

VII. External Sector

Following the developments in 1999 caused by the effects of the Kosovo crises, in 2000, the situation in the external sector of the Macedonian economy was expected to be a normalised. In addition, it was expected that the increased foreign trade would lead to an increased deficit in the current account of the balance of payments, which according to the expectations was to be financed by the higher inflow of financial transactions, i.e. through increased direct investments and credits and donations. The developments in 2000 only partly corresponded to the expectations, because the increased deficit in the foreign trade was compensated to a higher extent by the inflow on basis of transfers from abroad, which resulted in relatively small deficit in the current account of the balance of payments. Simultaneously, a high inflow of foreign direct investments as well as a significant increase in the foreign exchange reserves of NBRM was registered, in terms of regular servicing of the debt of the Republic of Macedonia toward foreign investors.

7.1. Balance of Payments¹⁸

In 2000, contrary to the expectations of its deepening, the deficit in the current account of the balance of payments of the Republic of Macedonia equaled US Dollar 117 million, and compared to 1999, it increased by US Dollar 4 million. In 2000, the deficit in the current account equals 3.6% of GDP, which is by 0.5 percentage points more relative to the previous year. In addition, the deficit is entirely due to the developments in the first quarter of 2000, when deficit in the amount of US Dollar 131 million was registered due to the influence of the considerably increased foreign trade, as a result of the introduction of the value added tax. In the other three-quarters of 2000, there was a surplus in the current account, due to the normalised foreign trade and the increased amount of transfers.

According to the expectations, in 2000, a deepening of the deficit in the current account¹⁹ was registered, and it equalled US Dollar 556 million, which is by US Dollar 163 million, or by 41.4% more compared to the previous year. Analysed quarterly, the highest deficit in 2000 was registered in the first quarter of the year (US Dollar 215 million) that is due to the high imports in the period prior to the introduction of the value added tax. In addition, the value of the imported goods in 2000 reached US Dollar 1,875 million, while the exports reached 1,319 million that compared to 1999 is an increase of 18.4% and 10.8%, respectively. The increased foreign trade in 2000 is due to the higher imports and exports of goods for re-processing (by 32.9% and 23.6%, respectively), as well as the increased import of consumption goods (by 13.9%).

¹⁸ Preliminary data.

¹⁹ The deficit in the trade account of the balance of payments differs from the deficit in the foreign trade presented by the Statistical office. The reason for this is that the imports in the balance of payments are presented on f.o.b. basis, while the official statistics presents imports on c.i.f. basis.

Table 19

Balance of payments of the Republic of Macedonia

(in US Dollar million)

	1999 ¹					2000 ¹				
	K _{B1}	K _{B2}	K _{B3}	K _{B4}	1999	K _{B1}	K _{B2}	K _{B3}	K _{B4}	2000
1. Current account	-55	9	25	-92	-113	-131	5	9	1	-117
1.1. Goods, net	-57	-66	-84	-187	-393	-215	-115	-78	-148	-556
Exports, f.o.b.	253	250	345	342	1,190	330	317	344	328	1,319
Imports, f.o.b.	-311	-316	-428	-529	-1,584	-545	-432	-422	-476	-1,875
1.2. Services, net	-34	-17	-11	-10	-71	-10	-10	-15	-25	-60
1.3. Income, net	-13	-3	-21	-5	-42	-23	-4	-21	-1	-49
1.4. Current transfers, net	49	94	140	110	393	117	134	123	174	552
Official	15	36	5	11	67	4	32	12	49	101
Other	34	58	136	99	326	113	102	111	125	451
2. Capital and financial account	52	-38	-107	28	-65	87	1	-22	-67	-1
2.1. Capital account, net	0	0	0	0	0	0	0	0	0	0
Official	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Acquisition/disposal of nonprod., nonfinan. assets	0	0	0	0	0	0	0	0	0	0
2.2. Financial account, net	52	-38	-107	28	-65	87	1	-23	-67	-1
Direct investments, net	12	8	4	8	32	37	62	41	30	170
Portfolio investments, net	0	0	0	0	0	0	0	0	-2	-2
Other investments, net	12	-24	-1	48	35	80	9	-46	24	67
Trade credits, net	-23	-14	-27	42	-20	67	15	-34	39	88
Loans, net	-3	-1	63	-4	55	-6	8	-28	-18	-44
Foreign currency and f.c. deposits, net ²	34	-15	-62	3	-40	-7	-22	-11	-9	-50
o/w: Commercial banks, net	34	-15	-62	3	-40	-7	-22	-11	-9	-50
Other, nets	4	6	25	7	41	26	8	27	12	73
Official reserve ²	28	-22	-110	-28	-132	-29	-70	-18	-119	-236
3. Errors and omissions	3	29	82	64	178	45	-6	13	62	114

1/ Preliminary data

2/ Increase in assets is denoted by a negative sign

Simultaneously, the downward trend of the deficit in the category "services, net" continued, and in 2000 it was reduced to US Dollar 60 million (US Dollar 173 million in 1998 and US Dollar 71 million in 1999). However, the inflow of funds based on rendered services reached US Dollar 298 million (by US Dollar 46 million more relative to 1999), as a result of the increased inflows on basis of provided transport, telecommunication and business services. At the same time, the outflow on basis of services used reached US Dollar 358 million (by US Dollar 35 million more relative to 1999), where most of the funds were allocated for business and insurance services.

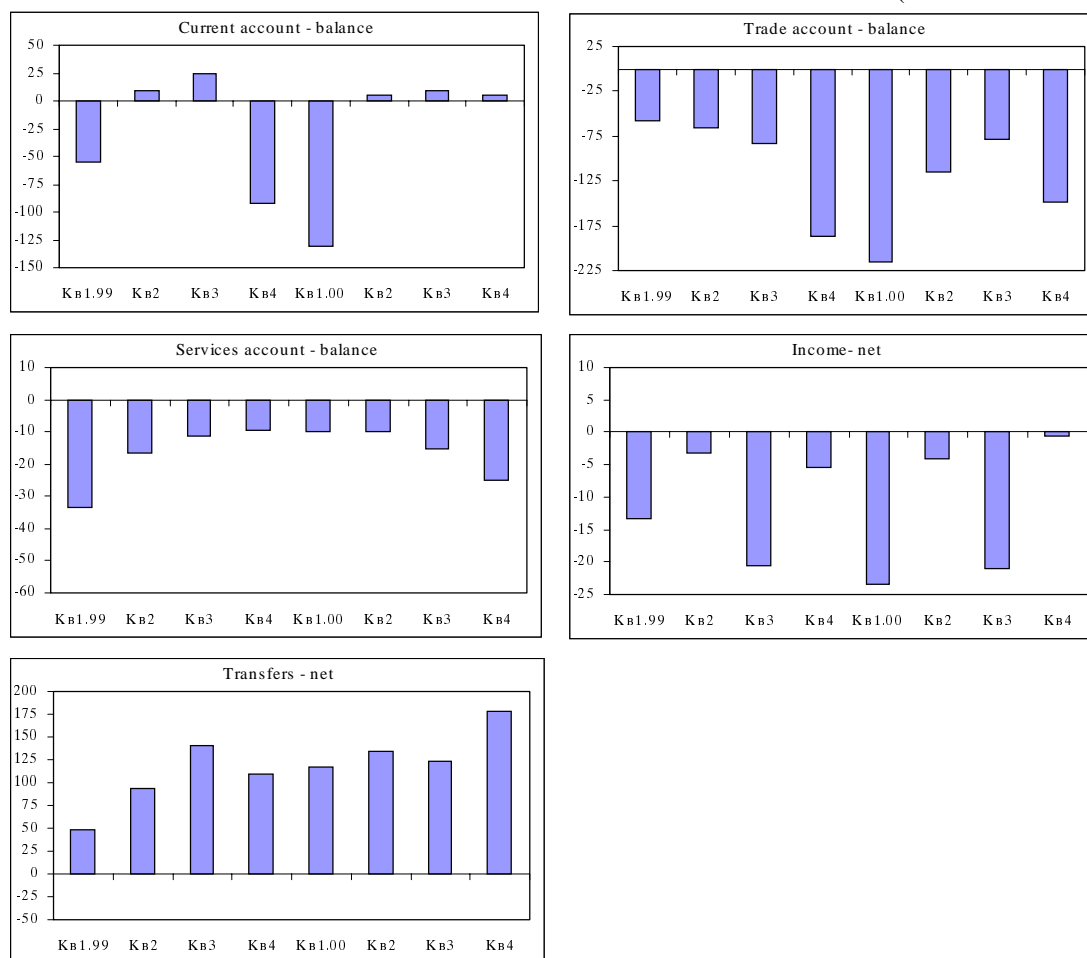
In 2000, the deficit registered in the "income, net" category slightly increased (by US Dollar 7 million), thus reaching US Dollar 49 million. However, the deepening of the deficit was a result of the transfers of the realised profit of foreign investor's abroad, which resulted in an outflow of funds in the amount of US Dollar 7 million, contrary to US Dollar 1 million registered in 1999. Simultaneously, the net-outflow on the basis of interest equals US Dollar 42 million (US Dollar 41 million in 1999).

On the basis of transfers, in 2000, a net-inflow in the amount of US Dollar 548 million in the current account of the balance of payments was registered, which is by US Dollar 154 million, or by 39.3% more compared to the previous year. In addition, the official transfers amounted to US Dollar 97 million that is by US Dollar 29 million, or by 43.8% more relative to the previous year. The net-inflow on the basis of private transfers reached US Dollar 451 million, which is by US Dollar 125 million, or by 38.3% more compared to 1999.

Chart 25

Components of the current account of the balance of payments

(in US Dollar million)



In 2000, balanced movements in the inflow and outflow of funds in the capital and financial account of the balance of payments of the Republic of Macedonia were registered, which resulted in deficit in the amount of US Dollar 1 million, contrary to US Dollar 65 million in the previous year. In addition, same as in the previous period, almost the entire turnover was registered on the financial account.

The foreign direct investments in 2000 reached US Dollar 170 million, which represents the highest amount registered in the course of one year since the independence of Republic of Macedonia. This figure is due to the intensified process of privatisation of the state owned capital by finding strategic foreign investors (the privatisation of "Stopanska banka" a.d. - Skopje, ADOR "Makedonija" - Skopje, FZC "11 Oktomvri" - Kumanovo and etc.). Compared to the previous year, the foreign direct investments in the Republic of Macedonia are higher by US Dollar 137 million, which is a result of the low comparison basis due to the Kosovo crises. Compared to 1998, as a more relevant year for comparison of the data, they are higher by US Dollar 52 million.

In 2000, the surplus in the "other investments, net" reached US Dollar 67 million, which is by US Dollar 32 million more compared to 1999. However, in 2000, the reduced amount of granted trade credits for exports, resulted in surplus in the "trade credits, net" category in the amount of US Dollar 88 million, contrary to the deficit of US Dollar 20 million, in 1999. On the other hand, the category "loans, net" registered a net-outflow in the amount of US Dollar 44 million (contrary to the inflow of US Dollar 55 million in 1999) that

resulted from the intensified payment of the liabilities of the Republic of Macedonia towards foreign investors, and the lower amount of credits used. In 2000, an increase in the amount of US Dollar 50 million was registered in the "currencies and deposits, net" category (US Dollar 9 million more relative to 1999), which is entirely due to the increase in banks' foreign exchange funds.

In 2000, the high purchase of foreign currency from the foreign exchange market together with the inflow of credits and donations, resulted in an increase in the gross foreign exchange reserves of US Dollar 236 million, or twice more compared to the increase in the previous year. In the course of 2000, the reserves continuously increased, but the most intensive increase was registered in the fourth quarter of the year when the gross foreign exchange reserves increased by US Dollar 119 million.

In 2000, the "errors and omissions" category had also positive sign and equalled US Dollar 114 million. Despite the decline of US Dollar 64 million compared to the previous year, it is still a high amount that reflects the inadequate present statistics, and the impossibility to completely identify the inflows from the non-residents.

7.2. Foreign Trade

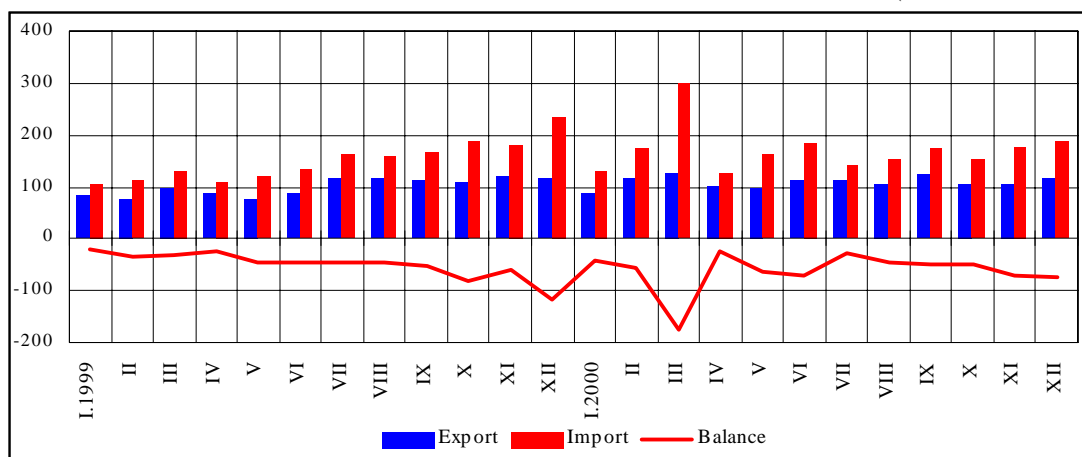
The foreign trade of the Republic of Macedonia registered rapid expansion in 2000. Namely, the exchange of goods reached US Dollar 3,404 million, which is by US Dollar 436 million, or by 14.7% more relative to 1999. This is due to the revival of the iron and steel industry and other export oriented branches, the new concluded contracts in the textile industry, as well as the high import of excise goods in the period before the introduction of the value added tax. In addition, the most significant increase was registered in the first quarter of the year, when prior to the introduction of the value added tax (April 2000), goods in the amount of US Dollar 938 million were traded, out of which US Dollar 426 million in March 2000.

In 2000, the Republic of Macedonia exported goods in the amount of US Dollar 1,319 million, which relative to the previous year is an increase of US Dollar 128 million, or by 10.7%. This increase, mainly achieved in the first half of 2000, was a result of several factors: 1) the end of the Kosovo crises in SR Yugoslavia and the renewed access to the Yugoslav market; 2) the possibility for using the transport corridor through this country; 3) the renewed export contracts with the European Union and USA; 4) the increased competitiveness of the Macedonian products reflected through the increased productivity and decreased unit labour costs; 5) the low comparison basis in the first half of 1999 as result of the Kosovo crises. Consequently, in the first half of 2000 relative to the same period from the previous year, the exports increased by 28.3%, thus reaching US Dollar 648 million. The increase in the first half of the 2000 successfully compensated the 2.2% decline in the second half of 2000. The decline in exports in the second half of 2000 is due to the high comparative basis from the second half of the previous year, as well as to the slowdown in the growth of the industrial production in this period of the year.

Chart 26

Foreign trade of the Republic of Macedonia

(in US Dollar million)



In 2000, the total imports in Republic of Macedonia equalled US Dollar 2,085 million, and on annual basis they were higher by US Dollar 309 million, or by 17.4%. In addition, the imports also registered uneven quarterly distribution, where only in the first quarter goods in the amount of US Dollar 607 million were imported, accounting for 29.1% of the total imports in 2000. The high annual increase of imports in the first quarter of 2000 of 75.7% is due to the significantly high import of excise goods (import of automobiles in the amount of US Dollar 85.9 million), as well as the high oil prices on the World markets. In the rest of the year, excluding April, high import of goods was registered, mainly because of the intensification of the "tolling manufacturing" arrangements in the textile and iron and steel industry, the high oil price on the World market, as well as the influence of seasonal factors in the last month of the year.

The higher increase of imports relative to exports resulted in deficit in the foreign trade of the Republic of Macedonia. Thus, in 2000, it amounted to US Dollar 766 million, which represents an increase of US Dollar 181 million, or by 30.9% compared to the previous year. Consequently, the import-export coverage ratio in 2000 relative to 1999, was reduced by 3.8 percentage points and brought down to 63.3%.

The analysis of the foreign trade of Republic of Macedonia from the viewpoint of the economic use of goods indicates that the intensified foreign trade is a result of the increased exports and imports of almost all categories of goods. Namely, in 2000, on the export side, the export of the reproduction goods dominates with US Dollar 718 million, or 54.4% from the total export. In 2000, relative to 1999, unfavourable movements were registered in the export of consumption goods reflected by the 4.6 percentage points decline in their share in total exports, thus reducing to 42.8%. The export of means of production in 2000 equalled US Dollar 33 million, or 2.5% from the total exports, and the item "undistributed" accounted for US Dollar 4 million, or insignificant 0.3%. The developments on the export side reflect the unfavourable structure of the Macedonian export, which is still characterised with a high share of products with low level of processing, or a small added value.

Table 20

Foreign trade of the Republic of Macedonia by economic use of goods

(in US Dollar million)

Type of goods	Export				Import			
	1999	2000	index 2000/1999	structure	1999	2000	index 2000/1999	structure
Total	1,192	1,319	110.7	100.0	1,796	2,085	116.1	100.0
1. Reproduction materials	566	718	126.9	54.4	1,132	1,411	124.6	67.7
2. Means of production	37	33	89.2	2.5	253	261	103.2	12.5
3. Consumption goods	564	564	100.0	42.8	403	406	100.7	19.5
4. Undistributed	25	4	16.0	0.3	8	6	75.0	0.3

The total value of imported reproduction materials equalled US Dollar 1,411 million, with a dominant share in total imports of 67.7%. With respect to 1999, this is an increase of 3.8 percentage points, mainly due to the increased economic activity in 2000. At the same time, the share of consumption goods (US Dollar 406 million) decreased by 3.3 percentage points relative to 1999 and was reduced to 19.5% of total imports of the Republic of Macedonia. A decline in the share of the means of production was also registered (US Dollar 261 million) by 0.4 percentage points compared to 1999, thus reducing to 12.5% of the total imports.

The analysis of the foreign trade from the viewpoint of different countries indicates increased foreign trade with the most important groups of countries. Namely, in 2000, the Republic of Macedonia has intensified and deepened its co-operation with the developed countries, especially with the European Union, which is traditionally the most important trading partner with 39.8% share in the total foreign trade of the Republic of Macedonia. Following the normalised conditions in the region and the renewed economic relations with the countries from the former SFRJ, the share of these countries in the total foreign trade of the Republic of Macedonia increased. The positive developments, especially on the export side, influenced the increased share of this group of countries in the total foreign trade, which in 2000 reached 24.3%. The increased economic activity and the higher utilisation of potential output in 2000, led to further intensification in the exchange of goods with the countries from Central and Eastern Europe. Namely, these countries represent important trading partner of the Republic of Macedonia, from where the more important industrial branches (iron and steel industry, and non-ferrous metal processing) traditionally import raw materials as a main input in their production process. Consequently, the share of these countries in the foreign trade increased by 3.9 percentage points, and in 2000, it reached 18.9%.

In 2000, deficit was registered in the exchange of the Republic of Macedonia with the developed countries, due to the relatively higher imports, especially from the European Union. Namely, relative to 1999, in 2000, the import of goods from the European Union increased by 10% and reached US Dollar 795 million that is 38.1% from the total import of Republic of Macedonia. Simultaneously, on the side of exports, compared to the previous year, an increase of 4.1% was registered, where the exports in the European Union reached US Dollar 561 million, or 42.6% from the total export. On the other hand, positive movements in the exchange with the countries from the former SFRJ were registered. Namely, in 2000, the amount of the exported goods in these countries increased by 20.4%, and the share in the total exports increased by 2.6 percentage points. In addition, the export of goods equalled US Dollar 430 million, or 32.6% of the total export of the Republic of Macedonia. On the side of import, the countries from the former SFRJ participated with 19.0% in the total import (US Dollar 396 million), and declined by 4.2 percentage points, relative to 1999.

Table 21

Foreign trade of the Republic of Macedonia by economic groups of countries

(in US Dollar million)

Economic groups of countries	Exports	Structure	Imports	Structure	Foreign trade	Structure
	I - XII 2000					
Republic of Macedonia (total)	1,319	100.0	2,085	100.0	3,404	100.0
1. Developed countries	790	59.9	1,004	48.2	1,794	52.7
out of which:						
EU	562	42.6	795	40.1	1,357	39.9
EFTA	40	3.0	30	1.3	70	2.0
Other developed countries	189	14.3	179	9.2	368	10.8
2. Countries of Central and Eastern Europe and former USSR	60	4.6	582	27.9	643	18.9
3. Undeveloped countries	3	0.1	1	0.1	4	0.1
4. Developing countries	34	2.6	101	4.8	135	4.0
5. Republics of the former SFRY	430	32.6	397	19.0	827	24.3
6. Other countries	3	0.2	0	0.0	3	0.1

Observed from the point of view of individual countries, in 2000, the most important trading partner of the Republic of Macedonia was SR Yugoslavia. Namely, after the end of the crises in SR Yugoslavia, and the removal of the administrative measures implemented by the Yugoslav authorities for discouragement of the export, the exchange of goods with this country was significantly intensified. Thus, in 2000, goods in the amount of US Dollar 523 million were exchanged, which relative to the previous year is an increase of 19.4%. The share of this country in the total foreign trade of Republic of Macedonia equalled 15.4% (0.6 percentage points more compared to 1999). Germany and Greece follow, with a total exchange in the amount of US Dollar 508 million and US Dollar 284 million, respectively. In addition, the share of Germany and Greece in the total trade equalled 14.9% and 8.3%, which represents a decline of 2.0 and 0.1 percentage points, respectively. Regarding the export of goods, the largest markets for Macedonian goods were the markets of SR Yugoslavia and Germany, with participation in the total exports of the Republic of Macedonia of 25.3% and 19.4%, respectively, followed by USA where 12.6% of the Macedonian goods were sold. On the import side, the most significant share in total imports has Germany, Ukraine and Greece with 12.1%, 9.9% and 9.6%, respectively.

Table 22

Ten largest trading partners of the Republic of Macedonia

	Foreign trade		Exports (in		Imports (in		Import -
	(in US Dollar million)	Share	US Dollar million)	Share	US Dollar million)	Share	export coverage ratio
I-XII, 2000							
Republic of Macedonia	3,404	100.0	1,319	100.0	2,085	100.0	63.3
out of which:							
FR Yugoslavia	523	15.4	333	25.3	190	9.1	175.6
Germany	508	14.9	256	19.4	252	12.1	101.5
Greece	284	8.3	84	6.4	200	9.6	41.9
USA	248	7.3	166	12.6	83	4.0	199.9
Ukraine	206	6.1	1	0.0	206	9.9	0.2
Russia	202	5.9	10	0.8	192	9.2	5.4
Italy	198	5.8	88	6.6	111	5.3	79.3
Slovenia	170	5.0	26	2.0	144	6.9	18.3
Bulgaria	124	3.7	27	2.0	97	4.7	27.7
Croatia	105	3.1	48	3.6	57	2.8	83.1
Total (10 largest trading partners)	2,570	75.5	1,038	78.7	1,532	73.5	67.8

In 2000, in the foreign trade with its ten most important trading partners, the Republic of Macedonia registered positive balance with three countries: USA, SR Yugoslavia and Germany. In addition, in the exchange with USA, surplus in the amount of US Dollar 83 million was registered, or an import-export coverage ratio of 199.9%. In the exchange of goods with SR Yugoslavia and Germany exports exceeded imports by US Dollar 143 million, or by US Dollar 4 million, which represents an import-export coverage ratio of 175.6% and 101.5%, respectively.

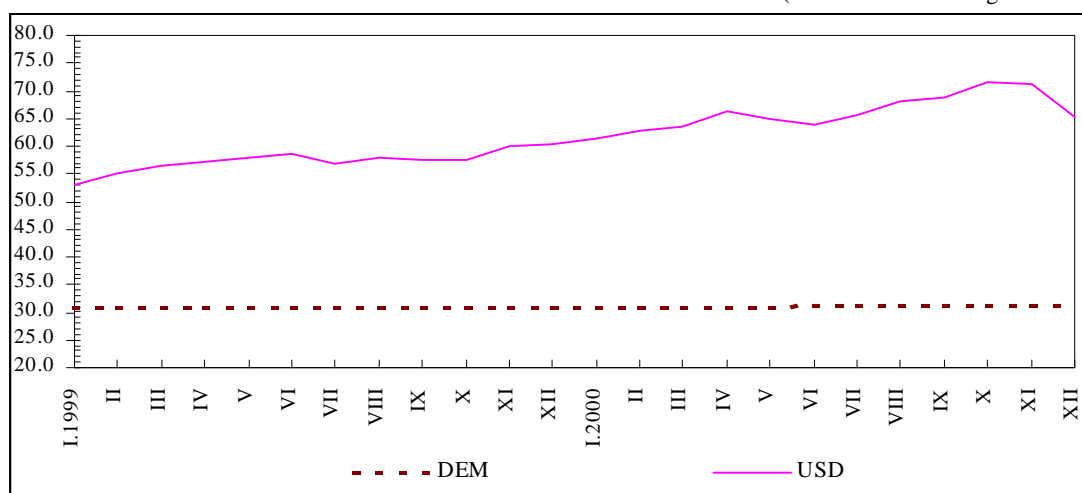
On the other hand, the highest deficit in the foreign trade with the ten most important trading partners was registered in the exchange of goods with Ukraine and Russia in the amount of US Dollar 205 million, or US Dollar 181 million. The import-export coverage ratio reduced to 0.2% and 5.4%, respectively, due to the high import of products for reprocessing for the Macedonian steel and iron industry. In 2000, as well as in the previous years, the Free Trade Agreement with Slovenia did not improve the trade balance of the Republic of Macedonia. Namely, in 2000, the Republic of Macedonia in the exchange of goods with Slovenia registered deficit in the amount of US Dollar 118 million, thus registering the lowest import-export coverage ratio of 18.3%.

7.3. Denar Exchange Rate

The Denar exchange rate is determined by the foreign exchange supply and demand on the foreign exchange market. In accordance with the adopted monetary strategy for targeting the Denar exchange rate against the Deutsche mark, the NBRM in 2000 successfully maintained the Denar exchange rate on the targeted level. Thus, on December 31, 2000, the Denar exchange rate against the Deutsche mark equalled 31.1 Denars per Deutsche mark, and remained unchanged compared to the end of the previous year.

Chart 27

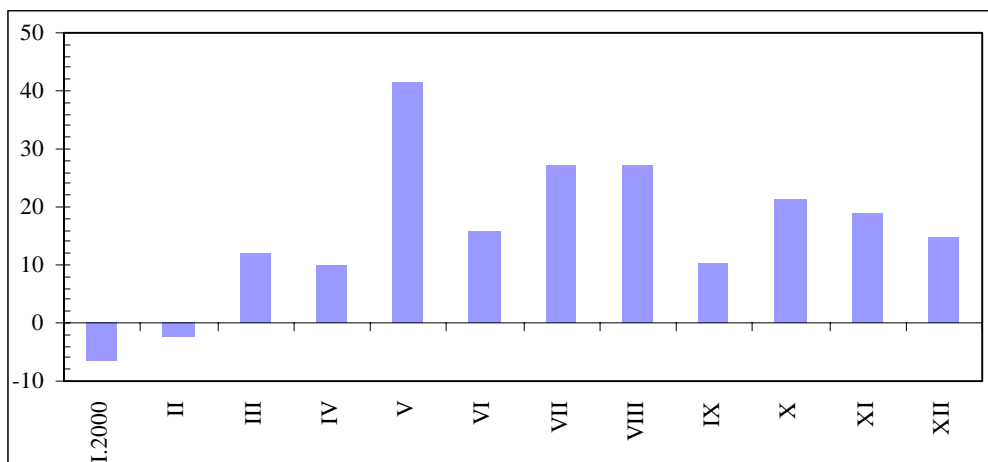
Nominal exchange rate of the Denar against the Deutsche mark and the US Dollar on the foreign exchange market
(Denars for unit foreign currency)



In order to maintain the Denar exchange rate against the Deutsche mark, the NBRM in 2000 intervened with net-purchase of foreign exchange on the foreign exchange market. Generally speaking, in 2000, the supply of foreign exchange significantly exceeded the demand, which resulted in a net-purchase of foreign exchange on the foreign exchange market of US Dollar 190 million. Compared to the previous year, the net-purchase of foreign exchange is higher by US Dollar 72 million, or by 61.0%.

Chart 28

Net-purchase of foreign exchange on the Foreign Exchange Market by NBRM
(in US Dollar million)



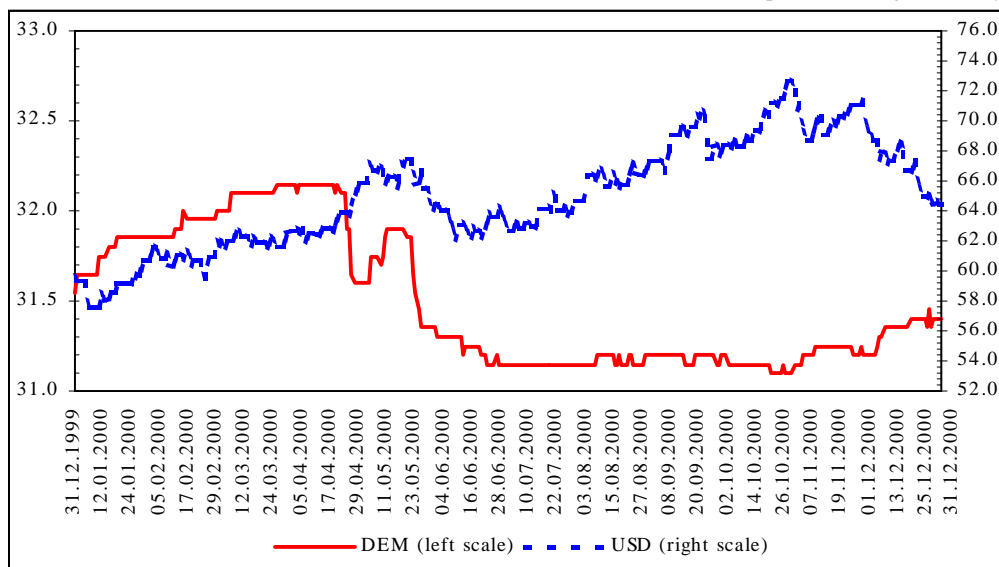
With respect to dynamics, in all four quarters a net-purchase of foreign exchange on the foreign exchange market was registered. In addition, in the first quarter of 2000, the lowest amount of foreign exchange was purchased (US Dollar 3 million). Namely, in terms of increased foreign exchange demand, taking into account the increased import of goods prior to the introduction of the value added tax, the NBRM defending the targeted level of the Denar exchange rate, in the first two months of 2000, intervened at the foreign exchange market with net-sale of US Dollar 9 million. In the following period, as a result of the significantly increased inflow of foreign exchange from foreign creditors, loans, funds from the privatisation and increased export activity, a significantly higher supply than demand of foreign exchange on the foreign exchange market was registered. This situation imposed the need of NBRM's intervention in order to prevent the appreciation of the Denar exchange rate, and in the last three-quarters of 2000, the Central Bank realised net-purchase of foreign exchange in the amount of US Dollar 187 million. The favourable developments on the foreign exchange market resulted in the net-purchase of foreign exchange three times above the projected level or by US Dollar 113 million.

Contrary to the developments on the foreign exchange market, where the Denar exchange rate remained on the targeted level, in 2000, the Denar exchange rate at the foreign exchange offices market fluctuated between 31.15 and 32.10 Denars per Deutsche mark. In addition, the first quarter of 2000, registered more significant fluctuations in the direction of a higher level of the Denar exchange rate. Namely, prior to the introduction of the value added tax, the increased import of goods was reflected through an increased demand for foreign currency. This situation resulted in an increase of the average exchange rate of the Denar against the Deutsche mark, which in March 2000 reached the highest level in 2000 of 32.10 Denars per Deutsche mark. This is a depreciation of 1.7% compared to the exchange rate at the end of 1999 (31.55 Denars per Deutsche mark).

Chart 29

Nominal exchange rate of the Denar against the Deutsche mark
and the US Dollar on the Exchange Offices Market

(Denars per unit foreign currency)



After the exhaustion of the effects of the increased foreign exchange demand prior to the introduction of the value added tax, the pressure on the exchange offices market has been reduced. Thus, in October 2000, the Denar exchange rate was reduced to 31.15 Denars per Deutsche mark that compared to the level of December 31, 2000 is an appreciation of the Denar by 1.3%. The seasonally determined growth in the foreign trade in December 2000 led to a further increase of the Denar exchange rate. Thus, on December 31, 2000, it reached 31.40 Denars per Deutsche mark, which compared to December 31, 2000 is an appreciation of 0.5%.

Taking into account the fixed rates of conversion between the Euro and Deutsche mark and the invariable exchange rate of the Denar against the Deutsche mark, at the end of 2000, the Denar exchange rate against the Euro remained unchanged relative to the end of 1999, and it equalled 60.79 Denars per Euro.

In terms of targeting the nominal Denar exchange rate against the Deutsche mark, the Denar exchange rate against other foreign currencies is determined by the relationship between the Deutsche mark and other foreign currencies on the Frankfurt foreign exchange market. In the course of 2000, the US Dollar against the Deutsche mark was continually strengthening, whereby on December 31, 2000, the exchange rate of the US Dollar against the Deutsche mark equalled 2.1, contrary to the 1.95 Deutsche mark / US Dollar exchange rate on December 31, 1999. This resulted in 8.0% depreciation of the Denar exchange rate against the US Dollar, and on December 31, 2000, it reached 65.5 Denars per US Dollar. At the same time, on the exchange offices market, the value of the Denar depreciated by 8.3% and at the end of December 2000, at this market Denar 64.4 were exchanged for one US Dollar.

7.4. Foreign Exchange Reserves of the Republic of Macedonia

The total foreign exchange potential of the Republic of Macedonia consists of total foreign assets of the NBRM and foreign reserves of the banks licensed to conduct international operations. At the end of 2000, it reached US Dollar 1,138 million, which is by US Dollar 304 million or by 36.5% more than the foreign exchange potential at the end of 1999.

In 2000, the gross foreign exchange reserves of the NBRM²⁰, reached a historically high level of US Dollar 714 million, and compared to the end of 1999 they increased by US Dollar 236, or by 49.4%. Thus, they reached a level equivalent to 4.1 monthly import of goods. The growth of the gross foreign exchange reserves of the NBRM to the largest extent is due to the net purchase of foreign assets from the foreign exchange market in the amount of US Dollar 190 million.

Table 23

Inflows and outflows in the gross foreign exchange reserves of NBRM

(in US Dollar million, end of period)

	31.12.1999	IQ	IIQ	IIIQ	IVQ	01.01.00- 31.12.00
Foreign exchange reserves	478	508	577	595	714	
Change in foreign exchange reserves, net		30	69	18	119	236
Inflows		128	163	148	201	640
Purchased foreign exchange		37	106	93	78	314
Interest received on foreign currency deposits		5	6	7	8	25
Foreign credits and donations		7	17	3	30	57
Government deposits, net		31	-32	2	13	14
Other		15	18	0	3	36
Exchange rate differentials		34	49	43	70	195
Outflows		99	93	129	83	404
Sold foreign exchange		34	39	29	23	124
Debt payments		19	6	34	8	67
Exchange rate differentials		46	48	66	53	213

The total inflow of foreign assets in the gross foreign exchange reserves of the NBRM in 2000 was US Dollar 640 million. The largest part of the amount, US Dollar 314 million or 49.1% were purchased foreign assets by the NBRM, in which structure the purchase of foreign assets from the foreign exchange market and the exchange offices market dominates. Foreign loans and donations follow, accounting for US Dollar 57 million. In addition, in 2000, most of the funds were withdrawn from the International Development Association (IDA) and from the European Union in the total amount of US Dollar 28 million and US Dollar 19 million. In November 2000, the EFF (Enhanced Financing Facility) and the PRGF (Poverty reduction and Growth Facility) arrangements with the International Monetary Fund were extended, upon which an inflow of US Dollar 4 million was registered in the last month of the year. The remaining inflows mainly concern the net increase of the government deposits (US Dollar 14 million) and the paid interest rates on the foreign assets deposited abroad (US Dollar 25 million).

On the other hand, the decline of the gross foreign assets of the NBRM is due to the outflows of foreign assets in the total amount of US Dollar 404 million. Significant part of the outflow in the amount of US Dollar 124 million, or 30.7% refers to the sold foreign assets by the NBRM, out of which US Dollar 39 million for the NBRM interventions on the foreign exchange market. At the same time, there was a significant foreign assets outflow for payment of the IMF debt and debts of other foreign creditors, in the total amount of US Dollar 67 million. The change in the exchange rate differentials resulted in a net-outflow in the amount of 18 million.

The net foreign exchange reserves of NBRM are the difference between the gross foreign exchange reserves and the liabilities towards IMF and other liabilities.²¹ At the end of

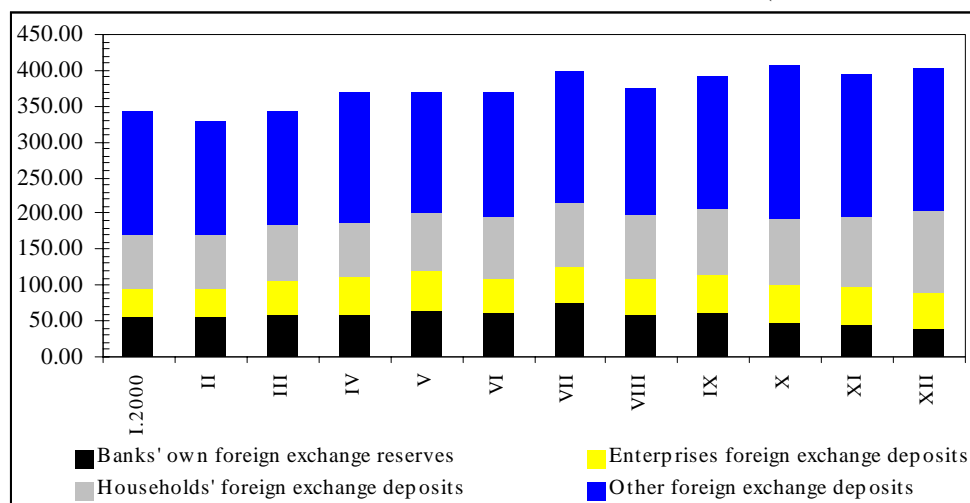
²⁰ The gross foreign assets of the NBRM are calculated as a difference between the total foreign assets of NBRM and the collateral given by the NBRM.

²¹ From August 2000, the liabilities towards BIS are also included in the category "other liabilities".

2000 they equalled US Dollar 617 million that is by US Dollar 260 million more than their level at the end of 1999. This increase is due to the increased gross foreign exchange reserves of NBRM, as well as the decreased IMF liabilities by US Dollar 18 million, on a net basis. At the end of 2000, the total debt of Republic of Macedonia towards the IMF was reduced to US Dollar 82 million.

Chart 30

Structure of the foreign exchange funds of the Deposit Money Banks
(in US Dollar million)



At the end of 2000, the total foreign assets of the banks licensed to conduct international operations, reached US Dollar 403 million, which relative to the previous year is an increase of US Dollar 68 million, or 20.6%. This increase is primarily due to the increase in the foreign currency deposits of economic agents in the deposit money banks. Namely, in 2000, they registered continuous growth, and at the end of 2000 they reached US Dollar 363 million and relative to the end of the previous year increased by US Dollar 76 million. On the other hand, banks own foreign exchange funds²² decreased by US Dollar 7 million compared to the end of 1999, and on December 31, 2000, they reduced to US Dollar 40 million. With respect to dynamics, the annual fall is due to the liberalisation of the legislative referring to the foreign exchange operations of the banks. Namely, in October 2000, with the Decisions on Amendments to the Manual for foreign exchange position of the banks, the compulsory coverage ratios of the households' foreign exchange deposits with foreign currency funds in foreign banks were significantly lowered, which in the last three months of 2000 caused significant fall in the banks own foreign exchange funds.

7.5. External Debt of the Republic of Macedonia²³

The total foreign debt of Republic of Macedonia on the basis of used short-term, medium-term and long-term credits as of December 31, 2000 equaled US Dollar 1,488 million. In addition, the liabilities on the basis of principal equaled US Dollar 1,465 million, or 98.5% of the total foreign debt. With respect to maturity, US Dollar 1,436 million or 96.5% are liabilities based on used medium-term and long-term credits, and the remaining US Dollar 52 million, or 3.5% refers to the short-term liabilities.

²² This is the difference between foreign assets and foreign liabilities of the deposit money banks, where the short and long-term foreign credit liabilities are not included.

²³ Preliminary data of the National Bank of the Republic of Macedonia.

In accordance with the repaid schedule of the foreign debt of the Republic of Macedonia, in 2000, a significantly high amount of liabilities was due, that should be regularly paid by using own funds and moderate additional borrowing. The liabilities were additionally increased by expiration of a one-year moratorium of the payments of the Republic of Macedonia towards the Paris Club of Creditors, which was approved in order to eliminate the negative effects of the Kosovo crisis.

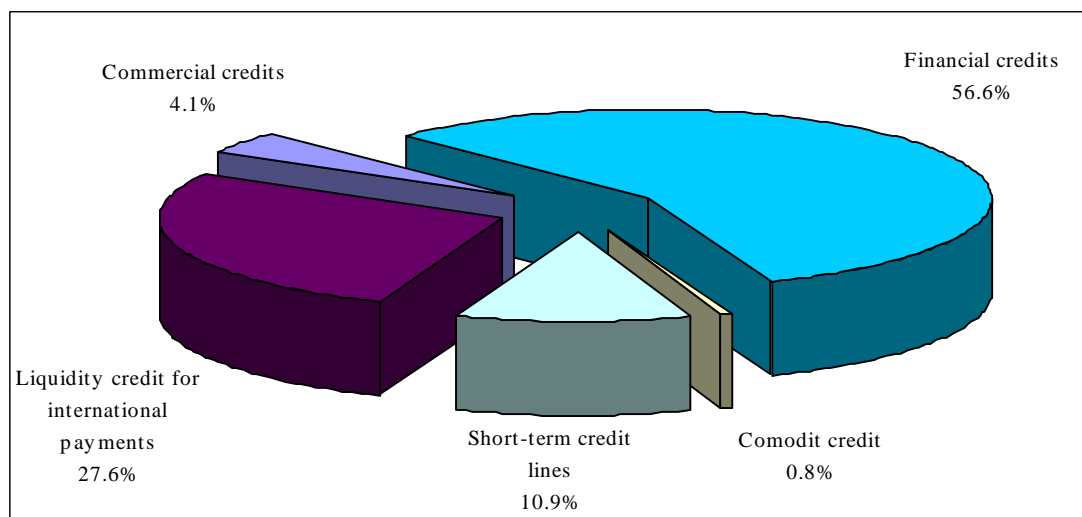
7.5.1. External Debt Structure

The largest part of the short-term foreign debt of the Republic of Macedonia i.e. US Dollar 51 million, or 99.1% refers to the principal. With regard to the type of liabilities, financial credits have the largest share (56.6%) in the total short-term foreign debt of Republic of Macedonia, followed by liquidity credit in the international payments (27.6%) and short-term credit lines (10.9%). Compared to the level of the short-term foreign debt of the Republic of Macedonia as of December 31, 1999, the share of the financial credits registered a significant decrease (by 24.1 percentage points).

In the structure of the medium and long-term foreign debt²⁴, US Dollar 1,414 million, or 98.5% refer to the principal, thus decreasing by US Dollar 10 million compared to the end of 1999. The liabilities arising from due interest reached US Dollar 19 million, or 1.4% of the medium and long-term foreign debt, thus increasing by US Dollar 7 million relative to the end of 1999. Estimated overdue interest remained almost unchanged and equaled US Dollar 3 million, or 0.2% of the external debt of the Republic of Macedonia on the basis of used medium-term and long-term credits. Compared to the end of 1999, the share of these liabilities in the structure of the medium and long-term foreign debt did not register any significant changes.

Chart 31

Structure of the short-term foreign debt by types of foreign credits
(as of December 31, 2000)



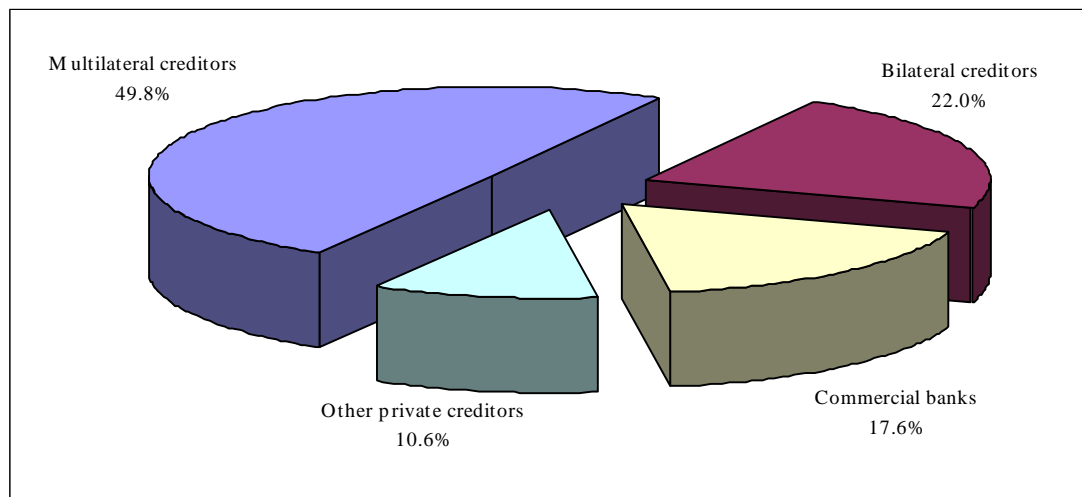
During 2000, the structure of the medium and long-term foreign debt of the Republic of Macedonia by types of foreign creditors remained unchanged. Namely, the official creditors still account for the largest share of 71.8% (US Dollar 1,032 million) in the medium and long-term foreign debt by types of foreign creditors. Compared to the previous year, its

²⁴ The principal and the accrued interest of the foreign debt of the Republic of Macedonia as of December 31, 1999 are shown according to the evidence of the NBRM, while the amount of the default interest on overdue liabilities to the creditors is estimated.

share remained almost unchanged. The largest share of 69.3%, or US Dollar 715 million (69.2% in 1999) in this group of creditors refers to the multilateral creditors, whereas the share of bilateral creditors equaled 30.7%, or US Dollar 316 million (30.8% in 1999).

Chart 32

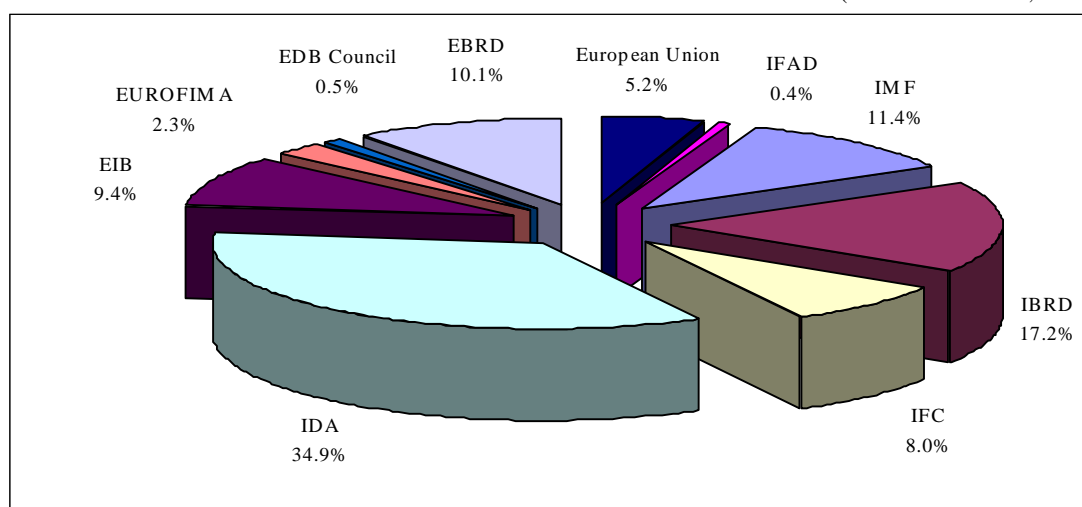
Structure of the medium - term and long - term debt by types of foreign creditors
(as of December 31, 2000)



Observed by separate creditors among the multilateral creditors group, the largest creditor of the Republic of Macedonia still is the International Development Agency (IDA) with a share of 34.9% in the total foreign debt of the Republic of Macedonia towards this group of creditors. Next is the International Bank for Reconstruction and Development (IBRD) with share of 17.2%, followed by the International Monetary Fund (IMF) with share of 10.1%. In nominal terms, as of December 31, 2000 the indebtedness of the Republic of Macedonia towards the International Development Agency (IDA) equaled US Dollar 250 million, towards International Bank for Reconstruction and Development (IBRD) - US Dollar 123 million and towards International Monetary Fund (IMF) - US Dollar 82 million.

Chart 33

Structure of the foreign debt towards multilateral creditors
(as of December 31, 2000)



In the structure of indebtedness of the Republic of Macedonia towards bilateral creditors, the largest individual share of 79.8% of the bilateral credits refers to debt towards the Paris Club of Creditors, i.e. US Dollar 252 million. Simultaneously, the indebtedness on

the basis of newly signed credits on bilateral basis equaled US Dollar 52 million, hence its share in the total liabilities towards bilateral creditors reached 16.4%.

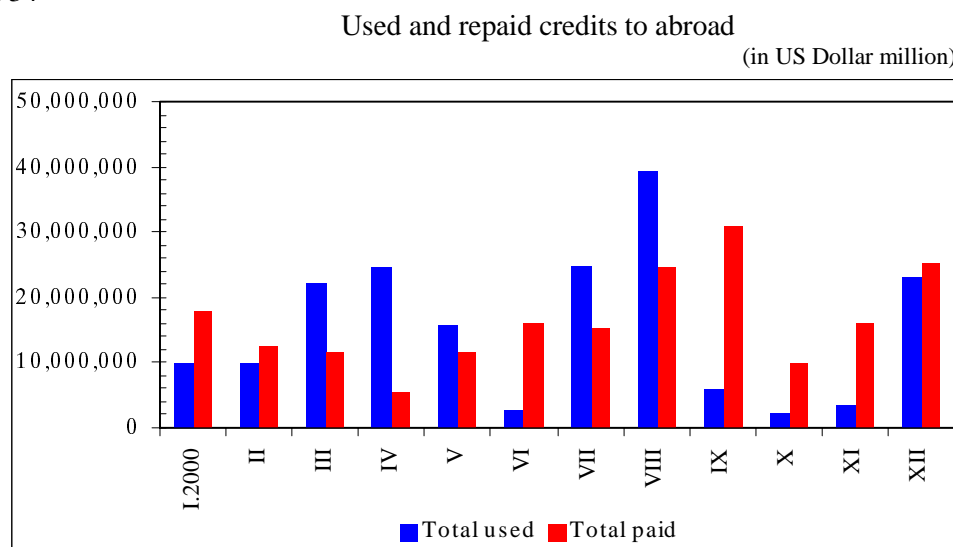
At the end of 2000, the total foreign debt of the Republic of Macedonia towards private creditors was US Dollar 405.0 million, or 28.2% of the total foreign debt based on medium-term and long-term credits. Out of this, US Dollar 253 million, or 62.4% of the total foreign debt towards private creditors refer to the foreign debt towards the London Club of Creditors.

The foreign debt towards the banks and private financial institutions equaled US Dollar 120 million, while the indebtedness towards the foreign enterprises at the end of 2000 equaled US Dollar 32 million. Within the indebtedness of the Republic of Macedonia towards private creditors, the shares of these two creditor groups equaled 29.6% and 8.0%, respectively.

7.5.2. External Debt Developments in 2000

The external debt of the Republic of Macedonia as of December 31, 2000 compared to the end of 1999 registered a slight decrease of US Dollar 6 million, or by 0.4%. Regarding the maturity, the foreign debt based on used medium-term and long-term credits (96.5% of the total external debt) decreased by US Dollar 2 million, or 0.1%. The foreign debt on the basis of short-term credits decreased by US Dollar 4 million and was brought down to US Dollar 52 million.

Chart 34



In 2000, the total amount of the withdrawn funds from the approved credits reached US Dollar 183 million, thus decreasing by US Dollar 54 million compared to the end of 1999. In addition, the withdrawn funds on the basis of short-term credits equaled US Dollar 37 million, or by US Dollar 10 million less compared to the previous year. Out of this, US Dollar 18 million, or 48.5% refer to the financial credits, followed by the liquidity credit for international payments with US Dollar 14 million, or 37.0%. Dynamically observed, the highest amount of withdrawn funds was registered in August 2000 (US Dollar 15 million), when the liquidity credit for international payments was withdrawn. Compared to the previous year, in 2000, the amount of the withdrawn funds decreased by US Dollar 10 million, mainly as a result of the decreased financial credits (by US Dollar 26 million).

In 2000, US Dollar 146 million were withdrawn from the approved medium-term and long-term credits, which is by US Dollar 44 million less compared to 1999. In addition, US Dollar 94 million were withdrawn from the multilateral creditors, which is by US Dollar 11 million less compared to the previous year. Simultaneously, US Dollar 16 million were withdrawn from the bilateral creditors and US Dollar 36 million from the private creditors. Compared to 1999, in 2000 the amounts of withdrawn credits from the bilateral and private creditors decreased by US Dollar 10 million and US Dollar 18 million, respectively.

Observed by separate creditors, the biggest part of the withdrawn credits from the multilateral creditors, i.e. US Dollar 38 million was withdrawn from the International Development Agency (IDA) for the Project for structural adjustment of the social sector (US Dollar 14 million) and for the Project for urgent imports (US Dollar 10 million). Simultaneously, on the basis of the projects for health care and social welfare US Dollar 3 million were withdrawn, respectively. During 2000, the European Bank for Reconstruction and Development (EBRD) financed projects in the amount of US Dollar 20 million. In addition, US Dollar 13 million refer to the withdrawn credits given to “Makedonski Telekomunikacii” A.D. Skopje.

In 2000, US Dollar 6 million were withdrawn from the International Bank for Reconstruction and Development (IBRD) on the basis of the new arrangement for financial and enterprises sector adjustment (FESAL II). Also, US Dollar 7 million were withdrawn from three additional projects: project for development of transport (US Dollar 3 million), project for development of the energy system (US Dollar 2 million) and project for development of the private sector (US Dollar 2 million). Herewith, in 2000 the total amount of the withdrawn credits from the International Bank for Reconstruction and Development (IBRD) equaled US Dollar 13 million.

In 2000, US Dollar 6 million were withdrawn from the European Investment Bank (EIB) on the basis of the project for a road building. An identical amount of the funds was withdrawn from the International Financial Corporation (IFC).

In the structure of the withdrawn credits from the bilateral creditors in a total amount of US Dollar 16 million in 2000, US Dollar 9 million were withdrawn from the American Bank “EXIM” as a credit for purchasing cars and equipment for the Ministry for Internal Affairs. Additional US Dollar 7 million were withdrawn of the credit lines from the Republic of China-Taiwan on the basis of projects for development for private sector.

The largest part of the withdrawn funds from the private creditors in 2000 or US Dollar 24 million refers to the used credits from the banks and private financial institutions. Out of this, US Dollar 17 million refer to the financial credits and remaining US Dollar 7 million refer to the trade credits. Simultaneously, US Dollar 4 million were withdrawn from the foreign enterprises, while the capitalized interest of the foreign debt of the Republic of Macedonia towards the London Club of Creditors equaled US Dollar 7 million.

In 2000, the total amount of the repaid liabilities of the Republic of Macedonia to foreign creditors reached US Dollar 197 million, which is by US Dollar 3 million less compared to 1999. In addition, US Dollar 141 million refer to the payments on the basis of principal and the others US Dollar 56 million refer to the payments on the basis of interest.

The payments on the basis of used short-term credits equaled US Dollar 32 million, or US Dollar 12 million less compared to the previous year. Out of it, the largest amount refers to the repayments of the financial credits (US Dollar 26 million). Out of the total amount of the repaid short-term liabilities, US Dollar 29 million refer to the payments on the basis of principal and US Dollar 3 million to the payments on the basis of interest.

The total amount of the repaid medium and long-term credits in 2000 reached US Dollar 165 million, out of which US Dollar 11 million were payments on the basis of principal. The largest part of the funds, or US Dollar 99 million was paid to the official creditors, out of which US Dollar 77 million were paid to the multilateral creditors and US Dollar 22 million to the bilateral creditors. Among these groups of creditors, the largest amount was paid to the International Monetary Fund (IMF - US Dollar 22 million) and the European Bank for Reconstruction and Development (EBRD - US Dollar 20 million). In addition, in 2000, as a result of the expiration of a one-year moratorium of the payments of the Republic of Macedonia towards the Paris Club of Creditors and the regular debt payments of due debt, US Dollar 17 million were paid to this group of creditors.

In 2000, liabilities towards private creditors were paid in the total amount of US Dollar 66 million (US Dollar 48 million paid on the basis of principal and US Dollar 18 million on the basis of interest), which is unchanged compared to the previous year. In addition, US Dollar 47 million were paid to the banks and private financial institutions. Simultaneously, a same amount of US Dollar 9 million was paid to the London Club of Creditors and to the foreign enterprises, respectively.

7.6. Relations with the International Financial Institutions

International Monetary Fund

In 2000, the Republic of Macedonia successfully completed the negotiation with the International Monetary Fund, resulting in extension of the EFF (Extended Fund Facility) and PRGF (Poverty Reduction and Growth Facility) arrangements by the IMF Executive Board.

The EFF arrangement was extended as three-year loan in an amount equivalent to SDR (Special Drawing Rights) 24.1 million for structural adjustment. In 2000, the Republic of Macedonia withdrew an amount equivalent to SDR 1.1 million (US Dollar 1.5 million).

The PRGF arrangement was extended as three-year loan in total amount equivalent to SDR 10.3 million for bridging the reduction and growth facility, using by country members with low income. In 2000, the Republic of Macedonia withdrew an amount equivalent to SDR 1.7 million (US Dollar 2.2 million).

World Bank Group

As of December 31, 2000, the Republic of Macedonia concluded numerous arrangements with the World Bank and its affiliations.

In the 1994 - 2000 period, the Republic of Macedonia concluded 9 arrangements with the International Bank for Reconstruction and Development (IBRD), totaling US Dollar 205.4 million. Out of that, in 2000, only one arrangement was concluded for the project for financial and enterprises sector adjustment – FESAL II (Second Financial and Enterprise Sector Adjustment Loan), in the amount of US Dollar 30.3 million.

In the 1994 - 2000 period, 13 arrangements were made with the International Development Agency in the total amount equivalent to SDR 219.7 million (US Dollar 286.2 million). In 2000, only one arrangement was concluded for the project for financial and enterprises sector adjustment – FESAL II (Second Financial and Enterprise Sector Adjustment Loan), in the amount equivalent to SDR 15.2 million (US Dollar 19.8 million).

In the 1997 - 2000 period, the International Finance Corporation financed private sector projects and engaged its own funds in the amount of US Dollar 67.4 million in the Republic of Macedonia.

European Bank for Reconstruction and Development

The main goals of the EBRD strategy in Republic of Macedonia are the following:

1/ Development of the private sector by providing long-term loans to Macedonian banks, thus giving direct support to the development of small and medium-size enterprises. At the same time, EBRD extends loans and invests in private projects in the industry and agriculture and actively supports the foreign direct investments in Republic of Macedonia.

2/ Strengthening of the financial sector, through systemic restructuring of the banking sector. Following the rehabilitation and privatization of the largest bank in 2000, EBRD focused its strategy on the consolidation and development of smaller financial institutions, by credit lines or by participating in the ownership structure.

3/ Realization of key and specific infrastructure projects which enable easier development of the private sector and regional integration of the country (transport, energy, telecommunication etc.).

In order to achieve these goals, in the 1994 - 2000 period, EBRD financed projects worth USD 164.8 million in the Republic of Macedonia. In addition, in 2000, one credit arrangement was agreed aimed at implementation of the Project - Action program for development of municipalities and improving of the environment in certain municipalities. For implementation of this project, this financial institution would provide funds in the amount of Euro 20.8 million (US Dollar 19.3 million).

European Union

In the 1997 - 2000 period, the European Union extended loans in the total amount of Euro 90.6 million (US Dollar 84.3 million) to the Republic of Macedonia.

In 2000, Republic of Macedonia received a loan from the European Union in the amount of Euro 50 million (US Dollar 46.5 million), aimed at supporting the balance of payments. The loan will be received in three tranches: first tranche in the amount of Euro 10 million, second tranche in the amount of Euro 12 million and third tranche in the amount of Euro 28 million. The first tranche will be received at the beginning of 2001, immediately after the signing of the PRGF / EFF arrangements with the International Monetary Fund.

European Investment Bank

In the 1998 - 2000 period, the European Investment Bank extended funds in the total amount of Euro 130 million (US Dollar 121.0 million) to the Republic of Macedonia, through the realization of the loans:

- one loan in the amount of Euro 70 million for financing the Project for constructing certain road and parts of the highway;
- one loan in the amount of Euro 60 million for financing the Project for constructing the circular road around the capital city and parts of the highway.

Council of European Development Bank

In the 1999 - 2000 period, the Council of the European Development Bank financed a project in the total amount of Euro 20.1 million (US Dollar 18.7 million) in Republic of Macedonia.

In 2000, the Council of the European Development Bank extended a loan to the Republic of Macedonia in the amount of Euro 15 million (US Dollar 14.0 million) for financing the Project for apartment construction for persons with low-income levels. The first tranche of this loan in the amount of Euro 2.8 million (US Dollar 2.6 million) has already been realized.

International Fund for Agriculture Development

In the 1997 - 2000 period, the International Fund for Agriculture Development extended two loans to the Republic of Macedonia in the amount of SDR 11.8 million (US Dollar 15.4 million) for financing the agriculture.

In 2000, one loan in the amount of SDR 6.2 million (US Dollar 8.1 million) was extended for implementation of the Project for financial services in the agriculture.

Bilateral Creditors

Up to March 31, 1999, the Republic of Macedonia was regularly servicing its liabilities towards the Paris Club of Creditors. As a result of the negative effects of the Kosovo crisis on the Macedonian economy, the Paris Club of Creditors agreed to a moratorium on the liabilities towards this group of creditors that were due in the April 1, 1999 - March 31, 2000 period.

In 2000, an agreement was reached with the Paris Club of Creditors for the reorganization of the liabilities of the Republic of Macedonia in the moratorium period, with a detailed framework for the manner and time schedule for the settlement of these liabilities. In the framework of this agreement, the Republic of Macedonia began bilateral negotiations with the member - countries of the Paris Club of Creditors in order to reach concrete agreements on the regulation of these liabilities, which as of December 31, 2000 equaled US Dollar 37.0 million.

In 2000, the Republic of Macedonia started to service the liabilities to this group of creditors, on regular basis that were due in the period after the moratorium, while at the same time concluding new bilateral credit arrangements:

- loan from the German Credit Bank for Reconstruction and Development (KFW) in the amount of DEM 13 million (US Dollar 6.2 million) for implementation of the Project for promotion of micro, small and medium-size enterprises;
- loan from the German Credit Bank for Reconstruction and Development (KFW) in the amount of Euro 15 million (US Dollar 14 million) for implementation of the Project for small and medium-size enterprises and
- loan from the EXIM Bank from the USA in the amount of US Dollar 12.2 million for implementation of the Project for purchase of police vehicles and special security equipment for the needs of the Ministry of Internal Affairs.

Private Creditors

The debt to the London Club of Creditors that was assumed by Republic of Macedonia equaled US Dollar 228.7 million. In 2000, liabilities based on interest in the amount US Dollar 9.4 million were paid to this group of countries. As of December 31, 2000, the liabilities of the Republic of Macedonia to the London Club of Creditors equaled US Dollar 252.7 million, including capitalized interest in the amount of US Dollar 7.4 million.