



I. Economic Developments in the Republic of Macedonia

Basic indicators for the economic developments

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		Amount	Month / previous month	Month / same month of the previous year in %	Period / same period of the previous year
Costs of living	IV.2003	-	1.4	0.4	0.1
Retail prices	IV.2003	-	1.7	2.3	2.0
Prices of producers of industrial products	IV.2003	-	0.0	-0.4	1.0
Industrial output	IV.2003	- in denars	-9.7	-0.5	2.4
Nominal average net paid wage	III.2003	11,545	1.2	5.3	6.3
Real average net paid wage	III.2003	- in million denars	1.2	5.6	6.3
Budget revenues	IV.2003	5,696	-0.2	-2.7	-17.6
Budget expenditures	IV.2003	5,928	23.5	-0.6	-12.3

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

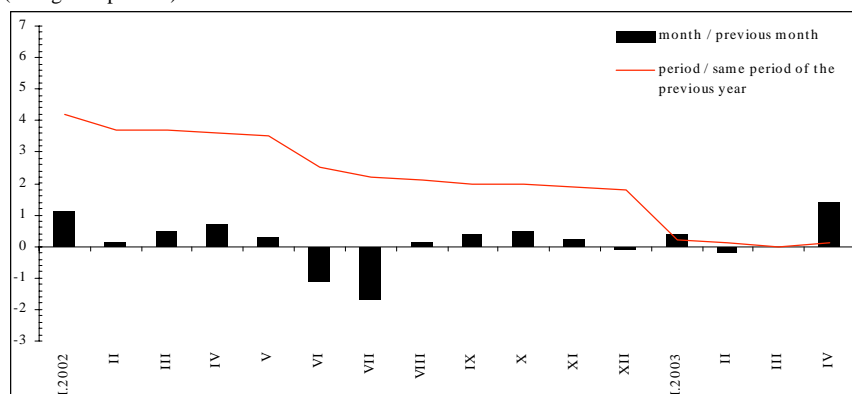
**1.1.****Prices**

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...but the average rate of inflation was minimal (0.1%)

In April 2003, the monthly rate of inflation, measured by the movement in the costs of living, equaled 1.4%, which is the highest monthly increase in the last almost two years. The monthly increase in the costs of living is mainly due to the implementation of the amendments in the Law on the Value Added Tax. Namely, the implementation of the new rates of the value added tax started on April 1, 2003, with the general rate of 19% being decreased to 18%, while part of the products which were taxed at the preferred rate of 5%, since this month are taxed according to the new general rate of 18%. This resulted in a one-time increase in the costs of the products transferred from the preferred to the general tax rate. Thus the costs of hygiene and health, the means of transportation and services, and the costs of housing increased on a monthly basis by 5.8%, 1.8% and 1.1%, respectively. The structural analysis indicates that the costs of services registered faster increase (2.3%) compared to the increase in the costs of goods (1.2%). In April 2003, compared to the previous year, the costs of living increased by 0.4%. Despite the high monthly increase, given the higher comparison base, in the January - April 2003 period compared to the same period of the previous year, the average rate of inflation was minimal and equaled 0.1%.

Chart 1
Costs of living
(changes in percent)

**A review of the changes in the value added tax**

The implementation of the Law on the Value Added Tax started on April 1, 2003 ("Official Gazette of the Republic of Macedonia" no. 21/2003). The changes refer to the application of the general rate of the value added tax (a reduction from 19% to 18%), as well as to the change in the categories of products and services, which are taxed at the general rate of the value added tax. In accordance with the changes, the following products and services were transferred from the preferred tax rate of 5% to the general tax rate of 18%: 1) The main agricultural, fishing and apiculture products; 2) Animal food; 3) Electricity*, coal, fire-wood, crude oil, gas, cooling and heating; 4) Medicines, orthopedic devices and appliances; 5) Hygienic items; 6) Transportation of persons; 7) Public utility services; 8) Services of lawyers, notaries, accountants and auditors.



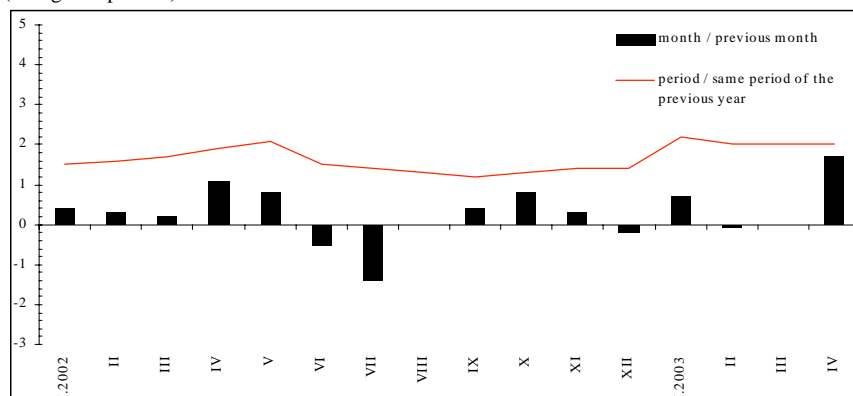
The preferred tax rate of 5% shall further be applied to the following product categories: 1) Food products for human consumption; 2) Drinking water from the public supply systems; and 3) Publications, books, newspapers and other periodical publications (except the publications primarily used for advertising).

* Taking into consideration the social aspect, the tax burden on the households' consumption of electricity is, to a lower extent, is born by households, which pay the VAT at the rate of 5%, as a difference to 18%, which the new tax rate for electricity, will be covered by the Macedonian electricity company Elektrostopanstvo. Regarding the consumption of electricity by legal entities, according to the new general rate of VAT the tax burden is completely born by the legal entities.

In April 2003, monthly increase in the retail prices of 1.7% was registered

Similar to the costs of living, in April 2003 a significant monthly increase of 1.7% was also registered in the retail prices. The highest increase was registered in the prices of agricultural products (3.4%), due to the higher prices of vegetables (5.6%), eggs (5.4%) and fruits (1.4%). Relative to the group of non-food industrial products, the registered increase in the prices of 0.9% is due to the increased prices of medicines (9.6%), means of production and chemicals for gardening (6.6%), hygienic items (5.2%) and footwear (1.6%). Analyzed by structure, the prices of services registered faster increase (3.1%) compared to the increase in the prices of goods (0.9%), primarily due to the increase in the prices of transportation and public utility services (11.1% and 3.7%, respectively). In addition, in April 2003, compared to the same month of the previous year, the retail prices increased by 2.3%, while the average growth rate of the retail prices pertains the level of 0.2% for the third month in a row.

Chart 2
Retail prices
(changes in percent)

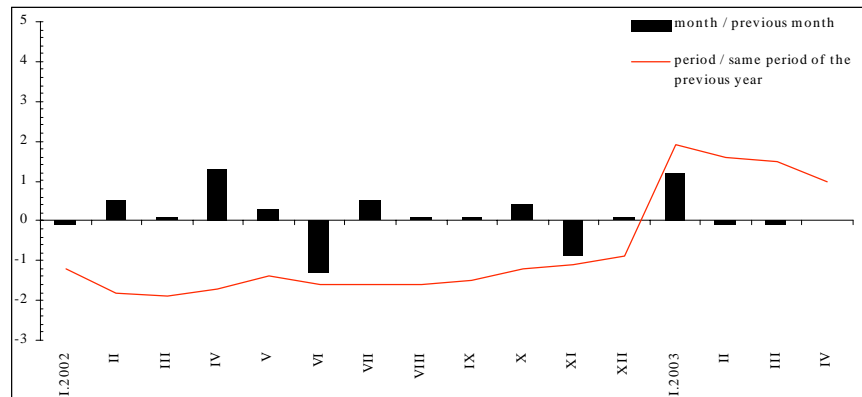


In April 2003, the prices of the producers of industrial products retained the level registered in the previous month...

In April 2003, the prices of the producers of industrial products remained unchanged compared to the previous month. The unchanged level is a reflection of the divergent movements in the prices with the main groups of products. Thus, a decrease in the prices of producers of energy (0.7%) and capital goods (1.9%) was registered, while the prices of the producers of intermediary products (except energy) and non-durable consumption goods registered an increase (0.3% and 0.5%, respectively). Namely, in 18 out of 22 observed branches, the prices of the producers of industrial products retained the level of the previous month.



Chart 3
Prices of producers of industrial products
(changes in percent)



...while on average, they were higher by 1.0%

Annually observed, the prices of the producers of industrial products dropped by 0.4%, while on average, they increased by 1.0% (due to the annual increase in the prices of energy of 6.2%, as a result of the higher prices of oil derivatives by 17.9%).