

MINISTRY OF FINANCE
REPUBLIC OF MACEDONIA



BULLETIN

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Skopje, January/February 2006

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HONOURABLE,



In the past period we have paid special attention, and achieved results, in the regulation of the institutional setup of the system of public procurement in the Republic of Macedonia. Taking into account the fact that through this system the public institutions practically spend large portion of the funds for procurement of goods, works and services, as well as the total investment activities in the public sector, the need to appropriately regulate this area is one of our high priorities, as well as an important segment for our approximation to the European Union. The goal is for the public procurement process to be transparent, cost-effective and not containing discriminatory procedures.

During this period, we have achieved a lot in terms of promotion of the public procurement process. Public Procurement Bureau has been established within the Ministry of Finance, as an institutional support in the public procurement process, as well as central body in charge of monitoring and promoting the public procurement procedures in the country. Public Procurement Bureau started its activities in June 2005, in part being a continuation of the activities preformed by the former Public Procurement Department within the Ministry of Finance. Institutional setup and the introduced legal framework are the bases on which the system is built, through strengthening of the capacity at the procurers to apply the provisions from the Law, further increasing of the transparency and openness of the procedures for all interested bidders and unifying the application of the legal provisions. We have created and regularly updated the web portal of the Public Procurement Bureau. With respect to the commitments for maximum transparency and eradication of corruption, the web portal contains all information

of relevance to the public procurement in the country. It also contains the single registry of public procurement, which electronically provides insight and data on each carried out, i.e. realized public procurement procedure. Thus practically the process of transparency with previous announcement of public procurement tender is completed, which pursuant to the Law, the Bureau announces on daily basis.

We have introduced electronic system of public procurement. To the end of further ensuring of transparency, as well as improving and modernizing the public procurement system, in December 2005, Public Procurement Law was amended, thus introducing mandatory electronic announcement of the invitations for public procurement on the Bureau's web site (in addition to their publication in the Official Gazette), and electronic system of public procurement, as a way for more efficient and more transparent implementation of the procedures. Rulebook on the Type and the Manner of Using the Electronic System was adopted. This is a step forward in introducing new techniques on procurement, as well as simplification of the procedures, which are also envisaged in the new EU Directives in the field of public procurement. Having the Public Procurement Bureau fully included in the process of preparation and implementation in electronic manner, first e-public procurement procedures have taken place, resulting in success and provoking great interest. We have realized training for over 300 participants in the public procurement process, by organizing 18 seminars in 20 months. Rising public awareness in public procurement as a process has been the focus of our activities. Persons of different profiles of procurers participated in the seminars, elaborating the pub-

lic procurement procedures and the best international practice in details. For a have been organized with the bidders, as active market participants. In order to help the procurers to better implement the Law, detailed Rule-book on Independent Training in Public Procurement was prepared, presenting a review on public procurement, description of all procedures envisaged by law and their application, available on the Bureau's web site. At the same time, guidelines on the procedures have also been prepared, so as to foster their application.

We have made significant steps towards further harmonization of our legislation with the European one by preparing standard tender documentation for all types of procedures and preparing a proposal for implementation of the latest EU Directives in the field of public procurement.

That is not all. By acquiring the status of a candidate country, we have also acquired more obligations in terms of the harmonization of the new regulations with the EU one regarding public procurement, which are carried out on continuous basis.

I would like to use this opportunity to express my strong belief that by developing the public procurement system we are ensuring legality, rationality, efficiency and transparency in the public procurement process, we are stimulating competition and equality among the bidders in the public procurement procedures, all that to the end of spending public funds in an cost-efficient manner and to prevent corruption in the overall process.

Yours sincerely,
Nikola Popovski MA
Minister of Finance

BASIC MACROECONOMIC INDICATORS

Annual data for Republic of Macedonia

		1996	1997	1998	1999	2000	2001	2002	2003	2004*	2005*
Real GDP	%	1,2	1,4	3,4	4,3	4,5	-4,5	0,9	2,8	4,1	4,0
GDP	USD mil.	3.390	3.458	3.581	3.674	3.588	3.437	3.769	4.631	5.368	5.625
Inflation (average)	%	2,3	2,6	-0,1	-0,7	5,8	5,5	1,8	1,2	-0,4	0,5
Inflation (end of period)	%	-0,7	2,7	-2,4	2,4	6,1	3,7	1,1	2,6	-1,9	1,2
GDP deflator	%	2,9	3,4	1,4	2,7	8,2	3,6	3,4	0,3	1,3	-
Budget balance											
(Central budget and funds)	% BDP	-0,5	-0,4	-1,7	0,0	1,8	-7,2	-5,7	-0,6	0,4	0,3
Exchange rate, average	DEN/1USD	40,0	49,8	54,5	56,9	65,9	68,1	64,7	54,3	49,4	49,3
Exchange rate, average	DEN/1EUR	50,1	56,2	61,1	60,6	60,7	60,9	61,0	61,3	61,3	61,3
Exchange rate, end of period	DEN/1USD	41,4	55,4	51,8	60,3	65,3	69,2	58,6	49,9	45,9	51,7
Exchange rate, end of period	DEN/1EUR	51,3	61,2	60,9	60,6	60,8	61,0	61,1	61,3	61,4	61,2
Export (f.o.b.)	USD mil.	1.147	1.237	1.291	1.190	1.321	1.153	1.112	1.359	1.672	2.041
Import (f.o.b.)	USD mil.	1.462	1.623	1.807	1.686	2.011	1.677	1.916	2.211	2.785	3.097
Trade balance	USD mil.	-315	-386	-516	-496	-690	-524	-804	-852	-1.113	-1.056
Current account balance	USD mil.	-340	-286	-269	-32	-75	-235	-358	-152	-415	-81
as % of GDP	%	-10,0	-8,3	-7,5	-0,9	-2,1	-6,8	-9,5	-3,3	-7,7	-1,4
Foreign exchange reserves	USD mld.	0,28	0,26	0,33	0,45	0,71	0,78	0,73	0,90	0,99	1,33
Import coverage	meseci	2,2	1,9	2,2	3,2	3,7	4,7	4,0	3,9	3,3	3,6
External dept ¹⁾	USD mld.	1.118	1.139	1.437	1.490	1.489	1.506	1.635	1.813	2.044	2.258
as % of GDP	%	33,1	33,5	41,4	41,5	39,9	41,0	43,1	44,9	44,6	40,1
Foreign direct investments	USD mil.	11,2	30,0	127,7	32,4	175,1	440,7	77,7	94,3	150,1	120,0
as % of GDP	%	0,3	0,9	3,6	0,9	4,9	12,8	2,1	2,0	2,8	2,1

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

* Estimation or preliminary data

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

BASIC MACROECONOMIC INDICATORS IN THE SELECTED TRANSITIONAL ECONOMIES

	Real GDP				Consumer prices ¹⁾				Current account balance ²⁾			
	2004	2005	2006	2003	2004	2005	2006	2003	2004	2005	2006	2007
Emerging markets - Total	6,6	5,4	5,3	4,8	6,2	4,9	4,2	3,4	-5,7	-5,2	-5,4	-5,3
Bulgaria	5,7	5,5	5,6	5,8	6,1	5,0	7,2	4,1	-5,8	-11,8	-10,2	-9,1
Czech Republic	4,7	6,0	5,5	4,5	2,8	1,8	2,8	3,0	-6,0	-2,1	-2,3	-2,3
Estonia	7,8	9,8	7,9	7,1	3,0	4,1	3,6	3,2	-12,7	-10,5	-10,1	-9,6
Hungary	4,6	4,1	4,4	4,2	6,7	3,5	2,0	2,7	-8,8	-7,9	-8,2	-7,5
Latvia	8,5	10,2	9,0	7,0	6,3	6,7	6,4	5,5	-12,9	-12,5	-12,8	-12,0
Lithuania	7,0	7,3	6,5	6,0	1,2	2,6	3,2	2,7	-7,7	-7,5	-7,5	-7,3
Poland	5,3	3,2	4,2	3,8	3,5	2,1	1,3	2,3	-4,1	-1,6	-2,5	-3,1
Romania	8,4	4,1	5,2	5,6	11,9	9,0	7,9	4,8	-8,4	-8,7	-8,3	-8,1
Slovak Republic	5,5	6,0	6,3	6,7	7,5	2,8	3,6	2,5	-3,5	-7,2	-6,4	-5,5
Slovenia	4,2	3,9	4,0	4,0	3,6	2,5	2,4	2,4	-2,1	-0,9	-0,3	0,1
Croatia	3,8	4,1	4,1	4,5	2,1	3,3	3,2	2,5	-5,6	-6,0	-5,9	-5,9
Malta	1,0	1,0	1,3	1,5	2,7	3,1	2,8	2,4	-10,4	-6,7	-6,5	-6,3
Turkey	8,9	7,4	6,0	5,0	8,6	8,2	6,5	4,4	-5,2	-6,3	-6,5	-6,1

1) Annual average

2) Percent of GDP

Source: World Economic Outlook, IMF, Washington D.C., April 2006

GROSS DOMESTIC PRODUCT
(real growth rates, year on year, 2000-2005)

		Agriculture, hunting, forestry and fishing	Mining and quarrying, manufacturing, electricity and gas	Construction	Wholesale and retail trade;	Hotels and restaurants	Transport and communica- tion	Financial intermediation and real estate, renting	Public administration and defense	Imputed banking services	Value added	Net taxes on pro- duction	GDP
		A + B	C + D + E	F	G	H	I	J + K + L	M + N + O + P				
2000	I	2.4	16.3	4.1	37.7	-7.1	13.4	2.4	1.0	0.5	11.4	15.1	12.0
	II	3.6	17.1	-9.9	4.6	-14.8	11.1	2.5	1.3	0.8	5.6	9.0	6.1
	III	1.2	1.8	5.3	-8.7	-9.6	10.1	2.7	-0.8	1.9	0.6	3.9	1.0
	IV	-3.1	4.5	12.5	-12.7	-13.1	0.7	3.2	-1.1	3.7	-0.3	3.0	0.2
	00/99	1.0	9.4	2.6	3.0	-11.3	8.5	2.7	0.1	1.7	4.1	7.5	4.5
2001	I	-6.9	-2.8	0.7	-18.9	6.7	-4.8	3.0	-8.7	-6.9	-6.2	-6.9	-6.3
	II	-12.5	-4.7	-4.9	4.5	-7.1	-7.2	2.6	-5.1	-8.5	-3.8	-4.4	-3.9
	III	-13.3	-10.6	-22.9	4.4	-14.7	-11.1	1.4	0.8	-13.1	-6.2	-6.9	-6.4
	IV	-10.3	-0.5	-22.8	9.7	-0.1	-9.9	1.3	3.7	-13.5	-1.5	-2.2	-1.6
	01/00	-10.8	-4.6	-14.4	-0.8	-4.5	-8.3	2.1	-2.3	-10.5	-4.4	-5.1	-4.5
2002	I	-5.6	-10.1	-7.0	6.0	-1.0	-3.4	-2.8	10.0	-2.5	-1.8	1.1	-1.3
	II	-2.5	-3.5	0.7	4.6	16.1	-6.7	-4.1	4.7	1.7	-0.9	2.0	-0.4
	III	-1.6	-1.3	5.3	4.2	32.2	-0.5	-4.1	0.8	6.2	0.3	3.2	0.8
	IV	1.8	10.2	1.4	6.8	18.8	3.5	-3.7	-0.8	2.2	3.6	6.6	4.1
	02/01	-2.0	-0.8	0.6	5.4	16.7	-1.8	-3.7	3.5	1.8	0.4	3.3	0.9
2003	I	3.2	3.9	8.8	1.8	14.2	-2.7	-4.4	5.7	4.4	2.3	-0.5	1.8
	II	3.5	4.0	8.1	2.2	6.7	5.2	-3.7	6.5	-3.2	3.5	0.7	3.0
	III	6.5	15.0	13.8	1.1	11.1	0.5	-3.0	4.9	-4.3	5.9	3.1	5.4
	IV	6.2	-0.7	21.6	2.0	7.0	-0.9	-3.3	2.7	-1.6	1.7	-1.0	1.2
	03/02	4.8	5.0	13.3	1.8	9.6	0.4	-3.6	4.9	-1.2	3.3	0.6	2.8
2004*	I	4.5	0.7	2.7	13.3	-11.2	-7.6	11.5	0.0	10.4	3.4	3.4	3.4
	II	6.3	0.7	10.1	14.9	-8.4	-5.0	12.4	-0.4	13.2	4.8	4.8	4.8
	III	6.7	1.3	6.6	16.6	-14.2	-4.7	12.0	-1.3	13.7	4.6	4.6	4.6
	IV	7.3	-5.0	8.6	17.6	-10.7	-2.2	11.2	-0.8	12.6	3.4	3.4	3.4
	04/03	6.2	-0.8	7.4	15.7	-11.3	-4.8	11.8	-0.6	12.5	4.0	4.4	4.1
2005*	I	4.1	4.7	-9.7	5.9	3.9	6.4	0.2	0.5	-0.9	2.9	2.9	2.9
	II	3.6	13.0	-9.0	8.2	8.6	7.4	0.9	0.3	1.4	5.0	5.0	5.0
	III	2.8	5.9	-3.0	8.6	8.6	8.0	1.5	2.0	0.0	4.1	4.1	4.1
	IV	1.8	4.0	-0.2	8.7	4.9	3.0	2.9	3.4	11.1	3.8	3.8	3.8
	05/04	3.1	6.8	-5.0	7.9	6.6	6.1	1.4	1.5	2.9	4.0	4.0	4.0

* Preliminary data

Source: State Statistical Office

GROSS DOMESTIC PRODUCT (PRODUCTION APPROACH)

in million of denars

at current prices

NACE sector	Description	2000	2001	2002	2003	2004 ¹	Index 2004/2003
A	Agriculture, hunting and forestry	23.756	22.933	24.509	28.672	30.073	4,9
B	Fishing	14	24	48	27	21	-22,2
C	Minerals and stone mining	1.856	1.312	960	989	1.042	5,4
D	Manufacturing	40.926	39.587	37.925	39.651	39.663	0,0
E	Electricity, gas and water supply	10.381	10.041	9.146	11.778	11.080	-5,9
F	Construction	13.361	11.801	11.893	13.537	14.736	8,9
G	Wholesale and retail trade	25.402	26.076	27.348	28.282	36.000	27,3
H	Hotels and restaurants	3.463	3.410	4.088	4.653	4.172	-10,3
I	Transport, storage and communication	21.261	21.694	20.610	21.062	20.642	-2,0
J	Financial intermediation	7.342	7.420	7.427	6.110	7.510	22,9
K	Real estate, renting and business activities	7.466	8.304	8.168	8.453	8.853	4,7
L	Public administration and defence; compulsory social security	14.333	14.445	16.145	16.984	17.874	5,2
M	Education	8.266	8.048	8.688	9.436	9.913	5,1
N	Health and social work	8.987	8.690	9.361	9.897	9.650	-2,5
O	Other community, social and personal service activities	5.217	5.548	5.553	5.503	5.984	8,7
P	Imputed rents	10.465	10.631	10.792	13.732	15.662	14,1
	Minus: Imputed banking services	5.153	4.738	4.160	3.797	4.720	24,3
A.	Value added	197.344	195.230	198.592	214.969	228.155	6,1
B.	Net taxes on production	39.045	38.611	45.378	36.516	37.101	1,6
A + B	GROSS DOMESTIC PRODUCT	236.389	233.841	243.970	251.485	265.256	5,5

1) Preliminary data.

GROSS DOMESTIC PRODUCT (EXPENDITURE APPROACH)

	In millions of denars					in %				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
GROSS DOMESTIC PRODUCT	236.389	233.841	243.970	251.486	265.257	100,0	100,0	100,0	100,0	100,0
(current prices)										
Final consumption	218.986	221.771	242.795	243.853	261.723	92,6	94,8	99,5	97,0	98,7
Household consumption	175.965	163.788	188.179	191.873	206.610	74,4	70,0	77,1	76,3	77,9
Government consumption	43.021	57.983	54.616	51.980	55.112	18,2	24,8	22,4	20,7	20,8
Gross capital formation	50.683	42.759	50.276	50.261	57.202	21,4	18,3	20,6	20,0	21,6
Gross fixed capital formation	38.332	34.716	40.448	42.110	47.286	16,2	14,8	16,6	16,7	17,8
Change in stocks	12.351	8.043	9.828	8.151	9.916	5,2	3,4	4,0	3,2	3,7
Export of goods and services	114.209	99.091	92.780	95.254	106.758	48,3	42,4	38,0	37,9	40,2
Export of goods (FOB)	87.161	78.625	71.994	73.800	82.635	36,9	33,6	29,5	29,3	31,2
Export of services	19.971	15.894	16.387	17.705	20.154	8,4	6,8	6,7	7,0	7,6
Purchases of non-residents	7.077	4.572	4.399	3.749	3.968	3,0	2,0	1,8	1,5	1,5
Import of goods and services	147.489	129.780	141.881	137.882	160.426	62,4	55,5	58,2	54,8	60,5
Import of goods (FOB)	123.910	107.166	124.062	120.038	137.584	52,4	45,8	50,9	47,7	51,9
Import of services	23.579	22.614	17.819	17.844	22.842	10,0	9,7	7,3	7,1	8,6

Source: State Statistical Office

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

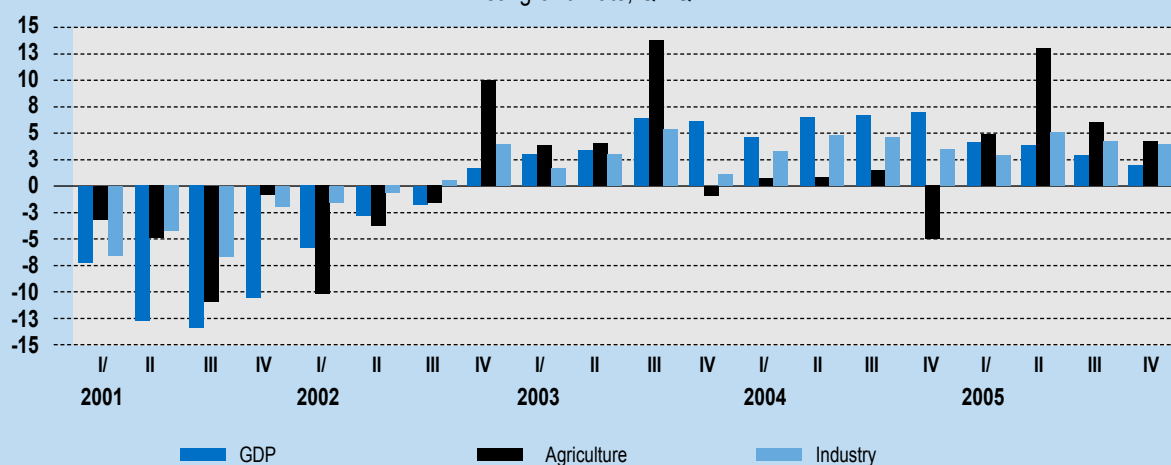
	2000	2001	2002	2003	2004	2005	2005					
							Q - 1	Q - 2	Q - 3	Q - 4	January	February
REAL SECTOR												
Production real rates of change												
Gross domestic product	4,6	-4,5	0,9	2,8	4,1	4,0	2,9	5,0	4,1	3,8		
Industrial production	3,5	-3,1	-0,8	6,6	-2,1	7,0	4,8	13,0	6,0	4,1	1,8	-2,2
nominal rates of change												
Investment in machines and equipment	20,8	-16,9	16,4	-7,7	4,9	4,9	5,7	4,8	-2,8	7,4		
Prices												
Consumer Price Index	5,8	5,5	1,8	1,2	-0,4	0,5	-0,4	0,9	0,9	0,8	2,8	2,6
Industrial producer prices	8,9	2,0	-0,9	-0,3	0,9	3,2	1,9	2,3	4,5	3,8	6,4	6,1
Competition of the industry												
Productivity	6,0	0,5	3,0	13,1	3,9	2,5	12,5	5,9	-7,0	-1,5	4,0	
Unit labour cost	-4,7	-0,7	0,2	-10,3	0,7	-0,5	-7,2	-8,6	8,9	5,1	-4,9	
Real unit labour cost	-12,5	-2,7	1,1	-10,1	-0,4	-4,4	-20,6	-9,1	6,4	5,7	-11,0	
Commodity prices of the major Macedonian export and import products Prices in US \$												
Crude oil brent	28,3	24,4	25,0	28,9	38,3	54,4	47,6	53,1	61,6	56,9	63,6	59,9
Lamb	261,9	291,2	330,3	388,4	461,4	443,3	478,1	479,7	429,2	410,8	378,2	393,3
Nickel	8.638,0	5.944,7	6.772,0	9.629,0	13.823,4	14.744,0	15.348,0	16.191,0	14.567,4	12.649,0	14.555,0	14.979,0
Copper	1.813,0	1.578,3	1.559,0	1.779,0	2.866,0	3.679,0	3.268,0	3.379,0	3.756,6	4.302,0	4.734,0	4.982,0
Lead	45,4	47,6	45,3	51,5	88,7	97,6	97,8	100,4	89,2	104,9	125,6	127,7
Zink	112,8	88,6	77,9	82,8	104,8	138,1	131,5	137,2	129,7	164,0	209,0	221,9
Steel cold rolled coilsreat	385,8	299,2	328,3	444,6	607,1	733,3	683,3	712,5	750,0	750,0	750,0	750,0
Steel hot rolled coilsreat	295,8	216,5	246,7	320,2	502,5	633,3	583,3	612,5	650,0	650,0	650,0	650,0
EXTERNAL SECTOR												
nominal rates of change in dollar amount												
Export of goods (FOB)	11,0	-12,7	-3,7	22,2	22,4	21,8	31,7	39	14,3	8,0	-16,9	-5,6
Import of goods (CIF)	17,9	-19,4	16,3	15,3	25,9	10,1	13,8	24,6	8,8	-2,8	-10,1	-15,9
Trade balance (in millions of US \$)	-771	-533	-849	-937	-1.230	1.187	-219,2	-380,0	-263,0	-326,6	-65,8	-40,6
Current account balance (in millions of US \$)	-236	-38	-324	-277	-415	-81,0	-21,4	-112,6	78,2	34,4	8,1	34,3
"Foreign exchange reserves (in millions of US \$) "-" means decrease	235,6	62,0	-40,5	168,8	82,3	415,1	62,0	78,0	138,0	88,3	-190,6	4,8
Medium and long-term external debt (end of period, in millions of US \$)	1.438,0	1.444,0	1.571,0	1.771,0	1.957,0	2.168,3	1.961,0	1.994,2	1.980,0	2.168,3	1.972,1	1981,2
Foreign exchange rates												
Denar / EURO	60,73	60,91	60,98	61,26	61,34	61,30	61,40	61,37	61,22	61,19	61,28	61,25
Denar / USA \$	65,89	68,04	64,73	54,30	49,41	49,2919	46,80	48,68	50,16	51,47	50,75	50,98

	2000	2001	2002	2003	2004	2005	2005					
							Q - 1	Q - 2	Q - 3	Q - 4	January	February
GOVERNMENT FINANCE												
nominal rates of change												
Revenues	22,5	-10,3	10,1	-7,4	5,8	7,5	-9,0	5,8	27,3	6,3	-11,2	4,1
Tax revenues	22,1	-6,9	14,0	-9,6	6,8	4,8	-3,1	6,2	7,3	8,0	-12,8	3,1
VAT	75,2	-1,8	19,8	3,2	21,6	5,1	-5,9	4,4	10,4	10,7	-28,4	-2,7
Expenditures	12,7	27,0	-0,1	-13,8	0,3	6,1	5,6	0,6	6,2	10,9	-5,2	13,8
Current expenditures	1,8	31,9	17,2	-1,2	1,4	2,2	3,6	-0,5	3,7	1,6	2,9	13,4
Capital expenditures	94,5	28,3	11,8	-447,0	-3,4	47,4	42,2	11,4	32,7	85	-73,7	20,2
Central budget balance (in millions of denars)	6.285	-12.490	7.343	-2.551	371	1.183,0	-1.005,0	357,0	3.593,0	-1.672,0	-233,0	-1.515,0
General government balance (in million of denars)	5.905	-13.171	-13.019	-2.596	7	-1.708,0	-1.035,0	750,0	3.501,0	-2.420,0	462,0	-1.450,0
MONETARY SECTOR												
nominal rates of change (end of the period)												
Net foreign assets	73,8	57,6	-19,1	5,3	4,7	30,3	4,0	13,4	10,0	30,3	16,9	18,3
Credit to private sector	17,2	7,3	12,7	15,8	18,7	20,5	25,0	23,0	22,0	20,5	20,2	19,6
Cash in circulation	16,6	48,5	0,0	0,3	-0,1	2,0	2,0	0,5	1,3	2,0	-9,3	4,1
M1	22,6	5,6	4,6	1,1	-1,1	7,5	6,5	3,8	6,0	7,5	4,2	5,9
M2	29,4	61,9	-7,0	15,9	15,1	16,0	23,4	14,5	14,1	16,0	14,6	14,4
M4	25,6	56,7		13,2	15,3	15,1	21,4	21,5	13,7	15,1	14,2	14,3
Foreign exchange reserves / M4 (denars)	165,0	188,2	150,5	150,7	162,0	230,0	167,6	178,0	192,0	230,0	214,0	207,0
SOCIAL SECTOR												
Labour market												
Unemployment rate (Labor Force Survey)	32,2	30,5	31,9	36,7	36,7	36,5	38,6	37,4	36,5	36,5		
Number of new employed	101.996	90.308	110.401	79.921	112.013	147.965	27.845	63.873	102.114	147.965	11.595	36.765
Number of new employed on full time	63.987	63.346	74.341	49.661	63.538	85.033	16.801	36.212	59.363	85.033	6.652	21.610
Wages												
Nominal net wages	5,5	3,5	6,9	4,8	4,0	4,5	3,0	2,2	2,2	3,6	6,4	6,5
Real net wages	-0,3	-1,9	5,0	3,6	4,4	2,0	3,4	2,0	1,3	2,8	3,5	3,8
Consumer basket	2,5	5,2	2,7	-0,7	-2,7	-1,2	-4,0	-3,3	0,5	-0,5	0,0	0,5
Social protection												
Number of pensioners	241.221	247.200	249.421	254.267	260.075	265.152	260.879	260.879	262.833	265.152	265.686	266.125
"Number of households that receivesocial protection"	77.309	80.160	82.673	64.453	66.940	66.485	69.667	69.667	68.517	66.485	65.949	64.094
"Number of persons that receiveunemployment benefits"	35.046	41.375	46.772	47.324	45.867	40.230	44.230	44.230	41.412	40.124	39.850	39.171

Source: State statistical office, National bank of the Republic of Macedonia, Ministry of labour and social policy
Employment Agency, World Development Prospects (Pink Sheets), Ministry of Finance

GROSS DOMESTIC PRODUCT

real growth rate, Q / Q - 4



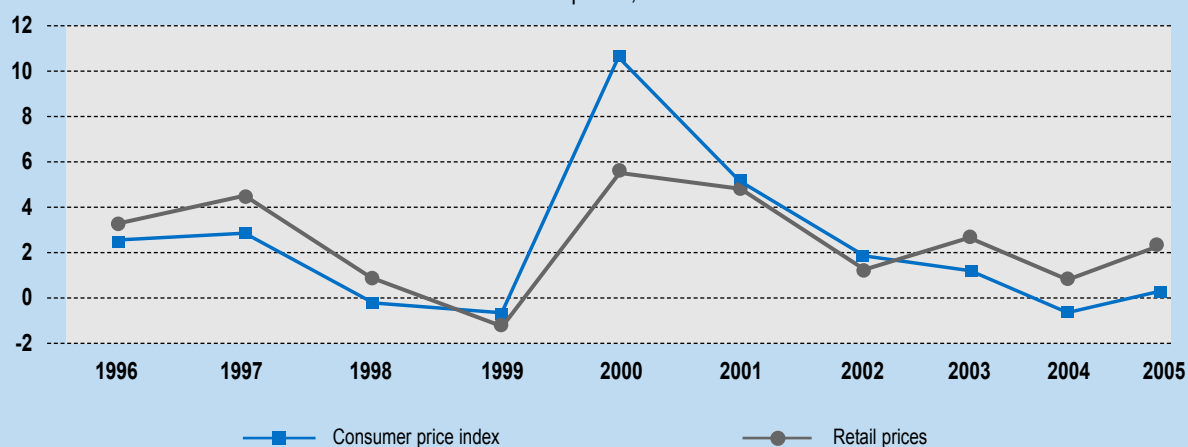
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ²⁾
Gross Domestic Product ¹⁾	3.450	3.389	3.351	3.390	3.458	3.575	3.730	3.899	3.723	3.755	4.546	4.842
in million USD dollars												
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ²⁾
Gross Domestic Product (per capita) ¹⁾	1.785	1.742	1.705	1.709	1.732	1.781	1.848	1.924	1.830	1.859	2.243	2.382
in USD dollars												

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

2) Previous data

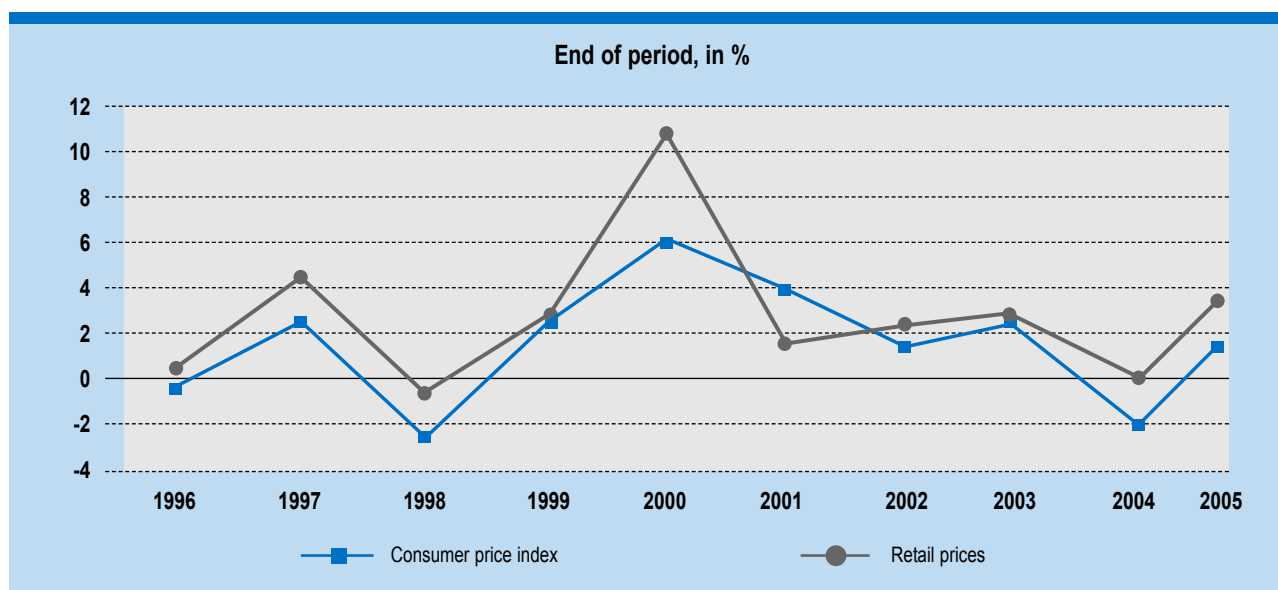
INFLATION

End of period, in %



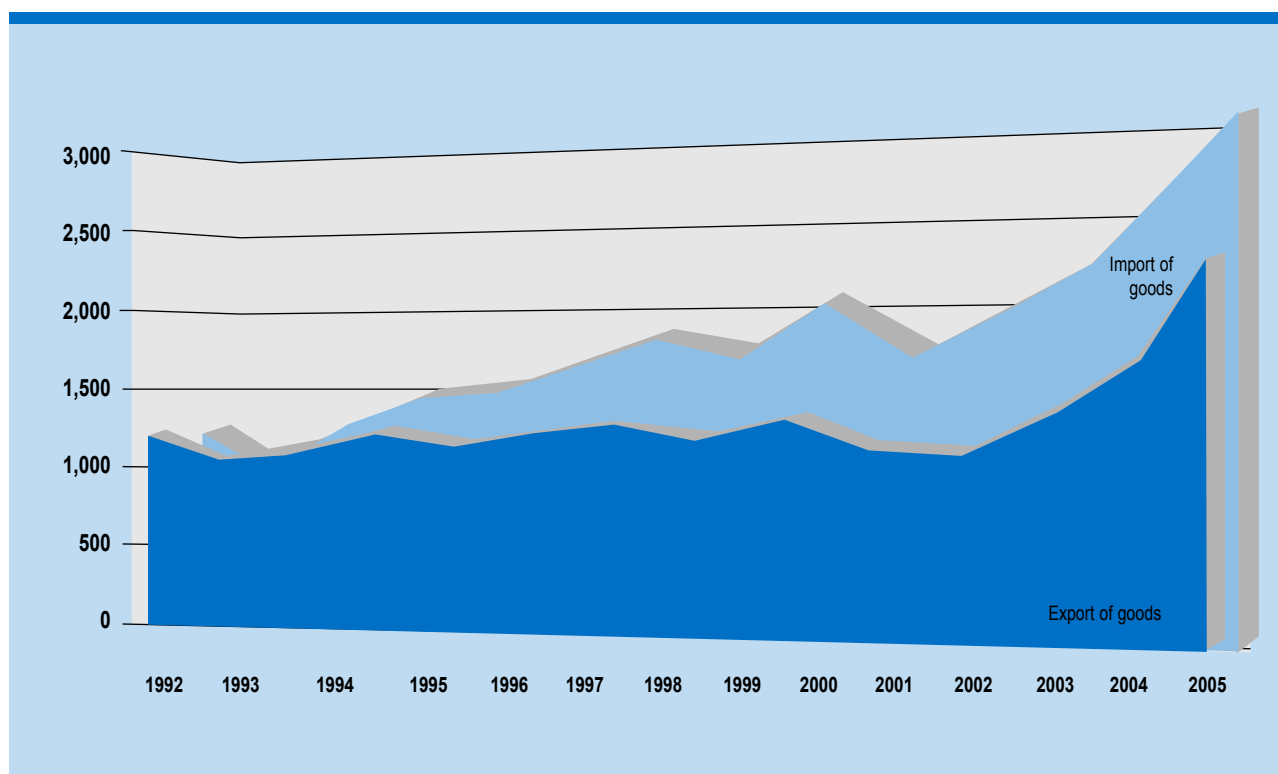
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Consumer price index	2.3	2.6	-0.1	-0.7	5.8	5.5	1.8	1.2	-0.4	0.5
Retail prices	3.0	4.4	0.8	-1.1	10.6	5.2	1.4	2.4	0.9	2.1

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Consumer price index	-0.7	2.7	-2.4	2.4	6.1	3.7	1.1	2.6	-1.9	1.2
Retail prices	0.2	4.5	-1.0	2.3	10.8	1.2	2.2	2.9	-0.1	3.2



FOREIGN TRADE

	in million of US \$													
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Export of goods	1,199	1,055	1,086	1,204	1,147	1,237	1,292	1,190	1,321	1,153	1,112	1,359	1,674	2,041
Import of goods	1,206	1,013	1,271	1,427	1,462	1,623	1,807	1,686	2,011	1,677	1,917	2,211	2,793	3,097
Trade balance	-7	42	-185	-223	-315	-386	-515	-496	-690	-524	-805	-852	-1,119	-1,056



FOREIGN TRADE OF THE REPUBLIC OF MACEDONIA

		Total			Germany			Serbia and Montenegro		
		Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
2000		1,322.6	2,093.8	-771.2	257.5	253.3	4.2	335.2	190.4	144.8
2001		1,155.0	1,687.6	-532.6	237.5	213.3	24.2	266.8	157.2	109.6
2002		1,115.5	1,995.2	-879.7	234.0	284.7	-50.7	246.4	185.2	61.2
2003		1,363.2	2,299.9	-936.7	278.3	303.8	-25.5	273.8	212.6	61.2
2004		1,675.9	2,931.6	-1,255.7	317.1	368.1	-51.0	347.6	249.7	97.9
2005		2,041.3	3,228.0	-1,186.7	364.2	335.0	29.2	459.4	264.1	195.3
2000	Q1	331.1	606.8	-275.7	66.1	80.9	-14.8	78.8	47.8	31.0
	Q2	317.7	481.0	-163.3	56.9	52.7	4.2	76.3	47.3	29.0
	Q3	345.1	470.6	-125.5	70.8	55.0	15.8	82.8	47.3	35.5
	Q4	328.7	535.4	-206.7	63.7	64.7	-1.0	97.3	48.0	49.3
2001	Q1	291.5	400.4	-108.9	69.0	52.8	16.2	62.3	34.9	27.4
	Q2	285.3	416.6	-131.3	52.9	59.0	-6.1	74.1	39.2	34.9
	Q3	295.7	378.9	-83.2	61.9	42.8	19.1	62.9	33.4	29.5
	Q4	282.5	491.7	-209.2	53.7	58.7	-5.0	67.5	49.7	17.8
2002	Q1	244.0	444.2	-200.2	60.9	56.4	4.5	47.2	38.2	9.0
	Q2	264.4	461.7	-197.3	54.0	70.5	-2.7	53.6	47.9	5.7
	Q3	289.1	497.1	-208.0	60.3	77.1	-10.4	55.8	47.9	7.9
	Q4	301.8	597.6	-295.8	57.0	89.2	-32.2	66.4	55.1	11.3
2003	Q1	293.7	531.7	-238.0	66.6	69.2	-2.6	47.2	50.4	-3.2
	Q2	355.8	580.9	-225.1	68.0	74.2	-6.2	76.4	54.8	21.6
	Q3	337.8	550.2	-212.4	72.0	71.0	1.0	74.7	53.5	21.2
	Q4	375.9	637.1	-261.2	71.7	89.4	-17.7	75.5	53.9	21.6
2004	Q1	366.1	616.9	-250.8	82.1	84.4	-2.3	57.9	48.2	9.7
	Q2	368.0	716.6	-348.6	63.4	90.3	-26.9	84.4	63.7	20.7
	Q3	443.4	708.3	-264.9	78.5	83.1	-4.6	97.5	68.1	29.4
	Q4	498.4	889.8	-391.4	93.1	110.3	-17.2	107.8	69.7	38.1
2005	Q1	482.0	701.2	-219.2	112.0	73.7	38.3	75.0	58.8	16.2
	Q2	512.7	892.6	-379.9	80.7	90.6	-9.9	123.2	71.2	52.0
	Q3	507.9	769.0	-261.1	84.9	79.2	5.7	128.9	66.9	62.0
	Q4	538.7	865.2	-326.5	86.6	91.5	-4.9	132.3	67.2	65.1
2003	I	78.6	159.0	-80.4	18.7	22.6	-3.9	11.3	15.0	-3.7
	II	94.7	152.2	-57.5	21.9	21.7	0.2	15.5	15.4	0.1
	III	120.4	220.5	-100.1	26.0	24.9	1.1	20.4	20.0	0.4
	IV	117.3	190.3	-73.0	22.2	21.2	1.0	22.4	15.4	7.0
	V	119.9	208.4	-88.5	23.6	26.5	-2.9	27.3	23.2	4.1
	VI	118.6	182.2	-63.6	22.2	26.5	-4.3	26.7	16.2	10.5
	VII	124.3	194.8	-70.5	25.2	27.8	-2.6	27.2	18.0	9.2
	VIII	96.1	173.1	-77.0	22.2	20.5	1.7	23.1	18.3	4.8
	IX	117.4	182.3	-64.9	24.6	22.7	1.9	24.4	17.2	7.2
	X	124.7	214.0	-89.3	22.8	26.7	-3.9	28.9	18.8	10.1
	XI	122.7	198.8	-76.1	24.7	29.4	-4.7	22.6	15.7	6.9
	XII	128.5	224.3	-95.8	24.2	33.3	-9.1	24.0	19.4	4.6
2004	I	102.5	176.7	-74.2	27.3	21.8	5.5	14.5	11.2	3.3
	II	132.0	199.6	-67.6	28.0	32.8	-4.8	20.0	17.0	3.0
	III	131.6	240.6	-109.0	26.8	29.8	-3.0	23.4	20.0	3.4
	IV	125.2	238.4	-113.2	22.3	27.6	-5.3	26.4	22.5	3.9
	V	118.2	224.3	-106.1	19.7	29.2	-9.5	27.9	22.6	5.3
	VI	124.6	253.9	-129.3	21.4	33.5	-12.1	30.1	18.6	11.5
	VII	155.8	253.4	-97.6	31.6	32.4	-0.8	31.2	20.2	11.0
	VIII	137.6	223.5	-85.9	25.0	25.4	-0.4	34.1	28.0	6.1
	IX	150.0	231.4	-81.4	21.9	25.3	-3.4	32.2	19.9	12.3
	X	158.2	257.9	-99.7	24.6	32.2	-7.6	33.4	21.7	11.7
	XI	154.0	295.2	-141.2	26.9	34.9	-8.0	33.0	21.4	11.6
	XII	186.2	336.7	-150.5	41.6	43.2	-1.6	41.4	26.6	14.8
2005	I	147.9	209.9	-62.0	43.3	21.7	21.6	19.0	15.8	3.2
	II	156.6	224.0	-67.4	35.5	25.7	9.8	22.4	16.7	5.7
	III	177.5	267.3	-89.8	33.2	26.3	6.9	33.6	26.3	7.3
	IV	174.5	312.7	-138.2	29.5	25.7	3.8	38.8	30.2	8.6
	V	179.1	284.6	-105.5	23.1	31.2	-8.1	42.8	19.0	23.8
	VI	159.1	295.3	-136.2	28.1	33.7	-5.6	41.6	22.0	19.6
	VII	184.5	256.8	-72.3	35.8	28.2	7.6	41.7	18.5	23.2
	VIII	146.8	239.5	-92.7	22.8	26.5	-3.7	42.3	21.6	20.7
	IX	176.6	272.7	-96.1	26.3	24.5	1.8	44.9	26.8	18.1
	X	191.4	283.7	-92.3	28.3	30.6	-2.3	50.7	24.5	26.2
	XI	171.7	280.9	-109.2	25.5	29.2	-3.7	42.5	20.1	22.4
	XII	175.6	300.6	-125.0	32.8	31.7	1.1	39.1	22.6	16.5
2006	I	122.8	188.7	-65.9	26.4	20.8	5.6	22.5	12.1	10.4
	II	147.8	188.4	-40.6	29.1	23.6	5.5	29.3	13.3	16.0

in million US \$

USA			Italy			Greece			Russia		
Export	Import	Balance	Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
165.6	83.0	82.6	90.8	111.1	-20.3	84.1	201.5	-117.4	10.3	191.8	-181.5
99.7	51.5	48.2	88.7	107.7	-19.0	101.4	184.0	-82.6	13.9	139.4	-125.5
77.4	58.7	18.7	81.9	118.6	-36.7	116.9	237.9	-121.0	14.4	125.4	-111.0
72.8	56.2	16.6	95.4	122.5	-27.1	179.8	300.2	-120.4	13.7	177.8	-164.1
71.9	47.7	24.2	134.4	163.6	-29.2	228.8	277.9	-49.1	19.7	265.4	-245.7
44.0	45.0	-1.0	169.5	185.2	-15.7	312.9	296.8	22.1	21.4	418.6	-397.2
49.6	16.3	33.3	25.4	29.4	-4.0	19.7	43.1	-23.4	2.6	60.8	-58.2
48.6	16.5	32.1	27.4	29.3	-1.9	18.4	42.3	-23.9	2.7	38.6	-35.9
37.5	23.4	14.1	18.1	25.4	-7.3	23.5	55.3	-31.8	2.1	33.2	-31.1
29.9	26.8	3.1	19.9	27.0	-7.1	22.5	60.8	-38.3	2.9	59.2	-56.3
28.4	13.4	15.0	24.0	19.2	4.8	21.2	40.2	-19.0	2.8	53.4	-50.6
23.4	15.6	7.8	21.4	23.3	-1.9	24.3	38.7	-14.4	3.7	31.7	-28.0
26.9	11.7	15.2	24.3	29.5	-5.2	30.6	51.1	-20.5	3.3	26.9	-23.6
21.0	10.8	10.2	19.0	35.7	-16.7	25.3	54.0	-28.7	4.1	27.4	-23.3
18.0	18.2	-0.2	26.7	24.6	2.1	19.2	46.0	-26.8	3.4	49.4	-46.0
18.9	15.6	3.3	25.1	26.2	-1.1	27.6	49.4	-21.8	3.6	22.3	-18.7
16.5	10.7	5.8	21.2	29.4	-8.2	30.3	52.2	-21.9	3.5	13.3	-9.8
24.6	13.9	10.7	18.7	32.2	-13.5	35.6	56.3	-20.7	3.0	61.1	-58.1
16.7	13.8	2.9	26.9	21.6	5.3	35.1	98.4	-63.3	2.5	25.1	-22.6
13.8	19.1	-5.3	26.5	34.3	-7.8	52.1	76.4	-24.3	3.6	34.6	-31.0
16.0	11.1	4.9	21.6	29.3	-7.7	43.7	56.7	-13.0	3.4	53.5	-50.1
26.3	12.2	14.1	20.4	37.3	-16.9	48.9	68.7	-19.8	4.2	64.6	-60.4
14.8	13.4	1.4	24.5	26.3	-1.8	52.7	59.4	-6.7	3.9	63.1	-59.2
14.1	11.6	2.5	29.1	45.4	-16.3	55.1	73.6	-18.5	4.7	47.9	-43.2
23.4	11.1	12.3	38.5	43.0	-4.5	54.6	69.9	-15.3	5.5	74.5	-69.0
19.6	11.6	8.0	42.3	48.9	-6.6	66.4	75.0	-8.6	5.6	79.9	-74.3
7.5	13.7	-6.2	43.6	37.2	6.4	74.2	66.3	7.9	5.3	77.4	-72.1
11.9	12.2	-0.3	39.9	47.6	-7.7	80.8	79.2	1.6	5.1	99.9	-94.8
15.5	9.0	6.5	45.7	48.3	-2.6	81.1	72.2	8.9	5.3	113.0	-107.7
9.1	10.1	-1.0	40.3	52.1	-11.8	76.8	79.1	3.7	5.7	128.3	-122.6
6.7	5.2	1.5	8.9	7.3	1.6	8.2	43.9	-35.7	0.5	1.8	-1.3
5.1	3.9	1.2	7.5	6.0	1.5	11.7	22.9	-11.2	0.5	2.1	-1.6
4.9	4.7	0.2	10.5	8.3	2.2	15.2	31.6	-16.4	1.5	21.2	-19.7
3.5	4.5	-1.0	8.9	10.4	-1.5	17.4	31.2	-13.8	1.0	9.6	-8.6
3.4	6.1	-2.7	7.9	11.8	-3.9	18.5	25.6	-7.1	1.1	17.1	-16.0
6.9	8.5	-1.6	9.7	12.1	-2.4	16.2	19.6	-3.4	1.5	7.9	-6.4
7.2	3.9	3.3	7.4	11.8	-4.4	16.9	22.4	-5.5	1.3	9.8	-8.5
4.5	3.1	1.4	6.4	9.0	-2.6	10.9	15.4	-4.5	1.1	23.2	-22.1
4.3	4.1	0.2	7.8	8.5	-0.7	15.9	18.9	-3.0	1.0	20.5	-19.5
5.7	4.4	1.3	5.5	11.3	-5.8	18.2	22.8	-4.6	2.3	24.6	-22.3
6.8	2.8	4.0	7.2	11.8	-4.6	15.9	21.0	-5.1	1.2	19.6	-18.4
13.8	5.0	8.8	7.7	14.2	-6.5	14.8	24.9	-10.1	0.7	20.4	-19.7
6.4	5.3	1.1	5.8	7.6	-1.8	12.5	17.7	-5.2	1.4	21.8	-20.4
4.6	3.8	0.8	8.0	9.9	-1.9	17.8	21.0	-3.2	1.2	17.3	-16.1
3.8	4.3	-0.5	10.7	8.8	1.9	22.4	20.7	1.7	1.3	24.0	-22.7
3.6	4.6	-1.0	12.0	13.8	-1.8	19.9	23.0	-3.1	1.7	27.3	-25.6
4.5	3.6	0.9	7.8	14.7	-6.9	17.1	24.8	-7.7	1.7	2.2	-0.5
6.0	3.4	2.6	9.3	16.9	-7.6	18.1	25.8	-7.7	1.3	18.4	-17.1
7.9	3.2	4.7	13.3	19.5	-6.2	21.2	29.3	-8.1	1.8	22.7	-20.9
6.0	3.5	2.5	13.1	11.0	2.1	13.7	17.5	-3.8	1.9	29.6	-27.7
9.5	4.4	5.1	12.1	12.5	-0.4	19.7	23.1	-3.4	1.8	22.2	-20.4
8.0	3.5	4.5	12.4	14.7	-2.3	21.6	23.4	-1.8	1.8	26.4	-24.6
4.4	4.6	-0.2	12.9	15.1	-2.2	23.7	25.0	-1.3	2.2	25.5	-23.3
7.2	3.5	3.7	17.0	19.1	-2.1	21.1	26.6	-5.5	1.6	28.0	-26.4
3.1	4.5	-1.4	12.3	9.6	2.7	20.2	18.6	1.6	1.0	25.9	-24.9
1.8	5.7	-3.9	13.8	10.2	3.6	26.8	21.0	5.8	1.7	23.4	-21.7
2.6	3.5	-0.9	17.5	17.4	0.1	27.2	26.7	0.5	2.6	28.1	-25.5
3.5	4.2	-0.7	10.3	7.9	2.4	31.8	29.7	2.1	1.5	33.5	-32.0
4.4	3.7	0.7	16.9	20.2	-3.3	23.9	25.3	-1.4	1.9	22.4	-20.5
4.0	4.3	-0.3	12.7	19.5	-6.8	25.1	24.2	0.9	1.7	44.0	-42.3
6.0	3.0	3.0	20.4	18.6	1.8	34.4	27.2	7.2	1.7	28.9	-27.2
4.5	3.0	1.5	10.8	14.8	-4.0	19.9	19.8	0.1	1.9	37.4	-35.5
5.0	3.0	2.0	14.5	14.9	-0.4	26.8	25.2	1.6	1.7	46.7	-45.0
4.1	2.7	1.4	14.8	16.8	-2.0	27.7	23.7	4.0	1.7	53.4	-51.7
3.0	3.7	-0.7	12.8	15.0	-2.2	25.5	25.8	-0.3	1.6	40.3	-38.7
2.0	3.7	-1.7	12.7	20.3	-7.6	23.6	29.6	-3.0	2.4	34.6	-32.2
2.7	3.4	-0.7	14.7	10.6	4.1	16.1	17.1	-1.0	1.8	29.9	-28.1
2.4	2.0	0.4	17.4	13.5	3.9	18.2	18.2	0.0	2.2	14.0	-11.8

SHORT-TERM ECONOMIC TRENDS

FEBRUARY 2006

SUMMARY OF THE MOST IMPORTANT SHORT-TERM ECONOMIC DEVELOPMENTS IN FEBRUARY 2006

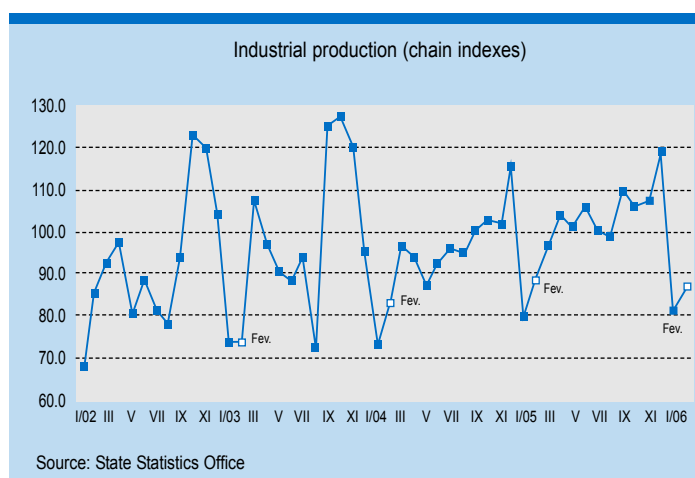
- The industrial production grew by 6,9% on monthly basis, and declined by 2,2% on annual basis, whereby on cumulative basis, in the first two months it remained at the same level as last year;
- Costs of living grew by 0,3% on monthly basis, and by 2,6% on annual basis whereby inflation for the first two months is 2,7% on annual level;
- Decline of the export of goods in the period January-February by 11,1% on annual basis, simultaneously with decline of import by 13,1%;
- Foreign trade deficit dropped in the first two months by US\$ 23 million compared to the same period in 2005 and i.e. it reached US\$ 106,4 million;
- External debt grew on monthly basis by US\$ 9 million, reaching a level of US\$ 1.981 million;
- Central government budget deficit was in the amount of Denar 1.748 million, due to the lower collection of public revenues and greater spending of budget funds;
- Gross foreign exchange reserves at end- February 2006 reached US\$ 1.156 million and on monthly basis are by US\$ 15 million lower.
- At end-February 2006, number of registered unemployed persons was 360.804, which was by 0,2% higher in relation to the previous month, and on annual level it declined by 34.098 persons or 8,4%.

1. REAL SECTOR

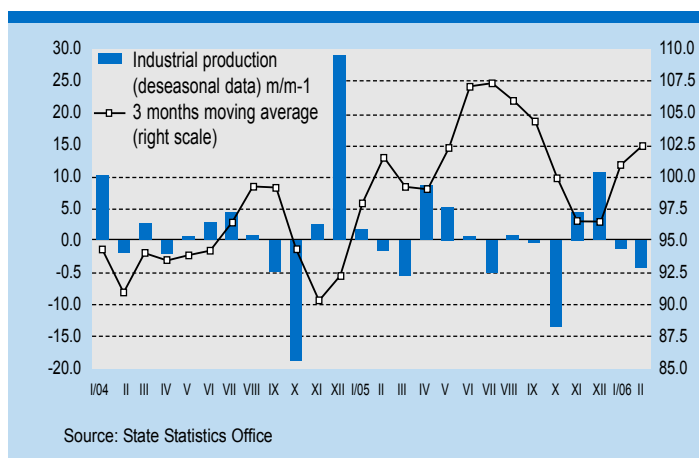
1.1. Industrial production

As usual for the beginning of the year, after the (seasonal) decline of the production in January, almost usual for this month, economic activity stabilized in February 2006 whereby the industrial production index grew by 6,9% on monthly basis as a result of the production growth in 18 out of 24 industrial sectors.

Observed by sectors, the following industries positively affected the index growth on monthly basis: mining, i.e. rock extraction (44%); processing industry, i.e. meat processing industry (5,2%), juice production (14,2%), production of mineral water and soft drinks (58,5%) and beer production (18,4%); tobacco production (31,6%); yarn production (46,6%); clothing (28,2%); chemical industry, i.e. production of pharmaceutical goods (23,7%), industry for construction materials, i.e. production of cement and plaster (55,6%); as well as metal-processing industry, i.e. production of metal structures (84,5%).



At the same time, production decline on monthly basis was concentrated in several sectors above all in food industry, i.e., the production of canned fruit and vegetables (-5,6%), production of oil derivatives (-19,1%), production of base metals, i.e. ferro-alloys (-9,4%), as well as production of electricity (-14,4%). Taking into account the high share of certain sectors in the total industrial production index (almost 30%), this was one of the main reasons for the decline of the index on annual basis by 2,2% (compared to February 2005). On cumulative basis, in the first two months of 2006, the industrial production did not change significantly, i.e. it remained at last year's level.



Initial trends in the industrial production in the first two months of 2006 are lower than projected since the Macedonian industry is still in the zone of the negative cycle that began in the second half of 2005. Proof for this is also the data on the de-seasoned industrial production which decline for the second successive month on monthly basis. According to January data and the expectations on the next few months, the shift in the industry and the recurrent positive trends are expected in the second half of 2006 thus enabling the industrial production to reach 5% level by end-2006.

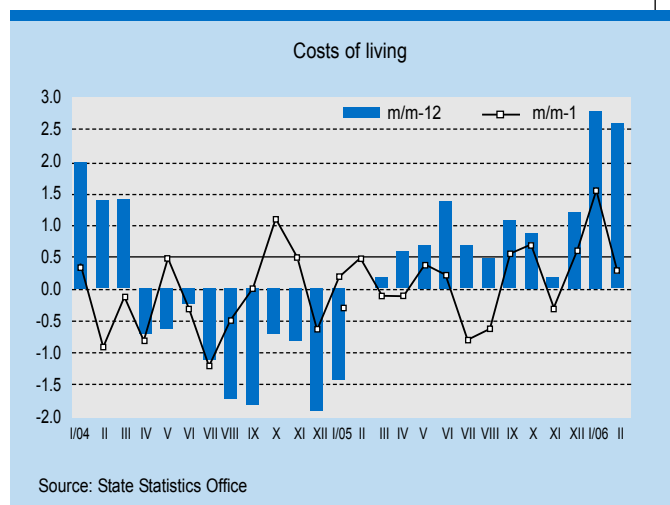
1.2. Prices

After January growth of the costs of living by 2,8% on annual basis, in February 2006 the growth slowed down and was 2,6%, whereby in the first two months of the year, the inflation, measured via the costs of living, reached a level of 2,7%, which is the highest level since 2002. Such trends are result of both the season-

al trends in this period of the year, and of the administrative raises of cigarette price (by 37% in average) in January and the growth of the central heating price by 2% in February. As of January 2006, the statistical survey of prices of oil derivatives is made from 26th of the previous month until 25th of the current month, so as to cover the multiple price changes during the month.

In February 2006, the prices in the following groups grew significantly on annual basis: alcoholic beverages and tobacco - 23,8% (caused by the cigarette price growth), food - 1,2% (resulting from the price growth in fruit and vegetable), transport - 9,3% (price growth of liquid fuels and lubricants), as well as education - 9,7%. At the same time, prices in telecommunications group declined by 4%.

On annual basis, in February 2006 main driver of the price growth were the goods the price of which grew by more than 3%, while the prices of services grew by 0,8%.



At the same time, on monthly basis, the inflation rate grew slightly by 0.3%, affected largely by the energy sources price growth, i.e. oil derivative price growth, as a result of the decisions by the Energy Regulatory Commission (in February the Commission adopted a decision twice on change of retail and refinery prices of oil derivatives on February 6th, when the prices grew by 1.2% and 1.6% respectively and on February 20th when the prices declined by 2.5% and 4.1% respectively) as well as change of prices of the IT, which grew by 5.4%. In February 2006, there was an insignificant decline only of the prices of clothing and footwear.

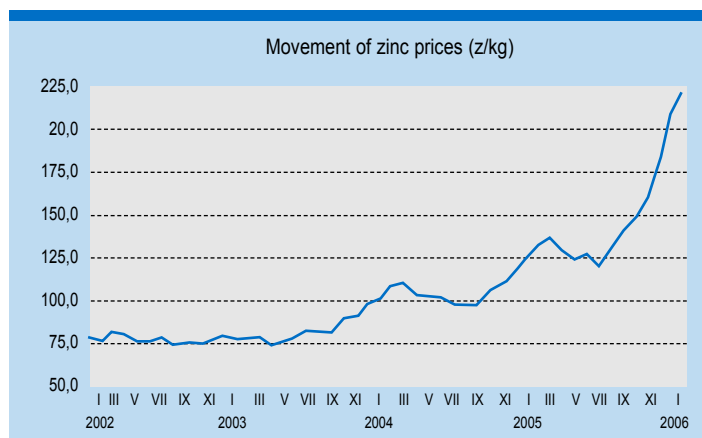
In February 2006, prices of produces of industrial products grew by 0.7% on monthly basis, due to the increase of the prices in the processing industry, whereby the highest grow was noticed at the prices oil and oil derivatives, as well as the prices of the producers of metal products in the metal processing stage by 7.5%. The same factors also led to increase of the prices producers of industrial products on annual level by 6.1%, again as a result of the increase of the prices of tobacco products (17.1%) and oil derivatives (48.7%).

1.3. Stock Exchange Prices

In February 2006, movements of prices of products the Republic of Macedonia trades the most in the world noticed an upward trend, almost with no exception. The situation was only different regarding the movement of oil price, where following January 12% increase on monthly basis, in February the market stabilized, contributing to monthly decline by US\$ 3, i.e. its reduction to the level of US\$ 59.9 per barrel. Continuous increase of oil stocks by the USA was one of the main reasons for the price drop on monthly basis. However, intensification of the riots in Nigeria, as well as the attacks on the larger refineries in Saudi Arabia, led to increase of oil stock exchange price at the end of the month once again.

In addition to oil, stock exchange movements were mainly determined by the metal prices, mainly copper, zinc and gold. In fact, at the end of the month, copper reached record process on the London and New York stock exchanges, exceeding the "psychological" price of US\$ 5,000 for a metric ton, after "Rio Tinto Group", third largest mine company in the world, announced that its plant for copper processing in Utah will be closed in Q3 in 2006. Thus, on annual level, copper price increased by more than 50%. According to the investors, price of this metal is expected to further increase, taking into account the global deficit of copper in 2006 estimated at 147 thousand tons.

Regarding zinc, which price increased almost twice for a period of one year at the level of almost US\$ 2,300, the reason for the increase was generally the increased demand, supported by the fear of shortage in supply of certain metals. The concern arises from



the frequent market distortions in terms of the production, such as strikes in three out of the five largest mines in Peru (this country produces 12% of the world quantities of zinc and is the largest supplier on the US market). There is shortage on the zinc market at the moment, meaning that more zinc is consumed than produced, which certainly influences the further maintaining of the prices of this metal at higher level.

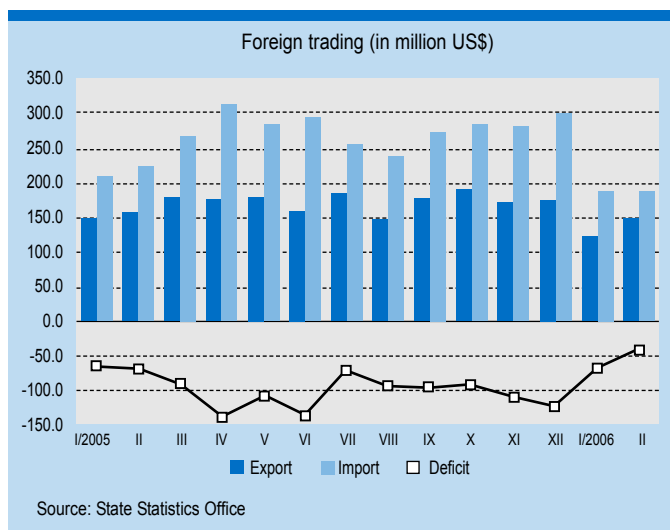
2. EXTERNAL SECTOR

2.1. Foreign Trade

Foreign trade in the Republic of Macedonia in February 2006 increased on monthly basis by 7.9%, while compared to the same month last year, it was lower by 11.7%. Thereby, export in relation to the previous month increased by 20.3%, and the import of goods remained at approximately the same level. Realized foreign trade deficit in February amounted to US\$ 40.6 million and was lower by US\$ 25.2 million compared to the deficit realized in January, thus the monthly coverage of the import with the export increased by 13.3 percentage points and was 78.4%.

Analyzed on annual level, in the first two months of 2006, export of goods dropped by 11.1%, compared to the same period in 2005. At the same time, lower import by 13.1% resulted in reduction of the foreign trade deficit by US\$ 23 million in relation to the one in 2005 and it amounted to US\$ 106.4 million. Level of coverage of the import with the export of goods increased by 1.6 percentage points on annual level, amounting to 71.8%.

Export decline in the first two months in 2006, compared to the same period last year, was due mainly to the declined export (in quantities and in values) at the



two main export branches, iron and steel, by around US\$ 28 million or by 27.5%, and tobacco and tobacco processed products, by US\$ 14 million or by 55.4%. There was also a drop in the export of clothing by US\$ 2.1 million or by 2.7%. Positive changes were noted at the export of oil, which increased by US\$ 7.7 million or by 47.4%, export of metal ore and scrap metal by US\$ 4.2 million or by 252.4%), export of fruit and vegetables by US\$ 1.9 million or by 18%, etc. These six groups of products comprise 75% of the total export of the country.

In the first two months of 2006, 57.9% of the total exported goods were placed on the European Union

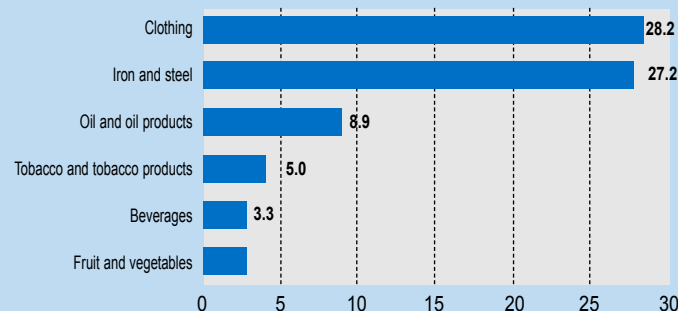
Export of more important products by SITC (in \$)

	I-II/2005		Changes	Rates in (%)	Share in %	
	I-II/2005	I-II/2006			I-II/2005	I-II/2006
Clothing	78.523.727	76.398.159	-2.125.569	-2.7	25.8	28.2
Iron and steel	101.778.495	73.751.737	-28.026.758	-27.5	33.4	27.2
Oil and oil products	16.272.356	23.979.520	7.707.164	47.4	5.3	8.9
Tobacco and tobacco produc.	25.257.434	11.253.444	-14.003.990	-55.4	8.3	4.2
Beverages	9.108.867	8.904.742	-204.125	-2.2	3.0	3.3
Fruit and vegetables	6.823.874	8.735.354	1.911.480	28.0	2.2	3.2
Total	237.764.753	203.022.956	-34.741.797	-14.6	78.1	75.0
Total export of RM	304.461.934	270.668.761	-33.793.173	-11.1	100.0	100.0

Source: State Statistics Office

market, while 48.2% of the total goods imported in the Republic of Macedonia originate from the Union. Export to the European Union dropped by 23.2%, and the import by 6.2%. Germany, Serbia and Montenegro,

Export of more significant groups of products according to SITC (US\$)

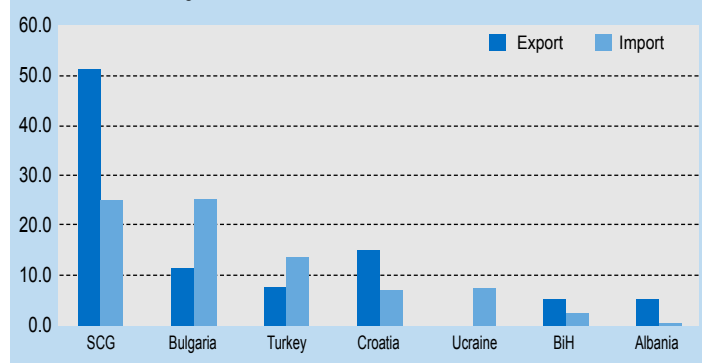


Source: State Statistics Office

Greece, Italy, Croatia and Bulgaria are our biggest partners, the share of which in the export is around 74.3%.

Main import goods (according to SITC) in the period January-February 2006 were oil and oil products, textile yarns, road vehicles, iron and steel, telecommunication devices, electrical machines and spare parts. Around 30% of foreign trade deficit of the country in the analyzed period was realised with Bulgaria, Turkey, Romania and Ukraine.

Foreign trade with countries with which FTA are realized



2. The analysis of the foreign trade currency structure of the Republic of Macedonia shows drop in the export in euros by EUR 22.3 million, i.e. 12%, and the import dropped by EUR 17.9 million, i.e. 7.4%. At the same time, as a result of the trade with new markets, the trade in US dollars notes rise by US\$ 12.4 million or 21.2%, while, unlike the so-far tendencies, import in US\$ declined by around US\$ 10 million or 8.8%.

Realised negative balance of the foreign trade was lower than the one in 2004. Despite the fact that part of the deficit in euros increased by around EUR 4.4 million (or by 8%), the drop in the US\$ part of the deficit by around US\$ 22.5 million (or by 39.8%)

FOREIGN TRADE of the Republic of Macedonia
 (by currency)

Export	I-II 2005					I-II 2006					absolute change in currency value	relative change in currency value (in %)
currency	000 t	amount of export in currency	average Denar exch. rate in relation to currencies	export in Denar	structure in %	000 t	amount of export in currency	average Denar exch. rate in relation to currencies	export in Denar	structure in %		
EUR	230	188,126,637	61.3956	11,427,356,548	80.3	216	163,833,803	61.2179	10,029,561,372	72.6	-22,292,834	-12.0
USD	93	58,207,054	46.9268	2,731,470,774	19.2	108	70,565,954	51.2317	3,615,213,778	26.2	12,358,900	21.2
EUR+USD	323			14,158,827,322	99.4	324			13,644,775,150	98.8		
Deficit	324			14,237,747,157	100.0	325			13,814,414,057	100.0		-3.0

Source: State Statistics Office and NBRM

resulted in reduction of the total deficit expressed in denars by around 10%.

2.2. External Debt

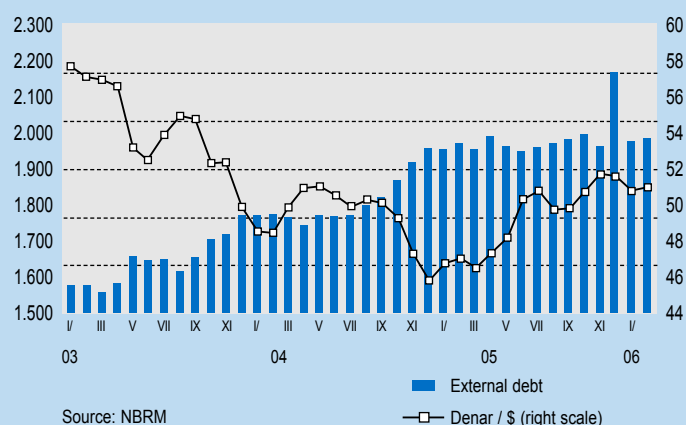
External debt based on long-term credits and loans, at end-February, amounted to US\$ 1,987 million and, in relation to January, it increased by US\$ 9 million. Monthly rise in the external debt was mostly due to the higher amount of used funds from the repayment of debt principal.

tended for the Project for Construction of Substations. Most of the funds were disbursed by the non-financial private sector in the amount of US\$ 32.4 million. In the first two months of this year, funds were disbursed in the amount of US\$ 44.5 million, US\$ 36.4 million out of which from private creditors.

In February, new credits were concluded in the amount of US\$ 0.6 million, while contract concluded in the first two months amounted to US\$ 17.5 million, whereby the whole amount was concluded with the non-financial private sector.

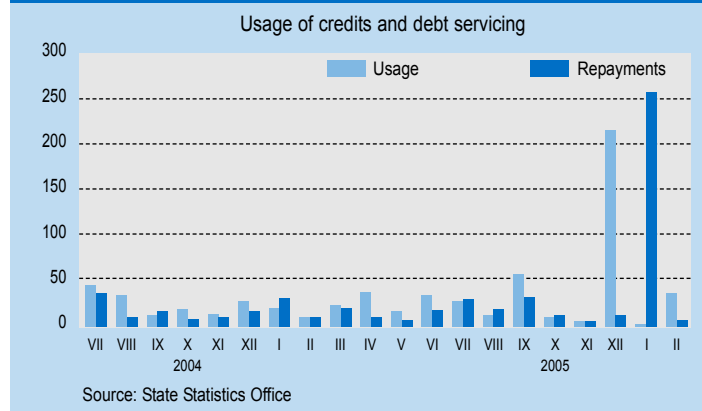
Regular and timely servicing of the liabilities towards abroad continued this month as well, whereby US\$ 8.1 million was repaid, US\$ 4.8 million out of which as principal. Out of the total liabilities towards abroad, US\$ 3.6 million were paid to multilateral creditors (EBRD, IBRD), US\$ 1.5 million to bilateral creditors and US\$ 3.0 million to private banks, financial institutions and non-financial private sector. Cumulatively, in the first two months of this year, liabilities were serviced in the amount of US\$ 266.8 million, US\$ 251.7

Movements of external debt and US\$ ex. rate



Regarding the debt structure by creditors, more than half, or 53.3%, accounted for the multilateral creditors, most of which to IDA, IBRD, EIB and the EU. Bilateral creditors comprise 9.8%, while the private creditors account for 36.8%.

During February, funds were disbursed on the basis of long-term credits and loans in the amount of US\$ 39.4 million, significantly more than in January (US\$ 5.1 million). US\$ 6.5 million were disbursed from multilateral creditors, mostly from EIB (US\$ 4.8 million) in-



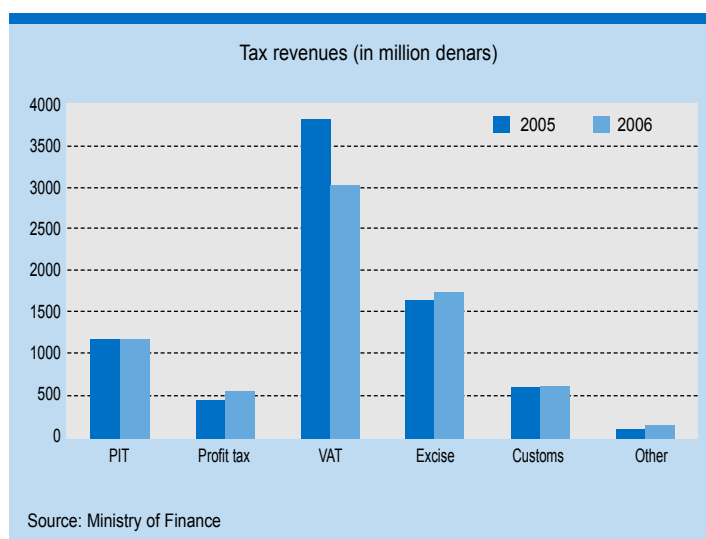
million out of which as principal, including the repayments towards the London Club of Creditors in the amount of US\$ 227.5 million in January.

According to the repayment schedule of the National Bank of the Republic of Macedonia, in the period March - December 2006, liabilities towards abroad in the amount of US\$ 274.4 million fall due, US\$ 184.8 million out of which as principal.

In relation to the short-term debt at end-February 2006, it amounted to US\$ 102.7 million. Thereby, in February short-term financial credits were used in the amount of US\$ 8.3 million, and liabilities towards abroad in the amount of US\$ 0.3 million were repaid. Analyzed by debtors, stock of total external debt (both long- and short-term) amounted to US\$ 2,084 million, US\$ 1,468 million out of which in the public sector, which compared to the previous month was reduced by US\$ 16 million. Regarding the private sector, debt on monthly basis increased by US\$ 30 million and, at end-February, it amounted to US\$ 616 million.

3. FISCAL SECTOR

In the first two months in 2006, the total central government budget revenues reached the amount of Denar 7,780 million, which was 4.8% drop in relation to the same period last year. Lower performance of the total revenues was mainly due to the reduction of all tax revenues, except for the excise revenues, customs revenues and profit tax revenues. In the period January-February 2006, tax revenues reached the amount of Denar 7,293 million, which was by 6.2% lower in relation to the realized tax revenues in same period last year.



The share of VAT in total tax revenues in January and February 2006 was 39.1%, i.e. the share of VAT and excises reached 61.5%. On the basis of value added tax, Denar 3,044 million were collected as rev-

enues, which was a decline by 19.5% (Denar 736 million) in relation to the same period in 2005. Such lower performance at VAT was due to the tax refund, as well as to the commencement of the deferred payment of VAT for goods for inward processing, according to the new Customs Law from 1st January 2006.

Excise revenues grew by 5.6%, or by Denar 88 million in relation to the same period last year, reaching the amount of Denar 1,741 million.

During this period, personal income tax revenues were collected in the amount of Denar 1,173 million, i.e. almost the same level in relation to the same period last year. In this period, profit tax revenues reached the amount of Denar 563 million, i.e. Denar

In January and February 2006, customs revenues were insignificantly higher in relation to the same period last year. Such trend was a result of the lower customs rates according to the WTO Accession Agreement, as well as the free trade agreements. Revenues from import duties in this period were realised in the amount of Denar 607 million.

In the period January-February 2006, the total central government budget expenditures amounted to Denar 9,528 million, which was by 4.1 higher in relation to the same period in 2005, i.e. the total central budget expenditures were by Denar 371 million higher.

With respect to the total expenditures in the central government budget, expenditures related to wages and salaries and allowances in this period accounted for 38.2%. Resources for wages and salaries and allowances were increased by 1.9% in relation to the same period last year, i.e. they amounted to Denar 3,636 million.

Expenditures for goods and services reached the amount of Denar 1,084 million, i.e. 6.7% less in relation to the same period last year.

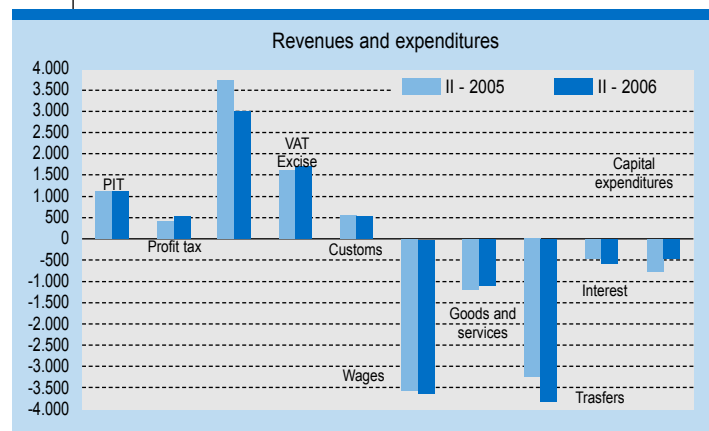
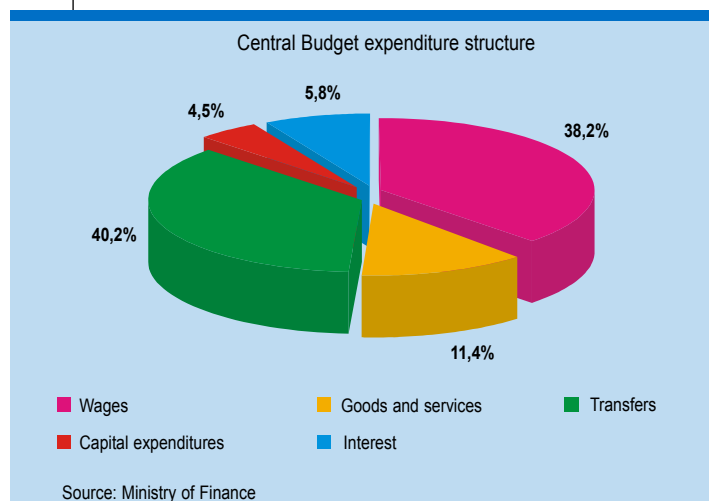
With regard to transfers (share of 40.2% in the total central budget expenditures), in this period Denar 3,828 million was spent, i.e. 17.5% more than in 2005. Transfers to the Pension and Disability Insurance Fund were in the amount of Denar 1,542 million or by Denar 199 million higher (14.8%) in relation to the same period last year.

In the period January-February, Denar 428 million were spent for capital expenditures. Compared to the same period last year, the performance was by 42.6%, i.e. by Denar 317 million lower.

Regarding interest, funds in the amount of Denar 552 million was spent, being more by 30.5% compared to the same period in 2005.

In this period in 2006, such trends in the fiscal sphere, i.e. lower collection of public revenues and higher spending of budget funds led to central government budget deficit of Denar 1,748 million, while the consolidated budget realized deficit in the amount of Denar 988 million.

In fact, following the stronger seasonal reduction of ready money in circulation in January 2006, it increased by 4.1% in February. At the same time, monetary instruments of the NBRM, transactions on the foreign exchange market and government deposits (fiscal policy) were aimed at liquidity creation. In February 2006, registered CB bills dropped by 7%, government deposits declined by 10%, while NBRM carried out net purchase in the amount of US\$ 8.6 million on the foreign exchange market, which the liquidity of the banking sector increased by 27.2% in February 2006. Thereby, in conditions of higher demand for CB bills, CB bills weighted interest rate amounted to 7.31%, which was a drop by 1.2 percentage points in relation to the previous month.



4. MONETARY SECTOR

4.1. Monetary Developments

In February 2006, monetary policy was implemented in conditions of relatively expansive fiscal policy (central government budget realized deficit in the amount of Denar 290 billion), as well as favourable movements on the foreign exchange market (in February 2006, NBRM carried out net purchase in the amount of US\$ 8.6 million).

In this period, only ready money in circulation were aimed at mopping up liquidity of the banking system.

Monetary aggregate and their components	III.05	VI.05	IX.05	XII.05	I.06	II.06
Currency in circulation	13207	13390	13490	14439	13100	13653
Deposit money	13741	13752	14416	15224	14599	14961
M1	26948	27142	27906	29663	27699	28596
Short-term deposits-denar	23336	26335	20732	24364	25614	26237
Short-term deposits - foreign currency	42495	45462	48142	49107	49930	49979
M2	92779	98939	96780	103134	103243	104812
Non-monetary deposit	4644	4902	4871	5040	5077	5187
Denars	3111	3093	3130	3057	3111	3136
Foreign currency	1533	1809	1741	1983	1966	2051
M4	97423	103841	101651	108174	108320	109999

Source: National Bank of the Republic of Macedonia

At end-February 2006, primary money were by 7.9% higher on monthly basis, resulting from the growth of ready money in circulation by 4.1%, and the growth of cash in the giro accounts by 14.3%. At the same time, money in vault insignificantly declined by 0.2%. Such trends determined the increase at the M1 monetary aggregate by 3.2% on monthly basis. In conditions of increase of the short-term Denar deposits, stable level of short-term foreign exchange deposits, as well as increase of M1 monetary aggregate, M2 monetary aggregate increased by 1.5% on monthly basis. Significant increase of the long-term foreign exchange deposits by 4.6%, as well as the insignificant increase of the long-term Denar deposits, determined the increase of the broadest M4 monetary aggregate by 1.6%.

In February 2006, total deposit potential of the commercial banks increased by 1% on monthly basis. From the point of view of the currency structure, growth was determined by the increase of both the Denar and foreign exchange deposits by 2.3% and 0.3% respectively. At the same time, analysis of the

Deposit potential and credits to private sector	(in mill. denars)	monthly changes	annual changes
Deposit potential	81403	0.97	17.63
Denar	29373	2.26	17.39
In foreign currency	52030	0.26	17.76
Short-term	76216	0.89	17.97
Long-term	5187	2.17	12.81
Credits to private sector	70903	1.98	19.56
Denar	53149	1.71	12.91
In foreign currency	17754	2.8	45.12

Source: National Bank of the Republic of Macedonia

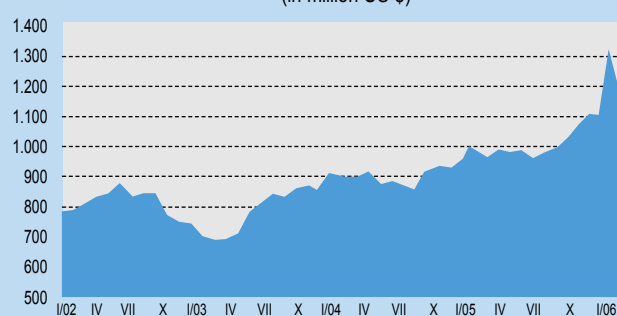
deposit potential on the basis of maturity showed increase of both long-term and short-term deposits. Credits to the private sector in February increased by 2% on monthly basis and by 20% on annual basis, whereby growth was more intensive at the foreign exchange credits. Dominant contribution to the increase of the credits was provided by the long-term Denar credits aimed at the household sector and the long-term foreign exchange credits allocated to the corporate sector.

With respect to the interest rate policy of the commercial banks, there were no significant changes. In fact, average weighted interest rates on Denar credits in February 2006 amounted to 11.8%, and compared to the previous month, it was an insignificant decline by 0.2 percentage points. At the same time, interest rates on the foreign currency credits amounted to 7.8%, being a mild decline in the relation to the previous month. Average interest on credit balance on Denar deposits in February 2006 declined by 0.2 percentage points, reaching 5.2%, while interest rate on foreign currency deposits remained at the same level as in the previous month.

4.1. Gross foreign exchange reserves

In February 2006, interventions by NBRM on the foreign exchange market were aimed at creation of primary money, whereby this month, NBRM sold US\$ 3.6 million and redeemed US\$ 12.2 million, and the net effect therefrom was US\$ 8.6 million. Such developments on the foreign exchange, repayments of creditors, as well as the exchange rate differences caused for the gross foreign exchange reserves at end-February 2006 to reach US\$ 1,156 million, and in relation to end-January 2006, they were by US\$ 15 million lower.

Gross reserves
(in million US \$)



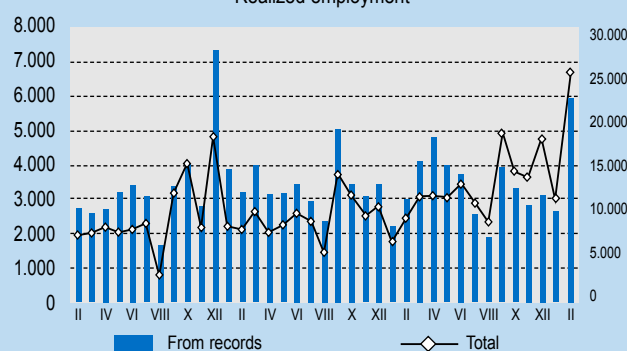
Source: National Bank of the Republic of Macedonia

5. LABOUR MARKET

5.1. Employment

In February 2006, Employment Agency of the Republic of Macedonia registered 25,170 new employments, being by 2.7 higher in relation to February last year. Thereby, employment of persons from the records of the Employment Agency, i.e. from the registered unemployed persons, participated with 24% in the total employment in February, while the remaining employment was directly from the previously inactive population or persons who changed job positions.

Realized employment



Source: Employment Agency

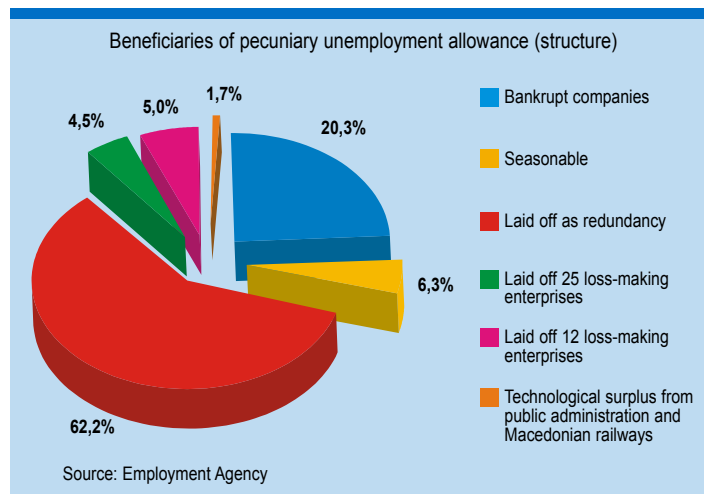
According to the general movements in the economy in the last quarter in 2005, most of the new employment in February was recorded in the processing industry (32.7%), trade (18.4%), civil engineering (5.8%), public administration, defence and mandatory social protection (5.1%).

5.2. Unemployment

In February 2006, there were 360,804 persons registered as unemployed, which was by 0.2% more in relation to the previous month. Annually, number of registered unemployed persons dropped by 34,098 or by 8.4%.

Number of persons in registered in the Employment Agency in February 2006 was 8,402 persons, most of which were persons whose employment was terminated (40%), 29.5% were persons who registered in the unemployment records for the first time, 21% were inflow from previously deleted persons from the records, and the remaining were persons registered on other bases (moved from the other center, contractual agreement terminated, founder of the enterprise, etc). Most of these persons are unskilled, semi-qualified and with secondary vocational education. With respect to the outflow of persons from the registry of the Agency (7,580 persons) 43% were employed, 33.8% were persons deleted from the records due to non-registering and 23% were deleted from the registry on other bases, mainly retirement, establishment of enterprise, rejecting the offered active measure, etc.

registered unemployed persons. In relation to the same period last year, the number of beneficiaries of unemployment benefit dropped by 15%, mainly due to the reduction in the number of beneficiaries on the basis of seasonal workers.



In February 2006, out of the total number of registered unemployed persons, 67.6% used free health insurance from the Employment Agency. On annual basis, the number of health insurance beneficiaries declined by 4.5%. Thereby, even 84% of these persons exercised the right to free insurance through the Agency due to the fact that they did not have any other basis for insurance, increasing the initiative for the persons to register as unemployed (for instance, those who work in the grey economy or are actually economically inactive).

5.4. Beneficiaries of Pensions and Welfare

Number of pensioners continued to grow in the first two months of 2006. In fact, according to the last available data from the PDF, in February 2006, 266,125 pensioners were registered, which compared to January was an increase by 0.2% or by 439 persons. On annual basis, this number increased by 5,534 persons, i.e. by 2.1%.

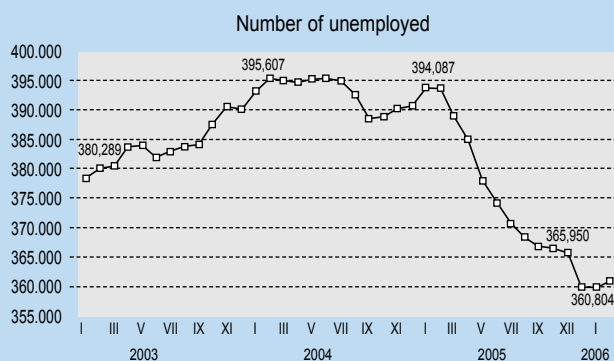
Observed by structure, most of the pensions were old-age pensions - 54%, followed by survivors pensions - 27.2% and disability pensions - 18.2%.

Pensioners from the first group (Denar 11,654) accounted for 88.3% in the total number of these beneficiaries, while the one from the second group (over Denar 11,654) accounted for 11.7%.

In February, Denar 1,944 million was spent for payment of pensions.

5.3. Beneficiaries of unemployment benefit and right to health insurance

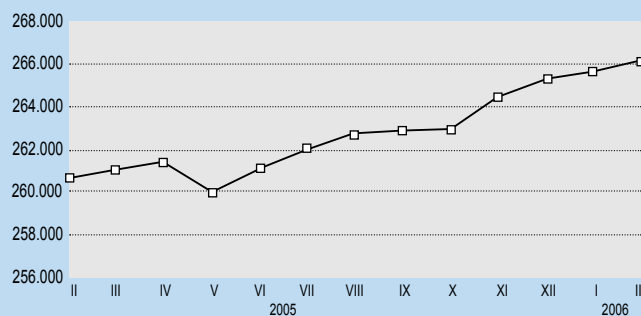
Number of beneficiaries of unemployment benefit in February 2006 was 39,171 persons, i.e. 10.9% of the



In February 2006, with respect to the registered unemployed persons, 38.7% were unskilled and semi-qualified, 32.9% were with completed secondary vocational education, 17.5% were qualified and highly skilled, and 11% were with completed community college and university. According to the sex structure, men participate with 57.9% in the total unemployment.

Average pension in this month amounted to Denar 7,503, being a minimum monthly increase by 0.2%, while there was an increase by 2.1% on annual basis. Ratio between the average pension in February and the average net paid salary in January 2005 amounted to 56.3%.

Total number of pensioners (by months)



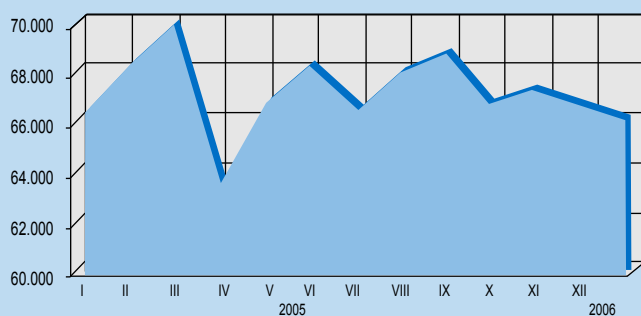
Source: Pension and Disability Insurance Fund of Macedonia

The last data on beneficiaries of welfare show a decline in the first two months, whereby in February 2006 Denar 146,1 million was spent for welfare paid to 64,094 households. Compared to January 2006, such performance was a drop by 1,855 persons or by 3%, while there was a decline by 6% on annual basis.

In addition, there was a decline in the category of beneficiaries of third person care, whereby Denar 65 million was spent for this care for 20,725 persons, while regarding beneficiaries of permanent pecuniary assistance, there was a slight increase and Denar 15 million was spent for 4,904 persons.

Observed by structure, no significant changes were registered, meaning that most beneficiaries of welfare are in Skopje (20.7%), followed by Tetovo (12.3%), Kumanovo (11.8%), Prilep (8.9%), etc.

Beneficiaries of welfare



Source: Ministry of Labour and Social policy

5.5. Average Net Salary

Starting January 2006, when calculating the monthly net salary per employee, data from the Ministry of Internal Affairs and the Ministry of Defence were included for the first time. As a result of these changes in the calculations, in January 2006 the average paid net salary per employee amounted to Denar 13,328, i.e. there was a nominal increase by 1.5% and real increase by 0.2%.

Analyzed by sectors of activity, on monthly basis, salary increase was registered in agriculture (2.4%) and industry (2.0%), while there was a slight decline in the services by 0.8%.

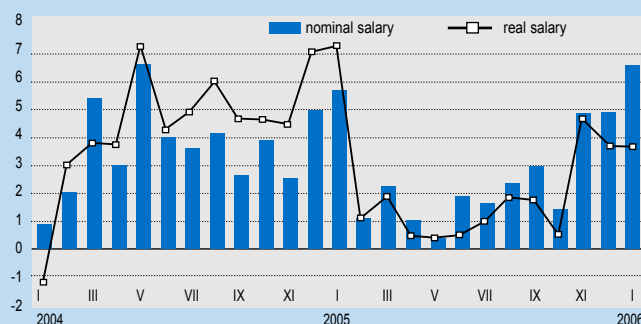
The highest monthly increase of the average paid net salary by 16.8% in January was registered in the activity named "Production of office supplies".

On annual level, the nominal and real average salary grew by 6.4%, i.e. by 3.5% respectively.

Regarding the level of salaries, they were the highest in the sector "financial intermediation" (Denar 26,123), while the lowest salary was paid in "civil engineering" (Denar 9,693).

The percentage of employees in Macedonia receiving belated salaries declines further, meaning that the situation with these workers gradually stabilizes. In fact, in January 2006, only 13.9% of the workers in the Republic of Macedonia did not receive salary.

Average Net Salary (annual changes, %)



Source: State Statistics Office

1) Comparison was made with the average salary from the previous month, since data on salaries are gathered with a month lag.

EXTERNAL DEBT

The external debt at end-February 2006 amounted to US\$ 1.981 million and in relation to January is by US\$ 9 million higher. Monthly growth of external debt is largely due to the higher amount of disbursed funds from the repayment of the debt principal.

Multilateral creditors account for more than half of the structure of the external debt by creditors (53,5%) largely IDA, IBRD, EIB and EU. Bilateral creditors accounted for 9.8% in the debt structure and private creditors for 36.9%.

In February funds in the amount of US\$ 39,4 million were disbursed. Most of the funds disbursed are from the private non-financial sector (US\$ 30,9 million). US\$ 6,5 million were disbursed from multilateral creditors, most of which from IBRD (US\$ 4,8 million) for the Substations Project. In the first two months of this year, funds in the amount of US\$ 44,5 million were disbursed, US\$ 36,4 million of which from private creditors.

Servicing of the liabilities continues to be regular and timely, whereby in February, US\$ 8,1 million were repaid (US\$ 4,8 million principal). US\$ 1.5 million were repaid to multilateral creditors and US\$ 3,0 million to private creditors. Cumulatively, in the period January-February 2006, US\$ 266,8 million of liabilities were repaid towards abroad, US\$ 251,7 million out of which as principal.

In February new credits were contracted in the amount of US\$ 0,6 million, all of them with private banks, financial institutions and non-financial private sector. In the first two months new credits were concluded in the amount to US\$ 17.5 million, the whole amount of which with private creditors.

In the period March - December 2006 according to the NBRM repayment schedule, liabilities towards foreign creditors in the amount of US\$ 224,4 million fall due, US\$ 164,8 million out of which as principal.

The short-term external debt, at end-February 2005 amounted to US\$ 102,7 million. This month, financial credits were used in the amount of US\$ 3.8 million, and repaid liabilities amount to US\$ 0.3 million.

Observed by debtors, total external debt (both short-term and long-term) at end-February amounted to US\$ 2.084 million, US\$ 1.468 million of which in the public sector, which compared to the previous month is by US\$ 16 million lower. Total short-term external debt in the private sector grew by US\$ 30 million on monthly basis and at end-February amounted to US\$ 616 million.

EXTERNAL DEBT OF THE REPUBLIC OF MACEDONIA ¹

(In million of US\$)

	31.12.1998	31.12.1999	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004	31.03.2005	30.06.2005	30.09.2005	31.12.2005	31.01.2006	28.02.2006
Official creditors	1.004	1.031	1.033	980	1.048	1.198	1.313	1.270	1.236	1.243	1257	1263	1251
Multilateral creditors	684	714	716	688	756	926	1062	1041	1.014	1.035	1052	1066	1057
IMF	114	113	82	71	67	68	62	61	53	67	62	63	62
IBRD	115	117	123	124	145	181	224	215	225	223	248	250	246
IFC	55	57	57	33	18	20	9	8	7	7	6	6	6
IDA	179	222	250	255	295	358	388	378	366	365	362	366	364
EIB	54	68	67	75	102	116	148	143	132	141	140	143	145
EUROFIMA	22	17	17	14	12	8	8	8	7	7	7	7	7
CEDB	5	5	7	6	14	17	23	22	20	20	20	20	20
EBRD	90	72	72	61	32	36	65	78	83	83	88	88	87
EU	48	40	37	44	65	112	122	116	109	109	106	109	107
IFAD	1	2	3	4	5	7	10	11	12	13	13	13	13
EAR	0	0	1	1	0	2	1	1	0	0	0	0	0
Bilateral creditors	320	317	316	292	292	272	252	230	222	208	205	197	194
Commercial creditors	394	407	405	464	501	572	644	690	708	737	911	709	730
London club	243	250	253	262	254	234	233	228	227	222	222	181	178
Others	151	157	152	202	247	328	412	462	480	514	689	528	552
Banks and financ. institu.	27	26	32	143	181	211	250	241	245	259	435	263	260
Enterprises	124	131	120	59	66	117	162	221	235	255	254	265	292
TOTAL	1.398	1.438	1.438	1.444	1.549	1.770	1.957	1.960	1.944	1.980	2.168	1.972	1.981

Source: NBRM

1) Long - term and medium debt

REPAYMENT OF DEBT PER CREDITORS
 (january - february 2006)

(in million USD dollars)	Total	Principal	Interest
Total (principal and interest)	266,8	251,7	15,1
Official creditors	24,4	17,9	6,5
Multilateral creditors	8,4	5,0	3,4
IMF	0,5	0,0	0,5
IBRD	3,1	2,2	0,9
IFC	0,0	0,0	0,0
IDA	1,1	0,6	0,5
EIB	0,0	0,0	0,0
EUROFIMA	0,0	0,0	0,0
CEDB	0,0	0,0	0,0
EBRD	3,2	2,2	1,0
EU	0,5	0,0	0,5
IFAD	0,0	0,0	0,0
EAR	0,0	0,0	0,0
Bilateral creditors	16,0	12,9	3,1
Private creditors	242,4	233,8	8,6
London club	227,5	222,4	227,5
Others	14,9	11,4	3,4
Banks and financial institutions	10,6	7,7	2,9
Enterprises	4,3	3,7	0,5

Source: National Bank of the Republic of Macedonia

EXTERNAL DEBT - PER CREDITORS

in million US dollars

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total (Medium and long-term debt)	1.123	1.141	1.380	1.438	1.436	1.444	1.577	1.789	1.963	2.168
Multilateral creditors	468	490	687	714	715	688	757	922	1.062	1.052
IMF	80	103	114	113	82	71	67	68	63	62
IBRD / IDA	206	237	296	339	373	379	441	539	612	610
IFC	2	0	56	57	57	33	18	13	9	6
EIB	76	37	54	68	67	75	102	116	148	140
EBRD	69	83	90	72	72	62	32	40	65	88
EUROFIMA	29	25	23	17	17	14	12	8	8	7
Council of Europ. Develop. Bank	6	5	5	5	7	6	15	17	23	20
EU			48	41	37	44	65	113	123	106
IFAD			1	2	3	4	6	8	11	13
Bilateral creditors	402	377	289	317	316	292	277	271	252	205
Private creditors	253	274	404	407	405	464	543	596	693	911
Commercial banks	229	241	243	250	253	262	254	244	233	222
Others	24	33	161	157	152	202	289	352	460	689
Total (without IMF)	1.043	1.038	1.266	1.325	1.335	1.373	1.510	1.721	1.900	2.160
Short-term debt			60	55	52	63	64	42	72	85

Source: National Bank of the Republic of Macedonia

TOTAL EXTERNAL DEBT PER DEBTORS *

in million US dollars

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total external debt	1.118	1.139	1.437	1.490	1.489	1.506	1.635	1.813	2.029	2.072
Public sector	1.012	1.007	1.222	1.305	1.330	1.222	1.321	1.487	1.603	1.704
Government	774	775	890	975	1.066	1.052	1.135	1.257	1.350	1.473
Government (Government liabilities)	766	767	864	932	1.018	1.010	1.095	1.215	1.308	1.428
Road fund			18	33	48	42	40	41	42	44
Health fund	1	1	1	3	0	0	0	0	0	0
Others	7	7	7	7	0	0	0	0	0	0
NBM	80	99	114	113	96	71	67	68	63	62
Public enterprises	158	133	218	217	168	99	119	162	190	169
Private sector	106	132	215	185	159	284	314	325	427	554
Banks	84	92	110	93	66	97	110	86	74	121
Enterprises	22	40	105	92	93	187	204	240	353	433

Source: State Statistics Office

* Short, medium and long - term debt

EXTERNAL DEBT BY FOREIGN EXCHANGE STRUCTURE

(principal only)

Currency	31.12.2004	31.01.2005	28.02.2005	31.03.2005	30.04.2005	31.05.2005	30.06.2005	31.07.2005	31.08.2005	30.09.2005
DKK	6.264.755	5.783.201	5.783.201	5.783.201	5.783.201	5.783.201	5.783.201	5.301.646	5.301.646	5.301.646,00
in USD	1.145.800	1.012.968	1.023.085	1.004.818	1.006.351	939.703	944.838	859.525	865.861	856.991
%	0,06	0,05	0,05	0,05	0,05	0,05	0,05	0,04	0,04	0,04
JPY	297.582.450	289.148.252	289.148.252	261.980.284	262.601.308	302.227.634	302.251.070	293.816.872	507.409.518	479.600.081
in USD	2.870.533	2.798.311,00	2.743.724	2.437.148	2.497.447	2.817.610	2.645.549	2.614.325	4.551.032	4.256.488
%	0,15	0,15	0,14	0,13	0,13	0,15	0,14	0,14	0,24	0,22
SEK	5.308.682	5.037.906	5.037.906	4.144.892	4.144.892	4.144.892	4.144.892	3.874.116	3.874.116	2.981.102
in USD	801.058	722.631	731.053	587.433	584.994	563.822	566.903	498.146	503.329	383.728
%	0,04	0,04	0,04	0,03	0,03	0,03	0,03	0,03	0,03	0,02
CNF	38.124.204	38.753.310	38.753.310	38.244.435	38.166.945	38.166.945	39.878.833	43.480.584	44.180.584	43.663.334
in USD	33.590.802	32.672.495	33.073.240	31.908.550	32.166.583	30.822.271	30.990.724	33.690.687	34.693.401	33.811.217
%	1,74	1,74	1,73	1,68	1,69	1,64	1,64	1,76	1,80	1,73
GBR	1.050.618	987.382	985.754	968.879	965.284	963.616	961.935	898.616	963.297	944.398
in USD	2.016.452	1.858.425	1.881.338	1.822.933	1.846.079	1.691.466	1.700.710	1.576.522	1.718.628	1.668.955
%	0,10	0,10	0,10	0,10	0,10	0,09	0,09	0,80	0,09	0,09
USD	607.905.524	594.860.852	598.704.521	593.314.602	588.808.133	590.568.882	606.610.770	592.873.628	592.685.515	587.718.761
in USD	607.905.524	594.860.852	598.704.521	593.314.602	588.808.133	590.568.882	606.610.770	592.873.628	592.685.515	587.718.761
%	31,47	31,61	31,38	31,23	30,95	31,42	31,96	31,03	30,78	30,11
EUR	604.626.427	610.598.810	317.754.239	632.129.170	637.362.416	653.366.319	682.977.542	700.190.491	705.316.331	728.326.854
in USD	822.534.287	795.914.810	813.274.241	818.164.146	825.830.369	874.107.781	819.553.485	846.740.122	859.146.356	878.581.262
%	42,58	42,29	42,63	43,07	43,42	43,36	43,37	44,31	44,62	45,01
SDR	296.835.757	297.963.905	297.740.170	298.001.253	297.334.872	296.253.429	296.026.024	295.912.238	295.448.306	306.795.625
in USD	460.988.020	451.963.905	456.134.580	450.227.952	449.303.796	436.962.075	429.334.913	431.961.825	431.306.106	444.689.395
%	23,86	24,02	23,91	23,70	23,62	23,25	22,72	22,60	22,40	22,78
AUD	131.685	131.685	131.685	131.685	131.685	131.685	131.685	131.685	1.312.685	131.685
in USD	102.141	101.889	103.046	101.513	103.003	187.794	188.967	100.130	98.415	100.343
%	0,01	0,01	0,01	0,01	0,01	0,01	0,01	0,01	0,01	0,01
Total	1.931.954.617	1.881.906.288	1.907.668.829	1.899.569.095	1.902.146.755	1.879.406.776	1.889.678.316	1.910.914.910	1.925.543.643	1.952.067.140

SERVISING OF THE LIABILITIES (principal and interest)

(In million of US dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
PER CREDITORS											
PRINCIPAL	33	47	53	86	103	111	144	184	186	196	178
MULTILATERAL CREDITORS	29	29	27	29	43	49	66	82	53	55	51
IMF	1	1	0	2	17	19	8	9	22	20	11
IBRD / IDA	19	15	6	6	0	6	4	6	8	12	13
IFC	8	3	1	0	3	3	27	20	3	5	3
EIB	0	2	8	2	3	3	3	3	6	9	9
EBRD	0	1	8	14	15	15	19	38	9	8	14
EUROFIMA	0	7	2	5	4	1	4	4	5	0	0
COUNCIL OF EUROP. DEVELOP. BANK	0	0	1	1	1	1	1	1	0	0	0
EU	0	0	0	0	1	0	0	0	0	0	0
IFAD	0	0	0	0	0	0	1	0	0	1	1
BILATERAL CREDITORS	0	13	18	30	13	15	44	35	43	47	41
PARIS CLUB	0	0	17	26	11	11	28	29	36	/	/
TAIWAN	0	0	0	0	0	0	10	0	0	/	/
OTHERS	0	0	1	4	3	3	6	6	7	/	/
COMMERCIAL CREDITORS	4	5	9	27	46	48	34	66	85	94	86
LONDON CLUB	0	0	0	0	0	0	0	8	10	10	10
OTHERS	4	5	9	27	46	48	34	59	75	84	76
INTEREST	13	32	72	57	52	54	60	51	50	45	54
MULTILATERAL CREDITORS	12	18	43	20	26	27	27	23	21	21	23
IMF	2	3	3	3	3	3	2	1	1	1	1
IBRD / IDA	8	7	6	5	8	9	10	9	9	9	10
IFC	1	1	0	0	5	5	4	2	1	1	0
EIB	0	4	28	3	4	3	4	4	5	5	5
EBRD	0	2	4	5	4	5	5	4	2	2	3
EUROFIMA	0	1	1	1	1	1	1	1	1	0	1
COUNCIL OF EUROP. DEVELOP. BANK	0	0	0	0	0	0	0	0	1	1	1
EU	0	0	0	2	1	1	2	2	2	2	2
IFAD	0	0	0	0	0	0	0	0	0	0	0
BILATERALN CREDITORS	0	13	28	21	8	8	17	13	13	8	8
PARIS CLUB	0	0	27	20	8	7	15	11	11	/	/
TAIWAN	0	0	0	0	0	1	1	1	0	/	/
OTHERS	0	0	1	1	1	1	2	1	2	/	/
COMMERCIAL CREDITORS	1	1	1	16	17	18	16	15	16	16	23
LONDON CLUB	0	0	0	10	9	9	10	10	6	5	7
OTHERS	1	1	1	6	9	9	6	5	10	11	16
TOTAL (PRINCIPAL AND INTEREST)	47	79	125	143	155	165	205	235	236	241	232
PER DEBTORS											
PRINCIPAL	0	47	53	86	103	111	144	184	186	196	178
GOVERNMENT		8	8	19	18	17	50	50	67	60	67
EXTRA BUDGETARY FUNDS		0	0	0	0	4	5	5	4	4	5
OTHERS		40	45	68	85	90	87	126	116	132	106
INTEREST	0	32	72	57	52	54	60	51	50	45	54
GOVERNMENT		15	30	37	26	27	39	35	32	21	29
EXTRA BUDGETARY FUNDS		0	0	0	0	4	4	3	3	3	3
OTHERS		17	42	20	26	22	17	12	15	21	22
TOTAL (PRINCIPAL AND INTEREST)	0	79	125	143	155	165	205	235	236	241	232

Source: National Bank of the Republic of Macedonia

CHARACTERISTICS OF THE PUBLIC DEBT PORTFOLIO

Definition of public debt

Public debt of the Republic of Macedonia comprises public sector liabilities on the basis of external and domestic borrowing. Definitions of public debt often differ. Under the methodology recommended by the IMF in the Manual on Government Finance Statistics, public sector debt comprises general government debt (central government and extra-budgetary funds), local government, monetary authorities and public enterprises. Alternately, the definition in the Public Debt Law (Official Gazette of the Republic of Macedonia no. 62/2005) says that public debt comprises government debt (general government debt) and "all financial liabilities incurred via borrowing by the municipalities and the city of Skopje, as well as borrowing by public enterprises and companies being fully or predominantly owned by the state, while the debt of the National Bank is not considered as public debt.

Due to such differences in definitions, different data are presented in practice, depending on the methodology used and referring to the level and structure of public debt.

The data presented here on the stock, structure and trend of public debt are according to the definition given in the Public Debt Law. If the calculation of any data involves another methodology, it will be referred.

Features of public debt portfolio

Most of the public debt portfolio of the Republic of Macedonia comprises liabilities inherited from former SFRY.

Immediately after gaining independence, the government of the Republic of Macedonia started settling and restructuring the liabilities under external debt inherited by the Republic of Macedonia from former SFRY.

In 1994 it cleared the inherited debt towards the World Bank, and in 1996 the liabilities towards the EUB, EUROFIMA and the Council of Europe Resettlement Fund (CERF) were settled. Also, the debt towards Paris Club of Creditors was rescheduled twice, once in 1995 and in 2000. The debt towards London Club of Creditors was

refinanced under the 1998 New Financial Agreement that enabled the Republic of Macedonia to acquire the right to redeem bonds at any time under the terms of the securities market, provided it has no outstanding liabilities for interest and principal.

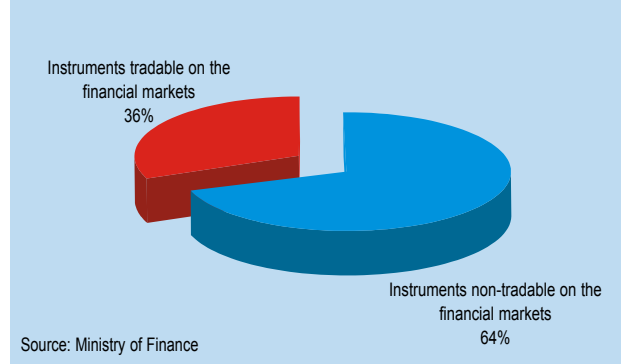
In addition, the debt portfolio includes liabilities of the government under bonds issued for resolution of structural problems that occurred in the transition process of the Macedonian economy, which significantly affected the increase of the stock of public debt. Old foreign exchange saving bond that the Government issued in 2000 had significant effect. It amounted to EUR 546,5 million and was intended for repayment of foreign currency deposits of the citizens, frozen in the banks in the Republic of Macedonia, after the dissolution of the Yugoslav federation.

The inherited debt problems, as well as current restructuring of the banking sector affected the creation of unfavorable debt portfolio dominated by instruments non-tradable on the domestic and international financial markets.

Stock and structure of public debt

As a result of the issue of the old foreign exchange saving bond, public debt stock in 2000 reached the high-

Chart 1:
Tradable vs. non-tradable instruments on the financial markets



est level ever of EUR 2,1 million, or 52,9% of GDP. In the period after, public debt, expressed in absolute and relative amounts, continued to decline and as of December 2004 was EUR 1,7 billion. Mild increase of the public

debt to GDP of 3,1 percentage point occurred in 2005, when, as a result of the issue of the eurobond, in December 2005 it reached the level of EUR 1.9 billion or 44,1% of the projected GDP.

Resources from this issue were used for early redemption of liabilities towards the London Club of Creditors, thus offsetting the effects of the debt growth in this issue. As of February 28, 2006 public debt amounts to EUR 1.8 billion, i.e. 39.7% of GDP. This operation achieved the following positive effects:

- **Major budget savings for the next years.** In general, the budget of the Republic of Macedonia, via this transaction, would save EUR 123.23 million in the next 7 years, assuming that conditions on the international market would remain as they are (actually, a pessimistic scenario since all major investment banks envisage growth of the US\$ interest rate, thus leading to growth of the expenditures of Macedonia for repayment of variable interest debt in the next years). Additional scenarios were made taking into account the changes on the international market, showing that the Budget of Macedonia would be even more exposed to expenditures if the US dollar gains strength in relation to the euro in near future. Analyses confirm the even greater economic justification of this transaction in changing conditions on international market (growth of interest rates and US dollar appreciation), which, expressed in numbers, means a saving of EUR 130-150 million, i.e. EUR 9 - 29 million saving depending on the analyzed year and scenario.

- **Improved profile of debt portfolio,** since the eurobond is a standard instrument in the public debt portfolio, known internationally and it replaces the bad debt reputation. Thus, by introducing eurobonds, in addition to standard government securities, the Republic of Macedonia acquired better benchmark in its debt portfolio;



The inherited debt problems, as well as current restructuring of the banking sector affected the creation of unfavorable debt portfolio dominated by instruments non-tradable on the domestic and international financial markets

- The replacement of the existing debt with shorter term of eurobonds having 10 years maturity period, **extends the maturity period of the debt portfolio** of Macedonia;
- **Avoiding certain types of market risk, especially interest rate risk and exchange rate risk;**
- By end-April 2006 public enterprises will submit to the Ministry of Finance their first reports on the stock of the debt (under the PDL) and analysis would be made of their debt.

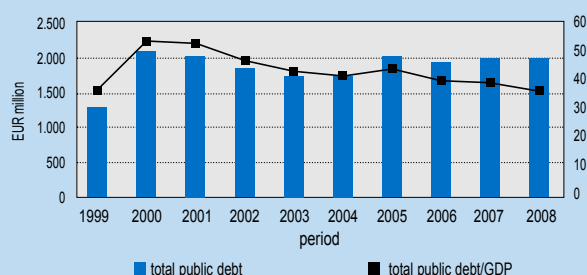
Table 1: Public debt

EUR million

basis	year							28.02.2006
	1999	2000	2001	2002	2003	2004	2005	
External Public Debt	1,188.35	1,340.07	1,317.28	1,202.98	1,124.20	1,132.64	1,388.50	1,186.00
General government debt	1,024.72	1,153.86	1,191.90	1,088.97	1,005.54	993.20	1,245.35	1,047.00
Central government debt	971.52	1,101.00	1,144.10	1,050.37	972.56	962.28	1207.95	1009.00
Public funds	53.20	52.86	47.80	38.60	32.98	30.92	37.40	38.00
Municipalities	N/A	N/A	N/A	N/A	N/A	0.00	0.00	0.00
Public enterprises	163.63	186.21	125.38	114.01	118.66	139.44	143.15	139.00
Domestic public debt	79.85	711.69	681.55	626.93	593.58	589.78	603.46	607.50
General government debt	79.85	711.69	681.55	626.93	593.58	589.78	603.46	607.50
Central government debt	79.85	711.69	681.55	626.93	593.58	589.78	603.46	607.50
Municipalities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Public enterprises*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Public Debt	1,268.20	2,051.76	1,998.83	1,829.91	1,717.78	1,722.42	1,991.96	1,793.50
Total public debt (% of GDP)	36.78	52.92	52.08	45.85	41.95	40.94	44.12	39.73
General government debt (% of GDP)	32.03	48.12	48.81	42.99	39.05	37.63	40.95	36.65

Source: Ministry of Finance and NBRM

Chart 2:
Stock of total public debt/GDP

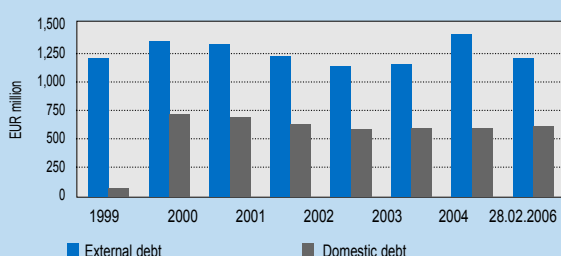


Source: Ministry of Finance and NBRM

As of February 28, 2006 the share of external debt is 66%, and the share of internal debt is 34%.

Internal debt is expected to gradually increase at the expense of external debt, according to budget needs, market conditions, capacity and abilities of the financial system in the Republic of Macedonia. This would enable sound growth of domestic securities market which in the future would be main support to the government borrowing policy. It would also reduce the dependency of the financial side of budget on foreign borrowing and fluctuations on the international market.

Chart 3:
Ratio of domestic and external public debt



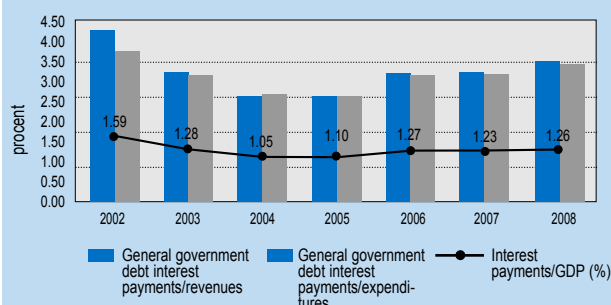
Source: Ministry of Finance

Servicing the public debt

Public debt servicing costs are evenly distributed in time so as to avoid their destabilizing effect on the budget due to their volatility or major concentration in specific period.

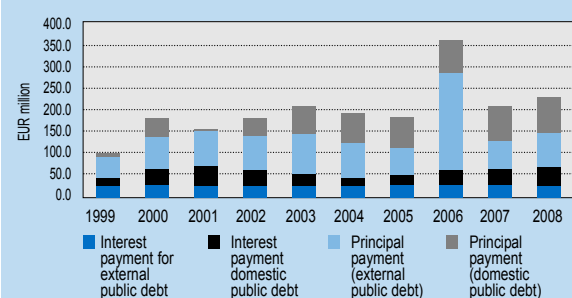
Interest costs compared to revenues, expenditures and GDP declined until 2005 while the projections until 2008 show mild increase, above all, due to the significant share of variable interest rate debt in the total public debt portfolio, as well as anticipations for gradual growth of interest on the international capital market.

Chart 4: Repayment of interest in relation to revenues, expenditures and GDP



Source: Ministry of Finance and NBRM

Chart 5:
Repayment of interest and principal on the basis of public debt



*Increase of the principal repayment of external public debt in 2006 is due to the redemption of the debt towards the London Club of Creditors, for the purpose of which the eurobond was issued in December 2005.

Source: Ministry of Finance and NBRM

Currency and interest structure

High share of external debt in total public debt, as well as the fact that 81.18% of the internal debt is denominated in euros leads to a dominant share of foreign currency denominated debt (94%) in the currency structure of public debt, while the share of domestic currency denominated debt is only 6% of total public debt.

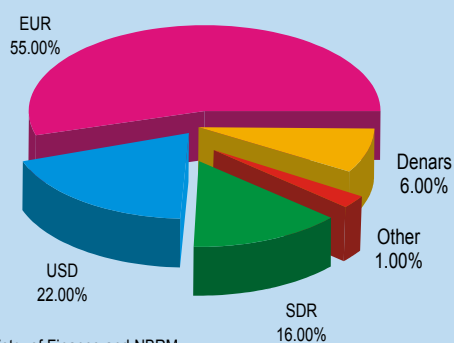
From the aspect of the currency structure 55% of the total public debt is denominated in euros while 22% is denominated in US dollars.

Debt denominated in EUR comprises largely structural bonds (old foreign currency saving bond, Stopanska Banka privatization bond, Denationalization bond), credits from the European Commission, EIB, EBRD and part of the credits from the Paris Club and the newly issued eurobond. Debt denominated in US dollars comprises mostly: part of debt towards Paris Club of Creditors, and credits from the International Bank for Reconstruction and Development (IBRD). The debt towards the IMF, IDA and the IFAD is in SDRs. Treasury bills are denominated in US dollars.

inated in national currency, as well as the structural bond issued for rehabilitation of the banking sector, and the selective credits bond.

Such structure points to major exposure of the portfolio of total debt to exchange rate risk of the denar in relation to other currencies in which the debt is denominated.

Chart 6: Currency structure of the total public debt

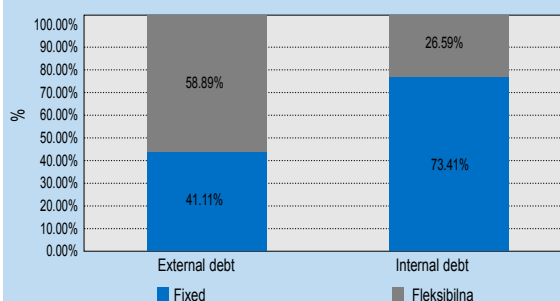


Source: Ministry of Finance and NBRM

Structure of the interest rates is balanced, whereby 51% of the public debt portfolio is with fixed interest rates, while 49% is with variable interest rates (this percentage also includes the debt with a maturity period of 12 or less months).

Such interest rate structure is currently relatively favorable, while variable interest rates on the international market are on a low level.

Chart 7: Interest structure of the total public debt

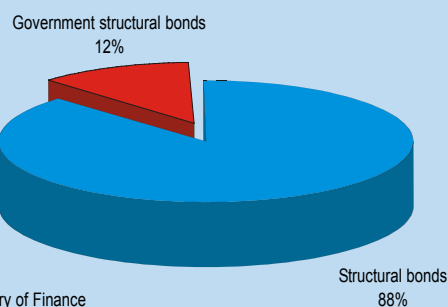


Source: Ministry of Finance and NBRM

Domestic public debt

Domestic debt comprises liabilities on the basis of issued structural bonds and government securities.

Chart 8: Structure of the domestic public debt



Source: Ministry of Finance

Table 2: Features of structural bonds

Purposes for which the bonds are issued	Issue amount	Currency of issue	Year of issue	Year of payment of I installment	Year of payment of last installment	Maturity period	Interest rate	Date of payment of principal	Date of payment of interest
Stopanska banka rehabilitation bond	MKD 6 mlrd	MKD	1996	1996	2010	15	discount rate (6.5%)	01-Apr	every month
Selective credit bond	MKD 1,039 mlrd	MKD	1996	-	2020	25	interest - free	-	-
Old foreign exchange saving bond	546.5 mil. EUR	EUR	2000	01-04-02	01.10 2011	10	2% annually	1 April 1 Oct.	1 April 1 Oct.
Stopanska banka Privatization Bond	120.15 mil. EUR	EUR	2001	31.03 2002	31.12 2014	14	EURIBOR + 1 percentage point	31.03, 31.06, 30.09, 31.12	31.03, 31.06, 30.09, 31.12
Denationalization bond - I issue	2.5 mil. EUR	EUR	2002	1.06 2003	1.06 2012	10	2% annually	1-06	1-06
Denationalization bond - II issue	39.5 mil. EUR	EUR	2003	1.06 2004	1.06 2013	10	2% annually	01-06	01-06
Denationalization bond - III issue	47 mil. EUR	EUR	2004	1.06 2005	1.06 2014	10	2% annually	01-06	01-06
Denationalization bond - IV issue	58 mil. EUR	EUR	2005	1.06 2006	1.06 2015	10	2% annually	01-06	01-06
Total									

Structural bonds

Republic of Macedonia, as of February 28, 2006 inclusive, issued a total of five structural bonds: Features and conditions of issue of these bonds are given in the table below:

Part of the structural bonds (Old foreign exchange saving and Denationalisation bonds) is listed on the Macedonian Securities Stock Exchange and are tradable. However, taking into account the fact that these bonds were issued for the purpose of settlement of certain liabilities of the state, the trading is on unsatisfactory low level although they are the most liquid securities on the SE. The features of these bonds are specific due to the legal possibility for the citizens to trade with them or use them for other purposes stipulated by law.

The charts below show the movement of the price and yield to maturity of structural bonds listed on the MSE in the period January-February 2006.

Chart 9:
Average daily price (P)

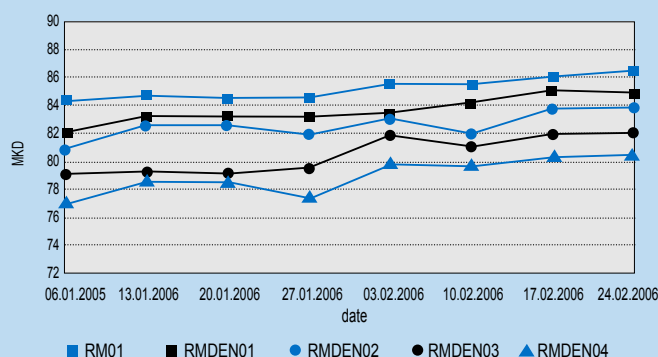
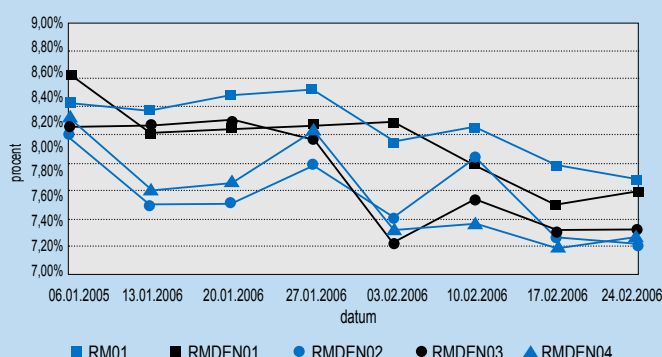


Chart 10:
Yield to maturity (YTM)



Continuous government securities

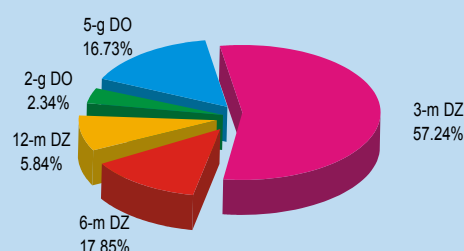
Activities related to development of the government securities market began in 2003 when the Government adopted the Strategy for development of the government securities market. This strategy gave basis to begin with issuance of continuous government securities. The Ministry of Finance in January 2004 successfully began the first issue of continuous government securities (3-month T-bills) and as of December 2005, issues regularly 3-, 6- and 12-month government securities and 2-year government bonds, and it also issued 5-year bond. In 2006, in addition to regular auctions of the aforementioned government securities, introduction of 3-year government bonds is planned, as a result of the interest on the market and public debt management objectives.

Government securities are denar - denominated and issued in dematerialized form.

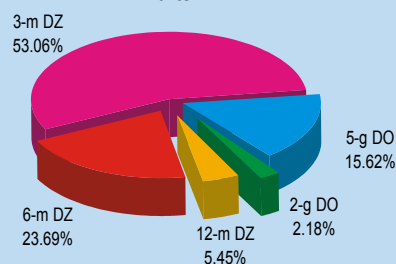
As of 28.02.2006 the stock of issued government securities is Denar 4,58 billion, of which Denar 3,76 billion are T-bills and the remaining Denar 0,82 are government bonds. The charts below show the stock of government securities by maturity, observed from the aspect of the issuance date (December 2005 and February 2006).

In the ownership structure of government securities, observed cumulatively, the share of banks is 69% while the share of the clients is 31%.

Charts 11: Government securities by maturity as of December 2005 and February 2006



Charts 12

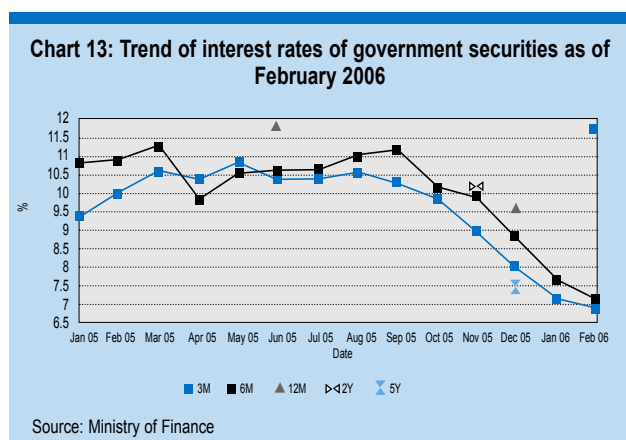


Source: Ministry of Finance

Interest rates of T-bills have been market-based since their introduction on the market, i.e. they are determined by

offer and demand on the auctions. The chart shows the government securities interest rate trend by maturity. The chart shows the continuous declining trend of interest rates.

The continuous regulation on secondary trading in the Republic of Macedonia enables trading in long-term and short-term securities on the MSE, as well as trading in short-term securities on the money market and OTC market.



No transaction has been realised so far on the money market. Trading in government securities on the MSE is largely limited due to the brokerage and SE fees.

In April 2005 the NBRM, in cooperation with the Ministry of Finance adopted a Rulebook on the manner and the procedure of trading and settlement of transactions

on this market is the fact that settlement of transactions is in real time, i.e. immediately after the transaction has been concluded. As a result of these advantages, the number of transactions on this market gradually increases, and as of February 2006, total of 22 transactions were concluded on the secondary market.

External public debt

External public debt of the Republic of Macedonia comprises liabilities of the general government (central go-

Mild increase of the public debt to GDP of 3,1 percentage point occurred in 2005, when, as a result of the issue of the eurobond, in December 2005 it reached the level of EUR 1.9 billion or 44,1% of the projected GDP.

Resources from this issue were used for early redemption of liabilities towards the London Club of Creditors, thus offsetting the effects of the debt growth in this issue. As of February 28, 2006 public debt amounts to EUR 1.8 billion, i.e. 39.7% of GDP

Table 3: Stock of external public debt according to GFS methodology

	2000	2001	2002	2003	2004	2005*	28/02/2006
EUR million							
Public Sector	1428	1398	1268	1179	1179	1441	1239
Government	1154	1192	1089	1006	993	1245	1047
Government liabilities	1101	1144	1050	973	962	1208	1009
Road fund	53	48	39	33	31	37	38
NBM	88	80	65	55	46	53	53
Public enterprises	186	125	114	119	139	143	139

*Increasing of the stock of external public debt as of 31.12.2005 is due to the issuance of the eurobond in the amount of EUR 150 million, used in January 2006 to redeem the debt towards the London Club of Creditors and thus offset the growth of the external public debt.

Source: NBRM

in securities on the OTC market. The adoption of this Rulebook marked the official start of the OTC market, currently trading government bills, and continuous government bonds are planned to be traded in near future.

The OTC market currently incurs no transaction costs. Banks involved in the transactions earn a profit only from the sale and purchase price spread. Additional advan-

vernment, funds and municipalities) and public enterprises towards multilateral, bilateral and private creditors abroad.

- Multilateral liabilities include credits from IBRD, IDA, EIB, CEB, IFAD, EU, EUROFIMA and EBRD;
- Paris Club of Creditors comprises majority of the bilateral debt; and
- Debt towards private creditors encompasses liabilities on the basis of the newly issued eurobond.

To the end of managing external borrowing more efficiently, the Ministry of Finance on behalf of the government, issued the first eurobond on the international capital market, in the amount of EUR 150 million and 10 years of maturity period. The idea for such issue is a result of the need to replace the existing high-risk variable interest rate debt towards the London Club of Creditors with fixed interest rate debt (at a period when interest rates on the international capital market were at record lows).

Huge interest in the Republic of Macedonia and its financial instrument enabled creation of broad base of investors - holders of the eurobond, from Europe, America and Asia. Four-times greater demand for the eurobond in the amount of EUR 593 million contributed to achieving relatively favourable coupon interest rate of 4.625%. The eurobond issue will not increase public debt since the receipts from the issue will be fully used to redeem the debt towards the London Club of Creditors.

As of February 28, 2006 the share of external debt is 66%, and the share of internal debt is 34%.

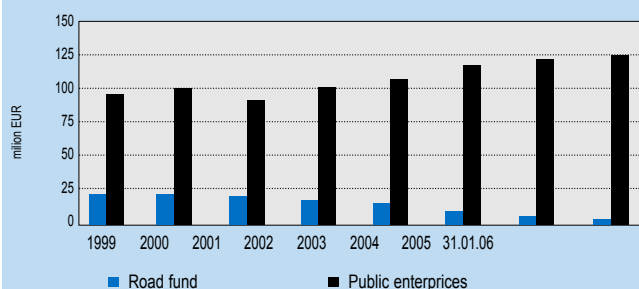
Internal debt is expected to gradually increase at the expense of external debt, according to budget needs, market conditions, capacity and abilities of the financial system in the Republic of Macedonia

Guarantees

The procedure to issue guarantee to public enterprises and companies in dominant government ownership is regulated under the new Law on Public Debt (Official Gazette of the Republic of Macedonia no. 62/2005), adopted in July 2005. This Law regulates the procedure for issuance, servicing and termination of guarantees, as well as the criteria required by the projects the financing of which requires issuance of sovereign guarantee.

So far, the Government issued guarantees to public funds and public enterprises that used loans from foreign and domestic lenders. There has been an alarming trend of continuous growth of the stock of issued guarantees in the previous period. However, despite this, the issued

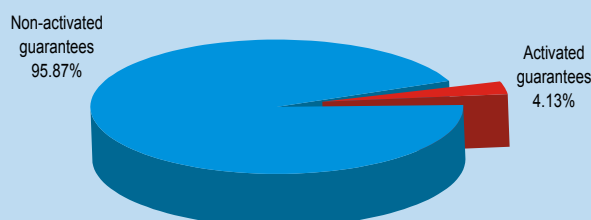
Chart 14:
Stock of guaranteed external public debt



Source: Ministry of Finance and NBRM

guarantees are usually for credible borrowers, which have regularly serviced their liabilities under issued guarantees so far. Potential guarantees that would be issued to newly established public enterprises pose certain risk, since these enterprises have insufficient source

Chart 15:
Stock of called-up and non-called-up total public debt

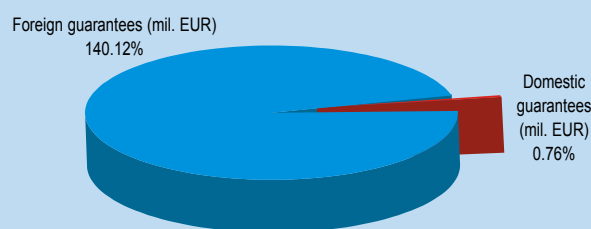


Source: Ministry of Finance and NBRM

of revenues and poor capacity for successful financial operations, and this would directly affect the growth of the stock of public debt on the basis of call-up of these guarantees.

Issued guarantees amount to 7.88% of the total public debt, and as of 31.01.2006 their stock is EUR 140.88 million. The share of the guarantees in GDP is 2,93%.

Chart 16:
Ratio of foreign and domestic guarantees



Source: Ministry of Finance and NBRM

The stock of the guaranteed external public debt in the period 1999 - 31.01.2006 continuously grows. As of 31.01.2006, the stock of issued external guarantees is EUR 140.12 million. Guarantees issued upon foreign loans used by public enterprises dominate in the total amount of public external debt guaranteed by the Government in this period.

According to the previous experience, main debtors, with some exceptions, such as the PE Standard - Debar and PE Macedonian Railways, for which the called-up guarantee would be paid from the budget, regularly service the liabilities under foreign loans. Amount of the called-up guarantees for these two enterprises is around EUR 5.81 million, i.e. 4,22% of the total issued guarantees.

The Government has issued guarantees to legal entities that used credits from domestic commercial banks. The potential debt of the country on the basis of domestic guarantees as of 31.01.2006 was Denar 46.49 million (EUR 0.76 million). Accordingly, foreign guarantees dominate in the structure of issued guarantees with 99%, while the share of domestic guarantees is 1%.

Financing public projects and issuance of guarantees are public debt categories which, although not direct liability of the budget, pose risk and additional potential costs for the budget in case they are called-up. Future



The Ministry of Finance in January 2004 successfully began the first issue of continuous government securities (3-month T-bills) and as of December 2005, issues regularly 3-, 6- and 12-month government securities and 2-year government bonds, and it also issued 5-year bond

state policy related to guarantees and financing public projects will be focused on reducing them. This policy would be implemented by minimising the intermediation by the government sector and encouraging the private sector to increase its participation in financing public projects (public-private partnership, road concessions etc.).

CENTRAL BUDGET OF THE REPUBLIC OF MACEDONIA

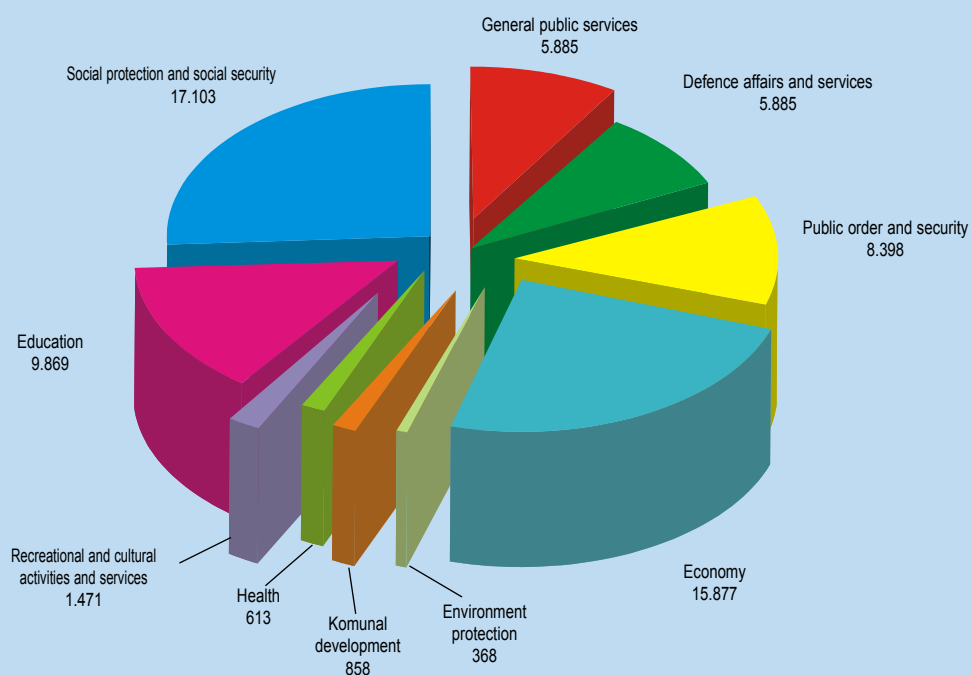
	2002	2003	2004	2005	2006
	Final statement	Final statement	Final statement	Rebalans	Budget
TOTAL REVENUES	71.981.222.938	68.406.577.974	68.257.596.556	77.127.000.000	81.749.000.000
CURRENT REVENUES (TAX AND NON-TAX)	58.896.097.958	56.784.247.919	56.534.423.095	58.596.000.000	59.940.000.000
TAX REVENUES	54.389.136.894	49.166.396.854	52.527.458.366	53.318.000.000	56.840.000.000
Taxes on income, profits and capital gains	10.137.596.496	10.772.545.343	10.068.869.008	10.802.000.000	11.236.000.000
Personal income tax	7.513.310.320	7.502.459.597	7.706.705.300	8.231.000.000	8.051.000.000
Profit tax	2.624.286.176	3.270.085.746	2.362.163.708	2.571.000.000	3.185.000.000
Other taxes on income, profit and capital gains	31.235.879.140	31.741.066.910	36.093.219.422	37.082.000.000	40.136.000.000
Domestic taxes on goods and services	20.521.036.109	21.175.919.119	25.756.854.524	26.325.000.000	28.334.000.000
Value Added Tax (since 1.4.2000)	10.714.843.031	10.565.147.791	10.336.364.898	10.757.000.000	11.802.000.000
Excises	6.336.011.440	6.141.579.944	5.814.503.205	4.867.000.000	4.848.000.000
Taxes on international trade and transactions	5.230.636.743	4.909.408.470	4.597.751.176	3.861.000.000	3.817.121.000
Custom duties	1.105.374.697	1.232.171.474	1.216.752.029	1.006.000.000	1.030.879.000
Other import taxes and duties	0	51.094	0	0	0
Other taxes	3.359.937	3.894.080	5.216.895	0	0
Taxes on specific services	340.562.742	475.513.109	545.887.314	567.000.000	620.000.000
Fees for usage and permissions for performing activities	6.335.727.139	31.746.374	237.478	-	-
Financial transactions tax	4.506.961.064	7.617.851.065	4.006.964.729	5.278.000.000	3.100.000.000
NON-TAX REVENUES	931.379.088	1.963.471.700	1.752.484.628	3.388.000.000	1.100.000.000
Entrepreneurial income and property income	1.091.976.541	1.366.943.949	1.465.138.734	1.390.000.000	1.500.000.000
Fees and charges	205.764.069	370.052.922	257.196.740	300.000.000	300.000.000
Other government services	2.277.841.366	3.917.382.494	532.144.627	200.000.000	200.000.000
Other non-tax revenues	7.193.569.639	4.081.105.548	3.341.846.311	1.120.000.000	16.227.000.000
CAPITAL REVENUES	6.244.440.021	4.002.729.305	3.158.721.234	920.000.000	16.027.000.000
Sales of capital assets	949.129.619	78.376.243	183.125.077	200.000.000	200.000.000
Sales of land and intangible assets	3.808.557.430	3.651.554.878	4.932.545.381	1.213.000.000	540.000.000
TRANSFERS AND DONATIONS	1.167.411.039	1.136.220.479	3.888.654.831	397.000.000	0
Transfers from other levels of government	2.641.146.391	2.515.334.399	1.043.890.550	816.000.000	540.000.000
Foreign donations	480.521.896		1.908.760.868	3.229.000.000	3.000.000.000
DOMESTIC LOANS	1.584.121.754	3.766.572.092	1.529.500.321	12.969.000.000	2.042.000.000
BORROWING FROM ABROAD	1.584.121.754	3.766.572.092	1.529.500.321	12.969.000.000	2.042.000.000
International development agencies	18.354.261	123.097.537	10.520.580	0	0
REVENUES FROM REPAYMENT OF LOANS					
TOTAL EXPENDITURES	71.700.272.895	64.462.761.283	63.743.917.129	77.127.000.000	81.749.000.000
CURRENT EXPENDITURES	56.314.747.304	51.104.920.817	51.667.851.725	46.616.257.000	49.295.088.000
Wages, salaries and allowances	18.337.661.335	20.233.542.216	20.943.062.394	21.860.882.000	22.668.904.000
Goods and other services	13.991.420.289	7.325.808.770	6.833.422.972	7.502.952.000	7.326.925.000
Current transfers	20.586.832.339	21.101.506.628	21.838.665.402	14.104.523.000	14.602.763.000
	-	-	-	812.900.000	1.819.000.000
Interest payments	3.398.833.341	2.444.063.205	2.052.700.957	2.335.000.000	2.877.496.000
SUBSIDIES AND TRANSFERS	-	-	-	2.885.462.000	2.111.209.000
SOCIAL TRANSFERS	-	-	-	4.057.856.000	3.633.264.000
CAPITAL EXPENDITURES	8.366.132.516	4.687.684.918	4.867.347.044	16.376.425.000	12.543.385.000
LENDING, EQUITY PARTICIPATION					
AND DEBT REPAYMENT	7.019.393.075	8.670.155.548	7.208.718.360	7.191.000.000	14.166.054.000
Lending and equity participation	931.369.212	637.002.773	76.445.946	0	0
Amortization (debt repayment)	6.088.023.863	8.033.152.776	7.132.272.414	7.191.000.000	14.166.054.000

FUNCTIONAL CLASSIFICATION OF THE CENTRAL BUDGET EXPENDITURES

	Budget 2005	Budget 2006	2005	2006	2005	2006
	in million of denars		structure		% from GDP	
TOTAL	66.327	91.868	100,0	100,0	23,9	31,3
General public services	5.885	13.609	8,9	14,8	2,1	4,6
Defence affairs and services	5.885	6.130	8,9	6,7	2,1	2,1
Public order and security	8.398	9.902	12,7	10,8	3,0	3,4
Economy	15.877	23.846	23,9	26,0	5,7	8,1
Environment protection	368	615	0,6	0,7	0,1	0,2
Komunal development	858	3.555	1,3	3,9	0,3	1,2
Health services	613	1.165	0,9	1,3	0,2	0,4
Recreational and cultural activities and services	1.471	1.968	2,2	2,1	0,5	0,7
Education	9.869	13.363	14,9	14,5	3,6	4,6
Social protection and social security	17.103	17.716	25,8	19,3	6,2	6,0

Note: The functional classification of the Central Budget expenditures was prepared according to the international standards

FUNKCIONAL CLASSIFICATION OF EXPENDITURES 2005



BUDGET OF THE REPUBLIC OF MACEDONIA (central budget and extrabudgetary funds)

	Budget 2005	Supplem. 2005	I	II	III	Q - 1	IV	V	VI	Q - 2
TOTAL REVENUES	102.705	105.269	7.279	6.606	7.847	21.732	8.905	7.642	8.080	24.627
Taxes and Contributions	83.090	83.847	6.464	5.696	6.811	18.972	7.849	6.466	6.857	21.172
Tax Revenues (SRA)	317	256	23	26	19	68	28	20	27	75
Taxes	53.045	54.018	4.594	3.284	4.436	12.314	5.210	4.323	4.411	13.944
Personal Income Tax	7.931	8.231	526	648	660	1.834	762	586	704	2.052
Profit Tax	2.571	2.571	145	302	633	1.080	220	197	183	600
VAT	25.623	26.325	2.460	1.320	1.965	5.745	2.779	1.968	2.020	6.767
Excises	11.689	11.457	1.103	651	707	2.461	893	1.067	977	2.937
Import Duties	4.731	4.867	289	315	422	1.026	499	459	483	1.441
Other Taxes	500	567	71	48	49	168	57	46	44	147
Contributions	29.728	29.573	1.848	2.386	2.356	6.590	2.611	2.123	2.419	7.153
Pension Insurance Contributions	19.151	18.996	1.188	1.538	1.504	4.230	1.669	1.346	1.554	4.569
Unemployment Contributions	1.320	1.320	84	118	110	312	119	95	111	325
Health Insurance Contributions	9.257	9.257	576	730	742	2.048	823	682	754	2.259
Non Tax Revenues	14.761	16.555	725	839	930	2.495	969	1.067	1.052	3.088
Non Tax Revenues (SRA)	8.575	8.779	407	523	484	1.414	523	482	668	1.673
Profit of Public Financial Institutions	1.686	3.281	40	0	43	83	44	211	5	260
Administrative Taxes and Charges	1.390	1.390	103	128	156	387	159	143	157	459
Health co-payment	600	600	34	45	48	127	45	40	37	122
Other Administrative Taxes	300	300	17	17	24	58	22	23	24	69
Other Non Tax Revenues	400	397	24	23	40	87	24	14	14	52
Road Fund Fees	1.810	1.810	101	103	136	340	142	153	146	441
Capital Revenues	625	630	49	27	36	112	45	35	27	107
Foreign Donations	4.230	4.236	40	44	68	152	42	74	143	259
Revenues from repayment of loans	0	1	0	0	1	1	0	0	1	1
TOTAL EXPENDITURES	106.006	107.499	7.167	7.489	8.111	22.766	8.262	7.334	8.279	23.875
Current Expenditures	92.650	92.742	6.587	7.212	7.859	21.657	7.713	6.907	7.560	22.180
Wages and Allowances	23.089	23.177	1.843	1.890	1.907	5.640	1.899	1.923	1.914	5.736
Goods and Services	13.830	14.253	712	1.169	1.316	3.197	1.171	883	1.086	3.140
Transfers	52.819	52.653	3.676	4.084	4.492	12.252	4.343	4.005	4.291	12.639
Transfers (SRA)	1.004	1.033	32	65	63	160	81	71	68	220
Social Transfers	48.288	47.641	3.593	3.801	4.187	11.582	4.051	3.744	3.875	11.670
Pensions	25.688	25.296	2.022	2.110	2.163	6.294	2.125	2.122	1.994	6.241
Unemployment Benefits	3.190	3.048	257	286	260	783	268	252	247	767
Social Benefits	4.172	4.151	296	315	354	965	346	271	409	1.026
Structural Reforms	70	0	0	0	0	0	0	0	0	0
Public Administration Reform	4	4	0	0	0	0	0	0	0	0
Health Care	15.164	15.142	1.018	1.110	1.411	3.539	1.313	1.100	1.224	3.637
Other Transfers	3.428	3.880	51	208	228	487	188	179	337	704
Refugees	100	100	0	10	14	24	23	11	11	45
Interest	2.912	2.659	356	69	144	569	301	96	269	666
Domestic	1.069	1.111	26	25	65	116	212	62	159	433
Foreign	1.843	1.548	330	44	79	453	89	34	110	233
Guaranties	0	0	0	0	0	0	0	0	0	0
Capital Expenditures	13.356	14.757	580	276	252	1.108	548	428	719	1.695
BUDGET BALANCE	-3.301	-2.230	112	-883	-264	-1.034	643	308	-199	752
FINANCING	3.301	2.230	-112	883	264	1.034	-643	-308	199	-752
Inflow	11.247	10.046	762	924	772	2.458	1.176	-80	919	2.015
Privatisation Receipts	1.041	1.024	65	200	0	265	95	0	136	231
Foreign donations	0	0	0	0	0	0	0	0	0	0
Foreign Loans	4.643	14.895	70	26	43	139	35	89	1.095	1.219
Deposits	3.043	-9.113	702	644	186	1.532	327	-292	-378	-343
Domestic borrowing	2.500	3.229	-76	54	543	521	719	123	63	905
Sell of Shares	20	11	1	0	0	1	0	0	3	3
Outflow	7.947	7.816	874	42	509	1.425	1.819	227	719	2.765
Repayment of Principal	7.947	7.816	874	42	509	1.425	1.819	227	719	2.765
Foreign	3.383	3.266	874	42	339	1.255	147	4	180	331
Domestic	4.564	4.550	0	0	170	170	1.672	223	540	2.435

VII	VIII	IX	Q - 3	X	XI	XII	Q - 4	Total 2005	Budget 2006	I	II	I – II 2006
11.703	7.573	8.652	27.928	8.764	8.544	9.333	26.641	100.928	103.198	7.365	6.756	14.121
7.553	6.548	7.184	21.285	7.499	7.526	8.127	23.152	84.581	88.198	5.957	5.933	11.890
26	17	27	70	31	28	32	91	304	177	19	21	40
5.021	4.278	4.808	14.107	5.148	5.108	5.060	15.316	55.681	57.581	4.014	3.382	7.396
690	605	656	1.951	642	666	952	2.260	8.097	8.051	511	662	1.173
272	162	189	623	166	147	221	534	2.837	3.185	180	383	563
2.468	1.868	2.316	6.652	2.913	2.689	2.316	7.918	27.082	28.334	1.760	1.284	3.044
1.083	1.170	1.132	3.385	975	990	1.000	2.965	11.748	12.543	1.191	653	1.844
461	429	445	1.335	400	563	501	1.464	5.266	4.848	280	327	607
47	44	70	161	52	53	70	175	651	620	92	73	165
2.506	2.253	2.349	7.108	2.320	2.390	3.035	7.745	28.596	30.440	1.924	2.530	4.454
1.614	1.443	1.496	4.553	1.476	1.514	1.958	4.948	18.300	19.810	1.250	1.651	2.901
113	101	108	322	105	108	140	353	1.312	1.370	85	120	205
778	710	745	2.233	739	767	936	2.442	8.982	9.260	588	759	1.347
3.545	773	966	5.284	1.128	803	1.020	2.951	13.818	12.943	684	704	1.388
470	454	625	1.549	637	465	574	1.676	6.312	7.377	303	372	675
2.816	7	14	2.837	127	6	6	139	3.319	1.031	83	13	96
133	100	125	358	144	140	169	453	1.657	1.500	107	131	238
28	22	20	70	18	25	72	115	434	573	28	27	55
18	18	19	55	23	19	22	64	246	300	20	20	40
21	9	23	53	28	9	35	72	264	382	47	38	85
158	163	141	462	150	140	142	432	1.675	1.780	97	103	200
37	187	363	587	33	38	56	127	933	502	52	49	101
468	65	139	672	104	177	130	411	1.494	1.555	641	69	710
0	0	0	0	0	0	0	0	2	0	31	1	32
8.153	7.282	9.047	24.482	8.268	8.831	11.997	29.096	100.219	104.905	6.903	8.206	15.109
7.560	6.653	7.494	21.707	7.526	7.616	9.340	24.482	90.026	93.420	6.687	7.679	14.366
1.933	1.714	1.919	5.566	1.933	1.953	2.008	5.894	22.836	23.997	1.869	1.933	3.802
982	736	902	2.620	990	1.025	2.013	4.028	12.985	12.579	702	933	1.635
4.199	4.085	4.511	12.795	4.278	4.532	5.101	13.911	51.597	53.585	3.624	4.740	8.364
51	57	84	192	102	102	137	341	913	613	46	52	98
3.866	3.785	3.882	11.533	3.764	3.951	4.370	12.085	46.870	48.906	3.419	3.977	7.396
2.049	2.047	2.055	6.151	2.041	2.102	2.142	6.285	24.971	26.999	2.020	2.143	4.163
244	238	233	715	225	224	226	675	2.940	2.500	267	203	470
374	381	358	1.113	300	371	363	1.034	4.138	3.954	53	548	601
0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0
1.200	1.120	1.237	3.557	1.199	1.254	1.639	4.092	14.825	15.450	1.079	1.082	2.161
281	224	532	1.037	406	474	573	1.453	3.681	3.975	159	704	863
1	19	13	33	6	5	22	33	135	91	0	7	7
446	118	163	727	324	106	218	648	2.610	3.259	492	73	565
44	42	77	163	239	43	80	362	1.074	1.259	41	30	71
402	76	86	564	85	63	138	286	1.536	2.000	451	43	494
0	0	0	0	0	0	0	0	0	0	0	0	0
593	629	1.553	2.775	742	1.214	2.657	4.613	10.191	11.486	216	527	743
3.550	291	-395	3.446	496	-287	-2.664	-2.455	709	-1.708	462	-1.450	-988
-3.550	-291	395	-3.446	-496	287	2.664	2.455	-709	1.708	-462	1.450	988
-2.793	-46	875	-1.964	1.271	304	2.979	4.554	7.063	16.556	8.488	1.493	9.981
147	0	0	147	30	485	225	740	1.383	15.821	0	21	21
0	0	0	0	0	0	0	0	0	0	0	0	0
44	464	330	838	305	176	11.236	11.717	13.913	4.309	45	54	99
-3.217	-570	389	-3.398	814	-65	-8.337	-7.588	-9.797	-6.594	8.305	1.248	9.553
232	61	134	427	122	-293	-144	-315	1.538	3.000	138	171	309
1	0	23	24	0	1	0	1	29	20	0	0	0
758	245	480	1.483	1.767	17	315	2.099	7.772	14.848	8.950	43	8.993
758	245	480	1.483	1.767	17	315	2.099	7.772	14.848	8.950	43	8.993
711	245	349	1.305	203	17	184	404	3.295	10.119	8.950	43	8.993
47	0	131	178	1.564	0	131	1.695	4.478	4.729	0	0	0

BALANCE OF PAYMENT OF THE REPUBLIC OF MACEDONIA
(annual data)¹

(in million of US\$)

	1998	1999	2000	2001	2002	2003	2004	I-05	II-05	III-05	K1	K2	K3	K4	2005	I-06	II-06	I-II/06
CURRENT ACCOUNT	-269,29	-32,46	-75,28	-235,43	-357,81	-152,28	-414,82	-8,26	2,59	-15,29	-20,95	-110,97	78,35	-27,90	-74,53	8,09	34,33	42,42
Goods, net	-515,09	-495,81	-690,41	-523,23	-804,34	-851,48	-1112,08	-53,66	-58,22	-78,79	-190,66	-342,98	-230,08	-293,73	-954,39	-58,18	-32,87	-91,06
Export, f.o.b.	1.291,52	1.189,98	1.320,73	1.153,33	1.112,15	1.359,04	1.672,43	147,85	156,46	177,41	481,72	512,81	507,36	537,76	1.983,60	122,30	147,50	269,80
Import, f.o.b. ²	-1.806,61	-1.685,79	-2.011,14	-1.676,56	-1.916,49	-2.210,52	-2.784,51	-201,51	-214,68	-256,19	-672,38	-855,79	-737,44	-831,49	-2.937,99	-180,48	-180,37	-360,86
Services, net	-59,60	41,83	47,05	-15,79	-22,13	-2,56	-54,39	1,37	-0,97	-4,11	-3,72	-17,00	11,39	-24,54	-13,04	0,87	-2,63	-1,76
Income, net	-44,82	-42,15	-45,44	-39,46	-29,78	-32,33	-39,23	-2,03	3,35	-0,71	0,61	-20,55	-44,78	9,73	-64,12	-1,71	2,82	1,11
o/w : interest, net	-44,34	-41,41	-39,15	-33,59	-18,64	-31,88	-26,22	-5,00	-0,72	-4,32	-10,04	-4,62	-10,50	-0,80	-35,20	-6,20	-1,84	-8,04
Current transfers, net	350,21	463,66	613,53	343,06	498,45	734,09	790,88	46,06	58,44	68,32	172,82	269,56	341,83	280,64	957,03	67,11	67,02	134,13
Official	37,39	72,69	132,30	48,65	100,50	103,36	70,07	1,47	7,38	2,88	11,73	15,83	20,08	16,75	59,37	1,79	4,46	6,25
Private	312,82	390,97	481,23	294,41	397,95	630,73	720,81	44,59	51,06	65,44	161,09	253,73	321,75	263,89	897,65	65,32	62,56	127,88
CAPITAL AND FINANCIAL ACCOUNT	281,84	-128,46	11,28	178,23	376,87	169,97	407,01	11,75	-0,90	15,21	26,07	107,34	-72,88	34,13	86,59	-11,19	-36,72	-47,91
Capital account, net	-1,79	0,00	0,31	1,30	8,26	-6,69	-4,61	-0,04	0,09	-0,05	-0,01	-0,15	0,24	-2,10	0,08	-0,16	0,19	0,03
Capital transfers, net	0,00	0,00	0,31	3,64	9,92	-6,60	-4,61	-0,04	0,09	-0,05	-0,01	-0,15	0,24	-2,10	0,08	-0,16	0,19	0,03
Official	0,00	0,00	0,00	3,64	9,92	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Other	0,00	0,00	0,31	0,00	0,00	-6,60	-4,61	-0,04	0,09	-0,05	-0,01	-0,15	0,24	-2,10	0,08	-0,16	0,19	0,03
Acquisition/disposal of nonfinancial assets	-1,79	0,00	0,00	-2,34	-1,66	-0,09	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Financial account, net	283,63	-128,46	10,97	176,93	368,62	176,66	411,62	11,79	-0,98	15,26	26,07	107,49	-73,12	36,22	86,51	-11,03	-36,91	-47,94
Direct investment, net	117,72	31,80	176,23	442,32	77,72	94,26	155,85	15,73	9,27	11,14	36,15	33,17	17,33	10,43	122,79	7,77	3,47	11,24
Portfolio investment, net	7,79	0,14	-0,09	0,36	0,35	3,39	14,82	1,52	3,31	11,65	16,47	4,78	17,71	196,15	55,43	3,89	3,26	7,16
Other investment, net	226,66	-32,01	85,05	-183,27	159,98	129,97	260,42	-14,32	4,02	-2,83	-13,13	99,08	3,69	89,91	76,51	-213,30	-38,89	-252,19
Trade credits, net	45,39	7,13	146,54	-125,08	83,1	82,95	170,05	-26,96	-25,30	-7,75	-60,00	84,96	-38,62	38,25	-73,66	-26,03	-64,80	-90,82
Loans, net	219,87	54,83	13,51	-107,31	8,19	23,47	59,82	4,43	5,34	8,93	18,70	80,98	6,55	47,69	124,94	-182,39	27,23	-155,16
Currency and deposits, net	-40,62	-135,01	-122,53	27,09	44,69	2,85	-3,66	7,62	23,07	-7,01	23,69	-72,10	30,04	-6,40	5,32	-6,32	-2,96	-9,27
o/w monetary authorities, net	0,00	-21,20	-0,19	-77,08	68,79	17,77	26,44	0,00	0,00	0,00	0,00	-0,41	1,18	0,00	0,77	0,00	0,00	0,00
o/w commercial banks, net	-28,77	-51,28	-93,26	-272,39	112,17	-54,59	-105,08	2,06	24,80	-5,21	21,65	-60,98	49,22	16,68	31,54	-4,35	5,21	0,86
o/w individuals, net	-11,85	-62,52	-29,08	376,56	-136,27	39,68	74,97	5,56	-1,73	-1,80	2,04	-10,71	-20,35	-23,07	-26,99	-1,97	-8,16	-10,14
Other, net	2,03	41,04	47,53	22,03	24,00	20,69	34,22	0,58	0,90	3,00	4,48	5,24	5,72	10,37	19,92	1,44	1,63	3,07
Gross official reserves ("-" = increase) ³	-68,54	-128,39	-250,22	-82,48	130,57	-50,96	-19,47	8,872842	-17,585691	-4,705335	-13,42	-29,54	-111,84	-260,27	-168,22	190,60	-4,75	185,85
ERRORS AND OMISSIONS	-12,55	160,92	64,00	57,19	-19,07	-17,70	7,81	-3,50	-1,70	0,09	-5,11	3,62	-5,47	-6,22	-12,07	3,11	2,39	5,49

1. Revised preliminary data

2. Imports data are on f.o.b. basis in accordance with IMF V Balance of Payments Manual. Calculation of c.i.f. - f.o.b. factor as percent of import c.i.f. is: 1993-20%, 1994-20%, 1995-20%, 1996-14%, 1997-10%, 1998-5.02%, 1999-4.86%, 2000-3.9%, 2001-4.2%, 2002-3.8%, 2003-3.8% and 2004-3.8%

3. Excluding monetary gold and exchange rate differences;

Pension and Disability Insurance Fund

Revenues earned by the PDF in the first two months of 2006 are by Denar 7,1% higher than those in 2004 and amount to Denar 4.858 million. Most of the revenues, i.e. 57,7%, were revenues on the basis of salary contributions, where an increase of 7,3% was realized. Budget revenues account for 33,1% in the total revenues and are by 12,6% higher, while the revenues of the Employment Agency for insurance of unemployed beneficiaries of pecuniary allowance continues to decline and has declined by 15,5% and their share in the total revenues accounts for 4,7%.

Expenditures in the PDF in the observed period amount to Denar 4.786 million and are by 4,3% higher than the same period last year. Most of the total expenditures, i.e. 85,5%, were for payment of pensions to the beneficiaries. Thereby, 95,4% of the pensions were paid for regular pensions, and they increased by 3,4%. Expenditures for the contribution for health protection participated with 11,4% in the total expenditures of the Pension and Disability Insurance Fund.

PDF **surplus** in the first two months of 2006 were Denar 72 million.

PENSION AND DISABILITY INSURANCE FUND

(In million of denars)

Types of revenues / expenditures	1999	2000	2001	2002	2003	2004	2005	2006
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Jan-Feb.
REVENUES	21.229	22.883	24.289	25.811	28.191	28.983	28.878	4.858
Contribution from salaries	14.316	15.722	15.671	15.784	16.882	17.204	17.484	2.802
Contribution from income	311	311	331	283	307	383	388	56
Revenues from the Government Budget	3.266	4.174	5.744	6.961	7.741	8.486	8.291	1.608
Revenues from the private sectors	439	404	377	409	394	412	390	39
Revenues from individual farmers	65	58	41	61	71	41	39	5
Revenues from excises	632	804	716	688	677	661	659	103
Contributions from the Employment Agency	868	1.101	1.126	1.404	1.536	1.719	1.550	229
Other revenues	45	74	73	29	65	57	59	11
Revenues from dividends	245	68	209	192	42	21	18	5
Revenues from new employment	841	167	0	0	0	0	0	0
Transferred income from the previous year	201	0	0	0	476	0	0	0
EXPENDITURES	20.669	22.940	24.697	25.889	27.740	29.132	29.015	4.786
Pensions	17.756	19.774	21.278	22.255	24.008	25.121	24.969	4.090
Regular pensions	16.977	18.948	19.041	19.982	21.667	22.824	23.335	3.902
War veteran pensions	458	505	514	518	499	509	479	76
Agricultural pensions	321	321	297	262	234	217	178	26
Retroactive payment of 8%	0	0	1.167	1.136	1.131	1.027	455	0
Early retirement by the Law from year 2000	0	0	112	103	121	88	90	12
Early retirement by the Law from year 2001	0	0	148	254	262	247	240	29
Early retirement by the Law from year 2004							91	17
Compensation for body injury								73
Compensation for disability insurance	69	72	72	83	80	82	82	14
Employment and accommodations for disabled children	95	94	91	76	98	97	110	21
Health care contribution	13	12	7	9	6	6	6	1
Compensation for administration	2.450	2.672	2.805	2.934	3.184	3.349	3.416	547
Other expenditures	132	141	153	165	172	170	172	18
Capital expenditures	154	175	254	222	192	257	190	20
BALANCE	-	-	37	145	0	50	70	2
Deficit / Surplus	560	-57	-408	-78	451	-149	-137	72

Health Insurance Fund

In the period January-February 2006, the HIF **revenues** amounted to Denar 2.347 million, which is by 10,3% more compared to the same period last year. Regarding the revenue structure, highest share (57,4%) went to the health insurance contributions, realizing an increase by 3,1%. Contributions of the PDF account for 23,3% in total revenues and grew by 45,7%, while contributions paid by the Employment Agency for the unemployed persons account for 45,7% and are at almost the same level as last year.

PDF **expenditures** for health insurance in the first two months of 2006 were Denar 2.190 million, i.e. 1,6% more than last year. Highest share in the expenditures went to the outpatient expenditures (88,5%).

In the observed period, the HIF had **surplus** of Denar 157 million.

HEALTH INSURANCE FUND								
(In million of denars)								
Types of revenues / expenditures	1999	2000	2001	2002	2003	2004	2005	2006
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Jan-Feb.
REVENUES	12.068	12.790	12.295	13.656	14.698	14.886	15.083	2.347
Contributions	7.363	7.745	7.528	7.823	8.418	8.762	8.982	1.347
Contributions from the Pension Fund	2.417	2.649	2.616	3.075	3.184	3.349	3.417	548
Contributions from the Employment Agency	1.350	1.941	1.554	1.763	1.849	1.998	2.062	345
Contributions from the Ministry of Labour	0	0	48	54	64	41	64	11
Other revenues	938	455	70	734	1.064	676	79	96
Revenues on the basis of contracts for health insurance cards	0	0	0	0	0	0	0	0
Transfers from the Central Budget for mandatory health insurance	-	-	166	111	29	60	479	0
Transferred income from the previous year	0	0	313	96	91	1	0	
EXPENDITURES	11.692	12.463	12.205	13.611	14.678	14.722	15.206	2.190
Outpatient expenditures	2.491	2.486	2.505	4.430	5.132	5.959	7.129	1.939
Hospital treatment	5.482	5.737	5.919	4.929	5.038	5.098	6.311	0
Costs for programs	125	105	306	123	21	0	0	0
Medicines	1.249	1.681	1.555	1.305	1.868	2.006	0	0
Dental care	667	687	522	521	630	0	0	0
Orthopedic expenses	154	143	111	134	150	280	171	31
Medical treatment abroad	161	70	90	144	221	117	151	34
Other treatment (contributions)	801	694	769	832	968	941	1.062	157
Administration	288	250	268	360	309	254	276	27
Equipment and maintenance	39	90	44	656	219	23	106	2
Other expenditures	234	200	48	23	32	27	0	0
Loans and interest payments	0	321	71	154	90	17	0	0
BALANCE								
Deficit/Surplus	376	326	90	45	21	164	-123	157

Source: Internal data of the Ministry of Finance

Employment Agency

In the first two months of 2006, the Employment Agency had **revenues** of Denar 994 million, meaning 15,5% decline in relation to last year. Revenues from contributions are only by 1,5% higher, and budget transfers, despite their largest share in the revenue structure (79,2%), declined by 19,3%. Regarding the budget grants structure, 84,7% was on the basis of covering the deficit of the Agency.

Expenditures of the Employment Agency were Denar 1.100 million, i.e. 7,3% less compared to the first two months last year. Expenditures related to the function amounted to

Denar 1.061 million, or 96,5% of the total expenditures, and they declined by 7,7%. Out of these, 34,2% was used for payment of unemployment benefit for the unemployed persons, and only 5,1% were used for active measures (for employment encouragement and employment projects). Expenditures for professional service accounted for 3,5% in the total expenditures, and are by 5,4% higher than last year.

In the first two months of 2006 the Employment Agency had **deficit** of Denar 106 million.

EMPLOYMENT AGENCY								
(In million of denars)								
Types of revenues / expenditures	1999	2000	2001	2002	2003	2004	2005	2006
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Jan-Feb.
	4.129	5.119	4.827	5.918	6.241	7.456	6.940	994
REVENUES	1.058	1.121	1.136	1.180	1.224	1.270	1.313	205
Revenues from contributions	1.037	1.098	1.113	1.178	1.223	1.155	1.192	132
Contributions from wages	21	22	23	2	0	24	23	3
Contributions from self-employed								
Contributions from the people who work abroad	0	0	0	0	1	4	5	0
Contributions from previous year	0	0	0	0	0	88	93	70
Revenues from the Government budget	3.066	3.990	3.677	4.726	5.002	6.163	5.616	787
For covering the deficit of the								
Employment Agency	2.575	3.470	3.170	3.742	3.958	4.522	4.612	667
For paying allowances to the employees of the								
loss-making enterprises	490	516	481	944	980	988	418	55
Public administration reform	-	-	26	19	3	61	22	2
Others	0	3	26	21	61	592	564	63
Other revenues	6	8	13	12	16	23	11	2
	4.135	5.110	4.749	5.868	6.214	7.325	6.938	1.100
EXPENDITURES	3.970	4.913	4.571	5.658	6.005	7.102	6.710	1.061
Expenditures for the functions								
Unemployment benefits	1.755	1.875	1.879	2.273	2.377	2.697	2.425	363
Contributions for health insurance	1.347	1.936	1.555	1.763	1.849	1.998	2.063	346
Contributions for pension and disability insurance	868	1.102	1.138	1.453	1.557	1.729	1.552	238
Transfers for employment of disabled persons	-	-	-	128	121	58	114	47
Payments according to the new Law	-	-	-	-	61	592	526	
Compensation for training	-	-	-	41	40	29	30	7
Expenditures for the personnel								60
Wages and salaries	165	198	178	210	209	223	228	39
Allowances	105	118	116	124	134	132	133	22
Goods and other services	17	19	18	22	20	20	22	2
Current transfers	34	54	43	42	51	68	69	15
Interest payments	0	0	0	0	0	0	0	0
Capital expenditures	0	1	0	0	0	0	0	0
	8	6	2	22	4	3	4	0
BALANCE								
Deficit / Surplus	-6	9	78	50	27	132	2	-106

Source: Internal data of the Ministry of Finance

Regional and National Road Fund

The Road Fund, in the past two months of 2006 collected **revenues** in the amount of Denar 213 million, meaning 33% decline compared to the same period last year. Highest share in the total revenues went to the revenues from annual fee for registration of motor vehicles (46,9%), which declined by 10%, while the amount of funds from road fee grew by 3,6% and is 40,4% of the total revenues.

Expenditures of the Road Fund in the observed period were Denar 237 million. Around 65% of the costs are for road maintenance and around 15% for investments. Expenditures related to studies, drafting plans, surveillance, commissions and material costs participated with 9,3% in the total expenditures.

In the first two months of 2006, the Road Fund had **deficit** of Denar 24 million.

REGIONAL AND NATIONAL ROAD FUND

(In million of denars)

Types of revenues / expenditures	1999	2000	2001	2002	2003	2004	2005	2006
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Jan-Feb.
REVENUES	3.793	3.506	4.012	3.434	3.668	3.299	3.031	213
Revenues from Budget	924	1.590	1.655	1.305	1.603	1.610	1.320	0
Paytoll by foreign motor vehicles								
Annual fee for motor vehicles subject to registration	54	82	73	87	82	77	90	13
Paytoll for use of motorway								
Foreign credit	518	746	704	761	797	853	842	100
Other revenues	492	537	375	381	728	741	743	86
Grants	1.793	538	1.098	862	418	9	0	0
	13	14	21	2	39	9	36	14
EXPENDITURES	-	-	87	36	1	0	0	0
Investments	3.793	3.506	4.013	3.420	3.661	3.889	3.389	237
Expenditures for studies, projections, supervision, fees and material costs	1.985	1.662	1.756	1.250	1.107	1.753	1.405	61
Road maintenance	0	179	286	289	205	156	164	22
Repayment of loans	790	952	926	900	1.063	1.081	1.013	154
Funds for local roads	148	212	299	304	424	242	254	0
Other expenditures	386	502	596	528	666	611	508	0
Liabilities from the previous year	142	0	0	0	46	45	45	0
Liabilities towards the Bank Rehabilitation Agency	342	0	0	0	0	0	0	0
	0	0	150	149	150	0	0	0
BALANCE								
Deficit / Surplus	0	0	-1	14	7	-590	-358	-24

Source: Internal data of the Ministry of Finance

MACEDONIAN SECURITIES STOCK EXCHANGE

Stock Exchange Indicators - january/february 2006

2005 marked 10 years of the functioning of the Macedonian Stock Exchange. Precise this jubilee year was the most successful and noted true market boom as a result of the following: greater transparency of the financial operations of the companies listed on the SE, greater number of foreign portfolio investors, continuous announcements of strategic takeovers of part of the listed companies, reform in the pension system, i.e. establishment of the two companies for management with the pension funds and the positioning of the domestic and foreign investors while expecting the private pension funds to start operating, large number of listed banks on the stock exchange against a background of significant dynamics of the banking sector, attractive tax background for market functioning, the process of integration of the Republic of Macedonia into the EU and the candidate status.

The market boom on the Macedonian SE in 2005 resulted in growth of trading in shares from Denar 2,7 billion at end-2004 to Denar 6,7 billion or (EUR 109,5 million) at end-2005, which meant growth in the trading of shares on the SE in relation to 2004 by 143,52%.

The market capitalization of the shares on the Macedonian Securities Stock Exchange as of December 31, 2005 amounted to Denar 50,4 billion or EUR 824 million which is 18,2% of GDP.

Trading in bonds issued by the Republic of Macedonia in 2005 grew in relation to 2004 from 42,30% to Denar 2 billion or EUR 34 million. Market capitalization of the bonds on the Macedonian Securities Stock Exchange as of December 31, 2005 amounted to Denar 23,9 billion or EUR 392 million which is 8,6% of GDP.

As of December 31, 2005, total trading on the SE was Denar 8,88 billion or EUR 145 million and it grew by 6,90% in relation to end-2004.

MACEDONIAN STOCK EXCHANGE - January/February 2006

	January 2006	February 2006	% Change
TURNOVER (denars)			
TRADING IN BEST	707.760.345	469.372.955	33,68%
Shares	548.546.435	307.859.918	43,88%
Bonds	159.213.910	161.513.037	-1,44%
DAILY AVERAGE TURNOVER (denars)	35.388.017	23.468.648	33,68%
DAILY AVERAGE NUMBER OF TRANSACTIONS	120	138	-15,00%
BLOCK TRANSACTIONS	22.061.390	87.101.811	-294,82%
GOVERNMENT AUCTIONS	-	21.078.973	-
Shares	-	21.078.973	-
Stakes	-	-	-
TOTAL	729.821.735	577.553.739	20,86%
VOLUME (in securities)			
SHARES	2.933.606	305.672	89,58%
TRADING IN BEST	2.928.725	268.955	90,82%
BLOCK TRANSACTIONS	4.881	32.403	-563,86%
GOVERNMENT AUCTIONS	-	4.314	-
BONDS (NV in EURO'S)	3.245.274	3.245.723	-0,01%
NUMBER OF TRANSACTIONS			
TRADING IN BEST	2.410	2.766	-14,77%
BLOCK TRANSACTIONS	4	8	-100,00%
GOVERNMENT AUCTIONS	-	5	-
TOTAL	2.414	2.779	-15,12%
MARKET CAPITALIZATION (denars)			
MARKET CAPITALIZATION OF SHARES	51.908.855.216	53.688.773.682	-3,43%
LISTED SHARES	34.988.193.927	34.960.251.977	0,08%
PUBLICLY HELD COMPANIES	16.920.661.289	18.728.521.705	-10,68%
MARKET CAPITALIZATION OF BONDS	24.369.802.617	24.515.988.514	-0,60%
TOTAL MARKET CAPITALIZATION	76.278.657.833	78.204.762.196	-2,53%
MBI-10	2.499,23	2.512,09	-0,51%
NUMBER OF LISTED SECURITIES	50	50	-
NUMBER OF TRADING DAY	20	20	-

(Share trading growth as of December 31, 2005, which is 143% in relation to 2004 does not reflect the equivalent level of growth of the total trading on the SE. Thus, the growth of the total trading on the SE as of December 31, 2005 was only 6,9% in relation to 2004 as a result of the significant decline of the vol-

ume of trading on the SE in 2005 in relation to 2004 in block transactions and trading in shares in state holding).

Total market capitalization of the securities on the Macedonian Securities Stock Exchange as of December 31, 2005 amounted to Denar 74,3 billion or EUR 1,2 million which is 26,8% of GDP. The total market capitalization on the Macedonian Securities Stock Exchange at end-2005 grew by 36,71% in relation to the total market capitalization at end-2004.

Stock market indicators - February 2006

In February 2006 the trading, i.e. the traditional trading on the Macedonian Securities Stock Exchange was Denar 469,3 million and in relation to January means decline by 33,68%. Trading via block transactions on the Stock Exchange this month amounted to Denar 87,1 million, and compared to the previous month, it grew by 294,82%. In February 2006 trading in shares from the government segment amounted to Denar 21 million. The total traditional trading, block transactions and trading in government securities on the Macedonian Securities Stock Exchange in February 2006 was Denar 577,5 million and in relation to the previous month means 20,86% decline.

In February 2006 the average daily trading was Denar 23,4 million, which in relation to the previous month means decline by 33,68%. Average daily number of transactions in the observed period is 138 and in relation to January is by 15% higher.

In the total traditional trading volume of the SE, which in February was Denar 577,5 million, the share trading accounts for Denar 469,3 million which in relation to the previous month is a decline by 33,68%. During the analyzed period, trading with government bonds amounted to Denar 161,5 million, and compared to the previous month, there was an increase by 1,44%.

If one analyzes the total trading in government bonds of the Republic of Macedonia in February 2006, it can be concluded that trading in government bonds for the old foreign exchange saving amounted to Denar 21,6 million, whereby the average price of these bonds amounted to 86,18% of their nominal value, and is by 1,18 percentage points higher compared to the previous month. In the observed period,

the trading in denationalization bonds from the first issue was Denar 1,04 million, and their average price was 84,80% of their nominal value and is by 1,5 percentage points higher compared to the previous month.

Denationalization bonds from the second issue were sold at average price of 83,05% of their nominal value which in relation to January this year was by 0,05 percentage points higher, and their total trading in February was Denar 11,9 million. In February 2006, total trading in denationalization bonds from the third issue was Denar 24,6 million and their average price is 82% of their nominal value and in relation to the previous month is a decline by 0,40 percentage points.

Total trading in denationalization bonds from the fourth issue in February 2006 was Denar 102,2 million and their average price was 80,22% of their nominal value and in relation to the previous month, it grew by 0,19 percentage points.

Official stock exchange index (MSEI - 10), as an indicator of the movement of prices of shares, in February 2006 was Denar 2.512,09 and compared to the previous month, it grew by 0,51%.

Total trading on the official market on the Macedonian Securities Stock Exchange in February 2006 was Denar 412,8 million, meaning 71,49% of the total trading. Total trading on the unofficial market in the analyzed period was Denar 56,5 million, accounting for 9,78% of the total trading. The trading via block transactions on the MSE in February 2006 was Denar 87,1 million, being 15,08% of the total SE trading volume. The trading in government securities in the observed period was Denar 21 million, being 3,65% of the total SE trading volume.

In February 2006, total trading in the 10 most liquid shareholding companies on the official market on the Macedonian Securities Stock Exchange was Denar 320,5 million, whereby the trading with shares of the following companies was the most significant: Komercijalna banka Skopje - 51,51% of the trading volume, Investbanka Skopje - 10,66% of the trading volume and Alkaloid Skopje - 7,42% of the trading volume.

The shares of the following companies noted the biggest growth in February 2006 in relation to the previous month: Makoteks - Skopje, the average growth of which was 318,06% and the average price per share was Denar 209,03, Karpos - Skopje the average

share price growth of which was 70%, and the average price per share was Denar 4.013,79. The share price of RZ Makstil - Skopje in the observed period grew by 20,76%, and in February 2006 was Denar 24,84.

The shares of the following company noted the biggest decline in the average price in February 2006 in relation to the previous month: Agropod - Resen, the average share price of which was by 18,11% lower and was Denar 12.283, Replek - Skopje, the average share price of which was by 17,03% lower and was Denar 20.674 and Ohridska Banka Ohrid, the average share price of which was by 3,98% in relation to the previous month and was Denar 6.535,49.

In February 2006, market capitalization of the shares on the Macedonian Securities Stock Exchange amounted to Denar 53,68 billion and in relation to the previous month, it grew by 3,43%.

The market capitalization of the bonds on the Macedonian Securities Stock Exchange in the observed period amounted to Denar 24,51 billion which in relation to the previous month, grew by 0,60%. The total market capitalization on the Macedonian Securities Stock Exchange in February 2006 amounted to Denar 78,2 billion which in relation to January grew by 2,53%.

In February 2006 the analysis of the dividend of the 10 shareholding companies having the largest share in the trading volume on the official market SE shows that the shares of Stopanska banka Bitola have highest dividend per share of 5,57%, followed by the shares of Toplifikacija AD Skopje with 4,98%, followed by the shares of Ohridska banka Ohrid with 4,72%.

The analysis of the ownership structure of the capital of the shareholding companies shows that foreign investors are most present in the total capital of the following companies, being among the 10 most liquid companies on the Macedonian Securities Stock Exchange in February 2006: Komercijalna banka AD Skopje - 25,43% foreign capital and Toplifikacija Skopje - 23,71% foreign capital and Ohridska banka Ohrid - 12,73% foreign capital.

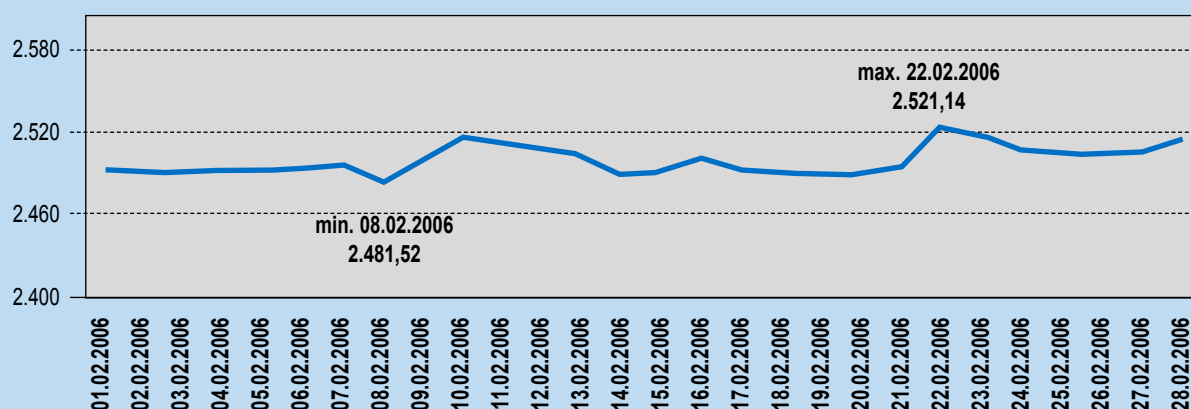
In February 2006, regarding the trading on the official market of the Macedonian Stock Exchange, foreign investors participated with 14,34%, and in relation to the previous month, their share grew by 0,16%.

The share of foreign investors in the total trading on the Stock Exchange in February 2006 was 31,86%, and in relation to the previous month their share declined by 15,27 percentage points.

Macedonian Stock Exchange

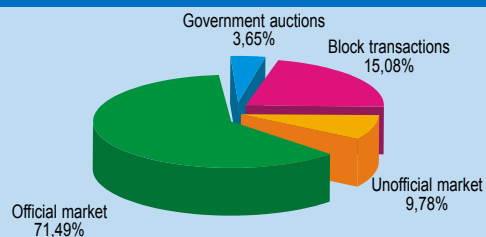
MACEDONIAN STOCK EXCHANGE

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BLOCK TRANSACTIONS	22.061.390	87.101.811	-294,82%
GOVERNMENT AUCTIONS	-	21.078.973	-
Shares	-	21.078.973	-
Stakes	-	-	-
TOTAL	729.821.735	577.553.739	20,86%
VOLUME (in securities)			
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BLOCK TRANSACTIONS	4.881	32.403	-563,86%
GOVERNMENT AUCTIONS	-	4.314	-
BONDS (NV in EURO'S)	3.245.274	3.245.723	-0,01%
NUMBER OF TRANSACTIONS			
TRADING IN BEST	2.410	2.766	-14,77%
BLOCK TRANSACTIONS	4	8	-100,00%
GOVERNMENT AUCTIONS	-	5	-
TOTAL	2.414	2.779	-15,12%
MARKET CAPITALIZATION (denars)			
MARKET CAPITALIZATION OF SHARES	51.908.855.216	53.688.773.682	-3,43%
LISTED SHARES	34.988.193.927	34.960.251.977	0,08%
PUBLICLY HELD COMPANIES	16.920.661.289	18.728.521.705	-10,68%
MARKET CAPITALIZATION OF BONDS	24.369.802.617	24.515.988.514	-0,60%
TOTAL MARKET CAPITALIZATION	76.278.657.833	78.204.762.196	-2,53%
MBI-10	2.499,23	2.512,09	-0,51%
NUMBER OF LISTED SECURITIES	50	50	-
NUMBER OF TRADING DAYS	20	20	-



Turnover structure

Market segment	Turnover (denars)	Turnover (EUR)	%	No. of trans.
Official market	412.881.415	6.745.330		2.190
Unofficial market	56.491.540	922.628		576
Block transactions	87.101.811	1.423.363		8
Government auctions	21.078.973	344.609		5
TOTAL	577.553.739	9.435.930		2.779



10 MOST LIQUID SHARES (Official market)

Name of the issuer	Max. (denars)	Min (denars)	Average price (denars)	Volume	Turnover in denars	Turnover in EUR	% of trade	Number of transactions	Market capitaliz. (denars)
Komercijalna banka Skopje	4.000	3.700	3.868	42.978	165.127.016	2.698.151	51,51	307	7.843.196.953
Investbanka Skopje	3.415	2.851	3.152	11.538	34.161.830	558.142	10,66	23	766.539.830
Alkaloid Skopje	4.198	4.050	4.101	7.163	29.362.938	479.771	9,16	201	5.845.645.652
Makpetrol Skopje	20.800	19.001	20.238	798	16.213.994	264.873	5,06	112	2.221.729.700
Stopanska banka Bitola	9.150	8.500	8.916	1.697	15.190.777	248.110	4,74	71	3.037.920.224
Granit Skopje	280	260	268	43.762	11.603.292	189.610	3,62	147	821.040.499
Toplifikacija Skopje	3.550	3.451	3.502	2.003	7.018.521	114.647	2,19	51	1.574.944.020
Agroplod Resen	12.283	12.283	12.283	476	5.846.708	95.238	1,82	1	258.250.075
Fersped Skopje	62.000	59.000	60.420	93	5.611.649	91.696	1,75	27	1.090.402.600
Ohridska banka Ohrid	7.227	5.910	6.535	673	4.254.387	69.407	1,33	16	1.825.485.900
Other				91.050	26.154.486	427.095	8,16	606	9.675.096.522
TOTAL				202.231	320.545.598	5.236.745	100,00	1.562	34.960.251.977

TOP 3 GAINERS*

Issuer	January 2006 Average price (denars)	February 2006 Average price (denars)	% change
Makoteks Skopje	50	209,03	318,06%
Karpos Skopje	2.361,00	4.013,79	70,00%
RZ Makstil Skopje	20,57	24,84	20,76%

TOP 3 LOSERS*

Issuer	January 2006 Average price (denars)	February 2006 Average price (denars)	% change
Agroplod Resen	15.000,00	12.283,00	-18,11%
Replek Skopje	24.917,42	20.674,00	-17,03%
Ohridska banka Ohrid	6.806,13	6.535,49	-3,98%

Overview of the Trading with Bonds

	MAX (%)	MIN (%)	Last daily average price (%)	Last trading day	Volume (NV in EUR)	Turnover (denars)	Turnover (EUR)	Yield to maturity*
Government bonds F/X deposits (RM 01)	86,5	85	86,18	28.02.2006	412.417	21.645.400	353.665	6,64%
Government bonds Denationalization I issue (RMDEN01)	85	84,2	84,80	20.02.2006	20.208	1.047.494	17.110	6,07%
Government bonds Denationalization II issue (RMDEN02)	84	82	83,05	27.02.2006	234.830	11.923.648	194.833	6,16%
Government bonds Denationalization III issue (RMDEN03)	83	79	82,00	27.02.2006	496.429	24.680.913	403.208	6,06%
Government bonds Denationalization IV issue (RMDEN04)	82	78	80,22	28.02.2006	2.081.839	102.215.583	1.670.206	6,17%

*The model for calculation of yield to maturity is adapted to the characteristics of the bonds. Calculation date is 28.02.2006, using the last average price of the bonds.

MBI-10 LISTED COMPANIES RATIOS

Issuer	P/E	Dividend	Foreign investors	Foreign investors	
	ratio ¹⁾	yield ²⁾	participation in	participation in	% Change
			January 2005 ³⁾	February 2006 ³⁾	
Alkaloid Skopje	16,52	1,73%	7,34%	7,55%	0,21%
Granit Skopje	3,54	3,74%	5,66%	5,98%	0,32%
Evropa Skopje	73,64	0,00%	11,00%	11,14%	0,14%
Komercijalna banka Skopje	18,95	2,46%	24,46%	25,43%	0,97%
Makedonijaturist Skopje	9,69	3,28%	2,88%	2,75%	-0,13%
Makpetrol Skopje	15,01	0,00%	2,49%	2,80%	0,31%
Ohridska banka Ohrid	13,66	4,72%	12,51%	12,73%	0,22%
Stopanska banka Bitola	11,08	5,57%	9,43%	9,56%	0,13%
Toplifikacija Skopje	18,91	4,98%	23,87%	23,71%	-0,16%
Fersped Skopje	7,82	1,32%	1,87%	2,20%	0,33%

FOREIGN INVESTORS ON THE OFFICIAL MARKET ³⁾

	Foreign legal entities Feb. 2005	Foreign private entities Feb. 2005	Total foreign investors Feb. 2005	Total foreign investors Jan. 2005	% Change
Shares	15,08%	0,95%	16,03%	15,89%	0,14%
Bonds ⁴⁾	6,31%	5,18%	11,48%	11,28%	0,20%
Total official market	11,82%	2,52%	14,34%	14,18%	0,16%

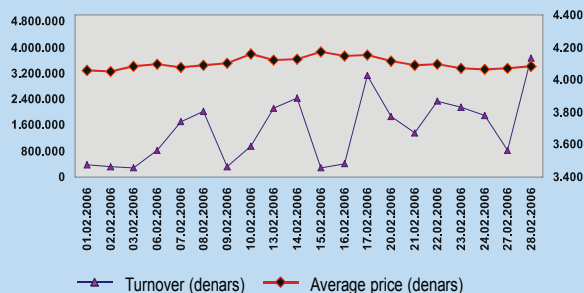
FOREIGN INVESTORS IN THE TOTAL TURNOVER

	Buying	% of total	Selling	% of total	TOTAL
February 2006	184.008.621	31,86%	25.643.386	4,44%	209.652.007

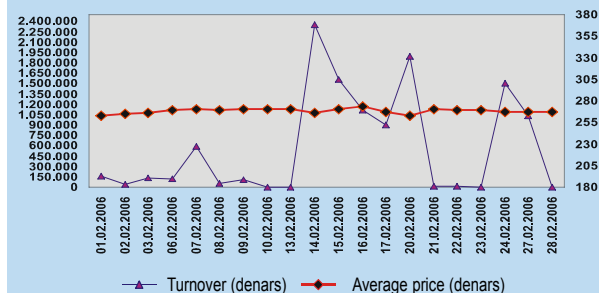
TURNOVER PER MEMBERS

Issuer	code	Trading in Best System	Trading in Best System (%)	State	State %	Block	Block %	Total
Komercijalna banka AD	KB	325.771.254	34,70	102.758.000	58,99	0	0,00	428.529.254
Tutunskabroker AD	TN	156.897.956	16,71	10.005.982	5,74	328.000	1,56	167.231.938
INVESTBROKER	MI	39.176.628	4,17	45.689.640	26,23	10.313.973	48,93	95.180.241
Stopanska banka AD	SB	63.352.828	6,75	0	0,00	7.602.000	36,06	70.954.828
Teteks-kreditna banka	TK	63.427.736	6,76	0	0,00	2.835.000	13,45	66.262.736
Fersped Broker AD	FR	57.913.173	6,17	0	0,00	0	0,00	57.913.173
Ilirika Investments	IL	56.777.612	6,05	0	0,00	0	0,00	56.777.612
Bitola Broker AD	BB	50.162.732	5,34	0	0,00	0	0,00	50.162.732
Bro-dil AD	BD	28.816.998	3,07	15.750.000	9,04	0	0,00	44.566.998
UNI Banka AD	BL	21.261.239	2,26	0	0,00	0	0,00	21.261.239
MAK Broker AD	MK	19.340.354	2,06	0	0,00	0	0,00	19.340.354
Sileks banka AD	SL	14.670.993	1,56	0	0,00	0	0,00	14.670.993
Alta Vista Broker AD	AV	12.664.114	1,35	0	0,00	0	0,00	12.664.114
Euro broker AD	EU	10.150.324	1,08	0	0,00	0	0,00	10.150.324
Ohridska Banka AD	OH	9.483.830	1,01	0	0,00	0	0,00	9.483.830
Postel Broker AD	PT	8.878.139	0,95	0	0,00	0	0,00	8.878.139
Total		938.745.911	100,00	174.203.622	100,00	21.078.973	100,00	1.134.028.506

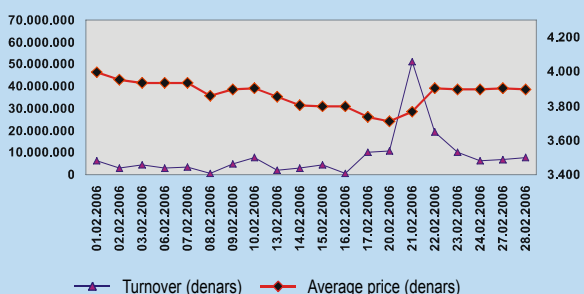
ALKALOID AD SKOPJE



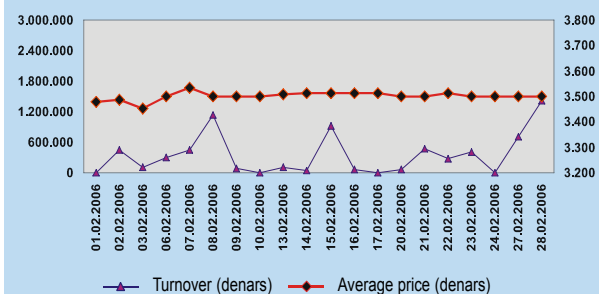
GRANIT AD SKOPJE



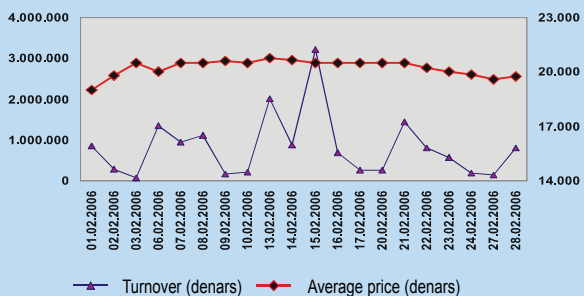
KOMERCIJALNA BANKA AD SKOPJE



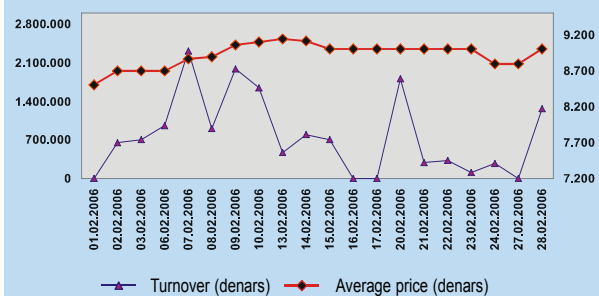
TOPLIFIKACIJA AD SKOPJE



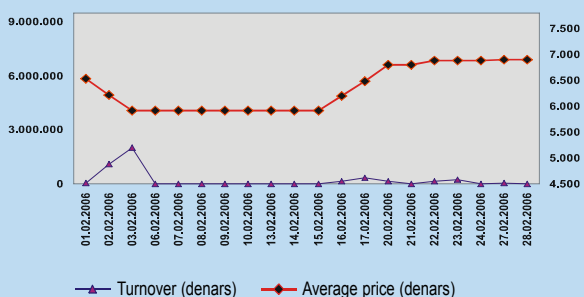
MAKPETROL AD SKOPJE



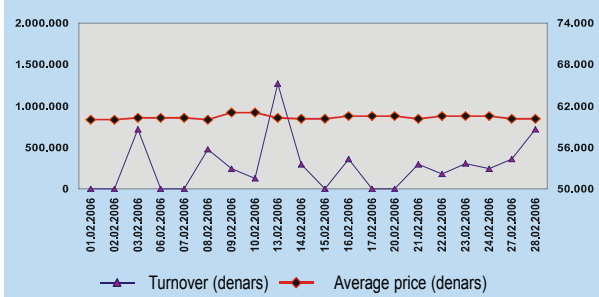
STOPANSKA BANKA AD BITOLA



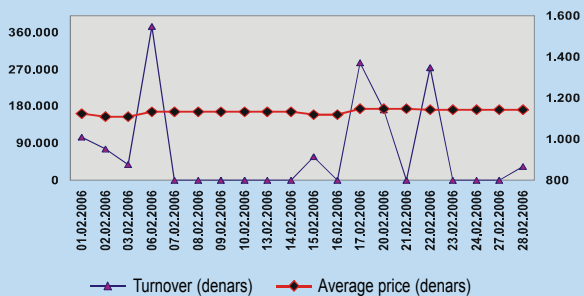
OHRIDSKA BANKA AD OHRID



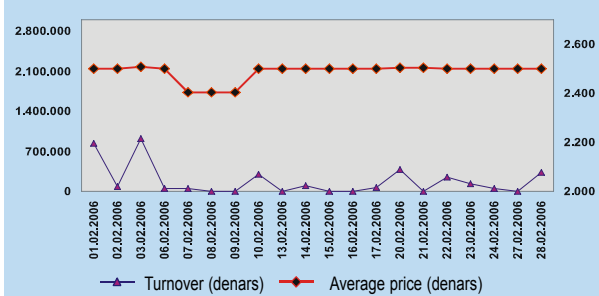
FERSPED AD SKOPJE



EVROPA AD SKOPJE



MAKEDONIJA TURIST AD SKOPJE

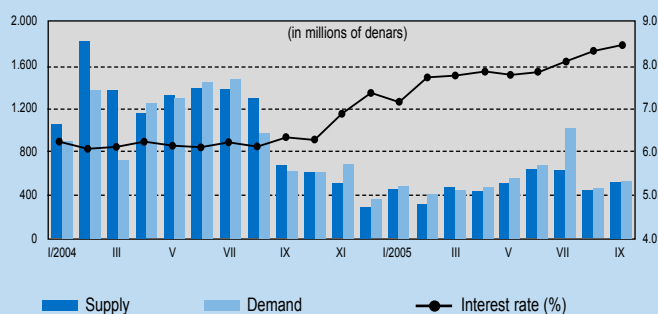


MONEY AND SHORT-TERM SECURITIES MARKET

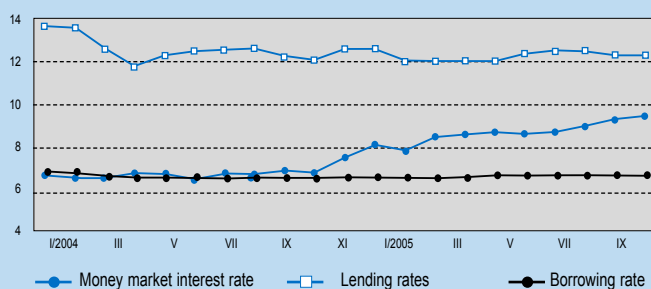
In January 2006, no transactions on the official Money Market were registered. Within immediate bilateral trading of banks, total turnover in the amount of denar 93 million was registered, which is a drop of 22.5% in comparison with the previous month. In January, the average interest rate on the interbank Money Market equals 7.1% (8.7% in the previous month).

In February 2006, the activity on the money market accelerated. Thus after the two-month termination of the trade, February registered transactions on the official money market in the amount of Denar 68 million. Simultaneously, the turnover within the direct bilateral trade of the banks amounted to Denar 763 million, which is an increase of 8.2 times relative to the preceding month. The average interest rate on the interbank money market (on both segments) equaled 6.7% in February (7.1% in the preceding month).

Money and short-term securities market



Lending and borrowing interest rate of the commercial banks and interest rate on the money market



MONEY AND SHORT-TERM SECURITIES MARKET (by months)

2002	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Total turnover (In million of denars)	2,491	3,390	4,888	4,473	4,145	5,631	3,938	2,460	3,008	2,970	3,843	5,213
Interest rate (% , annual)	12.03	11.62	10.85	11.41	11.62	12.11	12.33	10.84	10.83	11.35	13.36	14.36
2003	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Total turnover (In million of denars)	3,224	2,330	1,493	1,350	979	1,371	1,204	476	837	659	560	894
Interest rate (% , annual)	15.20	14.44	12.19	10.59	9.36	9.16	9.34	8.52	7.41	7.87	7.25	5.82
2004	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Total turnover (In million of denars)	823	1,337	674	1,012	1,128	1,131	1,136	912	490	547	433	218
Interest rate (% , annual)	6.67	6.48	6.51	6.66	6.55	6.51	6.67	6.55	6.80	6.73	7.45	8.03
2005	I	II	III	IV	V	VI	VII	VIII	IX			
Total turnover (In million of denars)	413	258	257	337	453	623	541	410	471			
Interest rate (% , annual)	7.77	8.44	8.51	8.61	8.50	8.61	8.88	9.20	9.35			

DEPOSITS OF CITIZENS AND ENTERPRISES AT THE BANKS

Total deposits with the banks in January 2006 grew by 2,7% on monthly basis. The growth of total deposits is mostly due to the monthly growth of short-term deposits (by 2,8%), and their denar and foreign currency component grew by 5,1% and 1,7%, respectively. Long-term deposits grew moderately on monthly basis by 0,7%, while their currency structure showed divergent trends

Sector analysis shows growth of the deposits of the population by 2,4% on monthly basis. Thereby, their positive monthly change was noted in all categories of deposits of the population (from the aspect of maturity and currency structure), with the exception of denar sight deposits. Enterprise deposits grew by 3,6%, mainly due to the growth in the time denar deposits from 1 up to 3 months. On annual level (January 2006 / January 2005) total deposits of the private sector are by 18,1% higher.

Total deposit potential of banks at end-February 2006 reached Denar 69.205 million, which is monthly growth by 1,4%. The growth of total deposits is mostly due to the monthly growth of short-term denar deposits (by 4,6%). On the other hand, total time deposits declined by 4% on monthly basis as a result of the intensive decline of the long-term foreign currency deposits (by 13,5%), which resulted in decline of their share in the total long-term deposits (by 33,1% compared to 36,8% in the previous month).

Deposits of citizens

Deposits of the population in the second month of the year amounted to Denar 46.244 million and are by 1,3% higher on monthly basis. The growth, against a background of declining long-term deposits (by 14,2%), is fully determined by the higher level of short-term time deposits. Analyzed by currency,

both denar and foreign currency deposits grew by 1,2% and 1,3%, respectively.

Deposits of enterprises

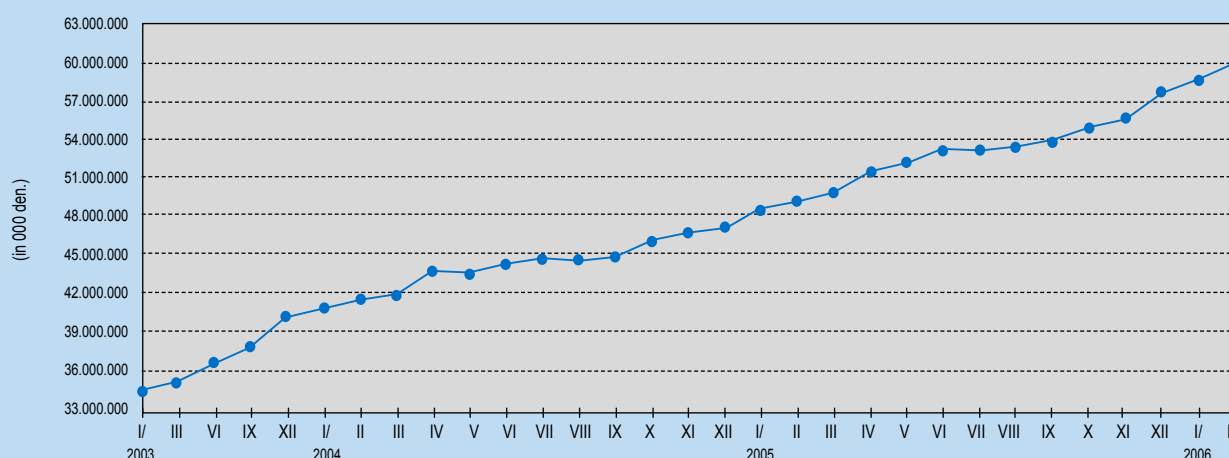
Deposits of the corporate sector amounted to Denar 20.897 million which is insignificant monthly growth by 0,1%. Thereby, short-term deposits grew mildly by 0,6%, and long-term deposits declined by 7,4% in relation to the previous month. Analyzed by currency, Denar deposits grew by 5,2% and foreign currency deposits of enterprises declined by 5,0%. On annual basis, total deposits of enterprises at banks grew by significant 42,8%.

The Deposit Insurance Fund indemnifies only the deposits of physical persons at the banks and the savings houses having licensed from the National Bank of Macedonia to operate with deposits of physical persons.

Deposit Insurance Fund

Out of the total calculated obligation for indemnification in the amount of (3 banks and 2 savings houses) in the amount of Denar 185.287 million, by February 28, 2006, the Deposit Insurance Fund paid indemnification in the amount of Denar 173.548 million. As of February 2006 inclusive, the Fund paid 93,66% of the total calculated obligation for indemnification and for February only, the paid indemnification is Denar 157.000. The ratio of total Fund assets and total deposits of physical persons is 3,29%.

Deposits of physical persons and saving houses



**INTEREST RATES ON DENAR AND FOREIGN CURRENCY SAVINGS DEPOSITS IN THE COMMERCIAL BANKS IN MACEDONIA
(BY MATURITY PERIOD AND CURRENCY) ON ANNUAL LEVEL**

Bank	Denar savings deposits								Foreign currency savings deposits							
	Sight deposits	1 month	2 month	3 month	6 month	12 month	24 month	36 month	Currency	Sight deposits	1 month	3 month	6 month	12 month	24 month	36 month
Alfa banka AD Skopje April 2005 interest rates	0,8%	4,5%			5,0%	5,5%	6,0%		EUR	0,80%		1,40%	1,50%	1,70%		
									USD	0,50%				1,00%		
									CHF	0,10%				1,40%		
									GBP	0,20%						
Eurostandard banka AD Skopje February 2004 interest rates	1,0%	4,0%	4,5%	5,0%	5,5%	6,5%	8,0%	10,0%	EUR	0,80%	1,40%	1,50%	1,70%	2,10%	2,50%	2,80%
									USD	0,50%	0,80%	0,90%	1,00%	1,10%	1,50%	1,60%
									GBP	0,50%	0,80%	0,90%	1,00%	1,10%	1,50%	1,60%
									CHF	0,10%	0,15%	0,17%	0,20%	0,25%	0,30%	0,35%
									Oth.curr.(ex. yen)	0,50%	0,80%	0,90%	1,00%	1,10%	1,50%	1,60%
Invest banka AD Skopje March 2004 interest rates	1,0%	4,0%		5,0%	5,5%	6,0%	6,5%	8,0%	EUR	0,80%	1,50%	1,70%	1,80%	2,20%	2,50%	2,80%
									USD	0,50%	0,90%	1,00%	1,10%	1,30%	1,60%	1,80%
									CHF	0,10%	0,20%	0,30%	0,40%	0,50%	0,60%	0,70%
									AUD	1,70%	2,50%	3,00%	3,40%	3,90%	4,00%	4,60%
									Other currencies	1,20%	1,50%	1,70%	2,00%	2,30%	2,80%	3,20%
Izvozno kreditna banka AD Skopje August 2004 interest rates	1,5%			8,0%	8,0%	9,0%	9,5%	10,0%	EUR	0,80%		2,45%	2,45%	3,00%	3,50%	4,00%
									USD	0,60%		1,00%	1,10%	1,20%	1,50%	2,00%
									CHF	0,10%		0,30%	0,40%	0,60%	0,80%	1,00%
									Other currencies	0,50%		1,00%	1,20%	1,50%	1,70%	2,00%
Komercijalna banka AD Skopje February 2006 interest rates	1,0%	5,0%	5,5%	5,8-6%	6,3-6,5%	6,8-7%			EUR	0,70%	1,30%	1,3-1,4%	1,5-1,6%	1,9-2,0%		
									USD	0,50%	1,10%	1,2-1,3%	0,9-1%	1,4-1,5%		
									GBP	1,25%	2,15%	2,45-2,55%	2,7-2,8%	3,15-3,25%		
									CHF	0,10%	0,15%	0,18-0,20%	0,18-0,2%	0,23-0,25%		
KIB AD Kumanovo March 2004 interest rates	0,5%	6,5%		7,0%	7,8%	8,3% -9%	8,3% -9%	8,3% -9%	All currencies	0,25%				0,85%	1,00%	1,30%
Makedonska banka AD Skopje October 2005 interest rates	1,0%	7,0%	7,0%	7,0%	7,5%	8,0%	8-9%	8-9%	EUR	0,80%	1,45%- 1,50%	1,5%-1,6%	1,9%-2,2%	1,9%-2,2%	2,1%- 2,7%	2,1%- 2,7%
									USD	0,50%	0,80%	1,00%	1,3%-1,4%	1,3%-1,4%	1,5%- 1,8%	1,5%- 1,8%
Postenska banka AD Skopje	1,0%	6,0%		7,0%	7,5%	8,0%	8,5%	9,0%								

Prokredit banka AD Skopje December 2004 interest rates		6,5%	7,0%	7,5%	8,5%	10,0%	10,5%	10,5%	EUR USD		1,50% 1,00%	2,00% 1,25%	2,50% 1,50%	3,00% 1,80%	3,75% 2,25%	4,50%
Stopanska banka AD Skopje June 2005 interest rates	0,85%	5,75%	6,0%	6,75%	7,0%	8,0%	8,0%	8,5%	EUR USD GBP CAD AUD Other currencies CHF YEN	0,55% 0,45% 1,70% 0,90% 1,95% 0,20% 0,001% 0,001%	1,40% 1,30% 2,60% 1,54% 3,35% 0,40% 0,001% 0,001%	1,50% 1,70% 2,80% 1,70% 3,67% 0,50% 0,001% 0,001%	1,75% 2,00% 3,20% 1,90% 3,98% 0,75% 0,001% 0,001%	2,10% 2,50% 4,00% 2,63% 5,18% 1,10% 0,001% 0,001%	2,60% 3,00% 4,25% 2,63% 5,18% 1,10% 0,001% 0,001%	2,80% 3,50% 4,50% 2,63% 5,18% 1,10% 0,001% 0,001%
Stopanska banka AD Bitola	1,5%	4,5%		5,0%	5,5%	6,0%	6,5%	7,0%								
Sileks banka AD Skopje november 2003 interest rates	3,0%	8,0%		9,5%	10,0%	10,5%	11,0%	11,5%	EUR USD Other currencies	2,00% 1,50% 0,80%		2,70% 2,20% 1,00%	3,10% 2,50% 1,30%	3,60% 3,00% 1,50%	4,10% 3,50% 1,70%	
"Teteks Kreditnabanka AD Skopje" March 2006 interest rates	2,0%	7,0%		8,0%	8,5%	9,0%	9,5%		EUR AUD USD GBP CHF and other	1,00% 1,50% 0,50% 1,40% 0,60%	2,00% 2,40% 1,20% 2,00% 1,00%	2,30% 2,80% 1,70% 2,40% 1,50%	3,50% 4,00% 2,80% 3,50% 2,80%	4,00% 4,50% 3,20% 4,00% 3,20%	4,50% 5,00% 3,50% 4,50% 3,50%	5,00% 5,50% 4,00% 5,00% 4,00%
Tetovska banka AD Tetovo September 2005 interest rates	2,0%	6,5%		7,0%	7,2%	8,0%	9,0%	10,0%	EUR USD CHF Other currencies	1,20% 0,80% 0,40% 0,40%				2,00% 1,50% 0,70% 0,70%	2,50% 2,00% 1,00% 1,00%	3,00% 2,50% 1,20% 1,20%
Tutunska banka AD Skopje February 2004 interest rates	1,0%	6,0%		7,5%	7,8%	8,0%	8,5%	9,0%	EUR USD CHF Other currencies	0,80% 0,60% 0,10% 0,70%	1,50% 0,90% 0,20% 1,00%	1,75% 1,00% 0,30% 1,20%	1,80% 1,10% 0,40% 1,40%	2,20% 1,20% 0,50% 1,80%		
UNI banka AD Skopje December 2003 interest rates	2,5%	6,0%		7,0%	8,0%	9,0%	10,0%	11,0%	EUR USD CHF AUD, GBD	1,00% 1,00% 0,10% 2,00%	2,00% 1,50% 0,30% 2,50%	2,50% 2,00% 0,40% 3,00%	3,00% 2,50% 0,50% 3,50%	3,50% 3,50% 0,60% 4,00%	5,00% 5,00% 4,50% 4,50%	6,00% 6,00% 5,00% 5,00%

*Data are provided by the banks in Macedonia and they are subject to variations according to the business policy of banks

*We have not received official confirmation of the data only from Postenska banka AD Skopje and Stopanska banka AD Bitola

CREDIT LINES FOR SMALL AND MEDIUM SIZE ENTERPRISES secured and guaranteed by the Republic of Macedonia, as of May 2006

(data are just for information, detailed terms and conditions for all credit lines are available in the commercial banks, except for the information for re-investment of funds from the Counterpart Funds from foreign assistance and other foreign assistance available to the Ministry of Finance)

Credit line	Credit line for procurement of equipment produced in Italy Agent bank - MBDP	Program for crediting the development of SMEs by the German KfW - revolving fund Agent bank - MBDP	Micro-credit line for financial support by the EU to SMEs implementing agency - MBDP
Amount	up to EUR 2,000,000	50.000 - 400,000 €	up to 100,000 €
Repayment period	7 years	Up to 4 years, including grace period	up to 3, i.e. 5 years
Grace period	up to 1.5 year	up to 6 months	6 months for credits up to 3 years; 12 months for credits up to 5 years
Godišna kamatna stopka	7%	10%	9%
Securing instrument	1. mortgage on immovable assets 2. collateral on equipment; 3. bills of exchange, etc.	1. mortgage; 2. bills of exchange; 3. collateral on movables, rights and securities or collateral on immovable assets	1. blank bill of exchange with a notarized statement; 2. crossed cheque with notarized statement; 3. bill of exchange and/or crossed cheque from other solvent guaranteeing legal entities; 4. mortgage, minimum 130% of the credit amount; 5. collateral, minimum 130% of the credit amount; 6. deposit of valuables and securities; 7. bank guarantee.
Credit purpose	Commodity credit for procurement of machines and equipment produced in Italy.	Modernization and expansion of existing private SMEs and establishment of new ones. Minimum 40% of the credit is used as working capital; maximum 60% of the credit can be used as working capital.	Equipment and working capital
Target groups	Funds are approved for profitable investment projects of private investors in the activities envisaged in the national classification of activities, except for: E - trade; J - public administration, mandatory health care; M - private households with employed persons; and N - extraterritorial organizations and bodies.	SMEs being over 51% private-owned.	Small and medium-size enterprises 1. being over 51% private-owned; 2. employing less than 20 persons; and 3. being at the beginning of their business, or which started their business up to 5 years ago.
Extent of utilization of resources	Government of the Republic of Italy provided EUR 12,704,840 million, out of which EUR 2,353,748 million remain. Extent of utilization is 81.57%.	German KfW provided EUR 15 million, 100% out of which have been utilized. The collected annuities are pooled into a revolving fund.	On the basis of the financial agreement signed between the Republic of Macedonia and the European Agency for Reconstruction, EUR 5.1 million was approved in 1998. On the basis of the same agreement, EUR 5.6 million was approved in 2003. Interest paid on the funds is capitalized and is re-invested in a form of revolving fund.
Commercial banks offering the credit	Eurostandard banka AD Skopje, Izvozna i kreditna banka Skopje, Investbanka Skopje, Komercijalna banka Skopje, Makedonska banka Skopje, Ohridska banka Ohrid, Sileks banka Skopje, Stopanska banka Skopje, Stopanska banka Ohrid, Tetovska banka Tetovo, Teteks kreditna banka Skopje, Tutunska banka Skopje, UNI banka Skopje	Eurostandard banka AD Skopje, Izvozna i kreditna banka AD Skopje, Investbanka AD Skopje, Komercijalna banka AD Skopje, Makedonska banka AD Skopje, Ohridska banka AD Ohrid, Sileks banka AD Skopje, Stopanska banka AD Skopje, Stopanska banka AD Bitola, Tetovska banka AD Tetovo, Teteks kreditna banka Skopje, Tutunska banka AD Skopje, UNI banka Skopje	Komercijalna banka AD Skopje, Ohridska banka AD Ohrid, Stopanska banka AD Skopje, Stopanska banka AD Bitola, Tetovska banka AD Skopje, Izvozna i kreditna banka AD Skopje, KIB AD Kumanovo
Note	One-off fee of 1.2% is paid for the services to the Procurator, should his/her services be used. The collected annuities will be pooled in a revolving fund for approval of credits under the following conditions: amount: from EUR 50,000 to 500,000; repayment period: from 1 to 3 years; interest rate of 7% for companies that already used a credit from the commodity credit line and 8% for the other interested companies; purpose: permanent working capital.		Purpose of this credit line is to finance new projects in SMEs by awarding micro credits for procurement of equipment or machines. Up to 50% of the total credit amount can be used as working capital. The credits are used and repaid in denars. Within the credit line itself, there is a possibility to use a guarantee scheme for clients who cannot provide credit risk coverage. In fact, SMEs not having sufficient value of collateral to cover the risks can apply through a commercial bank to cover part of the credit risk by using MBDP guarantee up to 50% of the requested amount for collateral.

Credit line	Crediting of small businesses (micro, small medium-size enterprises) by the German KfW Agent bank - MBDP	Crediting the production intended for export from the funds awarded by the Government of the Republic of Macedonia - agent bank MBDP	Credits from the MBDP for private sector development revolving fund
Amount	up to EUR 50,000	up to EUR 2,000,000	no limit
Repayment period	up to 4 years	up to 15 months (for export arrangements)	1. up to 3 years for working capital; 2. up to 5 years for investment projects concerning technological process modernization
Grace period	up to 1 year	none	According to the credit policy of commercial banks
Annual interest rate	from 11% to 18% on annual level	8%	Ohridska banka AD Ohrid - from 6.75% to 10.00% Tutunska banka AD Skopje - from 6.77% to 12.56% Investbanka AD Skopje - from 8% to 10.00%, Stopanska banka AD Bitola - from 8.50% to 9.00%
Securing instrument	Blank bill of exchange with notarized statement, with at least 2 endorsers; crossed cheque with notarized statement, bill of exchange and/or crossed cheque from other solvent guaranteeing legal entities - mortgage, collateral on movable assets and rights; deposit of valuables and securities, citizens' cheques; other securing instruments, when necessary, satisfactory to the Bank. Special credit technique is applied for credit evaluation, focusing on the socio-economic situation of the entrepreneur and his/her business in relation to the collateral.	1. mortgage; 2. collateral on movable assets and rights; 3. securities from solvent entities; 4. Other usual securing instruments	According to the credit policy of participating banks in the realization of the resources from the revolving fund.
Credit purpose	1. Financing of fixed assets (procurement of equipment, machines, tools, installations, construction land, restoration and modernization); 2. Financing of working capital (raw materials, intermediate materials, trading commodities).	Financing of export arrangements for raw materials and intermediate materials on the basis of concluded export contracts.	1. Financing of working capital (procurement of raw materials, intermediate materials, additional equipment and spare parts to the end of increasing pro- duction volume for supporting export activities or import substitution); 2. Financing of investment projects concerning technological process mod- ernization.
Target groups	Private companies, individuals, individual entrepreneurs, craftsmen, market sellers and self-employed.	Private companies having export-oriented production.	Private-owned enterprises, as well as individual farmers.
Extent of utilization of resources	First credit from the German KfW in the amount of EUR 6.5 million is 100% unutilized. Therefore, on October 15, 2004 new EUR 6.2 million was added. which is also 100% unutilized. The collected annuities will be pooled into a revolving fund.	Macedonian Bank for Development Promotion provided resources for this credit line. Starting from 1999, EUR 49.9 million has been extended so far.	Credit line for private sector development, approved by the the World Bank (loans 4015MK and 4240MK) is fully utilized. Resources from the revolving fund are available for further utilization.
Commercial banks offering the credit	Izvozna i kreditna banka AD Skopje, Tutunska banka AD Skopje, Prokreditna banka AD Skopje and Moznosti DOO Skopje	Balkanska banka AD Skopje, Eurostandard banka AD Skopje, Izvozna i kredit- na banka AD Skopje, Investbanka AD Skopje, Komercijalna banka AD Skopje, Makedonska banka AD Skopje, Ohridska banka AD Ohrid, Stopanska banka Skopje, Stopanska banka AD Bitola, Tetovska banka AD Tetovo, Tutunska banka AD Skopje, Sileks banka AD Skopje	Ohridska banka AD Skopje, Tutunska banka AD Skopje, Investbanka AD Skopje, Stopanska Banka AD Bitola
Note	Program "Crediting small businesses" is intended for support to micro, small and medium- size enterprises which are 100% privately owned, to the end of enabling them access to financial resources, transformation into legal forms and their integration in the financial market.	15% own share 0.50% annual commitment fee.	The resources of the sub-loan can be used to finance up to 70% of the total credit amount of the sub-project. The final beneficiary will finance the remain- ing part of at least 30%.

Credit line	Credits from the credit line of the International Fund for Agriculture Development IFAD 1: Project for rural development of south and east regions in the Republic of Macedonia	Credits from the credit line of the International Fund for Agriculture Development IFAD 2: Financial services in agriculture	Credit line for job creation in SMEs from the Council of Europe Development Bank (CEB)
Amount	1. US\$ 2,000 micro credits; 2. US\$ 25,000 for primary agricultural production; 3. US\$ 75,000 for processing and trade in agricultural products	1. US\$ 2,000 micro credits; 2. US\$ 50,000 for primary agricultural production; 3. US\$ 150,000 for processing; 4. US\$ 150,000 for trade in agricultural products	EUR 400,000
Repayment period	up to 7 years, depending on the type and the purpose of the credit	7 years, depending on the type and the purpose of the credit	from 7 to 10 years
Grace period	up to 3 years, depending on the purpose	up to 3 years, depending on the type of the credit	from 2 to 4 years (years included in the grace period)
Annual interest rate	- 6% - 18% annually for micro credits - 6% - 16% annually for primary production (depending on the financial institution through which the credit is approved) - 7% annually for processing and trade in agricultural products	- 6% - 18% annually for micro credits - 6% - 16% annually for primary production (depending on the financial institution through which the credit is approved) - 7% annually for processing and trade in agricultural products	Final rate is not defined (it is expected to be around 7% annually)
Securing instrument	1. collateral on movable assets (equipment, tractors, vehicles, machines, etc.); 2. mortgage on immovable assets; 3. creditworthy endorers (natural persons or legal entities); 4. other securing instruments to be determined by the bank or the savings house.	1. collateral on movable assets (equipment, tractors, vehicles, machines, etc.); 2. mortgage on immovable assets; 3. creditworthy endorers (natural persons or legal entities); 4. other securing instruments to be determined by the bank or the savings house.	Standard securing instrument, acceptable to the participating banks (mortgage, collateral, etc.).
Credit purpose	1. Farm production; 2. Plant production; 3. agriculture machines, equipment and working assets for purchase of agricultural products to be processed; 4. trade in agricultural products and their processing.	1. Farm production; 2. Plant production; 3. agriculture machines, equipment and working assets for purchase of agricultural products to be processed; 4. trade in agricultural products and their processing.	Job creation through investments in all sectors, except primary agricultural production by small and medium-size company.
Target groups	1. Primary farmers; 2. food processing companies; and 3. traders with agricultural products.	1. Primary farmers; 2. food processing companies; and 3. traders with agricultural products.	small and medium-size companies
Extent of utilization of resources	Under IFAD 1, US\$ 6.2 million was provided (SDR 4,710,000 for credits). All funds under the credit are disbursed. Extent of their utilization is 91%. IFAD 2 Project was completed with the implementation of the activities on 31st December 2005, and the project will be closed on 30th June 2006. Starting June 2005, terms and conditions for placement of the credits from IFAD 1 and IFAD 2 credit lines are being harmonized. Repaid annuities have pooled into revolving funds.	Under IFAD 2, US\$ 7 million was provided (SDR 5,450,000 for credits), intended for credits. Extent of utilization of this credit line is 70%. Since the beginning of the realization of IFAD 2 credit line in October 2003, as of 12th April 2006, 1473 credits were refinanced in the total amount of EUR 8.7 million (IFAD 1 and IFAD 2) through the Agricultural Credit Discount Fund, EUR 6 million out of which were funds under IFAD, and smaller portion was from the revolving fund. Financial institutions participated with EUR 2.7 million. This number and amount also includes the funds provided under IFAD 1, following the harmonization in June 2005, thus equalizing the terms and conditions for placement of credits from the two credit lines.	In implementation stage
Commercial banks offering the credit	Investbanka AD Skopje, Komercijalna banka AD Skopje, Tutunska banka AD Skopje, KIB AD Kumanovo, Moznosti savings house and FULM savings house	Investbanka AD Skopje, Komercijalna banka AD Skopje, Tutunska banka AD Skopje, KIB AD Kumanovo, Moznosti savings house and FULM savings house	In stage of negotiation and selection
Note	Objective of the Project for rural development of south and east regions in the Republic of Macedonia is as follows: 1. Improvement of the living standard of the population in the rural and underdeveloped areas in the south and east part of the country; 2. Employment reduction in terms of the working able population in the underdeveloped areas; 3. Increase of the income of individual agricultural families and small enterprises 4. Development of the business in the agriculture, putting special emphasis on the individual property; 5. Utilization of modern technology for quality production that will enable easier access to the integrated markets of EU and Southeast Europe.	Objective of the Project for financial services in agriculture is as follows: 1. Improvement of the living standard of the population in the rural areas through increased economic activity that will be worthwhile and sustainable in conditions of market economy; 2. Employment reduction in terms of the active and working able population in the rural areas; 3. Development of the business in the agriculture, putting special emphasis on the individual property; 4. Utilization of modern technology for quality production that will enable better access to the integrated markets of EU and Southeast Europe; 5. Maximum utilization of all comparative and other potential possibilities of the land resources for improvement of the production structure in primary production and development of enterprises for processing agricultural products; 6. Creation of permanent agricultural credit lines that are economically justified, earmarked and in line with the development needs of the rural sector.	Funds under this credit line will be used for partial financing (up to 50%) of the viable investment projects in favour of the small and medium-size companies, thus strengthening their operational state and capability of creating and keeping around 950 working posts after using all funds available under the loan.

Credit line	Promotion of the development of SMEs by the Dutch Government Implementing agency - Macedonian Enterprise Development Foundation	Project for private sector development of the International Cooperation and Development Fund from Taiwan revolving fund	Credit line for job creation in SMEs from the Council of Europe Development Bank (CEB) revolving fund
Amount	1. Loan type 1 up to EUR 10,000 2. Loan type 2 from to EUR 15,000 to EUR 75,000 3. Loan type 3 up to EUR 10,000	1. up to US\$ 400,000 for small and medium-size enterprises 2. up to US\$ 200,000 for agriculture	no limit
Repayment period	up to 5 years	1. up to 7 years for SMEs, 2. up to 5 years for agriculture	from 5 to 10 years
Grace period	up to 1 year	up to 2 years	The grace period is set by the bank, depending on the sub-loan amount and the eventual turnover of resources in relation to time for its repayment.
Annual interest rate	It is independently set by each financial institution.	Ohridska banka AD Ohrid - from 7.23% to 8.23%; Tutunska banka AD Skopje - from 7.2388% to 12%; Komerijalna banka AD Skopje - 7.23%; Tutunska banka AD Skopje - 8.0075%; Investbanka AD Skopje - 6.34%; Makedonska banka AD Skopje - 7.75%;	Stopanska banka AD Skopje - from 9.643% to 9.730%; Komerijalna banka AD Skopje - from 6.89% to 6.90%; Ohridska banka AD Ohrid - from 6.93%.
Securing instrument	According to the credit policy of the financial institution included in the implementation of the credit line.	According to the credit policy of the participating banks.	According to the credit policy of the participating banks.
Credit purpose	For investments in fixed assets and working capital	1. Credits for small and medium-size enterprises - for fixed assets - for procurement of machines and equipment of any nature (except land acquisition), and - for working capital - for procurement of raw materials and spare parts. 2. credits in agriculture - procurement of agriculture machines, basic herd livestock, greenhouses, erecting plantations, equipment, procurement of raw materials, intermediate materials.	Construction/purchase of property, procurement of machines and equipment, procurement of raw materials and spare parts, as well as educational training programs.
Target groups	Loan type 1: individual farmers, self-employed and entrepreneurs of micro enterprises; Loan type 2: small enterprises with 4 to 20 employees; Loan type 3: micro enterprises with up to 3 employees.	SMEs and individual farmers, as well as enterprises engaged in production or marketing of agricultural products.	Small and medium size enterprises operating in labour-intensive industries: textile, leather, food industry etc., that would enable job creation, except primary agricultural production.
Extent of utilization of resources	Dutch Government provided EUR 7.2 million. 100% were used. The repaid principal is pooled into a revolving fund, invested under the same conditions.	The resources from the Loan from the International Cooperation and Development Fund (ICDF) - Taiwan have been fully utilized. The resources from the revolving fund of this loan are in the participating banks that extend them to the final beneficiaries under the same conditions.	Funds under the Loan approved by the Council of Europe Development Bank (CEB) in the amount of EUR 5.113 million were fully used. The resources from the revolving fund of this loan are in the participating banks that extend them to the final beneficiaries under the same conditions.
Commercial banks offering the credit	Tutunska banka AD Skopje, IK banka AD Skopje, Moznosti DOO Skopje	Ohridska banka AD Ohrid, Stopanska banka AD Skopje, Komerijalna banka AD Skopje, Tutunska banka AD Skopje, Investbanka AD Skopje and Makedonska banka AD Skopje.	Stopanska banka AD Skopje, Komerijalna banka AD Skopje and Ohridska banka AD Ohrid.
Note		The resources of the sub-loan can be used to finance up to 85% of the total credit amount of the sub-project. The bank and the final beneficiary of the sub-loan will finance the remaining part of at least 15%.	Funds cannot be used for agriculture projects, except for processing and finishing of agricultural products. Working capital and services related to project operations (maintenance costs, salaries etc.) are excluded from financing. The resources of the sub-loan can be used to finance up to 50% of the total credit amount of the sub-project. The remaining 50% shall be financed from own resources of the final beneficiaries or resources of the participating bank.

Credit line/source of funds	APEX global loan from the European Investment Bank	Decision on terms and conditions for reinvestment of resources from the counterpart funds from foreign assistance (Decision in the Official Gazette no. 60/2004)		Decision on terms and conditions for reinvestment of resources from the counterpart funds from other foreign assistance (Decision in the Official Gazette no. 28/2005)	
Amount	From EUR 20,000 to EUR 12,500,000	Maximum amount is not defined in the Decision, financing is according to the project under usual banking terms and conditions for SMEs.		Maximum amount is not defined in the Decision, financing is according to the project under usual banking terms and conditions for SMEs.	
Repayment period	from 4 to 12 years	short-term credits 9 months	long-term credits 5 years	short-term credits 9 months	long-term credits 5 years
Grace period	up to 3 years	3 months	1 year	3 months	1 year
Annual interest rate	Komercijalna banka AD Skopje - from 7.21% to 7.36% Tutunska banka AD Skopje - from 5.945% to 7.86%; Ohridska banka AD Ohrid - from 7.21% to 7.36%	3%	3%	3.5% below the discount rate of the NBRM	3.5% below the discount rate of the NBRM
Securing instrument	According to the credit policy of the commercial banks participating in the credit realization	Bank guarantee	Mortgage the level 2:1 or bank guarantee	Bank guarantee	Mortgage the level 2:1 or bank guarantee
Credit purpose	- Procurement of tangible and intangible assets directly related to the project; and - Increase of the existing project-related working capital.	1. raw materials; 2. intermediate materials;	investment projects	1. raw materials; 2. intermediate materials;	investment projects
Target groups	Small and medium-size enterprises in the area of industry (including agriculture), services sector and tourism, and other sectors (trade, financing of the health sector, education sector, etc.) Subsidiaries being small and medium size enterprises of large enterprises.	Economic SMEs		Economic SMEs	
Extent of utilization of resources	Funds in the amount of EUR 20 million from the Loan provided by the European Investment Bank (EIB) are fully utilized. Resources from the revolving fund are available for further utilization.	Repaid resources from foreign assistance generating counterpart funds. Currently, Denar 63,000,000 remain unallocated.		Repaid resources from foreign assistance generating counterpart funds. Currently, Denar 42,000,000 remain unallocated.	
Commercial banks offering the credit	Komercijalna banka AD Skopje, Stopanska banka AD Skopje, MBDP Skopje, Tutunska banka AD Skopje and Ohridska banka AD Ohrid.	Ministry of Finance, Capital Management Department, Foreign Assistance Unit		Ministry of Finance, Capital Management Department, Foreign Assistance Unit	
Note	The loan proceeds can be used to finance costs incurred not longer than 6 months from the project approval; - 50% out of the total sub-project value is financed with sub-loan resources, while the remaining 50% can be financed by the final beneficiary or the commercial bank and/or co-financed by other financial institutions; - According to the Rulebook on Financing, established by the EIB, there are exceptions or limitations to the procurements, for which financing is not allowed, or is allowed under special approval by the EIB.	Counterpart Fund Management Commission, established by the Government, selects the applied projects and approves them.		Counterpart Fund Management Commission, established by the Government, selects the applied projects and approves them.	

CREDIT LINES FOR SMALL AND MEDIUM SIZE ENTERPRISES
SECURED AND GUARANTEED BY THE REPUBLIC OF MACEDONIA, AS OF MAY 2006
 (THE DATA ARE OF INFORMATIVE NATURE, THE DETAILED CONDITIONS ARE AVAILABLE IN THE COMMERCIAL BANKS)

Credit line	Credit line for financing fixed assets awarded by the Government of the Republic of Macedonia - agent bank MBDP	GUARANTEES	Guarantee Fund of Macedonian Bank for Development Promotion - Project of the Macedonian Government
Amount	up to EUR 300,000	Conditions for approval of guarantee to final beneficiaries	Guarantees are extended for all long-term credits for investments from the credit lines distributed via the banks - signatories for cooperation agreements with MBDP
Repayment period	3 years	Type of guarantee	Credit guarantees: 1. secured guarantees, i.e. guarantees secured with securing instruments the banks do not accept,
Grace period	none	Maximum amount	- maximum amount of the individual credit guarantee which can be issued by the Guarantee Fund is in the amount of EUR 35,000 in Denar equivalent. - maximum amount of the credit for which guarantee can be issued is EUR 150,000 in Denar equivalent; - guarantee cannot exceed the amount of up to 33% of the principal of the requested credit/fixed asset/intermediate materials and raw materials.
Annual interest rate	8%	Repayment period for the credit for which guarantee is issued	Guarantee can be issued for credits/procurement with a max. repayment period of 5 years, including the grace period
Securing instrument	mortgage, collateral, bills of exchange and other instruments acceptable for the banks.	Guarantee fee	Credit guarantees: - 0.6% annual for secured guarantees,
Credit purpose	Financing of working capital	Operating costs	- 1.5% one-off for secured guarantees
Target groups	Export-oriented companies	Purpose of the credit under guarantee	Investments in existing or new technologies that lead to increase of the Macedonian export
Implementing agency	Commercial banks	Target groups	potential SME founders existing SMEs mostly private-owned farmers
Commercial banks offering the credit	Eurostandard banka Skopje, Izvozna i kreditna banka Skopje, Investbanka, Komercijalna banka, Makedonska banka, Ohridska banka, Sileks banka, Stopanska banka, Stopanska banka, Teteks kreditna banka, Tutunska banka, UNI banka	Implementing agency	Macedonian Bank for Development Promotion
Commercial banks through which guarantee can be used			all banks showing interest
Note			Government of Macedonia, by transferring Denar 265 million from the Budget of the Republic of Macedonia to the special account of MBDP for the purpose of increasing private investments in the economy, established MBDP Guarantee Fund serving before the banks as a securing facility for loans in the cases when the SMEs cannot provide collateral, for economically justified business ideas, contributing to reduction of the risks of the banks that finance small businesses.

OTHER PROJECTS FOR SUPPORT TO SMEs, as of May 2006
(the data are of informative nature, the detailed conditions are available at the implementing agencies)

Guarantees	Guarantee fund - project of the Swedish International Development Cooperation Agency (SIDA)	Credit fund	Fund for crediting of SMEs - USAID project
Conditions for approval of guarantee to final beneficiaries	Guarantees are extended for all credits from the credit lines distributed via the banks - signatories for cooperation with the GF (except consumer and housing credits)	Types of credits	Short-term innovative credits for working capital for the SMEs: credits for financing orders for known buyer, export-oriented production, factoring etc.
Types of guarantees	<p>Credit guarantees:</p> <ol style="list-style-type: none"> secured guarantees, i.e. guarantees secured with securing instruments the banks do not accept, non-secured guarantees, in certain cases, guarantees are issued not requiring security instrument. <p>Suppliers guarantees:</p> <ol style="list-style-type: none"> for purchase of fixed assets for procurement of raw materials and intermediate materials 	Credit purpose	Financing of preparation of production and delivery of products on domestic and foreign markets, procurement of raw materials and intermediate materials, packaging costs, labour costs, testing costs, transport costs, customs, taxes etc.
Maximum amount	<ul style="list-style-type: none"> - maximum amount of the individual credit guarantee which can be issued by the Guarantee Fund is in the amount of EUR 60,000 in Denar equivalent; - maximum amount of the individual suppliers guarantee for purchase of fixed assets which can be issued by the Guarantee Fund is in the amount of EUR 60,000 in Denar equivalent; - maximum amount of the individual guarantee for procurement of raw materials and intermediate materials which can be issued by the Guarantee Fund is in the amount of EUR 30,000 in Denar equivalent; - guarantee cannot exceed the amount of up to 60% of the principal of the requested credit/fixed asset/intermediate materials and raw materials. 	Amount	from US\$ 10,000 to US\$ 120,000
Credit repayment period	Guarantee can be issued for credits/procurement with a max. repayment period of 5 years, including the grace period	Repayment period	from 30 to 179 days
Guarantee fee	<p>Credit guarantees:</p> <ul style="list-style-type: none"> - 2% annual for secured guarantees, - 5% annual for non-secured guarantees, <p>Suppliers guarantees:</p> <ul style="list-style-type: none"> - 3% annual of the guarantee amount; - 1% annual for secured guarantees, - 2,5% annual for non-secured guarantees, 	Annual interest rate	from 8% to 12%
Operating costs	<ul style="list-style-type: none"> - 1.5% one-off for secured guarantees, - 1% one-off for non-secured guarantees, - 1% one-off for guarantees for suppliers. 	Fees	<ol style="list-style-type: none"> 1. US\$ 100 for submission of credit application; 2. 0.5% for application processing; and 3. 2% for credit administration.
Purpose of the credit under guarantee	Creation of new jobs or sustaining the existing ones	Securing instrument	Irrevocable L/C, bank guarantees, export insurance policy, crossed cheque, collateral, bill of exchange, etc.
Target groups	<ul style="list-style-type: none"> - potential SME founders - existing SMEs mostly private-owned and with up to 50 employees - farmers 	Target groups	<p>Enterprises from the indicated industrial branches can submit application for credits:</p> <ol style="list-style-type: none"> 1. production of food products and beverages; 2. production of textile and textile products; 3. production of leather, leather items and leather goods; 4. production of basic metals and standard metal products; 5. production of construction materials; 6. processing of wood and wood products; <p>production of machines and electrical devices.</p>

Implementing agency	SMEs development center - Skopje	Implementing agency	SMEs Fund - Skopje
Commercial banks offering the credit	Tutunska banka, Komercijalna banka, Investbanka, Ohridska banka, Eurostandard Banka, KIB Kumanovo, Moznosti savings house, Stopanska banka Bitola	Founder of the Fund	SMEs Fund is established and managed by the Crimson Capital Corp. USA with USD 1.5 million credit fund.
Note	<p>Swedish International Development Cooperation Agency (SIDA) approved EUR 1,880,000 to the end of establishing the first guarantee fund in Macedonia serving before the banks as a securing facility for loans in the cases when the SMEs cannot provide collateral, for economically justified business ideas, contributing to reduction of the risks of the banks that finance small businesses. Guarantee Fund also introduced issuance of guarantees for suppliers, which are issued on behalf of the companies that purchase equipment and/or intermediate materials. The guarantee is issued to the supplier that will deliver equipment on the basis of deferred payment, whereby the client, prior to taking the guarantee, would pay at least 20% of the amount of the equipment/intermediate materials to the supplier. The remaining amount is covered with the guarantee of the GF, meaning that if the buyer does not pay the remaining amount of the debt within the envisaged deadline, it will be paid by the GF.</p> <p>As of April 2006, funds were 100% used. New guarantees are still issued from the resources of the revolving fund.</p>	Note	<p>SMEs Fund credits private legal entities that:</p> <ol style="list-style-type: none"> 1. perform activities in the field of production, trade and services; 2. show positive financial results in the so-far operations; 3. employ between 10 to 200 persons; 4. credit applicant should perform the same activity for at least 3 years, or the managers in these enterprises should have experience in performing that activity as physical persons if the enterprise is established less than three years; 5. priority is given to export-oriented enterprises, enterprises that provide larger number of new jobs, realize net forex inflows, used domestic raw materials and take care for the environment protection.

IN BRIEF

10 YEARS OF EXISTENCE OF THE MACEDONIAN STOCK EXCHANGE

Macedonian Stock Exchange marked 10 years of its existence. The president Branko Crvenkovski, marked the beginning of the second decade of the activity of the stock exchange by ringing the SE bell. "We celebrate a jubilee significant not only for the stock exchange as institution, but for the overall Macedonian economy. Ten



years ago, the bell rang three times so as to mark the trading on the Macedonian SE, the first organized securities market in this region. This meant a beginning of the functioning of the institution labeled "mirror of the market economy", said the president of the Republic of Macedonia Branko Crvenkovski.

Established by financial institutions so as to enable fast, easy, transparent and smooth transfer of ownership of securities, the SE faced many challenges and was often in a missionary role of creating market environment in the Republic of Macedonia. The development of the Macedonian SE in the past 10 years verifies the idea that the SE and its events reflect economic developments in the country.

"The efforts to create efficient securities market according to European and world standards are starting

to yield results. Through continuous development, and overcoming the so-called "infant" phase, through application of the experience of other SEs, the Macedonian SE build its own image as institution promoting new values", said the president.

In its second decade of operations, the Macedonian SE should build the image of institution of high-quality, impartiality and professionalism, offer modes of channeling the domestic savings so as to support development plans of joint-stock companies and prepare for facing the competition on the European securities markets. "I believe the Macedonian SE would manage in overcoming these challenges, simultaneously realizing the set objectives to build safe, efficient and transparent securities market", said President Crvenkovski.

USA APPROVED US\$ 10.7 MILLION FOR PRIVATE SECTOR DEVELOPMENT IN MACEDONIA

The Minister of Finance Nikola Popovski and the Director of the USAID Dick Goldman signed agreement for realization of several private sector development projects in the amount of US\$ 10.770.000. The assistance would be used to stimulate economic growth by ensuring easier and more profitable operations of domestic and foreign enterprises in Macedonia. Some projects would be aimed at creating favorable business climate in the country, while other projects would be focused directly on enhancing competition of certain firms and industrial sectors.

"Support to the economic development and private sector growth in Macedonia is in the interest of our countries. It is our pleasure to work with our partners from the Ministry of Finance, according to our tradition of cooperation and mutual respect. The Ministry of Finance implemented several reforms such as the recent adoption of the Bankruptcy Law and under the leadership of the Minister Popovski, ensured excellent macroeconomic management", said Goldman. The new assistance from the USA followed after the support to the fiscal reform and other initiatives aimed at stimulating economic growth in Macedonia. Implementing

agencies and detailed plans related to the projects have not been determined yet.

Since 1993, the USA, via the USAID invested over US\$ 450 million in Macedonia. Currently, over 20 projects are being implemented, estimated at over US\$ 30 million. These are aimed at supporting the transition of Macedonia towards market economy and multiethnic democratic society. They contain initiatives for intensification of economic growth, development of democratic institutions and educations of citizens in the needs of modern economy.

MACEDONIA AND SWEDEN SIGNED AGREEMENT ON DEVELOPMENT COOPERATION

Deputy to the President of the Government, Radmila Sekerinska and the State Secretary in the Ministry of Foreign Affairs of the Kingdom of Sweden, Annika Söder, signed an agreement for development cooperation in Skopje. The signing of the agreement is within the close relations of friendship and understanding between the Republic of Macedonia and the Kingdom of Sweden, and it is in the interest of the expansion of the bilateral support and cooperation between the governments of the two countries. The agreement would cover the bilateral cooperation in the period until 2010, defined in the new Strategy for development cooperation.

The new strategy would be in accordance with the efforts of the Republic of Macedonia for accession to



the EU. The Swedish programme for support would have clear sectoral perspective, and the focus of cooperation would be placed on agriculture and rural development. Agriculture sector, and therefore, small businesses and entrepreneurship would be the main bene-

ficiaries of the Swedish funds. The bilateral assistance is planned to be in the amount of SEK 70 million (EUR 7,5 million) on annual level. Compared to so far, the assistance was increased by SEK 10 million annually.

2006 - 2008 PUBLIC DEBT MANAGEMENT STRATEGY

The Republic of Macedonia would reduce its costs for repayment of public debt in the next three years. This would be achieved with the 2006-2008 Public Debt Management Strategy which was approved in the Parliament. The Minister of Finance Nikola Popovski clarified that this is medium-term strategy and the basic objective on medium term is to reduce debt-servicing costs. The strategy include risks faced by the debt portfolio, as well as recommendations for risk management.

At end-2005, public debt to GDP ratio in Macedonia was 40,9% or EUR 1.8 billion. Most of the public debt is denominated in foreign currency, while only 6% is denominated in the domestic currency. Major part of the debt is in securities, inter alia, the first eurobond. The strategy proposes gradual reduction of the public debt from 40,9% to 37% of GDP and slight increase of the limits of issued sovereign guarantees from 3,8% to 4,1% of GDP and the total limit of foreign borrowing to be around EUR 189 million, of which EUR 131 million borrowing from abroad.

The Republic of Macedonia is at the bottom of the list of moderately indebted countries. According to the Minister of Finance, the ESM privatization receipts have strengthened the budget framework and guarantee smooth public debt servicing. The long-term objective is to make Macedonia EU member and it is prepared to introduce the euro as a currency, which requires fulfillment of the EMU criteria.

AGREEMENT ON ESTABLISHMENT OF UNIVERSITY CENTER FOR NEW BUSINESSES

At the Rector's office at the "Ss. Cyril and Methodius" University, an agreement was signed with the Austrian Development Agency for establishment of University center for development of new businesses. The agreement was signed by the University Rector Gjorgji Mar-

tinovski, the Dean of the Faculty of Mechanical Engineering Milan Kosevski and the Austrian Ambassador in the Republic of Macedonia, HE Dr. Philipp Hoyos.

The basic objectives of this project are establishment of a center for new businesses at the "Ss. Cyril and Methodius" University, which would be creative incubator of innovative technology-based and service-oriented solutions, raising entrepreneurial awareness among students, recent graduates and teaching and assistant staff, increasing practical business skills of students and graduates so as to stimulate them to open a business, and direct assistance and consulting to students so as to promote self-employment and development of own company.

MEPSO PROVIDED US\$ 25 MILLION FOR DEVELOPMENT

World Bank approved a loan in the amount of US\$ 25 million to MEPSO for safety improvements and development of the energy grid in Macedonia. The loan agreement was signed by the WB resident representative in Macedonia Sandra Bloemenkamp and the Director of MEPSO Trajce Cerepnalkovski and the Minister of Finance Nikola Popovski signed the agreement on behalf of the government for issuance of guarantee.



The funds would be used to finance the establishment of energy connection with Greece via Bitola, building of new substations and revitalization of the existing ones, among which the substation "Skopje 5".

According to Bloemenkamp, the objective of this agreement is to ensure functioning of the Macedonian transmission system and to improve safety in energy supply if we take into account that energy supply would be a problem in the next years not only in Macedonia, but on global level. "Production capacities are in average 30 years old, meaning that additional capacities

are required so as to avoid restrictions and energy deficiency" said Bloemenkamp.

The Minister of Finance Nikola Popovski, after signing of the agreement, emphasized that any country that would fail in successfully solving the energy problem cannot seek economic growth and therefore, the Government made major investments in the infrastructure of the electricity grid. The Government provides this guarantee since it is convinced that the loan would be invested properly and that MEPSO is financially capable of repayment. The loan is a financial support provided by the World Bank to the SEE countries for development of the energy sector, amounting to over billion dollars.

CONSTRUCTION OF THE NEW US EMBASSY BEGAN

The ceremony held on the location Gradiste marked the beginning of the construction of the new US embassy in Skopje. According to the US Ambassador Gillian Milovanovic, the new US embassy would be a strong and visible symbol of friendship, partnership and common democratic values between USA and Macedonia. President Branko Crvenkovski emphasized that the construction of the new building is a symbol of old and traditional bases of friendship, understanding and cooperation between the two countries and two nations which go way back. Many guests, government representatives, representatives of political parties, diplomatic corps, of the local government, religious communities and businessmen were present at the ceremony on the hill above the river Vardar, where the new complex would be built.

"The new US embassy is major US investment in the country and an expression of confidence in Macedonia's future as independent, stable, multiethnic state", said Ambassador Milovanovic, which together with the President Crvenkovski and representatives of the State Department for overseas building operations laid the foundations for construction of the embassy.

President Crvenkovski, in his address at the ceremony, said: "Macedonia in October last year put into operation the new building of its fully restored embassy in Washington. Today in Skopje, the USA begins building the new facility. These two acts are symbolic - we built or beginning to build completely new facilities, but on the old and traditional bases of friendship, understand-

ing and cooperation between the two countries and two nations which go way back."

According to the plan, until 2008, the new facility would be completed on the location Gradiste and according to the announcements, it would merge into the environment and contain elements of Macedonian architecture. This project, according to US representatives, would bring the Macedonian economy over US\$ 31.6 million.

DIRECT FLIGHT MOSCOW - SKOPJE

As of early June, the company "R-Turs" would introduce direct flights Moscow - Skopje - Ohrid, mostly for Russian tourists who would like to visit Macedonia. The decision to introduce the flight Moscow - Skopje was announced at the opening of the Moscow Tourism Fair "Travel and Tourism". This is the first participation of the Republic of Macedonia in this event. At the opening ceremony, Macedonian Ambassador Risto Nikovski made an address, while the country was represented by several travel agencies. The Ministry of Economy organized the representation of our country.

Undoubtedly, the introduction of the direct flight Moscow - Skopje creates many opportunities for tourism development and easier travel of businessmen. Russia



is very inclined to the Republic of Macedonia, so the number of Russian is expected to rise. The organizers of the new flight hope that citizens from southern Serbia, Kosovo, but also Albania, could use the line to travel to Russia.

WORLD BANK WOULD SUPPORT THE ENERGY SECTOR DEVELOPMENT

World Bank announced two studies to be financed by WB grant. The first study is a draft concession agreement for small hydro-power plants and the second is a framework aimed at attracting private investments for development of small hydro-power plants. World Bank team would soon begin negotiations regarding the contents of these studies with the Ministry of Economy and the Energy Regulatory Commission, as beneficiaries of these grants.

According to the WB, meetings have already been held with MEPSO so as to undertake measures for beginning of the regional energy project ECCE APL 3, for the implementation of which Macedonia was recently approved US\$ 25 million. In addition, the GEF considers the possibility to award grant of US\$ 5.8 million to support the renewable energy and energy efficiency, for which negotiations are soon planned to begin with the Government.

World Bank team explained the objective of the regional gasification study, currently prepared for SEE countries. Main objectives of the study are determination of the level of demand for natural gas, cost-effectiveness analysis for utilization of gas from the Caspian basin, Near East and Russia, analysis of the gas pipeline routes and identification of potential institutional and legal barriers to gasification.

SWISSLION BECAME CO-OWNER OF AGROPLD

Swisslion would participate in the tender for the state capital in Agroplod, according to the company office in Skopje. Last week, the food processing company Swisslion, via the Macedonian SE, bought-out 25% of the capital of the factory from Resen, intending to finish the buy-out of the dominant management package. Agroplod products would be marketed via the distribution network of Swisslion, whereby part of the employees of this company would be transferred to the new co-owner. Swisslion announced redesigning of the product package and overhaul of the overall production equipment by September at the latest.

The share of the Swisslion D.R.D in the ownership structure of Swisslion DOO Skopje is 70%, while the remaining 30% are owned by foreign physical entity. The Skopje company is part of 16 factories of the Swisslion company, for confectionary, food and beer. The government owns 20% of Agropod.

THE FIRST REVIEW OF THE STAND BY ARRANGEMENT APPROVED BY THE IMF

The IMF Board of Directors, on April the 19, 2006 confirmed the successful completion of the first review of the Stand By Arrangement the Republic of Macedonia concluded with the IMF. The Board of Directors agreed with the positive assessment of the completion of measures envisaged under the arrangement-supported programme. The Board of Directors welcomed the encouraging economic results of the Government of Macedonia in the so-far implementation of the Arrangement and recognized the good fiscal and monetary policy of the Government. Emphasis was placed on the comprehensive agenda of structural reforms envisaged under the Arrangement, as well as to the need to further maintain the financial discipline and improve the health sector management.

The Board of Directors also welcomed the successful privatization of ESM - Distribution, emphasizing that the privatization package should be completed by successful post-privatization of the remaining Telekom shares so as to liberalize this sector, in accordance with the EU commitments.

The Board of Directors also underlined that the Government of Macedonia should work on improving the business climate in the country, key to attract foreign direct investments on one hand, as well as to prepare the country for accession to the EU on the other.

ISRAELI JAFFA WOULD INVEST EUR 15 - 20 MILLION IN INO SPEKTAR

The Israeli company Jaffa would probably invest EUR 15 - 20 million in the development of the Skopje juice factory Ino Spektar. The plan is to double the physical volume of juice production and thus beat the domestic and foreign competition. To this end, the Israelis have

spent so far EUR 2,5 million to equip the factory with modern machines for juice package design, as well as in the preparation of marketing strategy. Around EUR 40.000 are planned to be invested in training of the Jaffa employees only. So far, 15 vehicles have been bought for distribution of the juice and agreement for advertising campaign was concluded with one domestic marketing agencies making the plan for design of the juice package. Jaffa already re-branded the Ino Spektar juices and the Skopje factory would produce the brands of natural juices "Jaffa - tropic" and "Jaffa fresh" under Israeli recipe. With the new investments, the annual sales is expected to reach EUR 20 million under the new brand on the markets in Serbia and Montenegro, Bosnia and Herzegovina, Bulgaria and Romania.

REHABILITATION OF SIX PUMPS OF THE OHRID COLLECTOR

The Minister of Environment and Spatial Planning, Zoran Sapuric and the Swiss Ambassador in Macedonia, Thomas Feuglister, signed in Skopje a financial agreement on rehabilitation of six pumps for the Ohrid collector. This is new segment of the Water Programme of the Swiss government, which would be continuously implemented for protection of waters in the Republic of Macedonia. After the signing of the agreement, the Swiss government, via the SECO, awarded grant to Macedonia in the amount of around CHF 1 million for rehabilitation of six pumps of the eastern section of the collector system.



"The Government of Switzerland has once more met our needs and it once again proves to be our partner in the implementation of the activities closely related to

environmental protection. I hope that this assistance would ensure smooth functioning of the collector system around the Lake Ohrid, eliminate problems and halt in operations, frequently occurring due to the obsolete equipment and ultimately, ensure higher quality of lake water", said Sapuric.

Ambassador Feuglister underlined that Lake Ohrid is considered a unique system in the country, but also in Europe, whereby it needs to be protected.

COOPERATION BETWEEN THE ECONOMIC CHAMBERS OF MACEDONIA AND HONG KONG

Representatives of the Union of Economic Chambers of Macedonia held the first meeting with the Hong Kong Chamber of Commerce. Both chambers, according to the press release of the Union, presented their organizations and harmonized the manners of communication and cooperation in the future.

The meeting with the Hong Kong Chamber of Commerce is part of the visit of the Union of Chambers of Commerce of China, envisaging meetings with the Chamber of Commerce of Shanghai, bilateral business meetings with Chinese businessmen and visit to world fairs in electronics, components and mass consumption goods.

The visit by China should result in significant institutional connection of Macedonian businessmen and businessmen from China and Hong Kong, thus facilitating trade and business exchange between these countries.

"MATKA 2" CONSTRUCTION BEGINS

"Riko company completed all preparations necessary to conclude the agreement and in the first half of May, the construction of the HPP Matka 2 would begin", said Marjan Siftar, ambassador of Slovenia in Macedonia.

Riko consortium conducts negotiations regarding the organization of this investment, envisaging 50% thereof to be implemented by domestic contractors.

The Slovenian Ambassador underlined that despite the so-far problems of Slovenian companies in Macedonia, there is still an interest, even greater, to enter in business. "Mercator and Engrotus have expansion strategy in SEE so regardless of the land problems, Engrotus representative continues the negotiations with local potential partners". Also, the company Turboinstitut would participate in the tender for ELEM for small hydro power plants, but whether it would win, depends on the competition.

Siftar pointed out the so-far successful examples of Slovenian investments in Macedonia, such as Tutunska Banka, connected with Nova Ljubljanska Banka, the Slovenian SE, involved even more intensively in the Macedonian SE. In addition, the insurance company Triglav also announced its entry in the Macedonian market, as well as the Geodetic Office and the Helios company. Areas of cooperation include energy, financial services, construction and wine growing.

BRILIJANT WOULD BUILD BIO-DIESEL PLANT

Brilijant from Stip will build plant for production of bio-diesel ecological fuel under European standards. To this end, the management of the factory signed an agreement on technological equipping with the German company "GEA Westfalia". Brilijant will invest EUR 9,8 million in the new production facility. The production will be fully automatic, with annual capacity of 100.000 tons of fuel. "The technology to be applied in the new factory ensures full utilization of raw materials, without waste pollution. Bio-diesel fuel is alternative, anti-toxic, biologically degradable, ecological fuel, made of various herbal raw materials", said the factory representatives.

EMERGING EUROPE: Addressing Rising Current Account Deficits

The key risks to the outlook remain the strength of the recovery in euro area domestic demand; the large regional current account deficits; and rapid credit growth-especially for real estate lending



In emerging Europe, regional GDP growth has moderated to 5.4 percent from the exceptional level in 2004, and is projected to remain close to this level in 2006, underpinned by generally strong domestic demand and-despite appreciating exchange rates-solid export growth, buoyed by continued solid import growth in trading partners. Headline inflation remains generally moderate, with higher oil prices offset in many cases by rising currencies, although overheating pressures are a concern in parts of southern Europe and the Baltics. Looking forward, the key risks to the outlook remain the strength of the recovery in euro area domestic demand; the large regional current account deficits; and rapid credit growth-especially for real estate lending-in a number of countries in the region, much of which is denominated in foreign currencies.

The regional current account deficit fell modestly to 5.2 percent of GDP in 2005, and is projected to remain at broadly that level in 2006 and 2007. Within that, de-

velopments differ widely across the region. In southeastern Europe, external deficits have increased-particularly in Bulgaria and to a lesser extent Turkey-driven by varying combinations of soaring private domestic demand and credit growth, higher oil prices, and buoyant capital inflows often accompanied by appreciating exchange rates. Elsewhere-particularly in the Czech Republic and Poland-deficits have been on a declining trend, although they remain high in the Baltics, Hungary, and, more recently, the Slovak Republic. On the financing side, the share of debt financing (particularly short-term) has been gradually rising-it is expected to finance about half of the regional current account deficit in 2006-and is particularly significant in Turkey, Hungary, and the Baltics.

As discussed in previous issues of the World Economic Outlook, the nature of and risks associated with these deficits vary widely. In central Europe, external deficits are closely associated with fiscal imbalances; in the Baltics and southeast-

ern Europe they primarily reflect private sector behavior. Correspondingly, the risks and remedy in central Europe are relatively clear; in the Baltics and south-eastern Europe, both are more complex, although—especially given the increasing resort to debt financing—there is an increasing case for policies to lean against the wind to reduce potential risks. Over the medium term, as a matter of arithmetic, current accounts in most countries will need to adjust substantially to stabilize net investment positions. That adjustment is likely to be smoother—and involve less real exchange rate adjustment—the more open the economy, the more past inflows have been invested in the tradables sector, and the more flexible domestic markets. Managing this adjustment will be of particular importance in those countries that have or plan shortly to move to fixed exchange rate regimes, including to avoid potential deflationary pressures.

In Poland, GDP growth slowed to 3.2 percent in 2005, noticeably below potential, reflecting flagging domestic demand in the aftermath of the 2004 EU accession boom, weak labor market conditions, and higher oil prices. Looking forward, GDP growth is expected to pick up to 4.2 percent in 2006, with consumption growth boosted by higher pension payments. Much depends, however, on external developments—notably in German growth—and the strength of investment in light of the complicated post-election political situation. With inflation projected to remain at or below the 2.5 percent target in 2006 and 2007, policy interest rates have been steadily reduced since early 2005. A key challenge remains to reduce the large general government deficit—which, barring adjustment measures, is likely to settle at about 5 percent of GDP over the medium term—to stabilize public debt below 50 percent of GDP. With unemployment at 18 percent, and the investment-to-GDP ratio the lowest in the region, measures to improve the functioning of the labor market and to strengthen the investment climate are also priorities.

In Hungary, GDP growth remains close to potential, underpinned by strengthening exports, the recovery in Western Europe, and investment related to motorway construction. Despite higher oil prices, inflationary expectations remain under control and core inflation is at an historic low; after steady reductions in the policy rate through much of 2005, the easing cycle ended in October and rates remain relatively high in real terms.

The very large external current account and fiscal deficits—both around 7½ percent of GDP in 2005—are significant risks; moreover, given recent tax cuts and continued high public expenditure commitments, little improvement in either is in prospect for 2006. While the situation is complicated by upcoming elections, signs of weakening market sentiment underscore the need for decisive fiscal consolidation. Substantial foreign exchange borrowing by households is also a risk, increasing vulnerability to a further depreciation of the forint. Slovenia continues to enjoy solid growth and a stable macroeconomic performance; with inflation falling back to 2.5 percent, it now meets all Maastricht requirements, and is well placed to adopt the euro in January 2007 as scheduled.

GDP growth in the Czech Republic rose to 6 percent in 2005, with slowing domestic demand growth offset by buoyant net export growth as past foreign-financed investment comes on stream, and is expected to moderate somewhat in 2006. The central bank has begun to reverse earlier policy easing, although with inflationary expectations securely anchored below the inflation target of 3 percent, further moves should await incoming data on the strength of the pickup in domestic



Over the medium term, current accounts in most countries will need to adjust substantially to stabilize net investment positions. That adjustment is likely to be smoother—and involve less real exchange rate adjustment—the more open the economy, the more past inflows have been invested in the tradables sector, and the more flexible domestic markets

demand, which remains fragile. While the general government deficit was reduced to 2.6 percent of GDP in 2005, over 2 percent of GDP below target, the draft 2006 budget more than reverses these gains, underscoring the need for additional consolidation efforts, especially given the pressures from aging, substantial outstanding public sector guarantees, and the limited scope for further privatization revenues. In the Slovak Republic, the macroeconomic outlook remains strong, although unemployment—while declining—is very high. Following the entry into ERM-2 in late 2005, a key challenge will be to reduce inflation to meet the

Maastricht criterion while avoiding undue nominal currency appreciation, a task that would be facilitated by a tighter fiscal stance than currently planned.

In the Baltic countries, GDP growth has remained robust, underpinned by generally sound macroeconomic policies and wide-ranging structural reforms. However, with domestic demand fueled by rapid private credit growth, overheating concerns have risen, reflected in wide current account deficits; rapidly rising equity and real estate prices; and-to a lesser extent-upward pressures on prices, making it unlikely that any country will meet the Maastricht inflation criterion this year. While priorities among countries differ, measures to moderate credit growth are important,

With unemployment at 18 percent in Poland, and the investment-to-GDP ratio the lowest in the region, measures to improve the functioning of the labor market and to strengthen the investment climate are also priorities



especially for mortgage lending (the recent tightening of prudential regulations in Estonia being a welcome step), along with strengthened financial supervision; fiscal policy-while generally very prudent-should also seek to dampen demand pressures.

In Bulgaria and Romania, domestic demand has substantially exceeded expectations, spurred by rapid credit growth, large-scale wage increases, a tax cut in January 2005 (Romania), and continued strong investment growth (Bulgaria). Correspondingly, inflationary pressures have picked up-in Romania, despite a substantial appreciation of the leu-and external current account deficits have widened sharply-in Bulgaria to 11.8 percent of GDP, one of the highest in the re-

gion. While external deficits are primarily driven by the private sector, they are an increasing source of vulnerability, underscoring the need to restrain credit growth, especially to households; tighten fiscal positions; and, in Romania, increase wage restraint. Structural reforms are key to invigorate the supply side, including greater labor market flexibility, advancing privatization (Romania) and improving the business climate (Bulgaria).

Following the exceptionally rapid expansion through 2005, GDP growth in Turkey is expected to moderate to 6 percent in 2006, with the main risk facing the economy relating to the large current account deficit. In contrast to expectations, GDP growth has become increasingly reliant on domestic demand, particularly investment; the external current account has continued to deteriorate, driven mainly by higher oil prices and by surging capital inflows-in part reflecting ample global liquidity and Turkey's improving fundamentals-accompanied by a further real appreciation of the lira. While the composition of capital inflows has improved markedly-with the share of shortterm inflows (including errors and omissions) nearly halving to 37 percent in 2005-Turkey remains vulnerable to changes in investor sentiment. The 2006 budget appropriately provides for a modest tightening of fiscal policy, which should allow room for gradual monetary easing and an additional buildup of reserves. Further structural reforms, including early passage of the pension law, strengthening social security collection, income tax reform, and continued improvements in bank supervision-the more so given very rapid private credit growth-remain key to sustaining the strong economic performance to date and increasing resilience to a reversal in currently benign external conditions.

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THE PROCESS OF EUROPEAN INTEGRATION - "QUANTUM LEAP" TO NEW REALITY

In order to understand all aspects and dimensions of this act, it is not necessary to go way back in history, but only to look at the recent past

Jovan Despotovski

Jovan Despotovski was born in 1977. He graduated from the Faculty of Economics in Skopje, in the Department of Business Economy. He worked in BOMAG - Boppard (leading manufacturer of construction equipment), in the public enterprise "Komunalna higijena" under a WB project, in the public enterprise "Makedonski posti", he was member of the board for control of the financial operations and in the Government of the Republic of Macedonia - Secretariat for European Affairs. He is founder and president of the association of citizens "DD - Direct Democracy" in Skopje, external associate in the Centre for Information Decontamination of Youth (Bosnia and Herzegovina) - project supported by the Swedish Helsinki Committee for Human Rights, co-founder of MENSA Macedonia, member of the Macedonian Association of Financial Analysts and member of the Youth Council of Macedonia. He is fluent in English, French and German.

The "quantum leap" of the Republic of Macedonia into the new, European reality occurred on December 15 2005 when the heads of states and governments of EU member states made unanimous decision to reward the reform efforts of Republic of Macedonia by giving it candidate status. In order to understand all aspects and dimensions of this act, it is not necessary to go way back in history, but only to look at the recent past. This article is a modest attempt to recall all that which contributed to the success Macedonia and its citizens achieved in 2005.

Objective circumstances of outstanding issues with the neighbours, blockades, threats of spill over of conflict from the neighbouring countries, but also the poor internal organization and staffing, the absence of clear vision and initiatives are the

main reasons why Macedonia missed Agenda 2000 and the enlargement with 10 + 2 new members from the former Eastern block. Assuming the responsibility for the process, when the priority of the new Government was to implement the Framework Agreement, as instrument of long-term stability and prosperity, was a result of the understanding that the European integration is a political project for long-term peace in Europe.

Assuming such responsibility meant putting part of the own capacity into this process, which posed a risk of too big ex-



The views expressed in this article are those of the author and do not necessarily represent those of the Ministry of Finance

posure of the political authorities to the burden of government functions. Still, the fact that the internal crisis in 2001 together with the causes not only returned the country at the beginning, but almost pushed it back in history, imposed an obligation to put its own efforts in the processes, the results of which could guarantee security in the future of the country and our citizens.

The first challenge of managing the EU integration process meant raising it to become top strategic priority of the Government. The creative approach from the very beginning enabled wide range of arguments in the political arena, where the EU integration was placed, and its raising at the top of the agenda. One of the strongest arguments, inter alia, before the government institutions and the public was that the implementation of the Framework Agreement obligations (as an absolute priority in that period), would be successful if it had been understood as part of the EU integration process, i.e. fulfilment of the political criteria for membership.

The success in imposing such new strategic framework of the political reforms in Republic of Macedonia served as solid basis for overcoming the difficulties fa-

In parallel with the raising of the European integration process at the top of the priorities of the country and its public, there was a need for strengthening its internal organization. Seriously underestimated during the previous years, the capacity of the key institution - Sector for European Integration, started reducing the gap to the level imposed by the so-far pace of the process. Gradually, a team was built, comprising young, capable and loyal people, measuring their own success via the pace of fulfilment of the recommendations given in the annual reports of the European Commission. The new staff succeeded in imposing new attitude towards the process itself, from purely responsive to proactive. Thus, in 2003 and 2004, new instruments were introduced for organizing and managing the European integration by fully involving government institutions having the necessary competences and expertise in all areas. The 2004 Action Plan for implementation of the recommendations from the report by the European Commission on Macedonia is the first element of the new active approach of organization of the process on the basis of clearly defined obligations and deadlines for their implementation.

At the same time, as essential part of the European agenda, the process of translation of the European acquis into Macedonian was intensified, from less than 2.000 pages until 2003, to over 10.000 pages in 2004 and 2005. This sets the fundamental precondition for intensification of the process of approximation of the acquis, evident via the expanded annual programmes, and the higher degree of their implementation. Thus, in 2001 and 2002 the Programme covered total of 21 legal regulations, equivalent to the whole 2003 Annual Programme. Already in 2004, the process of approximation of the legislation was accelerated threefold, covering total of 59 national legal acts. The intensification trend continued in 2005 as well, when in the first two quarters only, total of 45 legal acts were approximated.

Raising the European integration at the top of the agenda, strengthening the internal capacities and the proactive approach towards the process resulted in significant progress in all those areas identified by the EU as priority areas. Such progress, coupled by the clear vision of the strategic priority of Macedonia¹ were the main arguments in favour of the decision to submit the application for membership into the EU (March 2004). This decision caused widespread debate on the justification of this step and its timing. During the debate, certain po-

The first challenge of managing the EU integration process meant raising it to become top strategic priority of the Government. The creative approach from the very beginning enabled wide range of arguments in the political arena, where the EU integration was placed, and its raising at the top of the agenda

ced by the implementation of the FA. In these terms, the best example of a positive role of the "argument on European integration" was the unsuccessful referendum on the new territorial boundaries, motivated by, according to many, petty political objectives. The referendum posed serious threat to the decentralisation process, as one of the most important democratic reform projects in the country. Precisely the initiators of the referendum, after only few months after its implementation, gave the best verification of the meaning of the decentralisation process via the campaign in the press showing the results of local authorities in practising the new responsibilities.

1) Placed also in the National Strategy for Integration of Macedonia into the EU, adopted in 2004

litical entities openly expressed their scepticism towards this step, emphasizing that the application of the Republic of Macedonia would be a total fiasco, i.e. that at best, we would never receive answer from Brussels.

Opposite to these views, after the submission of the application, preceded by a Declaration adopted by the Parliament of Macedonia, already in October, in the same year, the European Commission sent to the Republic of Macedonia a Questionnaire containing over 2.500 questions in all areas. The receipt of the Questionnaire and the preparation of the answers was carried out by over 2.000 civil servants, organized in 31 working group, coordinated by the Sector for European Integration. The answers to the Questionnaire were submitted on February 15, 2005, two weeks by the provisional deadline set by the European Commission.

With a credibility of serious partner in fulfilment of the obligations and with the positive assessments regarding the quality of the answers, the Government of the Republic of Macedonia continued the regular contacts with the European Commission in the process of preparation of the Opinion. Institutional framework for these contacts comprised the Council and the Stabilisation and Association Committee, established under the Agreement, which was fully ratified by all EU member states and which entered into force the previous year, as the first of this kind in Western Balkans region (April 1, 2004).

We should also add the fact that level of public interest in the process of answering the Questionnaire was constant throughout its duration (4 months), with a clearly distinctive support and confidence. This high level of interest continued after February 2005, monitoring closely all comments, recommendations and signals from Brussels.

In November 2005, the European Commission announced its positive opinion to the Application by the Republic of Macedonia for membership in the EU, giving clear recommendations to the Council of Europe to award our country with candidate status. The intensification of the reform processes and the successful implementation of one of its key projects (the Framework Agreement) focused on fulfilment of the Copenhagen Criteria were underlined as basis for the positive opinion.

One month after, on December 15 2005, the Council of Europe, following the recommendation by the European Commission, adopted a Decision to grant the Republic of Macedonia candidate status for EU membership. After only 4 years from the armed conflict and walk at the edge, the Republic of Macedonia made a "quantum leap" and found itself in front the gates of the European Union.

The gains from the candidate status are multiple, with few essential:



The European Union currently faces a broader debate on its own future, including the issues on further enlargement and its boundaries. One thing is clear, the efforts that the present candidate countries (among which is Macedonia) should put to the fulfilment of the membership criteria would be double compared to those of the 10 new members

(1) Involvement of the Republic of Macedonia in the EU institutions and processes, above all, via participation in the official meetings of the Council of Ministers and COREPER.

(2) Significant reduction of costs of the so-called political risk of investment in the Republic of Macedonia. The candidate status fully changed the question on the European future of the country from "if" to "when".²

(3) Within the context of the aforementioned, transformation of the projection process from annual to medium-term. The new National Programme for Adoption of the Acquis determines the agenda of the country for the next 4-5 years, offering significantly greater level of predictability of the legal framework, and thus a better business environment.

(4) Stronger arguments in favour of the European integration, as significant incentive for implementation of the reforms. The institutions - implementing agents of the reforms, were convinced that by putting efforts and achieving results, the progress towards the goal would not be missing.

(5) Change of our view towards the processes, from recipients of precise guidelines, to active creators of our own reform agenda focused in meeting the membership criteria.

² There is already greater interest by foreign investors. As an objective obstacle for realisation of the intentions is the election year, which, as an argument, is also characteristic for developed market economies (USA, EU).

(6) Possibility to use the EU Instrument for Pre-Accession Assistance, the structure of which fully matches the needs for development of the country (infrastructure, environment, entrepreneurship).³

(7) And last, but not least, the Republic of Macedonia was the first country to start negotiations for facilitating the visa regime for travelling to the Schengen countries.

The new active approach contributed to successful reactivation of some older instruments (Cross-Border Cooperation), the resources of which are now available to the local government units as support to the economic and social development.

The new Instrument for Pre-Accession Assistance, which is expected to bring stronger support by the European Union to the reforms and efforts to meet the membership criteria, brings few novelties for the Republic of Macedonia.

- First, this is an assistance with a structure that fully matches the needs for economic development of the country (support to the infrastructure, environment and agriculture)
- Second, the scope of assistance, expected to raise from the present 17.5 euros per capita to around 30 - 35 euros
- Third, manner of implementation, i.e. introduction of decentralised system of implementation of the assistance.

Regarding this, the new IPA instrument would be implemented under a decentralised system meaning significantly greater involvement of the Government and its coordinative mechanisms in the process of setting priorities and projects to be financed. Furthermore, the very procedure of selection of contractors in certain projects, payment of funds and monitoring as key phases in the dynamics of the implementation of the assistance would be subject to the same decentralised system and to this end, the Ministry of Finance (as implementing agent) and other institutions undergo comprehensive preparations.

The status of a candidate country and the fulfilment of the political criteria for membership enabled the Government of Macedonia to refocus its attention and resources to the economy and the need of faster growth and job creation. The credibility acquired with the successful implementation of a major reform project (the Framework Agreement) is a good investment in the expectations that focusing on Economic Criteria would bring visible effects in the next few years.

The key word for 2006 and the years to follow is - CONTINUITY of progress towards Europe.

The European Union currently faces a broader debate on its own future, including the issues on further enlargement and its boundaries. One thing is clear, the efforts that the present candidate countries (among which is Macedonia) should put to the fulfilment of the membership criteria would be double compared to those of the 10 new members. Hence, the next key step for Macedonia is to obtain a date to begin the membership negotiations. The decision would depend on the assessment of the European Commission regarding the fulfilment of the five priorities in the European Partnership for 2006⁴, among which the most significant is the implementation of the election process, according to the highest principles and standards of democracy.

By obtaining the date for negotiations, Macedonia would join Croatia in this process that should lead to fulfilment of the ultimate goal - full preparedness for EU membership until 2010.

The continuity in carrying out the process of accession to the European Union would guarantee continuation and intensification of reforms, placing an emphasis on the economic and institutional issues. Established close relations and confidence with the European Union (Commission) institutions and the member states would be essential for the negotiation process.

At the same time, they are expected to largely assist the efforts of the Government/Secretariat for European Affairs in using European funds efficiently, since these funds would support the activities of the local government, the business sector, the NGOs and the citizens.

3) Macedonia, Croatia and Turkey will use all 5 components of the new instrument, while the remaining candidates would use only 2 (Institutional Building and Cross-Border Cooperation)

4) Adoption of a Law on the Police and the package of laws in the area of judicial reform, introduction of one-stop-shop system and addressing few outstanding issues in the implementation of the SAA.

Judiciary system in the Republic of Macedonia through the prism of implementation of the strategy for its reform



So far, Republic of Macedonia has made many attempts for judiciary reforms. Some of them were partially realized, while the other remained just as declarative commitments. What led to this was the lack of a single document supported by all relevant institutions in the judiciary

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I. Strategy on judiciary reforms with Annexes

1. Necessity to adopt a strategy

Thorough attempts undertaken in our judiciary system are condition sine qua non in the reform process we are in. It is dictated by the stated weaknesses in its functioning in the past period and mainly the goals we have set and we strive to achieve. Creation of a framework setting the basic instructions for the envisaged reforms, as well as the time framework for their implementation, are the starting point for a successful outcome. Established activities are a complex process the efficiency of which is determined by many important factors. In fact, changes in the judiciary are in a cause-effect relation with the reforms in the public administration, the executive power, in particular the

attempts in the economic system. At the same time, it means that economic development, the most important stimulus of which should be the foreign investments, will to a great extent depend on the judiciary reforms

Necessity for judiciary reforms especially arises from our unanimous strategic commitment for integration in the Euro-Atlantic structures. It is closely related to the functioning of the democratic institutions and of the legal state, whereby the independence of the judiciary is one of the most important factors. Thus, Copenhagen criteria for membership in the European Union, inter alia, especially emphasizes the importance of respecting human rights and rights of minorities, the principle of rule of law, stability of the institutions and guaranteeing the democracy. Therefore, what is of exceptional importance in the process of harmonization of our legislation with the *acquis communautaire*

nitaire is the functioning of the judiciary system in line with the European standards. According to the volume, which might not be that big, but in terms of the context surely the most important part of the Stabilization and Association Agreement is Chapter VII - Justice and Home Affairs which defines the activities to be undertaken in then field of judiciary.

Thorough attempts undertaken in our judiciary system are condition sine qua non in the reform process we are in. It means that economic development, the most important stimulus of which should be the foreign investments, will to a great extent depend on the judiciary reforms



So far, Republic of Macedonia has made many attempts for judiciary reforms. Some of them were partially realized, while the other remained just as declarative commitments. What led to this was the lack of a single document supported by all relevant institutions in the judiciary. It often led to dissonant discussion and opposite opinions and unsynchronized activities among various institutions. Therefore, prior to the commencement of the present reform attempts, what appeared as a priority was the necessity to prepare a document - strategy that will clearly define instructions, measures and activities, competent institutions, time frame and financial resources for their efficient realization. Strategy is even more important having in mind the fact that it has been adopted in cooperation with all responsible entities in the field of judiciary, and it has been supported by the academics and the public, being of special significance for its implementation. However, reforms are a process and every attempt and expectation to realize them "over night" would be an illusion. Judiciary especially. In fact, their successful implementation would mean meeting four very important requirement: knowledge, skills, time and patience. This is why their full translation in the Strategy is a complex project, containing instructions and goals, determining measures and activities, pointing out priorities, classifying them in given time phases.

2. Chronology of preparing and adopting the Strategy

Strategy started to be prepared on the basis of the Information of the Ministry of Justice on the needs for

judiciary reforms, which was adopted by the Government of the Republic of Macedonia. Thereby, Judiciary Reform Council was established, comprising members from all judiciary institutions, associations of judges and public prosecutors, as well as renown university professors, which incorporated the opinions of the judiciary institutions and scientific experts and comparative experience in this field. It is worth pointing out the importance of the work of the Council both during the adoption of the Strategy and in the coming process of its implementation. In fact, role of the Council does not end with the adoption of the Strategy, however its activities are of great significance, pertaining to monitoring the implementation of this document by guiding the reforms towards clearly defined goals, as well as to those related to coordination of judiciary institutions in charge of this reform move.

Many seminars and public debates have been organized to the end of approaching the Strategy to the expert public, and to the citizens in general. Three expert debates have been held for the Appeal Courts in Skopje, Bitola and Stip. In addition, text of the Strategy has been discussed at many debates organized by NGOs. It is especially important to point out that for the purpose of having political consensus, the Strategy was also submitted to all opposition representative in the Parliament for their remarks, opinions and suggestions as a contribution to improving the proposed text. The Strategy was also subject to expertise by many international organizations. Its adoptions was supported by the European Commission, Council of Europe, OSCE, World Bank and many international institutions, which positively assessed the solutions in the Strategy.

At the end of 2004, Government of the Republic of Macedonia adopted the Strategy For Judiciary Reforms with Annexes and Action Plan for its implementation. It also incorporates opinions from expert and public debates, as well as suggestions from the expertise of international organizations.

3. Objectives, principles, contents and main features of the Strategy

The Strategy, according to its essence, is a comprehensive document addressing the global issues related to the development of the judiciary system, public prosecution, penitentiary system, office of attorney general, advocacy and notaries public. It incorporates the

answers to five essential questions such document has to provide: a) existing state in the judiciary in the Republic of Macedonia, identifying the shown weaknesses in its functioning; b) vision for its future development; c) methods and manner how to perform the reforms; and d) necessary personnel capacities and material and financial resources for realization of the set measures and activities.

Proposed solutions in the Strategy are global guidelines and a framework for realization of the reforms in our judiciary system. Thereby, its objective is not precisely regulate details in each and every area, since it needs to be done by specific legal projects. According to its nature, the document is upgrading of the judiciary system through elimination of the shown weaknesses in its functioning and opening real opportunities for its further development. That is why the conclusions and recommendations in the Strategy, as concrete measures and activities, are based on the needs and the estimates for the development of the judiciary system, and its is a synthesis of international standards in the field of judiciary and of comparative experience adapted to the particulars of our legal system, traditions and culture.

Objectives of the Strategy are defined in its introductory part. They are classified as general and specific objectives that arise from the Strategy itself. General objective of the Strategy is building functional and efficient judiciary system based on European legal standards, while its specific objectives are determined on the basis of the specific nature of segments of the judiciary system and the institutions that comprise that system.

According to its character, measures and activities in the Strategy can be divided as follows: political, legislative and financial. Political activities are aimed at achieving political consensus for its adoption and in particular at ensuring full support in the stage of its implementation. Legislative measures comprise the preparation and the adoption of appropriate solutions in the field of material, process and organizational legislation. Financial measures and activities cover the provision of conditions for realization of the envisaged solutions in the Strategy (human resources, material resources, equipment and technology, financial resources, etc.). Implementation of these measures and activities is to a great extend conditions by the successful media promotion of the Strategy, followed by wide range of educational contents.

Legislative measures and activities impose the adoption of laws in the field of material, process and organi-

zational legislation. However, objectives of the new framework of material legislation are upgrading and developing the existing legal system so as to fully harmonize it with the European and international standards in the field of judiciary. Changes in the process legislation should provide for fast access to justice and efficient exercising of the rights of the citizens. Structural and organizational changes will mean redefining the structure and the competences of certain bodies for building efficient, stable, de-politicized, independent and accountable institutions.



Adoption of the Strategy must not be perceived as completion of the reforms. Nor should the adoption of the laws and institutional and organizational changes envisaged in the Strategy be seen as its ultimate goal. On the contrary, the Strategy is only a basic document that defines the guidelines and instructions for the future development of the judiciary system in the Republic of Macedonia. Therefore, one could say that its adoption is maybe the easiest part in the whole reform process. The more difficult part, which indispensably covers raising the awareness of all entities in the judiciary and elsewhere for the purpose of the reforms, is yet to come.

The Strategy is mainly based on several basic principals, most of which are the fundamental values of the constitutional order in the Republic of Macedonia, defined in Article 8 of the Constitution: the rule of law; the division of state powers into legislative, executive and

judicial; guaranteeing the independence of the judiciary and independence of the public prosecution, as well as the independence of the public legal status of the advocacy, office of attorney general and notaries public; equitable representation of minority members in the judicial institutions, protection of rights of the citizens; guaranteeing equal access to justice; fast and efficient processing; preventing misuse and dishonest acting or corruption; recognizing the rules of professional ethics; and accepting European standards in the field of justice.

Strategy is even more important having in mind the fact that it has been adopted in cooperation with all responsible entities in the field of judiciary, and it has been supported by the academics and the public, being of special significance for its implementation. However, reforms are a process and every attempt and expectation to realize them "over night" would be an illusion. Judiciary especially



When preparing the Strategy, what was of special importance was the contribution by the domestic experts in the field of judiciary and the analyses, opinions and suggestions of both domestic and international organizations. Worth mentioning are the following: Study for independent court budget adopted by the Government of the Republic of Macedonia, Basic thesis and guidelines for reform of the system for education and professional training of judges and public prosecutors in the Republic of Macedonia prepared by the Center for Continuous Education, reports on the work of the courts and the public prosecution, Analysis by Associates Consulting Group within the European Commission Project on Justice and Home Affairs, Index on judiciary reform in Macedonia prepared by ABA/CEELI, Report by the first assessment mission in the fields of justice and home affairs in the Republic of Macedonia, as well as other observations by many institutions.

When proposing specific measures and activities for the future development of the judiciary system in Macedonia, determined weaknesses in its so-far functioning were logically the starting point. The following were singled out as most specific: slowness of the procedures and difficult access to justice; difficult and long execution of the final decisions; overloading of the judiciary institutions with trifling cases; non-organization in managing the cases; equipment obsolescence and

insufficient functional utilization of IT; non-existence of detailed criteria for financing the courts and the public prosecution; insufficient coordination between the Supreme Court, State Court Council and Ministry of Justice; insufficient readiness of human resources in professional and ethical terms; bad material state; election and appointment of judges and public prosecutors susceptible to interference from political parties; non-existence of a system for continuous education of judges, public prosecutors and other personnel fully supported and financed by the state; incompetence, dishonesty and corruption, as well as insufficiently developed communication with the public.

Action Plan was prepared for the purpose of successful implementation of the Strategy, defining specific measures and activities, and determining the entities in charge of their realization. They are incorporated in the time frame for realization, classifying the measures and the activities in short-medium, and long-term ones.

4. Composition of the Strategy

Strategy is divided in three parts: introductory remarks, judiciary system and public prosecution. Its Annexes are segments dedicated to reform activities in the penitentiary system, office of attorney general, advocacy and notaries public.

First part covers the needs to prepare the Strategy and sets its basic goals, emphasizes the importance of independence and impartiality of the courts, defines methodological approach and finally presents the composition of the document. Thereby, what is especially pointed out is the necessity to reform the judiciary system and other bodies covered in the Strategy, being unanimously agreed in the Republic of Macedonia. Objectives of the Strategy and the results from implementing the activities set therein are a very important element for the coming judiciary reform, and the integration of the Republic of Macedonia in the Euro-Atlantic structures depends on this to a great extent. The first part of the Strategy also pays special attention to the methodological approach and the used instruments.

Second part covers the judiciary system in the Republic of Macedonia. There is a brief retrospective of its development so far at the beginning, paying special attention to the features and the weaknesses in the functioning in given periods. In addition, legal framework of the existing judiciary system is presented. The-

re are also statistical indicators for the work of the courts (attached to the Strategy), being the basis for identification of some of the problems in the functioning of the judiciary.

Guidelines for the reforms in the judiciary system in the Republic of Macedonia mostly cover the independence of the judiciary and the necessity to increase its efficiency. The following are presented as key assumptions that determine the independence of the judiciary: selection, election and discharge of judges, their training and financing of the judiciary. Increasing the efficiency of the judiciary means changes in many segments of the judiciary system. Thereby, the following are identified as the reasons influencing the delay of the procedure the most: weaknesses in the process legislation, inappropriate organizational setup of the judiciary, non-existence of a system for alternative resolving of the disputes and non-existence of a system for full coverage of the judiciary with IT.

Third part of the Strategy refers to the public prosecution with all its segments: organizational setup, function of criminal prosecution and guidelines for future activities.

Annexes to this document cover the penitentiary system, office of attorney general, advocacy and notaries public. Reform attempts therein should significantly contribute to more efficient functioning of the judiciary system as a whole.

5. Judiciary system reforms

In general, judiciary system reforms are aimed at two key objectives: increasing the efficiency of the judiciary and strengthening its independence. Each of these pillars are analyzed in details in all their segments. Thus, for instance, the part in the Strategy covering the independence of the judiciary refers to the system of its financing, election and discharge of judges, as well as their education. From the point of efficiency of the judiciary, special attention is paid to the need to simplify the procedure which is to be made by changing process laws, certain revision of the set up and the competences of the court system, as well as promotion of the IT system in the courts and the possibility for alternative resolution of disputes.

Certain dynamics has been determined, by pointing out the priorities, for the implementation of the Strategy. Taking into account the backlog of cases, first priority is

the increase of the efficiency of the courts, to be achieved by simplifying the process laws.

Important part of the Strategy is dedicated to the system of selection and election of judges, as one of the main assumptions for independence of the judiciary. In the light of this context, thorough analysis has been made regarding the functioning of the existing system for election of judges, comparative models were consulted for election of judges in many countries, and international standards (especially those of the Council of Europe) in this field have been taken into account. The offered solution in the Strategy for redefining the composition of the State Court Council in terms of participation of majority judges was broadly supported by the experts and practitioners in the Republic of Macedonia and by the international experts involved in the evaluation of the Strategy. Many alternatives, with detailed explanations, were proposed for the body to elect the judges. In the final version, the Council for Judiciary Reforms accepted the solution for the judges to be elected by the Court Council.



Adoption of the Strategy must not be perceived as completion of the reforms. Nor should the adoption of the laws and institutional and organizational changes envisaged in the Strategy be seen as its ultimate goal. On the contrary, the Strategy is only a basic document that defines the guidelines and instructions for the future development of the judiciary system in the Republic of Macedonia

As one of the essential issues the Strategy addresses is the system of initial training of the judges and the public prosecutors. Globally, such training has been supported, which would mean an increase in the competence and professionalism of the judges on one hand, and limitation of the possibilities for certain political influence and influence by the political parties during their election, on the other. Therefore, it has been envisaged for one of the priorities to be the development of the Center for Continuous Education into a public institution financed by the state, having as a competence the carrying out of the continuous training of judges and public prosecutors.

Significant progress has been achieved in the field of financing of courts in the last several years. Adoption of the Law on Court Budget has enabled changes in the system of financing the courts in all its segments: start-

ing from the budget preparation, to its adoption and allocation of funds. However, certain reforms are also necessary in this sphere, mainly aimed at defining clear and comprehensive criteria for financing the courts, adoption of Law on Salaries of Judges and resolving the problems about the collision of the Law on Court Budget and the legislation in the field of finances (above all, in terms of the requests for approval of new employments by the Ministry of Finance).

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Continuous education of judges and public prosecutors as one of the assumptions for independence of the judiciary is of special importance in the Strategy. Guidelines for activities in this field, in addition to the development of the Center for Continuous Education into a public institution supported and financed by the state, are also aimed at development of comprehensive programs for education in many areas, the priority being the development of a module for education in the European Union law and various forms of educational activities in the field of dealing with organized crime and corruption.

Increasing the efficiency of the judiciary is a process consisting of complex measures and activities classified in many areas. Thus, short-term priority is the changes in the process legislation and unified solution for the issue of delivery in the process laws.

Alternative resolution of disputes is also one possibility to reduce the number of cases in the courts through their out-of-court settlement. It is confirmed by the experience in many countries aware of this system of settlement of disputes.

To the end of accelerating the procedures in front of the courts and more efficient management of the court cases, the Strategy envisages intensification of the implementation of the Project for Judiciary Information System with the sub-projects covering all segments in

the judiciary. In addition, connection of IT systems of the courts, public prosecution, penitentiary institutions, Ministry of Justice, Ministry of Internal Affairs and State Court Council will also be a priority.

6. Public Prosecution

Adoption of the Law on Public Prosecution significantly improved the system of a public prosecution organization by increasing the independence of the public prosecution function. Novelties in the Law referring to the introduction of permanent term of office for the deputy public prosecutors, introduction of a provision pursuant to which basic and second instance public prosecutors are elected from among the deputy public prosecutors, establishment of Council for Public Prosecutors and its competences in appointing, disciplinary liability and discharging the public prosecutors and deputy public prosecutors, establishment of a Unit to act upon cases related to organized crime and corruption will significantly contribute to the increase of the efficiency of the public prosecution in performing the function of criminal prosecution of perpetrators.

Further priority activities are related to staffing and material equipping of the Unit to act upon cases related to organized crime and corruption, development of continuous education system, adoption of Law on salaries and considering the possibility for constitutional changes aimed at reduction of the influence of the executive power when appointing public prosecutors by strengthening the position of the Council of Public prosecutors.

7. Annexes to the Strategy

Defined measures and activities in the Strategy for promotion of the position of the institutions of the penitentiary system, office of attorney general, advocacy and notaries public are aimed at increasing the institutional capacity and upgrading the level of efficiency in exercising their role and functions. Thus, reforms in the penitentiary system, inter alia, are aimed at ensuring conditions for further promotion of the enforcement of sanctions in line with the international documents in this field; transformation of the Administration for Enforcement of Sanctions and redefining of the organizational setup of the network of houses of correction;

improvement of the conditions for stay of convicts in the houses of correction and of their technical equipment; implementation of the provisions of the Criminal Code for alternative penalties through defining the manner of their enforcement, etc.

So far, following weaknesses have been detected in the functioning of the Office of the Attorney General. In order to overcome these weaknesses, measures and activities have been defined to that end in the Strategy: analysis for the functioning of the Office of the Attorney General and ensuring more efficient performance of the basic function for protection of property rights and forms of ownership, having legal and public character; introduction of mandatory education and training of attorneys at law; preparation of new Law on Office of Attorney General, which will contribute to overcoming the existing problems in the functioning of this institution, etc.

The part of the Strategy covering the advocacy defines the measures and activities aimed at promotion of the status and the functioning of this important institution. Following needs are emphasized: adoption of new Law on Advocacy to consistently present the constitutional commitments, as well as the international and European standards for advocacy and its functions; guaranteeing the compensation for the damage caused by malpractice of the lawyers; preparation of a program for mandatory continuous education for the lawyers in the field of *acquis communautaire*; as well as new legal framework for passing an exam and education for the lawyers, depending on the decisions from the initial training and the requirements for election of judges.

Lat Annex to the Strategy covers the functioning of the notaries public. It has been proposed to analyse its functioning so far and the possibilities for legal changes to the end of further promotion of carrying out notary public activity.

II. Implementation of the Strategy on judiciary reforms with Annexes

Implementation of the envisaged activities in the Strategy is a more complex part of the judiciary reform in the Republic of Macedonia. Consistent and efficient realization of the set objectives will be one of the benchmarks to assess the success of our path to the

Euro-Atlantic structures. Instruments to monitor the implementation of the Strategy are three - and six-month reports adopted by the Council for Judiciary Reform. So far, one three-month and two six-month reports have been prepared and adopted, containing the realized measures and activities the time frame of which was set in the Action Plan for implementation of the Strategy. Six-month reports were regularly submitted to the Parliament, the Government and to all relevant judiciary institutions. In addition, Ministry of Justice published the Strategy and the first six-month report on its implementation in an edition available to the broader public as well.

When implementing the defined activities, most emphasized was the adoption of the amendments to the Constitution. Procedure for their adoption was carried out in three stages. To that end, working group has been established, comprising representatives from the Ministry of Justice, judiciary bodies, political parties and lawyers. Basis for the preparation of the constitutional amendments was the analysis of the so-far weaknesses in the functioning of our judiciary system and comparative research of the constitutional provisions addressing the issue of judiciary power in twenty or so countries. During the first stage of the adoption of the constitutional changes, Parliament of the Republic of Macedonia adopted the Proposal for amendments to the Constitution of the Republic of Macedonia, at its session held on 18th May 2005. During the second stage, on the basis of the guidelines set in the Proposal for amendments to the Constitution and the discussions of the Committees and on the session of the Parliament, the working group prepared draft amendments that were adopted by the Parliament on 4th August 2005. It is especially important to mention the fruitful public debate for the draft amendments.² Representatives from many government bodies, political parties, associations of citizens, university professors, as well as foreign experts, took part in this debate. Worth emphasizing is the contribution with their comments to the draft amendments by OSCE, Council of Europe, Assessment Expert Mission from the European Commission in the Republic of Macedonia, Regional CARDS 2003 Project and Court Modernization Project DPK. During this stage of the adoption of amendments special attention was paid to the opinion by the Venice Commission³, which it considered and adopted on the plenary session held on 21st and 22nd

2) Following the completed public debate, Ministry of Justice prepared comprehensive report on the whole debate, containing the presented opinions and proposals by the participants.

3) Opinion of the Venice Commission was prepared by three of its members: Mr. James Hamilton from Ireland, Mr. Jan Mazak from Slovakia and Ms. Hanna Suckocka from Poland.

October 2005 in Venice. During the debate, draft amendments were given a positive assessment, whereby it was pointed out that they will significantly contribute to the strengthening of the independence of the judiciary with respect to other two powers. Conclusions of the Venice Commission, as well as the opinions, comments and suggestions presented at the public debate⁴ were the basis for preparation of the proposal amendments, which were adopted by the Parliament of the Republic of Macedonia on its session held on 7th December 2005. Constitutional Law was adopted at this session, determining the deadlines for the adoption of the respective laws.

Within the efforts for increasing the efficiency of the judiciary, special attention has been paid to the resolving of the delayed executive citizen cases. To that end, in May 2005, Law on Enforcement was adopted, according to which the enforcement of the citizen verdicts is exempt from the courts



One of the key aspects within the judiciary system is also the education of judges and prosecutors. Therefore, Law on Academy for Training of Judges and Prosecutors was adopted. It has established, for the first time, initial training of candidates for judges and prosecutors, as well as a specific system for their se-

lection and access in the judiciary. In addition to this novelty, the Law also standardized the continuous education for judges and prosecutors. Appropriate premises and modern equipment have been provided for the Academy.

Within the efforts for increasing the efficiency of the judiciary, special attention has been paid to the resolving of the delayed executive citizen cases. To that end, in May 2005, Law on Enforcement was adopted, according to which the enforcement of the citizen verdicts is exempt from the courts. For the purpose of practical realization of this Law, the envisaged bylaws⁵ were adopted and the first exam for enforcement agents was realized.⁶

With respect to the other laws envisaged in the Strategy, the following have been adopted: Law on Criminal procedure (cleared version), Law on Witness protection, Law on Litigation Procedure, Law on amendments to the Criminal Code, Law on Enforcement of Sanctions and Law on Modifications and Amendments to the Law on Court Budget. Operationalization of the constitutional amendments will mostly depend on the quality of the solutions to be contained in the key laws that regulate the issues in the field of judiciary: Law on Court, Law on Court Council of the Republic of Macedonia, Law on Misdemeanor and Law on Administrative Disputes. According to the planned dynamics, they will be adopted in the second quarter of this year.

4) Public debate took place from 5th August to 5th October 2005, and eight expert debates were held: three in the field of appeal courts, one in the field of Supreme Court of the Republic of Macedonia, Public Prosecution of the Republic of Macedonia and State Court Council, expert debate in which participated judges from the Constitutional Court, experts, university professors and representatives from the Venice Commission, as well as three debates organized by the Association of Judges of the Republic of Macedonia, Forum for Euro-Atlantic Integration of the Republic of Macedonia (FEIM) and the Bar of the Republic of Macedonia.

5) Following Rulebooks were adopted within the envisaged deadlines: Rulebook on the Program and the Manner of Passing the Exam for Enforcement Agents; Rulebook on the Manner of Keeping Records of Enforcement Agents; Rulebook on the Type of Equipment and Premises necessary for carrying out enforcement activities; Rulebook on the Form and Contents of the ID of the Enforcement Agents and the Manner of its Issuance and revoking; Rulebook on the Reward Tariff for Enforcement Agents; Rulebook on the Form and the Manner of Keeping Records on Received Requests for Enforcement; Rulebook on Determining the Number of Enforcement Agents in the area of Basic Court and determining the Criteria for the Number and Distribution of Official Seats of Enforcement Agents on the territory of the Republic of Macedonia and Rulebook the Form, Contents and Usage of the Enforcement Order.

6) Out of the 82 applied candidates, only 23 passed the exam.

PRIMARY DEALERS ON GOVERNMENT SECURITIES MARKET

Main role of primary dealers is to participate in the primary (issuing) government securities market, where they will ensure absorption of newly issued government securities and distribute them to the final investors, mainly to the broader market predominated by institutional investors where liquidity is especially recognized

Darko Blazevski

Darko Blazevski was born in 1976. She graduated from the Faculty of Economics in Skopje in 1998, Business Economy Department, major Financial and Accounting Management. At the moment, he attends post-graduate studies in the field of Monetary Economy at the Faculty of Economics in Skopje. He was employed in Ministry of Finance in September 2005, Public Debt Management Department as Senior Associate. Previously he worked in AD RADOBANKA Skopje, as junior officer in February 1999 in the Asset Management Department, and in 1999 he moved to the Credit Department as credit officer. He has attended trainings and seminars in the field of banking, development of small and medium enterprises, financial derivatives and public debt management. He speaks fluent English and German.

1. Introduction

Prior to beginning the general discussions on primary dealers and market makers, it is necessary to point out that these issues appear as a result of the development of the domestic financial market and the number of related achievements such as the improvement of the transparency, increased issuance of government securities, introduction of OTC, etc. In addition, an event related to this is the publication of the 2006-2008 Public Debt Management Strategy (Official Gazette of the Republic of Macedonia, no. 39/06), elaborating the future steps for the development of the domestic government securities market.

2. Definition

It is well known that the primary objective of the government manager of public

debt is to cover the needs for borrowing as cheaper as possible and with as lower risk level as possible. To achieve this objective, primary and secondary markets need to be broad and efficient (in particular the secondary market which needs to be deep and liquid).

There are many ways to achieve these objectives. One is to designate a group of highly qualified financial companies to play the role of specialized intermediaries on the market of government securities between the issuer on one side and the market



on the other. These intermediaries have obligations, as well as privileges: in return for the direct access to government auctions and for other benefits, they guarantee the issuer a sound, secure demand for its securities and development of a more efficient and more liquid secondary market. They are often called primary dealers, but sometimes the reference market makers is used, depending on whether their obligations also cover the secondary market.

3. Role of primary dealers when issuing government securities

Many governments - issuers created the group of primary dealers from specialized intermediaries, with obligations and privileges, so as to help the development of the government market of securities. Main role of primary dealers is to participate in the primary (issuing) government securities market, where they will ensure absorption of newly issued government securities and distribute them to the final investors, mainly to the broader market predominated by institutional investors where liquidity is especially recognized. Apart from the

These intermediaries have obligations, as well as privileges: in return for the direct access to government auctions and for other benefits, they guarantee the issuer a sound, secure demand for its securities and development of a more efficient and more liquid secondary market

main role, primary dealers can appear as market makers, thus ensuring the listing of selling and buying prices of government securities so as to maintain market liquidity. It means that the investors will have greater security to buy government securities at price close to the market one. Market makers usually hold small number of government securities as a stock, or can easily find such securities, meaning that they can always deal with this type of demand. Depending on the manner on which they are set, primary dealers can bring more competition and more capital on the market.

4. Obligations and privileges of primary dealers

- Obligations

Nature and context of these obligations and privileges significantly vary from country to country. In some cases there are financial companies playing the role of primary dealers without formal authorization, however, with certain dose of official support.

Obligations of primary dealers, in addition to the participation in auctions, usually vary from country to country. Thus, somewhere dealers can recognize auction quotas; can behave as market makers or can provide the government with information on the market conditions.

1. Main obligation of the primary dealers is to support the government when selling government securities. The government creates a group of primary dealers mainly to use their distributive capacity. Most of the countries require the primary dealers to register or, at least, to offer certain portion of the government securities to auction. Many of them also stipulate a request for a quarter, a year or for a minimum per auction, which is normally a function arising from the size of the primary dealer or its share on the secondary market. Other countries do not set a quantitative amount and expect for the primary dealers to appear, as an obligation, with offers at the auctions. Level of rigidity of the arrangements depends on the market conditions and can change over time. Stipulating strict demands for submission of offers at the auctions when then market is shallow can be a burden for some of the primary dealers, and all that can be neutralized with a certain privilege, or other type of incentive.

2. Primary dealers usually appear as market makers as well. Arrangements for market makers contain an obligation to list the selling and buying prices of government securities and to monitor the specific margins along the yield curve. Especially when the markets develop and price stability is high, demands by the market makers need not be too rigid, since primary dealers can face significant loss and abandon the activity of supporting the secondary market.

One of the most difficult issues to resolve the arrangement with primary dealers is the width and volume of trading. If margins are too wide, the obligation will become meaningless and liquidity will not improve. If the margins are too narrow and instability is high, there is a risk for the market not to attract buyers due to

potential losses. Size of the margins is also in permanent ties with the volume of trading. Having the fact that market makers can cover some fixed costs (prior to earning profit) as a starting point, the larger number of transactions, the smaller the margin needed to cover them.

Development of the market and reduction of the instability can reduce the obligation to support the secondary market. Margin can be reduced and the number of government securities for which the dealer is obliged to list selling and buying prices can be increased. Even in the developing countries, some governments (such as the Czech Republic and Turkey) are the position that primary dealers should not be given certain privileges in return of the function to support the secondary market, since the margin has already provided them with a sufficient reward. In other countries as well (such as Australia and New Zealand) there is a position that, taking into account the development of the markets, different participants and volume of trading, supporting the secondary market should be in a natural way and the government should not provide any special incentives to this end.

3. Third main obligation of the primary dealers is to provide the issuer of government securities with information on the market conditions and market preferences. Information can be exchanged between the primary dealers and the government representatives. In the initial stages of the development, primary dealers can give reports to the issuer on monthly basis, and when the market matures, more rare reporting can satisfy the needs.

- Privileges

In return for the set obligations, primary dealers can receive number of privileges. They are present as most justified in the developing countries with markets characterized with instability. When the market matures, justification for the existence of privileges reduces and the issuer should be prepared to gradually abandon them. On the developed markets, the governments should avoid giving special privileges to the primary dealers, in particular to recognize their special title, i.e. status, or to be granted certain advantages arising from the information they acquire from the meetings with the

bodies in charge in the Ministry of Finance or in the Central Bank. Other privileges, discussed below, should be limited only to the early stages of the market development.

Primary dealers are given exclusive right to participate in the regular auctions of government securities, as well as the possibility to participate in the part of non-competitive offers. Sometimes, they are also given exclusive right to be primary dealers for the central banking operations of the monetary authorities.

Thus, they acquire the possibility to perform broader scope of activities in relation to the other dealers, such as the development of the foreign exchange market in the part of sale and purchase of foreign currency assets, repo operations defined through the general repo agreement and credit lines for primary dealers. Still, danger that stimulations through privileges to a group of institutions is a Damocles sword should be taken into account, whereby the government for the purpose of a single objective discourages the market participation of other institutions, thus leading to weakening of the long-term market development.¹



5. Advantages and disadvantages of primary dealers

- Advantages

Main objectives to be achieved with the introduction of primary dealers are the following:

¹) Repoto i pozajuvaweto na dr'avni hartii od vredn

1. to ensure maximum participation in the auctions of government securities on the primary market;

2. to improve the liquidity of the secondary market through the system of supporting the secondary market, thus directly improving the functioning of the primary market as well, and subsequently improving the conditions under which the government can finance its deficit;

3. More general objective is the increase of competition. Especially if foreign companies are allowed to operate as primary dealers, they can have the effect of bringing more capital and, through increased competition, reduce fees or narrow down the margins, making the dealing costs on the secondary market cheaper, indirectly stimulating the primary market.

- Disadvantages

However, there are several arguments that are to be measured prior to introducing the system of primary dealers. Main risk is that the new arrangement has features of non-competitiveness. Primary dealers hope to earn with their oligopolistic position as intermediaries between the issuer and the market, so there is a danger of conspiracy, especially if there is a small number of accepted participants for primary dealers. The created cartel can:

take appropriate measures, although much can be done by close analyzing and announcing of the results from the auctions, and by thorough monitoring of the behaviour of individual companies. Still, having the experience of most of the countries as a starting point, one can conclude that the advantages of the system of primary dealers overcomes its disadvantages.

Primary dealers are just a way to distribute government securities. In fact, although many developed countries used the system of primary dealers to a certain level in the development of their government securities market, there are examples of countries that managed to develop efficient and versatile financial markets even without them. Development of e-trading and Internet can play historical role in the issuance and absorption of government securities, and to diminish the role of the primary dealers on the government securities market over time.

6. Criteria for selection of primary dealer

- Financial capacity

Criteria for selection of primary dealer usually include assessment of the financial capacity of the market participant, measured through the capital adequacy, adequacy of management skills, technical capacity, active presence on the market observed through the participation in the trading with government securities and readiness to provide information to the authorities.

Requirements for financial capacity are essential, especially when the primary dealer is obliged to list the selling and the buying prices of government securities, thus being exposed to great market risks. Therefore, in order to maintain market efficiency, criteria for selection should be revised and adapted to the needs.

There are many criteria that refer to the financial capacity, but the most important are the participation in the auctions, volume of trading and possibility to list the selling and the buying prices of the government securities. With respect to the participation in the auctions, there is a recommendation for the indicator to be measured more through the approved offers, rather than through the total volume of offers (approved and rejected). Final evaluation is based on an index created from the series of the abovementioned quantitative indicators.

Obligations of primary dealers, in addition to the participation in auctions, usually vary from country to country. Thus, somewhere dealers can recognize auction quotas; can behave as market makers or can provide the government with information on the market conditions

1. make downward pressure on the price of the auctioned government securities by creating supply chain, with an intention to sell the government securities later on at higher prices;

2. create higher intermediation costs, thus reducing the demand by the final investors.

The threat from the non-competitiveness can cause a serious problem. Observations point out to the fact that it is not easy to detect this practice and to under-

- Supervisory criteria

Not a single primary dealer should be approved, except if he/she meets the supervisory criteria. Thus, criteria for selection of primary dealers need to be set as more transparent as possible. Candidates can be aware of the potential obligations they have, and other market participants who meet these criteria will be taken into account when selecting the future primary dealers.

Some countries, when selecting primary dealers, have introduced quotas as a method to ensure participation of various types of institutions between the primary dealers. Justification for this procedure rests in the advantage for creation of diversified base of primary dealers from different business and consumption circles. For instance, certain percentage of licences for primary dealers is granted according to the participation of certain types of institutions (commercial banks, insurance companies, investment funds, etc.). Within each group, primary dealers are selected on the basis of the previous criterion. The remaining primary dealers, not included in this percentage, are selected exclusively on the basis of the previous criterion, regardless of the type of the institution.

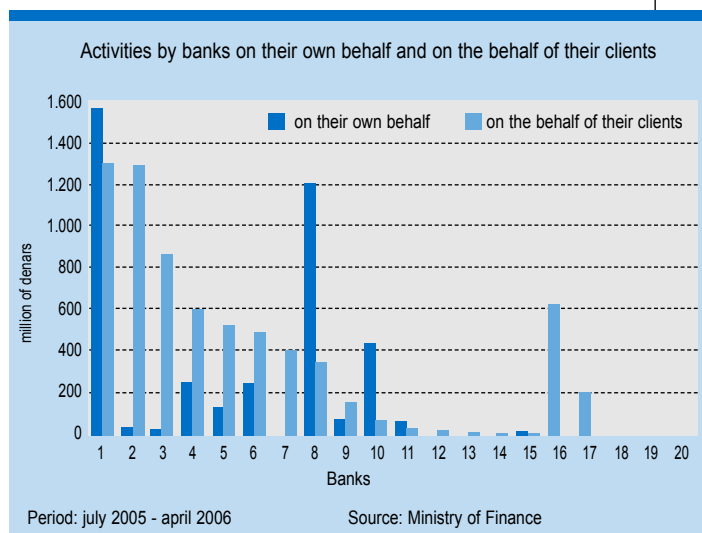
- Trial period

Important factor to maintain a competitive market of primary dealers is the entrance of new participants that will challenge the existing ones, especially if the existing participants try to use the oligopolistic advantage. Therefore, some countries use a trial period during which the interested institutions behave as primary dealers only provisionally. Following this period, those who have been active according to the previously agreed criteria are formally designated as primary dealers for a certain period of time, ranging from one to two years. Remaining institutions can continue applying for primary dealers. Following the set time period (one or two years), the list of designated primary dealers is subject to revision, thus enabling the most active outsiders that meet the selection criteria to replace the relatively inactive primary dealers.

7. Experience of the Republic of Macedonia

Macedonian government securities market has brief history of existence since 2004, with a modest portfolio and features of almost undeveloped secondary market of government securities. However, the experience so

far, the international practice and the theoretical concepts are sufficient to start the initiative for introduction of intermediaries on the government securities market who will improve its development.



The procedure for introduction of intermediaries on the government securities market primarily envisages defining the primary dealers on the primary market, followed by selection of the market makers.

Present state on the primary market of government securities includes the Agreements for participation in primary market of government securities concluded between the Ministry of Finance, NBRM and all active banks in Macedonia, whereby none of them has spe-

Until primary dealers are finally introduced (it is planned for the beginning of 2007), activities are expected from the Ministry of Finance that will take place in several stages and will cover the following monitoring of the banks on the auctions in the period from May to November 2006, broader analysis of the development of the government securities market and raising the awareness of the banks about the significance of the concept of primary dealers

cial privileges or obligations, except to respect the Rulebook on the Manner and the Procedure for Issuance and Payment of Government Securities (Official Gazette of the Republic of Macedonia, no. 99/05).

To the end of showing the effect of such type of organization of the primary market, results from the activities performed by banks on their own behalf and on the behalf of their clients is presented below.

It can be concluded that during the shown period three banks have shown no activity, and over 5% of the total activity on their behalf is present at only five banks, while over 5% of the total activity on behalf of the clients is present at only nine banks.

In addition, one can notice big discrepancies between the participating banks, and in order to have a more precise analysis so as to evaluate the right moment for introduction of primary dealers and their right number, parallel analysis is also needed of the participation of the banks on the CB bills market.

We can consider the reform of the pension system as a positive trend, since the appearance of pension companies as investors on the market will increase the interest in medium-term and long-term government securities on the primary market, and they are expected to bring greater activity on the secondary market when creating their portfolio



That is why we can point out the introduction of government securities for monetary purposes as a positive trend this year. Thus, the present segmentation of the securities market can be reduced, enabling the banks to abandon the conservative approach in the placement of the excess of liquidity, and on the other hand, longer maturity of this instrument will influence the development of the secondary market.

In addition, we can consider the reform of the pension system as a positive trend, since the appearance of

pension companies as investors on the market will increase the interest in medium-term and long-term government securities on the primary market, and they are expected to bring greater activity on the secondary market when creating their portfolio.

However, until primary dealers are finally introduced (in general, it is planned for the beginning of 2007), activities are expected from the Ministry of Finance that will take place in several stages and will cover the following:

1. monitoring of the banks on the auctions in the period from May to November 2006;
2. broader analysis of the development of the government securities market;
3. raising the awareness of the banks about the significance of the concept of primary dealers through articles, individual meetings and presentations to be organized by the Market Committee.

Last step in the series of activities is the preparation of more precise criteria to define the primary dealers by monitoring the following:

- volume of participation of the banks in the auctions;
- number of clients served;
- regular attendance when banks participate in the auctions on the primary market;
- amount of fees set for their services;
- shown interest by the participating banks;
- participation in the secondary market.

When these steps are finalized, Ministry of Finance of the Republic of Macedonia will be in a position to designate several banks to perform the function of primary dealers.

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2. Developing government bond markets: a handbook, The International Bank for Reconstruction and Development / The World Bank and International Monetary Fund, July 2001

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PRESS RELEASE

In accordance with the Calendar of issue of government securities for 2006, the next auction of government securities will be held on June 6, 2006, whereby the Ministry of Finance will issue 3-month and 6-month treasury bills.

Agent of the government regarding the issue of government securities is the National Bank of the Republic of Macedonia.

Auctions of government securities are held in accordance with the applying conditions and procedures, i.e. government securities are sold in auctions, where only banks can participate directly, and other interested do-

mestic and foreign physical persons and legal entities could participate indirectly, i.e., via the banks. The website of the Ministry of Finance contains information (table) on the commissions the banks charge to indirect participants for purchasing T-bills on the primary market.

The nominal value of the treasury bills is Denar 10.000,00, and the interest rate is market-based, depending on the offer and the demand. T-bills are issued and paid at nominal value, and paid in at discounted value.

For more detailed information, see the website of the Ministry of Finance: www.finance.gov.mk or call 3106-293, 3106-381 and 3106-171.

Date of the next auction of 3-month treasury bills:	06.06.2006
Time of acceptance of offers:	11:00-12:00
Type of tender:	Maximum interest rate - minimum price tender (American type)
Amount in denars:	1.150.000.000 (of which 900.000.000 are for monetary purposes)
Auction designation:	DZ2006/11-91
Date of payment:	07.06.2006
Maturity (in days):	91
Date of falling due:	06.09.2006
Maximum interest rate:	7,50 %
Date of the next auction of 6-month treasury bills:	06.06.2006
Time of acceptance of offers:	11:00-12:00
Type of tender:	Maximum interest rate - minimum price tender (American type)
Amount in denars:	300.000.000
Auction designation:	DZ2006/06-182
Date of payment:	07.06.2006
Maturity (in days):	91
Date of falling due:	06.12.2006
Maximum interest rate:	8,00 %
Formula for calculating the price of the T-bills: $C=100 \times 1 / [1 + (KS \times N / 36.000)]$; KS-interest rate; N-number of days of maturity. The discounted amount, which should be paid in, is obtained by multiplying the price (C) by the amount to be auctioned and then dividing it by 100. The interest is a difference between the auctioned and discounted amount.	
Example 1: At interest rate of 7,50% for 3-month t-bills, for auctioned amount of Denar 1.000.000, the price is Denar 98,1394, and the discounted amount that should be paid in is Denar 981.394. The yield on the basis of interest, for 3 months is Denar 18.606. On annual level, the interest is Denar 74.424.	
Example 2: At interest rate of 8% for 6-month t-bills, for auctioned amount of Denar 1.000.000, the price is Denar 96,1128, and the discounted amount that should be paid in is Denar 961.128. The yield on the basis of interest, for 6 months is Denar 38.872. On annual level, the interest is Denar 77.744.	

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