

II. STRUCTURE OF THE BANKING SYSTEM OF THE REPUBLIC OF MACEDONIA

2.1 Structure of the Banking System

At the end of 2001, the banking system of the Republic of Macedonia consisted of 21 commercial banks and 17 savings houses; 18 of the banks had the so-called license for international payment operations and international credit and guarantee activities, while 3 banks were licensed to perform only domestic banking activities.

Compared to December 31, 2000, the number of banks, dominating the banking system of the Republic of Macedonia, decreased. Also, the general downward trend in the number of savings houses, present over the past years, continued.

The basic reason for the decreased number of banks is the process of consolidation of the banking system in the Republic of Macedonia, which started in 2001. This trend was a result of the higher competition in the banking system resulting from the investment of foreign direct funds in some of the larger banks in the Republic of Macedonia in 2000, as well as due to the reforms of the payment operations and their transfer to the commercial banks.

Thus, in the first half of the year, as a result of this process, the NBRN issued two approvals for statutory changes: approval for acquiring Zemjodelska Banka a.d. Skopje by Sileks Banka a.d. Skopje, upon which Zemjodelska Banka a.d. Skopje ceased existing as a separate legal entity, and as of August 17, 2001 it operates within Sileks Banka a.d. Skopje, and approval for merger of Teteks Banka a.d. Skopje and Kreditna Banka a.d. Bitola, after which they developed in a new legal entity under the name of Teteks Kreditna Banka a.d. Skopje, which began operating on July, 5, 2001. Also, in July 2001, the National Bank of the Republic of Macedonia issued an approval for statutory change – acquiring Pelagoniska Banka a.d. Prilep by Komercijalna Banka a.d. Skopje, after which Pelagoniska Banka a.d. Skopje ceased existing as a separate legal entity, and starting from July 31, 2001 it has been operating within Komercijalna Banka a.d. Skopje.

In the second half of 2001, the National Bank of the Republic of Macedonia granted a founding and operating license to Euroswiss Bank a.d. Skopje, which began operating on September 3, 2001, the date of its registration in the Court Registry.

The decrease in the number of savings houses in 2001 was due to reorganization of the Postal Savings House a.d. Skopje into Postal Bank a.d. Skopje, and to the revocation of the founding license and introduction of a liquidation procedure in the savings house ‘Zegin Viktorija i drugi’ d.o.o. Skopje.

The analysis of the structural relations between the two basic segments of the banking system in 2000 confirms the structural precedence of the banks in the banking system of the Republic of Macedonia.

This structural share of the savings houses in the banking system is mainly due to the restricted scope of operations of the savings houses, which according to the regulatory framework, primarily operate with households.

However, the marginal role of the savings houses in the banking system of the Republic of Macedonia is also confirmed by the analysis of the structural relations from the aspect of mobilization of households' available funds. On December 31, 2001, only 0.4% of the total savings were deposited in the savings houses, which is by 2.4 percentage points lower compared to the preceding year. If only Denar savings deposits are taken into account,

the share of the savings houses equals 2.1%, which is a decrease of 4.3 percentage points compared to December 31, 2000.

These indicators from the structural analysis of the banking system just emphasize the marginal role of the savings houses, thus putting in question the justification of their existence from the aspect of performing their primary function: mobilization of households' available funds.

The basic structural characteristics of the banking system of the Republic of Macedonia have been analyzed from several aspects:

1. Size of the banking institutions;
2. Ownership structure;
3. Regional structure.

2.1.1. Size of the Banking Institutions

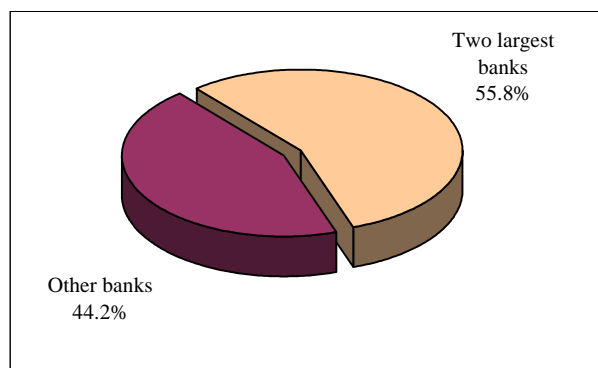
From the aspect of their size, the banking institutions are analyzed according to three criteria:

- a) total assets, total financial potential;
- b) scope of operations, or market share;
- c) capital power, or the total amount of available own funds of the banking institutions.

The analysis of the structure of the banking system of the Republic of Macedonia from the aspect of the aforementioned criteria indicates dominant share of the two largest banks.

As of December 31, 2000, the share of these two banks of the banking system of the Republic of Macedonia in the total net-assets equals 55.8%. Compared to December 31, 2000, the concentration according to this criterion decreases by minimum 0.8 percentage points.

Figure 1 - Concentration of the Banking System According to Total Assets



On the other hand, the analysis from the aspect of market share, the total volume of banks' on-balance sheet and off-balance sheet activities indicates that on December 31, 2000, the share of the two largest banks equals 55.5%, which is by 2.6 percentage points lower compared to the same period of the previous year.

Figure 2 - Concentration of the Banking System According to Market Share

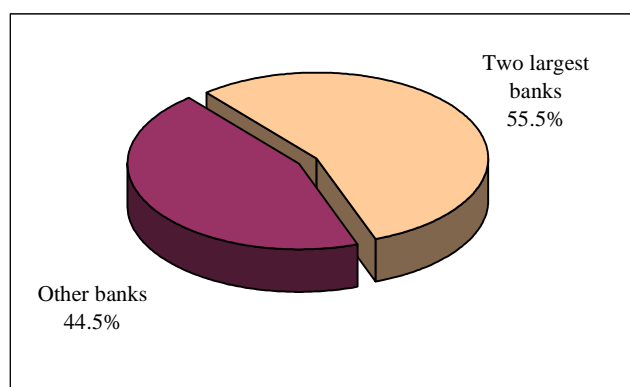
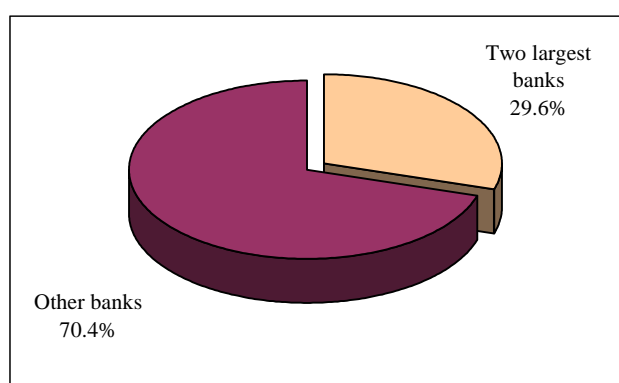


Figure 3 - Concentration of the Banking System According to Capital Strength



If the capital available to the banks is taken as a comparable variable, it can be concluded that on December 31, 2000, the share of the two largest banks in the total banking system of the Republic of Macedonia equaled 29.6%, which is not as obvious concentration as in the two above mentioned criteria.

However, the considerable concentration of the financial potential with the two largest banks, which dominate on the banking market of the Republic of Macedonia remains primary structural feature of the banking system of the Republic of Macedonia, although the concentration registered slight downward trend in 2001.

2.1.2. Ownership Structure

The ownership structure of the banks in the Republic of Macedonia can be analyzed from two aspects:

- a) The level of privatization of the banks;
 - b) The share of foreign capital.
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- a) The level of privatization of the banking capital in the Republic of Macedonia as of December 31, 2001 equals 84.3%, or 88.6% if “Macedonian Bank for Development Promotion”, as a state-owned banking institution, is excluded from the analysis. The bank-by-bank analysis indicates that the level of privatization ranges from 61.5% to

100% in 8 banks. Compared to December 31, 2000, the level of privatization of the banks increased by 0.7 percentage points, which is primarily due to the beginning of the operations of Euroswiss Bank a.d. Skopje in the second half of 2001, founded by 100%-private capital.

- b) As of December 31, 2001 compared to the end of December 2000, the share of foreign capital in the total banking capital of the Republic of Macedonia remained unchanged and equaled 40.1%. The bank-by-bank analysis indicates that foreign capital has been invested in 17 banks, with share ranging from 0.3% to 100%.

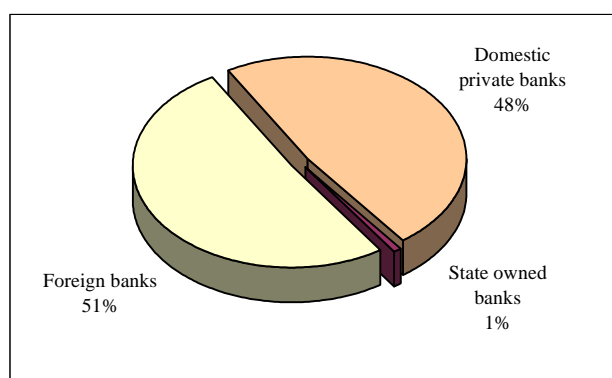
Table 2- Structural Share of the Banks According to Type of Ownership

Type of ownership	Number of banks		Share in total capital (%)		Share in total assets (%)	
	31.12.2000	31.12.2001	31.12.2000	31.12.2001	31.12.2000	31.12.2001
Domestic private banks	14	12	50.1	51.6	45.5	47.6
State owned banks	1	1	4.9	4.9	1.1	1.3
Foreign banks	7	8	45.0	43.5	53.4	51.1
<i>Total</i>	<i>22</i>	<i>21</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Note: Banks with foreign capital exceeding 50% of their capital structure are regarded as foreign banks.

On December 31, 2001, the number of banks owned by domestic legal shareholders equaled 12, which compared to the end of the previous year decreased by two banks. On the other hand, the number of banks owned by foreign shareholders equaled 8 at the end of 2001 and compared to the December 31, 2000, it increased by 1 bank, due to the establishment of Euroswiss Bank a.d. Skopje.

Figure 4 – Structural Share of the Banks According to Type of Ownership



The analysis of the structural relations between the three segments according to the character of the banks' ownership, and from the aspect of the share of the total capital in the total assets indicates no considerable movements in 2001.

2.1.3. Regional Structure

The analysis of the regional aspects of the structure of the banking system of the Republic of Macedonia confirms its asymmetry and concentration of supply of financial services in the capital of the Republic of Macedonia. Out of the total number of the banking institutions in the Republic of Macedonia, only 4 banks are located outside of Skopje, with 3 of them having a license for performing international payment and credit operations. The

share of the financial potential of these 4 institutions in the total financial potential of the banking system of the Republic of Macedonia equals 9.5%.

The existing regional structure is to a certain extent mitigated with the relatively wide network of branches, windows, business units and representative offices. Thus, as of December 31, 2001, the banks in the Republic of Macedonia had 28 branches, 167 sub-branches, 13 business units and 416 windows. The windows of Macedonian Post Offices (about 320 postal units with 620 windows on the whole territory of the Republic of Macedonia), at the disposal of Postal Bank a.d. Skopje should also be taken into consideration.

2.2. Activities of the Banks in the Republic of Macedonia

The upward trend of the total assets of the banks in the Republic of Macedonia registered over the past years was interrupted in 2001. The political and security crisis and the war upheavals in the Republic of Macedonia severely affected the total economic movements in the country, evident through the lower economic activity of the economic agents, declined industrial output, lower foreign trade and reduced foreign exchange inflows. The deteriorated security and the more restrictive measures of the monetary policy in the first half of 2001, inevitably affected the volume and the structure of the total activity of the banks in the Republic of Macedonia. Thus, there was substantial withdrawal of the deposits from the banks, decrease in the volume of the banks' activities and interruption in the trend of improving the banking system performances due to the influence of the economic and psychological factors caused by the crisis in the country.

The normalization of the political and security situation in the Republic of Macedonia in the fourth quarter of 2001 and firm support of the positions of consistent macroeconomic policy in the country, led to beginning of the process of normalization of the overall economic courses at the end of the year. Simultaneously, the actual replacement of the 12 European currencies with the new Euro currency, as a major characteristic of the foreign exchange and exchange offices market in the last months of the year and the possibility of free conversion of the households' foreign currency savings into Euro, if deposited in a bank, resulted in considerable increase in the foreign currency deposits in the banks. The rise in the banks' deposit base, primarily the households' foreign currency deposits was apparent through the exceptionally high increase in the banks' liquid assets in the segment of the foreign currency. Although the confidence of the citizens in the banks of the Republic of Macedonia gradually retrieves and the measures for increasing the domestic savings are undertaken, the assessment of the effect of the increase in the deposit base at the end of 2001 on the activities of the banks in the Republic of Macedonia and their liquidity position will be given at the end of the first half of 2002, when the amount of the funds that were deposited at the end of 2001 and remained in the banks, as well as their maturity structure, will be evident.

Due to these movements in the second half of 2002, particularly typical for the last quarter of the year, the activity of the banks in the Republic of Macedonia revived, reflected through the significant increase in the assets.

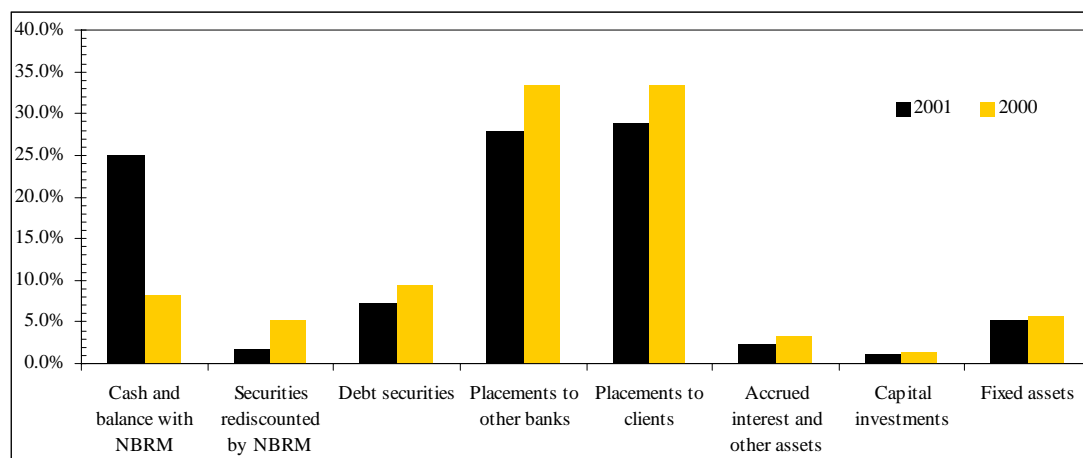
2.2.1. Banks' Assets

The total assets of the banks in the Republic of Macedonia reached Denar 105,633 million at the end of 2000 and compared to the end of the previous year and to June 30, 2001, they increased by 28.8% (Balance sheet – Annex 1) and 49.2%, respectively.

The movements registered in the banks' deposit base in 2001 caused major changes in the liquid assets¹ in both the absolute amount and in relation with their structural share in the total banks' assets in the Republic of Macedonia. On December 31, 2001 compared to the end of 2000, the banks' liquid assets were higher by 48.1%, while compared to the first half of 2001, they increased by 135.7%. Thus, the share of the liquid assets in the structure of the total assets reached 54.6%, which is by 7.3 percentage points more compared to the end of 2000, or 20.8 percentage points more compared to June 30, 2001. Thus, the changes in the deposit base are largely manifested through the changes in the funds (Denar and foreign exchange). At the end of the first half of 2001, compared to the end of 2000, the banks' funds declined by 45.8%, while at the end of 2001 compared to the same period of the preceding year, they rose by 5 times.

Unlike the oscillations in the liquid assets, the credit placements to customers registered trend of stability, which taking into account the increase in the total banks' assets at the end of 2001 resulted in a decrease in their structural share. Thus, at the end of December 2001, the share of placements to customers in the assets structure equaled 28.9%, contrary to 33.4% registered at the end of December 2000.

Chart 5 – Assets Structure



2.2.2. Banks' Credit Activity

In 2000, the credit activity of the banks in the Republic of Macedonia registered trend of stability. Due to the political and security crisis in the country, in 2001 the banks refrained from extending credits. Although the political and security and economic situation in the country in the last quarter of the year gradually normalized, the banks, however, continued to restrain from making new loans, up until the end of 2001.

As of December 31, 2000, the gross placements to customers (non-financial legal entities and households) amounted to Denar 38,309 million, which is an increase of Denar 1,563 million, or 4.3% relative to the end of the previous year. If the recorded claims of the off-balance sheet records in 2001 are included in the analysis, a conclusion may be drawn that the growth in the credit placements equals 14.7%. With respect to the dynamics, the credit placements, (excluding March, April, July and October, which register a decline), on average increase by 1.2% on monthly basis.

¹ The liquid assets encompass the funds and the balances with the National Bank of the Republic of Macedonia, the CB bills, the short-term debt securities, the short-term credits and balances of accounts with domestic and foreign banks.

The analysis of the credit placements with respect to their maturity structure, the structure of the beneficiaries and the structure of the currency of denomination on December 31, 2001 indicates no significant changes compared to the end of 2000. With respect to the maturity, the short-term credit placements have the highest share of 45.6%. The analysis of the credits by beneficiaries indicates dominant share of the credits to enterprises, having 84.3% in the total credit placements. The structure of the currency of denomination of the credits at the end of 2001 indicates that 63.9% of the total credits extended by banks are Denar credits, 14.8% are Denar credits with foreign exchange clause, while the remainder of 21.3% are foreign exchange credits extended on the basis of withdrawn international credit lines.

Table 3 - Structure of Credits Extended to Non-financial Entities

in MKD (000,000)

<i>Period</i>	<i>Beneficiaries</i>	<i>Enterprises</i>		<i>Other clients</i>		<i>Households</i>		<i>Total</i>	<i>Credit claims entered in off-balance sheet records</i>
		<i>Denar</i>	<i>ForEx</i>	<i>Denar</i>	<i>ForEx</i>	<i>Denar</i>	<i>ForEx</i>		
<i>31.12.2000</i>	<i>Maturity</i>								
	<i>Overdue</i>	2,260	165	45	282	44	0	2,796	
	<i>Short-term</i>	11,079	1,592	258	410	1,229	0	14,568	
	<i>Long-term</i>	6,034	3,237	318	213	2,075	0	11,877	
	<i>Non-performing</i>	5,517	1,444	135	44	363	2	7,505	
	<i>Gross credits</i>	24,890	6,438	756	949	3,711	2	36,746	
	<i>Potential loan loss reserves</i>							-9,020	
	<i>Net credits</i>							27,726	
	<i>Credit claims entered in off-balance sheet records</i>								5,473
<i>31.12.2001</i>	<i>Maturity</i>								
	<i>Overdue</i>	1,375	135	1	2	54	0	1,567	
	<i>Short-term</i>	12,326	2,307	335	1,354	1,157	0	17,479	
	<i>Long-term</i>	4,486	2,881	59	90	2,350	0	9,866	
	<i>Non-performing</i>	7,525	1,261	76	104	403	28	9,397	
	<i>Gross credits</i>	25,712	6,584	471	1,550	3,964	28	38,309	
	<i>Potential loan loss reserves</i>							-7,667	
	<i>Net credits</i>							30,642	
	<i>Credit claims entered in off-balance sheet records</i>								9,312
	<i>Growth rate</i>	3.3%	2.3%	-37.7%	63.3%	6.8%	1300.0%	4.3%	70.1%

2.2.3. Placements to Banks

The changes in the volume of activities of the economic agents in the foreign trade under the influence of the political and security situation in the country, as well as the changes in the regulations in the area of foreign exchange operations of the economic agents, i.e. the decrease in the legal period for holding foreign currencies on the accounts of the legal entities from 180 to 30 days, caused certain movements in the foreign currency sight deposits, as well as in the short-term foreign currency deposits from non-financial legal entities. The aforementioned fact alongside the decrease in the maximum amount of foreign currency which the banks are allowed to hold with foreign banks by 50% and the conversion of the 12th European currencies in the common Euro currency reflected on the level of placements to banks. Thus, the decreased liquidity of the banks in the first six months of 2001 was reflected in the continuous fall in the foreign assets that the banks hold with domestic and foreign banks, with an average monthly rate of 7.5%, while the improvement in the liquidity in the second half of 2001 contributed to their increase, with an average monthly rate of 13.5%. Therefore, on December 31, 2001, the placements to domestic and foreign banks equaled Denar 29,576 million or 28.0% of the total assets of the banks in the Republic of Macedonia.

Table 4 - Structure of Placements to Domestic and Foreign Banks

in MKD (000,000)

	<i>Denar</i>	<i>ForEx</i>	<i>Total</i>
<i>31.12.2000</i>			
<i>Accounts in other banks</i>	0	25,860	25,860
<i>Overdue</i>	0	0	0
<i>Short-term</i>	1,036	67	1,103
<i>Long-term</i>	317	0	317
<i>Non-performing</i>	5	0	5
<i>Gross credits extended to other banks</i>	1,358	67	1,425
<i>Potential loan loss reserves</i>	0	0	0
<i>Net credits extended to other banks</i>	1,358	67	1,425
<i>Total placements to other banks</i>	1,358	25,927	27,285
<i>31.12.2001</i>			
<i>Accounts in other banks</i>	0	26,995	26,995
<i>Overdue</i>	3	0	3
<i>Short-term</i>	1,390	38	1,428
<i>Long-term</i>	288	300	588
<i>Non-performing</i>	161	401	562
<i>Gross credits extended to other banks</i>	1,842	739	2,581
<i>Potential loan loss reserves</i>	0	0	0
<i>Net credits extended to other banks</i>	1,842	739	2,581
<i>Total placements to other banks</i>	1,842	27,734	29,576

From a structural aspect, the category “foreign currency accounts in domestic and foreign banks” has a dominant share within the framework of placements to banks (91.3%), thus causing 93.8% of the total placements to banks to be denominated in foreign currency.

The total amount of credits placed to other banks on December 31, 2001, equals Denar 2,581 million. Denar 1.011 million or 39.2% of these credits were extended by the Macedonian Bank for Development Promotion a.d. Skopje, which performs its credit activity by placing funds through the commercial banks in the Republic of Macedonia.

2.2.4. Placements in Securities with NBRM Rediscount and Placements in Debt Securities

The largest portion of securities in the balances of the Macedonian banks are the securities with NBRM rediscount and government bonds of the Republic of Macedonia issued on various bases.

In 2001, the changes in the level of the banks’ general liquidity also reflects upon the size and the funds the banks hold in the form of treasury bills with the National Bank of the Republic of Macedonia. At the end of 2001, these funds amounted to Denar 1,932 million, or 1.8% of the net assets of the banking system.

At the end of 2001, the share of the debt securities in the structure of the total assets of the banking system equaled 7.2%. The largest portion of these funds (or 98%) accounts for government securities. Most of them, or 90.8% account for government bonds issued on the basis of the restructuring of Stopanska Banka a.d. Skopje² with 15-year maturity. The remaining part are bonds issued by the Bank Rehabilitation Agency, as well as bonds issued by the Ministry of Finance based on “frozen” foreign currency savings actively traded on the

² Law on Guarantee of the Investment of Strategic Investors and on Assuming Certain Claims on Ultimate Users by the Republic of Macedonia in Stopanska Banka a.d Skopje. (“Official Gazette of the Republic of Macedonia” No.86/99).

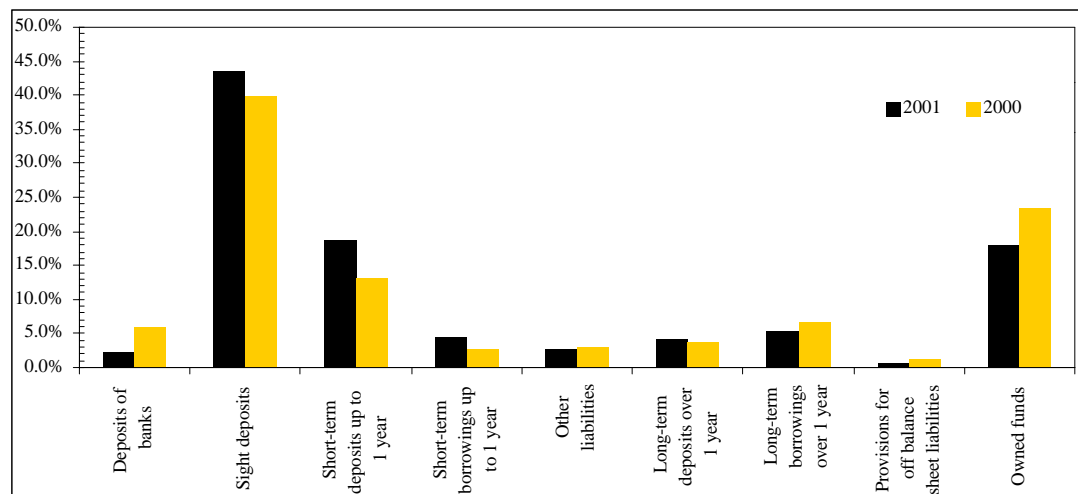
Macedonian Stock Exchange. Small portion of the debt securities refers to debt securities issued by other banks and checks issued by domestic and foreign banks.

2.2.5. Capital and Liabilities

In 2001, the volume and the structure of sources of funds of the Macedonian banks registered substantial changes. The political and security situation in the country in the first half of 2001 led to a continuous decline in the banks' deposit base, and accordingly, in the total sources of funds. The normalization of the economic flows in the second half of the year, particularly in the last quarter of 2001, and the possibility for free conversion of the foreign currency savings into Euro if deposited in a bank, resulted in an increase in the banks' deposit base.

At the end of 2001, the primary sources of funds (deposits from non-financial legal entities and households) are regarded as the most important segment in the structure of the sources of funds, accounting for 66.2%. These are followed by the own funds and the external sources (deposits from banks and borrowings), accounting for 18.1% and 12.1%, respectively.

Chart 6 – Structure of Liabilities



2.2.6. Primary sources of funds – Deposits of non-financial legal entities and households

At the end of 2001, the total amount of deposits of non-financial legal entities and households equaled 69,995 million which is by 50% more compared to the end of the previous year, i.e. 90% if it is compared to the end of the first half of 2001. If only the households' deposits are taken into consideration, which equaled Denar 41.819 million on December 31, 2001, a relative annual growth of 209% is registered, which is the main cause for the increase in the total deposit base.

Table 5 – Structure of deposits of non-financial legal entities and households

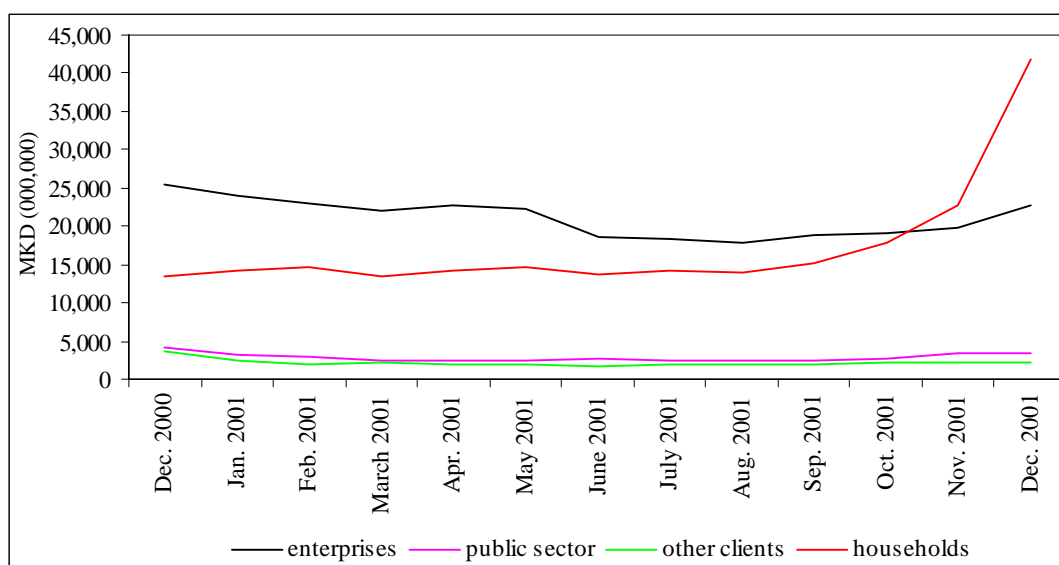
in MKD (000,000)

Period	Deposits	Enterprises		Public sector		Other clients		Households		Total
		Denar	ForEx	Denar	ForEx	Denar	ForEx	Denar	ForEx	
31.12.2000	Maturity									
	Sight deposits	8,362	8,904	3,288	-	1,279	-	3,161	4,971	29,965
	Restricted deposits	306	1,325	972	-	118	-	-	-	2,721
	Short-term deposits up to 1 year	5,442	0	684	-	192	2,012	654	1,908	10,892
	Long-term deposits over 1 year	73	0	91	5	65	2	1,954	876	3,066
	Total	14,183	10,229	5,035	5	1,654	2,014	5,769	7,755	46,644
31.12.2001	Maturity									
	Sight deposits	7,782	7,059	1,490	-	1,520	-	3,993	21,982	43,826
	Restricted deposits	301	1,604	124	-	24	-	-	-	2,053
	Short-term deposits up to 1 year	5,687	0	1,799	-	268	222	989	10,769	19,734
	Long-term deposits over 1 year	83	0	144	-	67	2	2,061	2,025	4,382
	Total	13,853	8,663	3,557	-	1,879	224	7,043	34,776	69,995
	Deposit growth rate	-2.3%	-15.3%	-29.3%	-100.0%	13.6%	-88.9%	22.1%	348.4%	50.1%

The sight deposits still dominate in the structure of the primary sources of funds with their share in the total primary sources of funds being equal to 62.6%. They are followed by the term deposits up to 1-year maturity that equaled 28.2% of the total primary sources of funds. The changes registered in the banks' deposit base during the analyzed period were mostly a result of the growth in these two deposit categories, which were higher by Denar 22,703 million or by 55.6% compared to the end of the previous year. If the comparison is made to the end of the first half of 2001, the increase is equal to Denar 32,841 million, or 106.9%.

Changes in the structure of the primary sources of funds on the basis of categories of deposit holders were registered at the end of 2001. The lower activity of the economic agents, which was especially obvious during the first eight months of the year, is reflected through the continuing downward trend of the enterprises' deposits with an average monthly rate of 5.3 %. Thus, the upward trend registered in the deposits of the enterprises in the last four months of the year (on average by 6.2% per month), was not sufficient for the deposits of this category to retain the structural precedence characteristic for the past several years. On the other hand, the gradual renewal of confidence in the banks in the Republic of Macedonia, resulted in a stability of the households' deposits in the analyzed period (during the first three quarters of the year, a monthly growth of 4.7% on average was registered, despite the security and economic situation in the country. This, together with the increase in the foreign currency deposits of the households registered in the last quarter of the year (increase of 3.9 times only in that quarter), as a result of the possibility for free conversion of the foreign exchange savings into Euro if they are deposited in banks, led to the structural precedence of the households' deposits in the total primary sources of funds at the end of 2001. Thus, at the end of December 2001, the enterprises' deposits represent 32.4 % of the total primary sources of funds, contrary to 54.7% registered at the end of December 2000, while the households' deposits account for 59.7%, contrary to 29.0% registered on December 31, 2000.

Chart 7 – Movements of the deposits of the non-financial legal entities and households



The large increase in the households' foreign currency deposits (sight deposits and short-term term deposits up to 1-year maturity) in the last quarter of the year, resulted in changes in the currency structure of the primary sources of funds. As of December 31, 2001, the foreign currency deposits account for 62.4% contrary to 42.9% recorded at the end of December 2000, while the Denar deposits account for the rest of 37.6%, compared to 57.1% registered on December 31, 2000.

2.2.7. Secondary sources of funds – Bank deposits and borrowings

The secondary sources of funds, i.e. bank deposits, short-term borrowings up to 1-year maturity and long-term borrowings exceeding 1-year maturity, equaled Denar 12.657 million at the end of 2001, and participated with 12.1% in the structure of the total sources of funds. Compared to the end of 2000, this category of source of funds registered insignificant decline of 0.9%.

In 2001, continuous decline of the bank deposits was registered, and thus, these deposits were lower by 52.0% at the end of 2001 compared to the end of 2000. The largest decrease was registered in the foreign currency deposits from domestic and foreign banks, which account for the largest part, or 63.1% of these deposits. Thus, the total foreign currency deposits from domestic banks and the sight deposits from foreign banks are lower by 49.9% and 81.9%, respectively, compared to the end of the previous year. Although the Denar deposits from the domestic banks show upward trend, their share in the total bank deposit structure is lower relative to the foreign currency deposits.

Table 6 – Structure of the bank deposits

in MKD (000,000)

31/12/2000	Domestic banks		Foreign banks		Total deposits of banks
	Denar	ForEx	Denar	ForEx	
Sight deposits	1	1,331		2,306	3,638
Short-term deposits up to 1 year	436	833			1,268
Long-term deposits over 1 year	47	0			47
Total	484	2,164		2,306	4,954
31/12/2001	Denar	ForEx	Denar	ForEx	
Sight deposits	72	516		416	1,004
Short-term deposits up to 1 year	695	568			1,263
Long-term deposits over 1 year	111	0			111
Total	878	1,084		416	2,379
Growth rate	81.39%	-49.88%		-81.95%	-51.98%

The short-term borrowings up to 1-year maturity participate with 4.5% in the structure of the total sources of funds, which is by 1.6 percentage points more compared to December 12, 2000. This category of sources of funds registered larger fluctuations during the year in the position of short-term Denar borrowings from domestic banks, as a result of the security situation in the country that led to larger dependence of the banks from the short-term external sources of funds in order to overcome the problems in managing the current liquidity.

The long-term borrowings participate with 5.3% in the structure of the total sources of funds, which is a decline of 1.4 percentage points compared to the end of the previous year. No larger fluctuations during the year were registered in this category of sources of funds. The borrowings from the foreign banks on the basis of long-term foreign credit lines, with which the long-term economic projects are financed, remained dominant with their share being equal to 62.2%.

From the aspect of the currency structure of the borrowings, no significant changes were registered in 2001. Thus, the largest part of the borrowings remained to be the foreign exchange ones (71.9%), while the rest of them account for the Denar borrowings, which are primarily the short-term liquidity credits utilized from the National Bank of the Republic of Macedonia and other banks, directly or through the Money Market.

Table 7 – Structure of the borrowings

in MKD (000,000)

31/12/2000	NBRM		Domestic banks		Foreign banks		Enterprises		Other		Total
	Denar	ForEx	Denar	ForEx	Denar	ForEx	Denar	ForEx	Denar	ForEx	
Maturity											
Short-term	0		640			1,621			86		2,347
Long-term	642		210			3,822	23		778		5,474
Total	642		850			5,444	23		864		7,822
31/12/2001	Denar	ForEx	Denar	ForEx	Denar	ForEx	Denar	ForEx	Denar	ForEx	Total
Maturity											
Short-term	0		707			3,891	0		118		4,717
Long-term	426		241	25		3,460	0		1,394	16	5,561
Total	426		948	25		7,351	0		1,512	16	10,278
Growth rate	-33.56%		11.61%			35.03%	-99.64%		75.09%		

2.2.8. Own funds

The banks' own funds equaled Denar 19.159 million at the end of 2001, with their share in the structure of the total sources of funds being equal to 18.1% in 2001. Compared to the end of the previous year, there are no significant changes in the total own funds of banks in the Republic of Macedonia.

2.2.9. Off-balance sheet activities of the banks

The off-balance sheet activity of the banks in the Republic of Macedonia is still in the framework of the classical off-balance sheet activities: issuance of guaranties, opening letters of credit and granting framework credits. The undeveloped financial market in the Republic of Macedonia and the poor supply of financial instruments and securities, make the banks restrain from their involvement in the operations with financial derivatives: futures, forwards, swaps and options, ultimate goal of which should be minimization of the risks the banks are exposed to.

The total off-balance sheet assets of banks in the Republic of Macedonia as of December 31, 2001 equal Denar 15.440 million, which is an increase of Denar 1,442 million compared to the end of 2000, which is mainly due to the increase in the covered off-balance sheet items by Denar 1,561 million.

The risky off-balance sheet items participate with 79.7% in the total off-balance sheet assets which represents a decline of 9.1 percentage points relative to the end of 2000.

The previously stated indicator points out that a significant share (almost 80%) of the total off-balance sheet activities of the banks in the Republic of Macedonia are exposed to a certain credit risk and because of that, they can be potentially transformed into balance sheet claims.

From the structural aspect, the largest share in the total off-balance sheet assets accounts for the uncovered guaranties and letters of credit, which as of December 31, 2001 participate with 57.1% in the total off-balance sheet assets. Their share in the structure of the off-balance sheet assets shows a decline of 7.6 percentage points compared to the situation at the end of 2000.

Table 8 – Off-balance sheet activities

in MKD (000,000)

	31.12.2001	30.06.2001	31.12.2000	30.06.2000	31.12.1999	30.06.1999	31.12.1998	30.06.1998	31.12.1997
<i>Covered off-balance sheet items</i>	3,134	2,683	1,573	2,338	1,899	1,625	1,795	2,367	1,620
<i>Performance guaranties</i>	3,340	3,789	3,244	3,297	2,744	3,337	3,005	3,523	2,531
<i>Unused lines of credits</i>	155	278	123	29	65	110	110	15	49
<i>Uncovered guaranties, letters of credit and other off-balance sheet items</i>	8,811	9,069	9,059	9,224	9,300	8,993	9,826	9,066	8,319
<i>Total off-balance sheet</i>	15,440	15,818	13,998	14,887	14,008	14,065	14,736	14,971	12,520
<i>Risk assets / total off-balance sheet assets</i>	79.70	83.04	88.77	84.30	86.44	88.45	87.82	84.19	87.06

2.3. Performances of the banks in the Republic of Macedonia

2.3.1. Capital adequacy / Insolvency risk

2.3.1.1. Level of the capitalization of the banks in the Republic of Macedonia

The total amount of the capital of all banks in the Republic of Macedonia equals Denar 19.159 million, which represents a countervalue of Euro 314.3 million. In 2001, the level of the capital of all banks remained almost unchanged, i.e. it registered insignificant increase of Denar 57 million, or by 0.3% compared to December 31, 2000.

The analysis of the capital structure according to the participation of separate banks, shows that the capital of the two largest banks represents 29.6% of the total capital on the level of all banks, while the share of the remaining 19 banks equals 70.4%. The capital of the two largest banks equals Denar 2,835 million, on average, which is a countervalue of Euro 46.5 million, while the capital of the remaining 19 banks equals Denar 709.9 million on average, or a countervalue of Euro 11.6 million. Certain structural movements towards a decrease in the share of the two largest banks by 3.8 percentage points were registered, at the expense of an appropriate increase in the share of other banks in the banks' total capital. The decline in the structural share of the two largest banks by 3.8 percentage points is mainly due to the coverage of the negative financial results of the largest bank from its own funds on the one hand, and the payment of the capital with the establishment of the Euroswiss Bank and the reorganization of the Postal Savings House into Postal Bank a.d. Skopje.

Higher growth of the net assets in 2000 compared to 2000, which is reflected mainly through the increase in the banks' liquid, caused the decline in the level of capitalization seen through the coverage ratio of the balance activities with the banks' own funds. Annually observed, the banks' own funds register an increase of 0.3% while the total assets increased by 28.8%. As a result, the capitalization rate as of 31.12.2001 equaled 18.1%, which is a decline of 5.1 percentage points compared to the end of December 2000.

A table presenting the level of capitalization of the banks in the Republic of Macedonia as of March 31, 2001 is given below.

Table 9

<i>in MKD (000,000)</i>										
BANK	Net assets	Provisions for potential losses	Gross assets	Owned funds	Guarantee capital	Risk weighted assets	Capitalization rate - net (%)	Capitalization rate - gross (%)	Capital adequacy (%)	
1	2	3	4	5=3+4	6	7	8	9=6/3	10=6/5	11=7/8
1. Two largest banks	58,937	4,518	63,455	5,670	5,481	26,217	9.62	8.94	20.90	
2. Other banks	46,696	3,340	50,036	13,488	13,218	28,369	28.89	26.96	46.59	
3. Total (3=1+2)	105,633	7,858	113,491	19,159	18,699	54,586	18.14	16.88	34.26	

As of December 31, 2001, the capitalization rate of the two largest banks equaled 9.6%, which is less by 8.5 percentage points compared to the average capitalization rate of all banks. The average capitalization rate of other banks equaled 28.9%, which is by 10.8 percentage points more compared to the average rate. The reason for the notable differences in the capitalization rates of the two largest banks and the remaining ones, still lies in the fact that the largest banks have a more diverse structure of the financing sources, and primarily a more developed deposit base. Unlike them, the dominant source of financing of the activities of the smaller banks remained the own assets.

The level of capitalization of the banks can be analyzed through the indicator for the level of coverage of the total on-balance sheet and off-balance sheet claims with own funds. As of December 31, 2001 this indicator equaled 15.8%, which is a decrease of 4.1 percentage points compared to December 31, 2000, while in comparison with June 30, 2001, it declined by 6.4 percentage points. In conditions of almost unchanged scope of the capital, the downward trend of this indicator is mainly due to the increment of the on-balance sheet assets of 28.8%, and to a lesser extent, to the increase in the off-balance sheet activities of 10.3%.

2.3.1.2. Capital adequacy ratio of the Banks in the Republic of Macedonia

The capital adequacy ratio is the fundamental Basle standard for measuring the level of capitalization of the banks. This indicator reflects the bank's capital position, taking into account the level of risk undertaken during its operations. In accordance with the Basle Methodology for Determining and Calculation of the Capital Adequacy, which is applied in the domestic supervisory regulation, the capital adequacy ratio is calculated as a relation between the guarantee capital and the bank's risk weighted assets.

In Annex 4, the structure of the guarantee capital and the charts presenting the structure of the risk weighted on-balance sheet and off-balance sheet assets of the banks in the Republic of Macedonia for the June 30, 1997 – December 31, 2001 period are presented.

As of December 31, 2001, the guarantee capital of the banks in the Republic of Macedonia equaled Denar 18,699 million, which means that it remained almost unchanged compared to the previous year. The table presenting the structure of the guarantee capital reveal that the dominant component in determining the guarantee capital is the equity capital of the banks, that results from the issued common and preference shares. The banks have not used the legal opportunity to increase their guarantee capital through providing the so-called hybrid capital instruments and subordinated liabilities yet, which are included as a component of the additional capital according to the Basle Methodology.

The risk-weighted assets equaled Denar 54,586 million as of December 31, 2001, which is by Denar 3,649 million more compared to the end of December 2000.

From the chart presenting the structure of the risk-weighted balance sheet assets of the banks in the Republic of Macedonia, it is evident that the active balance sheet positions, which incorporate a certain level of risk, participated with 43.9% in the total banks' assets as of December 31, 2001, which represents the lowest level reached during the analyzed period. This situation is due to the increase in the structural share of the assets which weight equaled 0%. Thus, as of December 31, 2001, the structural share of the assets with a weight of 0% equaled 34.3%, and represents the highest level registered during the analyzed period. On the other hand, the share of the active balance sheet positions with a risk weight of 100% on the same date reached its minimum of 38.4%. As an illustration, on June 30, 2001 the share of these positions equaled 55.3%, while on December 31, 2000, it equaled 44.2%. These structural movements within the risk-weighted balance sheet assets are reflection of the structural movements, i.e. the enlarged balance sheet operations of banks, which were especially evident in the last quarter of 2001. As it was mentioned previously, the increase in the balance sheet operations of banks is mainly due to the significant inflow of household deposits in banks, which on the side of the assets, was reflected in the growth in the liquid assets, which in accordance with the Basle Methodology of Calculating the Risk-Weighted Balance Sheet Assets, has 0%, or possibly 20% risk-weight (deposits with domestic and foreign banks).

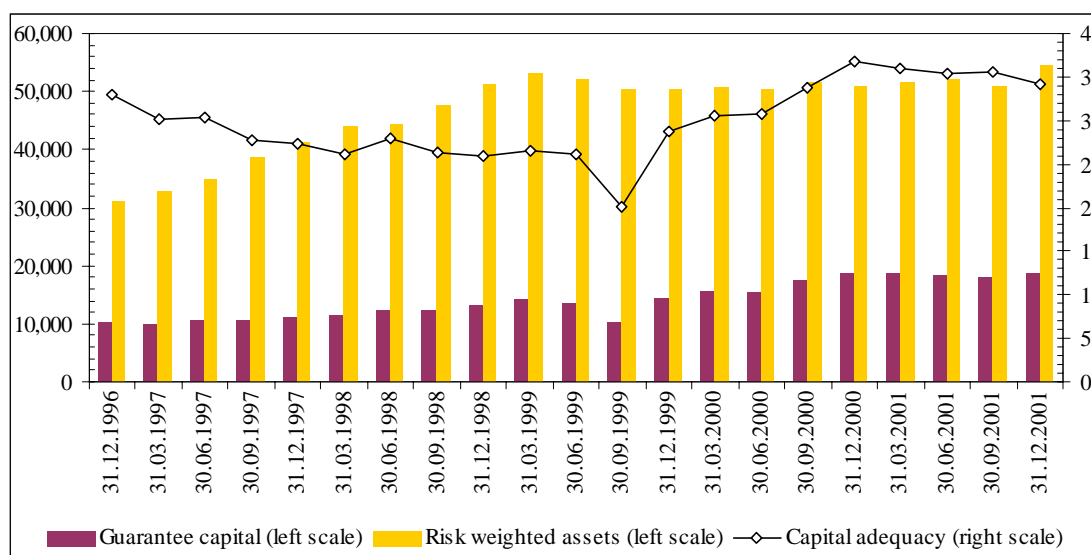
The chart presenting the risk-weighted off-balance sheet assets of the banks in the Republic of Macedonia reveals that in 2001, the share of the risk off-balance sheet positions in the total off-balance sheet operations of banks declined by 8 percentage points. This is mainly due to the decrease of the 100% risk-weighted positions, at the expense of the increase in the 0% risk-weighted positions.

The average capital adequacy ratio of the banks in the Republic of Macedonia, as a relation between the guarantee capital and the risk-weighted assets equaled 34.3% at the end of 2001, which is a drop of 2.4 percentage points relative to the previous year. However, the capital adequacy ratio of the two largest banks equaled 20.9%, and relative to the capital adequacy ratio of all banks declined by 13.4 percentage points. The average capital adequacy

ratio of other banks equaled 46.6% which is by 12.3 percentage points more relative to the total average.

All banks in the Republic of Macedonia meet the prescribed minimum capital adequacy ratio of 8%. The bank-by-bank analyzes indicates that the lowest capital adequacy ratio equals 19.8%, while the highest one 342.8%.

Chart 8 – Movements of the Guarantee Capital, the Risk-Weighted Assets and Capital Adequacy Ratio



According to the chart presenting the movements of the capital adequacy ratio during the analyzed December 31, 1996 – December 31, 2001 period, three stages depending on the registered trend of this indicator, can be distinguished. Namely, until September 30, 1999, this indicator registered a moderate downward trend, which reduced from 33%, as it equaled as of December 31, 1996, to 20.2% on September 30, 2000, followed by an increase that was maintained until the end of 2000, when it reached 36.7%. During 2001, the capital adequacy ratio retained the level of approximately 35%.

2.3.2. Credit Risk

One of the main pillars for the liquidity, profitability and the solvency of the banks, is the quality of their assets. Therefore, the analysis of the assets quality of the banks, and thus the analysis of the credit risk which the banks in the Republic of Macedonia are facing with, represents a very important segment in the total analysis of the banking system performances.

Due to the dominance of the classical banking functions of intermediation and the low level of development of the financial markets and instruments, the credit risk has the most significant role in defining the risk profile of the banks in the Republic of Macedonia.

In 2001, an increase in the credit risk that the banks are facing with was registered due to the security crisis in the Republic of Macedonia. This situation contributed to the termination of the positive trend of improvement of the assets quality indicator registered in 2000, that reflected the recovery of the banks from the consequences from the external shock caused by the Kosovo crisis in 1999.

Namely, the main indicators for the quality of the credit portfolio of the banks calculated as of December 31, 2001 show a trend of deterioration in 2001. The analysis of the

assets quality, i.e. the structure and the quality of the credit portfolio of the banks in the Republic of Macedonia made on the basis of calculated indicators as of December 31, 2001 (Annex 3), is given below in the text.

The total credit exposure of the banks in the Republic of Macedonia as of December 31, 2001, equaled Denar 53,039 million, which compared to December 31, 2000 is an increase of 4.8%. If the off-balance sheet risk exposure is excluded, then the participation of the remaining share of the credit portfolio in the total gross-assets on December 31, 2001, equaled 37.3% which compared to December, 31 2000, is a decline of 7.7 percentage points. This decline of the structural share of the credit portfolio in the total gross-assets of the banks is primarily due to the increase in the total assets, i.e. the banks' funds as a result of the increase in the deposit base in the process of converting the 12 European currencies in Euro.

The structural analyzes of the credit portfolio indicates that the category regular credits with share of 57.9% (as of December 31, 2001) is its most dominant component also during 2001. In the structure of the credit portfolio, the regular credits are followed by: non-performing credits, (19%), off-balance sheet exposure (17.6%), other claims (4.1%), and regular interest (1.2%). Compared to December 31, 2000, the structural share of the aforementioned categories remained almost unchanged.

A very significant aspect of the analysis of the performances of the credit portfolio is the quantification of the variety of indicators for identifying the banks' placements that bear higher degree of risk and that cause unfavorable performances of their total risk profile with their unfavorable influence on the liquidity and the solvency of the banks.

As of December 31, 2001, the total credit exposure in risk categories C, D and E equaled Denar 17,892 million, which represents 95.7% of the guarantee capital of the banks in the Republic of Macedonia.

However, in order to perceive the trend of change in the quality of the credit portfolio of the banks in 2001, the total amount of claims classified in the risk category E longer than two quarters, that are re-entered in the off-balance sheet record during the year, should be taken into account. Thus, including this amount that equaled Denar 3,835 million in 2001, the total credit exposure of the banks as of December 31, 2001 equaled Denar 21,727 million. So, the share of the total exposure classified in the risk categories C, D and E in the total portfolio of banks as of December 31, 2001 equaled 38.2%, which is an increase of 3.4 percentage points compared to December 2000. If the guarantee capital is taken as a basis, the indicator "total credit exposure in C, D and E / guarantee capital" equals 116.2%. The aggravation of the indicator by 22 percentage points relative to 2000 is a result of the absolute increase in the placements in C, D and E of Denar 4,113 million, despite the almost unchanged amount of the guarantee capital. The reason for the stagnation of the guarantee capital despite the invested foreign capital and the establishment of two banks, is the loss of Denar 620.3 million registered on the level of all banks in 2001, which affects the own assets, and the guarantee capital, as well.

If during the analysis the allocated provisions for the credit exposure classified in the risk categories C, D and E are taken into account, it is evident that the uncovered share of this segment of the banks' risk exposure equals Denar 9,789 million, which represents 17.2% of the total credit portfolio, i.e. 52.4% of the guarantee capital of the Macedonian banks as of December 31, 2001. This shows that the high credit risk may be considered as lower because of the high level of capitalization of the banks in the Republic of Macedonia. It means that if the worst case scenario is assumed where the banking placements in the risk categories C, D and E are not collected at all, then the losses would be covered with 53.4% of the guarantee capital, which means that the banks will remain in the solvency zone.

Certain indicators for the quality of the credit portfolio of the Macedonian banks since 1997 are given below³.

Table 10 – Indicators for the quality of the credit portfolio of the banks in the Republic of Macedonia

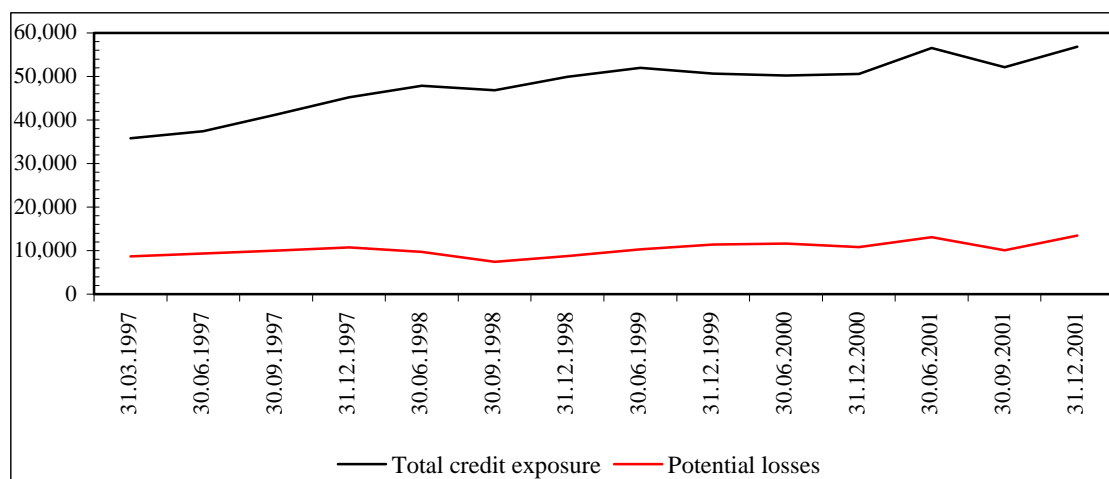
	<i>in %</i>					
<i>Indicators</i>	<i>31.12.1997</i>	<i>31.12.1998</i>	<i>31.12.1999</i>	<i>31.12.2000</i>	<i>31.12.2001</i>	<i>31.12.2001*</i>
<i>% of C,D,E in total credit exposure</i>	35.6	32.9	41.3	34.8	33.73	38.2
<i>% of D,E in total credit exposure</i>	24	17.27	25.1	22.7	18.85	24.3
<i>% of C,D in total credit exposure</i>	24.5	29.8	34.4	26.18	29.47	27.5
<i>% of E in total credit exposure</i>	11.1	3.1	7	8.6	4.3	10.7
<i>% of risk (potential losses/total exposure)</i>	23.8	17.5	22.6	21.4	18.1	23.6
<i>% of C,D,E in guarantee capital</i>	143	123.4	145.3	94.2	95.7	116.2
<i>% of D,E in guarantee capital</i>	96.2	64.8	88.3	61.4	53.5	73.9
<i>% of C,D in guarantee capital</i>	98.5	111.7	120.8	70.8	83.6	83.6
<i>% of E in guarantee capital</i>	44.4	11.7	24.6	23.4	12.1	32.6
<i>% of net C,D,E in guarantee capital</i>	60.9	70.5	74.6	43.6	52.4	52.4

* Indicators for the quality of the credit portfolio in which calculation the amount of non-performing loans re-entered in the off-balance sheet record is taken into account.

The risk level of the credit portfolio of the Macedonian banks that shows the relation between the calculated potential losses and the total credit exposure equaled 23.6% as of December 31, 2001, which corresponds to the risk category C (25%). As a comparison, this indicator equaled 21.4% at the end of December 2000, and 22.6% at the end of December 1999.

The movements of the credit exposure and calculated potential losses of the banks since the end of 1997 until present day, are given in the chart below.

Chart 9 - Movement of the credit exposure and calculated potential losses of the banks



The total credit exposure of the banks in the analyzed December 31, 1997 – December 31, 2001 period increased by Denar 11,623 million or by 25.7%. During the same period, the identified potential losses in the credit portfolio of banks are enlarged by Denar 2,692 million or 25.0% and reached Denar 13,448 million as of December 31, 2001.

³ A table presenting a detailed review of certain indicators for the quality of the credit portfolio of the banks in the Republic of Macedonia is given in the Annex 3.

When analyzing, it should be taken into account the potential losses identified as of December 31, 2001 do not correspond with the allocated loan loss provisions contained in the aggregate balance of the Macedonian banks. Those latent losses that are not shown in the banks' balance sheets were identified during the on-site examinations. Thus, as of December 31, 2001, the non-allocated loan loss provisions (including the amount of unrecorded non-performing interest) are registered in 5 banks, with a total amount of Denar 97.5 million.

Taking into consideration the average risk rate of the total credit portfolio of banks that equals 23.6%, it is evident that 5 banks are exceeding the average level, while the rate of risk of the credit portfolio of the other banks is lower than the average risk rate calculated on the level of all banks.

2.3.3. Liquidity Risk

In 2001, the banks in the Republic of Macedonia faced serious challenges relative to the liquidity risk management. As a result of the crisis in the country that was conditioned by unfavorable external factors in the first three quarters of the year, the trend of strengthening of the deposit potential of the banks registered in 2000 was terminated. Influenced by the economic and psychological factors, the total bank deposits in the first three quarters of 2001 showed significant decrease that created serious problems for the banks and the National Bank of the Republic of Macedonia, as well, in maintaining the liquidity of the banking system. Having in mind the war crisis, the higher level of currency in circulation during the second and the third quarter of the year, together with the typical preference of the economic agents, especially in critical periods, to keep cash funds available in hard currency, resulted in an increased demand for foreign currency on the foreign exchange market and pressure on the Denar exchange rate. The changes in the conditions in which the macroeconomic policy was conducted caused redesigning of the monetary policy instruments in June 2001, with a unique aim to preserve the Denar exchange rate stability as well as the macroeconomic stability as a whole. These changes had significant effects on the liquidity risk management with banks, from the aspect of instruments that were at their disposal for liquidity management. The efficiency of the redesigned monetary policy instruments enabled the pressure on the Denar exchange rate to stabilize in a relatively short period of time (until September 2001). In September, the continuing downward trend of the deposit base of Macedonian banks was terminated. As a result of the gradual normalization of the economic situation in the country and the elimination of the pressures on the Denar exchange rate in October, the Central Bank lowered the interest rate of the CB bills and increased the level of the collateralization of credits extended on the auctions, in order to support the positive trends in the economy, and in accordance with the money market developments. During the last quarter, especially in December, the process of converting the currencies of the EMU member-states into Euro, resulted in more intensive growth of the total deposits.

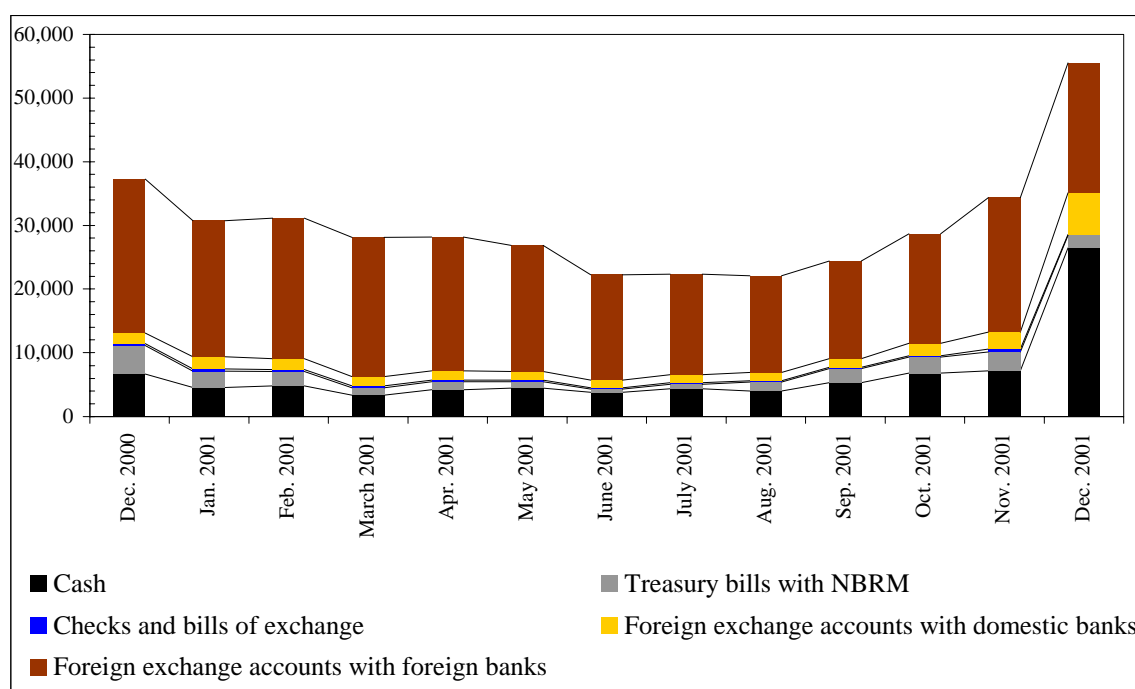
The analysis of the liquidity position of the banks in the Republic of Macedonia and the instruments for the liquidity risk management in 2001 is given further in the text.

The share of the liquid assets⁴ in the total banks' assets equaled 54.6% at the end of 2001, or 7.3 percentage points more compared to the previous year. The average monthly share of the liquid assets in the total assets of the banking system during the year equaled 37.4%. As a result of the war crisis and the withdrawal of the deposit base during the year, the share of the liquid assets in the total assets registered oscillations. Thus, during the first eight months of the year, the banks' liquid assets declined continually, and in August they reached the lowest level of Denar 22,069 million in August, or 30.9% of the banks' total assets. During the last four months of the year, the process of conversion of the foreign exchange

⁴ The liquid assets include funds and balances with the National Bank of the Republic of Macedonia, CB bills with NBRM, short-term debt securities, short-term credits and balances on the accounts with domestic and foreign banks

savings in EMU currencies into Euro, resulted in a remarkable increase in the foreign currency sight deposits, which was primarily reflected in the increase of the cash foreign exchange funds, and in the foreign exchange current accounts of the commercial banks with the NBRM, through which the largest part of the banks conducted the real conversion of the EMU currencies. The conversion of the EMU currencies into Euro caused notable changes in the structure of the banks' liquid assets in December 2001, when the largest quantum of foreign exchange savings were deposited with banks. The most significant positions in the liquid assets are the foreign exchange accounts of the domestic banks with foreign banks, and the cash funds. Thus, the average monthly share of the foreign exchange accounts with foreign banks in the structure of the liquid assets equaled 69% in the first 11 months of the year, while the monthly share of cash funds equaled 18% on average. During December, a significant change in the structure of the liquid assets occurred, that led to an increase in the share of cash funds in the liquid assets of 48%, mainly due to the increase in the cash foreign exchange funds, while the foreign exchange funds with foreign banks registered a decline in their share in the liquid assets of 37%. The remaining 15% of the liquid assets refer to the treasury bills of the NBRM subscribed by the banks (3%) and the foreign exchange accounts with authorized domestic banks (12%), out of which the largest part with the National Bank of the Republic of Macedonia.

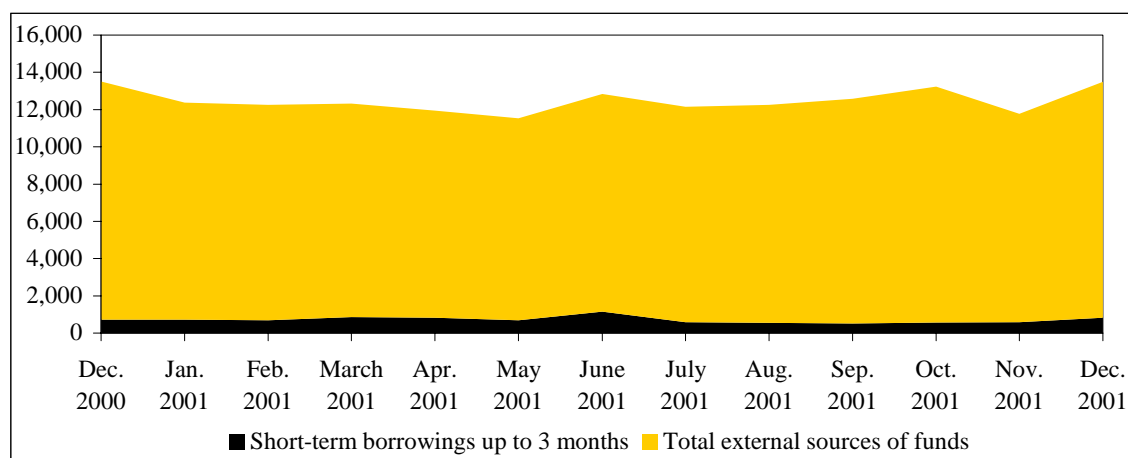
Chart 10 – Movement of the liquid of the banks in the Republic of Macedonia



As a result of the psychological factors and the downward trend of the economic activities of the economic agents in the country caused by the war crisis, a continuing decrement of the deposit base of the Macedonian banks was registered in the first eight months of the year. Thus, the total amount of deposits that equaled Denar 51,598 million at the end of 2000, reduced to Denar 39,196 million at the end of August, i.e. from the structural aspect, their share in the total sources of funds was reduced to 54.9%. The withdrawal of sight deposits, which are normally the most unstable, but however, represent the largest segment in the deposit base of the Macedonian banks (monthly average of 62.3%) according to its structural share, was the main cause for the deterioration of the banks' liquidity. During the first eight months of the year, the sight deposits declined by Denar 9,456 million, or by 28.9% compared to the end of 2000. During the last four months of the year, a significant growth of

the banks' deposit base was registered, due to the conversion of the EMU currencies into Euro. Thus, the total banks' deposits in this period increased by Denar 33.206 million or by 84.8%, out of which, the largest portion of Denar 21,130 million was deposited in December. Thus, the total banks' deposits reached Denar 72,374 million at the end of the year. From a structural aspect, the largest part of the deposit base growth refers to the sight deposits. Thus, 68.2% of the deposits deposited with banks during the last months, are sight deposits. These movements contributed the sight deposits account for 63.4%, or to have dominant share in the total deposit structure. The increase of the most unstable part of the deposit base, which can flow out of the banks any moment, was one of the reasons for the banks to keep the largest part of the collected deposits as cash liquid funds or fund on the current foreign exchange accounts with foreign or domestic authorized banks in December 2001 and in the first months of 2002.

Chart 11 – The share of the short-term borrowings in the total external sources of funds



The oscillations in the deposit base during the year resulted in a need of continuous utilization of short-term external sources of funds by the banks in their liquidity management. In 2001, the external sources of funds participated in the total liabilities of the banks with an average share of 20.4% on a monthly basis. As a result of the large increase in the deposit base of the banks, the external sources of funds lowered their structural share in the total liabilities to 14.6% at the end of 2001, i.e. by 5.7 percentage points compared to the end of the previous year. The share of the short-term borrowings from banks, in order to maintain the Denar liquidity in the total external sources of funds, varied from month to month during 2001. These borrowings reached their highest level in June, i.e. during the escalation of the war developments in the country when the banks faced with the largest withdrawal of deposits. At the end of June, these borrowings equaled Denar 1,051 million, or 9% of the total external sources of funds. During the second half of the year, the share of these sources of funds in the total external sources of funds varied between 3% and 4%, while in December it registered an increase and equaled 5.6%.

Another element that had a negative impact on the liquidity of the Macedonian banks in 2001, was the worsened quality of the credit portfolio, which was mainly due to the high credit risk that resulted from the deteriorated security in the country. The deteriorated security in 2001, affected negatively the economic activity of the economic agents, which in case of banks, reflected on the collection of the due claims on the basis of interest and principal, i.e., on the increase of the non-performing claims. Thus, at the end of 2001, the non-performing loans increased by Denar 1,892 million, while the reversed income on the basis of regular interest, which was given a non-performing status during the year, equaled Denar 2,087 million. From the aspect of the credit portfolio riskiness, the indicator for the bad loans in the total credit exposure increased by 3.4 percentage points, and reached the level of 38.2% of the

total credit exposure relative to 2000, taking into account the claims transferred to an off-balance sheet record in accordance with the Decision on the Supervisory Standards for Regulation of the Overdue Claims of the Banks and Savings Houses. The decreased inflow of funds from the credit portfolio, together with the oscillations in the deposit base, made the banks face serious problems with planning and managing the liquidity during the year, or cover the liquidity “gaps” by using relatively expensive external sources of funds.

In order to maintain the stability of the Denar exchange rate that remains to be the nominal anchor of the monetary policy, during the first six months of the year the National Bank of the Republic of Macedonia undertook appropriate measures for stabilization of the exchange rate of the national currency, which reflected on the scope of the activities of the banks. In this regard, the National Bank of the Republic of Macedonia acted towards meeting the demand with interventions on the foreign exchange market, while simultaneously, it reduced the Denar liquidity through redesigning of the monetary policy instruments.

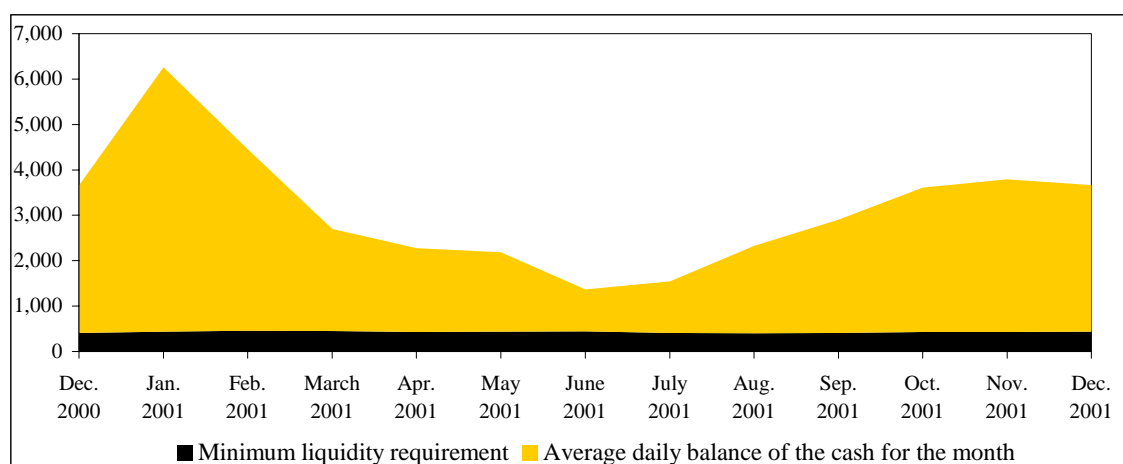
During the second quarter of 2001, the National Bank of the Republic of Macedonia increased the requirement for allocation of compulsory reserve on couple of occasion , in order to withdraw the excess liquid assets and in function of loosening the pressure on the Denar exchange rate.

The average amount of funds that the banks maintained above the minimum liquidity requirement during the previous year, registered a decrease in 2001. Thus, the surplus of funds that exceeded the minimum liquidity requirement of Denar 2,850 million, as it equaled at the end of 2000, reduced to Denar 481 million in June 2001. During the second half of the year, especially in the fourth quarter, the average amount of liquid assets exceeding the minimum liquidity requirement registered approximately the same level as the one registered at the end of 2000, and thus equaled Denar 2,790 million as of December 31, 2001.

Table 11 – Meeting of the compulsory reserve requirement

<i>in MKD (000,000)</i>								
2001	Average requirement for allocation of compulsory reserve	Average balance of compulsory reserve	Average of used compulsory reserve	Average percentage of compulsory reserve usage	Average cumulative amount of allocated compulsory reserve	Average amount of allocated compulsory reserve	Average percentage of allocated compulsory reserve for the month (%)	Average excess/deficiency of allocated funds for compulsory reserve
January	1,362	1,723	119	8.36	21,795	1,995	140.01	6,265
February	1,501	1,433	231	15.70	22,210	1,601	106.86	2,099
March	1,513	1,572	171	11.32	20,562	1,588	104.97	1,033
April	1,475	1,735	82	5.58	22,136	1,746	118.51	2,600
May	1,508	1,543	172	11.60	20,126	1,608	108.48	1,673
June	1,812	1,587	390	20.85	22,491	1,700	95.40	- 738
July	1,811	1,785	314	16.88	22,416	1,682	93.28	- 2,448
August	1,695	1,919	95	5.63	22,744	1,913	112.85	2,376
September	1,699	2,170	64	3.77	22,470	2,203	129.54	4,224
October	1,765	1,852	221	12.50	22,357	1,802	102.51	2,504
November	1,791	1,924	156	8.73	20,889	1,928	107.70	1,419
December	1,813	1,984	182	10.02	22,009	2,037	112.33	2,139
average for 2001	1,645	1,769	183	11	21,850	1,817	111	1,929

Chart 12 – Meeting of the minimum liquidity requirement



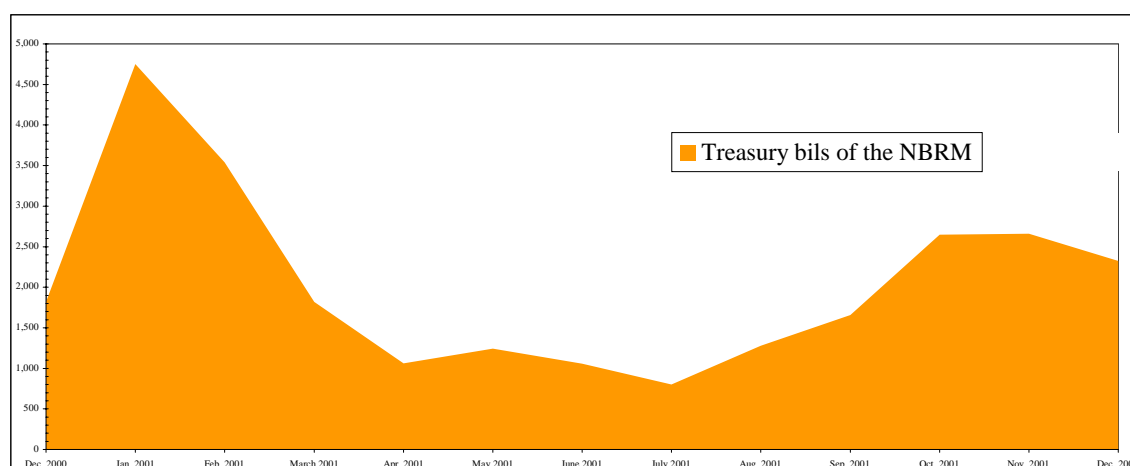
In May 2001, the National Bank of the Republic of Macedonia started to apply the volume tender of CB bills with the interest rate being by several percentage points higher than the interest rate on the Money Market. Besides this measure, at the beginning of June 2001 the National Bank of the Republic of Macedonia started to organize CB bills auctions on daily basis with differentiated time limits and interest rates, in which other economic agents can participate with the intermediation of commercial banks, in order to increase the attractiveness of the treasury bills. Thus, the National Bank of the Republic of Macedonia offered the following maturities and interest rates:

- three days – interest rate of 13%;
- seven days – interest rate of 14%;
- fourteen days – interest rate of 14%;
- twenty-eight days – interest rate of 15%.

Simultaneously, the National Bank of the Republic of Macedonia increased its transparency by announcing this instrument in the media, enabling the non-financial legal entities and natural persons to subscribe CB bills through commercial banks. The main intention for changes in this instrument was to withdraw the excess of liquid assets that pressured the foreign exchange market, in conditions when the banks did not respond to the increase in the interest rate, which was one of the measures of the monetary policy.

At the end of June 2001, the interest rate on the CB bills with maturity of 28 days, increased by 20% on annual basis. In conditions of lower liquidity of banks, the average amount of subscribed CB bills with the NBRM reduced to Denar 800 million in July 2001. During the second half of the year, and especially during the last quarter, after the stabilization of the banks' liquidity position mainly due to the increase in the deposit base, a new increase in the funds that the banks have placed in treasury bills with the NBRM, was registered. At the beginning of September, the National Bank of the Republic of Macedonia stopped offering the CB bills with three-day maturity while in October it lowered the interest rate on the CB bills with maturity of seven and fourteen days from 14% to 11%, and the CB bills with 28-day maturity from 20% to 17%. In November it lowered the interest rate to 15% annually. In December 2001, the average amount of subscribed CB bills equaled Denar 2,323 million, or Denar 503 million more compared to the average registered in the same period of the previous year.

Chart 13 – Average amount of CB bills subscribed by the banks



The Money Market plays a significant role in the management of the liquidity of banks, through which the banks place a part of the excess available funds. Taking into account the lower liquidity of the banking system during the first three quarters of 2001, the demand for funds on the Money Market was higher than the supply, which implied continuing growth of the interest rates on these funds. This situation was due to the lack of funds offered on the Money Market, conditioned by the reluctance of the banks to sell funds on this Market as a result of the incapability to plan the liquidity precisely in conditions of high volatility of the deposit base. The average weighted interest rate registered at the Money Market, reached its highest level in September, equaling 19.34% or 9.65 percentage points more than the level registered in December the previous year.

The increase in the interest rate on the Money Market resulted in a decline of the average amount of funds that the banks are utilizing through this institution. In September 2001, the lowest average amount of used funds on the Money Market was realized, equaling Denar 108 million, with an average realization in the amount of Denar 654 million. With the stabilization of the banks' liquidity position, a gradual harmonization of the supply and the demand on the Money Market was registered during the last quarter of the year, which led to gradual decline of the interest rate. Thus, in November and at the end of December the average weighted interest rate registered on the Money Market equaled 13.5% and 11.9%, respectively.

Table 12 – Average amount of funds used through the Money Market

	<i>in MKD (000,000)</i>				
	<i>supply</i>	<i>demand</i>	<i>realization</i>	<i>average amount of funds used on the Money market</i>	<i>weighted interest rate (in %)</i>
<i>average for 2000</i>	2,066	1,861	1,663	345	9.69
<i>January 2001</i>	1,344	1,032	1,012	245	7.21
<i>February</i>	2,166	2,228	1,943	329	7.39
<i>March</i>	2,177	2,577	2,073	339	8.08
<i>April</i>	1,758	1,805	1,597	273	9.29
<i>May</i>	1,879	2,471	1,789	253	10.87
<i>June</i>	1,136	2,852	1,115	152	13.81
<i>July</i>	581	1,347	581	136	15.83
<i>August</i>	776	1,049	746	144	18.44
<i>September</i>	670	1,020	654	108	19.34
<i>October</i>	1,141	1,412	1,067	146	18.55
<i>November</i>	1,836	1,679	1,615	249	13.49
<i>December</i>	2,477	2,644	2,323	238	11.92
<i>average for 2001</i>	1,495	1,843	1,376	218	13

The deteriorated liquidity of the banks implied more frequent use of liquidity instruments at last resort, which serve as instruments for financing the liquidity deficit of the banks. In order to harmonize the aims and objectives of the redesigned monetary policy, the National Bank of the Republic of Macedonia modified the Lombard credits and foreign exchange swaps.

During the second quarter of 2001, the National Bank of the Republic of Macedonia increased the interest rates on Lombard credits on couple of occasions, first to 19% and afterwards to 23% on annual basis, in order to put in line with the other interest rates. At the same time, the time limit for using the Lombard credit was reduced from 10 to 5 days during the month. However, in June an increase in the level of collateralization of the Lombard credit was registered and it equaled 55% of the face value of the pledged securities. The introduction of more rigorous conditions for using the Lombard credits was aimed at enabling their rational use by the banks (only as a lender of last resort).

During the last quarter of the year, the occasional oscillations in the liquidity position of separate banks caused the Lombard credits to be used as a liquidity management instrument of last resort, although the liquidity of the banking system was satisfactory.

Table 13 – Lombard credits granted by the National bank of the Republic of Macedonia

in MKD (000,000)

2001	Number of banks	Amount of Lombard credit	Maturity (days)	Weighted interest rate (in % p.a.)
January	1	97	1	17.5
February	2	152	2	17.5
March	2	378	7	17.5
April		-		
May	2	14	2	17.5
June	4	992	15	22.9
July	2	1,447	7	23.0
August	1	1,089	3	23.0
September	3	2,785	4	23.0
October	3	2,996	7	23.0
November	3	1,268	4	23.0
December	2	1,840	5	23.0

In order to get in line with the aims of the monetary policy, in June the National Bank of the Republic of Macedonia redesigned the foreign exchange swaps as well, as an instrument of last resort. The application of this instrument was limited to 5 days during the month, and its use is permitted only in case when the banks are under or on the level of prescribed foreign exchange minimum, according to the last report on the foreign exchange position.

Table 14 – Swap transactions of banks with the National Bank of the Republic of Macedonia

in MKD (000,000)

2001	Number of banks	Weighted average monthly extension of SWAP transactions by NBRM (auctions)	Number of banks	Weighted average monthly extension of SWAP transactions by NBRM (bilateral transactions)
January		0	4	35
February	2	19	8	32
March	4	152	4	22
April		-	2	36
May		-	5	27
June	2	13	-	-
July	2	15	1	678
August				
September				
October	1	2	1	300
November				
December				

At the beginning of August 2001, the last stage of the reform of the payment system in the Republic of Macedonia, i.e. the introduction of RTGS system and the process of transferring the accounts of the legal entities from the Payment Operations Bureau with the commercial banks, was initiated. The reform of the payment system was completed at the end of 2001.

With the establishment of the new payment system, the National Bank of the Republic of Macedonia introduced a new opportunity i.e. permitted overdraft (intraday credit - secured by government bonds and CB bills in the equal percentage as in the Lombard credits), in order to facilitate the payments of the banks. The changes that occur in the payment operations and the transfer of a part of the public sector deposits with the commercial banks, lead to a need for redesigning the compulsory reserve instrument, which

was carried out during the first quarter of 2002. The establishment of the new payment system enabled the banks to monitor the assets of their depositors much better, which should contribute to the improvement of planning and managing the liquidity.

2.3.4. Analysis of the Profitability of Banks in the Republic of Macedonia and Evaluation of their Efficiency

2.3.4.1. Profit and Loss Account Structure

At the end of 2001, the banks in the Republic of Macedonia presented negative financial results on aggregate basis in the amount of Denar 620.3 million. As of December 31, 17 out of 21 banks in the Republic of Macedonia presented positive financial results, whereas 4 banks registered negative financial results. If the presented negative result of one bank is excluded, the banks in the Republic of Macedonia would show positive financial results on aggregate basis, which will be almost the same as those recorded in the previous year.

The reasons for the presented negative financial result at the end of 2001, may be identified by the structural and comparative analysis of the aggregate profit and loss account presented in Annex 2 of this Report.

At the end of 2001, the total interest income of banks equaled Denar 4,483 million, which is a decline of Denar 682.2 million or by 13.2% compared to the total interest income presented at the end of 2000. The structural analysis of the interest income during the analyzed period, indicates that the recorded decline is due to the decrease in the interest income of the enterprises of Denar 403,8 million or by 9.7%, as well as to the increase of Denar 422.5 million or by 32.4% in the reversed income on the basis of non-performing interest, as categories that dominate in the total interest income. The decline of the interest income of enterprises is determined by the following reasons:

- Modest credit activity of the banks in 2001. As of December 31, the gross placements equaled Denar 38,310 million, which is an increase of only Denar 1,565 million or by 4.3% compared to December 31, 2000. This situation indicates that the banks retained their reluctance in granting credits due to the unfavorable security and economic conditions in the country in 2001;
- Change in the liquidity management strategy of banks directed toward larger amount of available liquid assets. This trend that started in September 2001 was notably intensified in December 2001. Such situation, despite the common seasonal factors that are shown at the end of the year, is due to the certain extraordinary factors, as the introduction of Euro, i.e. the cash conversion of Deutsche Marks and other European currencies in Denars, as well as the payment operations reform.
- The upward trend of the subscribed treasury bills, due to the increase in the interest rates and the lower risk of investing in these securities regarding the placement of funds with enterprises and households. Thus, the monthly average amount of subscribed treasury bills in 2001 equaled Denar 2,070 million, which is by Denar 1,126 million more compared to the monthly average in 2000.
- The downward trend of the nominal lending interest rates of banks in the last quarter of 2001, as a result of the responsiveness of the interest policy of banks to the normalized general economic conditions, improved liquidity, as well as reduced interest rates on the Money Market, the interest rates on CB bills. However, it should be mentioned that despite this trend, the average weighted lending interest rate in 2001 registered a minimum increase relative to 2000, that leads to a conclusion that the decline of the interest income was mainly determined by the restrained credit activity.

The increase in the reversed income on the basis of the non-performing interest is a result of the inappropriate book-keeping evidence of the claims on the basis of interest treated as non-performing (on the regular claims account), and the allocation of a special reserve for this purpose with one bank, as well as the conducted appropriate re-entry after the indication by the NBRM in March 2001. Besides that, the reversed income growth is also due to the trend of the modest deterioration in the quality of the banks' credit portfolio.

The structural analysis of the interest income reveals that the interest income of enterprises was dominant in the gross interest income with its share being equal to 60.6%. As a comparison, that share equaled 64.4% as of December 31, 2000, i.e. 79.5% as of December 31, 1999.

At the end of 2001, the total interest expenditures of banks equaled Denar 2,625 million, which is an increase of Denar 53 million, or by 2.1% compared to the interest expenditures presented at the end of 2000. In conditions of continuous downward trend of the deposit interest rates, the minimal increase of the interest expenditures is due to the fact that the deposit base of the banks in the Republic of Macedonia in 2001 registered an intensive growth only in the last month of 2001 because of the conversion into Euro currency. As of December 31, 2001, the interest expenditures of enterprises (38.6%) and the interest expenditures of households (30.9%) are the dominant items in the structure of interest expenditures, which was also the case in the previous year. From a structural aspect, the interest expenditures of households registered most significant changes, and as of December 31, 2001 they increased by Denar 179 million or by 28.3% compared to December 31, 2000. Adequate to the increase in the expenditures to households, an increase of Denar 45 million or by 42.5% was recorded also in the deposit insurance premiums, which is in correlation with the increase in the households' deposits. On the other hand, the interest expenditures of banks dropped by Denar 169 million or by 71.7% due to the decline in the total banks' deposits by 52%, as well as to the downward trend of the average weighted interest rate on the Money Market in the last quarter of 2001.

As a result of the movements in the total interest income and total interest expenditures, the net interest income of Macedonian banks equaled Denar 1,858 million at the end of 2001, which is a decrease of Denar 736 million, or by 28.4% compared to the end of 2000.

The net loan loss provisions equaled Denar 2,542 million as of December 31, 2001, which is a decrease of 13% in comparison with December 31, 2000. However, this decline did not result from the improved performances of the banks' credit portfolio, but rather they are due to the inconsistent accounting record of the claim on the basis of non-performing interest with one bank in the amount of Denar 361 million (mentioned earlier in the text). If the accounting re-record of this amount is abstracted, it is evident that the net provisions at the end of 2001 declined by only 0.7% compared to the same period of the previous year.

The net – interest income based on provisions was negative on December 31, 2001 and equaled Denar 684 million. If the non-allocated reserves for potential losses are also taken into account (including the additionally defined non-performing interest) in the amount of Denar 97.5 million, identified through the on-site examinations, which are not presented in the profit and loss account, then the net interest income would reach the negative amount of Denar 781.5 million.

The negative financial result of the banks accomplished by performing their main function (intermediation among the entities that register financial surplus and those that register financial deficit with calculated expenditures on the basis of potential losses from credit risk, is an indicator for the extremely low efficiency of the banks regarding the scarce

financial resources. This is mainly due to the deteriorated security in the country during 2001, and its negative impact on all economic sectors. At the end, the negative net interest income based on reservations is the main reason for the negative financial statement of the banks on aggregate level in the analyzed period. However, the further analysis indicates that the income that the banks realized on other basis in 2001, is fully covering the general and administrative expenses and other recorded expenditures, and thus, a positive differential of Denar 170 million was registered, which acts toward minimum decrease in the negative net interest income based on provisioning).

Hence, it can be concluded that the financial result of the banks in the Republic of Macedonia in 2001 was determined by the performance of the classical banking operations contrary to the situation as of December 31, 2000 and December 31, 1999, when the recorded extraordinary income, as random income, is the sole reason for the positive financial results. However, if the non-allocated loan loss provisions are taken into account, (including the additionally determined non-performing interest) identified through the on-site examination, which are not presented in the profit and loss account, then the financial result for 2000 would be halved, while in 1999 it would be a negative one.

As of December 31, 2001, the income realized on the basis of commissions, dividends, securities, capital gains, exchange rates differentials and other income, equaled Denar 4,808 million, which is by Denar 725 million, or by 13.1% less compared to the same period in the previous year. From a structural aspect, the net income based on commissions had the largest share of 37.5%⁵, followed by other kinds of income with 34.5%, that represent random income, which by its nature, does not present the actual profitability performances of the Macedonian banks. For comparison, as of December 31, 2000, within the category “total other income” (net income from commissions, dividends, securities, exchange rate differentials and other income), the other income category with its share of 54.9% was dominant, followed by the net income from commissions with share of 33.7%.

As of December 31, 2001, general and administrative expenses had a dominant share in the frames of other expenditures, and they equaled 75%, which was also the case on December 31, 2000, when this share equaled 77.6%. The total amount of the expenditures within this category equaled Denar 3,525 million on December 31, 2001, which is an increase of 14.3% relative to the same period in the two previous years. Within this category, the wage expenditures had the largest structural share of 55.8%, which was also the case in the two previous years.

2.3.4.2. Banks' Profitability and Efficiency Indicators

The second level of the analysis of the profitability of the Macedonian banks and the estimation of their efficiency is the calculation and the analysis of the main indicators that reflect the performances of these two aspects of the banks operations⁶. In conditions when loss is recorded, they only confirm the negative performances of the Macedonian banks' profitability.

A table presenting the profitability and efficiency indicators for the two comparative periods is given below.

⁵ In the context of the aforementioned inappropriate book-keeping record, one bank registered a simultaneous unnecessary increase in the extraordinary income by Denar 361 million, and thus the category “other income” would equal Denar 1,659 million instead of Denar 2,020 million

⁶ The calculations have been made on the basis of recorded balance sheet values of the aggregate income statement of the Macedonian banks, without taking into consideration the unrecorded expenditures based on additionally determined loan loss provisions and additionally determined non-performing interest

Table 15 – Profitability and efficiency indicators of the banks in the Republic of Macedonia

<i>Ratios</i>	<i>31.12.2000</i>	<i>31.12.2001</i>
<i>Return on average assets(ROAA)</i>	<i>0,8%</i>	<i>-0,66%</i>
<i>Return of average equity(ROAE)</i>	<i>3,8%</i>	<i>-3,24%</i>
<i>Operational costs/Total income</i>	<i>0,83</i>	<i>1,12</i>
<i>Wage expenses/Total income</i>	<i>0,39</i>	<i>0,48</i>
<i>Expenditures for allocation of loan loss provisions/Net interest income</i>	<i>1,13</i>	<i>1,37</i>
<i>Interest margin</i>	<i>7,7</i>	<i>9,43</i>
<i>Total number of employees (banks and savings houses)</i>	<i>3.918</i>	<i>4.332</i>
<i>Reported financial result/Total number of employees (in MKD million)</i>	<i>0.2</i>	<i>-0.14</i>
<i>Total net assets/Total number of employees (in MKD million)</i>	<i>21.5</i>	<i>24.9</i>

The table reveals that all indicators registered a downward trend that suggests worsened profitability and efficiency of the Macedonian banks in 2001. The last indicator is an exemption, which registered an upward trend, i.e. generated larger amount of assets per employee.

The negative financial statement that was presented by the Macedonian banks on aggregate level on December 31, 2001, resulted in negative values of the indicators of the Return on Average Assets (ROAA) and the Return on Average Equity (ROAE). The Return on Average Assets indicates that in 2001, 100 units of assets of the Macedonian banks generate 0.66 units of loss, while the Return on Average Equity indicates that 100 units of capital of the banks in the Republic of Macedonia, generate 3.24 units of loss. If the negative financial result with one bank was abstracted in the calculation of the two previous indicators, the Macedonian banks would present positive financial results on aggregate level, which determines positive values of the indicators for the Return on Average Assets (ROAA – 1.13%) and the Return on Average Equity (ROAE – 4.40%).

The banks' inefficiency is also evident from the operational costs to total income ratio. On December 31, 2001 this indicator equaled 1.12 which shows an increase in the operational costs of Denar 0,29 compared to December 31, 2000. This indicator means that in order to realize an income of one Denar, the Macedonian banks were supposed to make Denar 1.12 operating costs. In the same period, in order to realize an income of one Denar, it was necessary to make wage expenses of Denar 0.48, which means an increase in the wage expenses by Denar 0.09 compared to the stock as of December 31, 2000.

The ratio of the expenditures made for allocation of loan loss provisions and the net interest income equaled 1.37, which represents an increase in the expenditures for loan loss provisions of Denar 0.24 in comparison with December 31, 2000. This indicator registered a negative margin of generating net interest income, meaning that in order to generate a net interest income of one Denar in 2001, the banks in the Republic of Macedonia needed to register Denar 1.37 expenditures made on the basis of provisions for covering the credit risk of realized placements.

In 2001, the nominal weighted annual lending interest rates of deposit money banks equaled 19.35% on average (0.45 percentage points more relative to December 31, 2000), while the nominal weighted deposit interest rates equaled 9.92% (or by 1.28 percentage points less in comparison with December 31, 2000). Such interest rate developments resulted in an increase in the interest margins from 7.7 as they equaled in 2000, to 9.43 in 2001. The high interest margins, compared to other transitional economies where they vary between 3 and 5 percentage points, indicate systemic problems and problems of internal character for the banks in the Republic of Macedonia, such as: insufficient efficiency of banks due to the high operational costs, high risk due to the lack of financial discipline and the problems with

judicial collection of claims, high level of bad placements in the banks' portfolio, deteriorated security in the country, as well as the previously mentioned factors that determine incorporation of high risk premiums in the interest policy of the banks.

The analysis of the banks' efficiency from the aspect of the total number of employees in the banking system of the Republic of Macedonia and their qualification structure, confirmed the aforesated conclusions for the low efficiency of the Macedonian banks.

On December 31, 2001, the total number of employees in the banks and savings houses in the Republic of Macedonia equaled 4,332, which is by 414 employees or by 10.6% more compared to December 31, 2000. This situation is due to the expansion of the network of branches and sub-branches of certain banks, which was incited with the reform of the payment operations in the country.

The co-relation between the negative financial results as of December 31, 2001 and the total number of employees indicates that one employee in the Macedonian banks generates a loss of Denar 0.14 million, contrary to Denar 0.2 million gain as of December 31, 2000.

The ration of total net assets and the number of employees in banks as of December 31, 2001, shows that one employee in the Macedonian banks generates Denar 24.9 million net assets, contrary to Denar 21.5 million as of December 31, 2000. Such an increase is a result of the more intensive increase in the assets than the increase in the number of employees.

From the aspect of the qualification structure of the employees in the Macedonian banks, the conclusion made during the previous years, that the structure is unfavorable and has a appropriate negative influence on the total efficiency of the banks, remains valid. Thus, more than half of the employees is with high school degree and lower level of education. The share of the employees with university degree equaled 28.4%, while the employees with Ph.D. and M.Sc. degree accounted for only 0.6% of the total number of employees. The table presenting the qualification structure of the employees in the Macedonian banks and savings houses is given below.

Table 16 – Qualification structure of employees in the banks and savings houses in the Republic of Macedonia

<i>As of 31.12.2001</i>	<i>Total number of employees</i>	<i>Ph.D & M.Sc.</i>	<i>%</i>	<i>University degree</i>	<i>%</i>	<i>Advanced specialist's training</i>	<i>%</i>	<i>Intermediate specialist's training</i>	<i>%</i>	<i>High-skilled, Low-skilled & Under-skilled</i>	<i>%</i>
<i>Banks</i>	4,242	26	96.3	1,193	96.8	343	97.2	2,460	98.5	220	99.1
<i>Savings houses</i>	90	1	3.7	39	3.2	10	2.8	38	1.5	2	0.9
<i>Total</i>	4,332	27	100	1,232	100	353	100	2,498	100	222	100
<i>% of share</i>	100	0.6		28.4		8.1		57.66		5.1	