NATIONAL BANK
OF THE REPUBLIC
OF MACEDONIA

ANNUAL REPORT 1992

CONTENTS:

I. MONETARY AND FOREIGN EXCHANGE POLICY GOALS AND TARGETS

1. Goals and targets of the monetary policy

In 1992 the monetary policy goals and targets establishment was predetermined by the macroeconomic policy global framework and concept. The Republic of Macedonia did not have its own macroeconomic policy during the period January-April 1992. It was still a constituent part of the dinar currency zone, where the Macedonian National Bank duly accomplished the monetary policy goals and targets determined by the Socialist Federal Republic of Yugoslavia Assembly, and the Yugoslav National Bank Governors' Council.

According to the macroeconomic policy concept of former Yugoslavia, the total increase of banks deposits was determined as an intermediary monetary policy target in 1992. The growth rate of this monetary aggregate for 1992 was set up at 535.0% on December basis. However, the increase of this monetary aggregate in the first quarter of 1992 already achieved the targeted level for the whole year. In the Republic of Macedonia the first 1992 quarter increase of the total banks' deposits achieved 132,157 million dinars, or 280%, by the end of April when the Republic of Macedonia achieved its monetary independence, they increased 527.305 million dinars or 1.117,2%.

April 26, 1992 marked the economic independence of the Republic of Macedonia from the former Yugoslavia. The Republic of Macedonia definitely seceded from the Yugoslav dinar monetary zone. This act created prerequisites for designing and implementing an independent macroeconomic policy.

The institutional bases of the monetary system of the Republic of Macedonia were established on April 26,1992 by passing the following acts: the National Bank of the Republic of Macedonia Act, the Republic of Macedonia's currency Act and the Republic of Macedonia's currency usage Act as well.

The Republic of Macedonia's currency and the Republic of Macedonia's currency usage acts have established the denar as a Macedonian legal tender, beginning from April 27,1992. The Yugoslav dinars were changed into denars in a three day period at a rate 1:1. Accordingly, in the period from 28 April to 30 April, the National Bank of the Republic of Macedonia changed the total amount of bank notes nominated in Yugoslav dinars into Macedonian currency (denar) bank notes. Thus on April 30, 1992 the Yugoslav dinar lost its legal tender function in the Republic of Macedonia.

The National Bank of the Republic of Macedonia Act lists all the National Bank functions in details. The monetary functions are of a particular importance within this framework. As a matter of fact, the National Bank has been established to perform the monetary functions in the first place. The other functions are accessory.

By performing its monetary functions, the National Bank should maintain stability of the denar and provide an optimal liquidity level for domestic as well as external payments. Accordingly, the Macedonian National Bank does not belong to those central banks which independently determine the monetary policy ultimate goal. This goal for the National Bank of the Republic of Macedonia is being determined by law. However, the Macedonian National Bank may determine only the scope and dynamics for the stability accomplishment.

The monetary policy goals and targets determination, after the Macedonian economic and monetary independence, has been based upon the Anti-inflation program adopted by the Macedonian Parliament on April 26, 1992. The Anti-inflation program consisted of several key sectors policy measures aimed to significant reduction of inflation and its stabilization on an average monthly level of 4.5% in the last quarter of 1992.

The Anti-inflation program key postulates were: restrictive monetary policy, balanced budget, fixed exchange rate of the denar, wage control, and price control imposed on some strategic products.

The growth rate of money supply (M1), defined as currency in circulation plus transaction deposits, has been set up as a basic monetary policy target. For the whole 1992 the growth rate of this monetary aggregate was determined on 476.8% at a December level. In order to accomplish this monetary policy target, monetary base of the National Bank of Macedonia had to be increased by 134.4%.

The wages and prices inertia has caused a significant delay in bringing down the inflation. This resulted in a large discrepancy between nominal and real economic variables. In addition, in spite of the expectations, there was not any external resources inflow in the course of the anti-inflation program realization. This has pressed the personal consumption and public spending below the targeted level.

The anti-inflation policy concept was seriously undermined in mid August 1992 when the control over wages was lost. The aggregate wage level has increased by 110.6% cumulatively during the period from July to September 1992, compared to June 1992 basis.

These new developments required a revision of the 1992 macroeconomic policy concept. The main macroeconomic policy objective for the fourth quarter of 1992 within the new economic environment framework was creating conditions for relative stability with a inflation rate not higher than that determined by the fundamental factors in the economy. Thus the average monthly inflation rate for the fourth quarter of 1992 has been targeted at 23.0%.

Accordingly, all the economic policy segments were readjusted. The denar was devalued by 66.7% against the deutsche mark, and personal consumption and public spending were determined at a significantly higher nominal level.

The monetary policy was determined to sustain its restrictive character. However, the money supply had to be adjusted to scope of nominal transactions in the economy in accordance with the targeted higher inflation rate for the fourth quarter of 1992. The new 1992 monetary policy target has been set up at 755.1%. The growth rate of money supply remained the basic monetary policy target. In order to achieve the stated monetary policy target, the monetary base of the National Bank of Macedonia has been projected to rise by 493.3%.

2. The Foreign exchange policy goals and tasks

The Republic of Macedonia's foreign economic relations in 1992 were being accomplished in terms of extremely adverse foreign trade environment.

The war on the former Yugoslav territory and the UN sanctions against the Federal Republic of Yugoslavia resulted in the established economic links break up, shrinking of markets and their complete loosing for a significant part of the Macedonian economy.

The hindered transportation links with the European countries have had an extremely negative price impact upon the entire foreign trade.

In addition, the economic pressures and frequent blockades on the southern border for oil imports, have threatened to push the entire economy into a collapse.

Furthermore, the systemic laws on the foreign economic relations were not carried out in 1992. The former federal laws were adopted for this sphere regulation. However, this laws proved unsuitable for the specific conditions in the Macedonian economy, because they have been designed for stable foreign trade relationships, internal convertibility of the national currency, equilibrium in the balance of payments, high level of foreign exchange reserves and a functioning foreign exchange market. In other words, the adopted foreign exchange system has been inconsistent with the new economic conditions in the Republic of Macedonia.

Parallel with the monetary independence, the Macedonian parliament carried out the Foreign exchange policy charter and the 1992 Republic of Macedonia's balance of payments projection.

On the basis of the Foreign exchange policy charter for 1992, the government of the Republic of Macedonia carried out some operative decisions for foreign exchange reserves creation and handling, and for the denar exchange rate, as a part of the foreign exchange system legal regulation. Because of the entire foreign exchange system inconsistency, these measures have only partially been successful.

The foreign exchange reserves had two fundamental sources: retention of part of the foreign exchange earned from goods and services export (30%) and foreign exchange purchase from foreign and domestic natural persons (effective foreign currency, checks, petrol coupons, road tolls, and entry transportation permits).

After the own currency introduction at the end of April 1992, the government of the Republic of Macedonia established a fixed exchange rate of the denar as one of the anti-inflation programme anchors. This represented a continuation with the exchange rate policy, which, as previously said, had been designed for quite different environment. The several months experience has shown that the fixed exchange rate policy of the denar has hindered the stimulation for exports and bringing the foreign currency earnings into the country, and the foreign currency purchase as well. Because of the destimulating exchange rate and the mandatory retention of a part of the earned foreign exchange, the exporters mostly have avoided their duty to bring the earnings from exported goods and services into the country. They used the earnings held abroad for direct payments.

Despite two devaluations, the destimulating official exchange rate provoked the existence of at least two other exchange rates in the last quarter of 1992. Exporters traded their foreign exchange rights under an exchange rate significantly higher than the official. In addition, the street foreign exchange market, which main participants had been natural persons, has increasingly been becoming a place where quite a few foreign trade subjects also participated.

Nevertheless, the foreign exchange reserves reached US $ 60 million at the end of 1992, which is considered as a good initial basis for a free foreign exchange market establishment, where the denar exchange rate would be formed in accordance with the foreign exchange supply and demand, accompanied by the Macedonian National Bank appropriate role. This determination in the process of the foreign exchange system reform seems to be a fundamental prerequisite for legalization of all foreign trade subjects transactions performed under the parallel exchange rate as an illegal foreign exchange rights market.

It is worth noting the unresolved problem of frozen foreign currency deposits, which is still open, despite all efforts for its alleviation. This has undermined the business of the entire banking system.

Of the same importance are the problems associated with the external debt servicing. In terms of unprepared division balance for the former Yugoslavia rights and obligations, and succession of the credit agreements with the international financial institutions and organizations, as well as insufficient foreign exchange inflow, there was no debt repayment in 1992. Solution of this problem is closely connected with the Republic of Macedonia's entry into the international financial organizations, and mutual solutions for providing new loans through refinancing the old ones.

II. REALIZED REAL MOVEMENTS

1. Domestic output and aggregate supply

The economic activity in 1992 suffered a sharp decrease of 14.7%. It was a third consecutive year of real decline of the social product.

The sharp fall in the real social product started in 1990 (9.5%). The economic activity slump during this year was mainly due to the implemented anti-inflation macroeconomic policy. The recession continued in 1991 and has even been strengthened by the disintegration processes of the Yugoslav economic area. The negative effects of the economic desintegration came forth particularly during the second half of 1991 when Slovenia (October 7, 1991) and then Croatia (December 23, 1991) were definitely separated from the former Yugoslav economic area. The economic activity contraction culminated in 1992. In addition to the inherited recessional factors from the past, the following contributed to the real social product decline: the complete closure of the former Yugoslav republics' markets; the United Nations Resolutions banning trade with the Federal Republic of Yugoslavia (Serbia and Montenegro); the economic blockade imposed by Greece against the Republic of Macedonia; and the anti-inflation macroeconomic policy implemented after the Republic of Macedonia achieved economic independence on April 26,1992.

Social product

(in million denars)

	1988	1989	1990	1991	1992*
Current prices	801	12624	55071	113647	1650860
Constant (1990) prices	59690	60837	55071	49164	41938
Indices on the previous year					
Current price indices	300,0	1576,0	436,2	206,4	1452,6
Constant (1990) price indices	96,7	101,9	90,5	89,3	85,3

* Estimates according to the Republic Statistical Office data.

The economic activity contraction caused an unemployment increase. The number of persons seeking for employment increased by 3.9% at the end of 1992, compared with December 1991. In the same time, the number of persons employed in the social sector decreased by 5.7%.

The social sector employment

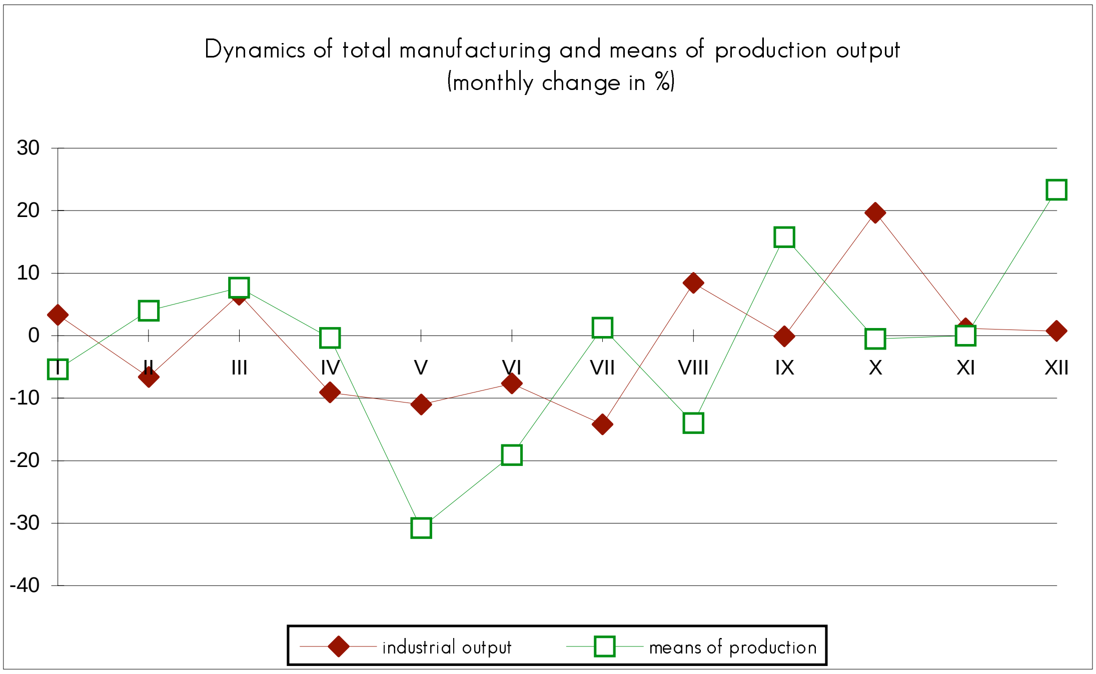
- December of the current to December of the previous year indices -

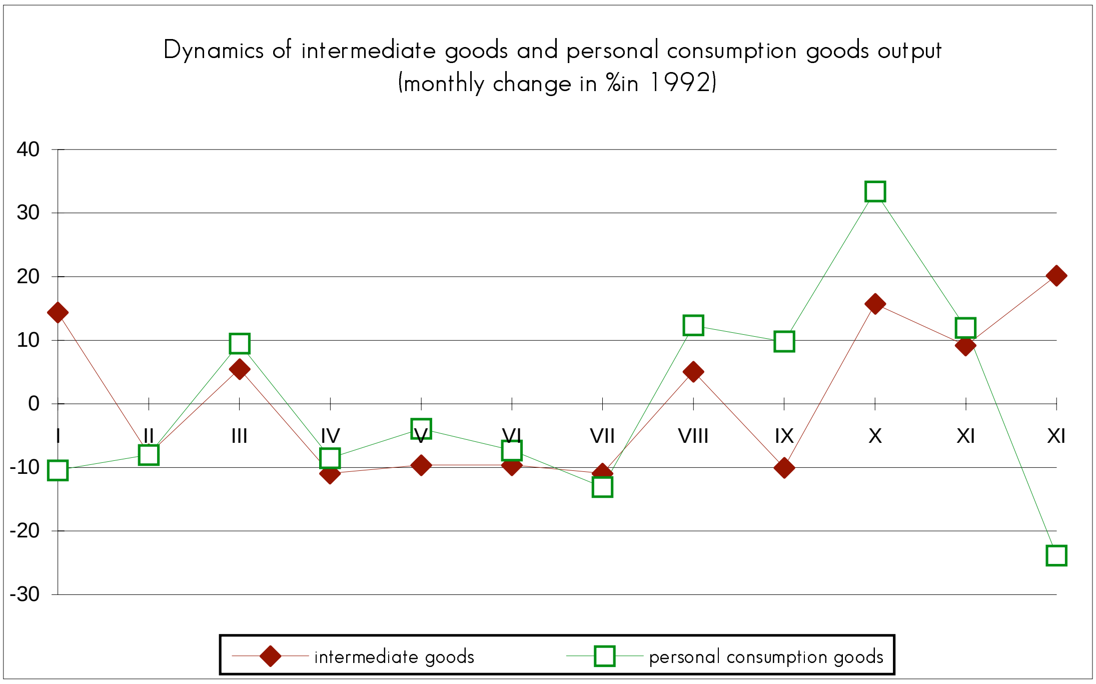
	Number of employed persons XII.1992	1988	1989	1990	1991	1992
Total	437212	99,8	100,8	96,0	94,2	94,3
Economic industries	352064	99,5	100,7	95,4	93,4	93,5
Social and public services	85148	100,4	101,1	99,1	97,8	97,8
Number of persons looking for job	173350	100,8	101,2	103,8	104,7	103,9

The 1992 economic activity slump was fully determined by the movements of industrial production. The manufacturing output fell by 15.8% in 1992 from the 1991 level. The structure of the manufacturing real output decline was as follows: means of production - 31.4%; intermediate goods - 14.1%; and personal consumption goods - 14.1%. Compared to the 1989 level, the manufacturing output was 37.6% lower in 1992. The means of production have declined cumulatively by 68.7% in the same period, and the figures for the intermediate goods and personal consumption goods decline are 33.2% and 34.6% respectively.

Structure of the manufacturing output
(year to year indices)

	1988	1989	1990	1991	1992
Means of production	105,2	114,1	67,7	67,4	68,6
Intermediate goods	92,2	103,4	91,2	85,2	85,9
Personal consumption goods	108,0	103,5	90,2	84,4	85,9
Total:	98,3	104,3	89,4	82,8	84.2





In 1992, there were positive movements in the primary agricultural output. Fortunately, the agricultural output increased by 2.0%, which partly mitigated the decline of total economic activity.

Agricultural output
- year to year indices -

	1988	1989	1990	1991	1992*
Total agricultural output	93,1	104,4	89,8	117,6	102,0
Social sector	94,7	100,0	90,2	100,5	-
Private sector	92,3	106,6	89,6	125,4	-

* The Republic Statistical Office estimate

2. Domestic consumption

The final domestic consumption decreased by 16.9% in 1992, which represented its biggest yearly fall in the last five years. This decline was 2.2 percentage points higher than the real aggregate supply (real social product) decline. Gross fixed capital formation decreased by 24% in real terms. Accordingly, in terms of the social product real decline by 14.7%, personal consumption, as well as public spending, decreased by 15.4% and 10.0% in real terms respectively.

Domestic consumption
- year to year indices -

	1988	1989	1990	1991	1992*
Current prices					
a) Gross fixed capital formation	352,9	1132,6	581,5	212,8	1363,9
b) Personal consumption	293,5	1549,4	453,4	207,9	1408,7
c) Public spending	343,0	1111,1	549,2	205,3	1540,9
Total:	310,3	1407,9	485,3	208,8	1409,3
Deflated prices					
a) Gross fixed capital formation	113,1	72,4	120,4	88,6	76,0
b) Personal consumption	94,9	102,3	88,8	87,2	84,6
c) Public spending	106,1	86,9	84,2	95,5	83,1
Total:	99,7	93,7	94,3	88,3	83,1

* The Republic Statistical Office estimate

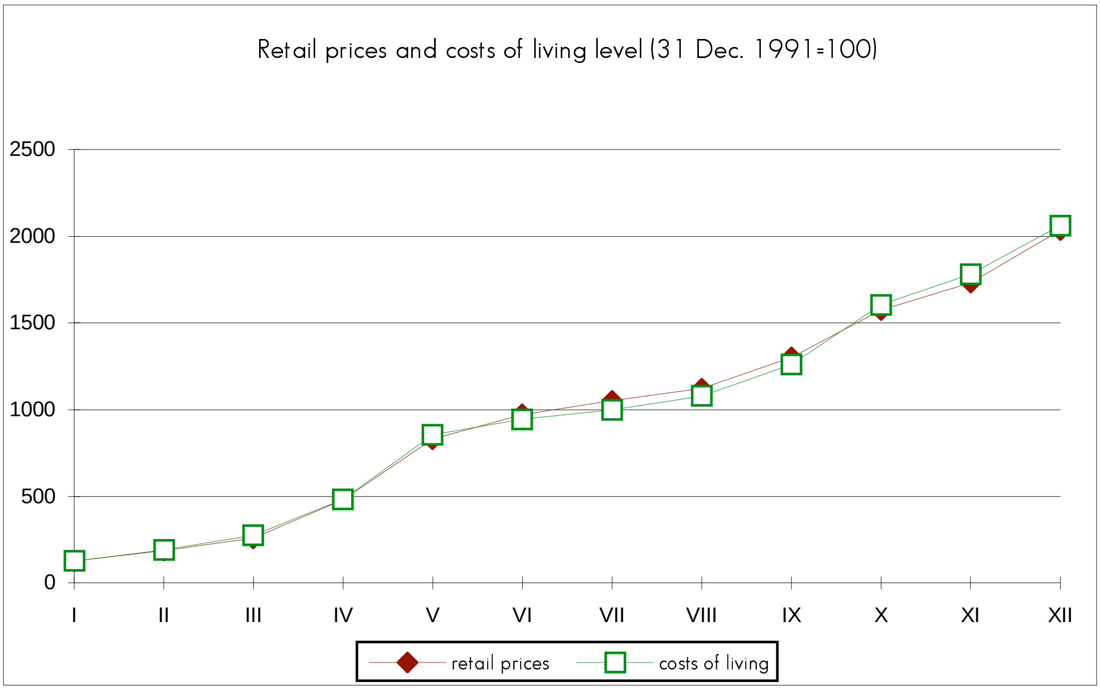
3. Price movements

After relatively moderate pace of inflation in 1990 and 1991, the rate of inflation in 1992 considerably accelerated. The general price level, measured by the increase of retail prices, rose by 1,925.2%, while the costs of living increased by 1,780.3%. Industrial output producer prices increased by 2,148.6% in 1992.

Current increase of prices
- December of the current to December of the previous year indices -

	1988	1989	1990	1991	1992
Industrial products					
Retail prices	337,3	2832,5	202,4	357,9	2055,7
Producer prices	359,9	2957,8	141,8	381,5	2248,6
Retail prices of agricultural products	347,6	2379,1	260,4	261,9	2546,4
Services prices	322,4	3225,5	306,8	244,6	1746,1
Retail prices (total)	335,7	2863,4	220,5	329,7	2025,2
Costs of living	328,3	2945,1	215,6	313,4	1880,3

There were three distinct periods of the dynamics of inflation in the course of 1992. The first was the period from January to April 1992, when the inflation rapidly accelerated. The monthly rate of inflation increased from 26.2% in January to 86.1% in April. During this period the Republic of Macedonia was still in dinar zone, and the monetization of the former Yugoslavia's federal budget deficit was the main cause for inflation. The second period was marked by a rapid desinflation. During this period, which lasted from May to August, the monthly rate of inflation fell from 72.4% in May to 6.6% in August. The first anti-inflation program after the Republic of Macedonia independence was being implemented then. During the third period (September to December 1992) the revised anti-inflation program was being implemented. In this period the rate of inflation oscillated in the range from 10.0% to 21.0% per month, and the average monthly rate of inflation for that four months period was 16.1%.

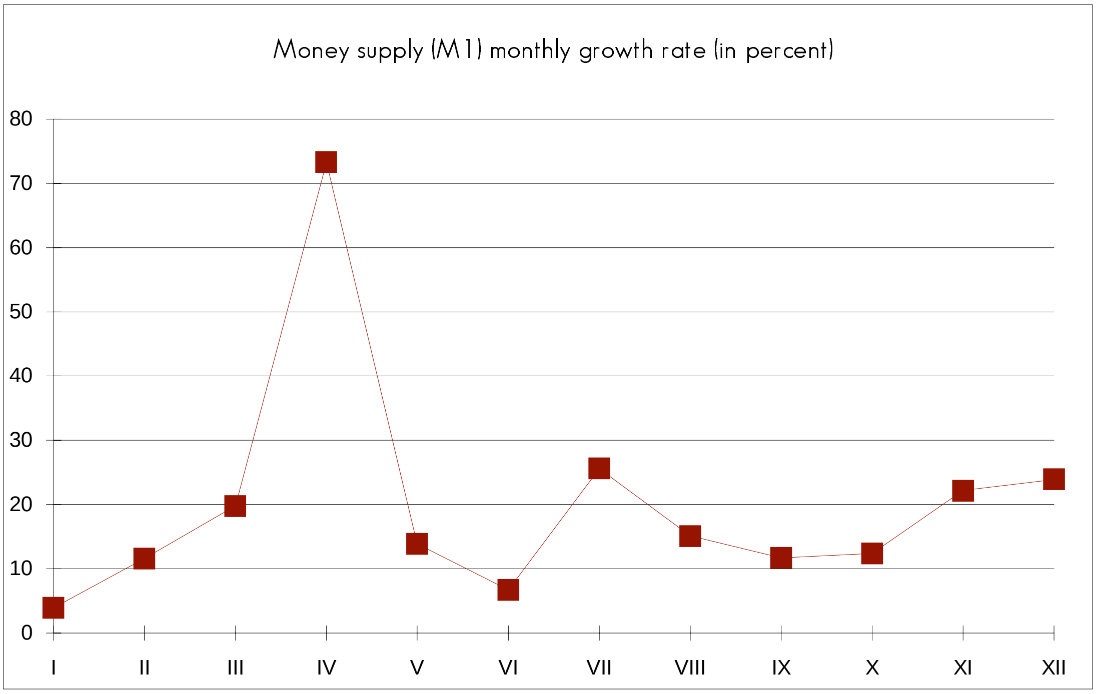


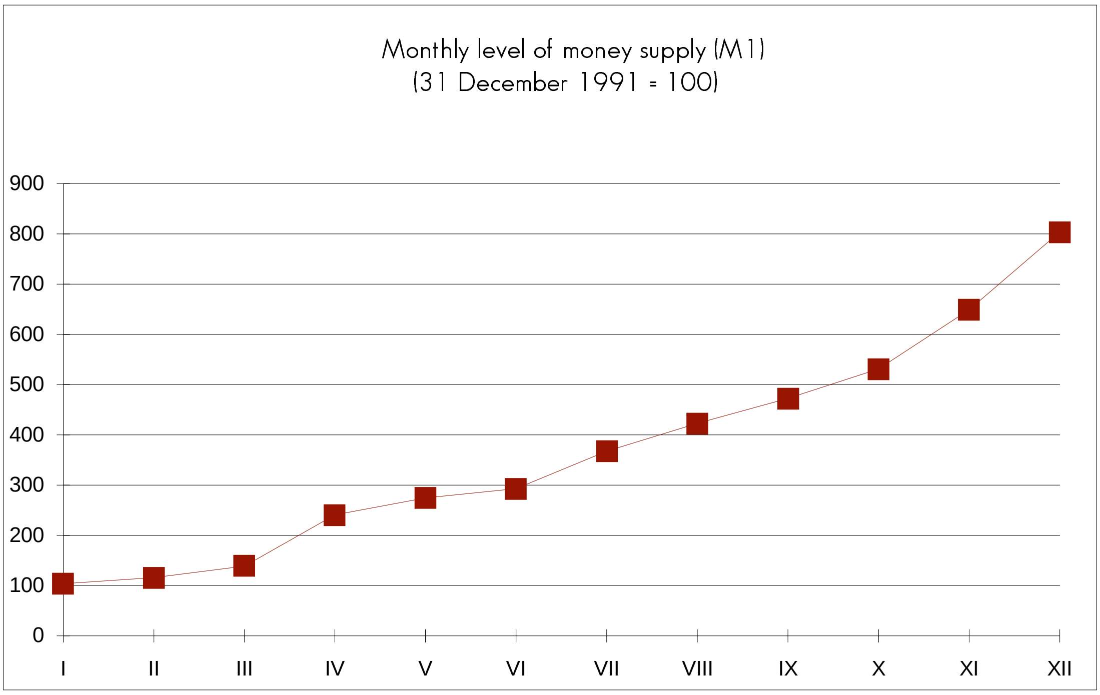
III. REALIZED MONETARY AND CREDIT MOVEMENTS

During the 1992, after the monetary independence of the Republic of Macedonia (26 April 1992), the concept of monetary targeting has been used. This method has proved the most appropriate, due to: 1) undeveloped financial instruments and institutions, 2) disability of the interest rate to be used as an instrument in the regulation of economic activities under the given circumstances, and 3) the high degree of interdependence between the aggregate demand and money supply.

The impaired functioning of the interest rate mechanism, coupled with the burden of some selective credit functions on the part of the National Bank, particularly in the agrarian complex, have drastically reduced suitability of the interest rate mechanism as an instrument for monetary targeting. Instead, the monetary targeting was accomplished by means of controlling reserve money.

In spite of difficulties experienced in this procedure, arising from the seasonally determined significant monetary issuance, directed to support some agricultural activities, the policy of regulation of reserve money in 1992 has proved to be relatively successful in achieving the monetary policy target. Namely, at December 1992 basis, the monetary aggregate M1 has increased by 704.5%, which was 5.9% less than the target. Depending on the macroeconomic policy concept, four money supply regimes were practiced in the course of 1992.





The first money supply regime, which was realized through the period January - April 1992, coincided with the period of the Republic of Macedonia being a constituent part of the dinar currency zone. In the course of this period, a high acceleration of the monetary increase rate was realized. The monthly growth rate of money supply increased from 3.9% in January to 73.3% in April. The second money supply regime was realized during the period May - June 1992 within anti-inflation program implementation. This period was marked by a sharp deceleration of the growth rate of money supply. Consequently, the monthly money supply growth rate dropped to 13.9% in May, and still further to 6.7% in June. This was followed by a significant reduction of inflation (from 86.0% in April to 6.6% in August). However, the reduction of inflation provoked an increase in demand for money. This effect had been expected and was incorporated into the 1992 monetary policy projection. Accordingly, the period July - September 1992 featured a regime of the money supply adjustment with the increased demand for money, which, as said previously, arised from the inflation reduction. The money supply rose by an average monthly rate of 17.3% during this period. Lastly, the fourth money supply regime was realized during the period October - December 1992, within the revised anti-inflation program framework. The main goal of this policy was to prevent the inflation rate to be higher than that determined by the fundamental factors. Accordingly, the growth rate of money supply increase from 12.4% in October to 23.9% in December 1992.

Net domestic assets of commercial banks

(in millions denars)

	Dec.31 1991	Dec.31 1992	Changes 31.12.92 / 31.12.91	Indices 31.12.92 / 31.12.91
Total assets	43525	945272	901747	2171,8
- denar assets	33522	314035	280513	936,8
- foreign assets	10003	631237	621234	6310,4
Other net assets	14501	991424	976923	6836,9
Net domestic assets	58026	1936696	1878670	3337,6
Net foreign exchange liabilities	10829	567434	556605	5239,9
Total deposits (D-4)	47197	1369262	1322065	2901,2
Money supply (M1)	22466	180749	158283	804,5
- currency in circulation	7036	89315	82279	1269,4
- deposit money	15430	91434	76004	592,6
Liquid assets (M2)	37879	739539	701660	1952,4
- quasi deposits	15413	558790	543377	3625,5
a)denar deposits	6766	32554	25788	481,1
b)foreign exchange deposits	8647	526236	517589	6085,7
Other limited and over one year time deposits	16354	719038	702684	4396,7
a)denar deposits	3921	15531	11610	396,1
b)foreign exchange deposits	12433	703507	691074	5658,4

The analysis of the structure of monetary aggregate (M1) shows that the growth rate of currency in circulation was by 676.8 percentage points higher than the growth rate of deposit money (transaction deposits) in 1992. Consequently, the currency in circulation share in the monetary aggregate (M1) increased from 31.3 at the end of 1991, to 49.4% on December 31, 1992. The main reason for transferring deposit money into currency in circulation was the lack of established foreign exchange market where foreign exchange operations are performed by deposit money. The foreign exchange trading has been mainly performed at the "black foreign exchange market", where the operations are exclusively done in cash. This resulted in deformation of distribution in the narrowest definition of money supply.

The increasing of all other monetary variables of the banks in 1992 was subordinated to the fulfillment of the targeted growth rate of money supply. In this manner, the dynamics of the monetary variables consisting of a foreign exchange component, was subjected to the influence of the denar exchange rate changes.

The total non - monetary deposits increased with an amount of 1,246,061 million denars, or 3,922.5% in 1992. The biggest share of this increase (1,208,663 million denars, or 96.9% of the total), resulted from the increase of foreign exchange non - pecuniary deposits. However, despite the high nominal non - pecuniary foreign exchange deposits increase (5,733.7%), they decreased in real terms. The nominal increase of this deposits has exclusively resulted from the denar exchange rate corrections.

The denar non-monetary deposits increased by 37,398 million denars, or 349.9% in 1992. The increase of these deposits mainly resulted from interest computed and added during the year (usually quarterly).

Total assets of commercial banks increased by 901,747 million denars, or 2,071.8%. Denar assets increased by 280,513 million denars, or 836.8%. It has to be pointed out that this monetary aggregate increase had a residual character, and was aimed to accomplish the targeted growth rate of money supply.

The banks' foreign exchange assets increased by 621,234 million denars, or 6,210.5% in 1992, exclusively due to the exchange rate corrections. The dynamics of increase of these deposits has been in line with the denar exchange rate devaluation's pace.

In accordance with the concept of monetary targeting the growth rate of monetary base of the National Bank of Macedonia was the main monetary policy instrument for achieving the projected growth of intermediate target - money supply (M1). By the end of 1992, the total monetary base amounted 115,730 million denars, 85,879 million denars of which representing the effective monetary base created by the National Bank of the Republic of Macedonia. The rest of 29,851 million denars represented a non - effective monetary base which did not result from the Macedonian National Bank monetary activities. It arised from the process of accounting delimitation with the National Bank of Yugoslavia, after the Macedonian monetary independence (April 26, 1992). Accordingly, monetary effects resulted only from the transactions included into the effective monetary base. In this manner, the monetary base has increased by 77,561 million denars, or 932.4%.

Considering from liability side of balance sheet the monetary base of the National Bank of Macedonian appears to be heterogeneous, depending on the forms in which it is being held. Its changes are determined by behaviour of following institutions: the central bank, the commercial banks, and the non - banking institutions as well. The central bank determines the required reserves, compulsory central bank bills, and the banking global liquidity level as well. Commercial banks determine the movements of the voluntary central bank bills and deposited resources at central bank. The currency in circulation is determined by behaviour of the non - banking institutions.

Monetary base of the National Bank of Macedonia

(millions denars)

	Dec.31 1991	Dec.31 1992	Changes I-XII. 1992	Indices XII.92 / XII.91
1.Currency in circulation	7036	89315	82279	1269,4
2.Float	215	-	-215	-
3.Giro-accounts	7715	6656	-1059	86,2
-giro-account	7412	4827	-2585	65,1
-cash in vault	303	1829	1526	603,6
4.Banks' deposits with the NBM	4831	19759	14928	409,0
a)Required reserve	2448	12696	10248	518,6
b)Central bank bills	2383	7063	4680	296,4
-voluntary	1730	-	-1730	-
-compulsory	653	7063	6410	1081,6
Total monetary base	19797	115730	95933	584,6
I. Effective monetary base	8318	85879	77561	1032,4
5.Foreign exchange transactions	-	39927	39927	-
6.Extending loans to banks	8318	44136	35818	530,6
7.Matured and unpaid claims plus interest	-	1816	1816	-
II. Non-effective monetary base	11479	29851	18372	260,0
8.Claims from the NBY	-	13568	13568	-
9.Other claims	11479	16283	4804	141,8

At the end of 1992, the currency in circulation share reached 77.2% of the monetary base. Both its nominal and relative increase were extremely high in 1992 (82,279 million denars, or 1,169.4%). The dynamics of this monetary aggregate exclusively depended upon the population and enterprises demand for cash. The global currency in circulation demand was particularly influenced by the following factors: the economic activity level; institutional arrangements regarding the payments system and financial flows control; wages and pensions remuneration; and the existence of a black foreign exchange market where trading operations was exclusively been done in cash.

Banks giro-accounts amounted 6.656 million denars at the end of December 1992. They were 1,059 million denars, or 13.8% less than the end of 1991 level. This reduction in the banks' giro-accounts occurred exclusively in the fourth quarter of 1992. Namely, in order to maintain the banks' credit activity and the money supply within the targeted framework, monetary policy instruments were used to sustain a relatively low level of banks' liquidity. Consequently, the banking denar lending and the money supply were indirectly limited.

The banks' resources deposited with the National Bank of the Republic of Macedonia on the grounds of required reserve and central bank bills increased by 14,928 million denars, or 309.0% in 1992. The required reserve and the central bank bills increase has resulted from these two factors: 1) autonomous increase of those deposits subject to required reserve computation and depositing, and central bank bills subscription, and 2) the discretionary power of monetary authorities to change the required reserve rate, the banks' minimum liquidity rate, and the rate of the central bank bills compulsory subscription.

From the assets side of balance sheet of the National Bank of Macedonia, monetary base was created through the following flows: foreign exchange buying and selling operations, money issuance placements directly benefiting the banks, claims from the Yugoslav National Bank, other claims, and the matured unpaid claims from the money issuance placements.

Foreign exchange transactions as flow of monetary base creation and withdrawal on the part of the Macedonian National Bank, for the first time were used by the end of April 1992, after the Macedonia's monetary system separation from former Yugoslav monetary system. The dynamics of the monetary base increase in this manner was fully determined by the Macedonian National Bank foreign exchange reserves net changes. In 1992, 39,927 million denars were created by this method, which represented 51.5% of the created monetary base (the monetary base effective increase).

In addition, in 1992 the monetary base increased through the money issuance transactions directly benefiting the banks by 35,818 million denars, or 430.6%, based on the following: rediscount loans increase of 30,316 million denars, or 435.6%; increase of loans for partial service of the foreign exchange deposits, amounting 3,588 million denars, or 846.2%; and the current banks' liquidity maintenance loans increase, amounting 2,447 million denars, or 12,694.4%. In the meantime, the collateral loans decreased by 493 million denars; long - term working capital loans decreased by 12 million denars, or 3.1%; and loans for special (restricted) purposes (natural disasters) decreased by 28 million denars.

The banks' lack of discipline, manifested through delayed payment of their matured obligations arising from the central bank loans at the end of 1992, contributed to creation of 1,816 million denars of monetary base. In the same period of 1991, the banks did not have any matured and unpaid obligations to the National Bank of Macedonia.

After the Yugoslav dinar had lost its status as legal tender on the territory of the Republic of Macedonia, the Macedonian National Bank returned the whole amount of currency in circulation to the National Bank of Yugoslavia. By this act, the National Bank of the Republic of Macedonia acquired a claim against the Yugoslav National Bank in an amount of 13,568 million denars, or US $ 41 million at the exchange rate of that time.

Other Macedonian National Bank claims increased for 4,804 million denars in 1992. These claims increase exclusively resulted from the effects arising from the exchange rate changes. Consequently, they did not cause any direct monetary effects.

Extending loans to banks

(millions denars)

	Dec.31 1991	Dec.31 1992	Changes I-XII. 1992	Indices XII.92 / XII.91
Total credits to the banks	8318	44136	35818	530,6
I.Rediscount loans	6959	37275	30316	535,6
1.Exports	1690	3695	2005	218,6
2.Agriculture	4747	33559	28812	706,9
-production	819	5631	4812	687,5
-live stock	337	2365	2028	701,8
-inventories	3591	25563	21972	711,8
3.Market stocks	522	21	-501	4,0
4.Fertilizers stocks	-	-	-	-
5.Coal stocks	-	-	-	-
II. Collateral loans	493	-	-493	-
III. Foreign exchange deposits servicing loans	424	4012	3588	946,2
1.Liquidity restricted loans	424	-	-424	-
2.Households loans based on a foreign exchange savings sell-off	-	4012	4012	-
IV. Regular loans for the current liquidity maintenance	18	2465	2447	13694,4
V. Long - term working capital loans	386	374	-12	96,9
VI. Long - term YUBMES loans (Yugoslav Bank for International Economic Cooperation)	5	5	-	100,0
VII. Restricted loans	28	-	-28	-
VIII. Loans on the basis of deposited households foreign exchange savings with the Yugoslav National Bank	5	5	-	100,0

IV. MONETARY POLICY MEASURES

1. Refinancing of the banks

Bank refinancing operations represented the basic Macedonian National Bank instrument for the monetary base regulation, and indirect determination of movement of the money supply (M1) in 1992. Namely, this was the main instrument of monetary policy for pursuing procedure of monetary targeting in 1992.

Refinancing operations have been based upon rediscounting the loans lent by the banks for the purposes stipulated in the monetary policy goals and targets charter, carried out by the Parliament of the Republic of Macedonia. In this manner, beside the money targeting function, the Macedonian National Bank has also performed the selective function, i.e. directing the high-powered money into higher priority industries. However, because of the high seasonal oscillations in the priority industries demand for high-powered money, conflicts between the money targeting and the selective monetary policy function arised in 1992. Solution for this conflicts was found in limiting the scope of rediscounting the banks' loans for specific purposes. This was made through quota sistem. Quota for each bank for refinancing its loans was determined quarterly in accordance with the monetary projection for that quarter. In order to avoid a sudden liquidity increase, the funds determined by the quota were allotted for each month of the specific quarter. In this manner, a high degree of harmonization between the quantitative and the selective monetary policy functions was achieved. However, even under these conditions, the initiative for monetary base creation was coming from enterprises which were the main beneficiaries of reserve money based on the rediscounting loans.

By means of rediscounting loans and within the framework of the determined quota, 30,316 million denars were issued in 1992, based on the following: wheat stocks rediscounting loans - 3,365 million denars; spring sowing of corn, rice, sugar beets, sunflower and tobacco, as well as milk production - 643 million denars; wheat production rediscounting loans - 4,169 million denars; tobacco stocks - 10,022 million denars; rice stocks - 1,567 million denars; wine stocks - 3,261 million denars; corn stocks - 417 million denars; oil producing plants and unrefined oil stocks - 2,433 million denars; sugar beets and sugar stocks - 966 million denars; live stocks - 2,029 million denars; and rediscount loans for export activities - 2,005 million denars. In the same time, the following rediscount credits were reduced: stock reserves - 501 million denars, and the stocks of refrigerated (frozen) meat, as well as table grapes and dairy products - 61 million denars.

2. Required reserve

The main objective of this monetary regulation instrument is executing control over the banks' lending potential (money supply control) and money multiplication (the scope of loans control). The required reserve secondary objective is the banks' liquidity maintenance in the short-term periods of discrepancy between the banks' assets and matured obligations.

The banks' required reserve deposited with the National Bank of the Republic of Macedonia amounted 12,696 million denars at the end of December 1992. Compared to the 2,448 million denars in the same period of 1991, it has increased by 10,248 million denars, or 418.6% in 1992. This increase resulted from the deposits autonomous increase, and the required reserve rate change as well.

Despite the high required reserve rate at the moment of achieving monetary independence of the Republic of Macedonia (27.2%), it was further increased by 2.8 percentage points (to 30,0%) in order to decrease the high global liquidity of the banking system. This resulted in liquid assets withdrawal from the banking system in an amount of 933 million denars.

After the banks' global liquidity had been reduced within the projected framework the process of the required reserve rate normalization has started. Thus, in June 1992, the required reserve rate was brought down to 27%. This resulted in the banks' global liquidity increase by 1,221 million denars. The required reserve rate has again been reduced to 22% in July. The global banks' liquidity increased for another 2,138 million denars as a result of this act. The third and the last required reserve rate decrease occurred in October 1992, when it dropped from 22 to 15%. This act increased the banking global liquidity by 4,877 million denars.

3. Interest rate policy

For economic system institutional arrangements and the defective responsiveness of the economic units to the interest rates changes, the Macedonian National Bank interest rate mechanism in 1992, was not used as a regulator for reserve money supply and demand. Accordingly, this instrument was not used in the monetary targeting policy. In 1992, the primary goal of the Macedonian National Bank interest rate policy was to achieve positive price of high - powered money, primarily by bringing down the inflation.

The Macedonian National Bank discount rate was changed four times in the course of 1992. It was first changed in February 1992, by increasing it from 40% to 60% per year. It remained unchanged until late April in conformation with the macroeconomic policy designed in former Yugoslavia.

The discount rate was changed for a second time immediately after the Macedonian monetary independence, and the anti-inflation program made some provisions for real positive discount rate in the course of 1992. In accordance with the targeted inflation rate of 8.5% per month by the anti - inflation program for the period from May to December 1992, the National Bank of the Republic of Macedonia starting May 1, 1992 set the discount rate at 170% per year, which included 4 percentage points real positive interest rate. Practically, on the month level the discount rate has been determined at 8.7%.

During the first two months of its implementation, the determined discount rate significantly lagged behind the actual inflation rate (72.4% in May, and 17.0% in June).

The discount rate achieved real positive values for the first time in July and August, when the actual inflation rate (8.3% in July and 6.6% in August) was lower than the central bank discount rate (8.7% per month on the average).

However, due to the widespread soft budget constraints, and the uncontrolled wage increase in September 1992, the inflation increased and the discount rate slipped again in the negative value zone.

The discount rate was changed again in October 1992 within the framework of the economic policy instruments general adjustment to the new and revised anti - inflation program concept. According to this concept the retail price increase for the

1992 last quarter was targeted on the average monthly level of 23.0%. If this inflation rate level served as a base for the yearly discount rate determination, increased by at least one percentage point real positive share, in accordance with the previously used methodology, the discount rate would have achieved 1,221.5% per year.

It has been judged that a discount rate of this magnitude would produce extremely negative effects, and accelerate the cost - push inflation. This effect would divert from the monetary policy determination to allow price increase arising from the fundamental economic factors influence only.

In order to avoid the cost - push inflationary effect of the discount rate, it was decided that the discount rate only partly (60%) adjusted to the targeted inflation rate in the fourth quarter of 1992. Accordingly, since October the discount rate has been determined at 410% per year, or 14.55% per month.

The inflation rate dropped to 10% in November 1992. This resulted in high real value of the discount rate. In terms of the deep recession in the economy, the continuation of the high real positive discount rate would have been counter productive. This was the reason for the fourth change of the discount rate, and its determination at 250% per year.

4. Minimum liquidity of the banks

The National Bank of the Republic of Macedonia has been authorized by law to determine the level, terms and the manner for the banks and other financial organizations minimum liquidity maintenance. During the first four months in 1992 the banks were obliged to hold on their giro-accounts as primary liquidity of average 5% per month from their short - term resources from the end of the previous month. The primary liquidity reserve should serve the purpose of the commercial banks denar transactions oscillations neutralization. Namely, the primary liquidity level should be equal to the estimated oscillations level in the banks' guro - accounts denars inflow and outflow in specific periods. This oscillations have significantly increased after the monetary independence of the Republic of Macedonia, when a sudden increase in the banks' giro-accounts assets occurred, and they achieved record high level (14,510 million denars on April 30, 1992). In order to provide a sufficient amount of primary liquidity resources for this oscillations neutralization, in early May the required minimum liquidity rate was increased from 5% to 7%.

In addition to the primary liquidity reserve, in 1992 the banks have been also required to hold a secondary liquidity reserve in securities , i.e. compulsory central bank bills in a specified share of the basis for the banks' minimum liquidity determination. The secondary liquidity reserve was 4% for the period January - April 1992, and 5.5% from early May till the end of the year. The Macedonian National Bank was computing and paying 51% of the discount rate interest on this funds.

5. Voluntary central bank bills

Primary objective of the voluntary central bank bills introduction was creation of securities and institutional prerequisites for securities auction trading operations establishing, as an instrument for a high-powered money issuance and withdrawal.

Unfortunately, the central bank bills have been used in practice only as means for high - powered money withdrawal and the banking liquidity exhaustion. This created artificial framework for additional high - powered money creation by the existent issuance mechanism. In this manner, the liquidity was being arbitrarily redistributed among different sectors, which did not conform with the basic monetary principle: monetary policy instruments should be neutral in character.

Because of this, this monetary policy instrument has been abandoned since July 1992.

V. FOREIGN EXCHANGE POLICY IN 1992

In 1992 the Republic of Macedonia's foreign economic relations fall into two distinct periods, characterized by different conditions and possibilities. During the first period, which lasted until the end of April, the Macedonian foreign economic relations were based upon the former Yugoslav foreign exchange regulation, which at that time was in its final stage of dissolution. In the same time, the foreign trade volume reached a very low level. US $ 28.2 million were drawn and used from the former Yugoslav foreign exchange reserves in order to pay for various imports (oil and oil derivatives, raw materials for production of medicines, as well as medicines, convention duties etc.), and external debt service, where the former federation had been a guarantor, or the former Yugoslav National Bank had assumed the role of an agent-payer. This was one of the reasons of the Macedonian delay with the secession from the Former Yugoslav economic system.

The Republic of Macedonia's monetary independence from 26 April 1992 regarding foreign economic relations and foreign exchange policy, has been marked only by carrying out the Foreign exchange policy charter and the State 1992 balance of payments projection.

The Republic of Macedonia legislature failed to carry out the systemic laws for this sphere regulation until the end of 1992. In accordance with the Constitutional Law for the Macedonian constitution implementation (The Official Gazette of the Republic of Macedonia №52/91) the former Yugoslav legislation remained in force, which proved to be inconsistent with the new developments in the Republic of Macedonia.

The Government of the Republic of Macedonia and the Macedonian National Bank have carried out decisions based upon the Foreign exchange policy charter, which provided establishment of instruments for foreign exchange reserves creation, and the denar exchange rate policy implementation as well.

The 1992 balance of payments parameters have been practically impossible to follow and carry on, due to the lack of expert and technical equipment on the part of specific government institutions, the customs administration in particular, which has resulted in non-availability of appropriate data regarding the foreign trade volume in physical terms.

Accordingly, the Macedonian National Bank data based upon the appropriate commercial banks report processing, could provide for the Cash foreign exchange transactions balance caring on analysis only. This balance data are by no means complete, because they are based on the recorded inflows and outflows only. It is well known that part of foreign exchange transactions with abroad had been performed beyond the regular bank channels, mainly in terms of illegal and unrecorded cash transactions with foreign partners.

In addition, according to the National Bank of the Republic of Macedonia records, a considerable part of the realized inflow from goods and services exports has not been collected and brought into the country within the legal time limit (US $ 586.6 million on December 31, 1992), though it was realized by countershipment of goods (US $ 656.6 million on December 31, 1992).

This state of affairs has been caused by the following reasons: 1) the foreign exchange system inconsistency, producing a lack of discipline on the part of foreign trade subjects; 2) inexistent foreign exchange market, where importers could purchase foreign exchange for their production needs; 3) the relatively low denar exchange rate level, and 4) the obligation to sell 30% of the earned foreign exchange to the National Bank under the official exchange rate of the denar.

1. The denar exchange rate policy and movements

During the first four months of 1992 prior to the monetary independence of the Republic of Macedonia, the dinar exchange rate policy was carried on in accordance with the former Yugoslav economic policy goals envisioned for this instrument. The dinar exchange rate was stable against the deutsche mark, while it fluctuated against the other convertible currencies within the range of those currencies fluctuations against the deutsche mark on the world foreign exchange markets. Two devaluations of the dinar occurred during this period, aimed at increasing export motivation of the former Yugoslav area exporters and their bringing the earned foreign exchange into the country. However, in spite of these measures, the dinar exchange rate still lagged considerably behind the real level.

The policy of the fixed parity of the domestic currency to the deutsche mark, coupled with the following of the convertible currencies inter-currency relations on the foreign exchange markets, has continued after the monetary independence of the Republic of Macedonia. The new national currency (the denar) exchange rate has been fixed at 360 denars to the deutsche mark, including a 60% anticipated devaluation.

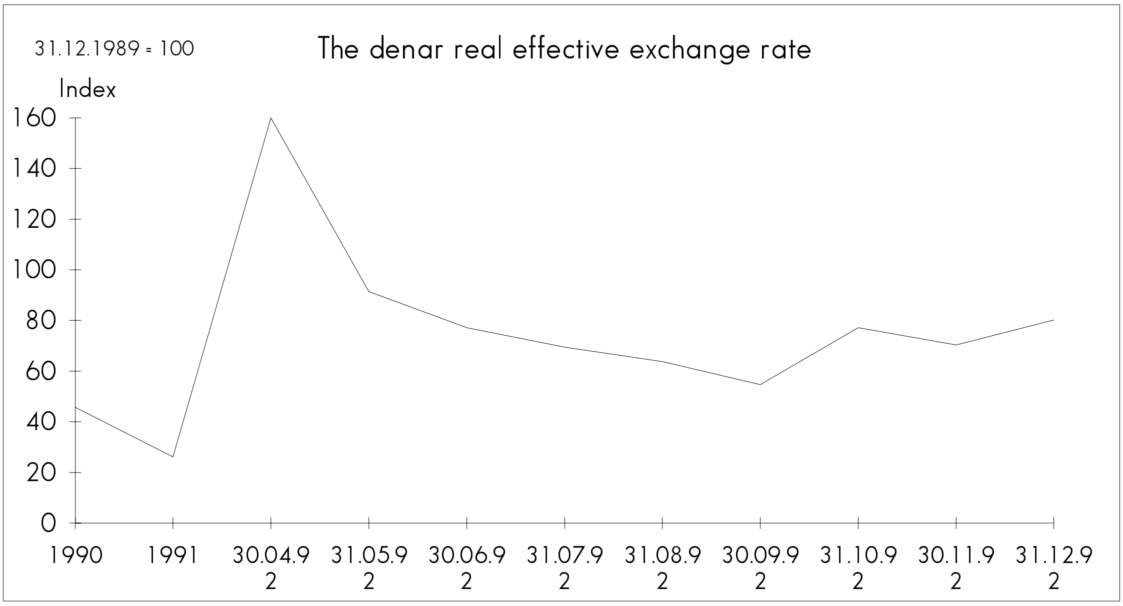
The national currency fixed exchange rate policy effects upon the export price competitiveness could be best understood by the real effective exchange rate index movements. These movements, computed on the basis of the end of 1989 price competitiveness level, are shown in the following table:

The export price competitiveness movements measured by the denar real effective exchange rate index movement[1)]

	31.12.1990	31.12.1991	30.04.1992	31.12.1992
Index	31.12.1989	31.12.1990	31.12.1991	31.12.1991
1. Denar nominal effective exchange rate	96.4	184.8	2896.8	5984.9
2. Domestic retail prices index	221.7	335.2	480.0	2025.2
3. Foreign retail prices index	105.4	103.7	101.2	103.5
4. Relative prices (2:3*100)	210.1	323.2	474.3	1956.7
5. Denar real effective exchange rate (1:4*100)	45.8	57.2	610.7	305.9
31. Dec.1989 = 100	45.8	26.2	160.0	80.1

1) The real effective exchange rate index is an internationally recognized and widely used indicator of the national currency real valuation estimation, and represents an average index of the national currency movements against a determined basket of currencies of those countries where most of the exports are realized, adjusted to the domestic market and foreign countries price movements. The end of 1989 has served as a basis for the denar real effective exchange rate computation, representing a benchmark of the fixed exchange rate policy and estimated real exchange rate level. The specific currencies shares in the foreign exchange inflow from goods and services export have been used as weighs in the average exchange rate against the currencies basket computation. A real effective exchange rate index above 100 indicates the price competitiveness increasing, and the index value below 100 indicates the price competitiveness decreasing.

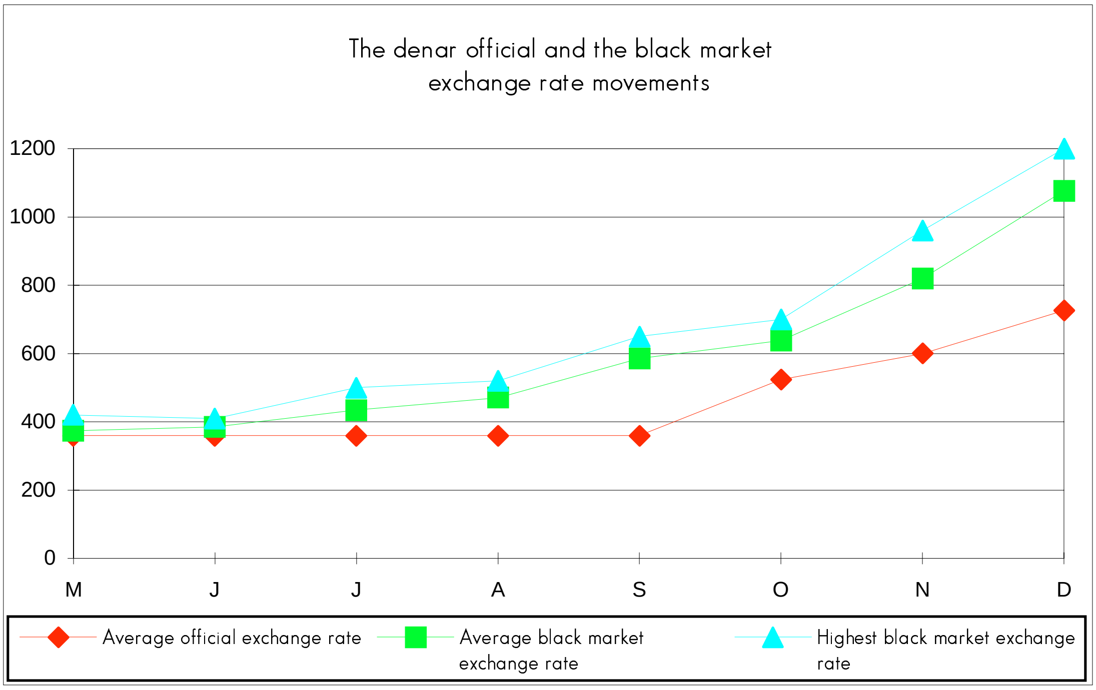
Until the end of 1989 the dinar exchange rate had been regularly adjusted each month to the domestic and foreign markets price movements in order to maintain the export price competitiveness. Accordingly, the end of 1989 is an appropriate basis for the denar real exchange rate analysis, and evaluation of the exchange rate policy effect in the course of the past few years. The fixed dinar exchange rate policy led by the former Yugoslav federal government of Ante Markovic, and continued until the Macedonian monetary independence, has resulted in a considerable export price competitiveness decrease (54.2% in 1990, and 73.% in 1991). After the monetary independence and introduction of a new currency, the denar, with a fixed parity to the deutsche mark of 360:1, the export price competitiveness had not only recovered achieving the end of 1989 level, but it has been further increased by 60%.



The fixed exchange rate policy of the denar, supported by a restrictive monetary policy, wage control and control over prices of specific strategic products, were the main pillars of the first anti-inflation program carried out by the Government of the Republic of Macedonia after the Macedonian economic and monetary independence.

The denar exchange rate significantly contributed to the inflation rate reduction during this period, from a monthly rate of 72.4% in May to 6.6% in August. In addition, the exchange rate policy contributed to creating more favorable climate for foreign economic relations compared to those from the beginning of the year. The foreign exchange inflow from goods and services export increased from US $ 15.5 million in April to 21.4 million in May to 22.2 million in June, and US $ 26.5 million in July. Furthermore, the overvalued denar official exchange rate caused a decrease of the parallel exchange rate of the denar on the black market, which fell from its highest level of 480 denars to a deutsche mark on 28 April 1992 to its lowest level of 355 denars to a deutsche mark on 14 May 1992. The exchange bureaus and authorized banks increased their foreign exchange and foreign currency checks purchase during May and particularly June, which represented a shift of the natural persons foreign exchange operations from the black market to the official exchange bureaus. Foreign exchange reserves increased 55.9% from the end of April to the end of May, and another 63.5% until the end of June, mainly due to the increased purchase of foreign currency and checks by 101.1% at the end of June, compared to the end of May.

The initial positive effects from the denar exchange rate policy were exhausted in a short period of time (by the second half of July), which had been fueled by the inconsistent anti-inflation program realization in the field of wage regulation. The increasing foreign exchange demand, particularly for energy imports payments, coupled by the monetary policy restrictiveness loosening, has resulted into high inflation rates return, accompanied by an increase of the denar unofficial ("black market") exchange rate. As time went by, the gap between the official and the "black market" exchange rates of the denar has been increasing which posed the necessity for the official exchange rate correction. Initiatives and timely warnings to the authorities on the need for the denar exchange rate corrections were given by the Macedonian National Bank, but the government has been late in their carrying out.



The first devaluation of the denar was done not sooner than the end of the first decade in October. The delayed exchange rate correction had impaired the exporters' motivation for exporting goods and services, increasing their incentives to hold their foreign currency earnings on their accounts abroad. This policy had a negative impact on the foreign currency purchase, which showed a decreasing tendency during this period (the monthly purchase of foreign currency and checks was as follows: US $ 2.7 million in May, U$ 3.7 million in June, US $ 1.2 million in July, US $ 1.7 million in August and US $ 0.9 million in September).

The increase of the deutsche mark inter-currency value at the world financial markets against the other major convertible currencies has brought an increase of the denar against the same currencies. To cure and avoid further adverse effects resulting from this situation, the mechanism of fixing the denar to the deutsche mark was replaced by the denar exchange rate determination against a basket of seven convertible currencies, accompanied by the denar devaluation. The latter has again increased the foreign currency and checks purchase (US $ 4.5 million in October).

The high price increase during the 1992 last quarter again put the need for devaluation on the agenda. The denar was devalued in December on the average by 30% against the currencies basket. This provided an export price competitiveness increase . However, by the end of 1992 it lagged significantly behind the export price competitiveness achieved at the beginning of the anti-inflation program implementation (50%). Compared to the estimated real level of the exchange rate at the end of 1992 it was 20% lower (the real effective exchange rate was 80.2%).

However, this devaluation didn't solve the problem of multiple exchange rates existence, because the gap between the official and the black market exchange rates still remained. Namely, the official payments with abroad are performed by the official exchange rate listed on the Macedonian National Bank foreign exchange list; the exporters sell their foreign exchange surpluses, after they had satisfied their own needs, at a rate including considerable premium on the official exchange rate; finally, the natural persons trade foreign currency on the black market according to an exchange rate which is also significantly above the official.

Despite the undisputed positive results in price increases reduction on the domestic market, due to the denar fixed exchange rate policy in the course of the anti-inflation programme implementation, from the 1992 foreign exchange policy viewpoint, it seemed that the fixed exchange rate policy failed to accomplish the expected results. The denar exchange rate late adjustments had adverse impact on the foreign exchange inflow and foreign currency purchase through the exchange bureaus, which resulted in foreign exchange reserves accumulation lower than determined in the Foreign exchange policy charter.

The present structure of the Macedonian economy does not provide positive balance of payments results accomplishment. Accordingly, a stimulating denar exchange rate policy seems to be of particular importance. Because of this considerations, and avoidance of voluntaristic denar exchange rate determination, the Macedonian National Bank favors a fluctuating denar exchange rate, determined by supply and demand on the organized foreign exchange market. The Macedonian National Bank monetary policy and the denar stable exchange rate maintenance active role, would be mainly accomplished through the foreign exchange market transactions.

2. The foreign exchange reserves formation

Prior to its monetary independence, the National Bank of the Republic of Macedonia had no foreign exchange reserves. The Foreign exchange policy charter and the 1992 balance of payments projection, carried out by the Macedonian Parliament on the very same day of the Republic of Macedonia's monetary independence, established a mechanism for foreign exchange reserves and possible sources were determined for foreign exchange reserves accumulation.

According to the charter, exporters have been obliged to sell 30% of the earned foreign exchange to the Macedonian National Bank at the official exchange rate. This procedure represented the fundamental foreign exchange accumulation source. 18% of these funds were destined for the current foreign exchange reserves (priority payments), and 12% for the Republic of Macedonia's permanent foreign exchange reserves.

The Macedonian National Bank Council has carried out a charter authorizing exchange bureaus in the state to perform the exchange operations purchasing foreign currency and checks for the National Bank, serving as a means for foreign exchange reserves accumulation.

Other foreign exchange reserves resources in 1992 were road tolls and exit duties.

In addition, the purchased gold for denars from domestic producers also represents a permanent foreign exchange reserves component.

In has been estimated in the Foreign exchange policy charter and the Republic of Macedonia's 1992 balance of payments that the foreign exchange reserves level reach US $ 100 million by the end of year. However, due to the present economic situation in the country, and the inappropriate exchange rate policy of the denar, the foreign exchange reserves accumulation volume and dynamics have not been accomplished.

Exporters have not only insufficiently been motivated to increase their exports, but due to the discouraging denar fixed exchange rate, they have also had an incentive to retain their foreign exchange earnings abroad. This has provided a low monthly foreign exchange inflow from goods and services, and consequently, unsatisfactory share for the foreign exchange reserves accumulation.

In addition, the significant gap between the official and the black market exchange rate of the denar was the main reason for the foreign currency purchase unsatisfactory effects in the course of 1992. There is a high degree of correlation between the foreign currency and checks purchase, and the difference between the official and the black market exchange rate. During May and June, when this difference was minimal, US $ 2.8 million and US $ 3.7 millions were purchased respectively. The following graph shows the impact of the difference between the official and the black market exchange rates upon the foreign exchange reserves accumulation
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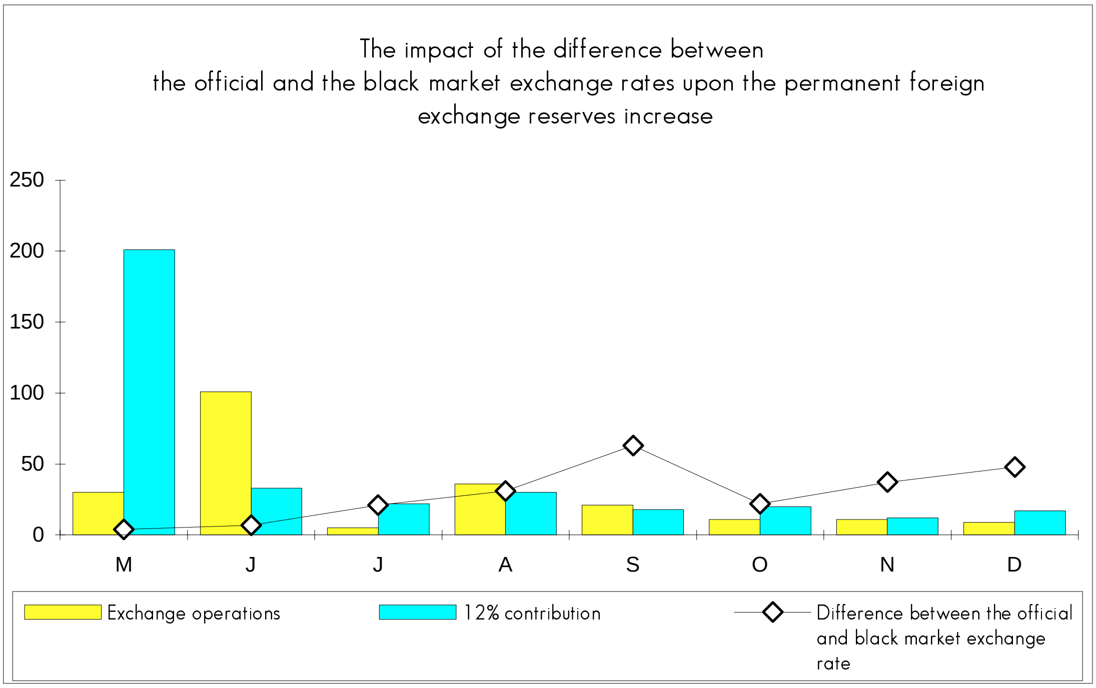
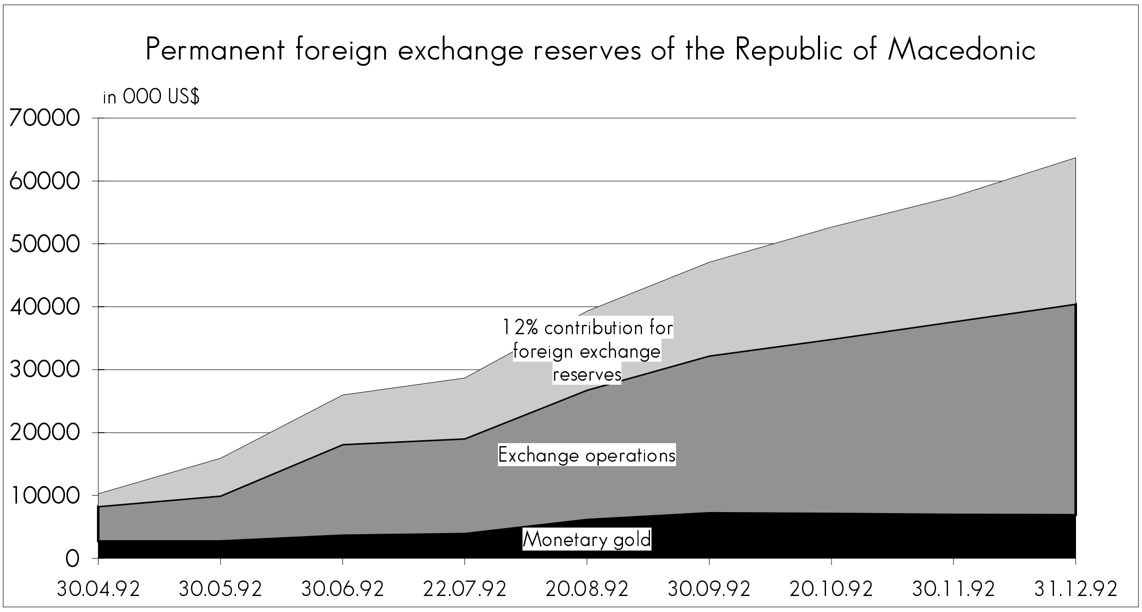


The foreign exchange reserves accumulation from the three basic components since the monetary independence until the end of 1992 is as follows:



Nevertheless, despite the adverse external and internal conditions, the Macedonian National Bank, beginning April 26, 1992 (the monetary independence) until the year end, succeeded in establishing and accumulating permanent foreign exchange reserves of US $ 63.7 million. The absolute foreign exchange reserves level at the end of 1992 is minimal, but it is far from negligible, bearing in mind that it represents 3% of the total social product.

3. Foreign exchange balance realization in 1992

Prior to the monetary independence the Republic of Macedonia's foreign economic relations data had been processed as a part of the former Yugoslavia's data as a whole. Since the beginning of May until the end of 1992 the Macedonian bodies and institutions in charge endeavored to establish a complete statistical and information system, particularly regarding the foreign trade. However, the preliminary 1992 goods exchange data, released in March 1993, could not be used without caution, because of the need for their logical and mathematical control.

In addition, in the new environment a good deal of transactions between the Republic of Macedonia and the former Yugoslav republics, and some of the neighboring countries as well, have been performed out of the state's banking system and have not been recorded, despite the fact that the trade with those countries represented a significant share of the Republic of Macedonia's total foreign trade.

Consequently, the analysis of the Republic of Macedonia's foreign economic relations in this report refers only to the foreign exchange transactions realized within the country's banking system.

3.1 Current account

On the basis of the recorded foreign exchange transactions, the 1992 Republic of Macedonia current account shows US $ 15 million deficit. The relatively low deficit compared to previous years (US $ 237 million in 1991, and US $ 372 million in 1990) is a result of the following reasons:

- higher foreign exchange outflow for imported goods decrease than the foreign exchange inflow increase from exported goods, as a result of the significant scope of cash payments, and payments from the foreign exchange accounts, as well as the foreign exchange earnings held abroad;

- production reduction as a consequence of reduced energy and raw materials imports due to the foreign exchange shortage;

- decrease in foreign exchange earnings from services, particularly in goods improvement;

- reduced remittance income (money orders and cash), and

- minimum interest payments on the external debt.

The foreign exchange transactions realization in the course of 1992, from the viewpoint of the economic and political climate could be analyzed in two periods: first, the period prior to the monetary independence, when US $ 53 million current deficit was realized; and second, the period after the monetary independence with US $ 38 million surplus, bearing in mind the above mentioned reasons.

Cash foreign exchange transactions balance

million US $

Item	1991	1992	05-12/92	Annual change
1	2	3	4	5(3-2)
1.Goods	-245	-67	-4	+178
Inflow from exported goods	291	256	203	-35
Outflow of imported goods	536	324	207	-212
2.Services	+60	+24	+21	-36
Inflow	86	54	46	-32
Outflow	27	30	25	+3
3.Interest	-24	-2	-1	+22
Inflow	-	-	-	-
Outflow	24	2	1	-22
4.Private transfers	-28	+30	+22	+58
Inflow	108	77	53	-31
Outflow	136	47	31	-89
Current account (1-4)	-237	-15	+38	+222
5. Long-term capital-balance	-58	-7	-2	+51
Inflow	3	3	3	-
Outflow	61	10	5	-51
6. Short-term capital-balance	-19	-16	-13	+3
Capital account (5-6)	-77	-23	-15	+54
7. Goods and services export advance payments	42	16	12	
8. Consignment and duty-free shops	10	23	19	-
9. Miscallaneous mistakes	-	+59	-2	
Change in official reserves	-	+60	+52	-

The net foreign exchange outflow in 1992 amounted US $ 67 million, which was 72.7% lower than 1991. This has mainly resulted from the drastic fall in payments for imported goods, particularly during the period from April until the end of the year, and not from an increased inflow from goods exports.

Import payments in 1992 were US $ 212 million lower than the previous year, while the inflow from exported goods fell more moderately in an amount of US $ 35 million.

Some positive changes in the inflow from exported goods occurred with the denar devaluation after the monetary independence, when the denar exchange rate was fixed at 360 denars to a deutsche mark, including 60% anticipated inflation increase. In addition, the collective agreement signed in the last quarter of 1992 had provisions for a direct determination of wage increase possibilities by the realized foreign exchange inflow.

The traditionally high balance in the services sub-balance has been decimated. Particularly, the inflow from goods improvements as a significant factor of this sub-balance surplus, has considerably decreased. Earnings from tourism, almost fully generated from gas and road toll coupons, have slightly increased, but they are far from reaching the pre-1991 level. The foreign exchange earnings from these activities amounted US $ 11 million.

The private transfers, which comprise of foreign exchange money orders and cash transfers to and from domestic natural persons, achieved US $ 30 million surplus in 1992. However, this surplus has not resulted from increased inflow, but it has mainly been due to the significantly reduced outflow, both on the basis of money orders and withdrawn effective currency as a result of the well known situation in the country. This inflow includes a purchase of foreign exchange from domestic persons in an amount of US $ 16 million.

During 1992 only US $ 47 million interest on the external debt was repaid. This necessitated from the urgent need to pay for the critical production imports, delaying interest payments without an official proclamation and foreign creditors consent. Capital transactions have also been closely tried and determined by the above mentioned reasons.

3.2 Capital account

During the first few months of 1992, when the Republic of Macedonia was still a constituent part of the Yugoslav federation, due to the impaired functioning of the foreign exchange market, the foreign exchange for foreign debt repayment were obtained from the former federation foreign exchange reserves, limited to those debts guaranteed by the federation, or the Yugoslav National Bank appeared as an agent-payer. In this manner, US $ 7.0 million have been obtained from the former Yugoslav federation foreign exchange reserves, covered with an appropriate dinar amount, for the Republic of Macedonia.

This possibility represented one of the reasons for the delayed monetary and independence of the Republic of Macedonia.

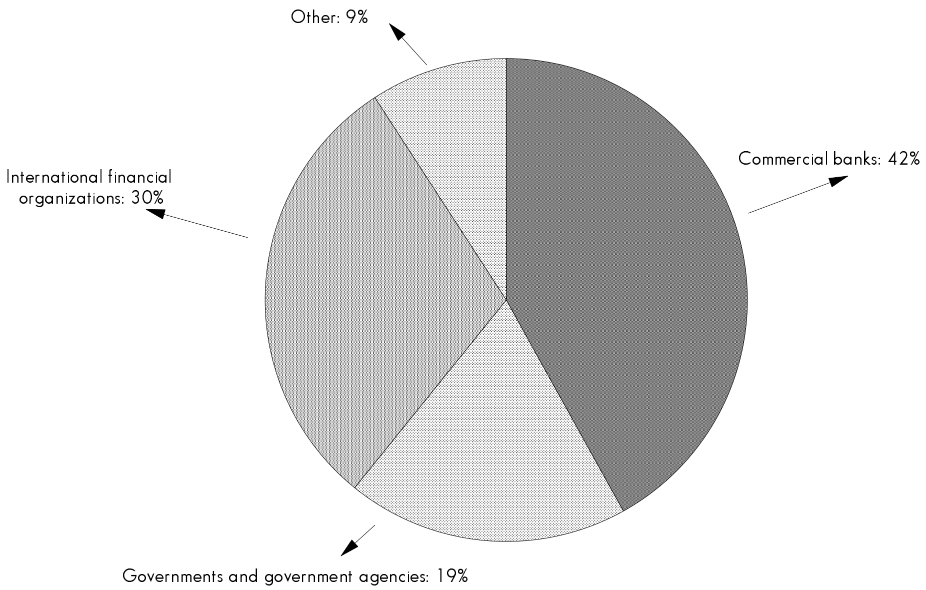
After the monetary and economic independence, faced with insufficient foreign exchange reserves, the Republic of Macedonia chiefly failed with both principal and interest on foreign debt repayment. Namely, the obligations under the Zurich agreement regarding the refinanced debt interest repayment were not fulfilled; under the Paris agreement only the interest, but not the principal of the matured debt was being repaid; only one obligation, amounting US $ 500.000 was met with the World Bank, regarding interest; and on 30 December 1992 US $ 1.1 million principal on a stand-by credit installment to the IMF was repaid, covering the period from 14 October to 31 December 1992.

In the course of the 1992, the Macedonian National Bank and the government of the Republic of Macedonia contacted the IMF and the World Bank delegations, searching for solutions to bridge this period, as well as the Macedonian membership in these financial institutions, particularly in the World Bank, because most of the matured foreign debt of the Republic of Macedonia refers to this institution.

In addition, some activities for the commercial banks foreign debt purchase were undertaken in 1992, due to its low price on the secondary financial markets. In accordance with the Government's decision for using a part of the foreign exchange reserves for these activities, a foreign debt amounting US $ 10.6 million has been purchased, with US $ 1.1 million individual foreign exchange and US $ 0.8 million short-term financial loan.

The external debt of the Republic of Macedonia arising from medium and long-term external loans amounted US $ 842.1 million at the end of 1992, and its structure is shown in figure:

The medium and long-term debt of the Republic of Macedonia on 31 Dec. 1992

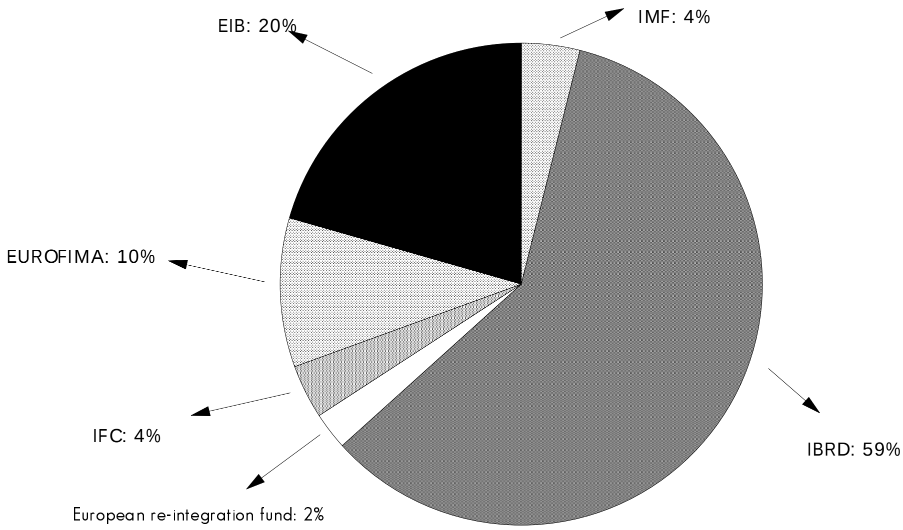


The biggest share of the Republic of Macedonia's external debts is to the commercial banks.

The republic of Macedonia's debt, arising from the commercial banks refinanced loans amounted US $ 343.5 million, or 42% of the total at the end of 1992. The governments and government agencies refinanced debt amounted US $ 155.6 million, or 19% of the total medium and long-term debt.

The Republic of Macedonia's international financial institutions debt amounted US $ 252.5 million, or 30% of the total debt at the end of 1992.

The medium and long-term debt
to the international financial institutions



The biggest share of the Republic of Macedonia's debt to the international financial institutions refers to the World Bank (59%) and the European Investment Bank (20%).