

MINISTRY OF FINANCE
REPUBLIC OF MACEDONIA



BULLETIN

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Skopje, march/april 2006

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HONOURABLE,



The Macedonian economy is small and open economy with traditional structure and high unemployment, relatively low productivity and as a result, it faces serious problems in maintaining foreign trade balance. In order to resolve these issues and maintain stable and relatively high growth, two sets of measures are necessary: 1. Macroeconomic policy measures and 2. Structural measures. Both sets are necessary and should be undertaken simultaneously and continuously. The first set is focused on stimulating growth and using the existing resources to the maximum. And the second - ensuring creation of economic structure that would be self-sustainable and growing on medium and long term. The main objective of these measures should be high and sustainable economic growth and job creation.

Tax burden of the economy and citizens should basically be kept at the present level, with few adjustments. The need for bigger public expenditures should be based on more efficient collection of taxes and drastic reduction of the grey economy, which is still a major factor for raising the future costs of the country. On the basis of this, the share of public expenditures in GDP should slightly rise from the present 34% by several percentage points and if possible, reach the level of 37-38% of GDP. Such share would be optimum in meeting the future public expenditure needs in Macedonia on one hand, and still be moderate on the other. Financing public needs should

be done by maintaining low level of general government deficit and by controlling it on medium term within 1% of GDP.

Public expenditure structure should be quickly re-shifted from primarily financing current expenditures towards investment costs. To this end, public sector salaries and social expenses should be under firm control.

Public debt level grew until 2001 and reached the level of 52-53% of GDP. Public debt is now fairly moderate, at a level below 40% of GDP. On medium term, public debt level should be reduced to around 30%, and in the long run, even below 20% of GDP. This objective is to be achieved via continuous GDP growth, via control over new borrowings and via usage of large privatisation receipts for early repayment of external and domestic debt.

In the long run, i.e. until Macedonia becomes full member of the EU and EMU, the economic policy should deliver inflation rate up to 3%.

Significant attention should be paid to the external sector and measures for reducing trade deficit, thus having medium-term control over the current account deficit, which should be maintained at a level up to 3% of GDP. At the same time, having in mind the critical conditions in trade deficit, Macedonia must continuously maintain foreign exchange reserves at least at the level of the projected 4-month import coverage.

Denar foreign exchange rate on medium term should remain fixed and pegged to the euro and later, an assessment should be made of the need to make it flexible within pre-determined margins of several percentage points.

Structural measures should be undertaken continuously so as to ensure that various economic resources generate high and self-sustainable growth, but also

high competitiveness in relation to the regional and global competitors. It is especially significant that the structural measures continue in the area of flexibilisation and liberalization of labour market; in the area of public sector and public administration reform; regulatory competences of the government and few sectoral structural reforms, such as in the financial sector, agriculture, health system, education etc.

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	mesece	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 2005

GROSS DOMESTIC PRODUCT
(real growth rates, year on year, 2000-2006)

		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
2006	I	3.0	0.5	-2.4	6.2	4.1	8.3	1.5	1.5	4.1	2.6	2.6	2.6

* 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

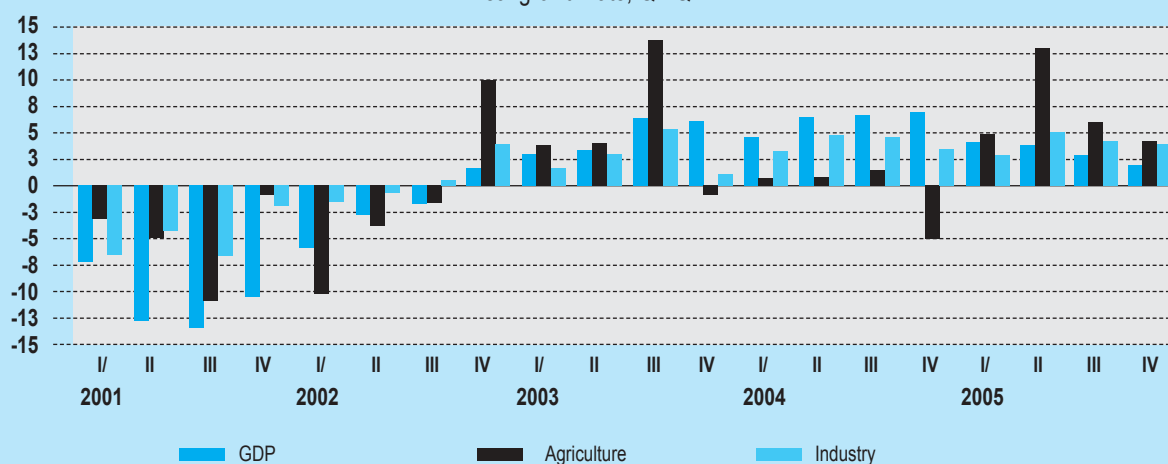
	2000	2001	2002	2003	2004	2005	2005				2006	
							Q - 1	Q - 2	Q - 3	Q - 4	Q - 1	April
REAL SECTOR												
Production real rates of change												
Gross domestic product	4,6	-4,5	0,9	2,8	4,1	4,0	2,9	5,0	4,1	3,8	2,6	
Industrial production	3,5	-3,1	-0,8	6,6	-2,1	7,0	4,8	13,0	6,0	4,1	0,5	-4,4
nominal 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	9,2	
Prices												
Consumer Price Index	5,8	5,5	1,8	1,2	-0,4	0,5	-0,4	0,9	0,9	0,8	2,7	3,2
Industrial producer prices	8,9	2,0	-0,9	-0,3	0,9	3,2	1,9	2,3	4,5	3,8	5,6	4,4
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		
Unit labour cost	-4,7	-0,7	0,2	-10,3	0,7	-0,5	-7,2	-8,6	8,9	5,1		
Real unit labour cost	-12,5	-2,7	1,1	-10,1	-0,4	-4,4	-20,6	-9,1	6,4	5,7		
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	61,9	70,4
Lamb	261,9	291,2	330,3	388,4	461,4	443,3	478,1	479,7	429,2	410,8	383,9	401,0
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	14.810,0	17.942,0
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	4.940,0	6.388,0
Lead	45,4	47,6	45,3	51,5	88,7	97,6	97,8	100,4	89,2	104,9	124,2	117,0
Zink	112,8	88,6	77,9	82,8	104,8	138,1	131,5	137,2	129,7	164,0	224,2	308,0
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	-6,5	1,1
Import of goods (CIF)	17,9	-19,4	16,3	15,3	25,9	10,1	13,8	24,6	8,8	-2,8	-6,4	1,4
Trade balance (in millions of US \$)	-771	-533	-849	-937	-1.230	1.187	-219,2	-380,0	-263,0	-326,6	-206,0	-140,5
Current account balance (in millions of US \$)	-236	-38	-324	-277	-415	-81,0	-21,4	-112,6	78,2	34,4	-18,5	
"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	33,5	
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	2.008,2	2.065,3
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	61,23	61,16
Denar / USA \$	65,89	68,04	64,73	54,30	49,41	49,2919	46,80	48,68	50,16	51,47	50,97	49,97

	2000	2001	2002	2003	2004	2005	2005				2006	
							Q - 1	Q - 2	Q - 3	Q - 4	Q - 1	April
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	-6,1	22,6
Tax revenues	22,1	-6,9	14,0	-9,6	6,8	4,8	-3,1	6,2	7,3	8,0	-0,3	16,3
VAT	75,2	-1,8	19,8	3,2	21,6	5,1	-5,9	4,4	10,4	10,7	-14,3	17,1
Expenditures	12,7	27,0	-0,1	-13,8	0,3	6,1	5,6	0,6	6,2	10,9	10,0	1,8
Current expenditures	1,8	31,9	17,2	-1,2	1,4	2,2	3,6	-0,5	3,7	1,6	11,2	4,6
Capital expenditures	94,5	28,3	11,8	-447,0	-3,4	47,4	42,2	11,4	32,7	85	5,4	-23,7
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	-1.275,0	870,0
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	-441,0	952,0
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	41,2	41,8
Credit to private sector	17,2	7,3	12,7	15,8	18,7	20,5	25,0	23,0	22,0	20,5	21,0	21,2
Cash in circulation	16,6	48,5	0,0	0,3	-0,1	2,0	2,0	0,5	1,3	2,0	3,7	2,6
M1	22,6	5,6	4,6	1,1	-1,1	7,5	6,5	3,8	6,0	7,5	3,8	8,7
M2	29,4	61,9	-7,0	15,9	15,1	16,0	23,4	14,5	14,1	16,0	14,9	15,2
M4	25,6	56,7		13,2	15,3	15,1	21,4	21,5	13,7	15,1	14,9	15,6
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	255,0	241,8
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	36,2	
Number of new employed	101.996	90.308	110.401	79.921	112.013	147.965	27.845	63.873	102.114	147.965	40.433	50.617
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	22.258	26.900
Wages												
Nominal net wages	5,5	3,5	6,9	4,8	4,0	4,5	3,0	2,2	2,2	3,6	6,6	6,9
Real net wages	-0,3	-1,9	5,0	3,6	4,4	2,0	3,4	2,0	1,3	2,8	3,8	3,9
Consumer basket	2,5	5,2	2,7	-0,7	-2,7	-1,2	-4,0	-3,3	0,5	-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	266.615	266.840
"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	67.629	
"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	36.982	36.228

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



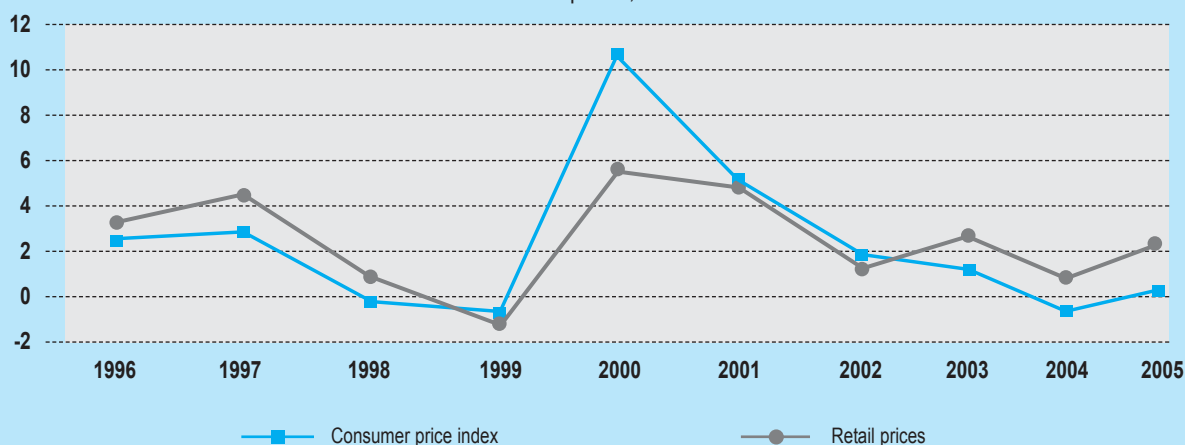
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ²⁾
Gross Domestic Product ¹⁾	3.450	3.389	3.351	3.390	3.458	3.575	3.730	3.899	3.723	3.755	4.546	4.842
in million USD dollars												
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ²⁾
Gross Domestic Product (per capita) ¹⁾	1.785	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

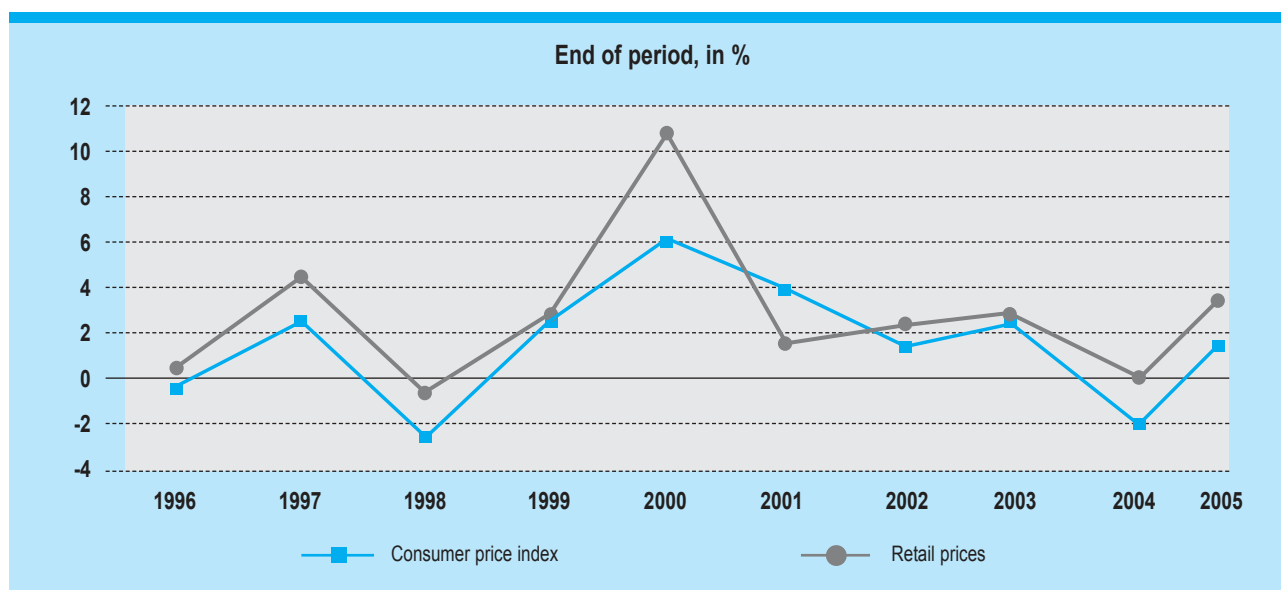
INFLATION

End of period, in %



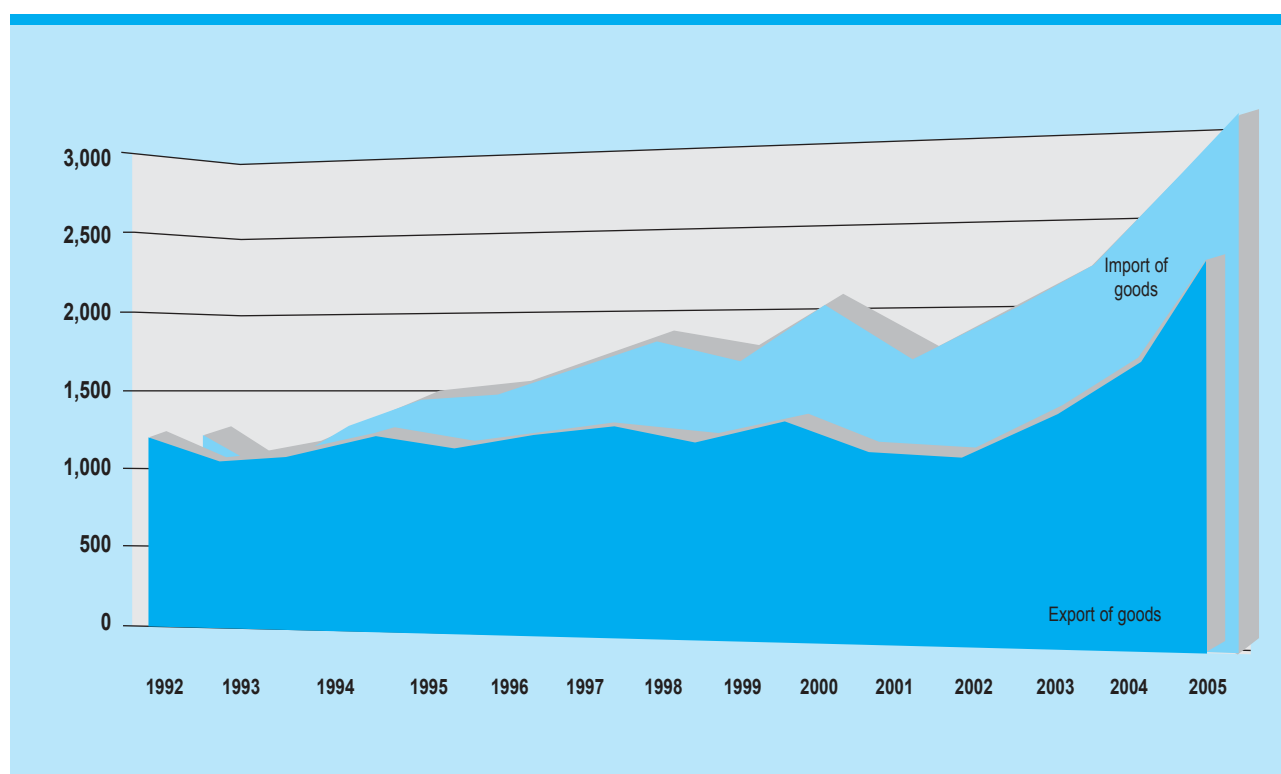
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Consumer price index	2.3	2.6	-0.1	-0.7	5.8	5.5	1.8	1.2	-0.4	0.5
Retail prices	3.0	4.4	0.8	-1.1	10.6	5.2	1.4	2.4	0.9	2.1

	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
2006	Q1	450.5	676.0	-225.5	87.3	73.6	13.7	88.2	47.1	41.1
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
	III	179.9	299.0	-119.1	31.8	29.2	2.6	36.4	21.7	14.7
	IV	176.4	317.0	-140.6	29.2	28.0	1.2	41.2	19.8	21.4

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
6.5	8.3	-1.8	52.7	40.7	12.0	59.9	61.8	-1.9	6.0	137.5	-131.5
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	-6.0	2.4	34.6	-32.2
2.7	3.4	-0.7	14.7	10.6	4.1	16.1	17.3	-1.2	1.8	47.3	-45.5
2.4	2.0	0.4	17.4	13.5	3.9	18.2	18.2	0.0	2.2	39.6	-37.4
1.4	2.9	-1.5	20.6	16.6	4.0	25.6	26.3	-0.7	2.0	50.6	-48.6
1.5	2.4	-0.9	19.9	14.4	5.5	24.7	25.7	-1.0	1.8	33.4	-31.6

SHORT-TERM ECONOMIC TRENDS

APRIL 2006

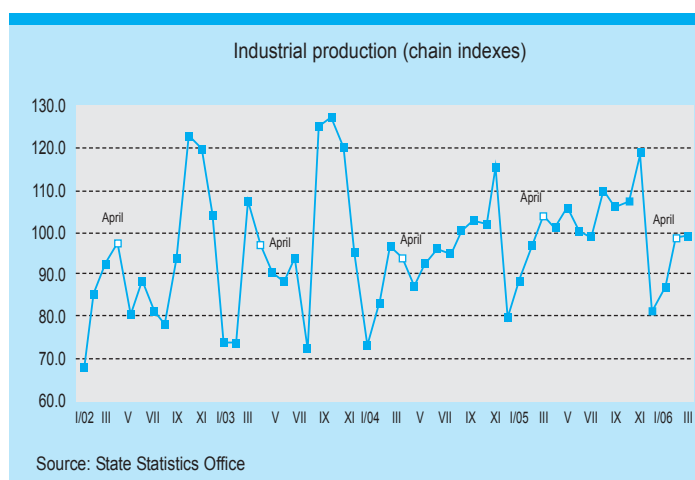
SUMMARY OF THE MOST IMPORTANT SHORT-TERM ECONOMIC DEVELOPMENTS IN APRIL 2006

- Industrial production increased by 0,6% on monthly basis, and declined by 4.4% on annual basis;
- Costs of living grew by 0.3% on monthly basis, thus the average inflation reached 2.9% on annual basis;
- In the period January - April 2006, export of goods dropped by 4.5% annually, and import grew by 2.2%;
- Foreign trade deficit grew in the first four months by US\$ 51.9 million and it reached US\$ 409.1 million;
- External debt grew on monthly basis by US\$ 57 million, reaching the level of US\$ 2,065 million;
- Central government budget deficit amounted to Denar 405 million, while there was a surplus realized in the consolidated budget in the amount of Denar 510 million;
- Gross foreign exchange reserves at end-April 2006 reached US\$ 1,472 million and on monthly basis, they were by US\$ 72 million higher;
- At end-April 2006, number of registered unemployed persons was 357,556, which was by 0.4% lower in relation to the previous month, and on annual level, it declined by 27,782 persons or by 7.2%;

1. REAL SECTOR

1.1. Industrial production

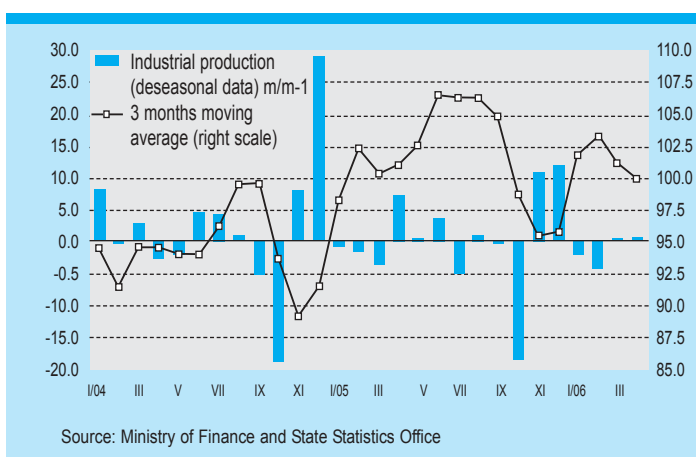
Following the slight increase of the industrial production in Q1 in 2006 by only 0.5% annually, negative trends were recorded in April 2006, which reflected in insignificant increase of the industrial production by only 0.6% on monthly basis, i.e. decline of the industrial production by 4.4% compared to April 2005. Compared to the average production in 2003, industry grew by 2.4% in 2006.



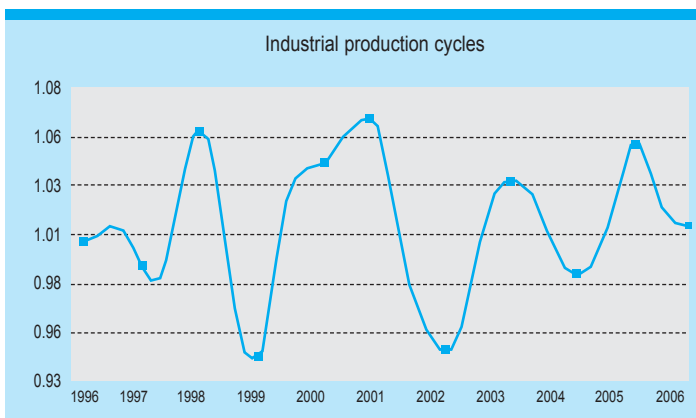
Analysis of the index of physical output of the industrial production on monthly basis points out to the conclusion that weak April results were due to the decline of the production in four industrial branches such as textile industry (drop by around 13%), oil industry (drop of even 57%), production of metal products (drop by 10%), as well as electricity generation, where the monthly drop was by 21%. These four industrial branches had a negative contribution of almost 8 percentage points in the monthly index. What was most characteristic in all these branches, was the drop by half in the activity pertaining

to production of oil derivatives, as a result of the repair of certain parts in the only Macedonian company in this field, AD OKTA - Skopje. Next month already, it is expected for the situation in this branch to normalize.

At the same time, there was almost identical trend noted in the index of de-seasoned industrial production, which for a second month already showed positive, although minimal, results, this time by 0.6% on monthly basis.



Such variations in the trends of the industrial production led to drop in its index on cumulative basis, which in the period January - April 2006 was lower by 0.9%, being a decrease by 1.1 percentage points compared to the quarterly performance. Such results were far from the projections, envisaging an increase in the industrial production by 5% throughout 2006. Thus, to achieve the projections, it will be necessary to significantly accelerate the economic activity in the second half of the year. Hope for such development of the events are the data on the cycle of industrial production, showing that the indus-



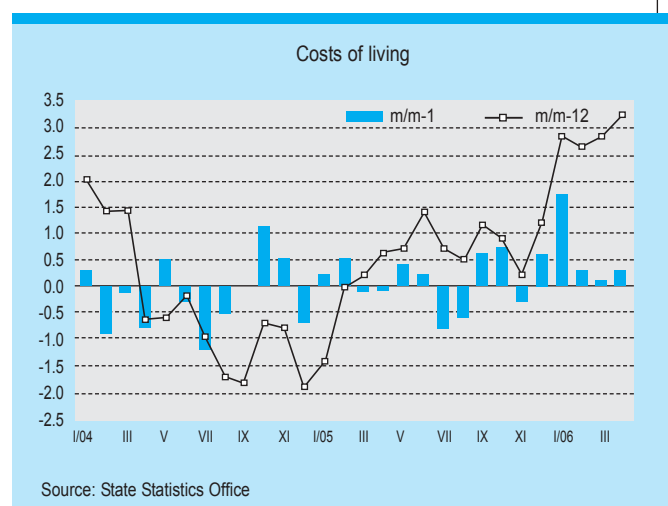
try has already reached the negative part of the cycle, which in the next months, in particular the last quarter, will be followed by intensification of the activity.

1.2. Prices

The trend of moderate increase of the costs of living on monthly basis (except the one-off high increase of the prices at the beginning of the year) also continued in April 2006, recorded through the increase of the monthly inflation rate by 0.3% compared to March the same year. Thus, in the period January - April 2006, average inflation rate slightly grew, reaching the level of 2.9%. Compared to April last year, costs of living increased by 3.2%, being the highest level in the past 4 years.

On monthly basis, minimal increase of the costs of living was basically determined by the movements at the prices of several groups of products, mainly food products and oil derivatives. In fact, in April 2006, under the influence of the seasonal effects usually present in this period of the year, prices of fruit and vegetables increased by 1.5%, i.e. by 2.9% in relation to the previous month. Such trends led, for the first time after 2002, for costs of living with respect to food to increase on monthly basis (2.7% in relation to April 2005).

Apart from food products, what also influenced the trends in April index were the Decisions by the Energy Regulatory Commission to increase retail prices and refinery prices of oil derivatives on 3rd and 17th April 2006, according to the movements of the prices of crude oil and oil derivatives on the world markets. Therefore,



retail prices of oil derivatives in average increased by 1.66%, i.e. by 3.94% respectively. Taking into account the change in the statistical recording of prices¹, two increases of the prices were included in the April index, i.e. they had a certain impact over the increase of the overall index. With respect to the other products, no significant changes were recorded regarding the price level.

On cumulative basis, in the period January - April 2006, average inflation rate reached the level of 2.9%, being the highest level following May 2002. Again, the determinants of the high increase were the above-mentioned groups of products, coupled with the tobacco and beverages, where highest increase was recorded on cumulative basis by even 17.6% (measured by costs of living)². With respect to the rest of the groups of products, more significant increase was recorded in food and non-alcoholic beverages (1.7%), health services (1.5%) and transportation (8.2%), while the decline was registered in clothes and footwear (-0.3%) and communications (-4.6%).

Within the CPI, in the period January - April 2006, increase was also noted at goods and services, being higher by 3.3%, i.e. 0.9% respectively.

Prices of producers of industrial products in April 2006 were higher by 0.8% on monthly basis, due to the higher prices of the producers in the processing industry and in the sector covering ore and stone extracting by 1% and 0.7% respectively. Thereby, within the processing industry, highest increase was recorded at the prices of the producers of base metals (by 4.4%) and of oil derivatives (by 4.2% in line with the Decisions by the Energy Regulatory Commission). On annual basis, industrial producers' prices were by 4.4% higher. In average, in the first four months in 2006, prices of producers of industrial products were higher by 5.3%, mainly due to the higher prices of the producers in the processing industry (6%). Thereby, highest increase was recorded at the prices of producers of oil derivatives (35.9%) and of tobacco products (18.7%). Within the sector for ore and stone extracting, average increase of prices by 4.5% was recorded, while in the sector for electricity, gas and water supply, the prices remained unchanged.

Value of the consumer basket regarding food and beverages for a four-member family in 2006, calculated on the basis of the retail prices, amounted to Denar 10,412, which compared to the previous month, it was higher by 0.6%.

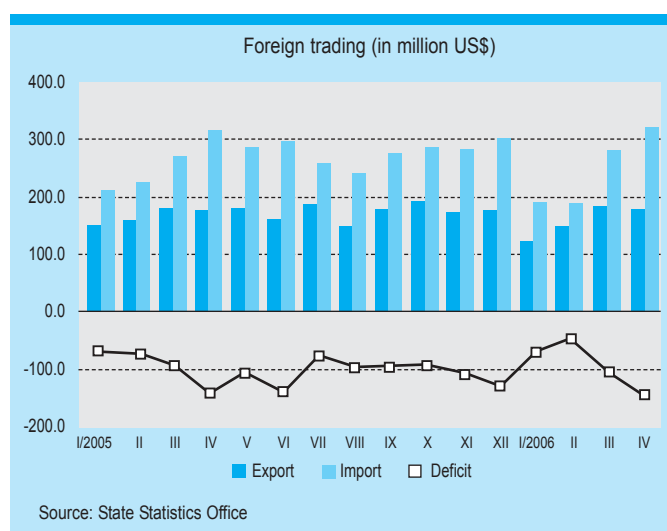
2. EXTERNAL SECTOR

2.1. Foreign Trade

Foreign trade in the Republic of Macedonia in April 2006 increased on monthly basis by 3% mainly due to the better results on the import side by 6% and the lower export activity by 1.9%. High import by around US\$ 317 million in April resulted in increase of the trade deficit amounting to US\$ 140.5 million, being higher by US\$ 21.4 million compared to the deficit in March, and monthly coverage of the import with the export dropped by 10.4 percentage points, being 56.4%.

Analyzed on annual level, cumulative decrease of the export of goods in the first four months in 2006 was 4.5% compared to the same period in 2005. At the same time, increased import by 2.2% resulted in rise of the foreign trade deficit by US\$ 51.9 million, whereby it reached the level of US\$ 409 million. Monthly coverage of import with export amounted to 60.5% annually.

Export decline in the first four months in 2006 (compared to the same period last year) was due mainly to



1) Starting January 2006, statistical monitoring of prices of oil derivatives is carried out from 26th in the previous month by 25th in the current month so as to cover multiple changes in the prices during the month.

2) According to COICOP Classification (Classification of Individual Consumption by Purpose), tobacco products, on cumulative basis, increased by 36.9%.

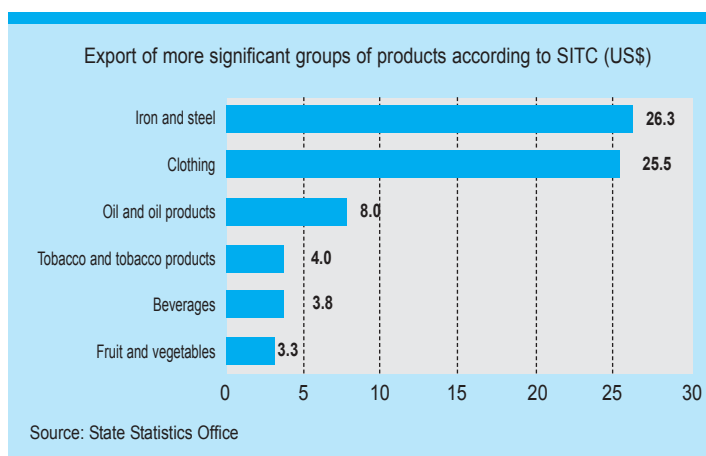
the declined export at the two main export branches, iron and steel, by around US\$ 42.2 million (20.4%), tobacco and tobacco processed products by US\$ 10 million (27.9%), clothing by US\$ 4.5 million (2.8%) and the export of footwear by US\$ 2.6 million or by 15.5%.

Despite such trends, regarding raw materials, export of metal ore and scrap metal increased by US\$ 11.4 million or by 242.9%, as well as export of oil and oil products by US\$ 11.2 million or by 28.8%, export of beverages by US\$ 3.5 million or by 17.4%, and export of fruit and vegetables by US\$ 3.2 million or by 18.8%.

Groups of products most exported in the first four months in 2006 were the following: iron and steel (US\$ 165 million), clothing (US\$ 161.2 million), oil and oil products (US\$ 50 million), tobacco and tobacco processed products (US\$ 25.3 million), beverages (US\$ 23.7 million), fruit and vegetables (US\$ 20.4 million). These six groups of products comprise 70.9% of the total export of the country.

In the period January-April 2006, 56.5% of the total exported goods were placed on the European Union market, while 42.2% of the total goods imported in the Republic of Macedonia originate from the Union. Such trends showed that there was a drop in the export of goods to the EU by 8.6%, i.e. import of goods declined by 1.8%.

Germany, Serbia and Montenegro, Greece, Italy, Croatia and Bulgaria are our biggest partners, the share

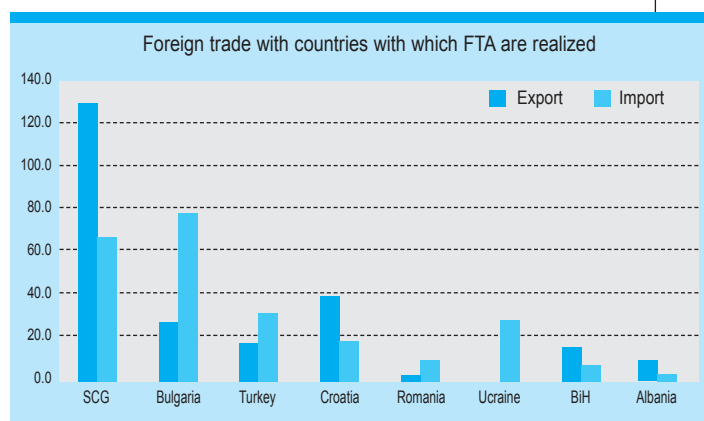


of which in the export is 75%. On the import side, 17.2% out of the total imported goods (according to SITC) accounted for oil and oil products, 8.8% for textile yarns,

6.6% for iron and steel, 5.6% for road vehicles, 3.8% for electricity, 2.5% for electrical machines and spare parts. Around 24% of foreign trade deficit of the country in the analyzed period was realised with Bulgaria, Turkey, Romania and Ukraine.

The analysis of the foreign trade currency structure of the Republic of Macedonia in the first four months in 2006 showed drop in the export in euros by EUR 6.5 million, i.e. 1.7%, and the import increased by EUR 9.5 million, i.e. 1.7%.

At the same time, as a result of the trade with new markets, export on the "dollar" market increased by US\$ 18.8 million or by 13.4%, i.e. import grew by US\$ 61.8 million or by 22.7%.



During the analyzed period, opposite to the achieved results from the export expressed in dollars, export of goods from the Republic of Macedonia expressed in denar equivalent grew by 3.5%.

Part of the deficit expressed in euros increased by around EUR 16 million (or by 9.3%), and the trade deficit expressed in US\$ in the amount of around US\$ 43 million (or by 32.4%) led to increase of the total deficit expressed in denars by around 23.9%.

2.2. External Debt

At end-April 2006, external debt of the Republic of Macedonia, based on long-term credits and loans amounted to US\$ 2.065 million and, in relation to March 2006, it increased by US\$ 57 million. Having in mind the same amounts of used foreign credits and repayment of debt

principal, monthly rise of the debt was mostly due to the realized exchange rate differences.

Regarding the debt structure by creditors, there were no changes in April, and participation of multilateral creditors accounted for more than half (53.1%), in particular IDA, IBRD, EIB and the EU. Bilateral creditors participated with 9.8%, while private creditors accounted for 37.1%, where 24.5% referred to the Eurobonds.

liabilities were serviced in the amount of US\$ 290.5 million, US\$ 269.6 million out of which as principal. Out of the total liabilities, US\$ 251.5 million was repaid towards private creditors, US\$ 227.5 million out of which to the London Club.

According to the repayment schedule of the National Bank of the Republic of Macedonia for the period May - December 2006, liabilities towards abroad in the amount of US\$ 209.9 million fall due, US\$ 154.3 million out of which as principal.

Movements of external debt and US\$ ex. rate

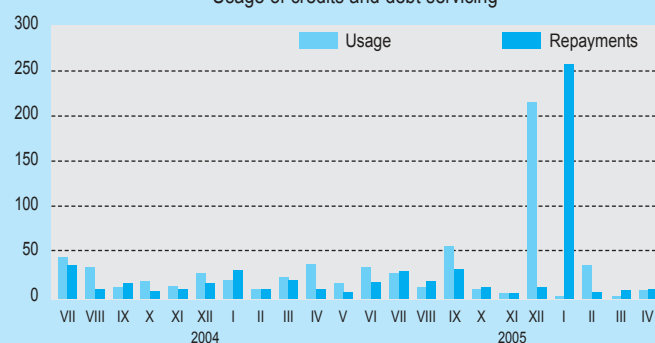


During April, funds were disbursed on the basis of long-term credits and loans in the amount of US\$ 8.6 million. US\$ 4.3 million was disbursed from multilateral creditors, mostly from IBRD, IDA, CEB, EBRD. Remaining funds were disbursed from bilateral creditors (US\$ 1.9 million) and from private creditors (US\$ 2.4 million). In the first four months of this year, funds were disbursed in the amount of US\$ 59.1 million, US\$ 42.9 million out of which from private creditors.

In April 2006, new credits were concluded in the amount of US\$ 6.7 million, all concluded with private creditors. Cumulatively, contracts were concluded in the amount of US\$ 88.1 million in the first four months, US\$ 56.8 million out of which with private banks, financial institutions and the non-financial private sector.

Regular and timely servicing of the liabilities towards abroad continued in April as well, whereby US\$ 10.9 million was repaid, US\$ 8.6 million out of which as principal. Out of the total liabilities towards abroad, US\$ 7.7 million was paid to multilateral creditors (EIB, IDA, IMF, IBRD), and the rest in the amount of US\$ 3.2 million to private banks, financial institutions and non-financial private sector. Cumulatively, in the first four months of this year,

Usage of credits and debt servicing

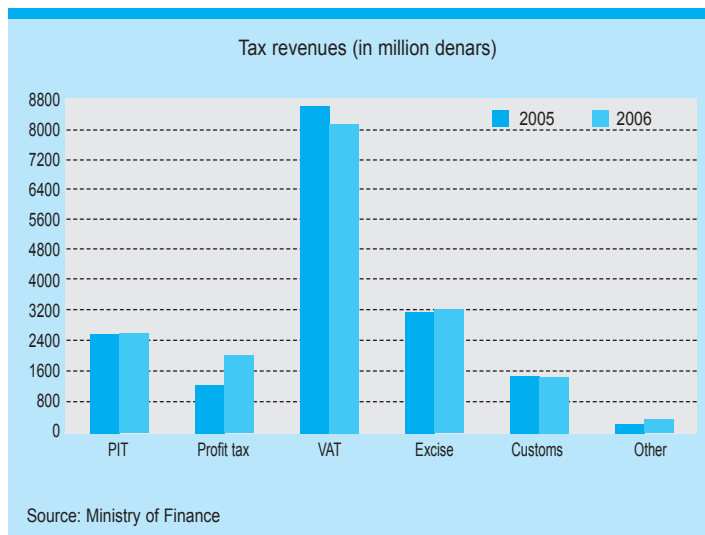


In relation to the short-term debt at end-April 2006, it amounted to US\$ 106.7 million and was towards the private sector. Compared to March, short-term debt of the Republic of Macedonia increase by US\$ 13.2 million, due to the increased amount of used credits regarding the repayment of liabilities. During April, short-term financial credits were used in the amount of US\$ 17.2 million, and liabilities towards abroad were repaid in the amount of US\$ 0.1 million. Thereby, in the first four months, US\$ 28.1 million was disbursed in total, and liabilities were paid in the amount of US\$ 20.4 million.

3. FISCAL SECTOR

In the period January-April 2006, total central government budget revenues reached the amount of Denar 19.101 million, which was 4.5% increase in relation to the same period last year. Higher performance of total revenues was mainly due to the increased registration at most of certain categories of tax revenues, except VAT revenues and customs revenues. In the first four months of 2006, tax revenues reached the amount of Denar 17.780 million, which was by 2.6% higher in relation to the realized tax revenues in same period last year.

In the first four months of 2006, share of VAT in total tax revenues was 45.2%, i.e. the share of VAT and excises reached 63.3%. On the basis of value added tax, Denar 8.040 million was collected as revenues, which was a lower performance by 5.7%, i.e. by Denar 484 million, in relation to the same period in 2005. This was due to the VAT refund, as well as to the commencement of



the deferred payment of VAT for goods for inward processing, according to the application of the new Customs Law from 1st January 2006.

Excise revenues in this period grew by 1.7%, or by Denar 55 million, in relation to the same period last year, reaching the amount of Denar 3.215 million.

In the first four months, personal income tax revenues were collected in the amount of Denar 2.636 million, i.e. by 1.5% more in relation to the same period last year. Profit tax revenues reached a significant amount of Denar 2.036 million, i.e. Denar 736 million or 56.6% more in relation to the last year. Thereby, profit tax revenues already reached 63.9% in the total projected revenues for 2006, being a result of the additional payments and advance payments on the basis of profit tax following the final statements.

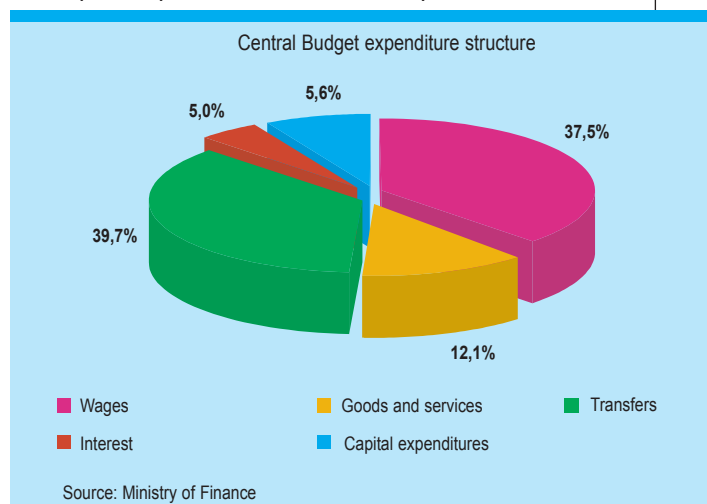
In the first four months in 2006, there was a drop in customs revenues on annual basis by 5%, caused by the reduction of the customs tariffs pursuant to the WTO Accession Agreement, as well as the free trade agreements. Revenues from import fees were realised in the amount of Denar 1.449 million.

During the same period, total central government budget expenditures amounted to Denar 19,506 million, which was by 3.3 higher in relation to the same period in 2005, or in nominal terms, total central budget expenditures were by Denar 619 million higher.

In this period, regarding the structure of the total central budget expenditures, expenditures for salaries and allowances accounted for 37.5%, and in relation to the same period last year, they increased by 2.2%, i.e. they amounted to Denar 7,312 million. Expenditures for goods and services reached the amount of Denar 2,367 million, i.e. 2.8% less in relation to the same period last year.

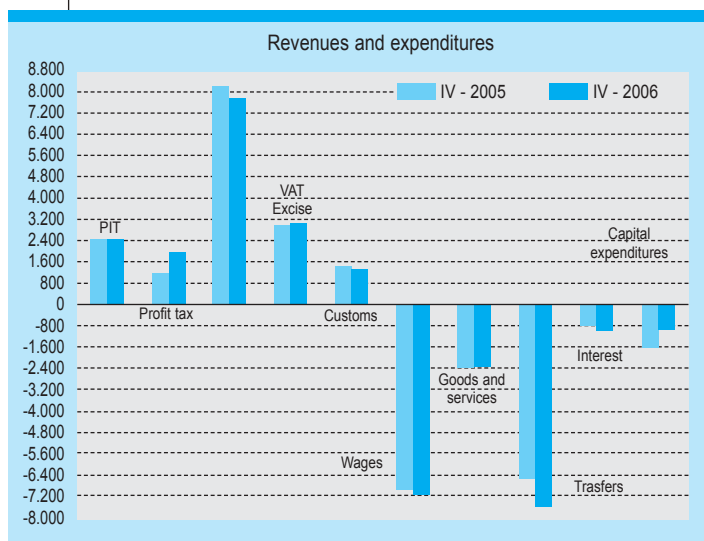
With regard to transfers (share of 39.7% in the total central budget expenditures), Denar 7,751 million was spent, i.e. 15.4% more than in 2005. Transfers to the Pension and Disability Insurance Fund were in the amount of Denar 2,285 million or by Denar 254 million higher (14.4%) in relation to the same period last year.

Capital expenditures were realized in the amount of Denar 1,097 million, and these expenditures underperformed by 32.5% or by Denar 528 million compared to the capital expenditures in the same period in 2005.



In the period January-April 2006, funds in the amount of Denar 979 million were allocated from the central government budget on the basis of interest, being by 18.4% more in relation to the same period in 2005.

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 405 million, while the consolidated budget realized surplus in the amount of Denar 510 million.



4. MONETARY SECTOR

In April 2006, monetary policy was implemented in conditions of relatively expansive fiscal policy (central government budget realized deficit in the amount of Denar 405 million), as well as favourable movements on the foreign exchange market, whereby NBRM carried out net purchase of foreign currency of the foreign exchange market in April as well.

During this period, total liquid assets of the banks grew by 9% in relation to the previous month, whereby liquidity creation was expressed solely through transactions on the foreign exchange market. Remaining autonomous factors were aimed at mopping up liquidity. Thus, ready money in circulation increased by 6% on monthly basis, while Denar government deposits at NBRM grew by Denar 88 million. However, in conditions of increased government spending (liquidity creation on the basis of expansive fiscal policy), increase of government deposits was fully determined by the increase of the issues treasury bills for monetary purposes. To the end of liquidity creation, CB bill has modest contribution, which on monthly basis dropped by Denar million or by 1.3%. Thereby, in conditions of higher demand than sup-

ply of CB bills, CB bills average weighted interest rate amounted to 6.2%, which was a drop by 0.5 percentage points in relation to the previous month.

At end-April 2006, primary money were by 6% higher on monthly basis as a result of the increase at all com-

Monetary aggregate and their components	III.05	VI.05	IX.05	XII.05	I.06	II.06
Currency in circulation	13207	13390	13490	14439	13700	14560
Deposit money	13741	13752	14416	15224	14262	14899
M1	26948	27142	27906	29663	27962	29459
Short-term deposits-denar	23336	26335	20732	24364	27889	29563
Short-term deposits - foreign currency	42495	45462	48142	49107	50756	51322
M2	92779	98939	96780	103134	106607	110344
Non-monetary deposit	4644	4902	4871	5040	5305	5705
Denars	3111	3093	3130	3057	3123	3257
Foreign currency	1533	1809	1741	1983	2182	2448
M4	97423	103841	101651	108174	111912	116049

Source: National Bank of the Republic of Macedonia

ponents. In fact, ready money in circulation grew by 6.3%, cash in vaults increased by 5.4%, while money on giro accounts increased by 5.4%. Such trends determined 5% growth of M1 monetary aggregate on monthly basis, when in addition to ready money in circulation, transaction deposits also had influence, increasing by 4.5%. Broader monetary aggregates M2 and M4 grew monthly identically by 3.5% and 3.7% respectively, reflecting the increase of short- and long-term deposits at the banks. Annually, monetary aggregates M2 and M4 grew by 15.2% and 15.5% respectively.

In April 2006, total deposit potential of the commercial banks increased by 3.1% 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 5.83% and 1.57% respectively. At

Deposit potential and credits	(in mill. denars)	monthly changes	annual changes
to private sector			
Deposit potential	86590	3.14	18.1
Denar	32820	5.83	18.8
In foreign currency	53770	1.57	17.7
Short-term	80885	2.85	17.7
Long-term	5705	7.54	23.9
Credits to private sector	74840	2.5	21.2
Denar	55552	1.98	15.1
In foreign currency	19288	4.01	43.1

Source: National Bank of the Republic of Macedonia

the same time, analysis of the deposit potential on the basis of maturity showed monthly increase of both short-term and long-term deposits by 2.8% and 7.5% respectively. Credits to the private sector in April increased by 2.5% on monthly basis, whereby growth was more intensive at the foreign currency credits (4.1%). 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.

Total credits by the banks to the private sector in April 2006 grew monthly by 3%, reflecting the enhanced crediting in both domestic and foreign currency by 2.5% and 4.4% respectively. In April, banks were aimed at crediting the enterprises (61.8% of the total monthly increase). Credits to enterprises grew by 2.7% on monthly basis, simultaneously with growth of credits to households by 3.7%.

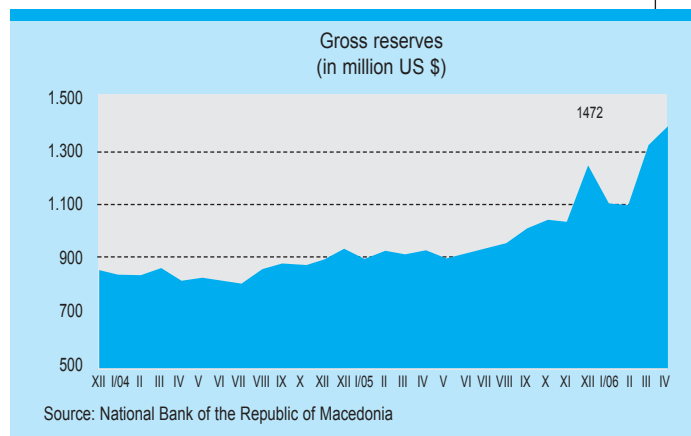
With respect to the interest rate policy of the commercial banks, there were slight changes. In fact, average weighted interest rates on Denar credits in April 2006 amounted to 11.5%, and compared to the previous month, there was an insignificant decline by 0.1 percentage points. At the same time, interest rates on the foreign currency credits amounted to 7.9%, being at same level as in the previous month. Average interest on credit balance on Denar deposits in April 2006 declined by 0.4 percentage points, reaching 4.6%, while interest rate on foreign currency deposits remained at the same level as in the previous month (1.4%).

4.1. Gross foreign exchange reserves

In April 2006, interventions by NBRM on the foreign exchange market were aimed at creation of primary money, whereby this month, NBRM sold US\$ 800,000 million and redeemed US\$ 42.6 million, and the net effect therefrom was US\$ 41.8 million. Such developments on the foreign exchange, repayments to creditors, as well as the exchange rate differences, caused for the gross foreign exchange reserves at end-April 2006 to reach US\$ 1,472 million, and in relation to end-April 2005, they were by US\$ 72 million higher.

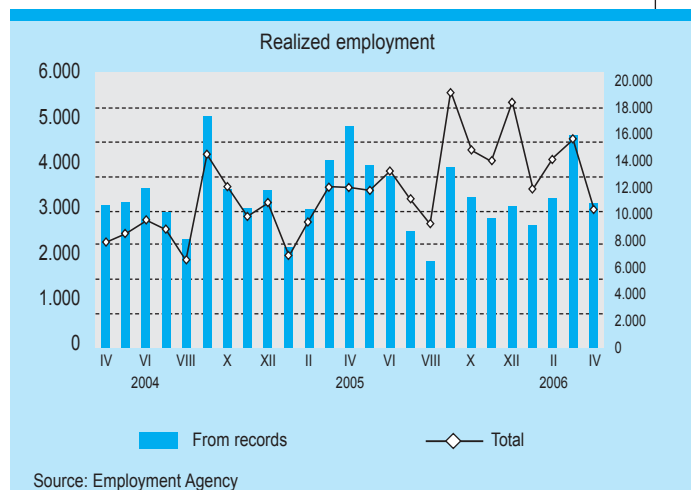
5. LABOUR MARKET

5.1. Employment



In April 2006, Employment Agency of the Republic of Macedonia registered 10,184 new employments, being by 33.3% less in relation to March last year. Thereby, employment of persons from the records of the Employment Agency, i.e. from the registered unemployed persons, participated with 30.8% in the total employment in April, while the remaining employment was directly from the previously inactive population or persons who changed job positions.

According to the latest results from the Labour Force Survey, active population in Macedonia accounted for 877,798 persons in Q1 in 2005, 559,702 out of which or 63.8% were employed, and 318,096 out of which or 36.2% were unemployed. Number of employed persons in relation to Q4 in 2005 increased by 0.7%, most of which were in the sector of agriculture, hunting and forestry. Compared to Q1 in 2005, number of employed persons was higher by 10.3%.

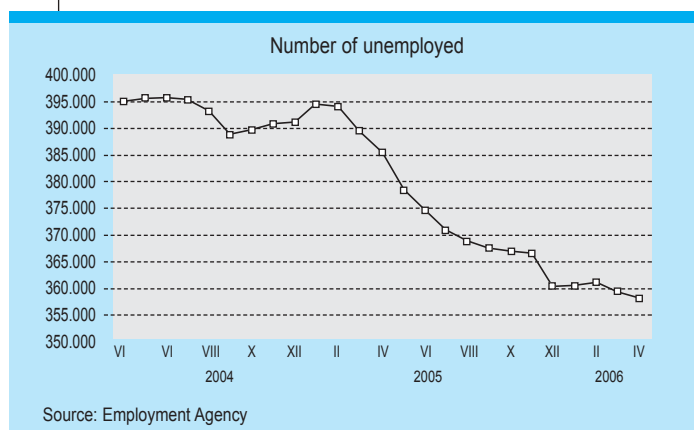


5.2. Unemployment

In April 2006, there were 357,556 persons registered as unemployed, which was by 0.4% less in relation to the previous month. Annually, number of registered unemployed persons dropped by 27,782 persons or by 7.2%. This drop was due to the enhanced controls during registration and recording of unemployed persons.

Number of persons registered in the Employment Agency in April 2006 was 7.901 persons, most of which were persons whose employment was terminated (38.2%), 25.1% were persons who registered in the unemployment records for the first time, 23.6% 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 (9,203 persons), 35.6% were employed, 27% were persons deleted from the records due to non-registering and 37.4% were deleted from the registry on other bases, mainly retirement, establishment of enterprise, rejecting the offered active measure, etc.

In April 2006, out of the total number of registered unemployed persons, 48.2% were unskilled and semi-qualified, 28% were with completed secondary vocational education, 17.3% were qualified and highly skilled, and 6.5% were with completed community college and university. According to the sex structure, men participate with 58.2% in the total unemployment.



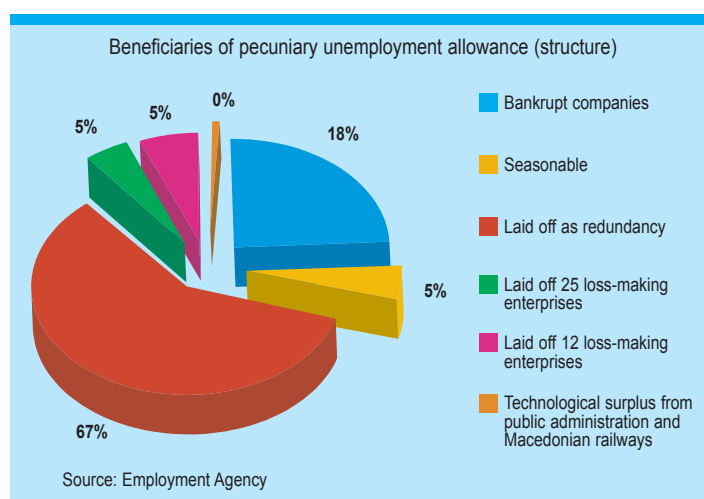
5.3. Beneficiaries of unemployment benefit and right to health insurance

Number of beneficiaries of pecuniary unemployment allowance in April 2006 was 36,228 persons, i.e. 10.1% of the registered unemployed persons. In relation to the same period last year, the number of beneficiaries of pecuniary allowance declined by 18.1%.

Out of the total number of registered unemployed persons in April 2006, 67.8% used free health insurance from the Employment Agency. On annual basis, the number of health insurance beneficiaries declined by 5.8%. 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

According to the last available data from the PDF, in April 2006, 266,840 pensioners were registered, which compared to March was an increase by 0.2% or by 490 persons.



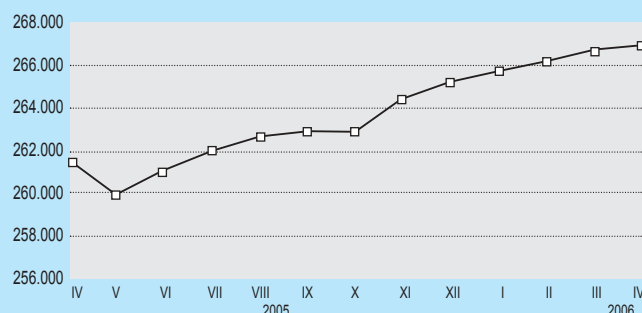
Observed by structure, most of the pensions were old-age pensions - 54%, followed by survivors pensions - 27.3% and disability pensions - 18.7%. Pensioners from the first group (Denar 11,654) accounted for 88.2% in the total number of these beneficiaries, while the one from the second group (over Denar 11,654) accounted for 11.8%.

On annual basis, this number increased by 5,393 persons, i.e. by 2.0%. This month, Denar 1,940 million was spent for payment of pensions.

Average pension in April 2006 amounted to Denar 7,506, being at the level of the previous month, while on annual basis, it increased by 1.1%. Thereby, the ratio between the average pension and the average net paid salary in April 2006 was 56.9%.

Latest available data on welfare beneficiaries showed that Denar 148.4 million was paid as welfare in March 2006 to 67,629 households. Compared to February 2006, this was an increase by 3,535 persons or by 5.5%, while there was a decline by 3% on annual basis.

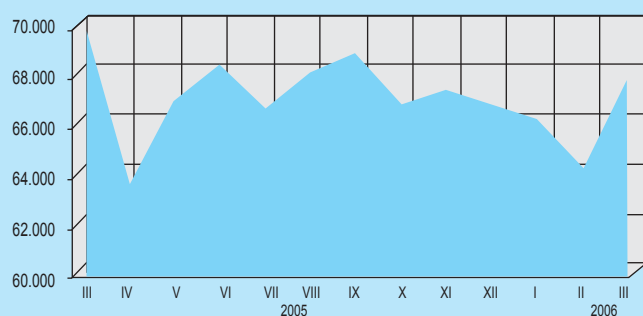
Total number of pensioners (by months)



Source: Pension and Disability Insurance Fund of Macedonia

In addition, there was also an increase in the category of beneficiaries of third person care, whereby Denar 84.5 million was spent for this care for 21,454 persons in March, while regarding beneficiaries of permanent pecuniary assistance, there was a slight drop and Denar 15 million was spent for 4,868 persons.

Beneficiaries of welfare



Source: Ministry of Labour and Social policy

Observed by structure, no significant changes were registered, meaning that most beneficiaries of welfare are in Skopje (20.3%), followed by Tetovo (11.37), Kumanovo (11.6%), Prilep (8.5%), etc.

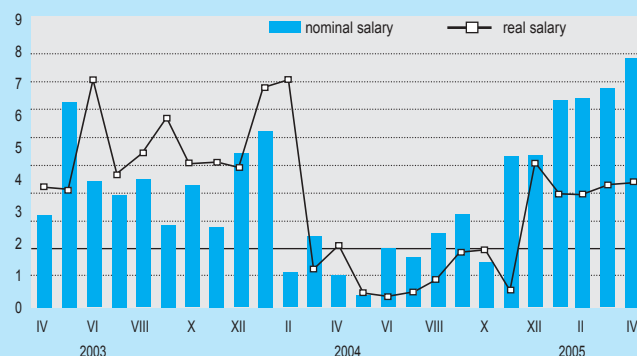
5.5. Average Net Salary

In April 2006, average paid monthly net salary per employee amounted to Denar 13,182. Compared to the previous month, this was a nominal increase by 0.6% and an increase in real terms by 0.9%. Analyzed by sectors of activity, on monthly basis, salary decline was registered in three sectors: agriculture (1.3%), industry (0.1%) and services by 0.8%. The highest monthly increase of the average paid net salary by 10.5% in April 2006 was registered in the activity named "Extraction of metal ore".

Regarding the level of salaries, they were the highest in the sector "financial intermediation" (Denar 26,094), while the lowest salary was paid in "civil engineering" (Denar 9,563). On annual level, the nominal and real average salary grew by 7.7%, i.e. by 4.4% respectively.

The percentage of employees in Macedonia receiving belated salaries declines further, meaning that the situation with these workers gradually stabilizes. In fact, in April 2006, only 13% of the workers in the Republic of Macedonia did not receive salary.

Average Net Salary (annual changes, %)



Source: State Statistics Office

EXTERNAL DEBT

External debt at end-April 2006 amounted to US\$ 1.065 and in relation to March, it increased by US\$ 57 million. Having in mind the same amounts of funds disbursed and repayment of debt principal, monthly rise in the external debt was mostly due to the realized exchange rate differences.

There were no significant changes in the structure of the external debt by creditors in relation to the previous month, whereby more than half of the debt (53.1%) was towards multilateral creditors, among which IDA, IBRD, EIB, EU accounted for most. Bilateral creditors participated with 9.8% in the debt structure, while private creditors accounted for 37.1%, where 24.5% referred to the Eurobonds.

During April, US\$ 8.6 million was disbursed, US\$ 4.3 million out of which from multilateral creditors (IBRD, IDA, CEB, EBRD). The remaining funds were disbursed from bilateral creditors in the amount of US\$ 1.9 million, while US\$ 2.4 million was disbursed from the private banks and financial institutions and the non-financial private sector. In the first four months of this year, funds were disbursed in the amount of US\$ 59.1 million, US\$ 42.9 million out of which from private creditors.

Servicing the liabilities continued to be regular and timely, whereby in April, US\$ 10.9 million were repaid (US\$ 8.6 million principal). Thereby, repayments towards multilateral creditors were in the amount of US\$ 7.7 million (EIB, IDA, MMF), followed by repayments to private creditors in the amount of US\$ 2.5 million and to bilateral creditors in the amount of US\$ 0.7 million. Cumulatively, in the period January - April 2006, liabilities towards abroad were repaid in the amount of US\$ 299.5 million, US\$ 269.6 million out of which as principal. With respect to the total repayments, US\$ 227.5 million was repaid towards the London Club.

In April this year, new credits were concluded in the amount of US\$ 6.7 million, all of them with private banks, financial institutions and non-financial private sector. In the first four months of this year, new credits were concluded in the amount of US\$ 88.1 million, US\$ 56.8 million out of which with private creditors.

According to the NBRM repayment schedule, liabilities towards foreign creditors in the amount of US\$ 209.9 million fall due in the period May-December 2006, US\$ 154.3 million out of which as principal.

EXTERNAL DEBT OF THE REPUBLIC OF MACEDONIA ¹

(In million of US\$)

	31.12.98	31.12.99	31.12.00	31.12.01	31.12.02	31.12.03	31.12.04	31.03.05	30.06.05	30.09.05	31.10.05	30.11.05	31.12.05	31.01.06	28.02.06	31.03.06	30.04.06
Official creditors	1.004	1.031	1.033	980	1.048	1.198	1.313	1.270	1.236	1.243	1.245	1.222	1.257	1.263	1.251	1.265	1.298
Multilateral creditors	684	714	716	688	756	926	1062	1041	1.014	1.035	1.036	1.016	1052	1066	1057	1068	1096
IMF	114	113	82	71	67	68	62	61	53	67	66	63	62	63	62	63	63
IBRD	115	117	123	124	145	181	224	215	225	223	224	221	248	250	246	249	255
IFC	55	57	57	33	18	20	9	8	7	7	6	6	6	6	6	6	5
IDA	179	222	250	255	295	358	388	378	366	365	364	360	362	366	364	366	374
EIB	54	68	67	75	102	116	148	143	132	141	140	136	140	143	145	146	148
EUROFIMA	22	17	17	14	12	8	8	8	7	7	7	7	7	7	7	7	8
CEDB	5	5	7	6	14	17	23	22	20	20	21	20	20	20	20	20	23
EBRD	90	72	72	61	32	36	65	78	83	83	86	84	88	88	87	89	93
EU	48	40	37	44	65	112	122	116	109	109	109	106	106	109	107	109	113
IFAD	1	2	3	4	5	7	10	11	12	13	13	13	13	13	13	13	14
EAR	0	0	1	1	0	2	1	1	0	0	0	0	0	0	0	0	0
Bilateral creditors	320	317	316	292	292	272	252	230	222	208	209	206	205	197	194	197	202
Commercial creditors	394	407	405	464	501	572	644	690	708	737	744	737	911	713	734	743	767
London club	243	250	253	262	254	234	233	228	227	222	222	222	222	181	178	181	188
Others	151	157	152	202	247	328	412	462	480	514	522	515	689	532	556	562	579
Banks and financ. institu.	27	26	32	143	181	211	250	241	245	259	264	258	435	263	260	260	265
Enterprises	124	131	120	59	66	117	162	221	235	255	258	257	254	269	296	302	314
TOTAL	1.398	1.438	1.438	1.444	1.549	1.770	1.957	1.960	1.944	1.980	1.989	1.959	2168	1976	1985	2008	2065

Source: NBRM

1) Long - term and medium debt

Short-term external debt at end-April 2006 amounted to US\$ 106.7 million and in relation to March, it increased by US\$ 13.2 million as a result to the higher amount of used funds from the made repayments. In April, financial credits were used in the amount of US\$ 17.2 million, and liabilities towards abroad in the amount of US\$ 0.1 million were repaid. In the first four months of this year, financial credits in the amount of US\$ 28.1 million were used, and liabilities in the amount of US\$ 20.4 million were repaid towards abroad.

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

REPAYMENT OF DEBT PER CREDITORS

(january - april 2006)

(in million USD dollars)	Total	Principal	Interest
Total (principal and interest)	290,5	269,6	20,9
Official creditors	39,0	22	11
Multilateral creditors	22,3	14,6	7,7
IMF	1,8	1,3	0,5
IBRD	4,8	3,3	1,5
IFC	1,3	1,1	0,2
IDA	2,6	1,7	0,9
EIB	6,5	4,5	2
EUROFIMA	0	0,0	0
CEDB	0,1	0	0,1
EBRD	4,3	2,6	1,7
EU	0,8	0	0,8
IFAD	0,1	0,0	0,1
EAR	0	0	0
Bilateral creditors	16,7	13,4	3,3
Private creditors	251,5	241,6	9,9
London Club	227,5	222,4	5,1
Other	24	19,2	4,8
Banks and financial institutions	17	13,1	3,9
Enterprises	7	6,1	0,9

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 \$

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2003	2004	2005	31.01.06	01.02.06	31.03.06	30.04.06
Total external debt	1.118	1.139	1.437	1.490	1.548	1.495	1.641	1.614	1.696	1.729	1.840	2.079	2.280	2.068	2.084	2.074	2.123
Public sector	1.012	1.007	1.222	1.305	1.343	1.232	1.321	1.327	1.383	1.393	1.473	1.603	1.704	1.481	1.468	1.470	1.488
Government	774	775	890	975	1.074	1.050	1.135	1.138	1.178	1.182	1.257	1.350	1.473	1.254	1.240	1.244	1.262
Government (Govern. liabilities)	766	767	864	932	1.024	1.008	1.095	1.099	1.138	1.144	1.215	1.308	1.428	1.209	1.196	1.199	1.218
Road fund			18	33	49	42	40	39	40	38	41	42	44	45	45	44	44
Health fund	1	1	1	3	0	0	0	0	0	0	0	0	0	0	0	0	0
Others	7	7	7	7	0	0	0	0	0	0	0	0	0	0	0	0	0
NBM	80	99	114	113	96	71	67	64	65	62	68	63	62	63	62	62	61
Public enterprises	158	133	218	217	173	110	119	125	140	149	148	190	169	164	165	164	165
Private sector	106	132	215	185	205	263	319	287	313	336	367	476	576	587	616	604	635
Banks	84	92	110	93	86	897	110	113	112	105	89	73	122	124	121	119	120
Enterprises	22	40	105	92	122	176	209	174	201	231	279	353	454	463	495	485	515

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	0,08	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 \$)

	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
BILATERAL 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

QUARTERLY REVIEW - THE PUBLIC DEBT OF THE REPUBLIC OF MACEDONIA

I. Public debt - definition and stock

Public debt of the Republic of Macedonia comprises government debt and all financial obligations created through borrowing by the municipalities and the City of Skopje, as well as borrowing by the public enterprises and companies fully or predominantly owned by the state. Thus, Government of the Republic of Macedonia, the municipalities and the City of Skopje, public enterprises and companies fully or predominantly owned by the state can appear as bearers of public debt.

This definition on public debt is included in the Public Debt Law (Official Gazette of the Republic of Macedonia, no. 62/2005) and it represents what is known as national methodology for calculating the public debt. Another methodology often used in practice to calculate public sector debt is included in the IMF Government Financial Statistics Manual, and it differs from the national methodology in the fact that in addition to the above-mentioned bearers of public debt, when calculating the debt, it also includes the debt of the monetary authorities, i.e. the debt of the central bank. As this Information is concerned, data on public debt in the overview tables will be calculated according to both methodologies (national and the IMF one), while the data in the charts will be calculated according to the national methodology.

Public debt portfolio of the Republic of Macedonia comprises debts inherited from former Yugoslavia, borrowing with international financial institutions and on international financial markets, as well as borrowing on domestic financial markets.

Highest level of public debt was realized in 2000, when the debt amounted to 52.9% of GDP. In the next period, public debt, expressed in absolute and relative terms, continuously declined. In December 2005, there was a slight increase of the public debt by 3.1 percentage point in relation to GDP, when as a result of the issue of the Eurobond, the level of public debt amounted to EUR 1.9 billion or 44.1% of the projected GDP.

Funds from the issue of Eurobond were used for complete buyout of the liabilities towards the London Club of Creditors, leading to offsetting the effects of the increase of the debt realized with this issue.

Thus, as of 31st March 2006 inclusive, public debt amounts to EUR 1.8 billion, i.e. 37.9% of GDP. General government debt amounts to EUR 1.7 billion, i.e. 35.06% of GDP and it is within the Masstricht criteria on public debt, according to which government public debt should not exceed 60% of GDP.

1. Events that characterized public debt management in the past period

1. Issue of first Eurobond of the Republic of Macedonia

In December 2005, Republic of Macedonia appeared, for the first time, on the international financial market with an issue of Eurobond.

Prior to the issue, there was a roadshow conducted by the team from the Ministry of Finance and the National Bank of the Republic of Macedonia, led by Minister of Finance, Mr. Nikola Popovski MA, during which number of meetings was held with individual investors, presentations were organized for groups of financial investors, as well as conference calls were made with investors from other financial centers throughout the world.

As a result, offers were submitted in the amount of EUR 593 million, i.e. 4 times greater amount than the issued amount of the Eurobond (EUR 150 million). The huge interest for the Republic of Macedonia and its financial instrument has enabled creation of broad base of investors - owners of the Eurobond, from Europe, USA and Asia. The issue was distributed among 56 institutional investors globally, including 33% British investors, 31% German investors; 22.5% investors from other European countries (France, Italy, Switzerland, Greece, Slovenia, Cyprus), 12% American investors and 1.5% investors from Asia. Main investors are investment banks, investment funds and asset management companies.

The issued Eurobond in the amount of EUR 150 million is with 10-year maturity period, as well as 4.625% coupon interest rate.

At the same time, rating agencies Standar and Poor's and Fitch assigned the following ratings to the newly issued Eurobond as follows: BB+ (with stable outlook) and BB (with positive outlook), respectively. Thus, for the first time, Macedonia is placed on the world map of institutional investors, the interest of which confirmed the already apparent results from the macroeconomic and political stability, the prosperity of Macedonia resulting from its prudent fiscal and monetary policy and its integration into the European Union and NATO.

2. Buyback of the debt towards London Club of Creditors

So as to improve the structure of the debt portfolio, full buyback of the debt towards London Club of Creditors was carried out in January 2006. This activity employed the funds from the Eurobond issue.

Following effects were achieved with the buyback of the debt towards the London Club of Creditors:

- **Improvement of the interest structure of the public debt and realization of high level of savings in the Budget in the coming years.**

In general, through this transaction, there will be savings in the amount of EUR 123.23 million in the Budget of the Republic of Macedonia in the next 7 years, under the assumption that the conditions on the international markets would remain unchanged (which is practically a pessimistic option, since all larger international banks envisage that dollar interest rate will continue to grow - which actually happened in the past months - leading to increase of the expenditures of the Republic of Macedonia for the buyback of the debt with a variable interest rate in the coming years). Additionally, certain analyses, i.e. scenarios, have also been prepared, should the conditions on the international market change, pointing out that the Budget of the Republic of Macedonia would be even more exposed to expenditures if the US dollar gets stronger in relation to the euro in future. Analyses have confirmed the even greater economic justification of this transaction, in changed conditions on the international market (simultaneous increase of interest rates and dollar appreciation), which expressed in figures is a saving in the amount of around EUR 130- 150 million, i.e. from EUR 9 to EUR 29 million per year, depending on the analyzed year and scenario.

- **Improvement of government debt portfolio profile,** due to the fact that Eurobond is a standard instrument in the public debt portfolio, recognizable on the international market and its introduction contributes to a re-

placement of lower-reputation debt. Thus, by introducing Eurobonds, in addition to the standard government securities, Republic of Macedonia has acquired better benchmark in its debt portfolio;

- By replacing the existing shorter-term debt with Eurobonds with 10-year maturity, **the maturity of the debt portfolio of the Republic of Macedonia is extended.**
- **Avoidance of certain types of market risks, especially the risk of change of interest rates and risk of change of the exchange rate;**

This transaction has enabled replacement of the debt with variable interest rate, experiencing an upward trend on the international markets, with a fixed interest rate of 4.625%, which compared to the other countries, can be deemed as relatively favourable. In addition, one of the goals set in the Public Debt Management Strategy was also realized, that being continuous increase of the EUR-denominated debt for the account of the other foreign currencies, i.e. US dollar-denominated debt was replaced with EUR-denominated debt.

3. Fifth issue of denationalisation bond

Pursuant to the Law on Issuance of Denationalisation Bonds in the Republic of Macedonia (Official Gazette of the Republic of Macedonia, no. 37/02), fifth denationalization bond in the amount of EUR 34 million was issued on 13th March 2006. Terms and conditions for the issuance of this bond are identical as for the first four issues, i.e. 10-year maturity period and 2% fixed interest rate. First installment of this bond falls due on 1st June 2007.

Denationalisation bonds are listed on the Macedonian Stock Exchange AD Skopje. Trading with denationalisation bonds from this issue commenced on 16th March 2006.

4. Guarantee issued for Macedonian Railways Reform Project

In February 2006, the state issued a guarantee for the credit extended by the International Bank for Reconstruction and Development for the realization of the Macedonian Railways Reform Project.

The loan is in the amount of EUR 15 million and is awarded under the terms and conditions of the International Bank for Reconstruction and Development - World Bank,

i.e. 17-year repayment period, with 5-year grace period included, and LIBOR + 0.75% (with a variable band).

The project will be divided in two categories, as follows: PART A, covering the improvement and efficiency of the infrastructure capacities, including procurement to be carried out by PE Makedonski Zeleznici C.O. Skopje (Macedonian Railways) at first, and then by its successor, i.e. the now infrastructure company, and PART B, covering the restructuring, improvement and efficiency of the transportation part, including procurement to be carried out by PE Makedonski Zeleznici C.O. (Macedonian Railways) Skopje at first, and then by its successor, i.e. the new transport company. To that end, pursuant to the adopted Law on Transformation of PE Macedonian Railways C.O. Skopje, two new companies are to be established as follows:

1. Public enterprise for railway infrastructure

Macedonian Railways - Skopje; and

2. Transport joint stock company Macedonian Railways

Joint Stock Company - Skopje.

II. Characteristics of the public debt portfolio

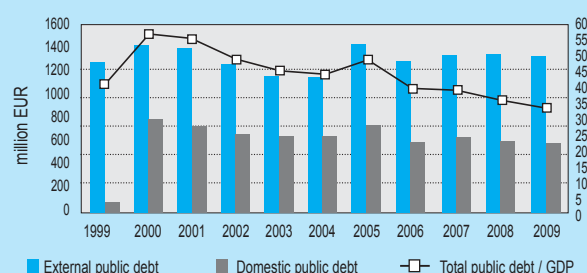
	EUR millions	
	month	
	31.12.2005	31.03.2006
External public debt*	1.441,2	1.226,7
General Government debt	1.245,4	1.037,7
Central bank debt	52,7	51,8
Public enterprises debt	143,2	137,2
Domestic public debt	750,2	784,1
General Government debt	603,5	637,8
Central bank debt	146,7	146,3
Public enterprises debt**	N / A	N / A
Total public debt according the GFS methodology	2.191,35*	2.010,9
Total public debt as % of average GDP	48,6	42,1
Total public debt according the Public Debt Law	1.992,0	1.812,7
Total public debt as % of average GDP	44,1	37,9

Source: Ministry of Finance and NBRM

*In December 2005, first Eurobond was issued in the amount of EUR 150 million, which led to temporary increase of the public debt, since the funds in January 2006 were used for full early buy-back of the debt towards the London Club of Creditors.

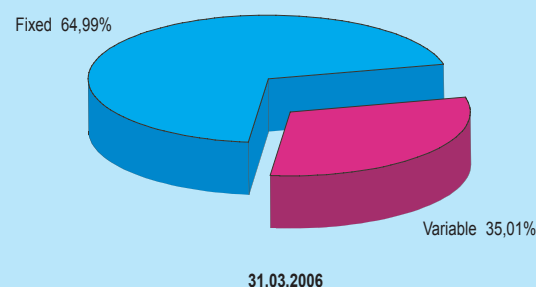
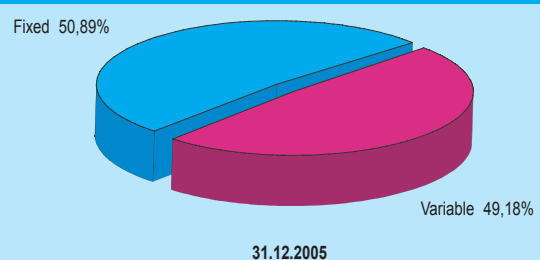
**At end-April 2006, public enterprises will submit the first report on the debt stock (in line with the Public Debt Law) to the Ministry of Finance.

Movements of public debt / GDP



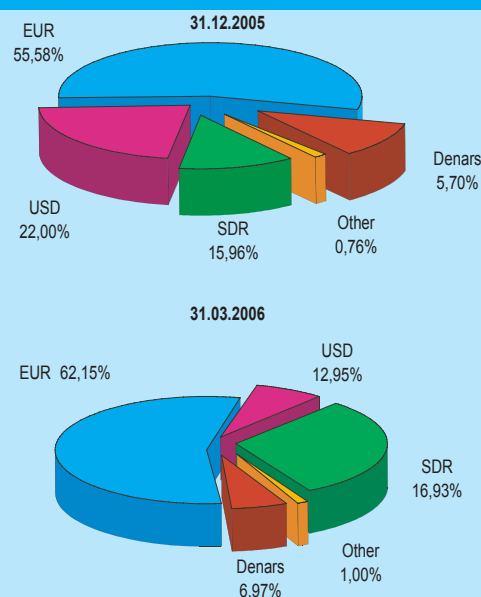
Source: Ministry of Finance and NBRM

Interest structure of the total public debt



Source: Ministry of Finance and NBRM

Currency structure of the total public debt



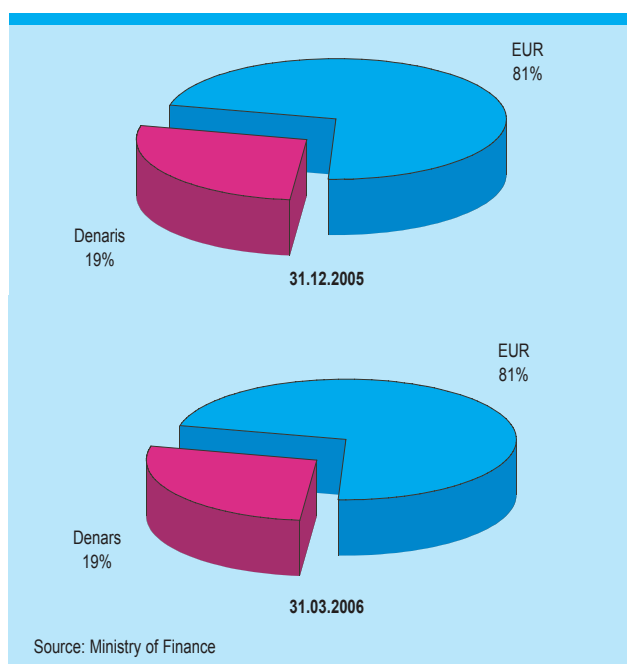
Source: Ministry of Finance and NBRM

1. Domestic Public Debt

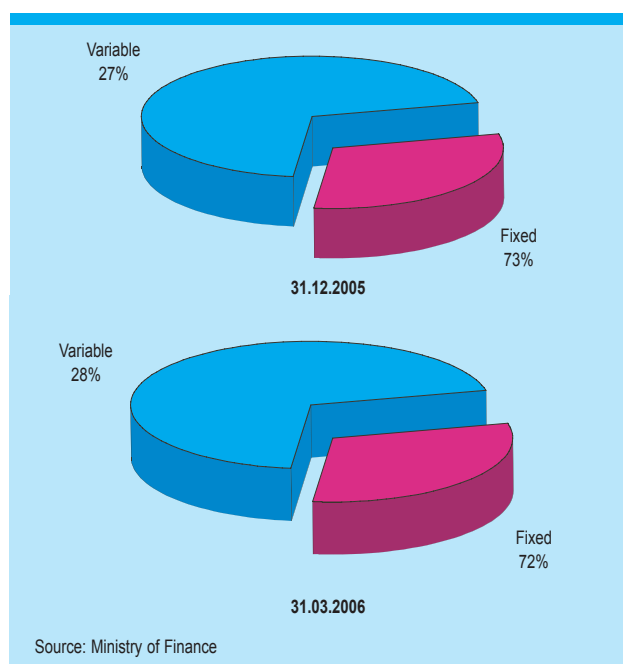
	EUR milioni			
	31.12.2005	31.01.2006	28.02.2006	31.03.2006
Domestic public debt according the GFS methodology	750,39	775,47	766,32	806,84
Domestic public debt according the Public Debt Law	603,66	605,03	607,71	637,64
General government debt	603,66	605,03	607,71	637,64
Central government debt	603,66	605,03	607,71	637,64
Structural bonds	533,50	532,95	532,57	559,21
Rehabilitation of Stopanska banka bond	26,61	26,51	26,61	26,62
Bond for selectiv credits	16,98	16,92	16,98	16,99
Privatisation of Stopanska banka bond	77,24	77,24	77,24	75,10
Old foreign exchange saving bond	306,50	306,50	306,50	306,51
Denationalisation bond	106,16	105,78	105,23	133,99
I Issue	0,83	0,83	0,83	0,83
II Issue	24,65	24,65	24,68	24,68
III Issue	30,39	30,23	30,20	29,99
IV Issue	50,28	50,07	49,52	48,94
V Issue	0,00	0,00	0,00	29,55
Continuous Government securities	69,96	71,87	74,94	78,23
Treasury bills for monetary purposes	0,00	0,00	0,00	22,89
Municipalities	0,20	0,20	0,20	0,20
Central Bank	146,74	170,44	158,62	146,31
Public enterprises	N/A	N/A	N/A	N/A

Source: Ministry of Finance

Currency structure of the domestic public debt

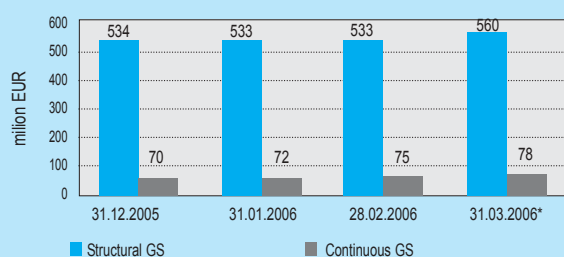


Interest structure of the domestic public debt



1.1. Structural bonds and continuous government securities

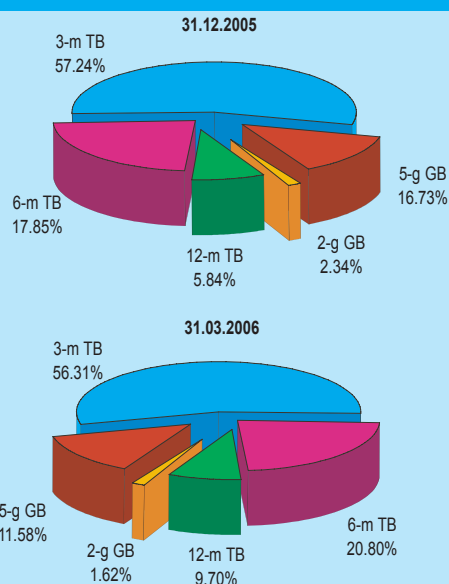
Structural and continuous government securities proportion



Source: Ministry of Finance

* In March 2006, fifth issue of denationalisation bonds was launched.

Structure of government securities by maturity from the aspect of day of issuance



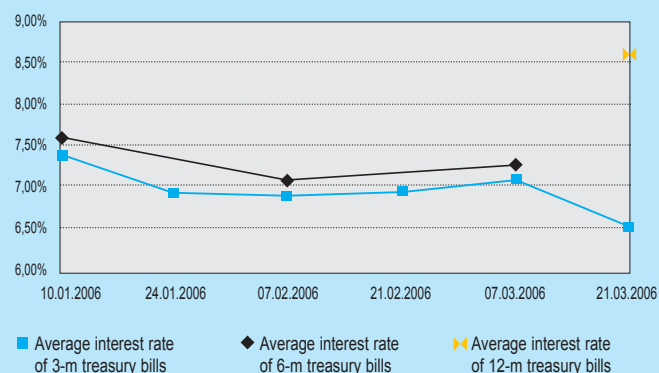
Source: Ministry of Finance

* Starting in March 2006, maturity structure of government securities also includes the treasury bills for monetary purposes (at the moment issues only as 3-month TB).

Trends of interest rates at the auctions of 3 -, 6 - and 12 - months TB in the period of 31st December 2005 to 31st March 2006

Date of auction	Average interest rate of 3 - month treasury bills	Average interest rate of 6 - month treasury bills	Average interest rate of 12 - month treasury bills
10.01.2006	7,40	7,61	
24.01.2006	6,96		
07.02.2006	6,93	7,08	
21.02.2006	6,99		
07.03.2006	7,12	7,28	
21.03.2006	6,57		8,62

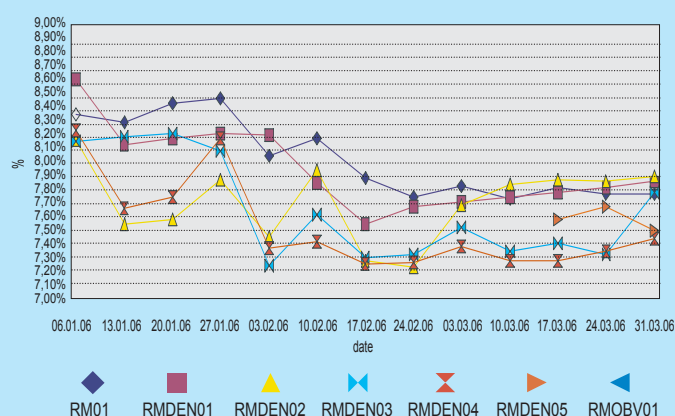
Weighted interest rate of 3m, 6m and 12m government securities



1.2. Secondary government securities market

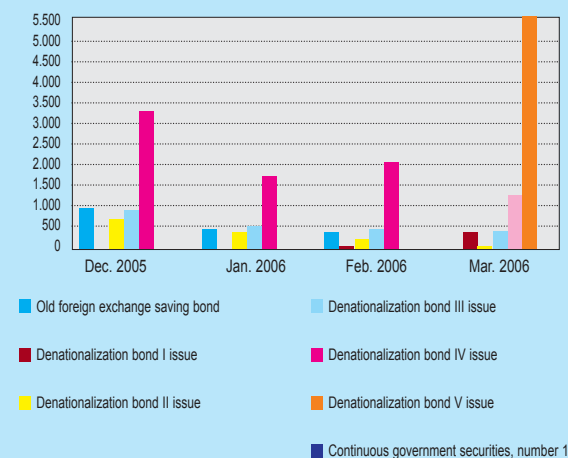
1.2.1. Trading on the Macedonian Stock Exchange AD Skopje

Yield to maturity (YTM)



Average price of the bonds (P)

	RM01	RMDEN01	RMDEN02	RMDEN03	RMDEN04	RMDEN05	RMOBV01
6 jan. 06	84,5	82,0	81,0	79,1	77,0		
13 jan. 06	84,7	83,2	82,7	79,1	78,8		
20 jan. 06	84,5	83,2	82,7	79,1	78,8		
27 jan. 06	84,5	83,2	82,0	79,5	77,4		
3 feb. 06	85,5	93,3	83,2	82,0	80,0		
10 feb. 06	85,3	84,2	82,0	81,0	79,9		
17 feb. 06	86,0	85,0	83,8	82,0	80,4		
24 feb. 06	86,4	84,8	84,0	82,0	80,5		
3 mar. 06	86,3	84,8	82,9	81,5	80,2		
10 mar. 06	86,6	84,8	82,6	82,1	80,6		100,3
17 mar. 06	86,5	84,8	82,6	82,0	80,7	75,6	100,3
24 mar. 06	86,7	84,8	82,7	82,3	80,5	75,3	100,3
31 mar. 06	86,8	84,8	82,7	81,1	80,3	76,0	100,3

Trading in structural bonds on the Macedonian Stock Exchange
(in 000 EUR)


Source: Macedonian Stock Exchange AD Skopje

	(in 000 EUR)			
	Dec - 2005	Jan - 2006	Feb - 2006	Mar - 2006
RM01	980,3	493,6	412,4	
RM DEN01	6,1	14,5	20,2	442,9
RM DEN02	728,9	414,9	234,8	103,6
RM DEN03	951,7	574,0	496,4	433,5
RM DEN04	3.277,0	1.748,4	2.081,8	1.270,1
RM DEN05				5.513
Continuous government securities, number 1				3
Total	5.943,97	3.245,27	3.245,72	7.765,94

Source: Macedonian Stock Exchange AD Skopje

1.2.2. Over-the-counter market (OTC Market)

Transaction Date	ISIN	Number of days to maturity	Nominal amount	Price	Yield to maturity
31.01.2006	MKMINFDZ6019	71	1.110.000	98,6382	7,00
31.01.2006	MKMINFDZ6027	85	630.000	98,3741	7,00
02.02.2006	MKMINFDZ6027	83	180.000	98,4117	7,00
03.02.2006	MKMINFDZ6027	82	220.000	98,4306	7,00
14.02.2006	MKMINFDS5093	22	1.200.000	99,4832	8,50
20.02.2006	MKMINFDS5093	16	4.000.000	99,6236	8,50
03.03.2006	MKMINFDS5093	5	1.000.000	99,8959	7,50
22.03.2006	MKMINFDZ6050	77	5.100.000	98,3797	7,50
28.03.2006	MKMINFDZ6068	85	300.000	98,3370	7,16
30.03.2006	MKMINFDZ6019	13	1.400.000	99,7365	7,32

Source: NBRM

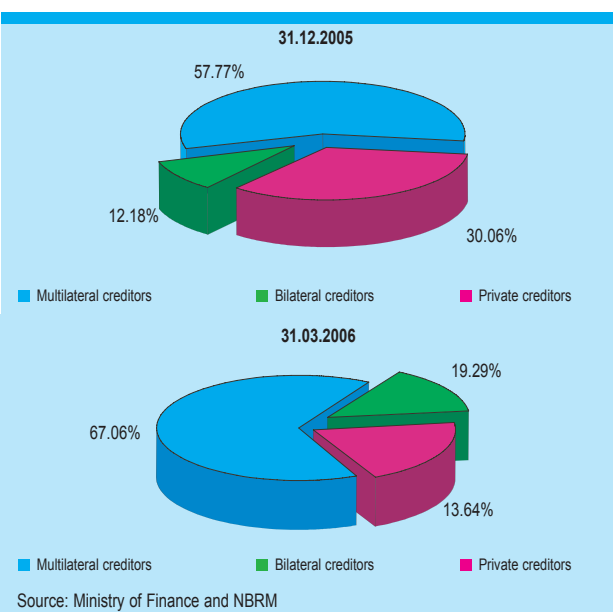
Transactions with government securities on the OTC market

2. External public debt

	31.12.05	31.01.06	28.02.06	31.03.06
Public debt according the GFS methodology	1.441,16	1.226,49	1.238,71	1.226,75
Public debt according the Public Debt Law	1.388,50	1.174,46	1.186,05	1.174,94
Government of Republic of Macedonia	1.245,35	1.038,51	1.046,64	1.037,70
Official creditors	906,09	887,75	895,88	886,99
Multilateral creditors	751,82	743,81	750,03	742,47
IBRD	185,18	181,77	183,20	181,49
IDA	307,13	303,18	307,17	302,43
IFAD	10,97	10,84	10,97	11,00
CEDB	16,78	16,78	16,78	16,78
EBRD	29,22	28,73	29,38	29,63
EIB	112,53	112,52	112,53	111,15
EU	90,00	90,00	90,00	90,00
Bilateral creditors	154,27	143,94	145,86	144,52
Rescheduled debt 1995	102,31	91,76	92,75	91,61
Non-rescheduled debt	6,63	6,63	6,63	6,63
Newly concluded loans	45,33	45,55	46,48	46,29
Private creditors	339,26	150,76	150,76	150,71
Eurobond	188,50	150,00	150,00	150,00
Other private creditors	150,76	0,76	0,76	0,71
Banks	150,76	0,76	0,76	0,71
Non banking private sector	0,00	0,00	0,00	0,00
Central bank of the Republic of Macedonia	52,66	52,04	52,66	51,81
IMF	52,66	52,04	52,66	51,81
Public enterprises	143,15	135,95	139,41	137,23
Official creditors	59,99	59,27	61,38	61,26
Multilateral creditors	43,14	42,45	45,56	45,46
IBRD	25,25	25,25	24,36	24,36
EBRD	5,94	5,25	5,25	5,25
EIB	5,83	5,83	9,84	9,75
EUROFIMA	6,12	6,12	6,11	6,10
Bilateral creditors	16,85	16,82	15,82	15,80

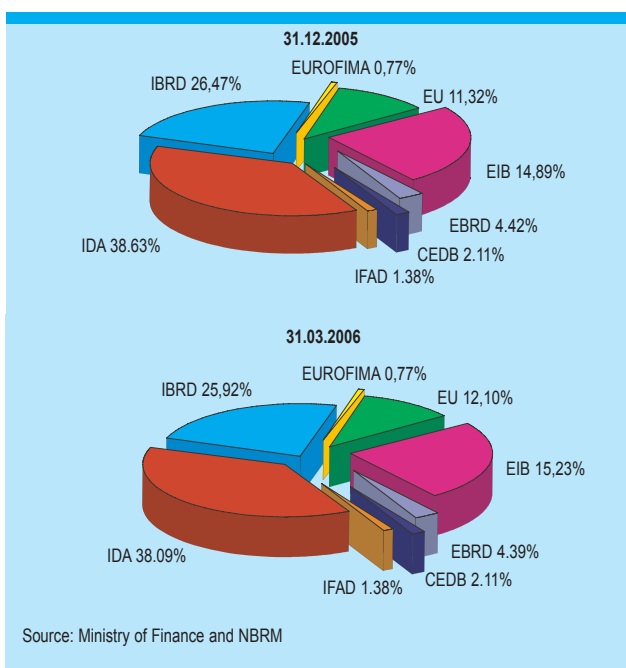
Source: NBRM

Structure of the external public debt by creditors

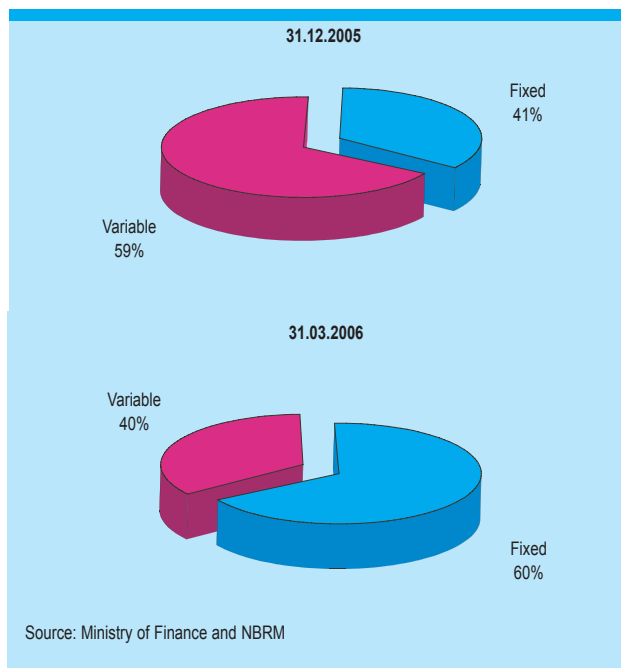


Source: Ministry of Finance and NBRM

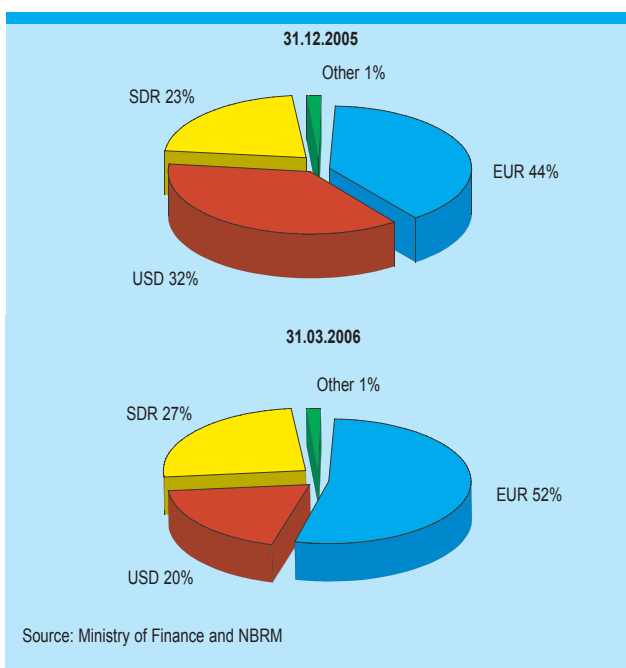
Structure of the external public debt by multilateral creditors



Interest structure of the external public debt

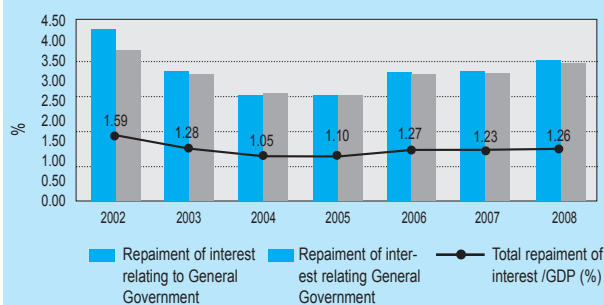


Currency structure of the external public debt

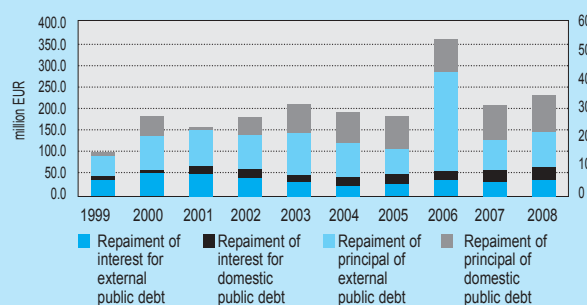


III. Servicing of the total public debt

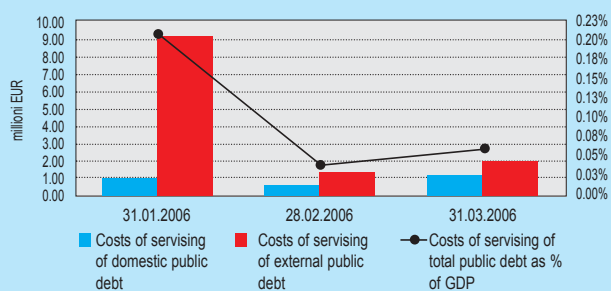
Repayment of interest in relation to revenues, expenditures and GDP



Repayment of interest and principal of the public debt



Servicing costs of the total public debt



* On 11th January 2006, there was a buyback of the debt towards the London Club of Creditors with funds obtained from the issue of the Eurobond.

Source: Ministry of Finance and NBRM

Servicing costs of the public debt for Q1 in 2006

Basis	Jan - 06	Feb - 06	Mar - 06	Total
Interest of the basis of external public debt	9,17	1,34	1,89	12,39
Interest of the basis of domestic public debt	0,66	0,49	1,12	2,27
Interest of the basis of total public debt	9,83	1,82	3,01	14,66
Principal on the basis of external public debt	200,97	1,73	3,40	206,11
Principal on the basis of domestic public debt	0,00	0,00	2,15	2,15
Principal on the basis of total public debt	200,97	1,73	5,55	208,25

Source: Ministry of Finance and NBRM

IV. Funds disbursed in the first quarter of 2006

1. Funds disbursed on the basis of external public debt

In EUR	Jan - 06	Feb - 06	Mar - 06	Total
1 Multilateral creditors	146.053	5.389.824	1.213.092	6.748.969
1.1 IBRD / IDA	146.053	739.376	354.572	1.240.002
1.2 EBRD	0	644.470	656.019	1.300.489
1.3 EIB	0	4.000.000	0	4.000.000
1.4 IFAD	0	5.977	202.502	208.479
2 Bilateral creditors	793.590	436.612	324.094	1.554.296
2.1 Italy - support to SME	107.800	24.700	177.170	309.670
2.2 KfW	667.900	0	0	667.900
2.3 Bank Bilbao - Spain (Project Lisice)	0	411.912	146.924	558.836
2.4 JBIC - Project Zletovica	17.890	0	0	17.890
1+2 Total public sector	939.643	5.826.436	1.537.186	8.303.265

Source: Ministry of Finance

2. Funds disbursed on the basis of domestic public debt (net issuance)

	Jan - 06	Feb - 06	Mar - 06	Total
Total continuous GS	138,18	170,65	174,51	483,34
3 - months government securities	-40,93	35,63	-342,14	-347,44
6 - months government securities	179,11	135,02	194,71	508,84
12 - months government securities			321,94	321,94

Source: Ministry of Finance

CENTRAL BUDGET OF THE REPUBLIC OF MACEDONIA

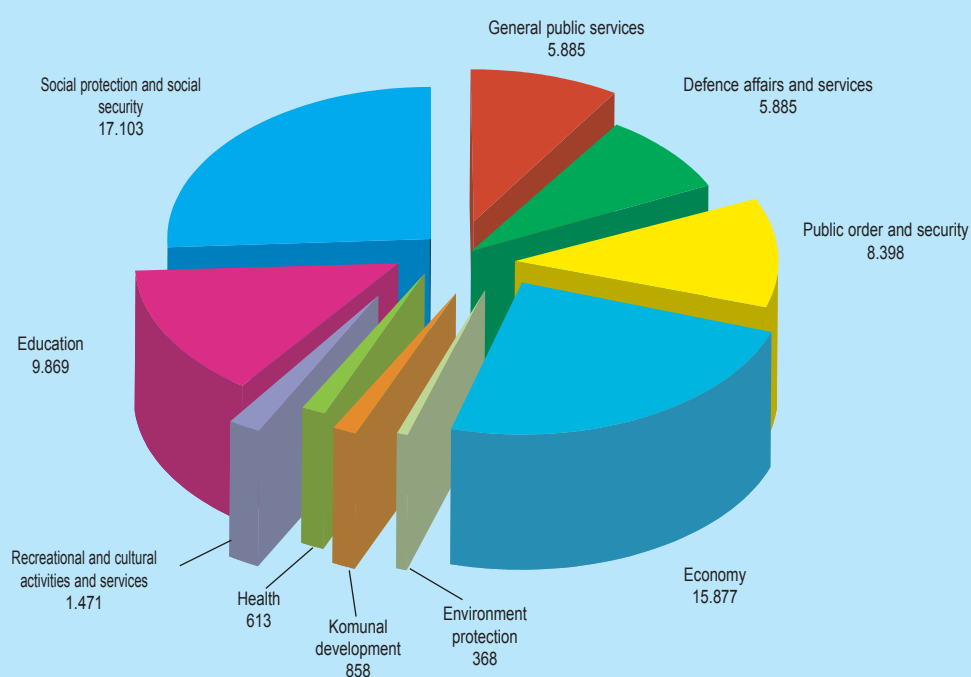
	2002 Final statement	2003 Final statement	2004 Final statement	2005 Rebalans	2006 Budget
TOTAL REVENUES	71.981.222.938	68.406.577.974	68.257.596.556	77.127.000.000	81.749.000.000
CURRENT REVENUES (TAX AND NON-TAX)	58.896.097.958	56.784.247.919	56.534.423.095	58.596.000.000	59.940.000.000
TAX REVENUES	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
TOTAL REVENUES	102.705	105.269	7.279	6.606	7.847	21.732	8.905	7.642	8.080
Taxes and Contributions	83.090	83.847	6.464	5.696	6.811	18.972	7.849	6.466	6.857
Tax Revenues (SRA)	317	256	23	26	19	68	28	20	27
Taxes	53.045	54.018	4.594	3.284	4.436	12.314	5.210	4.323	4.411
Personal Income Tax	7.931	8.231	526	648	660	1.834	762	586	704
Profit Tax	2.571	2.571	145	302	633	1.080	220	197	183
VAT	25.623	26.325	2.460	1.320	1.965	5.745	2.779	1.968	2.020
Excises	11.689	11.457	1.103	651	707	2.461	893	1.067	977
Import Duties	4.731	4.867	289	315	422	1.026	499	459	483
Other Taxes	500	567	71	48	49	168	57	46	44
Contributions	29.728	29.573	1.848	2.386	2.356	6.590	2.611	2.123	2.419
Pension Insurance Contributions	19.151	18.996	1.188	1.538	1.504	4.230	1.669	1.346	1.554
Unemployment Contributions	1.320	1.320	84	118	110	312	119	95	111
Health Insurance Contributions	9.257	9.257	576	730	742	2.048	823	682	754
Non Tax Revenues	14.761	16.555	725	839	930	2.495	969	1.067	1.052
Non Tax Revenues (SRA)	8.575	8.779	407	523	484	1.414	523	482	668
Profit of Public Financial Institutions	1.686	3.281	40	0	43	83	44	211	5
Administrative Taxes and Charges	1.390	1.390	103	128	156	387	159	143	157
Health co-payment	600	600	34	45	48	127	45	40	37
Other Administrative Taxes	300	300	17	17	24	58	22	23	24
Other Non Tax Revenues	400	397	24	23	40	87	24	14	14
Road Fund Fees	1.810	1.810	101	103	136	340	142	153	146
Capital Revenues	625	630	49	27	36	112	45	35	27
Foreign Donations	4.230	4.236	40	44	68	152	42	74	143
Revenues from repayment of loans	0	1	0	0	1	1	0	0	1
TOTAL EXPENDITURES	106.006	107.499	7.167	7.489	8.111	22.766	8.262	7.334	8.279
Current Expenditures	92.650	92.742	6.587	7.212	7.859	21.657	7.713	6.907	7.560
Wages and Allowances	23.089	23.177	1.843	1.890	1.907	5.640	1.899	1.923	1.914
Goods and Services	13.830	14.253	712	1.169	1.316	3.197	1.171	883	1.086
Transfers	52.819	52.653	3.676	4.084	4.492	12.252	4.343	4.005	4.291
Transfers (SRA)	1.004	1.033	32	65	63	160	81	71	68
Social Transfers	48.288	47.641	3.593	3.801	4.187	11.582	4.051	3.744	3.875
Pensions	25.688	25.296	2.022	2.110	2.163	6.294	2.125	2.122	1.994
Unemployment Benefits	3.190	3.048	257	286	260	783	268	252	247
Social Benefits	4.172	4.151	296	315	354	965	346	271	409
Structural Reforms	70	0	0	0	0	0	0	0	0
Public Administration Reform	4	4	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
Other Transfers	3.428	3.880	51	208	228	487	188	179	337
Refugees	100	100	0	10	14	24	23	11	11
Interest	2.912	2.659	356	69	144	569	301	96	269
Domestic	1.069	1.111	26	25	65	116	212	62	159
Foreign	1.843	1.548	330	44	79	453	89	34	110
Guaranties	0	0	0	0	0	0	0	0	0
Capital Expenditures	13.356	14.757	580	276	252	1.108	548	428	719
BUDGET BALANCE	-3.301	-2.230	112	-883	-264	-1.034	643	308	-199
FINANCING	3.301	2.230	-112	883	264	1.034	-643	-308	199
Inflow	11.247	10.046	762	924	772	2.458	1.176	-80	919
Privatisation Receipts	1.041	1.024	65	200	0	265	95	0	136
Foreign donations	0	0	0	0	0	0	0	0	0
Foreign Loans	4.643	14.895	70	26	43	139	35	89	1.095
Deposits	3.043	-9.113	702	644	186	1.532	327	-292	-378
Domestic borrowing	2.500	3.229	-76	54	543	521	719	123	63
Sell of Shares	20	11	1	0	0	1	0	0	3
Outflow	7.947	7.816	874	42	509	1.425	1.819	227	719
Repayment of Principal	7.947	7.816	874	42	509	1.425	1.819	227	719
Foreign	3.383	3.266	874	42	339	1.255	147	4	180
Domestic	4.564	4.550	0	0	170	170	1.672	223	540

Q - 2	Q - 3	Q - 4	Total 2005	Budget 2006	I	II	III	Q - 1 2006	IV	I - IV 2006
24.627	27.928	26.641	100.928	103.198	7.365	6.756	8.976	23.097	9.255	32.352
21.172	21.285	23.152	84.581	88.198	5.957	5.933	7.958	19.848	7.907	27.755
75	70	91	304	177	19	21	39	79	14	93
13.944	14.107	15.316	55.681	57.581	4.014	3.382	5.262	12.658	5.317	17.975
2.052	1.951	2.260	8.097	8.051	511	662	760	1.933	703	2.636
600	623	534	2.837	3.185	180	383	1.162	1.725	311	2.036
6.767	6.652	7.918	27.082	28.334	1.760	1.284	2.184	5.228	2.812	8.040
2.937	3.385	2.965	11.748	12.543	1.191	653	698	2.542	868	3.410
1.441	1.335	1.464	5.266	4.848	280	327	386	993	456	1.449
147	161	175	651	620	92	73	72	237	167	404
7.153	7.108	7.745	28.596	30.440	1.924	2.530	2.657	7.111	2.576	9.687
4.569	4.553	4.948	18.300	19.810	1.250	1.651	1.718	4.619	1.690	6.309
325	322	353	1.312	1.370	85	120	117	322	113	435
2.259	2.233	2.442	8.982	9.260	588	759	822	2.169	773	2.942
3.088	5.284	2.951	13.818	12.943	684	704	918	2.306	1.133	3.439
1.673	1.549	1.676	6.312	7.377	303	372	559	1.234	413	1.647
260	2.837	139	3.319	1.031	83	13	7	103	359	462
459	358	453	1.657	1.500	107	131	157	395	114	509
122	70	115	434	573	28	27	25	80	23	103
69	55	64	246	300	20	20	25	65	27	92
52	53	72	264	382	47	38	24	109	51	160
441	462	432	1.675	1.780	97	103	121	321	146	467
107	587	127	933	502	52	49	42	143	57	200
259	672	411	1.494	1.555	641	69	45	755	126	881
1	0	0	2	0	31	1	13	45	33	78
23.875	24.482	29.096	100.219	104.905	6.903	8.206	8.429	23.538	8.340	31.878
22.180	21.707	24.482	90.026	93.420	6.687	7.679	8.109	22.475	7.945	30.420
5.736	5.566	5.894	22.836	23.997	1.869	1.933	1.948	5.750	1.938	7.688
3.140	2.620	4.028	12.985	12.579	702	933	1.221	2.856	1.078	3.934
12.639	12.795	13.911	51.597	53.585	3.624	4.740	4.716	13.080	4.617	17.697
220	192	341	913	613	46	52	69	167	66	233
11.670	11.533	12.085	46.870	48.906	3.419	3.977	4.170	11.566	4.001	15.567
6.241	6.151	6.285	24.971	26.999	2.020	2.143	2.233	6.396	2.190	8.586
767	715	675	2.940	2.500	267	203	189	659	186	845
1.026	1.113	1.034	4.138	3.954	53	548	347	948	338	1.286
0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0
3.637	3.557	4.092	14.825	15.450	1.079	1.082	1.400	3.561	1.287	4.848
704	1.037	1.453	3.681	3.975	159	704	463	1.326	544	1.870
45	33	33	135	91	0	7	14	21	6	27
666	727	648	2.610	3.259	492	73	225	790	313	1.103
433	163	362	1.074	1.259	41	30	69	140	221	361
233	564	286	1.536	2.000	451	43	156	650	92	742
0	0	0	0	0	0	0	0	0	0	0
1.695	2.775	4.613	10.191	11.486	216	527	320	1.063	394	1.457
752	3.446	-2.455	709	-1.708	462	-1.450	547	-441	916	475
-752	-3.446	2.455	-709	1.708	-462	1.450	-547	441	-916	-475
2.015	-1.964	4.554	7.063	16.556	8.488	1.493	-250	9.731	1.173	10.904
231	147	740	1.383	15.821	0	0	13.899	13.899	0	13.899
0	0	0	0	0	0	0	0	0	0	0
1.219	838	11.717	13.913	4.309	45	54	61	160	125	285
-343	-3.398	-7.588	-9.797	-6.594	8.305	1.248	-14.387	-4.834	1.331	-3.503
905	427	-315	1.538	3.000	138	171	175	484	-283	201
3	24	1	29	20	0	21	3	24	0	24
2.765	1.483	2.099	7.772	14.848	8.950	43	297	9.290	2.089	11.379
2.765	1.483	2.099	7.772	14.848	8.950	43	297	9.290	2.089	11.379
331	1.305	404	3.295	10.119	8.950	43	166	9.159	201	9.360
2.435	178	1.695	4.478	4.729	0	0	131	131	1.888	2.019

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

(in million of US\$)

	1998	1999	2000	2001	2002	2003	2004	Q-1	Q-2	Q-3	Q-4	2005	I-06	II-06	III-06	Q-1 06	IV-06	I-IV 2006
CURRENT ACCOUNT	-269,29	-32,46	-75,28	-235,43	-357,81	-152,28	-414,82	-20,95	-110,98	78,35	-27,90	-81,48	-9,14	9,87	-18,55	-17,82	-31,25	-49,07
Goods, net	-515,09	-495,81	-690,41	-523,23	-804,34	-851,48	-1112,08	-190,66	-342,99	-230,08	-293,74	-1.057,47	-74,99	-57,38	-106,84	-239,21	-121,25	-360,46
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	481,72	512,81	507,36	537,76	2.039,64	122,36	147,55	179,63	449,53	176,20	625,73
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	-672,38	-855,80	-737,44	-831,49	-3.097,11	-197,35	-204,93	-286,46	-688,74	-297,44	-986,18
Services, net	-59,60	41,83	47,05	-15,79	-22,13	-2,56	-54,39	-3,72	-17,00	11,39	-24,53	-33,87	0,54	-2,64	-5,01	-7,11	-3,22	-10,33
Income, net	-44,82	-42,15	-45,44	-39,46	-29,78	-32,33	-39,23	0,61	-20,55	-44,78	9,73	-54,99	-1,81	2,88	4,85	5,92	-0,16	5,76
o/w : interest, net	-44,34	-41,41	-39,15	-33,59	-18,64	-31,88	-26,22	-10,03	-4,62	-10,50	-0,80	-25,95	-6,30	-1,78	-1,31	-9,39	-2,85	-12,24
Current transfers, net	350,21	463,66	613,53	343,06	498,45	734,09	790,88	172,82	269,56	341,83	280,65	1.064,85	67,11	67,02	88,44	222,57	93,38	315,95
Official	37,39	72,69	132,30	48,65	100,50	103,36	70,07	11,73	15,83	20,08	16,75	64,39	1,79	4,46	10,66	16,91	8,70	25,61
Private	312,82	390,97	481,23	294,41	397,95	630,73	720,81	161,09	253,73	321,75	263,90	1.000,47	65,32	62,56	77,78	205,66	84,68	290,34
CAPITAL AND FINANCIAL ACCOUNT	281,84	-128,46	11,28	178,23	376,87	169,97	407,01	26,06	107,36	-72,88	34,13	94,67	6,26	-12,01	19,90	14,15	34,63	48,79
Capital account, net	-1,79	0,00	0,31	1,30	8,26	-6,69	-4,61	-0,01	-0,15	0,24	-2,09	-2,01	-0,16	0,19	0,42	0,44	-0,21	0,23
Capital transfers, net	0,00	0,00	0,31	3,64	9,92	-6,60	-4,61	-0,01	-0,15	0,24	-2,09	-2,01	-0,16	0,19	0,42	0,44	-0,21	0,23
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	-0,01	-0,15	0,24	-2,09	-2,01	-0,16	0,19	0,42	0,44	-0,21	0,23
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	26,07	107,51	-73,12	36,22	96,68	6,42	-12,20	19,48	13,71	34,85	48,56
Direct investment, net	117,72	31,80	176,23	442,32	77,72	94,26	155,85	36,15	33,18	17,33	10,43	97,08	7,78	3,46	279,29	290,53	6,77	297,30
Portfolio investment, net	7,79	0,14	-0,09	0,36	0,35	3,39	14,82	16,47	4,78	17,71	196,15	235,11	3,89	3,26	7,04	14,19	5,58	19,77
Other investment, net	226,66	-32,01	85,05	-183,27	159,98	129,97	260,42	-13,13	99,09	3,69	89,91	179,56	-195,84	-14,18	-47,46	-257,48	65,70	-191,78
Trade credits, net	45,39	7,13	146,54	-125,08	83,1	82,95	170,05	-60,00	84,96	-38,62	38,25	24,60	-8,68	-38,90	27,96	-19,61	18,01	-1,61
Loans, net	219,87	54,83	13,51	-107,31	8,19	23,47	59,82	18,71	80,99	6,55	47,69	153,94	-182,62	26,34	-5,56	-161,84	49,91	-111,94
Currency and deposits, net	-40,62	-135,01	-122,53	27,09	44,69	2,85	-3,66	23,69	-72,10	30,04	-6,40	-24,77	-6,42	-2,96	-73,81	-83,18	-7,92	-91,10
o/w monetary authorities, net	0,00	-21,20	-0,19	-77,08	68,79	17,77	26,44	0,00	-0,41	1,18	0,00	0,77	0,00	0,00	-68,78	-68,78	0,00	-68,78
o/w commercial banks, net	-28,77	-51,28	-93,26	-272,39	112,17	-54,59	-105,08	21,65	-60,98	49,22	16,68	26,57	-4,45	5,21	6,25	7,02	-1,00	6,02
o/w individuals, net	-11,85	-62,52	-29,08	376,56	-136,27	39,68	74,97	2,04	-10,71	-20,35	-23,08	-52,10	-1,97	-8,17	-11,28	-21,42	-6,92	-28,34
Other, net	2,03	41,04	47,53	22,03	24,00	20,69	34,22	4,47	5,23	5,72	10,37	25,79	1,87	1,35	3,94	7,16	5,71	12,87
Gross official reserves ("-" = increase) ³	-68,54	-128,39	-250,22	-82,48	130,57	-50,96	-19,47	-13,42	-29,54	-111,84	-260,27	-415,07	190,60	-4,75	-219,39	-33,53	-43,21	-76,74
ERRORS AND OMISSIONS	-12,55	160,92	64,00	57,19	-19,07	-17,70	7,81	-5,11	3,63	-5,47	-6,23	-13,19	2,88	2,14	-1,35	3,67	-3,38	0,29

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%, 2000-3.90%, 2001-4.20%, 2002-3.80%, 2003, 2004 and 2005 - 4.06%

3. Excluding monetary gold and exchange rate differences;

Pension and Disability Insurance Fund

Revenues generated by the PDF in the first four months of 2006 are by 6% higher than those in the same period of 2005 and amount to Denar 10.086 million. Most of the revenues, i.e. 60,6%, were revenues on the basis of salary contributions, where an increase of 8,3% was realized. Budget revenues account for 30,6% in the total revenues and are by 7,9% higher, while the revenues of the Employment Agency for insurance of unemployed beneficiaries of pecuniary allowance continues to decline and has declined by 14,8% and their share in the total revenues accounts for 4,6%.

Expenditures in the PDF in the observed period amount to Denar 9.946 million and are by 2,7% higher than the same period last year. Most of the total expenditures, i.e. 83,5%, were for payment of pensions to the beneficiaries. Thereby, 95,4% of the pensions were paid for regular pensions, and they increased by 3,5%. Expenditures for the contribution for health protection participated with 11,8% in the total expenditures of the Pension and Disability Insurance Fund.

PDF **surplus** in the first four months of 2006 were Denar 141 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-Apr.
REVENUES	21.229	22.883	24.289	25.811	28.191	28.983	28.878	10.086
Contribution from salaries	14.316	15.722	15.671	15.784	16.882	17.204	17.484	6.116
Contribution from income	311	311	331	283	307	383	388	106
Revenues from the Government Budget	3.266	4.174	5.744	6.961	7.741	8.486	8.291	3.090
Revenues from the private sectors	439	404	377	409	394	412	390	76
Revenues from individual farmers	65	58	41	61	71	41	39	12
Revenues from excises	632	804	716	688	677	661	659	195
Contributions from the Employment Agency	868	1.101	1.126	1.404	1.536	1.719	1.550	460
Other revenues	45	74	73	29	65	57	59	25
Revenues from dividends	245	68	209	192	42	21	18	6
Revenues from new employment	201	0	0	0	476	0	0	0
Transferred income from the previous year								
EXPENDITURES	20.669	22.940	24.697	25.889	27.740	29.132	29.015	9.946
Pensions	17.756	19.774	21.278	22.255	24.008	25.121	24.969	8.304
Regular pensions	16.977	18.948	19.041	19.982	21.667	22.824	23.335	7.925
War veteran pensions	458	505	514	518	499	509	479	152
Agricultural pensions	321	321	297	262	234	217	178	52
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	24
Early retirement by the Law from year 2001	0	0	148	254	262	247	240	58
Early retirement by the Law from year 2004							91	35
Compensation for body injury								284
Compensation for disability insurance	69	72	72	83	80	82	82	27
Employment and accommodations for disabled children	95	94	91	76	98	97	110	43
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	1.174
Other expenditures	132	141	153	165	172	170	172	57
Capital expenditures	154	175	254	222	192	257	190	45
BALANCE	-	-	37	145	0	50	70	11
Deficit / Surplus	560	-57	-408	-78	451	-149	-137	141

Health Insurance Fund

In the period January-April 2006, the HIF **revenues** amounted to Denar 4.997 million, which is by 2,6% more compared to the same period last year. Regarding the revenue structure, highest share (58,9%) went to the health insurance contributions, realizing an increase by 2,5%. Contributions of the PDF account for 23,3% in total revenues and grew by 10,4%, while contributions paid by the Employment Agency for the unemployed persons account for 14,1% and grew by only 0,6% compared to the last year.

PDF **expenditures** for health insurance in the first four months of 2006 were Denar 4.942 million, i.e. 1% less than last year. Highest share in the expenditures went to the outpatient expenditures (87,9%).

In the observed period, the HIF had **surplus** of Denar 55 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-Apr.
REVENUES	12.068	12.790	12.295	13.656	14.698	14.886	15.083	4.997
Contributions	7.363	7.745	7.528	7.823	8.418	8.762	8.982	2.942
Contributions from the Pension Fund	2.417	2.649	2.616	3.075	3.184	3.349	3.417	1.175
Contributions from the Employment Agency	1.350	1.941	1.554	1.763	1.849	1.998	2.062	703
Contributions from the Ministry of Labour	0	0	48	54	64	41	64	22
Other revenues	938	455	70	734	1.064	676	79	155
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	0
EXPENDITURES	11.692	12.463	12.205	13.611	14.678	14.722	15.206	4.942
Outpatient expenditures	2.491	2.486	2.505	4.430	5.132	5.959	7.129	4.346
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	90
Medical treatment abroad	161	70	90	144	221	117	151	60
Other treatment (contributions)	801	694	769	832	968	941	1.062	352
Administration	288	250	268	360	309	254	276	85
Equipment and maintenance	39	90	44	656	219	23	106	9
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	55

Source: Internal data of the Ministry of Finance

Employment Agency

In the first four months of 2006, the Employment Agency had **revenues** of Denar 2.012 million, meaning 16,1% decline in relation to last year. Revenues from contributions are only by 0,7% higher, and budget transfers, despite their largest share in the revenue structure (78,1%), declined by 19,9%. Regarding the budget grants structure, 86,7% was on the basis of covering the deficit of the Agency.

Expenditures of the Employment Agency were Denar 2.121 million, i.e. 11,9% less compared to the first four months last year. Expenditures related to the function

amounted to Denar 2.043 million, or 96,3% of the total expenditures, and they decreased by 12,4%. Out of these, 35,4% were used for payment of unemployment benefit for the unemployed persons, and only 5,9% were used for active measures (for employment encouragement and employment projects). Expenditures for professional service accounted for 3,7% in the total expenditures, and are by 5,4% higher than last year.

In the first four months of 2006 the Employment Agency had **deficit** of Denar 109 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-Apr.
	4.129	5.119	4.827	5.918	6.241	7.456	6.940	2.012
REVENUES	1.058	1.121	1.136	1.180	1.224	1.270	1.313	435
Revenues from contributions	1.037	1.098	1.113	1.178	1.223	1.155	1.192	350
Contributions from wages	21	22	23	2	0	24	23	6
Contributions from self-employed								
Contributions from the people who work abroad	0	0	0	0	1	4	5	1
Contributions from previous year	0	0	0	0	0	88	93	78
Revenues from the Government budget	3.066	3.990	3.677	4.726	5.002	6.163	5.616	1.572
For covering the deficit of the								
Employment Agency	2.575	3.470	3.170	3.742	3.958	4.522	4.612	1.366
For paying allowances to the employees of the								
loss-making enterprises	490	516	481	944	980	988	418	106
Public administration reform	-	-	26	19	3	61	22	4
Others	0	3	26	21	61	592	564	96
Other revenues	6	8	13	12	16	23	11	5
	4.135	5.110	4.749	5.868	6.214	7.325	6.938	2.121
EXPENDITURES	3.970	4.913	4.571	5.658	6.005	7.102	6.710	2.043
Expenditures for the functions								
Unemployment benefits	1.755	1.875	1.879	2.273	2.377	2.697	2.425	724
Contributions for health insurance	1.347	1.936	1.555	1.763	1.849	1.998	2.063	703
Contributions for pension and disability insurance	868	1.102	1.138	1.453	1.557	1.729	1.552	470
Transfers for employment of disabled persons	-	-	-	128	121	58	114	12
Payments according to the new Law	-	-	-	-	61	592	526	60
Compensation for training	-	-	-	41	40	29	30	14
Expenditures for the personnel								60
Wages and salaries	165	198	178	210	209	223	228	78
Allowances	105	118	116	124	134	132	133	44
Goods and other services	17	19	18	22	20	20	22	8
Current transfers	34	54	43	42	51	68	69	26
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	-109

Source: Internal data of the Ministry of Finance

Regional and National Road Fund

The Road Fund, in the past four months of 2006 collected **revenues** in the amount of Denar 830 million, meaning 7,3% decline compared to the same period last year. The budget revenues, having the largest share, account for 42,2% of total revenues, but are lower by 12,5%, the amount from road fee was at the last year level.

Expenditures of the Road Fund in the observed period were Denar 794 million. Most part of them, around 62,5% of the costs are for road maintenance and around 1/5 for investments. Expenditures related to studies, drafting plans, surveillance, commissions and material costs participated with 5,9% in the total expenditures.

In the first four months of 2006, the Road Fund had **surplus** of Denar 36 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-Apr.
REVENUES	3.793	3.506	4.012	3.434	3.668	3.299	3.031	830
Revenues from Budget	924	1.590	1.655	1.305	1.603	1.610	1.320	350
Paytoll by foreign motor vehicles								
Annual fee for motor vehicles subject to registration	54	82	73	87	82	77	90	29
Paytoll for use of motorway								
Foreign credit	518	746	704	761	797	853	842	249
Other revenues	492	537	375	381	728	741	743	188
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	794
Expenditures for studies, projections, supervision, fees and material costs	1.985	1.662	1.756	1.250	1.107	1.753	1.405	169
Road maintenance	0	179	286	289	205	156	164	47
Repayment of loans	790	952	926	900	1.063	1.081	1.013	496
Funds for local roads	148	212	299	304	424	242	254	71
Other expenditures	386	502	596	528	666	611	508	11
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	36

Source: Internal data of the Ministry of Finance

MACEDONIAN SECURITIES STOCK EXCHANGE

Stock Exchange Indicators - March 2006

In March 2006, trading on the Macedonian Securities Stock Exchange via traditional trading amounted to Denar 846.68 million, which, in relation to February, grew by 80.39%. Trading realized via block transactions on the Stock Exchange in March amounted to Denar 10,837.18 million. Such high trading in March, realized via block transactions on the Stock Exchange, was due to the trading realized in the sale of AD Elektrostopanstvo na Makedonija (ESM) (Electric Power Company of Macedonia). In March 2006, government securities were traded in the amount of Denar 3.04 million, and it dropped by 85.55% in relation to February. In March 2006, total trading on the Macedonian Stock Exchange via traditional trading, block transactions and government securities amounted to Denar 11,686.9 million, which, in relation to the previous month, increased by 1,923.53%. Such enormous increase in the total trading on the Macedonian Stock Exchange was due to the realized block transaction for the sale of AD Elektrostopanstvo na Makedonija (ESM) (Electric Power Company of Macedonia).

In March 2006, average daily trading amounted to Denar 36.8 million, which in relation to the previous month increased by 56.86%. During the analysed period, average daily number of transactions was 152, and compared to February, it was higher by 10.14%.

Trading with shares in April amounted to Denar 453 million in the total trading on the Stock Exchange realised via traditional trading, which in March amounted to Denar 846.6 million, and compared to the previous month, it was an increase by 47.17%. During the analysed period, trading with government bonds amounted to Denar 393.6 million, and compared to the previous month, there was an increase by 143.71%.

MACEDONIAN STOCK EXCHANGE - march/april 2006

	March 2006	April 2006	% Change
TURNOVER (denars)			
TRADING IN BEST	846.685.462	619.939.835	-26,78%
Shares	453.069.276	361.169.922	-20,28%
Bonds	393.616.186	258.769.913	-34,26%
DAILY AVERAGE TURNOVER (denars)	36.812.411	32.628.412	-11,37%
DAILY AVERAGE NUMBER OF TRANSACTIONS	152	155	1,97%
BLOCK TRANSACTIONS	10.837.183.845	55.839.760	-99,48%
GOVERNMENT AUCTIONS	3.044.858,00	-	-
Shares	3.044.858,00	-	-
Stakes	-	-	-
TOTAL	11.686.914.165	675.779.595	-94,22%
VOLUME (in securities)			
SHARES	11.123.505	341.832	-96,93%
TRADING IN BEST	453.298	270.418	-40,34%
BLOCK TRANSACTIONS	10.650.813	71.414	-99,33%
GOVERNMENT AUCTIONS	19.394	-	-
BONDS (NV in EURO'S)	7.765.938	5.348.047	-31,13%
NUMBER OF TRANSACTIONS			
TRADING IN BEST	3.509	2.954	-15,82%
BLOCK TRANSACTIONS	10	7	-30,00%
GOVERNMENT AUCTIONS	1	-	-
TOTAL	3.520	2.961	-15,88%
MARKET CAPITALIZATION (denars)			
MARKET CAPITALIZATION OF SHARES	56.326.720.438	55.500.558.368	-1,47%
LISTED SHARES	37.458.507.489	38.116.100.091	1,76%
PUBLICLY HELD COMPANIES	18.868.212.949	17.384.458.277	-7,86%
MARKET CAPITALIZATION OF BONDS	26.180.952.284	24.881.752.914	-4,96%
TOTAL MARKET CAPITALIZATION	82.507.672.722	80.382.311.282	-2,58%
MBI-10	2.592,55	2.617,76	0,97%
NUMBER OF LISTED SECURITIES	50	50	-

If one analysis the total trading with government bonds of the Republic of Macedonia in March 2006, it can be concluded that trading with government bonds for the old foreign exchange saving amounted to Denar 23.4 million, whereby the average price of these bonds amounted to 86.79% of their nominal value,

and compared to the previous month, it was higher by 0.61 percentage points. During the analyzed period, there was no trading with denationalization bonds from the first issue.

Denationalization bonds from the second issue were sold at average price of 82.70% of their nominal value, which compared to February 2006, decreased by 0.35 percentage points, and their total trading in March amounted to Denar 5.2 million. In March 2006, total trading in denationalization bonds from the third issue was in the amount of Denar 21.7 million and their average price was 81.10% of their nominal value, which in relation to the previous month, declined by 0.90 percentage points.

Trading in denationalization bonds from the fourth issue in March 2006 amounted to Denar 62.5 million and their average price was 80.30% of their nominal value, which in relation to the previous month, increased by 0.08 percentage points. During the analyzed period, trading with denationalization bonds from the first issue amounted to Denar 254.3 million, and their average price was 76% of the nominal value.

Official stock exchange index (MSEI - 10), as an indicator of the movement of prices of shares, amounted to Denar 2,592.55 in March 2006, and compared to the previous month, there was an increase by 3.20%.

Total trading on the official market on the Macedonian Securities Stock Exchange in March 2006 was in the amount of Denar 779.4 million, being 6.67% of the total trading on the Stock Exchange. Total trading on the unofficial market of the Stock Exchange during the analysed period was in the amount of Denar 67.2 million, accounting for 0.58% of the total trading on the Stock Exchange. In March 2006, trading via block transactions on the Macedonian Securities Stock Exchange was in the amount of Denar 10.8 billion, being 92.73% of the total trading on the Stock Exchange, which was due to the realized block transaction for the sale of ESM. During the analyzed period, trading in government securities amounted to Denar 3 million, accounting for 0.03% of the total trading on the Stock Exchange.

In March 2006, total trading in the 10 most liquid shareholding companies on the official market on the Macedonian Securities Stock Exchange was in the amount of Denar 445.1 million, whereby the trading with shares of the following companies was the most significant: Komercijalna banka Skopje - 35.94% of the trading volume, Agropod - Resen - 14.74% of the trading volume and Stopanska banka - Bitola - 8.23% of the trading volume.

Shares of the following companies noted the biggest rise in the average price in March 2006 in relation to the previous month: Stopanska banka - Bitola, the average growth of which was 27.59% and the average price per share was Denar 8,362.75, Investbanka - Skopje, the average share price growth of which was 23.98%, and the average price per share was Denar 3,908.38. In the analyzed period, price of shares of Ohridska banka - Ohrid grew by 21.06%, and in March 2006 it amounted to Denar 6,658.33.

Shares of the following companies noted the biggest decline in the average price in March 2006 in relation to the previous month: Karpos - Skopje, the average share price of which was by 26.89% lower and amounted to Denar 2,934.59, Blagoj Gorev - Veles, the average share price of which was by 16.67% lower and amounted to Denar 833.33 and RZ Makstil - Skopje, the average share price of which was by 12% lower in relation to the previous month and amounted to Denar 21.69.

In March 2006, market capitalization of the shares on the Macedonian Securities Stock Exchange amounted to Denar 56.3 billion, which in relation to the previous month, increased by 4.91%.

Market capitalization of the bonds on the Macedonian Securities Stock Exchange in the analyzed period amounted to Denar 26.1 billion, which in relation to the previous month, grew by 6.79%. Total market capitalization on the Macedonian Securities Stock Exchange in March 2006 amounted to Denar 82.5 billion, which in relation to February, grew by 5.50%.

In March 2006, the analysis of the dividend of the 10 joint stock companies having the largest share in the trading volume on the official market of the Macedonian SE showed that the shares of Toplifikacija - Skopje had the highest dividend per share of 4.98%, followed by the shares of Stopanska banka Bitola with 4.77% and by Ohridska banka Ohrid with 4.35%.

The analysis of the ownership structure of capital of the shareholding companies showed that foreign investors were most present in the total capital of the following companies, being among the 10 most liquid companies on the Macedonian Securities Stock Exchange in March 2006: Komercijalna banka AD Skopje - 26.48% foreign capital, Toplifikacija AD -

Skopje - 23.71% foreign capital and Ohridska banka Ohrid - 13.04% foreign capital.

In March 2006, regarding the total trading realized on the official market of the Macedonian Stock Exchange, foreign investors participated with 14.32%, and in relation to the previous month, their share dropped by 0.02%. The share of foreign investors in the total trading on the Stock Exchange in the observed period was 4.06%, whereby the realized trading amounted to Denar 39.1 million.

The share of foreign investors in the total buyout on the Stock Exchange in March 2006 was 37.15%, i.e. foreign investors participated with Denar 358.1 million in the total trading on the Macedonian Stock Exchange.

STOCK EXCHANGE

INDICATORS - APRIL 2006

In April 2006, trading on the Macedonian Securities Stock Exchange via traditional trading amounted to Denar 619.93 million, which, in relation to March, dropped by 26.78%. Trading realized via block transactions on the Stock Exchange in April amounted to Denar 55.8 million. No trading in government securities was carried out in April 2006. Total traditional trading, block transactions and trading in government securities on the Macedonian Securities Stock Exchange in April 2006 amounted to Denar 675.7 million, and in relation to the previous month, there was a 94.22% decline. This decline was not that much due to decreased trading, but it was rather a result of the fact that in March 2006, the total trading on the Macedonian Stock Exchange was enormously high due to the sale of ESM.

In April 2006, average daily trading amounted to Denar 32.6 million, which in relation to the previous month dropped by 11.37%. During the analysed period, average daily number of transactions was 155, and compared to March, it was higher by 1.97%.

In the total traditional trading volume of the SE, which in April was Denar 619.9 million, trading in shares accounted for Denar 361.1 million, which in relation to the previous month declined by 20.28%. During the analyzed period, trading with government bonds amounted to Denar 258.7 million, and compared to the previous month, there was a decrease by 34.26%.

If one analysis the total trading with government bonds of the Republic of Macedonia in April 2006, it can be concluded that trading with government bonds for the old foreign exchange saving amounted to Denar 46.7 million, whereby the average price of these bonds amounted to 86.43% of their nominal value, being a decrease by 0.36 percentage points compared to the previous month. During the analyzed period, denationalization bonds from the first issue were sold at average price of 84.90% of their nominal values, amounting to Denar 259 thousand.

Denationalization bonds from the second issue were sold at average price of 84.50% of their nominal value, which in relation to March 2006, was by 1.8 percentage points higher, and their total trading in April amounted to Denar 6.5 million. In April 2006, total trading in denationalization bonds from the third issue

was in the amount of Denar 11.3 million and their average price was 82.2% of their nominal value, which in relation to the previous month, was an increase by 1.1 percentage points.

Trading in denationalization bonds from the fourth issue in April 2006 amounted to Denar 16.4 million and their average price was 80.81% of their nominal value, which in relation to the previous month, was an increase by 0.51 percentage points. In the analyzed period, trading in denationalization bonds from the first issue amounted to Denar 177.5 million, and their average price was 77.76% of their nominal value, which was by 1.76 percentage points higher compared to the previous month.

Official stock exchange index (MSEI - 10), as an indicator of the movement of prices of shares, amounted to Denar 2,617.76 in April 2006, and compared to the previous month, there was an increase by 0.97%.

Trading on the official market on the Macedonian Securities Stock Exchange in April 2006 amounted to Denar 531.9 million, accounting for 78.71% of the total trading on the Stock Exchange. Total trading on the unofficial market in the analyzed period amounted to Denar 88 million, accounting for 13.02% of the total trading on the Stock Exchange. Trading via block transactions in April 2006 was Denar 55.8 million, being 8.26% of the total SE trading volume.

In April 2006, total trading in the 10 most liquid shareholding companies on the official market on the Macedonian Securities Stock Exchange amounted to Denar 299.6 million, whereby the trading with shares of the following companies was the most significant: Komercijalna banka Skopje - 24.22% of the trading volume, Alkaloid - Skopje - 15.33% of the trading volume and Ohridska banka - Ohrid - 11.56% of the trading volume.

Highest increase of the average price of the shares in April 2006, compared to the previous month, was noticed at the prices of the shares of: Zito Luks AD, the average growth of which was 75.25% and the

average price per share was Denar 350.50, Replek Skopje, the average share price growth of which was 10.03%, and the average price per share was Denar 25,117.30. Price of shares of Beton - Skopje in the analyzed period grew by 9.2%, and in April 2006, it was Denar 3,500.82.

Shares of the following companies noted the biggest decline in the average price in April 2006 in relation to the previous month: Karpos - Skopje, the average share price of which was by 48.67% lower and amounted to Denar 1,506.25, Ohis - Skopje, the average share price of which was by 35% lower and amounted to Denar 135 and Agricultural Plant Pelagonija - Bitola, the average share price of which was by 7.43% lower in relation to the previous month and it amounted to Denar 1,253.38.

In April 2006, market capitalization of the shares on the Macedonian Securities Stock Exchange amounted to Denar 55.5 billion, which in relation to the previous month, declined by 1.47%.

Market capitalization of the bonds on the Macedonian Securities Stock Exchange in the analyzed period amounted to Denar 24.8 billion, which in relation to the previous month, declined by 4.96%. Total market capitalization on the Macedonian Securities Stock Exchange in April 2006 amounted to Denar 80.3 billion, which in relation to March, declined by 2.58%.

In April 2006, the analysis of the dividend of the 10 joint stock companies having the largest share in the trading volume on the official market of the Macedonian SE showed that the shares of Toplifikacija - Skopje had the highest dividend per share of 4.85%, followed by the shares of Stopanska banka Bitola with 4.77% and by Ohridska banka Ohrid with 4.53%.

The analysis of the ownership structure of capital of the shareholding companies showed that foreign investors were most present in the total capital of the following companies, being among the 10 most liquid companies on the Macedonian Securities Stock

Exchange in April 2006: Komercijalna banka AD Skopje - 27.08% foreign capital, Toplifikacija AD - Skopje - 24.40% foreign capital and Ohridska banka Ohrid - 14.47% foreign capital.

In April 2006, regarding the total trading realized on the official market of the Macedonian Stock Exchange, foreign investors participated with 14.62%, and in relation to the previous month, their share increased by

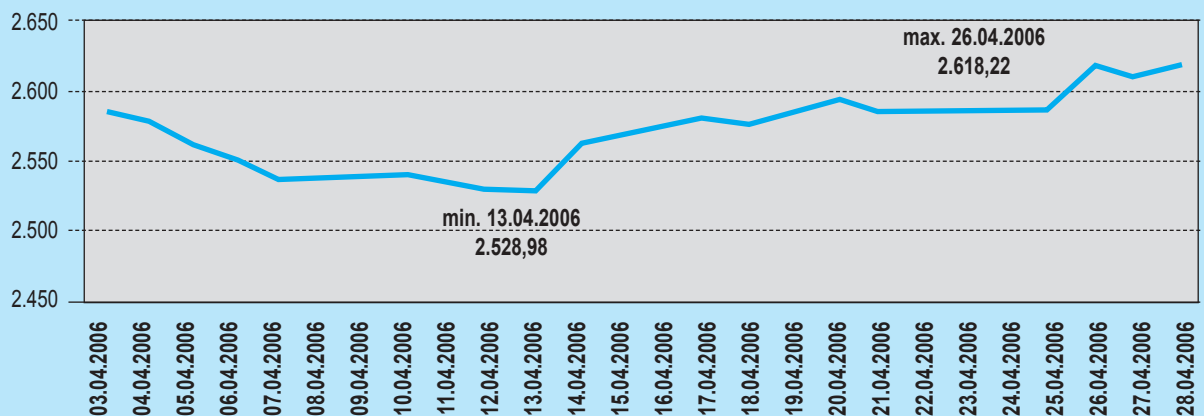
0.30%. Share of foreign investors in the total trading on the Stock Exchange in the observed period was 9.02%, whereby the realized trading amounted to Denar 60.9 million.

Share of foreign investors in the total buyout on the Stock Exchange in April 2006 was 51.37%, i.e. foreign investors participated with Denar 347.1 million in the total trading on the Macedonian Stock Exchange.

Macedonian Stock Exchange

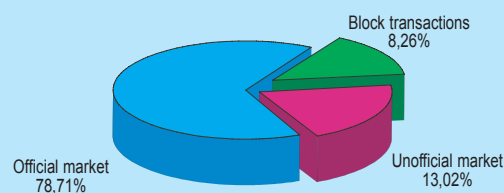
MACEDONIAN STOCK EXCHANGE

	March 2006	April 2006	% Change
TURNOVER (denars)			
TRADING IN BEST	846.685.462	619.939.835	-26,78%
Shares	453.069.276	361.169.922	-20,28%
Bonds	393.616.186	258.769.913	-34,26%
DAILY AVERAGE TURNOVER (denars)	36.812.411	32.628.412	-11,37%
DAILY AVERAGE NUMBER OF TRANSACTIONS	152	155	1,97%
BLOCK TRANSACTIONS	10.837.183.845	55.839.760	-99,48%
GOVERNMENT AUCTIONS	3.044.858,00	-	-
Shares	3.044.858,00	-	-
Stakes	-	-	-
TOTAL	11.686.914.165	675.779.595	-94,22%
VOLUME (in securities)			
SHARES	11.123.505	341.832	-96,93%
TRADING IN BEST	453.298	270.418	-40,34%
BLOCK TRANSACTIONS	10.650.813	71.414	-99,33%
GOVERNMENT AUCTIONS	19.394	-	-
BONDS (NV in EURO'S)	7.765.938	5.348.047	-31,13%
NUMBER OF TRANSACTIONS			
TRADING IN BEST	3.509	2.954	-15,82%
BLOCK TRANSACTIONS	10	7	-30,00%
GOVERNMENT AUCTIONS	1	-	-
TOTAL	3.520	2.961	-15,88%
MARKET CAPITALIZATION (denars)			
MARKET CAPITALIZATION OF SHARES	56.326.720.438	55.500.558.368	-1,47%
LISTED SHARES	37.458.507.489	38.116.100.091	1,76%
PUBLICLY HELD COMPANIES	18.868.212.949	17.384.458.277	-7,86%
MARKET CAPITALIZATION OF BONDS	26.180.952.284	24.881.752.914	-4,96%
TOTAL MARKET CAPITALIZATION	82.507.672.722	80.382.311.282	-2,58%
MBI-10	2.592,55	2.617,76	0,97%
NUMBER OF LISTED SECURITIES	50	50	-



Turnover structure

Market segment	Turnover (denars)	Turnover (EUR)	%	No. of trans.
Official market	531.922.501	8.696.760	78,71	2.664
Unofficial market	88.017.334	1.439.025	13,02	290
Block transactions	55.839.760	912.976	8,26	7
Government auctions	-	-	-	-
TOTAL	675.779.595	11.048.761	100,00	2.961



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	3.940	3.678	3.780	19.020	72.572.317	1.186.553	24,22	241	7.548.585.350
Alkaloid Skopje	4.250	4.000	4.134	11.083	45.957.149	751.357	15,33	199	6.080.114.871
Ohridska banka Ohrid	7.749	6.935	7.260	4.801	34.635.534	566.256	11,56	46	2.117.801.265
Stopanska banka Bitola	10.500	9.500	9.875	3.064	31.671.095	517.813	10,57	40	3.755.334.000
Toplifkacija Skopje	3.650	3.500	3.529	5.976	21.146.095	345.720	7,06	73	1.618.641.720
Makpetrol Skopje	22.000	20.250	21.190	971	20.616.851	337.079	6,88	109	2.416.397.621
Granit Skopje	350	301	314	38.164	11.916.116	194.822	3,98	152	1.037.064.572
Fersped Skopje	64.000	60.000	60.646	208	11.220.828	183.464	3,74	25	1.159.232.000
Makedonija turist	2.600	2.500	2.548	4.344	11.159.728	182.464	3,72	40	1.153.229.850
Agroplod Resen	12.235	12.235	12.235	820	10.032.700	164.038	3,35	1	257.240.875
Other				122.832	28.752.485	470.099	9,59	602	10.972.457.967
TOTAL				211.283	299.680.898	4.899.664	100,00	1.528	38.116.100.091

TOP 3 GAINERS*

Issuer	March 2006 Average price (denari)	April 2006 Average price (denari)	% change
Zito Luks Skopje	200,00	350,50	75,25%
Replek Skopje	22.827,63	25.117,30	10,03%
Beton Skopje	3.205,89	3.500,82	9,20%

TOP 3 LOSERS*

Issuer	March 2006 Average price (denari)	April 2006 Average price (denari)	% change
Karpos Skopje	2.934,59	1.506,25	-48,67%
Ohis Skopje	210,00	135,00	-35,71%
ZK Pelagonija Bitola	1.354,05	1.253,38	-7,43%

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)	86,70	85,10	86,43	28.04.2006	883.986	46.709.138	763.673	7,53%
Government bonds Denationalization I issue (RMDEN01)	84,90	84,90	84,90	14.04.2006	4.990	259.110	4.237	7,97%
Government bonds Denationalization II issue (RMDEN02)	84,50	82,70	84,50	27.04.2006	127.253	6.505.110	106.358	7,31%
Government bonds Denationalization III issue (RMDEN03)	82,90	81,20	82,20	28.04.2006	225.821	11.326.142	185.182	7,49%
Government bonds Denationalization IV issue (RMDEN04)	81,00	80,20	80,81	28.04.2006	333.366	16.431.208	268.644	7,37%
Government bonds Denationalization V issue (RMDEN05)	79,00	76,00	77,76	28.04.2006	3.772.631	177.539.205	2.902.732	7,07%

*The model for calculation of yield to maturity is adapted to the characteristics of the bonds. Calculation date is 30.04.2006, using the last average price of the bonds.

MBI-10 LISTED COMPANIES RATIOS

Issuer	P/E	Dividend	Foreign investors participation in	Foreign investors participation in	% Change
	ratio ¹⁾	yield ²⁾	March 2005 ³⁾	April 2006 ³⁾	
Alkaloid Skopje	17,18	1,66%	7,77%	8,30%	0,53%
Granit Skopje	4,47	2,96%	7,05%	7,54%	0,49%
Evropa Skopje	74,72	0,00%	11,70%	12,11%	0,41%
Komercijalna banka Skopje	18,30	2,56%	26,48%	27,08%	0,60%
Makedonijaturist Skopje	9,88	3,22%	2,76%	3,42%	0,66%
Makpetrol Skopje	16,33	0,00%	3,36%	3,89%	0,53%
Ohridska banka Ohrid	15,69	4,53%	13,04%	14,47%	1,43%
Stopanska banka Bitola	13,97	4,77%	9,93%	10,42%	0,49%
Toplikacija Skopje	19,43	4,85%	23,71%	24,40%	0,69%
Fersped Skopje	8,31	1,24%	2,96%	3,45%	0,49%

FOREIGN INVESTORS ON THE OFFICIAL MARKET ³⁾

	Foreign legal entities April 2006	Foreign private entities April 2006	Total foreign investors April 2006	Total foreign investors Mart 2006	% Change
Shares	15,47%	1,00%	16,46%	16,25%	0,21%
Bonds	7,03%	4,62%	11,65%	11,22%	0,43%
Total official market	12,23%	2,39%	14,62%	14,32%	0,30%

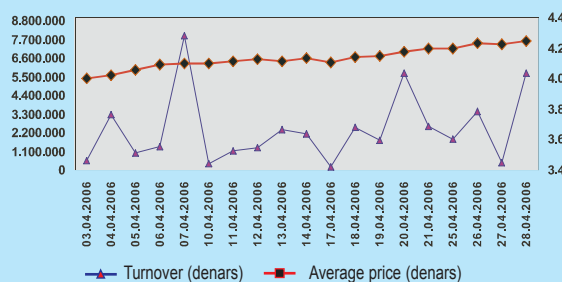
FOREIGN INVESTORS IN THE TOTAL TURNOVER

	Buying	% of total	Selling	% of total	TOTAL
April 2006	347.147.978	51,37%	60.955.319	9,02%	408.103.297

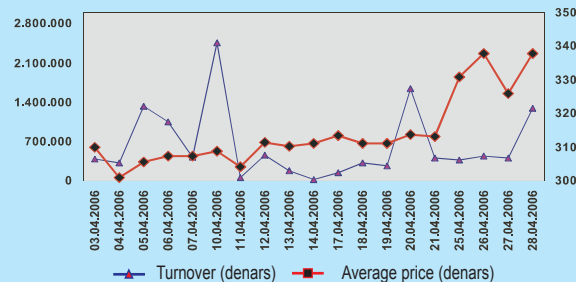
TURNOVER PER MEMBERS

Issuer	code	Trading in Best System	Trading in Best System (%)	State	State %	Block	Block %	Total
Komercijalna banka AD	KB	354.364.860	28,58	26.750.020	23,95	0	0	381.114.880
Stopanska banka AD	SB	184.918.419	14,91	0	0,00	0	0	184.918.419
Tutunskabroker AD	TN	131.439.704	10,60	15.917.000	14,25	0	0	147.356.704
Teteks-kreditna banka	TK	124.360.996	10,03	0	0,00	0	0	124.360.996
MAK broker AD	MK	75.898.183	6,12	18.349.401	16,43	0	0	94.247.584
Euro broker AD	EU	39.936.373	3,22	29.600.900	26,51	0	0	69.537.273
INVESTBROKER	MI	52.381.210	4,22	10.672.600	9,56	0	0	63.053.810
INOVO broker AD	IN	55.847.184	4,50	0	0,00	0	0	55.847.184
Fersped broker AD	FR	40.746.154	3,29	10.389.600	9,30	0	0	51.135.754
Bro-dil AD	BD	36.073.046	2,91	0	0,00	0	0	36.073.046
Bitola broker AD	BB	30.982.573	2,50	0	0,00	0	0	30.982.573
Ohridska banka AD	OH	28.031.660	2,26	0	0,00	0	0	28.031.660
UNI banka AD	BL	24.028.547	1,94	0	0,00	0	0	24.028.547
Ilirika Investments	IL	23.321.944	1,88	0	0,00	0	0	23.321.944
Sileks banka AD	SL	18.506.913	1,49	0	0,00	0	0	18.506.913
Alta Vista broker AD	AV	16.003.102	1,29	0	0,00	0	0	16.003.102
Postel broker AD	PT	3.038.800	0,25	0	0,00	0	0	3.038.800
Total		1.239.879.671	100,00	111.679.521	100,00	0	0	1.351.559.191

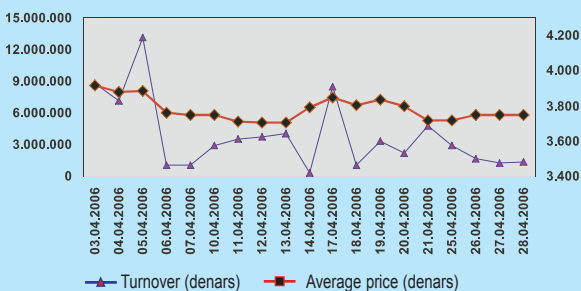
ALKALOID AD SKOPJE



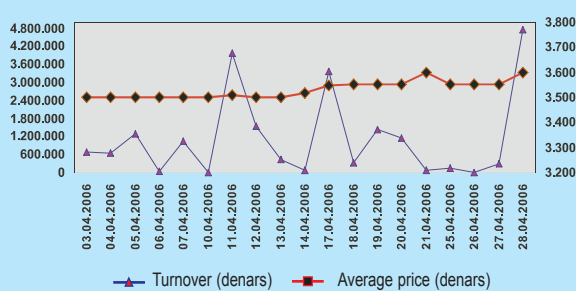
GRANIT AD SKOPJE



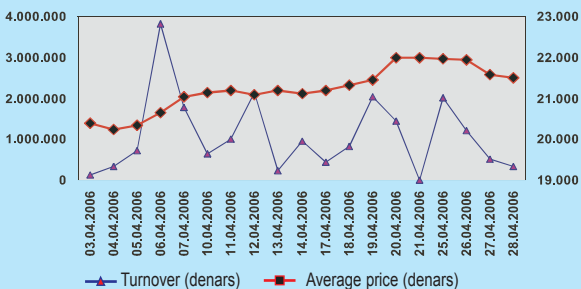
KOMERCIJALNA BANKA AD SKOPJE



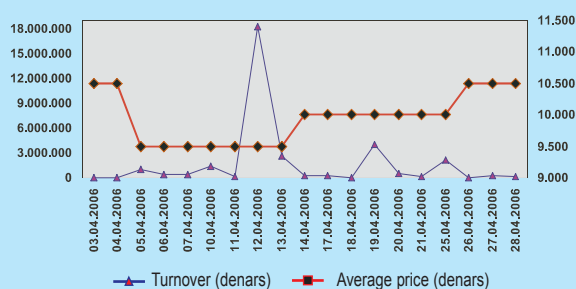
TOPLIFIKACIJA AD SKOPJE



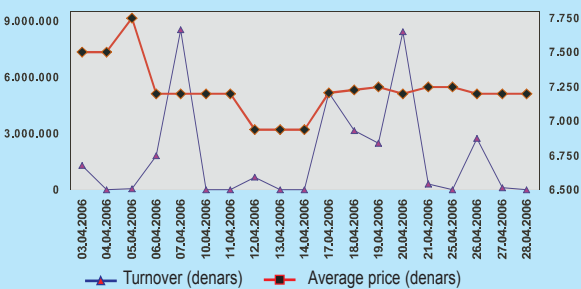
MAKPETROL AD SKOPJE



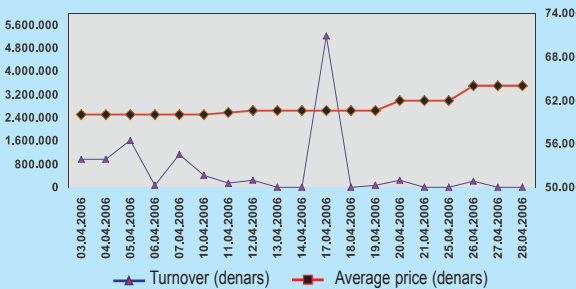
STOPANSKA BANKA AD BITOLA



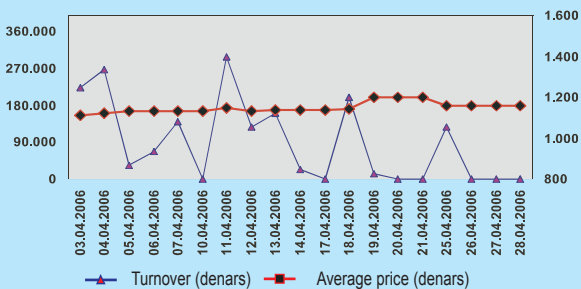
OHRIDSKA BANKA AD OHRID



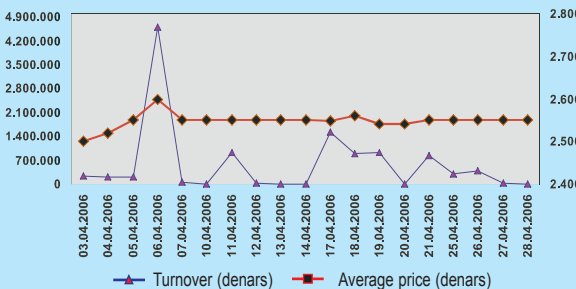
FERSPED AD SKOPJE



EVROPA AD SKOPJE



MAKEDONIJA TURIST AD SKOPJE



MONEY AND SHORT-TERM SECURITIES MARKET

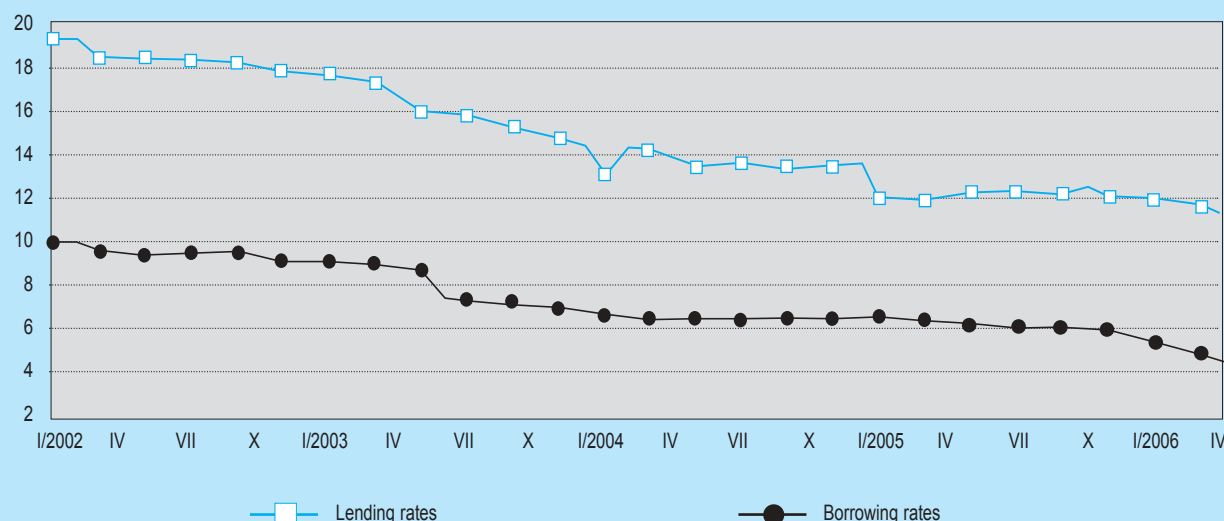
In March 2006, inter-banking borrowing dropped. Thus, transactions realized on the official money market amounted to Denar 55 million in March, being a monthly decline by 19.1%. At the same time, within the direct bilateral trading between the banks, total turnover was realized in the amount of Denar 595 million, which was a decline by 22% in relation to the previous month. Average interest rate on the inter-bank money market (both segments) in March was 6.5% (6.7% in the previous month).

With respect to the interest rate policy of the banks, there were slight changes registered in March 2006. Thus, banks' average weighted interest rate on debit balance on Denar credits in terms of all maturities and sector was 11.6% in March 2006 (11.8% in the previous month), while the average weighted interest on credit balances on Denar deposits in terms of all maturities and sector was lower by 0.2 percentage points and amounted to 5% in relation to the previous month.

In April 2006, no transactions were realized on the official money market, while with respect to direct bilateral trading between the banks, total turnover was realized in the amount of Denar 655 million, which was an increase by 10.1% in relation to the previous month. Average interest rate on the inter-bank money market in April was 6.4% (6.5% in the previous month).

With respect to the interest rate policy of the banks, there were slight changes registered in April 2006. Thus, banks' average weighted interest rate on debit balance on Denar credits in terms of all maturities and sector remained almost unchanged in April 2006 in relation to the previous month and was 11.5% (11.6% in March), while the average weighted interest on credit balances on Denar deposits in terms of all maturities and sector was lower by 0.4 percentage points and amounted to 4.6% in relation to the previous month.

Lending and borrowing interest rate of the commercial banks



DEPOSITS OF CITIZENS AND ENTERPRISES AT THE BANKS

Total bank deposits in March 2006 grew monthly by 3.1% as a result of the greater short-term and long-term saving (by 3.2% and 2.3% respectively). Thereby, short-term Denar and foreign currency deposits grew by 6.3% and by 1.6% respectively on monthly basis. Regarding long-term deposit potential, there was a decrease at the Denar deposits (by 0.4%) and an increase at the foreign currency deposits (6.4%).

Analysed by sectors, deposits of the citizens reached Denar 57.499 million, i.e. they were by 1.7% higher on monthly basis, reflecting primarily the higher level of Denar deposits of the citizens (rise by 3.7%). Foreign currency deposits of the citizens increased moderately by 0.9% on monthly basis. On year-to-year basis (March 2006/March 2005), deposits of the citizens were higher by 22.2%.

Deposits of enterprises at end-March 2006 amounted to Denar 24.780 million, being an increase by 7.5% on monthly basis in conditions of intensive increase of one-month fix-term Denar deposits. Thereby, positive monthly change was also recorded at all categories of deposits. Short-term and long-term deposits of enterprises, compared to the previous month, increased by 7.6% and 4.4% respectively. Monthly increase at Denar and foreign currency deposits was 9.9% and 4.9% respectively.

On annual level, total deposits of the private sector with the banks were by 19.1% higher.

Total bank deposits in April 2006 grew monthly by 3.1% as a result of the greater short-term and long-term saving (by 2.8% and 7.5% respectively). Thereby, basic determinant of the increase of total deposits were the short-term deposits, contributing with 84.8% to the increase of the total deposits. From the aspect of the currency structure of total deposits, Denar deposits grew more intensively by 5.8% while the foreign currency deposits of citizens grew by 1.6%.

Analysed by sectors, deposits of the citizens reached Denar 58.942 million and were by 2.5% higher on monthly basis. This increase reflected the increase at all categories of deposits from the point of view of their maturity and currency. Thereby, most intensive monthly increase was recorded at Denar sight deposits, which was partly due to the payment of liabilities of the state on the basis of the old foreign currency saving bond.

Deposits of enterprises which, at end-April amounted to Denar 25.836 million, increased by 4.3% on monthly basis in conditions of intensive increase of one-month fix-term Denar deposits and foreign currency sight deposits. Increase at short-term deposits amounted to 3.2%, while long-term deposits of enterprises grew by significant 21.7% compared to the previous month. At the same time, Denar and foreign currency deposits grew by 4.5% and by 4.0% respectively.

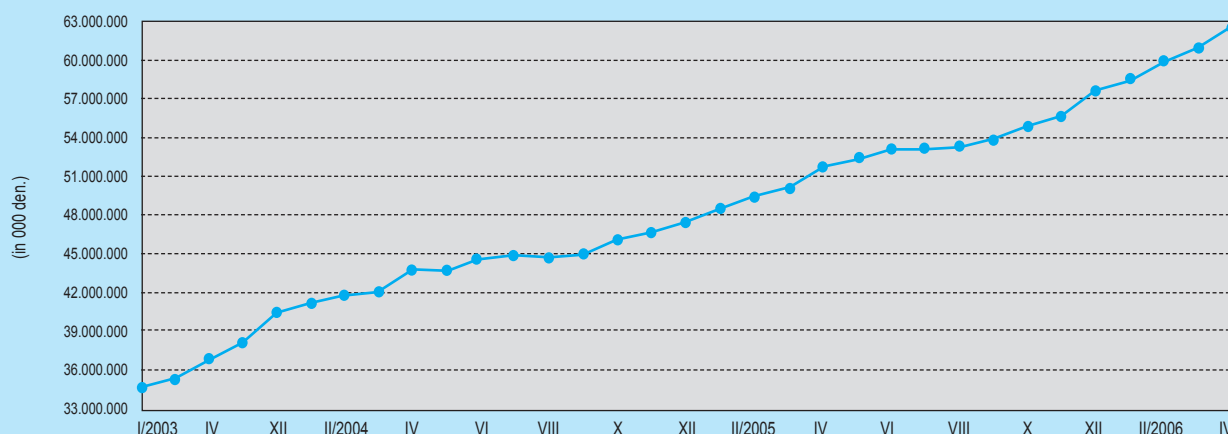
On year-to-year basis (April 2006/April 2005), total deposits of the private sector with the banks were higher by 18.1%.

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

Deposit Insurance Fund

Out of the total calculated obligation for indemnification (3 banks and 2 savings houses) in the amount of Denar 185.259 million, by 30th April 2006, the Deposit Insurance Fund paid indemnification in the amount of Denar 173.665 million. As of April 2006 inclusive, the Fund paid 93.73% out of the total calculated obligation for indemnification and for fourth month only, the paid indemnification was in the amount of Denar 33.000. The ratio of total Fund assets and total deposits of physical persons is 3.26%.

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		1,50%	2,00%	2,50%	3,00%	3,75%	4,50%
									USD			1,00%	1,25%	1,50%	1,80%	2,25%
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	0,55%	1,40%	1,50%	1,75%	2,10%	2,60%	2,80%
									USD	0,45%	1,30%	1,70%	2,00%	2,50%	3,00%	3,50%
									GBP	1,70%	2,60%	2,80%	3,20%	4,00%	4,25%	4,50%
									CAD	0,90%	1,54%	1,70%	1,90%	2,63%	2,63%	2,63%
									AUD	1,95%	3,35%	3,67%	3,98%	5,18%	5,18%	5,18%
									Other currencies	0,20%	0,40%	0,50%	0,75%	1,10%	1,10%	1,10%
									CHF	0,001%	0,001%	0,001%	0,001%	0,001%	0,001%	0,001%
									YEN	0,001%	0,001%	0,001%	0,001%	0,001%	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	2,00%		2,70%	3,10%	3,60%	4,10%	
									USD	1,50%		2,20%	2,50%	3,00%	3,50%	
									Other currencies	0,80%		1,00%	1,30%	1,50%	1,70%	
"Teteks Kreditnabanka AD Skopje" March 2006 interest rates	2,0%	7,0%		8,0%	8,5%	9,0%	9,5%		EUR	1,00%	2,00%	2,30%	3,50%	4,00%	4,50%	5,00%
									AUD	1,50%	2,40%	2,80%	4,00%	4,50%	5,00%	5,50%
									USD	0,50%	1,20%	1,70%	2,80%	3,20%	3,50%	4,00%
									GBP	1,40%	2,00%	2,40%	3,50%	4,00%	4,50%	5,00%
									CHF and other	0,60%	1,00%	1,50%	2,80%	3,20%	3,50%	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	1,20%				2,00%	2,50%	3,00%
									USD	0,80%				1,50%	2,00%	2,50%
									CHF	0,40%				0,70%	1,00%	1,20%
									Other currencies	0,40%				0,70%	1,00%	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	0,80%	1,50%	1,75%	1,80%	2,20%		
									USD	0,60%	0,90%	1,00%	1,10%	1,20%		
									CHF	0,10%	0,20%	0,30%	0,40%	0,50%		
									Other currencies	0,70%	1,00%	1,20%	1,40%	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	1,00%	2,00%	2,50%	3,00%	3,50%	5,00%	6,00%
									USD	1,00%	1,50%	2,00%	2,50%	3,50%	5,00%	6,00%
									CHF	0,10%	0,30%	0,40%	0,50%	0,60%		
									AUD, GBD	2,00%	2,50%	3,00%	3,50%	4,00%	4,50%	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
Godiřna 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 - exterritorial 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 production volume for supporting export activities or import substitution); 2. Financing of investment projects concerning technological process modernization.
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 kreditna 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 remaining 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"> 1. secured guarantees, i.e. guarantees secured with securing instruments the banks do not accept, 2. non-secured guarantees, in certain cases, guarantees are issued not requiring security instrument. <p>Suppliers guarantees:</p> <ol style="list-style-type: none"> 1. for purchase of fixed assets 2. 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

THE GERMAN COMPANY DEKRA OPENED AN OFFICE FOR EMPLOYMENT MEDIATION

Employment mediation, temporary employment and consulting in HR management are the services offered by Dekra Employment to companies, institutions and SMEs. The Office was opened by the German company Dekra Arbeit GmbH, which owns a network of 71 offices in Germany.

The Dekra Office would also offer services of mediation for temporary employment, but so far the Macedonian regulation does not allow this. Despite this, the team of Dekra Employment, in parallel with other activities, would promote the concept of temporary employment, and in the meantime, it would wait for legal changes, said Danie Divjanovic, regional coordinator of Dekra for SEE. According to him, the Macedonian market has a potential for offering mediation services and the expectations are mainly towards temporary jobs.



"Dekra Employment cannot solve the unemployment problem in Macedonia, but its services and activities could make it less severe. In Croatia, we mediated the hiring of almost 1000 persons, temporary or full time, and if we do this in Macedonia, we would consider it a success", said Divjanovic, adding that the only way to reduce unregistered jobs is to reduce the sale of unregistered goods and services. Regarding to temporary hiring, Dekra Arbeit mediates with a number of renowned companies, such as Deutsche Telekom, Siemens, Metro, Ford. The company

has 13.000 employees and an annual turnover of EUR 1 billion.

MACEDONIA'S CREDIT RATING CONFIRMED

In mid-April, mission of Standard and Poor's rating agency visited Macedonia. The objective of this visit was to make annual review of the credit rating of the country. During their visit, representatives of the rating agency met a number of representatives of national and foreign institutions in Macedonia. At the meetings with Macedonian institutions they discussed several issues: macroeconomic trends and expectations, public finance and fiscal policy, monetary and financial system, political events and relations with foreign countries etc.

During May, Standard & Poor's confirmed the assigned country foreign currency credit rating "BB+" with stable outlook and domestic currency credit rating "BBB-" with stable outlook, supported by improvement of political stability, continuity of reforms, economic growth, prudent fiscal policy and public debt reduction. On the other hand, country rating is still limited due to the present labour market rigidity. The stable outlook reflects the expectations of the rating agency that the pending elections would not disturb the continuity of the reforms, as well as the macroeconomic stability and the fiscal discipline. Also, the stable outlook is based on the expectations that the political stability of the country would not be undermined. According to the aforementioned, the rating agency expects continuity of reforms and macroeconomic policy that would result in improvement of the rating and placing the country in the group with investment rating (BBB+ and higher).

JOHNSON CONTROLS TO INVEST IN MACEDONIA

The US giant Johnson Controls will invest in Macedonia. This decision was made by the Board of Directors. Poland, which until recently, was the major competitor to our country as destination of the capital of this US corporation, was definitively out of the question. It becomes certain that Johnson Controls would build its plant for car internal electronics in the free economic zone Bunargik.

This plant, according to assessment should bring Macedonia investment of around US\$ 150 million and at least 500 jobs, to be implemented in few phases. "The construction of the plant should begin on September 5 this year, so by September 1, all construction permits required should be obtained. The plant should start operating on November 1, 2007", company sources say.

In the first phase, 150 people will be hired, mainly engineers and electrical technicians. If the first phase proves successful, additional 150 will be hired in the second phase, and in the third, between 150 and 200. Investments of US\$ 50 million in each phase will be made, and by 2010 the total investments would amount to US\$ 150 million.

Johnson Controls is a big US corporation in the automotive industry. It has deliberated for a long time whether to invest in Poland, which offered enormous benefits so as to attract them, or in Macedonia, but ultimately, it decided in favour of our country. Johnson Controls has 123,000 employees throughout the world and US\$ 20 billion worth annual sales.

THE GOVERNMENT HAS SOLD PACKAGE OF SHARES IN TELEKOM FOR EUR 60 MILLION

The Hungarian Magyar Telekom, via its daughter-company Makedonski Telekomunikacii has bought the package of 9.9% of government shares in the telecommunications company. It will pay over EUR 60 million for the package of shares. The sale of shares in Telekom was made via public stock exchange auction.

Total number of 9.488.040 shares were offered at the stock exchange, which is a share of 9.9%. Only one buyer was interested for the package, i.e. Magyar Telekom, so



the expected auctioning did not occur. The trading lasted ten minutes, and the Hungarians offered Denar 389 per share, which is a minimum price. This transaction was carried out by Uni Banka.

The government decided to sell its share in Makedonski Telekomunikacii so as to accelerate the process of liberalization of the telecommunications market, under the pressure of the international financial institutions.

THE IMF MISSION VISITS MACEDONIA AGAIN

"The economic situation in the Republic of Macedonia started improving. For over a decade, the economic growth was slow, partly as a result of external shocks. Still, in the past several years, the growth reached 4%, even more, the inflation is under control, the current account deficit was reduced, the foreign exchange reserves were increased and the structural reforms began", said Juha Kakonen, Senior Advisor to the IMF European Department at the joint press conference with the Macedonian authorities.

He warned that the country must continue maintaining the achieved macroeconomic stability. If loosened, the economy would soon start declining. But, in order to accelerate growth, create jobs and bring the living standard closer to the European level, the government must implement ambitious structural reforms, i.e. strengthen the financial sector and improve the business climate. With this concluding statement, the IMF team completed its mission of review.

The Governor Petar Gosev emphasized that the need to maintain the fixed exchange rate does not allow reduction of reserves. "There are many "Reserves increased, but they are available for other purposes. Macedonia had fixed foreign exchange rate regime and this requires certain level of reserves. Privatisation receipts are one-off and should be kept", said Kakonen. He said that monetary policy is run well, and this lead to a fall in interest rates and regarding the bank supervision, he believes that the National Bank manages it well and sees no reason for its separation.

Due to the statistical flaws, the IMF finds it difficult to explain the increased transfers from abroad, i.e. foreign currency that enter this country via the exchange offices and which last year reached the level of one billion dollars.



The Minister of Finance and the Governor admitted that a new methodology is required so as to determine precisely what is the amount of clear transfers, the amount used for investments and for opening small family business by our immigrants, what is the amount falling in the grey economy and what is the percentage of hidden export.

METALEC, A COMPANY FROM PRILEP, WORKS FOR BMW

Metalec, a Prilep company, will deliver its first shipment of 200 boxes for transport of automobile parts until August 5th. After a year of cooperation with this renowned company, Metalec succeeded in winning the tender announced by BMW. "This is an acknowledgement for our company, but also a verification that we are equal competitors on the European market", said Jandre Zdraveski, General Manager of Metalec.

After delivering the four prototypes of this type of product, the company for manufacturing and assembly of steel construction should fulfill the assumed obligations until august and manufacture the trial series of 200 boxes for the Germans, and they would manufacture 20,000 to 30,000 boxes for BMW. This job uses up to one-third of the available capacity of Metalec and even 40% of the employees were hired. The financial result of around EUR 3 to 4 million per annum is not to be ignored, but the gained confidence and acknowledgement do not mean access to the global market.

SLOVENIAN RIKO BEGAN THE CONSTRUCTION OF SV. PETKA

The shifting of the river Treska from its natural riverbed marked the implementation of the second stage of the construction of the Sveta Petka (Matka 2) plant and the main

contractor is Riko, a Slovenian company. The dam will be 69 meters high and 127 meters long, with total capacity of 24.600 m3. The installed power is 36,4 MW and it will have two turbines of 18,2 MW each. Sveta Petka plant is the last of the three cascade plants on the river Treska, together with Matka and Kozjak. Together, they will deliver additional 150 MW.

EUR 42 million should be invested in the second stage, and Riko would provide the funds with a credit from Depfa Bank, under a sovereign guarantee. The credit repayment period is 15 years, with 3.5-year grace period and 2.75% interest rate. The Manager of Riko emphasized that the funds would be available next month and the construction worked would begin in six months. The dam should be completed in 34 months.

The General Manager of ELEM, Pande Lazarov, emphasized that according to the offered credit conditions, the credit repayment would range between EUR 5,2 million in 2009 and EUR 3,4 million in 2020. Sveta Petka would generate electricity of 90 million kWh annually. The average price of electricity would be 6 euro cents per kWh, which is now the import price. The plant would have annual revenues of EUR 5,4 million.



This investment would protect Skopje from floods, and the water would be used in agriculture and industry. The representatives of the company say that Riko would justify the trust for the project and that all operations, together with ELEM, would be completed with high-quality and professionalism. "Macedonia has large economic potential and we hope that your country would see Slovenia as a partner in approximation to the EU", representatives said.

START OF THE APPLICATION OF THE ELECTRONIC SIGNATURE

The Republic of Macedonia made the first major step in establishing IT society, meaning an improvement in the business climate. The Ministry of Finance, in early-June, issued the first decision authorizing the KIBS as the first authorized issuer of certificates for electronic signature. Thus the country, 4 years after the signing of the Law on data in Electronic Form and Electronic Signature, equalized in practise the manual signature by an authorized person with the digital signature, which is actually electronic identification of a person or a company that participate in a project.

This revolutionary change changes the business logic, the communications between companies, cuts costs, enhances productivity, reduces paperwork and saves time in business operations. In addition, it enhances the security of the transaction participants and it brings the country much closer to the EU since we use a system they use.

The electronic certificate, also called a digital identification, is an electronic equivalent to the ID. The electronic certificate could be presented so as to prove the identity or the right to access to the information or online services. The electronic certificate is issued by an issuing agency such as KIBS, which is responsible for issuance and management with electronic certificates and operates under public certification rules. KIBS is the agency that verifies the identity of all clients. KIBS provides a guarantee of at least EUR 50.000, if someone of its clients or other party concerned suffers damage, and if it determines that it occurred due to wrong verification of the client identity.

The citizens have an opportunity of online payment of all bills, debts, credits and claims and of all types of transactions with all clients within the KIBS system. Thus, citizens would significantly save time they now spend waiting in lines in the banks. This system is an exceptional opportunity for the stock market investors and brokers. This would significantly facilitate their operations since the investors would sign the orders electronically, instead of the so-far practise, where the investor goes to his/her broker and signs the trading order. This is exceptionally important for investors from abroad which largely participate in trading on our stock market.

The new system, which started operating ten days ago, was developed by KIBS in cooperation with Global Sign, a Belgian company, one of the best in the world in this business.

MACEDONIAN OPENED ITS AIRSPACE FOR THE FOREIGN AIR COMPANIES

Macedonian airspace would be opened for greater number of carriers, the airfares would become cheaper and the flights safer and more frequent. These are the benefits for our country after the signing in Luxembourg of the multilateral agreement for establishment of Common European Airspace. By signing this important document, our country would join the EU "Open Skies". This practically means liberalization of the air traffic and greater competition, i.e. entrance of more foreign air transport companies that would fly to and from Macedonia. The competition would affect the whole economy and this, in turn, would lead to reduction of airfares, thus stimulating travels abroad.

The Civil Aviation Authority said that Macedonia's joining of the EU Open Skies would result in greater number of passengers, air operations, as well as revenues of the country. The establishment of a common European airspace means that Macedonia should comply with the airspace legislation and standards of the EU so as to create efficient, acceptable and competitive transport system. On the other hand, this means that Macedonia would soon have to harmonise the national legislation with the acquis meaning in practise stimulating the independence of the



transporting organizations and strengthening of the competition and prevention of the protectionism. Only in this manner, the air companies would reduce their costs and enhance productivity by offering cheaper services and lower tariffs.

In Addition to Macedonia, the agreement will be signed by Serbia, Montenegro, Bulgaria, Croatia, Albania, Bosnia and Herzegovina, Romania, UNMIK and EU member states. The signatory countries, after the initialling of the document, must comply with the rules on issuance of licenses to air carriers and their tariffs are subject to the *acquis*. But, what is important for us is the fact that Macedonian airspace would be accessible to foreign air companies, after the Parliament of Macedonia ratifies the agreement.

START OF THE SECOND TECHNOLOGICAL LINE

In Kavadarci, the reconstruction of the second technological line of FENI Industry began. The company is one of the most cost-effective companies in this country and sets an example of successful operations, said the Macedonian Prime Minister, adding that the reconstruction of the second technological line is made after more than 10 years, but only one year after the new owners overtook the company.

The Mayor of Kavadarci, Mr. Minov, welcomed the reconstruction, which would mean over 100 new jobs for Kavadarci. The FENI management confirmed the plan to invest EUR 25 million this year, stating that their production would increase from 8.000 to 15.000 tons.

FITCH UPGRADED MACEDONIA'S CREDIT RATING

In May 2006, mission of Fitch rating agency visited Macedonia. The objective of this visit by Fitch was to make annual review of the credit rating of the country.

During their visit, representatives of the rating agency met a number of representatives of national and foreign institutions in Macedonia. At the meetings with Macedonian institutions they discussed several issues: macroeconomic trends and expectations, public finance and fiscal policy, monetary and financial system, political events and relations with foreign countries etc.

On June 13, 2006, Fitch Ratings upgraded the credit rating of Macedonia from "BB" with positive outlook, to BB+ with stable outlook for both foreign and domestic currency. Fitch upgraded Macedonia by two levels on the rating list.

Upgraded credit rating is supported by prudent fiscal policy, moderate levels of public and external debt, continuous debt repayments and the official status of candidate country for EU membership. On the other hand, country rating is still limited due to the present labour market rigidity, bureaucracy, etc.

The stable outlook reflects the expectations of the rating agency that the pending elections would not disturb the continuity of the reforms, as well as the macroeconomic stability and the fiscal discipline.

More detailed information on the rating could be read on www.fitchratings.com.

This upgrade means that both credit rating agency, Fitch and Standard and Poor's consider Macedonia as country that could obtain investment rating (BBB).

EUROPEAN LABOUR MARKET OPEN

The Employment Agency of Macedonia will mediate for employment abroad. This refers to the scarce professions in the WE countries. Announcements of vacant jobs abroad could be followed by the unemployed via over 30 employment centres in the country.

"In October this year, in Malta, we will sign the agreement on labour mobility on the labour market with the EU member states. Thus, workers from our country would join the workers from Western Balkans", emphasized the Director of the Employment Agency. According to her, the workers would not seek job by themselves, but this would be organized by the Agency.

"Not every mobility and migration means satisfaction. Our people are very nostalgic by nature. This means leaving the family and the home. People in Western countries do not think like this. Therefore, we gradually prepare the people to consider this option", said the Agency.

DELTA TO INVEST EUR 113 MILLION IN MACEDONIA

Delta, a Serbian company, will invest EUR 113 million in Macedonia in the next two years in construction of super-market chain, purchase and distribution centre and water bottling company. A location for construction has already been provided in Skopje, six or seven should be provided in the next months, and the construction of the plant in Bitola has already begun.

The management of Delta, after meeting the PM of Macedonia, said that their investment would create 2.300 jobs. Delta intends to become a leader in this region and therefore, it held meetings in Bosnia, Montenegro and in Skopje, said Miroslav Miskovic, company president.

The Government gave them a location in Skopje, near the gym hall Partizan. Supermarkets are planned to be built in Bitola, Kumanovo, Ohrid, Prilep, Tetovo, Gevgelija, Strumica, Stip, Veles and Gostivar. They announced construction of centre "Delta City" with an area of 70.000 m² and purchase and distribution centre with an area of 10.000 m².

The press release from the cabinet of the Prime Minister said that the presence of Delta in Macedonia is a proof of the good business climate.

EIGHTY MILLION EUROS FROM THE EU PRE-ACCESSION FUNDS

In the next seven years, Macedonia expects to receive around EUR 80 million from the EU pre-accession funds. This means that instead of the present EUR 18 per capita, we would receive EUR 40 per capita. We could use the funds as of next year, if high-quality projects are prepared. In May this year, priority projects were presented in Brussels to the European Commission representatives.

A priority is the completion of the road network of Corridor X, i.e. the road section Demir Kapija - Udovo - Smokvica, which requires around EUR 170 million. EU funds would provide part of the resources for financing the section, for additional part support was announced from Greece, and part of the funds would be provided by the international financial institutions. With the assistance of the EU member states, part of the resources would be spent to stimulate entrepreneurship, above all from the Netherlands. EUR 40 million were provided for development of agriculture, and we expect assistance from Sweden in the amount of around EUR 25 million, said the Sector for European Affairs.

Companies for processing agricultural products have a priority in the allocation of the EU funds. The applicants would have to participate with 50% in the financial structure of the project. The candidate countries could use around EUR 11,5 billion for development from the EU funds in the next seven years.

IMPORTERS TO RECEIVE FREE CUSTOMS DECLARATION

As of October 1st this year, the fee of EUR 19 paid by the companies for customs declaration will be abolished, said the Customs Administration. The Customs Administration has already abolished the customs quota fee, which amounted to 100 euros. The abolishment of the fee is envisaged under the free trade agreement. The companies will no longer pay the fee since the sector is computerized and the procedure will be run on the Internet. This is in accordance with the European standards. The abolishment of the fee of EUR 100 would mean a saving of EUR 600,000 annually for the companies, and the fee of 19 euros will reduce budget revenues by EUR 6.5 million. According to the Customs Administration, the abolishment of both fees, in addition to the reduction of the regular costs of the importing companies, would significantly reduce the customs clearance time. The facilitation would be most felt among small companies, for which this was a significant cost. If a company imports 15 products, so far it had to pay EUR 1,500.

RETHINKING GROWTH

Economists are reconsidering what they really know about economic growth and how to go about formulating policies in the absence of reliable models



For development economists of the 1950s and 1960s, growth was a complex process of economic, social, and political transformation. New economic concepts were created to capture some of its dimensions—for example, Lewis's "dual economy" and "surplus unemployment"; Schultz's "human capital"; Gerschenkron and Rostow's "stages of development" theory, "takeoff," and "catching up"; and Seer, Prebisch, and Hirschmann's "structuralism."

In the late 1980s and early 1990s, however, economists working on development came around to the simpler view that growth was a matter of getting national policies right. Whether it was landlocked Uganda, unstable Argentina, or transitioning Ukraine, the right policies meant lower fiscal deficits; lower import tariffs; fewer restrictions on international trade and capital flows; and a greater role for markets in allocating resources, regardless of history, political economy, or local institutions.

Much of this vision was reflected in the Washington Consensus. Articulated by

John Williamson in 1990, the consensus synthesized the policies most economists in the World Bank, the IMF, the U.S. Treasury, and Washington's think tanks thought were necessary to rescue Latin American countries from cycles of high inflation and low growth. Williamson had emphasized that the consensus was to be applied judiciously, not mechanically, but it took on a life of its own, becoming the expression of what most economists inside and outside Washington thought most developing countries needed for growth.

As the 1990s unfolded, countries around the world implemented policies consistent with that consensus. In Eastern Europe and the former Soviet Union, market reforms followed the end of communism. In Latin America, countries stabilized their economies, defeated hyperinflation, further opened their markets to international trade and capital, and privatized public enterprises. In Asia, India abandoned central planning, embracing a wide range of reforms, and China continued its market-oriented reforms. In Africa, countries such

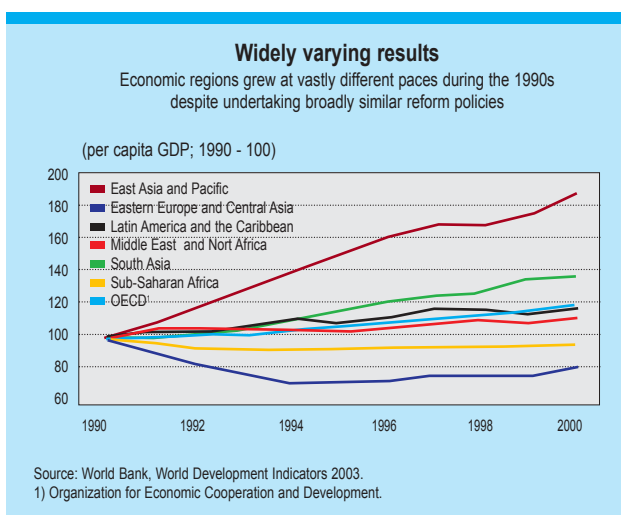
as Ghana, Tanzania, and Uganda embarked on privatization, retrenched the public sector, and liberalized trade. And, in places as diverse as Bolivia, Brazil, India, and Russia, grossly overvalued exchange rates became more competitive; the devaluation of the CFA franc in 1994 was a particularly important change.

The scope, breadth, and depth of the reforms during the 1990s were unprecedented in recent economic history. The developing world emerged with more open and competitive economies, lower inflation, lower fiscal deficits, smaller governments, fewer restrictions on private sector activities, and more market-based financial sectors. The changes were not only economic. The number of democracies increased to 100 from 60 during the decade, and social indicators (particularly basic education and child health) improved steadily. In the early 1990s, most economists believed that these developments, combined with a favorable international environment—firm commodity prices, rapid growth of international trade, and abundant capital flows—would enable developing countries to overcome the "lost decade" of the 1980s and return to a path of sustained growth.

The results, however, were unexpected. They exceeded the most optimistic forecasts in some cases and fell well short of expectations in others. In East and South Asia, including China and India, which together account for 40 percent of the developing world's population, domestic liberalization and outward orientation were associated with spectacular growth, poverty reduction, and social progress. This was so even though reforms were implemented in a manner that departed from conventional wisdom—in terms of speed and design of reform, a large state presence, and, until well into the 1990s, high levels of import protection (with export orientation ensuring international competitiveness).

At the same time, booms and busts continued in Latin America, extending to other regions. For most former Soviet Union countries, the 1990s will be remembered as a costly and traumatic decade. While everyone knew that the transition to a market economy would be tumultuous and difficult, the output loss was longer and deeper than expected. It took more than a decade for the best-performing economies to return to the per capita income levels prevailing at the beginning of the transition, and some of the worst cases are still below the starting point. Africa did not see the takeoff that was

expected, although many countries showed signs of recovery in the late 1990s. Costly financial crises rocked Mexico (1994), East Asia (1997), the Russian Federation (1998), Brazil (1999, 2002), Turkey (2000), and Argentina (2001). Some countries managed to sustain rapid growth with just modest reforms, while others could not grow even after implementing a wide range of reforms. Moreover, similar economic reforms yielded vastly different responses (see Chart 1).



The scope, breadth, and depth of the reforms during the 1990s were unprecedented in recent economic history. The developing world emerged with more open and competitive economies, lower inflation, lower fiscal deficits, smaller governments, fewer restrictions on private sector activities, and more market-based financial sectors. The changes were not only economic

Interpreting the reasons for this wide variation and drawing lessons for the future was the central task for the 2005 World Bank study, *Economic Growth in the 1990s: Learning from a Decade of Reform*. The study focused on the main areas of policy and institutional change during the 1990s: macroeconomic stabilization, trade liberalization, financial sector reform, privatization and deregulation, public sector reform, and democratization. And it combined an analytical review of growth episodes with the views of practitioners—policymakers who had been in charge of implementing significant pol-

icy and institutional reforms during the 1990s and former World Bank country directors.

Lessons of the 1990s

The central result of the exercise was rediscovering the complexity of economic growth, recognizing that it is not amenable to simple formulas. Another result was the degree of convergence of views. Even though the practitioners, senior Bank operational staff, and economists started from different perspectives, they all came up with remarkably similar lessons.

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First, expectations about the impact of reforms on growth were unrealistic (see Chart 2). Take trade. Rising trade volumes are unambiguously related to growth, but the direction of causation is unclear. As an economy grows and develops and expands its stock of physical and human capital, its opportunities for trading will inevitably increase, even if tariffs remain the same. Also, some countries increased exports by reducing import tariffs, while others did so by creating export processing zones; or offering exporters incentives, including duty rebates; or making the exchange rate more competitive; or improving trade-related infrastructure-with export liberalization preceding import liberalization. In some cases, trade liberalization coincided with deteriorating export incentives (for example, exchange rate appreciation, as was the case in several South American countries), while in others export incentives strengthened. Not surprisingly, trade reforms stimulated growth and helped reduce poverty when export incentives improved, but not when they deteriorated. The lessons are that

trade is an opportunity, not a guarantee, and that it was overly naïve to expect that simply reducing tariffs would automatically increase growth.

Similar conclusions about expectations hold true throughout the whole range of policy areas on which reforms focused in the 1990s, including financial sector liberalization (see box) and, somewhat surprisingly, political reforms. The rise in the number of democracies was expected to bring better leaders to power and improve decision making and economic performance. Again, expectations proved overoptimistic. Democracy is not a shield against predation by the powerful or against governments exerting their authority to the benefit of elites. Informed citizens, low social polarization, and political competition are needed.

Second, reforms should promote growth, not just efficiency. The reforms of the 1990s focused on the efficient use of resources, not on the expansion of capacity and growth. They enabled better use of existing capacity, thereby establishing the basis for sustained long-run growth, but did not provide sufficient incentives for expanding that capacity. In the early 1990s in Brazil, trade reforms were designed to strengthen competition and improve the efficiency of resource use rather than to expand domestic capacity or exports. As a result, they were introduced rapidly, without much concern for the competitiveness of the exchange rate and the response of the manufacturing sector. In contrast, during the same period in India, trade reforms were designed to enable domestic firms to restructure and spread the costs of adjustment over time. As a result, they were introduced at a gradual (some would say glacial) pace, and the exchange rate was kept competitive to ensure export growth. Similarly, anti-inflationary policies in China during the 1990s were introduced in a manner that minimized output losses. Thus, whereas reforms can help achieve efficiency gains, they will not put the economy on a sustained growth path unless they also strengthen production incentives and address market or government failures that undercut efforts to accumulate capital and boost productivity.

Financial liberalization: the good and the bad

The financial liberalization that took place in developing countries in the late 1980s and the 1990s was part of a general move toward giving markets a greater role in development. It was also sparked by a number of financial factors, including the high cost of using finance as an instrument of populist, state-led development; a desire for cheaper and better finance; and the growing difficulties of using capital controls in a world of increased trade, travel, migration, and communications. It differed in timing, speed, and content across countries. But it always involved freeing interest rates and credit allocations. And it often involved giving central banks more independence, opening up capital accounts, privatizing state banks and pension systems, developing financial markets, and encouraging competition between banks (and sometimes non-banks). However, improving bank regulation and supervision lagged behind in many cases.

Did financial liberalization deliver? On the plus side, most major countries did see a rise in deposit growth, and the private sector gained access to more financing, from both domestic and international sources. But capital markets became important only in a few, large countries. And, by the end of the 1990s, government and central bank debt had absorbed much of the deposit growth, partly because of financial crises—which also fed into a smaller-than-expected impact of financial liberalization on growth.

Several factors were behind the "boom and bust" cycles of the 1990s.

- Traditional macroeconomic problems—including unsustainable fiscal policy, unsustainable exchange rates, and high government debt—continued to plague many developing countries. Financial liberalization often allowed the countries to prolong such policies by providing more resources, but ultimately this tactic raised the policies' cost.

- Financial liberalization itself was a problem. Timing and sequencing left a lot to be desired. The quality of credit allocation was weakened by implicit and explicit government guarantees that limited market discipline and by weak regulation and supervision. And

sudden shifts in market views about countries' ability to service debt contributed to "sudden stops" in net capital inflows.

- Weak loans (both old and new) incurred by state banks and powerful financial-industrial conglomerates were allowed to accumulate. The standard postcrisis policy was to bail out depositors by replacing the banks' bad loans with government debt, generating a debt overhang that may limit growth in this decade.

- Some policy responses were bad. In some cases, excessive liquidity support was given to banks that were being looted by their owners, while in others, not enough liquidity was provided, thereby forcing solvent banks into bankruptcy. Runs on banks became runs on the currency, especially in countries with more open capital accounts, ineffective capital controls, and exchange rate support.

A onetime cleanup

Despite these problems, most countries have maintained a relatively liberalized financial system. To some extent, the crises of the 1990s can be seen as onetime cleanups, laying the groundwork for a better financial system. They also provide at least two important lessons for making financial systems work better and reducing the risk of future crises:

Successful finance depends on macroeconomic stability. Even a strong financial system cannot protect itself against high inflation, inappropriate exchange rates, the threat of default by overindebted governments, or severe real economy downturns. Moreover, financial liberalization, especially the opening up of the capital account, puts a greater premium on good macroeconomic policy and quick action to limit unsustainable booms and deal with weak banks, not least by putting a stop to the popular policy of socializing bank losses.

Good financial systems depend on good institutions—which include intermediaries; markets; and the informational, regulatory, legal, and judicial framework. But building up these institutions is not easy: it takes time and requires political support.

Third, the necessary conditions for economic growth can be created in numerous ways—not all of them equally conducive to growth. Any sustained growth process is based on accumulation of capital, efficient use of resources, technological progress, and a socially acceptable distribution of income. The World Bank's World Development Report 1991 had proposed that these functions of growth were best achieved in economies with macroeconomic stability, market allocation of resources, and openness to international trade. One can readily agree with this proposition and still realize that this trio does not translate into a unique set of policies. A frequent mistake in the 1990s was to translate these principles into "minimize fiscal deficits, minimize inflation, minimize tariffs, maximize privatization, maximize liberalization of finance," with the assumption that the more of these changes that were made, the better. In short, the lesson is that "getting the policies right" does not translate into a rigid set of policies and that any reform, however beneficial for efficient resource allocation, is not necessarily growth-inducing.

and India, all of which had introduced restrictions on financial inflows and had not completely opened their capital account.

If anything, the decade shows that sustaining long-term growth requires macroeconomic policies that reduce the risk and frequency of financial crises. Table 2

A Mixed Blessing Most of the major recipients of capital inflows succumbed to financial crises			
Financial crises (country, year)	Rank of recipients, by absolute volume of private flows 1990-96	Private capital flows 1990-96 percent GDP (in 1996)	FDI flows 1990-96 percent private capital flows
Mexico 1994-95	2	33.0	52.8
Thailand 1997	6	27.1	22.7
Indonesia 1997	7	17.7	22.7
Korea 1997
Malaysia 1997	5	62.7	47.2
Russian Federation 1998	11	4.8	18.7
Brazil 1999, 2002	3	12.6	20.7
Turkey 2000-01	10	12.1	22.1
Argentina 2001-02	4	23.9	33.4
China	1	25.2	68.2
India	8	7.6	20.6
Chile	9	39.4	37.2

Sources: IMF and World Bank staff estimates.
... Data not available.

shows that what differentiates successful countries (that is, those that reduce their per capita GDP gap with industrial economies) from unsuccessful ones (those that do not) is the ability to reduce the volatility of growth—which, in turn, reflects decisive responses to shocks and macroeconomic policies that reduced vulnerabilities and, hence, the costs of shocks. Developing countries experience a year of negative per capita growth roughly once every three years—whereas in East Asia, the average is one-half that rate and, in OECD countries, one-third that rate. Korea has had only three years of negative per capita growth since 1961. The region's ability to avoid downturns and periods of low growth—partly resulting from macroeconomic policies that reduced the probability of shocks—explains much of the East Asian "miracle."

Fifth, governments need to be made accountable, not bypassed. Because, in general, developing countries resolve agency, predation, and collective decision-making problems less efficiently than industrial countries, many of the 1990s reforms sought to introduce policies (such as dollarization and fiscal rules) that reduced government discretion and minimized demands on institu-

The 1990s yielded many lessons. The most important perhaps is that our knowledge of economic growth is extremely incomplete. This calls for more humility in the manner in which economic policy advice is given, more recognition that an economic system may not always respond as predicted, and more economic rigor in the formulation of economic policy advice. This view is increasingly shared

Fourth, stabilization and macroeconomic management need to be growth-oriented. The 1990s made us realize that how macroeconomic stability is achieved matters for growth. Lowering inflation on the basis of appreciating nominal exchange rates stunts exports and thus GDP growth. So does reducing fiscal deficits through declines in high-return public spending or lowering domestic interest rates through excessive (often short-term) external borrowing. The decade also shows that the gains expected from capital account liberalization were unrealistically high and the risks underestimated—the danger was not so much financial flows moving out during normal times, but inflows that eventually destabilized the economy. Indicative of this, most of the major recipients of private capital flows during the 1990s suffered a financial crisis (see Table 1). The exceptions are Chile, China,

Years in which growth rate from 1960-2002 was

	negative	below 1%	below 2%	above 2%
All developing countries	14	19	24	18
Sub-Saharan Africa (28)	2	3	4	38
Botswana	10	15	16	26
Lesotho	8	11	17	25
South Asia (5)	11	15	21	21
Bangladesh	8	10	14	28
India	10	18	22	20
Nepal	4	6	14	28
Sri Lanka	15	18	22	21
Middle East and North Africa (6)	4	10	15	27
Egypt	12	19	25	17
Latin America and Caribbean (21)	7	11	18	24
Chile	7	8	10	32
East Asia and Pacific (7)	5	6	7	35
China	7	8	10	32
Indonesia	5	5	7	35
Malaysia	2	2	6	36
Thailand	5	8	16	27
High-Income OECD (22)	3	3	4	38

Source: World Bank, World Development Indicators 2003.

Note: The table shows evidence for the 89 countries for which growth data are available for the four decades since 1961. Regional aggregates are medians. The Republic of Korea "graduated" into a high-income category in the early 1990s and thus is classified here in the high-income OECD group rather than in East Asia and Pacific.

tions. But these policies did not turn out to be sustainable solutions. Government discretion is needed for a wide range of activities essential for sustaining growth, from regulating utilities and supervising banks to providing infrastructure and social services. For that reason, reducing government discretion should not be the guiding principle of national development policies. Instead, the focus should be on improving checks and balances on government discretion and putting in place conditions that lead to better decision making.

Sixth, governments should abandon formulaic policy-making in which "any reform goes" and concentrate on supporting growth. To do so, they must identify the bind-

ing constraints to growth, which, in turn, necessitates recognizing country-specific characteristics and undertaking more economic analysis and rigor than a formulaic approach would call for. For example, during the 1980s and 1990s, China's approach was "crossing the stream by groping for the stones"; constraints were identified and dealt with as the growth process unfolded through experimentation and trial and error. It will not be easy for governments to identify the binding constraints at a given point in time and stage of development—indeed, the process is more an art than a science—but some recent proposals on new methodologies look promising (see "Getting the Diagnosis Right" on page 12 of this issue).

A great deal to learn

The 1990s yielded many lessons. The most important perhaps is that our knowledge of economic growth is extremely incomplete. This calls for more humility in the manner in which economic policy advice is given, more recognition that an economic system may not always respond as predicted, and more economic rigor in the formulation of economic policy advice. This view is increasingly shared. In September 2004, 16 well-known economists—Olivier Blanchard, Guillermo Calvo, Daniel Cohen, Stanley Fischer, Jeffrey Frankel, Jordi Galí, Ricardo Hausmann, Paul Krugman, Deepak Nayyar, Jos  -Antonio Ocampo, Dani Rodrik, Jeffrey Sachs, Joseph Stiglitz, Andr  s Velasco, Jaime Ventura, and John Williamson—gathered in Barcelona and issued a new consensus on growth and development. The "Barcelona Consensus" echoes many of the findings of the World Bank's work, which, in turn, reflects recent academic research by several of the signatories.

Finance and Development, March 2006

CONTROL AND AUDIT OF PUBLIC EXPENDITURES

Taking into account that internal audit is an important element of the broader EU concept of public expenditure management, Macedonia made significant progress in developing the internal audit, i.e. training public administration to use European pre-accession funds

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Starting from the need to establish efficient management structures on central and local level that would manage the public services in a way that meets the demands of citizens properly, and would use public resources regularly, transparently, cost-effectively and efficiently, the Ministry of Finance (MoF) undertakes specific measures to strengthen the public internal financial control system. This means strengthening of the financial management and control system, internal audit and harmonization of internal control and internal audit.

Taking into account that internal audit is an important element of the broader EU concept of public expenditure management, Macedonia made significant progress in developing the internal audit, i.e. training public administration to use European pre-accession funds, as well as to introduce decentralized system of implementation of EU assistance.

During 2005, the project Technical Assistance to the MoF for Development of Internal Audit, set the legal framework and established internal audit units at all levels in the public administration and trained over 100 internal auditors, introduced internal audit at local level, prepared a Strategy for development of the Public Internal Finance Control System, which in



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

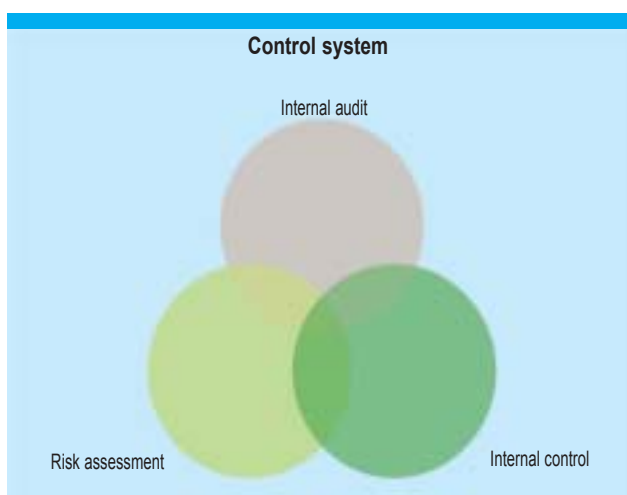
February 2006 was adopted by the government of Macedonia and submitted to the European Commission.

Draft Law on Public Internal Financial Control submitted to the Parliament is expected to strengthen the public internal financial control in Macedonia in accordance with the internationally accepted internal control standards and recommendations of the European Commission for strengthening the financial management and control systems. This would also enable building a system of financial and other controls established by the management that would enable performance of activities transparently, regularly, cost-effectively and efficiently and contribute to facilitation of international integration of the country and the preparations for future membership to the EU.

A. Internal control

Observing various control systems used by different states to manage their revenues and expenditures was facilitated by the emergence of EU and the beginning of the association process.

Although there is evident difference between the financial control methods and procedures in various countries, analyses show that there are certain similarities between the systems, above all, due to the fact that each organisation, regardless whether public or private, is focused on ensuring proportionate, timely and efficient financial control.



1. Elements of control systems

The essential features of control systems in the public sector and private sector are as follows: Identification of risk, development of internal control systems and procedures to counter the perceived risk, establishment of an internal audit procedure for checking that the systems of internal control are countering the perceived risk, and of identifying risks not covered, or not adequately covered, by the existing systems and procedures.

2. Consequences of insufficiently developed control system

Insufficiently developed control system on the basis of perceived risk could lead to misuse, unnecessary loss of financial, staff and technical resources and external assistance, failure to implement decisions related to budget policy and other decisions regularly and efficiently, errors and omissions, improper accounting records and failure to provide timely and reliable information on financial and resource management.



Draft Law on Public Internal Financial Control is expected to strengthen the public internal financial control in Macedonia in accordance with the internationally accepted internal control standards and recommendations of the European Commission for strengthening the financial management and control systems

Internal control systems are those established in order to counter the perceived risk described above. It is clear, however, that such systems will vary widely from country to country and will reflect administrative culture and tradition. A system that works well in one country may not transplant successfully to another.

Internal control may be defined as the organisation, policies and procedures used to help ensure that government programmes achieve their intended results; that the resources used to deliver these programmes are consistent with the stated aims and objectives of the organisations concerned. Internal control also ensures that programmes are protected from waste, fraud and mismanagement; and that reliable and timely information is obtained, maintained, reported and used for decision-making.

The way in which financial control is practised varies considerably from one European country to another. One broad approach, found in France, Portugal, Spain and many other continental European countries with a legal tradition based on the Napoleonic Code, puts emphasis on the controls that are exercised by a third party organisation, at the centre of government. It is often an agency of the Ministry of Finance or that ministry itself.

management operations, particularly contracts;

- Development of an "open" culture to encourage staff at all levels to draw attention to non-compliance or irregularity; and
- Insistence that staff at all levels are aware of and apply all relevant instructions (guidelines/orders).

3. EU and the Public Internal Financial Control systems

The term financial control usually refers to the financial aspects of internal control. Such controls may be either ex ante or ex post. The European Commission attaches a slightly different meaning to the term "financial control". In this context, "financial control" covers both what the Commission terms "internal financial control" and "external financial control". The former term is synonymous with what is usually referred to as financial control, while the latter describes what is usually referred to as external audit.

As used by the European Commission, the key difference between the terms financial control and audit is that financial control includes both ex ante and ex post controls, whereas audit exclusively covers ex post controls. To further clarify the issue, the Commission is now using the term "Public Internal Financial Control Systems" or simply PIFCS when addressing the issue of financial control. The European Commission frequently uses this term in assessing the progress made by these countries in meeting the requirements for EU membership.

Public Internal Financial Control systems cover:

Systems, covering organisations, staff training, methodology, reporting, responsibilities, sanctions and penalties.

Internal, covering controls exercised by central and decentralised government agencies as opposed to external controls exercised by a body outside the government (e.g. the supreme audit institution¹⁾;

Financial, to stress the financial (administrative, managerial or budgetary) character of the activities to be checked;

The essential features of control systems in the public sector and private sector are as follows: Identification of risk, development of internal control systems and procedures to counter the perceived risk, establishment of an internal audit procedure for checking that the systems of internal control are countering the perceived risk, and of identifying risks not covered, or not adequately covered, by the existing systems and procedures

A second approach, found in European countries such as the Netherlands, and the UK, and the Scandinavian countries emphasises that responsibility for control issues has been decentralised to the head of line ministries and other budget entities, or sometimes to officials in the budget and finance departments of these organizations. However, the latter approach does not mean a relinquishment of centralised control since the ministry of finance remains responsible for the overall consistency and effectiveness of the government's internal control system. In some countries, a mixture of elements of the two approaches may be found.

Internal control should not be limited to financial transactions (expenditures) and collection of revenues. But the scope of internal control goes wider and ultimately should incorporate the following control procedures:

- Clear instructions (guidelines/orders) and appropriate training to all staff on the objectives, policies and code of conduct of a ministry or agency;
- An unambiguous definition of the responsibilities of staff, in particular of delegated responsibilities;
- Clear separation of function between staff members involved in handling financial transactions or resource

¹⁾ In Macedonia - the State Audit Office, a body of the Parliament of the Republic of Macedonia

Control, meaning all activities to oversee the entire field of financial management, enabling the government to be "in control" of its finances (therefore comprising all control tools such as ex ante control and ex post audit); and

Public sector, covering all control activities in the public sector.

This would also enable building a system of financial and other controls, including organizational structure, methods, procedures and internal audit, established by the management that would enable performance of activities transparently, regularly, cost-effectively and efficiently.

PIFC should ensure the realization of the following goals:

- cost-effective and efficient operations and quality services in accordance with the main task of the entity;
- safeguarding resources from losses as a result of unnecessary costs, misuse, mismanagement, errors, frauds and other irregularities;
- compliance with laws, bylaws and internal acts, as well as management guidelines; and
- development and maintenance of reliable financial and management data and objective reporting in timely reports.

PIFC comprises:

- financial management and control system;
- internal audit; and
- harmonization of internal control and internal audit.

4. Financial management and control system

Financial management and control system is a summary of procedures established by the entity so as to achieve full control in the operations, appropriate and safe usage of financial resources and reduction of risk for the achievement of the objective. The head of each

entity is responsible for establishment, functioning, supervision and development of efficient financial management and control system, as well as internal audit. The head of the entity should clearly define responsibilities and their restrictions in writing, but in case of delegating the responsibilities, the head of the entity continues to bear the responsibility for the efficiency of the established internal management and control system and for the selection of person to whom the responsibilities have been delegated.

In general, the term management control or internal control describes systems, processes and methods of management, and not only the organizational unit of an organization.

The responsibility on internal control lies within the management. Only organizations with strong management could establish and run an efficient control system.



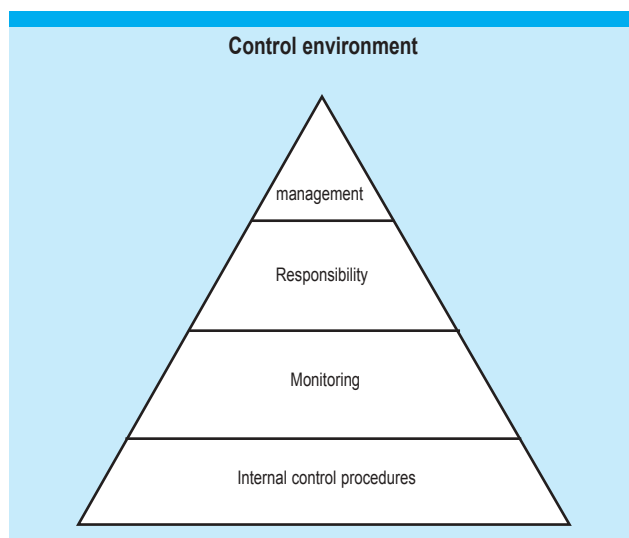
The way in which financial control is practised varies considerably from one European country to another. One broad approach, found in France, Portugal, Spain and many other continental European countries with a legal tradition based on the Napoleonic Code, puts emphasis on the controls that are exercised by a third party organisation, at the centre of government. It is often an agency of the Ministry of Finance or that ministry itself

5. Essential features of the financial control system

Essential features of the financial control system are as follows:

- strong central ministry responsible for all financial issues;
- generally accepted standards in accounting, financial reporting and internal audit and system ensuring compliance with these standards;
- clear and transparent responsibility for the organizational units and government officials;

- effective and coherent systems and ex ante control procedures (if established);
- clear, detailed and transparent procedures of financial operations and performance reporting of all organizations in the public sector; and
- strong external supervision by the Parliament and efficient audit of the public sector.



6. Internal control and control environment

Internal (management) control requires a strong control environment as well as a coherent framework of control systems and procedures. The control environment includes management's philosophy and operating style, the assignment of responsibility, and the policing of inter-

As used by the European Commission, the key difference between the terms financial control and audit is that financial control includes both ex ante and ex post controls, whereas audit exclusively covers ex post controls

nal (management) control systems and procedures. It therefore affects the way in which control systems and procedures operate in the organisations concerned.

The main risks in the financial control environment are:

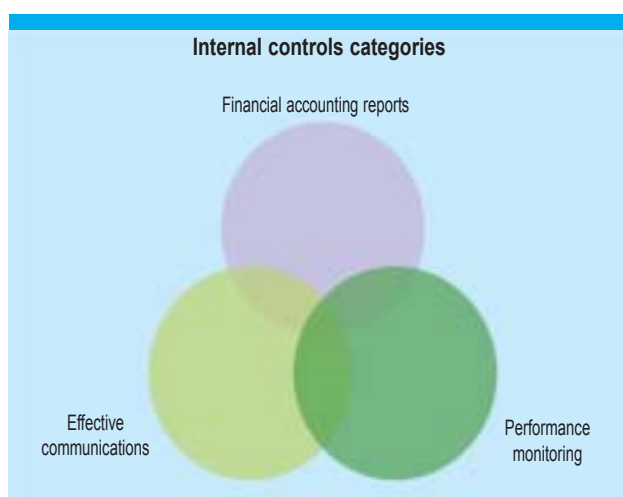
- Inadequate management integrity and weak ethical values;
- Inadequate management commitment to professional competence among staff and inappropriate assignment of authority and responsibility;
- Inadequate management oversight;
- Inadequate management policies to prevent monitor and respond to illegal acts;

The consequences of a weak financial control environment include:

- Expenditure for purposes other than originally intended;
- Inappropriate or misleading reporting;
- Financial losses;
- Loss of public confidence: and
- Increased risk of fraud and corruption;

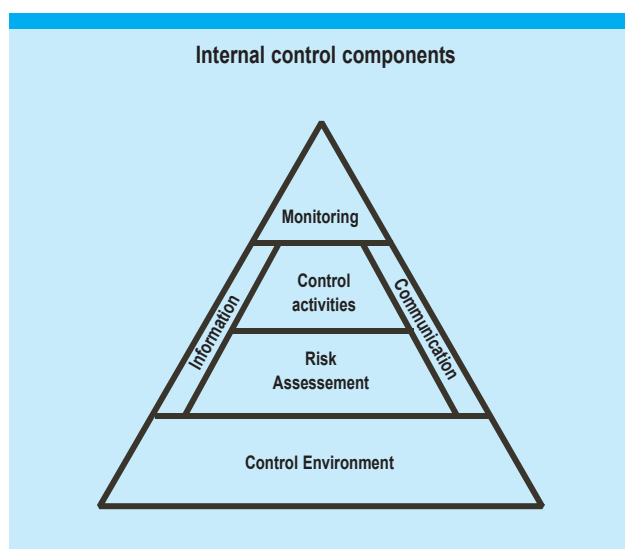
7. Internal control and risk assessment

Careful and thorough assessment of the risks could help in avoiding them. In a complex organisation, this can be a difficult task and one for which the leadership of the entity may wish to seek expert assistance. Internal and external auditors are frequently the source of such assistance. Whatever assistance is obtained, however, it is essential that the leadership of the entity remain



involved throughout the process and especially in the decisions about the control arrangements to be put in place. The controls that are implemented must be ones that the management will actually use, even when they create some inconvenience in day-to-day operations. Few things weaken the credibility of the system more than the introduction of controls that are then left on the shelf.

The controls must therefore be cost-effective. They must not be so detailed and onerous as to paralyse the organisation. And the cost of the control systems must not be out of proportion to the risk they are intended to avoid. This point is stated briefly, but is extremely important: "red tape" is an everpresent risk, and there can be a temptation to introduce new controls even when there is no need for them.



8. Areas of internal control

Internal (management) controls must be designed for the individual circumstances of a particular entity and therefore, there is no universally applicable list of controls. However, it is possible to describe categories of controls and the circumstances in which they might be appropriate: financial accounting and reporting, performance monitoring and effective communications.

Managers should recognise that subordinates perform better if they have a clear understanding of the mission and goals of the organisation and the purpose being served by the activities they are asked to perform.

Channels of communication are part of the management control system. For example, managers should communicate their performance expectations to subordinates, who should then define the expectations for their components of the organisation that are needed to accomplish the overall goals of the organisation. It is important that communications flow upward as well as downward. When management sets clear goals and expectations, workers can often suggest ways of achieving greater efficiency in the attainment of those goals. Management should pay careful attention to such suggestions, as front-line workers are often aware of procedural inefficiencies that escape the notice of senior managers.

9. Protection of resources against improper use or misuse

In addition to ensuring that the goals of the organisation are achieved, however, managers are also responsible for ensuring that the resources available to the organisation are protected against improper use. A variety of devices might be used for this purpose:

Physical controls - These would include, primarily, the security procedures intended to control access (e.g. to accounting records or to inventories of items - and to the items themselves - that have high value and might be easily stolen).



The consequences of a weak financial control environment include: Expenditure for purposes other than originally intended; Inappropriate or misleading reporting; Financial losses; Loss of public confidence and increased risk of fraud and corruption

Accounting controls - These include the procedures by which transactions are required to be recorded in the accounting system. For example, there might be a requirement that all cash receipts be deposited daily in a bank. The person who collects the cash might be required to provide a written receipt to the payer and to file a copy with the accounting clerk. The person who depo-

sits the cash in the bank would be required to file a copy of the bank receipt with the accounting clerk. Accounting controls also include the internal procedures within the accounting systems that are intended to detect and report any anomalies. In this example, the accounting clerk might be required to reconcile the two reports - of cash collection and cash deposit - to report any discrepancies. Another typical accounting control would apply to expenditures, which would be compared with the budget or other authorisation. Expenditures that depart from the expected pattern would be reported while expenditures that exceed the maximum authorised amount would be blocked.

The controls must therefore be cost-effective. They must not be so detailed and onerous as to paralyse the organisation. And the cost of the control systems must not be out of proportion to the risk they are intended to avoid. This point is stated briefly, but is extremely important: "red tape" is an everpresent risk, and there can be a temptation to introduce new controls even when there is no need for them



Process controls - These are the procedures designed to ensure that actions are taken only with proper authorisation. For example, the issuance of a purchase order or the approval of a sizeable contract might require documentation from the requesting official, review by a purchasing clerk, and approval by a supervisor. Payments to contractors might require documentation in the form of the original purchase order, a voucher from the contractor describing the goods and services provided, and a certification from the receiving official that the goods and services were received. Payments above a certain amount might require review and approval by a higher authority. In some countries, personnel standards are an important part of the management control system. Applicants for a post undergo rigorous examination and must receive a qualifying certificate before assuming the position.

Procurement controls - The main objective of the government as a purchaser is to obtain goods and services of the required quality at a competitive price. Procurement procedures should provide fair opportunity to all bidders, and be designed to achieve good value for money and minimise risks of corruption and patronage.

While government procurement is certainly not the only possible source of corruption, it is one of the major ones, and vigilance is always necessary to minimise corruption risks, optimise the use of financial resources, and foster the growth of competition. The procurement cycle includes the following stages:

- Identification of user needs and project preparation, reviewing whether the needs can be met from available sources, etc.
- Determination of the procurement procedure.
- Tendering process (pre-qualification procedure).

In the context of public procurement, corruption usually consists of collusion between buyers and sellers leading to financial losses for the state. Such practices are often criminal in intent. Corrupt behaviour can be encouraged by factors such as: Excessive recourse to concessions, or contracting-out, dealing with contractors who are financially insolvent and do not meet other required qualifications and standards, excessive use of restricted forms of tendering and single source procurement, changing orders and variations in tender specification, inadequate provisions for internal control, review of procurement complaints and external audit of procurement procedures.

The key principles in procurement are open competition and transparent procedures. The procurement process should be made open to public scrutiny. The results of the bidding must be made public. The list of suppliers submitting tenders, their bid prices, and the name of the successful bidder should be disclosed.

Contract awards and the overall procurement process must be subjected to the scrutiny of the national parliament and the supreme audit institution. Written (or computerised) records must be maintained and publicly accessible. These records should show which suppliers were approached, which ones were selected, the reasons for the procurement decision, details of prices, reports on the acceptance of work done or the receipt of goods ordered, and comments on the performance of the supplier.

Separation of duties - This is a control measure considered an indispensable element of many control systems. The central feature is that, in any transaction, at least two people should be involved to minimize the risk of improper actions. In the previous example concerning the handling of cash receipts, one person collects the cash, another makes the bank deposits, and a third rec-

onciles the cash receipt documents and enters the data in the accounting records. Separation of duties in this way is an essential element of almost every financial control system, but its use can be overdone. If carried to extremes, however, it can severely degrade the efficiency of an organisation and impair its ability to accomplish its mission efficiently.

10. Limitations of internal control

No system of controls can be an absolute guarantee against the risk of wrongdoing or honest error. Any system that attempted to reach that goal, especially in a complex organisation, would impose costs far out of proportion to the risks and would create rigidities for the organisation. Thus, the proper goal of the control system should be to provide "reasonable assurance" that improprieties will not occur or that if they occur, they will be revealed and will be reported to the appropriate authorities. With this in mind, managers should be aware of certain risks involved in building and maintaining management control systems.

Design flaws - Internal (management) control systems must be designed for the specific organisation, operations, and environment in which they will function, after careful consideration of the risk involved in that particular situation. Managers are sometimes tempted to short-cut the design process, for example by adopting the control systems designed for another organisation. This can be dangerous. A flawed design may leave the impression of safety but may overlook important risks in one part of an operation while creating unnecessary rigidities in another.

Poor implementation - The best-designed system will achieve its goal only if it is implemented properly. Managers and supervisors at all levels must be vigilant to ensure that everyone complies with applicable control procedures. Even more importantly, the required procedures must be ones that employees will appreciate and accept, and which they will not be tempted to ignore when the procedures become inconvenient or in times of pressure and stress. Meeting this criterion is one of the key considerations in the design of effective control systems. Managers should also plan ahead for alternative arrangements that might need to be put in place in the event of an emergency requiring the regular procedures to be bypassed.

Poor response to reported anomalies - Control systems are designed to call attention to events that depart from normal expectations. For the systems to remain effective, therefore, it is essential that supervisors and managers respond properly to alerts. The triggering event should be investigated promptly to determine if an irregularity was involved. If so, corrective action should be initiated. Failure to respond effectively to reports of anomalies will quickly undermine the effectiveness of the control system and therefore, this should also be a factor in the design of control systems. However, care should be taken to avoid making the systems so sensitive that they yield frequent "false alarms" since if this happens too frequently, valid alarms might be ignored.

Collusion - Any system of controls can be defeated if a sufficient number of dishonest key individuals conspire to subvert them and are able to falsify the relevant documents. A sufficiently complex set of controls can make it difficult to assemble the needed number of conspirators, but at a potentially great cost in organisational inefficiency. Conspiracies of this sort usually come to light when they are observed (and reported) by someone who is not a party to the conspiracy, or when there is a falling out among conspirators. They may also be detected during a routine audit if substantial amounts of funds are involved or if the conspirators are not sufficiently careful in falsifying the documents.



Internal auditors are independent when they can carry out their work freely and objectively. Independence permits internal auditors to render the impartial and unbiased judgements essential to the proper conduct of audits. It is achieved through organisational status and objectivity

Wrongdoing by top managers - Internal (management) controls are designed to help control the organisation on behalf of its management, not to control the top managers themselves. There are many examples of dishonest top managers evading the control systems to commit various forms of fraud and abuse. In a large organisation, however, such activities are usually noticed by subordinates. Thus, the best protection against wrongdoing by top managers may be an environment of openness, in which workers are encouraged to report evidence of irregularities, confident that they will not be punished for being disloyal to their superiors. Such openness in an organisation becomes part of the control environment.

Internal (management) controls are an essential part of the structure and operations of any organisation. The larger and more complex the organisation and its activities, the more care must be given to the design of the control systems. To be fully effective, control systems need the active support of managers in installing and maintaining them.

B. INTERNAL AUDIT

The Institute of Internal Auditors defines internal audit as follows:

"Internal auditing is an independent, objective, assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control, and governance processes."

The relationship between the internal and external auditor can be fraught if the external auditor is seen as the supervisor or assessor of internal audit. It should be possible to establish an intelligent relationship in which each side clearly appreciates the role and responsibilities of the other side

Internal audit is a concept which flows logically from internal control.

1. Mandate of the internal audit

The internal auditor carries out his functions, as defined above, by looking into how a selection of the transactions have been processed and also, indeed primarily, by assessing how well the systems and procedures of internal control function. In practice, the internal audit service should cover two main types of activity - financial audit and performance audit.

Financial audit is an audit of budgetary and financial systems with compliance tests ("walk-through") and substantive tests of actual transactions.

Financial audits are generally carried out on the basis of an annual plan providing for each department within a ministry or agency to be covered at least once in the course of a multi-annual cycle. Financial audit may also involve a specific assessment of the effectiveness of accounting systems, including IT system safeguards and reporting facilities.

Performance audit or "value for money" audits, which should also be part of an annual plan, cover the extent to which established objectives and specific programmes of the ministry or agency have been achieved or implemented, taking into account the extent to which they have been achieved- or not achieved-at a cost commensurate with the risk, and in an accurate and timely fashion with minimal use of resources.

Internal audit may also cover a specific analysis of staff resources with a judgement on the extent to which they correspond to the objectives of the ministry or agency and the tasks it is required to carry out.

The first concern of the internal auditor is that systems and procedures are in place to ensure that resources are used in accordance with the relevant rules and regulations. This will often involve, particularly in the EU context, a requirement that an adequate sample of transactions or products is checked by the national authorities.

In the case of agricultural expenditure, for example, the auditor will wish to have solid evidence that grants to aid livestock or crop production have been used for that purpose, and have gone to farmers eligible to receive them. Similarly, grants for training the unemployed must be shown to have been used for the intended purpose and for real and eligible applicants.

In the EU context, a common problem found by the auditor is that funds are claimed for estimated expenditure rather than for expenditure which has actually been incurred and paid.

In the area of public procurement the internal auditor will seek assurance that there has been adequate publicity for calls for tender, that there are satisfactory procedures for receiving and evaluating tenders and that the justification for the award of contract is in accordance with national and/or EU requirements. A Commission study in the late 1980s suggested that the European taxpayer would have paid some 20 billion euros less each year if public procurement throughout the Community had been in accordance with EC Directives.

The internal auditor will look for evidence that programmes and actions have achieved their objectives.

2. The independence of the internal auditor

The internal auditor should be responsible to the head of the organisation (minister, manager), giving technical advice on the efficient management of resources without becoming involved in political questions. Still, the nature of the internal auditor's independence should not be compared with the independence of the external auditor, since the internal auditor is responsible to the head of the ministry and is part of the staff of the ministry or agency. The Institute of Internal Auditors defines independence in the following terms:

"Internal auditors are independent when they can carry out their work freely and objectively. Independence permits internal auditors to render the impartial and unbiased judgements essential to the proper conduct of audits. It is achieved through organisational status and objectivity."

It goes without saying that, as the Institute of Internal Auditors stresses, "internal auditors should be independent of the activities they audit." There can be no question of an official responsible for, say, allocating housing grants subsequently carrying out an internal audit of the systems and procedures used in the allocation of these grants.

3. Elements of the audit process

Audit process comprises the following eight steps: determining factors that affect the business risk, determining the probability of risk and loss of resources, documentation of control, assessment of controls, audit testing, draft-report, final conference and final report.



Determining factors that affect the business risk is one of the most important activities in the audit process. This should be carried out by the auditor and the client, determining a list of factors that could potentially enhance business risk. Previous experiences should be taken into account as well as data from previous audits, the client, the Internet, manuals, bulletins, magazines and service information, as well as flow charts, plans, policies and procedures and documentation on systemic applications.

Probability of risk and loss of resources is determined jointly by the internal auditor and the client. The auditor should assume what would happen if no risk-reducing controls are absent or not applied. Risks are classified as: high, moderate, low and zero risk. The auditor should harmonize the list of business risks with the management before starting the audit.

Probability of risk and loss of resources is determined jointly by the internal auditor and the client. Risks are classified as: high, moderate, low and zero risk. The auditor should harmonize the list of business risks with the management before starting the audit

Control documentation is made by the auditor by questioning the employees on the controls that prevent, disclose or correct the situation. Gathered information on the control system should comprise: detailed description of the control procedures and the persons implementing them, the frequency of the implemented controls, documentation regarding the implemented controls, policies and procedures referring to the control procedures, supervisor reports (scope, person who prepare them, frequency, documentation), detailed description of the applied control system and the used version, records of the carried out controls and guidelines and guidelines for realization of the working plans. In this stage, the auditor discloses the measures and activities that improve operational efficiency of the system, but also the sources of problems arising from failure to exchange information between sectors or control processes and advantages of modern technology are not used.

Assessment of control system is carried out by the auditor, who makes assessment of the established controls so as to reduce losses to acceptable level. The auditor should record the following information: description of the findings and their relevance, persons respon-

sible to correct them, description and data of beginning and completion of the corrective actions. If unacceptably high risk for the management is determined, the auditor should immediately notify them so as to undertake corrective activities as soon as possible.

In the audit process, the auditor should determine the procedures of audit testing. The auditor should apply tests so as to determine and record whether key control procedures (including those ensuring application of laws and set policies) are effective in prevention, disclosure and correction of errors and/or irregularities.

A Commission study in the late 1980s suggested that the European taxpayer would have paid some 20 billion euros less each year if public procurement throughout the Community had been in accordance with EC Directives



Draft report would be prepared by the auditor on the basis of conclusions regarding significant risks, determined on the basis of audit tests. The report would encompass the scope of audit, general conclusion on the control and operational environment and explanation of significant risks requiring corrective actions. The draft-report should be submitted to the auditee and presented at the final conference.

At the final conference, the auditor and the auditee should discuss thereof and ensure better accuracy and clarity. They should try to reach consensus on the determined risks, corrective actions and the data on their undertaking or planning. The auditee should then prepare its comment on the risks and corrective actions and in the rare cases of professional differences, if any, the auditor would include them in the final report.

The final report is filed by the auditor, together with the supplements on the determined risks, to the auditee and the head of the institution and then the auditor monitors the implementation of the findings.

4. Relation of internal audit to internal control and to external audit

The internal auditor should not be involved in the internal (management) control process which he is required to assess and judge. There is clearly no objection to - and a great deal to be said in favour of - the internal auditor being asked to give an opinion on, or carry out a "pre-audit" of, the systems and procedures being prepared for a new action or programme. Internal audit should not, however, become part of, or be associated on a permanent basis with, internal control. It is essential that internal audit keeps its distance, so that line management recognises its responsibility for internal control and its interest in demonstrating that it is maintaining efficient internal control through its own efforts.

The relationship between the internal and external auditor can be fraught if the external auditor is seen as the supervisor or assessor of internal audit. It should be possible to establish an intelligent relationship in which each side clearly appreciates the role and responsibilities of the other side. While the external auditor may find room for improvement in the work of the internal auditor or may even be called upon to audit his work, this need not prevent a sensible working relationship based on partnership. There can be fruitful exchanges of views, experience and information on methodology. Valuable time and resources can be saved if the two sides have confidence in each other's work and plan their own work accordingly.

ESSENTIALS OF PARTS OF THE NEW BANKRUPTCY LAW

In addition to achieving the main objective, the new Bankruptcy Law needs to shorten the duration of bankruptcy proceedings, to cut costs related to bankruptcy proceedings, to strengthen the mechanisms for exercising creditors' rights, to strengthen the capacities of the bodies of bankruptcy proceedings through their continuous education, as well as to provide greater security on the market

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1. Introduction

When a Government proposes a policy and commits to implement that policy, legislators should first transform that policy into a law, which then needs to be applied and put into effect in practice.

Application of the Bankruptcy Law (Official Gazette of the Republic of Macedonia, no. 55/97, 53/2000, 37/2002 and 17/2004) (hereinafter: previous Law, was differently interpreted and bankruptcy cases were resolved in different manners. Several amendments to this Law did not contribute to improvement of its wording, and at the same time did not lead to its better practical application, although this Law was to a great extent harmonized with the EU *acquis communautaire* and was positively assessed by international experts. Taking into account both international and domestic experience, as well as practical problems when implementing the previous Law, need was imposed to adopt new Bankruptcy Law.

Main objective of the preparation of new Bankruptcy Law is attaining higher level of harmonization with the EU *acquis communautaire* and other international regulations, as well as harmonization with legislation in the Republic of Macedonia being adopted meanwhile, which is in direct correlation with the issues regulated by the Bankruptcy Law.



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In addition to achieving the main objective, the new Bankruptcy Law needs to shorten the duration of bankruptcy proceedings, to cut costs related to bankruptcy proceedings, to strengthen the mechanisms for exercising creditors' rights, to strengthen the capacities of the bodies of bankruptcy proceedings through their continuous education, as well as to provide greater security on the market.

One can clearly conclude from the wording in the Law itself that, during its preparation, modern techniques of writing laws were used, including linguistic and nomotechnical rules used by legislators so as to formulate clear and unambiguous laws, since such prepared laws can be smoothly implemented in practice. Unlike the previous Law, the new one is being reorganized in many of its parts, so as for the Law to be clearer, thus contributing to its application in practice.

New Bankruptcy Law is published in the Official Gazette of the Republic of Macedonia, no. 41/2006 (hereinafter: new Law) and its parts will be subject to analysis in the text below.

Main objective of the preparation of new Bankruptcy Law is attaining higher level of harmonization with the EU *acquis* communautaire and other international regulations, as well as harmonization with legislation in the Republic of Macedonia being adopted meanwhile

2. General Provisions

This Law regulates the goals and the requirements for initiating bankruptcy proceedings; bodies of bankruptcy proceedings; management and disposition of property included in bankruptcy estate; settlement of claims of creditors in bankruptcy proceedings; legal consequences from initiating bankruptcy proceedings; special types of bankruptcy proceedings for individuals having the status of sole proprietors; bankruptcy proceedings with a foreign element and other issues related to bankruptcy.

Like rarely in any law, the new Law includes seventy-nine definitions of terms used in the wording of the new Law. Apart from the definitions of terms, general provisions also regulate the objectives of the bankruptcy proceedings, person against which bankruptcy proceedings may be initiated and requirements for initiating bankrupt-

cy proceedings. Requirements for initiating bankruptcy proceedings are met when the debtor is unable to pay. Insolvency is a condition when the debtor is unable to fulfill its obligations, i.e. debts as they mature. Insolvency as a requirement for initiating bankruptcy proceedings is not considered to be the immediate insolvency, but rather the period of 45 days during which the person is unable, from any of his accounts in any payment operations institution, to pay the amount due to be paid, based on valid grounds for payment.

3. Basic provisions for the proceedings

General provisions for the bankruptcy proceedings regulate the local jurisdiction of the court to conduct the bankruptcy proceedings, principles of the proceedings, delivery, decisions, legal remedies against the decisions and expenses of the proceedings. Court notices (decisions, summons, notices and other) that are to be announced in public are delivered to the Central Registry, which publishes them on its web-site, and they are also to be published in the "Official Gazette of the Republic of Macedonia", as well as on the announcement board in the court, in whole or in part as determined by the court. After establishment of the commercial registry and the registry of other legal persons, public announcements regarding the entities entered in these registries become effective on the next day after their publication on the web-site of the Central Registry. Decisions for the sessions of the Assembly of Creditors are published on the web-site of the Central Registry and in one of the three most circulated daily newspapers for the previous year, that are distributed on the whole territory of the Republic of Macedonia. Unlike the previous Law, novelty in the new one is that no request can be made for protection of legality during the bankruptcy proceedings. This provision harmonizes the Law with the provisions in the Law on Litigation Procedure.

4. Bankruptcy Council

Unlike the previous Law pursuant to which Bankruptcy Council was bankruptcy proceedings body, according to the new Law, it is no longer bankruptcy proceedings body. Pursuant to the new Law, Bankruptcy Council comprises three judges, whereby the bankruptcy judge cannot be member of the Bankruptcy Council. Main authorizations of the Bankruptcy Council are differently regulated and its main role is to be a second-instance body in the bankruptcy proceedings, i.e. to decide upon the appeals against decisions of the bankruptcy judge

and decide upon the petitions from creditors, the Board of Creditors and the Assembly of Creditors. Deadline in which Bankruptcy Council is obliged to decide upon appeals is 8 days from the day of receipt of the appeal and 3 days after receiving the petition. This change will contribute to achieving greater efficiency and speeding up the implementation of the bankruptcy proceedings, as well as avoidance of delays in the appeals lodged against the decisions in the bankruptcy proceedings.

5. Bankruptcy Proceedings Bodies

Bankruptcy proceedings bodies are: bankruptcy judge, bankruptcy trustee, Board of Creditors and Assembly of Creditors. Another novelty in the new Law is the broadening of the authorizations of the bankruptcy judges, having the role of an individual judge. There are also number of changes and the bankruptcy proceedings bodies, most of them referring to the bankruptcy trustee, in particular the appointment of bankruptcy trustee, obtaining licence for carrying out operations of a bankruptcy trustee, etc.

Liability of the bankruptcy trustee is also defined here when performing his activities and it precisely determines the liability of the bankruptcy trustee for caused damage during the bankruptcy proceedings. Bankruptcy trustee is liable with the entire assets for the caused damage to every participant in the Bankruptcy procedure, if he: fails to act as bona fide merchant, acts contrary to the Code of Ethics of the Bankruptcy Trustees and to the professional standards. Mandatory insurance of the bankruptcy trustee against liability for caused damages that might be caused when performing the activities differs in the new Law in the fact that the insurance against liability is not made prior to being delivered the bankruptcy case, i.e. after the decision for appointment of bankruptcy trustee, but the bankruptcy trustee is rather insured against liability prior to being given the term of office, i.e. for each by 31st December in the previous year at the latest. Bankruptcy trustee is obliged to submit the evidence of the insurance to the Minister for Economy within 7 days as of the day of concluding insurance. If no such evidence is submitted, that person can no longer perform the function of bankruptcy trustee.

Activities of bankruptcy trustee can be performed by a natural person having licence for bankruptcy trustee, as well as a public company or limited liability company, established solely for the purpose of performing activities of a bankruptcy trustee, having licence for bankruptcy trustee, all being members of the Chamber of Bankruptcy Trustees.

Bankruptcy trustees should submit monthly written reports on the status of the bankruptcy estate, precisely indicating the lists, i.e. the acts to be submitted: list of the assets which have been sold, transferred or in some other manner alienated; list of the cash inflow and outflow during the previous month; opening and closing financial status of the bankruptcy debtor; list of all activities performed during the previous month; list of engaged persons with the list of the experts and amounts paid to them, as well as information regarding other issues, entrusted to the bankruptcy trustee by the bankruptcy judge, i.e. the Board of Creditors.

Pursuant to the new Law, competencies pertaining to obtaining a certificate for authorized bankruptcy trustee and licencing by the Minister of Justice are transferred to the Minister of Economy. To the end of achieving professionalization in the operations of the bankruptcy trustee, it is envisaged for the bankruptcy trustee to be mandatory members of the Chamber of Bankruptcy Trustees, being one of the requirements for performing the activity of a bankruptcy trustee. With respect to the appointment of bankruptcy trustee, there is a novelty according to which the discretionary right of a judge to appoint a trustee from the list of bankruptcy trustees is decreased, but not excluded. Proposal in the new legal solution regarding who to be appointed as bankruptcy trustee is given by the person submitting the proposal for initiating bankruptcy proceedings. If the person submitting the proposal does not submit a proposal for appointment of a bankruptcy trustee, bankruptcy judge appoints the bankruptcy trustee with a mandate lasting to the first Assembly of Creditors. Rewarding the bankruptcy trustees will be additionally regulated by a rulebook, to be adopted by the Minister of Economy. The rulebook will govern the bases pertaining to the amount of the reward, while the bankruptcy judge will determine the amount of the reward upon prior approval by the Board of Creditors.

Taking into account the work of the Board of Creditors and of the Assembly of Creditors, the new Law contains many authorizations of the Board of Creditors for the purpose of accelerating the carrying out of the bankruptcy proceedings. Having in mind the practice so far, one can conclude that convening the Assembly of Creditors, due to its size and number of members, is impossible and difficult, and it was the basis for delaying the bankruptcy proceedings. Therefore, when it is a matter of the scope of operations of the Board of Creditors, the new Law includes surveying the reports of the bankruptcy trustee on the course of the bankruptcy procedure and on the situation of the bankruptcy estate, examining the trade books and the complete documentation taken over by the bankruptcy trustee, right to file a plea to the bank-

ruptcy judge against the work of the bankruptcy trustee, proposals to the bankruptcy judge for the manner of converting the debtor's assets into cash, proposals on continuation of the operations of the debtor and other rights set by law. The new Law contains different solution for the reward of the members of the Board of Creditors for their work performed, which basically differs from the previous one that was inapplicable in practice. When adopting the Rulebook on Determining the Reward of the Bankruptcy Trustee and of the Members of the Board of Creditors, rewarding criteria and criteria for the reimbursement of the expenses will have to be set for the members of the Board of Creditors.

Bankruptcy judge calls the first and the final closing session of the Assembly of Creditors. All bankruptcy creditors, creditors with a right to separate settlement, bankruptcy trustee and the debtor are entitled to participate at the session of the Assembly of Creditors.

Other sessions of the Assembly of Creditors are called by the bankruptcy judges at the proposal by the bankruptcy trustee, Board of Creditors and one or more bankruptcy creditors provided that the total amount of their claims exceeds one fifth of the total amount of the claims of all bankruptcy creditors.

the Assembly of Creditors. Creditors whose claims are not disputed in whole also have the right to vote proportionally to the part of the claim that is not disputed. Each creditor whose claim is not disputed neither by the bankruptcy trustee nor by the creditors with a right to vote is entitled to one vote proportionally to the participation of the value of his claim in the total recognized value of the claims. As an exception, a creditor with a disputed claim also is considered as having a right to vote, if the existence of such claim is proved by the creditor by means of an enforcement document or if the claim is insured by a secured right recorded in the public book, unless the debtor proves termination of that claim by a certified document.

Initiation of Bankruptcy Proceedings

Bankruptcy procedure is initiated upon a proposal made by the creditor, the debtor or other person authorized by law. Appropriate evidence set in the basic provisions in the Law is attached to the proposal for initiating bankruptcy proceedings, on the basis of which the court can conclude that the requirements for initiating bankruptcy proceedings are met. One should mention here that proposal for initiating bankruptcy proceedings may be submitted, on behalf of the debtor - legal entity, by any person authorised by law to represent the debtor - legal person, as well as by any liquidator. Regarding the submission of a proposal for initiation of bankruptcy proceedings by the debtor's bodies authorized to represent the debt, it can be pointed out that they are obliged to submit the proposal not later than 21 days as of the day the reasons for initiating the bankruptcy procedure occurred, and they also enclose receipt by the performer of payment operations, report on the assets and the evidence of ownership and certificate of paid taxes and contributions. Proposal for initiating bankruptcy proceedings may be withdrawn until the placing of the announcement for initiating the bankruptcy proceedings on the announcement board, i.e. until adopting a decision on rejection or refusal of the proposal by the court. In the case of withdrawing the proposal for initiating bankruptcy proceedings, the court adopts decision on termination of the proceedings.

6. Preliminary Proceedings

Preliminary proceedings are initiated upon submission of a proposal for initiating bankruptcy proceedings. Bankruptcy judge examines whether the proposal is in accordance with the law and whether the person who

Like rarely in any law, the new Law includes seventy-nine definitions of terms used in the wording of the new Law. Apart from the definitions of terms, general provisions also regulate the objectives of the bankruptcy proceedings, person against which bankruptcy proceedings may be initiated and requirements for initiating bankruptcy proceedings



Having in mind such manner of calling the sessions of the Assembly of Creditors, one can concluded that there is a simplification, taking into account the fact that if the bankruptcy judge does not call the session of the Assembly of Creditors within 30 days from the submission of the proposal, the Assembly is called by the President of the Board of Creditors upon a decision of the Board of Creditors, within a time period of eight days. Bankruptcy judge is informed of the called session of the Assembly.

Simplifying the voting procedure, i.e. adopting the decisions of the Assembly of Creditors, has been achieved by envisaging the decisions to be adopted by majority of the verified claims represented by the creditors that attend the session. Creditors, whose claims are not disputed neither by the bankruptcy trustee, nor by any creditor with a right to vote, have the right to vote at

submitted the proposal included all evidence necessary to act upon the proposal. Bankruptcy judge is obliged to act upon the proposal for initiating bankruptcy proceedings within 8 days as from its submission. This part of the Bankruptcy Law incorporates articles pursuant to which the obligation of the debtor is expanded in terms of cooperation and providing all necessary data and information on the economic and financial situation is faces. At the same time, failing to comply to these provisions, and for the purpose of preventing the unnecessary delaying of the proceedings, envisages a possibility for the bankruptcy judges to take in or detain the persons authorized to represent the debtor. In preliminary proceedings, bankruptcy judge can, upon request by the person submitting the proposal or ex officio, following a decision, determine one or more security measures to the end of securing the assets of the debtor and preventing the occurrence of unfavorable position for the creditors.

7. Initiating Bankruptcy Proceedings

No later than 30 days from the date of reaching a decision on initiating preliminary proceeding, bankruptcy judge is obliged to schedule a hearing regarding the opinion on the request for initiating a bankruptcy proceeding. The novelty here is that the Law envisages only one hearing regarding the opinion on the request for initiating a bankruptcy proceeding, unlike in the previous Law, which stipulated two separate hearings - debates. Bankruptcy judge is obliged, not later than 3 days after the completion of the hearing regarding the opinion on the request for initiating bankruptcy proceedings, to adopt a decision on initiating bankruptcy proceedings or a decision on rejecting the proposal for initiating bankruptcy proceedings.

Initiating bankruptcy proceedings is direct, i.e. without conducting preliminary proceedings, if the proposal for initiating bankruptcy is submitted by the debtor or the liquidator himself.

Initiated bankruptcy proceedings is not conducted and it is at the same time concluded, if the property of the debtor is not sufficient to settle the costs of the proceeding or is of insignificant value. In such case, and notwithstanding the rule on direct initiating of bankruptcy proceedings, bankruptcy judge conducts preliminary proceedings. Following the completion of the preliminary proceedings, bankruptcy judges adopts decision on initiating and concluding the bankruptcy proceedings, if the property of the debtor is not sufficient to settle the costs of the proceeding or is of insignificant value. The decision on initiating and concluding the bankruptcy pro-

ceedings is published in the "Official Gazette of the Republic of Macedonia". Creditors have the right to a separate appeal against the decision on initiating and concluding the bankruptcy proceedings to be submitted to the Bankruptcy Council within 8 days as of the day of its publishing in the "Official Gazette of the Republic of Macedonia".

If the proposal for initiating bankruptcy proceedings is rejected, only the person submitting the proposal has the right to appeal against such decision, i.e. if the bankruptcy proceedings is initiated, only the debtor has the right to appeal to the Bankruptcy Council.

Unlike the previous Law pursuant to which Bankruptcy Council was bankruptcy proceedings body, according to the new Law, it is no longer bankruptcy proceedings body. Pursuant to the new Law, Bankruptcy Council comprises three judges, whereby the bankruptcy judge cannot be member of the Bankruptcy Council. Main authorizations of the Bankruptcy Council are differently regulated and its main role it to be a second-instance body in the bankruptcy proceedings

8. Bankruptcy creditors, creditors with property title rights and secured creditors and creditors of the bankruptcy estate

Claims of bankruptcy creditors are categorised in higher and lower payment orders. Claims of creditors of lower payment order are settled only after the creditors of the previous (higher) payment order have been fully settled. Bankruptcy creditors of same payment order are settled in proportion to the size of their claims.

Novelty in the Law is that the claims pertaining to unpaid wages and salary contributions for pension and disability insurance and allowances for the last three months prior to the initiating of bankruptcy procedure are ranked as claims of higher payment order.

Creditors whose claims are not due become payable as of the day the bankruptcy proceedings is initiated.

Obstacle to conducting certain bankruptcy proceedings - state-owned agricultural land is separately elaborated. In fact, state-owned agricultural land over which bankruptcy debtor has acquired right to usage in cases when reorganization plan is adopted, is transferred to the legal entity that continues the business venture. This

solution provides the possibility for, should the Assembly of Creditors accept the reorganization plan, the plan to be successfully realized. In case the Assembly of Creditors reaches a decision to close the business venture, agricultural land is returned in the ownership of the Republic of Macedonia.

With respect to creditors having right to separate settlement, i.e. secured creditors, new article is envisaged covering the right to settlement of debts under financial collateral agreements (money or financial instruments). Part pertaining to financial collateral covering the legal status following the bankruptcy proceedings is fully incorporated in the new Law in line with the *acquis communautaire* of the European Union.

Creditors of bankruptcy estate is the category of natural persons and legal entities that have a claim against the debtor on any basis, that arose after the initiation of the bankruptcy proceedings.

culated on secured claims only if agreed, but only up to the value of the property that is used for settlement of the claims. With respect to interest, it is also envisaged that if after the settlement of all claims there are still disposable assets for settlement, the bankruptcy judge may allow calculating and payment of interest after the proposal for initiating the bankruptcy proceedings.

Upon the initiating of the bankruptcy proceedings, rights of the members of the managing bodies, of the manager, i.e. of the director or other managing body, proxies and representatives as well as supervisory bodies, are terminated. Rights of the members of the managing bodies, of the proxies and of the representatives regarding the disposal of the property of the bankruptcy debtor and other rights accordingly exercised are transferred to the bankruptcy trustee for the purpose of conducting the bankruptcy proceedings, in a manner, to the extent and according to the requirements stipulated by this Law.

With respect to the legal consequences from the initiating of bankruptcy proceedings, it is necessary to point out that the employment contract concluded between the employee and the employer - debtor is terminated. Bankruptcy trustee is obliged to pass a decision concluding that the employment contract of the employee is terminated. No appeal is allowed against this decision. The day the bankruptcy proceedings is initiated, agreements governing the relations between the company and the executive members of the board of directors are terminated as well. It is also envisaged that the bankruptcy trustee can, upon prior written consent by the bankruptcy judge, conclude new employment contracts for the purposes of completing the work in progress and prevention of possible damages. If conclusion of new contracts is required, former employees of the debtor have the priority in concluding such contracts.

10. Distribution

Settlement of the bankruptcy creditors is carried out through an advance distribution of the assets, as well as with final distribution of assets. Provisions are envisaged pursuant to which the bankruptcy trustee is obliged to draw up draft distribution plan. The Law envisages precisely what the distribution plan should cover. Bankruptcy trustee is obliged to prepare a draft plan for the advance distribution within 8 days after the transfer of the funds on the account of the debtor. This draft plan is distributed to the members of the Board of Creditors for approval. Upon obtaining the approval from the Board of Creditors for the draft plan, bankruptcy trustee

Regarding the submission of a proposal for initiation of bankruptcy proceedings by the debtor's bodies authorized to represent the debt, it can be pointed out that they are obliged to submit the proposal not later than 21 days as of the day the reasons for initiating the bankruptcy procedure occurred, and they also enclose receipt by the performer of payment operations, report on the assets and the evidence of ownership and certificate of paid taxes and contributions

9. Legal consequences arising from the initiating of bankruptcy proceedings

Legal consequences from the initiating of bankruptcy proceedings occur on the day following the day when the notice of the initiating of the bankruptcy proceedings is placed on the announcement board. If the decision for initiating the bankruptcy proceedings has been revoked due to an appeal, and in a renewed proceeding the bankruptcy proceedings is reopened, it will be considered that the legal consequences from the initiating of the bankruptcy proceedings have occurred on the day when the first decision for initiating the bankruptcy proceedings was placed on the announcement board.

Legal consequences from the initiating of bankruptcy proceedings envisage that the interest rate on unsecured claims stops with the day of initiating the bankruptcy proceedings. Interest rate of the secured claims is cal-

submits it to the bankruptcy judge and to all creditors included in the plan. Creditors have the right to file a petition against the plan for advance distribution to the bankruptcy judge, and he is obliged to review the petitions of the creditors and to adopt a decision for approving the plan for advance distribution. The decision for approval of the plan for advance distribution is submitted to the bankruptcy trustee, who is obliged to make the payments of the funds within eight days. In addition, this Chapter envisages the final distribution of assets to be made immediately after the complete cashing of the property that comprised the bankruptcy estate. Procedure for adoption of draft plan for final distribution is the same as the one envisaged for adoption of the plan for advance distribution, whereby the bankruptcy trustee is obliged to submit an annual balance sheet and an annual statement, together with the draft plan, to the bankruptcy judge who posts them on the notice board in the court.

Bankruptcy trustee, in agreement with the bankruptcy judge, deposit the funds that were segregated and retained in the final distribution at an adequate bank for further distribution, in a manner and under the conditions determined in this Law.

If the claims of all creditors in the bankruptcy proceedings are settled completely with the final distribution, bankruptcy trustee will transfer the excess of the bankruptcy estate or the funds to the debtor. If the debtor is not a natural person, bankruptcy trustee will transfer, to all persons owners of share or stocks in the principal of the debtor, the part of that excess that would belong to those persons during the liquidation of the debtor pursuant to the Company Law.

10. Conclusion of Bankruptcy Proceedings

Bankruptcy judge is obliged, immediately after the final distribution of funds has been completed, to bring a decision for conclusion of the bankruptcy proceedings. After the complete distribution, bankruptcy trustee is obliged to notify the bank and request deletion of the account, and if there are assets remaining to deposit them as a court deposit, as well as to organise the archive material pursuant to the Law on National Archives Material.

Part of the Law that governs the conclusion of the bankruptcy proceedings also regulates the conducting of additional (deferred) distribution, provided that after the final Assembly, segregated or withheld funds have become available for distribution, paid funds from the bankruptcy estate have been returned or objects and rights that form part of the property that comprises the

bankruptcy estate (newly found property) have been identified (determined).

11. Stopping the Bankruptcy Proceedings

Bankruptcy proceedings can be stopped if after the commencement of the bankruptcy proceedings, it is established that the property comprising the bankruptcy estate is not sufficient to settle the expenses of the proceedings. In that case, bankruptcy judge will stop the proceedings and pass a decision on concluding the bankruptcy proceedings. Bankruptcy Judge will not stop the proceedings if sufficient funds have been advanced by a creditor/creditors.

Prior to stopping the bankruptcy proceedings, bankruptcy judge considers the positions of the Assembly of Creditors, the bankruptcy trustee, and the creditors of the bankruptcy estate. Prior to stopping the proceedings, bankruptcy trustee will use all funds available in the bankruptcy estate to settle the expenses incurred in the proceedings up to that point. In addition, proceedings can be stopped due to additionally determined lack of grounds for initiating bankruptcy proceedings and in agreement with the creditors.

Each creditor may appeal to the Bankruptcy Council within eight days, against the decision of the bankruptcy judge to stop or conclude the bankruptcy proceedings. The debtor may also make an appeal within eight days from the day the decision is passed if the bankruptcy proceedings has been stopped due to non-existence of property comprising the bankruptcy estate.

12. Reorganization Plan

Bankruptcy proceedings, including reorganisation, is conducted on the basis of a reorganization plan, prepared in written form. The plan can be submitted with a proposal for commencing bankruptcy proceedings by the debtor and by the creditor, as well as upon proposal by the creditor following the initiating of the bankruptcy proceedings until the day of holding the reporting hearing. Implementation of the reorganization plan is extended and many possibilities are allowed. Reorganization plan can be implemented in the following manner:

- letting the debtor manage or dispose of the whole or a portion of his/her property;
- enforcing an appropriate change to the status, in order to transfer the whole or a portion of the debtor's property to one or more persons that exist or will be founded;

- merging of the debtor with one or several persons;
- selling all or a portion of the debtor's property, with or without the rights to separate settlement;
- dividing all or a portion of the debtor's property among the creditors;
- determining the manner of settlement of the bankruptcy creditors;
- settling or changing the rights to separate settlement;
- reducing or postponing the payments of the debtor's liabilities;
- converting debtor's liabilities into credit;
- settling all or some of the debtors' liabilities towards the creditors with shares or stocks owned by the partners, i.e. shareholders;
- undertaking a guarantee or providing other kind of security for fulfillment of the debtor's liabilities;

Transfer of the shares is carried out without intermediation of the stock exchange, while regarding the issuing of new shares, no approval from the Securities and Exchange Commission is needed. Bankruptcy trustee submits a request for changing the entries in the Central Securities Depository for the transfer of the shares, as well as for the shares issued according to the reorganization plan and informs the Securities and Exchange Commission of the conducted increase of the principal, following the effectiveness of the decision for approval of the plan.

New Bankruptcy Law envisages for the entity authorised to submit reorganization plan to be obliged to submit such plan to the bankruptcy judge within 45 days after the day when the authorisation is received at latest. Bankruptcy judge can extend the deadline for additional 15 days, and the Board of Creditors, with two-thirds majority, can extend the deadline for at most 60 days. When, at the reporting hearing, the Assembly of Creditors has instructed the authorised entity to prepare reorganization plan, bankruptcy trustee is obliged to immediately submit the received reorganization plan to the bankruptcy judge. If the reorganization plan is not submitted in the set deadline, the proceedings will continue with a decision to cash-in the debtor's assets, reached by the bankruptcy judge.

Reorganization plan is considered adopted, if it is accepted with simple majority of the total amount of the claims of the creditors present at the Assembly. Creditors disagreeing such adopted decision can submit a report to the bankruptcy judges, with recommendations, indicating the reasons due to which the court should reject the decision for acceptance of the plan. Bankruptcy judge adopts final decision, and no appeal is allowed against such decision. If the bankruptcy judge accepts the report and the recommendations therein, creditors that voted for the plan should express their opinion on the recommendations. The Law envisages that expressing the opinion for the recommendations can be made in writing within 8 days from the day of submitting the recommendations accepted by the bankruptcy judge.

Bankruptcy judge can refuse ex officio the approval of the proposed reorganization plan. Bankruptcy judge is obliged to adopt the decision by which he rejects or refuses the proposed plan within 3 days at the latest. This decision is submitted to the bankruptcy trustee, the debtor and the bankruptcy creditor.

Bankruptcy proceedings, including reorganisation, is conducted on the basis of a reorganization plan, prepared in written form. The plan can be submitted with a proposal for commencing bankruptcy proceedings by the debtor and by the creditor, as well as upon proposal by the creditor following the initiating of the bankruptcy proceedings until the day of holding the reporting hearing. Implementation of the reorganization plan is extended and many possibilities are allowed

- some or all of the debtors' obligations towards the creditors will be transformed into shares or stocks in the reorganised debtor, in the amount of a prior assessment of the net value of the principal of the company;
- additional investing;
- increase of the company's principal, which will be allowed by issuance of stocks or shares of the creditors or for new investors;
- amendment to the contract of the company, the statute or another incorporation act or another act of the bankruptcy debtor with which special rights of the submitter of the plan for reorganisation are determined;
- consent of the bankruptcy debtor to accept personal management pursuant to this Law; and
- any other manner or measure pursuant to this Law.

13. Organization of Bankruptcy Trustees

Bankruptcy trustees on the territory of the Republic of Macedonia are organized in Chamber of Bankruptcy Trustees. The Law regulates the manner of organization, bodies of the Chamber and its status. Separate provisions govern the financing and the supervision over the operations of the Chamber, as well as the disciplinary breaches, sanctions, penalties and execution of disciplinary decisions. There is a possibility envisaged to revoke the working licence of the bankruptcy trustee for extremely severe breaches, as well as special provisions for the company - bankruptcy trustee. This issue is a special novelty, since the existing Law has not envisaged a manner of professional organization of the bankruptcy trustees, as well as control over the operations of the Chamber.

Transitional and final provisions include provisions on the application of the current law, calling of the first founding Assembly of the Chamber of Bankruptcy Trustees, organizing the exam for acquiring the licence in the transitional period following the termination of the validity of the previous Law, and when the new Law enters into force, new deadlines have been set for the adoption of more detailed rules envisaged by the Law.

Taking into account that just short period of time has passed since the Bankruptcy Law (Official Gazette of the Republic of Macedonia, no. 41/2006) was adopted, some weaknesses in this Law are possible, which would be subject to some other analyses. However, from a theoretical point of view, this Law should not encounter any problems while being implemented.

FOREIGN DIRECT INVESTMENTS - A SHIFT FOR GROWTH

Foreign investments depend on the perception of potential foreign investors and the attractiveness of investment. The world offers many alternatives. Thus, we should do much more for creating good domestic investment climate, especially from legal and economic aspect

Snezana Delevska

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Financing sources in transition economies are insufficient to fund investments that would foster sustainable economic growth. The most obvious reason is the banking sector, which is unprepared for risks, as well as the insufficiently developed capital market. Thus, FDIs have proved key for the restructuring of the economy in these countries and for investment capability much greater than the one of the domestic companies.

Transition process of the Balkan countries significantly differs from the one in the Central-European countries. CE countries are characterised by successful reforms and strong stabilization programmes, low inflation, high growth, emergence of many competitive companies on the world market, promotion of trade with the EU, high inflow of foreign direct investments. Large markets (Poland) and privatization programmes opened for foreign investors

(Hungary) are the key factor that attracted foreign investors in these countries. For the successful transition countries, foreign capital meant not only higher growth rate and faster structural reforms, but also improvement of the external financial condition, higher foreign exchange reserves, improved balance of the BOP current account and better credit rating.



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

Positive experience of Hungary

In early 1990s noting pointed that the countries in the region would choose a liberal policy towards FDI. Economic reasons of resistance towards FDI were justified as follows: if foreigners are allowed to enter the country, they would interfere with the privatization and invest enormous funds in green field projects. Domestic investors would lack sufficient capital to compete with these corporations and the foreigners would have dominant position. The second reason was of political nature: foreigners would cause loss of independence of the economic policy. These two reasons were widely debated during the 1990s both in Hungary and in other countries in Central and Eastern Europe. The result was such that some countries chose the liberal policy towards FDI, but some chose differently. Hungary and Estonia could be considered as countries that already in early 1990s chose more liberal view towards FDI, while the Czech Republic, Poland and Slovenia, chose more restrictive policy towards FDI.

Why Hungary chose more liberal policy towards FDI?

The first and probably the most important factor was that Hungary faced very high external debt in 1990s. It put rather strong pressure requiring liberal policy towards FDI so as to restructure the economy and facilitate debt repayment. Government property was not allocated to national owners due to the observation that national investors have no sufficient capital to make further structural investments, as well as to avoid "dilution" of ownership. These two reasons brought foreign investors in the privatisation process in Hungary. FDIs significantly grew, a special law on foreign investments was adopted, guaranteeing hefty tax reliefs to foreign companies and corporations in Hungary, under ten-year concessions. These corporations paid 30% to 50% of the profit tax. What were the result of such policy? In the past ten years or so, annual inflow of FDIs was around two billion US dollars. This enormous amount of money enabled Hungary the highest GDP per capita in Central Europe. The share of FDIs in GDP was also the highest in the region.

In addition, there is a qualitative effect. Most foreign investments were in production, as brown field investments but also as enormous green field projects. In addition

to industry, another major sector that attracted enormous FDIs was infrastructure, by investments in telecommunications. Investments in finance are also important. Hungary was the first country in Central Europe that decided to privatize banking sector with the assistance of foreign investors. Its financial sector is the most stable one in CEE. Most investments came from Western Europe and USA. Russian corporations invest in the country, especially in the industrial production, connected with exploitation of natural resources. The competitiveness of the Hungarian economy was based on very low salaries, much lower compared to Poland, the Czech Republic, Croatia and Slovenia. In recent years, Hungary implements policy of raising the salaries. However, now Hungary has so many competitive advantages that it raises salaries without fear and it strengthens the standard.



If the risks are bigger, the foreign partner could be attractive only with higher profit. Due to these reasons, developing countries and countries in transition are forced to give favourable conditions for foreign investors, maintaining the cost of the state lower than its profit from the foreign investment

In the past 4-5 years Hungarian companies export capital and invest it abroad. The economic policy of the country is now focused on development of SMEs that could establish strong relations with multinational companies. Hungary has around 700,000 private businesses which become attractive for FDIs. Today, the treatment of national and foreign investors is equal. Regarding technological modernization, around 75% of the costs of foreign companies were in R&D. FDIs contributed to fast adaptation and restructuring of the economy, modernization, export growth etc.

Macedonia and other Balkan countries

The problems of our often instable area, which are much deeper and much more severe, did not allow the transformation, as a process of deep economic reforms of the system, to accelerate. This confirmed the thesis

that the countries that started the economic reforms and investment regime liberalization later have trouble "catching up" with the other countries, especially if we take into account that this is a market size allowing only few large projects in certain investment sectors.

In such conditions, more intensive development, dependent on injection of new foreign capital, faced scepticism among foreign investors, who viewed pessimistically the ratio of expected returns and investment risk.

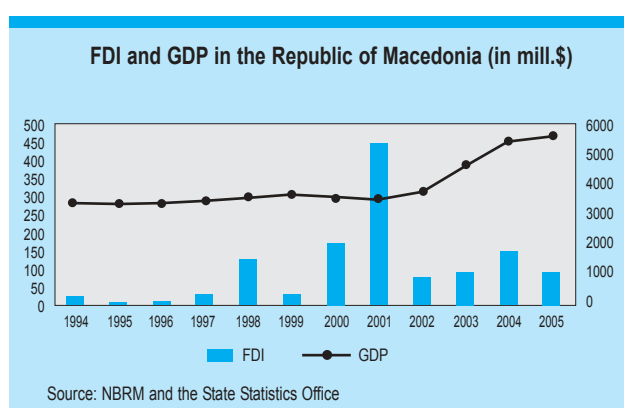
Despite the results achieved so far in strengthening the political and economic stability, the Republic of Macedonia still faces a number of issues due to which it is unable to shake-off the label "inatractive" to foreign capital.

During these past 10 years EUR 1.9 billion of foreign capital was invested in the country. Only Albania, Moldavia and Bosnia and Herzegovina are lower ranked. For example, in the past 10 years, EUR 4.5 billion were invested in Serbia and Montenegro and in Slovenia. Bulgaria and Croatia had EUR 10 billion of investments each, i.e. in average, a billion euros per year. Greece had 16.9 billion, Romania 20 billion, and Turkey had the biggest investments, of EUR 23 billion. Foreign investments in Macedonia in the past 10 years are in the amount of one-year investments in Bulgaria or Croatia.

In each of these countries one or two industrial sectors are dominant, receiving most of the money. Statistics verifies this, stating that most part of the investments, for example in Bulgaria, are in the energy sector. In 2004 only US\$ 925,5 million were invested in this sector in Bulgaria. In Croatia, most of the investments are in the financial sector. According to data from the National Bank of Croatia, one fifth of the investments in the previous decade were in this sector. More than half of the foreign investments in Romania are in industry.

Of the total amount of FDIs in SEE countries (Albania, Bosnia and Herzegovina, Bulgaria, Macedonia, Romania, Serbia and Montenegro, Croatia) in the period 2002-2005, Macedonia obtained the least, only 2.2%, 1.4%, 2.2% and less than 1% respectively. As a comparison, more than half of the inflow of FDIs in 2005 was in Croatia, one quarter in Romania, around 10% in Bulgaria etc.

Having in mind the fact that the inflow of FDIs in Macedonia is very low, its share in GDP is also exceptionally low, ranging between 0.3% in 1995 and 1996 and 12.8% in 2001, when the biggest annual inflow of FDIs was achieved with the sale of the Telecom.



Share of FDIs in GDP of the Republic of Macedonia

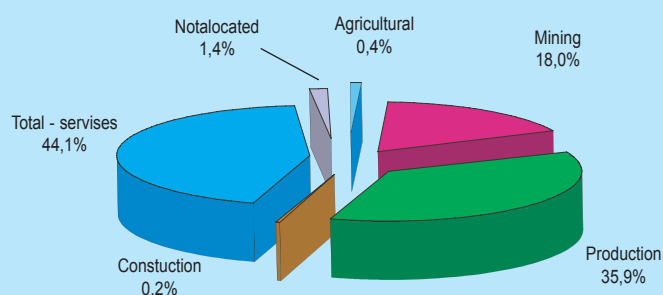
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
FDI (mil. \$)	24,0	9,5	11,2	30,0	127,7	32,4	175,1	440,7	77,7	94,3	150,1	97,1
GDP (mil. \$)	3.386	3.351	3.390	3.458	3.581	3.674	3.588	3.437	3.769	4.642	5.407	5.614
Share of the FDIs												
in GDP (%)	0,7	0,3	0,3	0,9	3,6	0,9	4,9	12,8	2,1	2,0	2,8	1,7

Source: NBRM and the State Statistics Office

As a comparison, , out of the SEE countries, Bulgaria has the highest share of FDIs in GDP in 2004 of 10.9%, followed by Romania with 7.7%, Bosnia and Herzegovina with 6.9%, Albania 4.5%, Serbia and Montenegro 4.3%, Croatia 3.5%. Data for 2005 are still preliminary.

Most part of the FDIs are in the services sector, around 44% or US\$ 49,6 million and above all in trade, financial intermediation, real estate and hotels and restaurants etc. Production sector accounts for around 36% of the total direct investments or US\$ 40,4 million, mainly in the oil industry, production of chemical products, production of metal and machine goods, textile industry. Investments in production of food account for less than US\$ 3 million and if we knew the potential of this sector, we could see that this amount is exceptionally low. In 2005 US\$ 20,3 million of FDIs were focused in mining (18%).

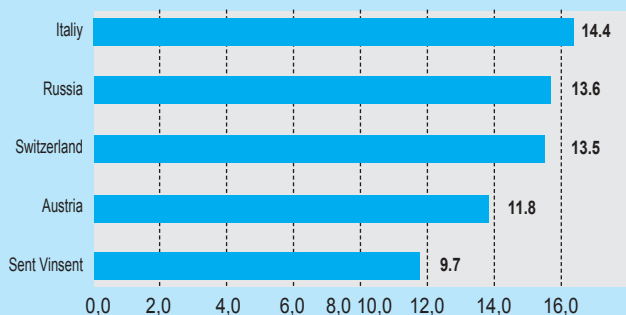
FDI in Republic of Macedonia in 2005, share in %



Source: National Bank of the Republic of Macedonia

Observed by country, the biggest investors are mostly countries that have significant trading with Macedonia, i.e. Italy, Russia, Switzerland, Austria, as well as St. Vincent, with a 63% share in the total FDIs in Macedonia.

FDIs in the Republic of Macedonia, by countries (share in %)



Source: NBRM, previous data

In 2005 the amount of portfolio investments was rather high, US\$ 235,1 million (EBRD pre-privatization of ESM distribution and issuance of the eurobond).

The state and business entities undertook activities to increase the FDIs, of both green field and brown field investments, which, in the absence of domestic savings, are much more necessary to the Macedonian economy, especially those that in addition to funds, would bring knowledge and experience, which is of importance for the development and restructuring of enterprises in the post-privatisation stage. New technologies and knowledge would enable greater productivity, improvement of quality and competitiveness of products, and new markets would be accessed via modern marketing and management.

Direct investments actually mean active participation in managing the project and distributing the profit. **Portfolio** investments in corporate securities as a rule, do not ensure a right to management with the enterprise subject to investment. In addition, portfolio investments are realized on the financial markets via investment and stock exchange intermediaries and therefore, do not mean direct communication between the persons offering and demanding capital. Foreign portfolio investments could be: a) direct, when the foreign investor appears directly on the market of the country and invests there and b) indirect, when the investor buys securities issued on the basis of foreign securities. This distinction is important since investors prefer investing on their market and in their securities (indirectly) since thus they reduce the risk to interests, reduce problems regarding transfer of dividend and capital gain etc.

These investments depend on the perception of potential foreign investors and the attractiveness of investment. The world offers many alternatives. Thus, we should do much more for creating good domestic investment climate, especially from legal and economic aspect. Legislative, judiciary and executive branch must function efficiently. The full privatization and the reform of the country must facilitate and stimulate investments. Major investments in education, research and development are key assumption for gradual transformation of the economy, the so-called "knowledge-based economy". This is due to the fact that foreign investors, when assessing the profit and the risk to investment, analyze

Republic of Macedonia should base its competitive advantage on the productive and skilled rather than cheap labour force. To this end, it is necessary to improve the connection between the education system and the business sector so as to establish professions necessary for enhancing the competitiveness of the economy

whole range of factors constituting the full picture of the stability of the country: political, economic and legal security, market size, geographical location, availability of resources (human and natural), trade partners. If the risks are bigger, the foreign partner could be attractive only with higher profit. Due to these reasons, developing countries and countries in transition are forced to give

favourable conditions for foreign investors, maintaining the cost of the state lower than its profit from the foreign investment.

Our existing regulation provides foreign investors broad investment opportunities, tax, customs and other types of reliefs, full transparency, equal treatment in

The status of candidate country has already put us on the map of foreign investors. The number of foreign investors interested in the investment opportunities in the country in the past months has increased significantly



operations, protection of ownership rights. Investments from many countries "enjoy" additional protection on the basis of agreements for reciprocal protection and promotion of investments, are not a subject to double taxation thanks to the double taxation avoidance agreements concluded with Macedonia. Foreign investors could be approved concessions to use natural resources or goods. Foreigners could also invest in the free economic zones in Macedonia. Still, "green field" investments are most wanted, which, in addition to financial and material resources, enhance production capacity and create jobs. Certain types of mergers and acquisitions, resulting in change of ownership, despite many risks in the initial stages - jobs cut, sale of assets and real estate, distortion of market competition, market concentration etc., could be especially significant, especially for the domestic enterprises in crisis, facing major difficulties, even bankruptcy. Mergers and acquisitions could yield favourable results in reviving manufacture, and after certain period, after the situation stabilizes, the effects would be much bigger: job would be created, new investments would follow, capacity would be expanded etc.

More efficient implementation of the denationalisation process, overcoming the cadastre "bottleneck", regulation of the labour legislation and its approximation to the EU standards, streamlining of the procedures and ensuring more efficient administration, rule of law would have an effect in improving the business environment for FDIs as a necessity to resolve the problems foreign investors face.

Our country offers the following advantages: cheap resources, above all cheap and skilled labour, high-quality reserves of non-metals, economic base, opportunities for higher profits by investing in services (banking, tourism, transport, telecommunications), central location in the Balkans and close connection with the EU markets should be an attractive challenge for the so-far skeptical foreign investors. However, we must mention that Macedonia should base its competitive advantage on the productive and skilled rather than cheap labour force. To this end, it is necessary to improve the connection between the education system and the business sector so as to establish professions necessary for enhancing the competitiveness of the economy. In order to sustain the jobs, it is necessary to include the working population in the lifetime learning process. In sum, it is necessary to design and implement **"second generation reforms"**.

Ultimately, we must mention the positive opinion by the European Commission on the application of Macedonia for membership into the EU, which is a shift in the interest of foreign investors to invest in our country, to create a new investment climate and improve its rating. Thus, Macedonia should use the favourable geographic location and strengthen its role - "a gate for entrance in the market of around 500 million consumers". The status of candidate country has already put us on the map of foreign investors. The number of foreign investors interested in the investment opportunities in the country in the past months has increased significantly. The companies that have publicly expressed interest to invest in Macedonia are the Japanese automotive giant Mitsubishi, the US company Johnson Control and the Canadian Bankers Petroleum, which wants to explore the potential oil deposits in this country, the German Siemens etc. The realization of the investment of the Russian company Lukoil started.

In the first three months of 2006 the Austrian EVN invested in "ESM distribution", the Slovenian Telecom in the Internet provider On.net and the Austrian company "Soravia", which bought the building of the World Business Centre. These investments are worth a total of EUR 240 million.

The objective in the Balkans and in our country is to attract FDIs in infrastructure, especially in restructuring and modernization of production of electricity and the distribution sector. In order to achieve positive economic effect, the privatization should be followed by good corporate governance and efficient application of the regulatory framework, which could regulate monopolistic behaviour and ensure the true price for the consumer.



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The privatisation in the energy sector should be underpinned with balanced agreements, that should reward investors and protect local economy.

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