are de-concentrated, delegated or devolved. The fiscal decentralization - which are taxes are collected by whom, who incurs what kind of expenditures and how any imbalance is adjusted - are issues especially emphasized in the latest discussions in many countries, which also indicate the basic issues referring to the political and the administrative



decentralization. Therefore, the general term decentralization is often used, meaning both fiscal and political and administrative decentralization, and these aspects are only seen as one side or part of the complex decentralization phenomenon.

**In short, one could say that regardless of the basis and the motive for decentralization, it is recommendable for larger, more developed and more heterogeneous countries and the countries having internal natural and other disparities**

Immanent complexity of the decentralization process requires enormous skillfulness by the politicians in its fashioning to simultaneously ensure stability, efficiency and righteousness of the economic system. Thus, well-fashioned decentralization can:

- *Democratize the country, approaching the decision-making process to the citizens;*
- *Strengthen the efficiency and the responsibility to deliver services;*
- *Promote the economic development; and*
- *Serve as potential tool for poverty reduction.*

At the same time, decentralization in every country is predisposed by the political system, the geographic size, the cultural and the historical traditions, the economic development, etc.

<sup>2</sup> The principle of subsidiarity is defined best in Article 4 of the European Charter of Local Self-Government, according to which "the public responsibilities shall generally be exercised, in preference, by those authorities which are closest to the citizen". It became the main reference and it was explicitly incorporated in the Maastricht Agreement when debating the institutional structure of the European Union at the end of the 80s.



In short, one could say that regardless of the basis and the motive for decentralization, it is recommendable for larger, more developed and more heterogeneous countries and the countries having internal natural and other disparities.

Fiscal decentralization is defined as a process of devolving the revenue and expenditure-related competencies to different government levels, but also as certain autonomy in the revenue and expenditure-related competencies.

The share of the sub-national expenditures in the total public expenditures or of the sub-national revenues in the total public revenues are taken as key decentralization indicators, although as such they have relative significance for the sub-national authorities in the overall public sector and its changes during time. This is actually only one element of the fiscal decentralization phenomenon. The multi-dimensional approach requires complex indicators. These indicators should be combined with the sub-national autonomy and discretion over the expenditures and the revenues in a certain country. Actually, the fiscal decentralization requires encouragement for the citizens to participate and influence the public decisions in a specific community. This mirrors the main features of the fiscally decentralized systems, such as: existence of elected municipal councils, locally approved budgets, local capacities for borrowing and capacity of the local government to collect the taxes. The basic requirement for efficient and effective local government is "the comparative principle"<sup>3</sup>. The expenditure competencies should be measured with the revenue resources, the revenue capacities should be measured with the political responsibility and the benefit should be measured with the finances.

**This world trend of decentralization is based on the generally accepted principle of subsidiarity and the understanding that it results in improved efficiency in providing the public services, i.e. more efficient allocation of the resources in the economy**

Thus, the basic rule for efficient expenditure transferring is to devolve any function to the lower government levels in compliance with its efficiency performances. The experience shows that apart from these benefits, there are local variations in the tastes and in the expenditures when

performing the local public activities. Contrary to this, regarding the services to be rendered on central level, there are no differences in the demand of various local government units. Thus, the most often drawn conclusion is that almost all public services (except the national defense, foreign politics, and several others) should be mainly rendered at local level, with locally reached decisions on how these services will be provided, to who and in what quantity and quality, being taxed at local level. In practice, although there are typically local functions (such as street maintenance), the allocation of the function to the local authorities varies from country to country.

In any case, important economic role of the local authorities is to provide to the local inhabitants those public services they want to pay for. The local authorities should be responsible to its citizens for these activities. With respect to this condition, the local finances should meet the following three requirements:

- a. *The local government should, as much as possible, charge the services they render.*
- b. *When the collection is impractical, the local authorities should be financed with the taxes paid by the local population, except for the services (as stated above) for which the central government wants to pay.*
- c. *Regarding the services for which the central government pays, the local government should be responsible to it for the scope of the services financed through transfers.*

However, there are differences among the countries with respect to the prevalence of the fiscal arrangements between the central and the sub-central government levels. Thus, it is practically impossible to formulate unique rules to be applied for allocation of the taxes and the revenues to different government levels. The distinction is only clear in the federal countries, unlike the unitary ones, where the important fiscal autonomy exists at the middle levels - the government authorities. However, for the purpose of overall analysis of the fiscal relations among the government levels, i.e. the degree of autonomy, what should be taken into consideration is the following division ranked according to the level of control the sub-national authorities could perform over the revenue sources:

- a. *the sub-national authorities should set the tax rates and the tax basis;*

<sup>3</sup> Richard M. Bird, "Setting the Stage: Municipal Finance and Intergovernmental Finance", WBI, 1999, p.12.

- b. *the sub-national authorities should set only the tax rates;*
- c. *the sub-national authorities should set only the tax basis;*
- d. *tax sharing arrangements:*
  - d.1 *the sub-national authorities should determine the division of the revenues;*
  - d.2 *the division of the revenues could be changed only in agreement with the sub-national authorities;*
  - d.3 *the division of the revenues, set with regulations, could be unilaterally changed by the central authorities;*
  - d.4 *the division of the revenues should be determined by the central authorities, as part of the annual budget process; and*
- e. *the central authorities should set the sub-national tax rates and basis.*

In the cases of a. to c., and d.1 to d.2, the sub-national authorities have full or significant control over the taxes. In the rest of the cases, their tax autonomy is limited or absent.

### 3. Decentralization Reforms and the Activities of the Council of Europe thereof

The fiscal reforms that are being implemented have different paths and approaches to decentralization. Regardless of the modalities, each fiscal reform should begin with the following:

- a. *Coherent strategy to the end of:*
  - *Clear division of the competencies;*
  - *Adequate financing;*
  - *Clear system of responsibility; and*
  - *Timing of the phases.*
- b. *Implementation and monitoring mechanisms:*
  - *Legal and regulatory framework;*
  - *Coordination mechanisms;*
  - *Accurate, timely and comprehensive information;*
  - *Capacity-building programs; and*
  - *Confidence building and mechanisms for resolving conflict situations.*

The Council of Europe and its bodies (Ministerial Committee and several Expert Committees) in the member countries, especially in the aspirant countries in the European Union, implement number of programs and activities for promotion and strengthening of the democracy at local level via:

1. *national level;*
  - *creation of solid legal framework for local/regional administration and*
  - *establishment of central government structures capable to govern the local authorities;*
2. *local and regional level in direct cooperation with the local/regional authorities (their elected representatives), or via their associations:*
  - *elaboration of the basic regulations for the local/regional administration;*
  - *introduction of strong financial arrangements for the local/regional administration and encouragement of the fiscal decentralization;*
  - *development of the local administrative capabilities and managerial skills, mainly via training of the local/regional elected representatives and officials;*
  - *establishment and strengthening of the national associations of the local/regional authorities, promotion of their operations and enhancement of their role as institutional partner of the central government.*

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### 4. What does the European experience show?

The local democracy in Europe today has two main features: general consensus for the common values and principles and big differences between the institutions and the practices.

It is general conclusion<sup>4</sup> that despite the numerous measures and instruments, the trend in the local financing does not follow the trend of local democracy development.

<sup>4</sup> According to Introductory report - Local democracy in Europe today: how is it working, where is it going?, Council of Europe, Strasbourg, 26th April, 2001, p.4.



It is general estimate that the trend of reducing the financial autonomy of the local authorities is spreading, although, according to Article 9 of the European Charter, the financial autonomy is essential for the local autonomy. To recall, according to the stated Article, three imperatives were listed for financial autonomy of the local authorities: 1) financial resources adequate to the competencies, 2) free disposition of the own resources and 3) freedom to undertake measures for increasing the own resources.

Out of the aforementioned imperatives, the most problematic is the first one. It has been proven that it is quite difficult to guarantee the principle of appropriateness of the competencies and the resources, although it is legally envisaged that each transfer of competencies has to be covered by sufficient resources.

**Regarding the second imperative, free disposition of the resources by the local authorities, there is also big concern, although this freedom is often imaginary. Thus, number of competencies has to be carried out according to the determined procedures, and they have direct implication on the local expenditures, leading to big shortfall of financial resources and limiting the possibilities for investments by the local authorities**

Regarding the second imperative, free disposition of the resources by the local authorities, there is also big concern, although this freedom is often imaginary. Thus, number of competencies has to be carried out according to the determined procedures, and they have direct implication on the local expenditures, leading to big shortfall of financial resources and limiting the possibilities for investments by the local authorities. According to the competent bodies of the Council of Europe, the freedom

would be realistic only if these obligations are not applicable for long period of time.

The concern also exists with respect to the third imperative, the control over the own resources. In further elaborating the revenue structure, it can be seen that today, the local authorities are financed mainly through the tax sharing and the budget allocations, by appropriately reducing the level of resources from the local taxes and fees. This fact automatically leads to scaling down the financial autonomy. The special revenues lose their efficiency: given their small share in the total local resources and the impossibility to increase the local tax rates. Thus, the freedom to uninterruptedly have disposition of the resources and their stability are conditioned by the tax sharing, the purpose of which may be strictly determined with administrative rules for specific competencies, and the distribution may vary from year to year. To recall, one should point out that the concept of self-taxation depends on the power of the authorities to collect revenues they have set on their tax level.

Given these patterns, and due to the aforementioned limitations on global level (necessity for tax unburdening), other funds for the municipal financing, other than the taxes, are more and more looked for. For the time being, it is considered as preventive that the financial equalization by the state could give the best result in this field.

It is evident from the listed reasons and conclusions that the local authorities cannot be seen as isolated from the state. All national policies, especially the tax policy, have huge influence over all local, and especially tax, policies, which together have strong effect over the local revenue base.

Finally, on the long run, improvement of their financial situation is possible only by increasing their cost-efficiency.

# COUNTRY RISKS, ESPECIALLY POLITICAL RISK - LIMITING FACTOR FOR FOREIGN DIRECT INVESTMENTS

When assessing the country risks, one actually assesses the capability and the will of a country to service its external debt in a certain period. In other words, the country risk assessment is reduced to answering one single question: will the country be able to settle its external debt in the future as well - yes or no?

Country risks are an economic category to which great attention has been given in the past several decades. The need for more thorough analysis of various factors that could affect the capacity of countries and the economic entities within their boundaries to settle their liabilities towards foreign creditors arose with the outbreak of the debt crisis in the last three decades of the 20<sup>th</sup> century. Debt crises and moratoria on payment of liabilities occur not solely out of economic reasons, but often due to the hostile position of the governing regimes in some countries. Hence, the need to establish mechanism and methodology that would take into account all economic, financial and political factors that could affect the risk of investments of the financial exposure in certain country. Large material and financial crises the international creditors suffered due to debt crises led to a

traditional understanding that, when assessing the country risks, one actually assesses the capability and

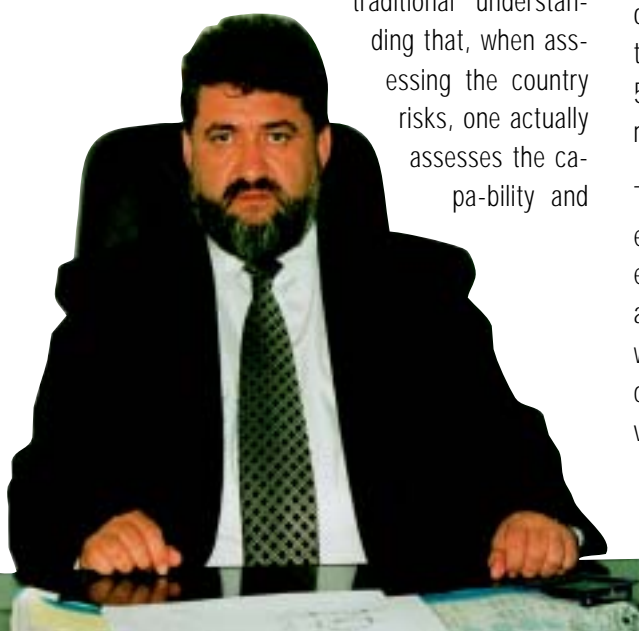
the will of a country to service its external debt in a certain period. In other words, the country risk assessment is reduced to answering one single question: will the country be able to settle its external debt in the future as well - yes or no? Essentially, the assessment of all political risks is finally reduced to assessment of the transfer risk, i.e. the impossibility for the foreign entities being financially exposed in a country to smoothly take their funds out of the debtor country, i.e. to collect their claims.

The components of country risk are divided in three groups: political risks, economic risks and financial risks. Within each groups several parameters are determined with their weights, to the end of quantifying the referent risk, i.e. the composite risk.

The composite risk of a country is a combination of political, financial and economic risk, whereby the share of political risk in the total risk is up to 50%, and the share of the financial and economic risk is 25% each.

The following question is posed here: to what extent the political variables affect the business environment. This question largely refers to banks and companies performing international activities, which on the other hand are primarily concentrated towards analysis of economic variables defining the risk of a country. The

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practice shows that the economic analysts largely prefer entering data from official sources, computer models prepared in advance, which on the basis of historical data, provide economic forecasts of the future. However, this is only one piece of the puzzle, being maybe the less significant one. The countries and the national economies are represented not only by figures and statistics, but even more, by the people and the system it lives in, also as the firm does not refer only to figures, but also to the organization and the people managing and working in it. Macroeconomic statistical data often state very little on the quality of the government and the administration standing behind those figures. However, basically, precisely the quality of government and the administration, as well as the politics it runs are the key factor creating favourable or unfavourable business surrounding.

**The components of country risk are divided in three groups: political risks, economic risks and financial risks. Within each groups several parameters are determined with their weights, to the end of quantifying the referent risk, i.e. the composite risk**

The fact that political and social risks cannot be quantified does not lessen their importance, nor it means that it should be taken as an excuse for them to be omitted from the strategic analyses referring to country risks. The problem that may arise from the potential social unrest, the corruption, and democracy development cannot be neglected. Regardless whether the specific weight of these factors will be assessed on the basis of some "hunch" and intuition or in a more systematic manner, they must not be neglected.

Which are the basic components of political risks, i.e. factors having the greatest affect on the favourableness of the environment for foreign direct investments? The following parameters are of special importance:

- *Stability of the executive power;*
- *Socio-economic conditions;*
- *Internal conflicts;*
- *External conflicts;*
- *Level of corruption;*

- *Respecting the legal state;*
- *Ethnic tensions; and*
- *Quality of state administration.*

Here they are in more detail:

### **1. Stability of the executive power**

This parameter is a measure of the capability of the current government to realize the proclaimed program commitments, as well as the credibility to keep the term of office during the whole period. It depends on the model of governance, cohesion of the government and the ruling party or coalition, the period until the next elections, popularity and the public acceptance of the government politics, etc.

### **2. Socio-economic conditions**

This parameter is an effort to measure the general satisfaction of the public with the economic policy of the government. In general, the greater the public dissatisfaction from the government's economic policy, the greater the probability that the government would be forced to change its policy in accordance with the demands of the public and the economy, in order to prevent its fall.

### **3. Internal conflicts**

This is an assessment of the political violence in the country and the actual or the potential impact on the government. The highest in rank are the countries where no armed opposition exists, having military and/or paramilitary formations, and where the government does not undertake measures of coercion and armed actions against the opposition parties and the population. The lowest rank is given to countries in which civil wars are waged.

### **4. External conflicts**

This parameter is an assessment of risks for the incumbent government and the foreign direct investments arising from conflicts of the country with other countries, including trade restrictions and embargoes (imposed by one or several countries or the international community), geopolitical disputes, armed threats, cross-border fire; border incidents, foreign subversive actions and infiltration and wars.

### **5. Level of corruption**

It is a matter of assessing the level of corruption in the political system, which may pose a threat to foreign

investors due to several reasons: it disturbs the free market, it reduces the efficiency of the administration due to the possibility for nepotism and adds potential instability in the political processes. Most common form of corruption directly influencing the foreign businesses is demanding financial compensation for granting approval for export and import licenses, foreign exchange transactions, calculation of tax liabilities, police protection or approval of credits. Such forms of corruption impede the efficient realization of the business ventures, and in some cases lead to withdrawal of the foreign investments or loss of partners.

The analyses of numerous relevant non-government organizations show that this is one of the biggest problems in the region, especially in the last ten or so years - i.e. the beginning of the economic transition and opening towards the world.

## 6. Respecting the legal state

This parameter is divided in two sub-parameters:

- (1) *legal order - the strength and the consistency of the legal system is assessed;*
- (2) *respect of the law - the respect of the laws and the legal order is assessed.*

Should we speak of the Southeast Europe region, the estimate is that the legal regulation is generally good, but what is absent is the adequate application and true rule of law.

## 7. Ethnic tension

This parameter measures the degree of tension arising from racist, ethnic or language differences in the population of a country. Higher risk rank is given to those countries where the ethnic tensions are strong because the opposed groups are extremely intolerant to each other since they are not ready for a compromise. Lowest risk rank is given to those countries where such tensions do not exist or are minimal, despite the existence of certain differences.

## 8. Quality of state administration

The quality and the steadiness of the state administration can be a factor that significantly absorbs the shocks from changes of power and provides consistency in functioning of the government. Subsequently, the smallest risks pose the countries where the state administration has power



and knowledge to smoothly carry out government operations regardless of the changes in power and largely independently from political pressures and with an established system of hiring and training of personnel without political influence. The countries lacking such quality of state administration get high-risk rank since in each of them, every change of government causes dramatic changes and often a discontinuity in the performance of every-day administrative functions.

**The fact that political and social risks cannot be quantified does not lessen their importance, nor it means that it should be taken as an excuse for them to be omitted from the strategic analyses referring to country risks. The problem that may arise from the potential social unrest, the corruption, and democracy development cannot be neglected. Regardless whether the specific weight of these factors will be assessed on the basis of some "hunch" and intuition or in a more systematic manner, they must not be neglected**

Finally, the imminent conclusion is that should one country want to attract foreign investors, it should take care of improving the aforementioned parameters, thus making clear to the international financial institutions and potential investors that it positively changes the investment climate.

# NOT SO EASY TO JOIN

A good week for the euro, but less good for countries wanting to adopt it soon

As the euro was hitting four-year highs against the dollar, Pedro Solbes, the European Union's monetary-affairs commissioner, was telling the ten countries waiting to join the EU in 2004 that they will find their next challenge, qualifying for euro-zone entry, tougher than they have been expecting.

Most of the EU newcomers have said that they want to adopt the euro quickly. They know that as one precondition for doing so they will have to keep their national currencies stable against the euro for at least two years after joining the EU. But they expected "stable" to mean keeping a currency within a band of 15% on either side of a central rate against the euro. Wrong, said Mr Solbes. Euro zone finance ministers will insist on a 2.25% band, he said—a much trickier position. The EU is, in effect, beefing up its signals to the accession countries that they should worry more about rushing to join the euro, which they are obliged to do sooner or later.

As it happens, some of the accession countries are starting to agree. They see how painful it will be to comply quickly with another rule of the euro-zone, the obligation to keep national budget deficits within 3% of GDP. Even some established euro-zone economies such as France and Germany are finding the deficit rule too strict, though they invented it. It will more demanding still for some of the accession countries, struggling to meet big social obligations

and revamp antiquated infrastructure inherited from communist times. Hungary's deficit hit 9.5% of GDP last year, a figure the IMF called "starling".

Goldman Sachs, an American bank, says it detects "increasing underlying political weakness" in some accession countries when it comes to tackling big deficits, leading to delays in adopting the euro. It no longer expects Poland and Hungary to join by 2007, its previous scenario.



The accession countries worry that until they join the euro-zone their borrowing costs will be higher, their currencies more vulnerable to attack, and their political heft diminished within the EU. But their preparations to join Union remain firmly on course. A referendum in Slovakia on EU accession produced 92% yes vote last weekend. Poles voted on June 7th and 8th. They too are likely to say yes, but analysts fear a turnout below 50%, which will mean the final decision must be taken, less gloriously, by the parliament.

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



# MATRIX FOR THE REALIZATION LEVEL OF THE MACROECONOMIC POLICY MEASURES OF THE GOVERNMENT OF THE REPUBLIC OF MACEDONIA

Guidelines	Type of measures	Bearer	Dynamics	Realization	Remarks
1. EMPLOYMENT POLICY					
1 Adjustment of the fiscal policy towards employment encouragement	Law on employment encouragement	Ministry of labour and social policy	March	Law and Rulebook adopted	By June 16, 2003 inclusive, 1,610 persons have been employed, 1,269 out of which are persons recorded in the Bureau for at least 1 year, 244 are registered as unemployed, the employment of which is terminated on the basis of bankruptcy, 84 are registered as unemployed, the employment of which is terminated on the basis of redundancy, and 13 are registered as unemployed - beneficiaries of welfare. 135 out of these persons are self-employed.
2 Employment encouragement program	Action plan	Ministry of labour and social policy	First working version to be prepared by the end of October	Foreign consultants engaged for the preparation of Employment Action Plan	Activity commenced
3 Control strengthening	Regular controls by the labour inspection	Ministry of labour and social policy	Continuous	Regularly applied (quarterly Report submitted to the Government of the Republic of Macedonia)	Authorities of the Labour Inspection are increased in the Law on Labour Relations.
4 Separation of the right to free health insurance from the status of unemployed person	Amendments to the law on unemployment insurance and the law on health insurance	Ministry of labour and social policy and ministry of health		Information was submitted to the Government of the Republic of Macedonia in May with a proposal for new procedure for distribution of the blue cards (the obligation has been undertaken by the Health Insurance Fund instead of the Employment Bureau), but however, it is just transferring of authorities without resolving the problem in its essence.	Upon the request by the Ministry of Health, this proposal and other possible solutions shall be considered again via discussions between the two ministries. To that end, a study (Delinking Study) shall be prepared, financed with Dutch grant. Study preparation has not been initiated and a deadline for its completion has not been set.
5 Consistent application of the legal regulation in a case of unemployment	Transformation of the employment bureau	Ministry of labour and social policy	Continuous	a) Updating of the records of the Bureau is carried out continuously, i.e. records for all those who register irregularly are deleted b) Division for monitoring the activity of the unemployed persons (whether actively seeking job) has not been established, however, modernization and reorganization of the Bureau and training of the employees is on-going	
6 Increasing the initiative for job acceptance	Amendments to the corresponding laws	Ministry of labour and social policy	February	Realized - amendments to the corresponding laws made	Deadline for receiving unemployment benefit has been reduced (across - the - board reduction is made, and the maximum period for receiving the benefit is 14 months)



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<b>7</b> Database on working - age population	Regular activity	State statistic bureau	Commencing from September	This year the data will be provided from the census. However, these data cannot be obtained on regular basis and comprehensively (not on the basis of estimate), but only in the years when the census is carried out.	Annual data can be obtained from the Labour Force Survey, however, it is an estimate obtained on the basis of sample, meaning it is not precise enough.
<b>8</b> Reducing the high protection of employees	a) Amendments to the law on labour relations b) Amendments to the civil servants law	Ministry of labour and social policy	March	Amendments to the laws made	a) Amendments are made in the part covering the right to severance payment (period and amount) b) Amendments are made in the part covering the salaries and functions in the Civil Servants Law
<b>9</b> Modernization of the employment bureau	Employment bureau	Ministry of labour and social policy	Continuous	Several projects with foreign aid (CARDS, World Bank, Agency for Reconstruction) are on-going.	Electronic linkage of the Bureau and the local bureaus is made, and horizontal and vertical network connection will be made
<b>10</b> Improvement of education quality	Regular activity	Ministry of education	June - experiment	Activities within Vet 2 project	Project is being realized in accordance with the EU plan. It consists of preparation of national qualifications and standards, promotion of vocational training and modernization of the curriculums, as well as equipping of the schools.
<b>11</b> Government subsidies for the unemployed for requalification and skills improvement	Continuous program activity	Employment bureau and ministry of finance		Activities on - going	All necessary preparations are done, which will enable continuation of the practice applied in the PRISMA Project, even after its completion. Amendments are made to the Law on Labour Relations in terms of obligation of the employers to inform when laying off greater number of employees. Commissions for adjustment of the labour force to the local level will be established.
<b>12</b> Establishment of employment clubs		Employment bureau	November	Bureaus, in which such clubs are established are expanded, and their computerization will be made by September.	The clubs exist since 1997 as a World Bank project, however, they have not fulfilled the basic function. Their computerization will be made by September, seminars and counseling will commence to be organized, thus enabling their active operation.
<b>13</b> Right to one - off payment of allowance - for private business		Employment bureau	April	Deleted in the Law, need not be implemented	
<b>14</b> Database on students	Continuous activity	Ministry of education	Commencing from December	Database exists, however, the access to it is limited due to privacy of the data	
<b>15</b> Application of contract on temporary employment	Regular activity	Ministry of labour and social policy	Commencing from May	Incorporated in the Law on Labour Relations in April	Permanent employment now can be applied up to 3 years for carrying out works, which according to their nature, last for a certain period of time (previously 6, i.e. 9 months).

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<b>16</b>	Amendments to the regulations for maternity leave	Amendments to the Law on Labour Relations	Ministry of Labour and Social Policy	Ministry of Labour and Social Policy is at the stand that amendments need to be made to the Law on Health Insurance, rather than to the Law on Labour Relations (Article 58). Such provision existed in the Law on Health Insurance, but it was abolished by the Constitutional Court. It should be decided where this amendment will be made and to exercise caution for the possibility for it to be abolished by the Constitutional Court again.	The problem is in the proposed measure for the employee to be allowed to go on maternity leave only if she has at least 9 months of service.
<b>17</b>	Priority in public investment programs for the projects engaging higher number of employees	Regular activity	Competent ministries	Applied within on - going projects - Greece and similar	
<b>18</b>	Combat against gray economy	Intensifying the activities	Ministry of Finance	Partially realized within the regular activities of the labour inspection	Organizing campaign, highlighting the advantages of working in the regular economy.
<b>19</b>	Organizing entrepreneurship courses	Continuous	Agency for entrepreneurship promotion	Law adopted in April, however, the Agency is still in the stage of organization	
<b>20</b>	Establishing business incubators		Agency for entrepreneurship promotion	Several incubators already exist, organized by the Privatization Agency via Work Bank Project.	The Project is in cooperation with the World Bank and it is in final stage. Agency for Entrepreneurship Promotion envisages for the incubators to be established after it commences its operations
<b>2. POVERTY REDUCTION POLICY</b>					
<b>1</b>	Increasing the incentive for seeking job	Amendments and modifications to the decision on social protection	Ministry of Labour and Social Policy	The Decision is amended and published in the Official gazette No. 91, 2002	Stricter criteria for exercising the right to social protection
<b>2</b>	Implementation of the poverty reduction strategy	Action Plan	Ministry of Finance	Two consultants via EAR were selected on the basis of tenders; activities on-going	There are intensified activities on poverty reduction measures; preliminary report submitted to the Minister of Finance, Deputy Minister of Finance and the State Secretary.
<b>3. INVESTMENT AND SAVING POLICY</b>					
<b>1</b>	Shortening and clarifying the procedure for acquiring shares	Amendments to the banking Law	Ministry of Finance	Submitted to the Government	Reduction of costs and shortening the procedures when acquiring shares to the end of further alleviation of the entry of potential investors in the banking sector. Reduction of the limit from 10% to 5% for acquiring prior consent by the NBRM when changing the shareholding structure.
<b>2</b>	Enhancing the supervisions and restructuring of banks	Regular activity	NBRM and banks	Activities on - going	Establishing more efficient and safer banking system

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<b>3</b> Enhancing the savers confidence	Media and other type of campaign	Deposit Insurance Fond	Continuous	Activities on - going	After the Law is passed, the campaign will be intensified. So far, there has been an announcement to the banks regarding the new amendments to the Law on Deposit Insurance.
<b>4</b> Enabling the banks to extend foreign currency credits	Amendments to the Law on deposit Insurance Fund.	Ministry of Finance	May	Submitted to the Government	The maximum premium rate has been reduced from 2.5% to 0.7%. The level of funds the Fund should have on its account will be 4% of the total deposits of physical persons in the banks, instead of the so-far 5%.
<b>5</b> Enabling the banks to extend foreign currency credits	Amendments to the Law on Foreign Exchange Operations	Ministry of Finance	April	Submitted to the Government	Enabling the banks to extend foreign currency credits to all economic entities. Enabling, in the first stage of implementation of SAA, the Insurance Fund, the insurance companies, the Pension Funds and the investment funds, besides banks, to buy securities abroad.
<b>6</b> Exempting the banks from paying tax on mortgage	Amendments to property Law	Ministry of Finance	March	Completed	Defining the types of rights to be subject to tax obligation on the basis of ownership transfer (sales) and it will be proposed for the taxation of transfer of securities ownership right to be via compensation.
<b>7</b> Establishing bank for micro - financing		Competent bodies and institutions	May	Temporary license issued, permanent one pending	The bank is planned to be registered in the court in July.
<b>8</b> Restructuring of the bank for development promotion	Amendments and modifications to the Law on MBDP	Ministry of Finance, Ministry of Economy, World Bank and MBDP	December	In accordance with the IMF and the WB, to be completed by the end of the year	Activities will commence in the second half of 2003
<b>9</b> Promotion of foreign credit lines	Brochure	Ministry of Finance, Ministry of Economy, World Bank and MBDP	Continuous	Activities on - going	The Law on Contractual Pledge has been adopted, amendments and modifications have been prepared and waiting for an opinion from the Ministry of Justice
<b>10</b> More efficient protection of claims	Amendments to the Law on contractual pledge	Ministry of Justice and Ministry of Finance	May	Activities on - going	
<b>11</b> Foreign exchange market reform	Amendments to the appropriate regulations	NBRM	February	Completed	
<b>12</b> Promotion and reciprocal protection of investments	Appropriate agreements	Ministry of Finance	Continuous	Activities on - going	Agreement with Kuwait has been signed (June 12, 2003), signing with Portugal, Spain, Saudi Arabia and Yemen in progress.
<b>13</b> Protection of the rights of small shareholders	Amedments to the Law on takeover of Joint-Stock Companies	Ministry of Finance	September	Activities on - going	Greater protection of small shareholders, increasing the control function of the Securities and Exchange Commission.
<b>14</b> Enhancing the transparency and professionalism of the sec as capital market supervisor	Amedments to the Securittes Law	Ministry of Finance	September	Activities on - going	Harmonization with the EU Directives and liberalization in the establishment and operations of the investment funds.

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<b>15</b> Enhancing the transparency and professionalism of the sec as capital market supervisor	Amendments to the securities Law	Ministry of Finance	February	Completed	
<b>16</b> Regional connection of Stock Exchanges		The Stock Exchange of R.M and Ministry of Finance	Continuous	Activities on - going	Completed with Ljubljana and Athens, and in progress with Belgrade, Sarajevo and Podgorica.
<b>17</b> Promotion of Foreign Direct Investments	Program	Ministry of Economy, Ministry of Finance and Privatization Agency	July	Activities on - going	Proposal on institutional organization for attracting foreign direct investments.
<b>18</b> Campaign for attracting foreign direct investments	Investor counseling forum	Ministry of Economy and Ministry of Finance	Continuous	Activities on - going	Date of holding the Forum has not been set, but it will last for 2 days.
<b>19</b> Harmonizing the construction with the Law on Local Government and with the EU Legislation	Law on construction of facilities	Ministry of Transport and Communications		Prepared for consideration by the Government	
<b>20</b> Investing in the public sector	Programs for 2003-2005 and 2004-2006	Ministry of Finance	April - November	The program for 2003 - 2005 has been adopted in May	The program is not being implemented in accordance with the envisaged dynamics due to non-timely preparation of programs by the
<b>21</b> Investment in environment protection	Framework Law on environment protection; Law on air quality; Law on nature protection; Law on waste management; Project for protection of lakes; Strategy for protection of biodiversity	Scientific institutions and Ministry of Environment and Urban Planning	September	Activities on - going	There are prepared working versions from the legal acts and bylaws
<b>4. SECTOR POLICIES</b>					
<b>1</b> Promoting the agriculture development	Law on financial support of the agriculture; Law on amendments and modifications to the Law on agricultural fund; Program	Ministry of Agriculture, Forestry and Water Economy	September, March, April	After the laws has been passed, it is necessary to prepare Program in June or July	Last - year debts have already been settled and the Program envisages separate measures.
<b>2</b> Credit support for the agriculture	IFAD Project	Ministry of Agriculture, Forestry and Water Economy		Activities have already commenced and the operationalization is in the final stage.	Interest rates are being negotiated with the banks
<b>3</b> Providing plant protection	Program	Ministry of Agriculture, Forestry and Water Economy	April	The Program has been adopted and being realized	The Program consists of monitoring, prognosis and determination of ilnes and pests, and measures for their eradication.

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<b>4</b>	Program for expanded forest reproduction	Ministry of Agriculture, Forestry and Water Economy	April	The Program has been adopted and being realized	
<b>5</b>	Supporting the organic agricultural production 2003 - 20006	Ministry of Agriculture, Forestry and Water Economy	July	The Strategy has been prepared, but the adoption of the Law is pending.	An opinion from the Standardization Agency is pending, whereby a possibility exists for the deadline to be prolonged.
<b>6</b>	Simplify the procedure for the craftsmen to start working	Ministry of Economy	May	The Law has been passed at the Government	Simplification of the procedure for the craftsmen to start working and for their institutional setting.
<b>7</b>	Precise stating of the establishment and operations of the regulatory commission	Ministry of Economy	February	The Law has been adopted by the Parliament.	Second-instance commission should be established for dealing with complaints from the area of energy.
<b>8</b>	Supporting the entrepreneurship and small and medium - size enterprises	Ministry of Economy	February May	There on-going work on the former Law regarding the activities from the second stage; regarding the latter Law, the activities are in progress and harmonization with the EU is being carried out.	Realization of the objectives with measures and activities envisaged with the European Charter on support for small and medium-size enterprises.
<b>5. STRUCTURAL REFORMS</b>					
<b>1</b>	Operationalization of the Law on privatization of urban land	Ministry of Finance	February	Adopted	Preminuavave na pravoto na sopstvenost od dr` avna vo privatna sopstvenost
<b>2</b>	Regulating the issue on ownership of urban land	Ministry of Finance	May	Adopted	Amendments in the part of evidence and in the part of revoking the right to use the government-owned urban land for construction of facilities of public interest.
<b>3</b>	Integral solutions for privatization of urban land	Ministry of Finance	February	The Law has been prepared and submitted in the legislature	Transfer of the ownership right from Government to private ownership
<b>4</b>	Completing the privatization process	Ministry of Economy	January March	Activities on - going	The sale of shares and stocks via the Stock Exchange commenced
<b>5</b>	Resolving the issue of loss - making companies	Ministry of Economy	End - 2003	Activities on - going	The reduction of the budget support is according to the planned dynamics. The assumed obligations shall be completed by the end of the year, but the Smeitery in Veles and NIP Nova Makedonija are critical.



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<b>6. FINANCIAL SECTOR</b>					
<b>1</b>	Increasing the competences of NBRM	Amendments and modifications to the Law on NBRM	Ministry of Finance	April	Submitted to the Government
<b>2</b>	Protecting the small shareholders	Amendments and modifications to the Law on takeover of joint-stock companies	Ministry of Finance	September	Activities on - going
<b>3</b>	Upgrading the money laundering prevention system	Amendments and modifications to the Law on money laundering prevention	Ministry of Finance	June	Activities on - going
<b>4</b>	Securing compatibility with the EU countries regarding keeping the accounting of non - profit organizations	Law on accounting of non-profit organizations	Ministry of Finance	February	Law adopted
<b>5</b>	Precise stating of issues related to state audit	Amendments and modifications to the Law on state audit	Ministry of Finance	April	Law adopted
<b>6</b>	Precise stating of central issues related to leasing	Amendments and modifications to the Law on leasing	Ministry of Finance	June	Submitted to the Parliament of the Republic of Macedonia
<b>7</b>	Regulating the operations of the savings houses	Law on savings houses	Ministry of Finance	September	Activities on - going
<b>8</b>	Precise stating of the provision and harmonization with the EU regulations regarding games of chance	Law and amendments and modifications to the Law on games of chance and entertainment games	Ministry of Finance	September	Activities on - going
<b>9</b>	Divestment of the central registry from the budget of the Republic of Macedonia	Amendments and modifications to the Law on central registry	Ministry of Finance	May	Submitted to the Parliament of the Republic of Macedonia
<b>10</b>	Expanding the possibilities for using the bonds	Amendments and modifications to the Law on denationalization	Ministry of Finance	May	Submitted to the Parliament of the Republic of Macedonia



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<b>11</b>	Expanding the possibilities for using the bonds	Ministry of Finance	May	Submitted to the Parliament of the Republic of Macedonia	
<b>12</b>	Enhancing the control and intensity of the collection of credit claims on the basis of sale of flats	Ministry of Finance	February	law adopted	
<b>13</b>	Continuation of the denationalization process	Ministry of Finance	March	Realized - 3 decisions have been adopted so far	Second issue of denationalization bonds fully carried out
<b>14</b>	Harmonization of the accounting regulations with the ones of the EU	Ministry of Finance	September	Activities on - going	Working group has been established comprising representatives from the Ministry of Finance, which cooperates with USAID consultants. The amendments are continuation and rounding up of harmonization process of the accounting standards with the ones of the EU.
<b>7. PRICE POLICY</b>					
<b>1</b>	Price control	Ministry of Economy	According to maturity date	Decisions adopted in accordance with the deadline	
<b>2</b>	Protection of producers of certain agricultural products	Ministry of Economy	January	Decisions on wheat adopted	
<b>3</b>	Balancing of the main agricultural and food products	Ministry of Economy	February	Adopted	
<b>8. POLITIKA NA BUXETSKI RASHODI</b>					
<b>1</b>	Determination of budget revenues and expenditures	Ministry of Finance	March	Budget adopted	
<b>2</b>	Public expenditure restriction	Ministry of Finance	March	Budget adopted	
<b>3</b>	Determination of strategic courses and recommendations prior to budget preparation	Ministry of Finance	April	Adopted	Fiscal strategy encompasses the priorities of the Government necessary for macroeconomic stability for the period 2004-2006
<b>4</b>	Precise stating of the budget preparation process	Ministry of Finance	April	Prepared	Circular submitted to all budget users

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<b>5</b>	Provision of financial independence of the judiciary bodies	Ministry of Justice, Ministry of Finance	February - March	Law adopted	All courts will be independent from a fiscal point of view, except for the Supreme Court. The Supreme Court will prepare the court budget.
<b>6</b>	Fiscal decentralization	Ministry of Finance	November	Activities on - going	Working group has been established, what follows is training of the members and creating a model form easier determination of the needs of the municipalities
<b>7</b>	Regulating the manner of financing government institutions	Ministry of Finance	November	Activities on - going	There is a working version, however, more intensified activities will commence in September.
<b>8</b>	Greater control of public procurement and harmonization of the regulations with the ones of the EU	Ministry of Finance	February - November	Amendments to the Law adopted	Greater control over public procurement has been enabled.
<b>9</b>	Ensuring central registering and recording of budget user's liabilities	Ministry of Finance	February	Law adopted	
<b>10</b>	Eliminating the possibility for misuse and better regulation of the commodity reserves sale	Ministry of Finance	April	Not adopted	New law by the Commodity Reserves Bureau needs to be prepared
<b>9. TAX POLICY</b>					
<b>1</b>	Eliminating the existing deficiencies and weaknesses in so - far application of the VAT Law	Ministry of Finance	March	Law adopted	The amendments will eliminate certain deficiencies in the so-far application and will enable further legal and technical improvements of the Law. In order to increase tax revenue collection, initiating decisive action against tax evaders, 1-5 year imprisonment will be incorporated when, by avoiding to pay tax, higher property benefit or value is acquired.
<b>2</b>	Improvement of the existing solutions at the Law on profit tax	Ministry of Finance	November	Activities on - going	Working group has been established comprising representatives from the Ministry of Finance. The amendments will enable improvement of the existing legal solutions to the end of improvement of the operations of the taxpayers as well as legal and technical strengthening of the Law.
<b>3</b>	Improvement and precisely determining solutions at the Law on excises	Ministry of Finance	March	Law adopted	Improvement of tax rules when importing passenger vehicles and mineral oils earmarked for realization of projects financed by foreign donors.
<b>4</b>	Harmonization of certain taxes with article 11 of the Law on local government	Ministry of Finance	June	Activities on - going	The amendments will enable the municipalities to determine the tax amounts within the limits determined by this Law.

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<b>4.1</b>	Harmonization of certain taxes with article 11 of the Law on local government	Ministry of Finance	June	Activities on - going	The amendments will enable the municipalities to determine the fee amounts within the limits determined by this Law.
<b>4.2</b>	Harmonization of certain taxes with article 11 of the Law on local government	Ministry of Finance	June	Activities on - going	The amendments will enable the municipalities to determine the fee amounts within the limits determined by this Law.
<b>5</b>	Enabling pro to surveil collection of revenues from concession	Ministry of Economy	March	Law adopted	The amendments to this Law will enable the PRO to SURVEIL the collection of revenues from concessions
<b>6</b>	Manner of keeping accounting for self - employed taxpayers	Ministry of Finance	November	Activities on - going	Harmonization with the EU Directives as well as legal and technical improvement of the wording of the Law.
<b>7</b>	Enhancing the control by pro over revenue collection	Ministry of Finance	March	Law adopted	The amendments to this Law will authorize the PRO to SURVEIL the collection of revenues from concessions, as well as change the procedure for payment of the tax arrears in instalments and provide the payment to be executed only through an instrument - bank guarantee and cash deposit.
<b>8</b>	More efficient realization of the operations of pro	Ministry of Finance	October	Activities on - going	Adoption of such law is also recommendation by GTZ, managing the project for "Modernization of the Public Revenue Office of the Republic of Macedonia".
<b>9</b>	Changing the tariff of administrative fees	Ministry of Finance	March	Law adopted	Terminological harmonization and precisely stating certain acts and actions for which administrative fees shall be paid at the government administration bodies.
<b>10</b>	Precise determining of the Law	Ministry of Finance	April	Law in parliamentary procedure	Improved implementation of the fiscalization process.
<b>11</b>	Clarifying the application of the Law	Ministry of Finance	June	Activities on - going	Clarification of the application of the provisions in the Law when conducting investigation activities within the competence of the financial police.
<b>12</b>	Facilitation of foreign trade and harmonization of the rates following the accession to the WTO	Ministry of Finance	March	Law adopted	Putting this Law into practice during 2003, i.e. appropriate bylaws will be adopted.
<b>12.1</b>	Facilitation of foreign trade and harmonization of the rates following the accession to the WTO	Ministry of Economy	March	Law adopted	

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<b>13</b>	Regulating the issue on sales intermediation	Ministry of Economy	February	Law adopted	
<b>14</b>	Regulation of foreign exchange policy and balance of payments projection	Ministry of Finance, Ministry of Economy and NBRM	February	Decision adopted	
<b>15</b>	Information and analysis of the current and long - term trends in Macedonian economy	Ministry of Finance	June	The report is in final state	The Department for Macroeconomic Analysis and Development Policy is making an analysis of the macroeconomic indicators in 2002.
<b>10. EXPORT PROMOTION</b>					
<b>1</b>	Supporting the export - oriented production and export	Ministry of Finance, Ministry of Economy, and MBDP	Continuous	Transformation of the MBDP is on-going, in accordance with the IMF and the WB	Expected to be completed by the end of the year.
<b>2</b>	Creating managerial staff and marketing services VIA training and workshops	Ministry of Economy, Agency for entrepreneurship development	Continuous	Activities on - going	Agency for Entrepreneurship, to realize these activities, is expected to be established after the third quarter.
<b>3</b>	Certificating the products VIA technical assistance for training of entrepreneurs	Ministry of Economy, Bureau for standardization and metrology, Agency for entrepreneurship	Continuous	Institutions have been established pursuant to Government decision, but have still not started operating.	The problems are of legal nature, since the Law on Public Institutions has not been adopted.
<b>4</b>	Creation of industrial clusters	Ministry of Economy, Agency for entrepreneurship	Continuous	The competition has been announced and 4 clusters have been determined.	In the beginning, there are more intensive activities for establishing the tourism cluster and the clusters for lamb and sheep cheese.
<b>5</b>	Institutional support of development	Ministry of Economy, in cooperation with USAID	2003	National Council established	Activities of this Council are yet to be intensified
<b>6</b>	Improving the quota distribution system	Customs administration	Continuous	Applied from January onwards	This methodology prevents irregular distribution of quotas, thus stimulating proper import in the Republic of Macedonia
<b>7</b>	Import and export promotion	Ministry of Economy, State Statistic Bureau	December	Activities still not commenced	Expected to be completed by the end of the year
<b>7.1</b>	Import and export promotion	Ministry of Economy	2003	No initiative submitted	After submitting the initiative, support by the WTO, EU and EFTA members expected

<b>Guidelins</b>	<b>Type of measures</b>	<b>Beareres</b>	<b>Dynamics</b>	<b>Realization</b>	<b>Remarks</b>
<b>7.2</b> Import and export promotion	Commencing the operations of the trade representatives in diplomatic and consular representative offices	Ministry of Foreign Affairs and Ministry of Economy	2003	Activities still not commenced	Ministry of Foreign Affairs and Ministry of Economy need to agree upon appointing trade representatives to contribute to increasing the export of the Republic of Macedonia
<b>7.3</b> Import and export promotion	Initiating cooperation with the international trade center within WTO	Ministry of Economy	2003	Activities still not commenced	Greater involvement by the Ministry of Economy necessary for the International Trade Center to support export of the developing countries and the countries in transition
<b>8</b> Enhancing the tourist and information campaign	Master plan	Ministry of Economy	June	Activities on - going	Master plan on tourism ready, its promotion expected in June.
<b>11. COOPERATION WITH INTERNATIONAL FINANCIAL INSTITUTIONS AND ORGANIZATIONS</b>					
<b>1</b> Support to the Republic of Macedonia by the World Bank	2003 - 2005 strategy	World Bank in cooperation with competent ministries and institutions	August - September	Activities on - going	
<b>2</b> Creation of legal regulation for recording government subsidy	Law on government subsidy	Ministry of Economy	February	Law adopted	
<b>3</b> Cooperation with the IMF	Stand - by arrangement	Competent ministries and institutions	March	Arrangement agreed - new regulary monitored	
<b>12. MONETARY POLICY</b>					
<b>1</b> Determining monetary policy objectives and tasks	Decision on the monetary policy objectives and tasks	NBRM	March	Not adopted, but prepared and applied	
<b>13. ANTI-CORRUPTION POLICY</b>					
<b>1</b> Combat against corruption	Government program on corruption prevention and repression - implementation action plan	Anti-corruption commission		Program adopted	The program envisages amendments to 44 laws and 18 articles of the Constitution, thus carrying out thorough reform of the political, legal and judicial system. Up to June 10, 2003, the Commission has received 257 cases on possible corruption.

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