

MINISTRY OF FINANCE
REPUBLIC OF MACEDONIA



BULLETIN

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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

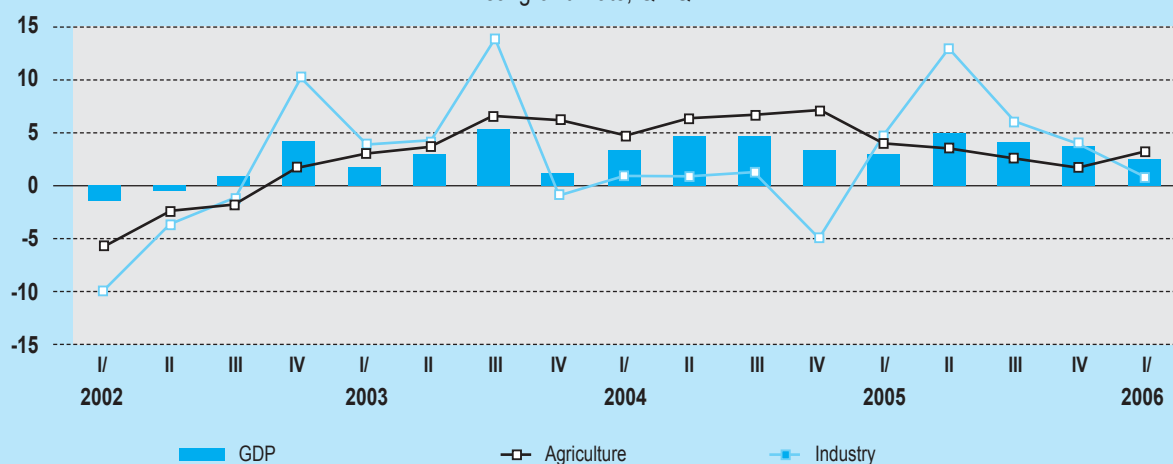
BASIC SHORT - TERM ECONOMIC TRENDS
Percentage change from the same period previous year, if otherwise not stated

	2000	2001	2002	2003	2004	2005	2005				2006	
							Q - 1	Q - 2	Q - 3	Q - 4	Q - 1	Q - 2
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	1,7
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	3,5
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	5,7
Competition of the industry												
Productivity	6,0	0,5	3,0	13,1	3,9	11,8	2,8	11,5	-7,3	-1,9	-6,8	-10,3
Unit labour cost	-4,7	-0,7	0,2	-10,3	0,7	-11,8	-10,4	-18,4	-5,6	-5,6	9,9	21,0
Real unit labour cost	-12,5	-2,7	1,1	-10,1	-0,4	-15,1	-13,9	-20,1	-8,1	-7,1	5,6	16,6
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	69,8
Lamb	261,9	291,2	330,3	388,4	461,4	443,3	478,1	479,7	429,2	410,8	383,9	420,3
Nickel	8.638,0	5.944,7	6.772,0	9.629,0	13.823,4	14.744,0	15.348,0	16.191,0	14.567,4	12.649,0	14.810,0	19.925,0
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	7.210,0
Lead	45,4	47,6	45,3	51,5	88,7	97,6	97,8	100,4	89,2	104,9	124,2	110,0
Zink	112,8	88,6	77,9	82,8	104,8	138,1	131,5	137,2	129,7	164,0	224,2	329,2
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	666,7
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	591,7
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	14,1
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	8,4
Trade balance (in millions of US \$)	-771	-533	-849	-937	-1.230	1.187	-219,2	-380,0	-263,0	-326,6	-206,0	-382,6
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	138,4	339,0	436,4	617,5
Medium and long-term external debt (end of period, in millions of US \$)	1.495,1	1.429,0	1.577,0	1.798,6	2.007,5	2.181,3	1.961,0	1.994,2	1.980,0	2.181,3	2.012,0	2.128,5
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	61,17
Denar / USA \$	65,89	68,04	64,73	54,30	49,41	49,2919	46,80	48,68	50,16	51,47	50,97	48,75

	2000	2001	2002	2003	2004	2005	2005				2006	
							Q - 1	Q - 2	Q - 3	Q - 4	Q - 1	Q - 2
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	11,4
Tax revenues	22,1	-6,9	14,0	-9,6	6,8	4,8	-3,1	6,2	7,3	8,0	-0,3	8,4
VAT	75,2	-1,8	19,8	3,2	21,6	5,1	-5,9	4,4	10,4	10,7	-14,3	9,2
Expenditures	12,7	27,0	-0,1	-13,8	0,3	6,1	5,6	0,6	6,2	10,9	10,0	2,9
Current expenditures	1,8	31,9	17,2	-1,2	1,4	2,2	3,6	-0,5	3,7	1,6	11,2	3,2
Capital expenditures	94,5	28,3	11,8	-447,0	-3,4	47,4	42,2	11,4	32,7	85	5,4	0,3
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	1.621
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	815
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	34,9
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	26,3
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	8,9
M1	22,6	5,6	4,6	1,1	-1,1	7,5	6,5	3,8	6,0	7,5	3,8	13,3
M2	29,4	61,9	-7,0	15,9	15,1	16,0	23,4	14,5	14,1	16,0	14,9	12,8
M4	25,6	56,7		13,2	15,3	15,1	21,4	21,5	13,7	15,1	14,9	13,0
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	247,7
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	73.887
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	37.428
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	7,5
Real net wages	-0,3	-1,9	5,0	3,6	4,4	2,0	3,4	2,0	1,3	2,8	3,8	4,0
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	266.842
"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	36.184

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

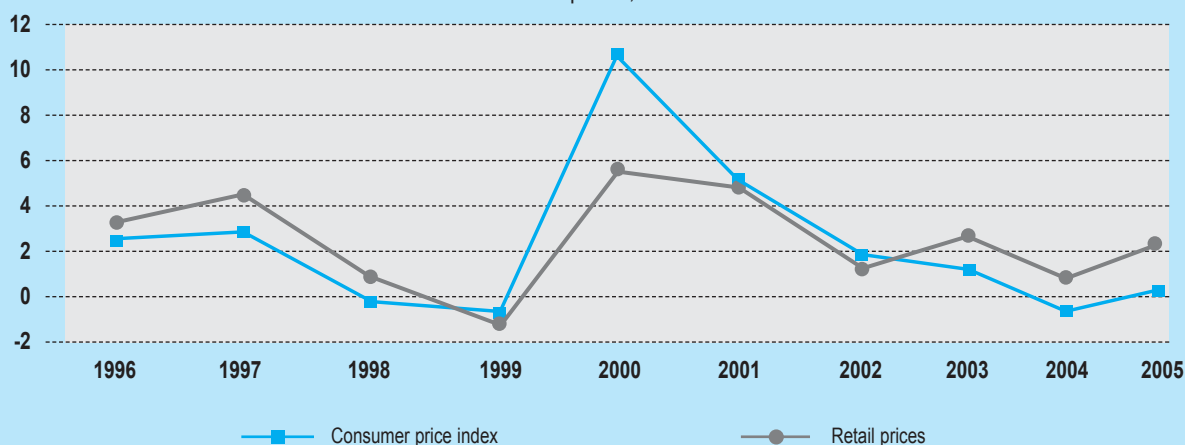


	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ²⁾
Gross Domestic Product ¹⁾	3.450	3.389	3.351	3.390	3.458	3.575	3.730	3.899	3.723	3.755	4.546	4.842
in million USD dollars												
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ²⁾
Gross Domestic Product (per capita) ¹⁾	1.785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

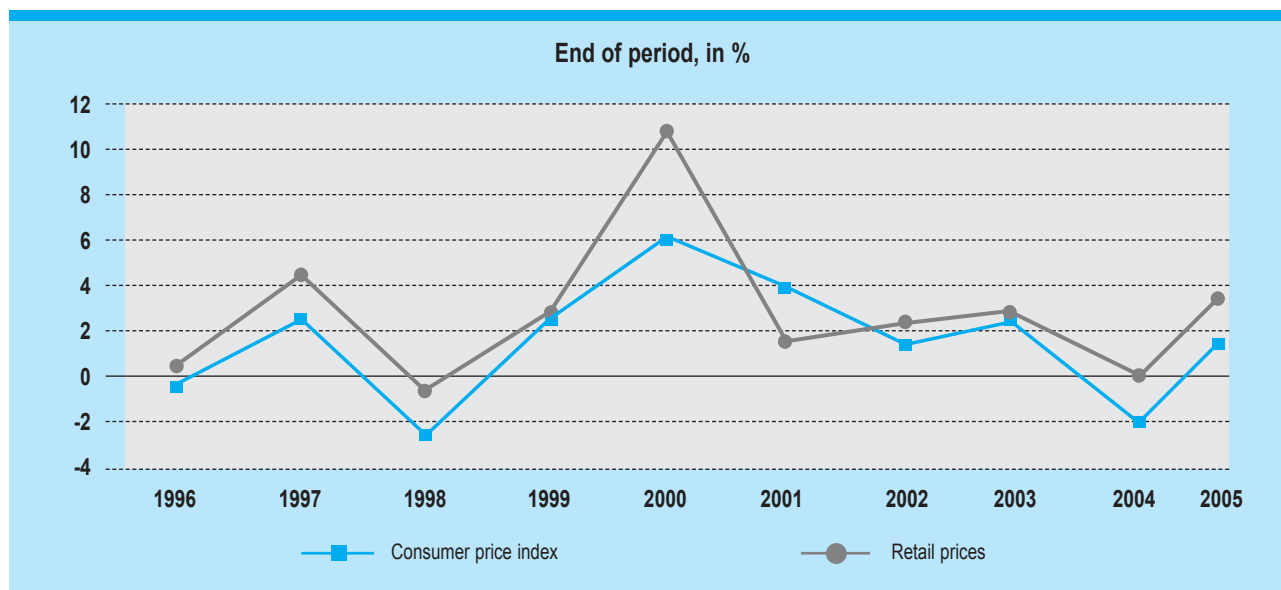
2) Previous data

INFLATION End of period, in %



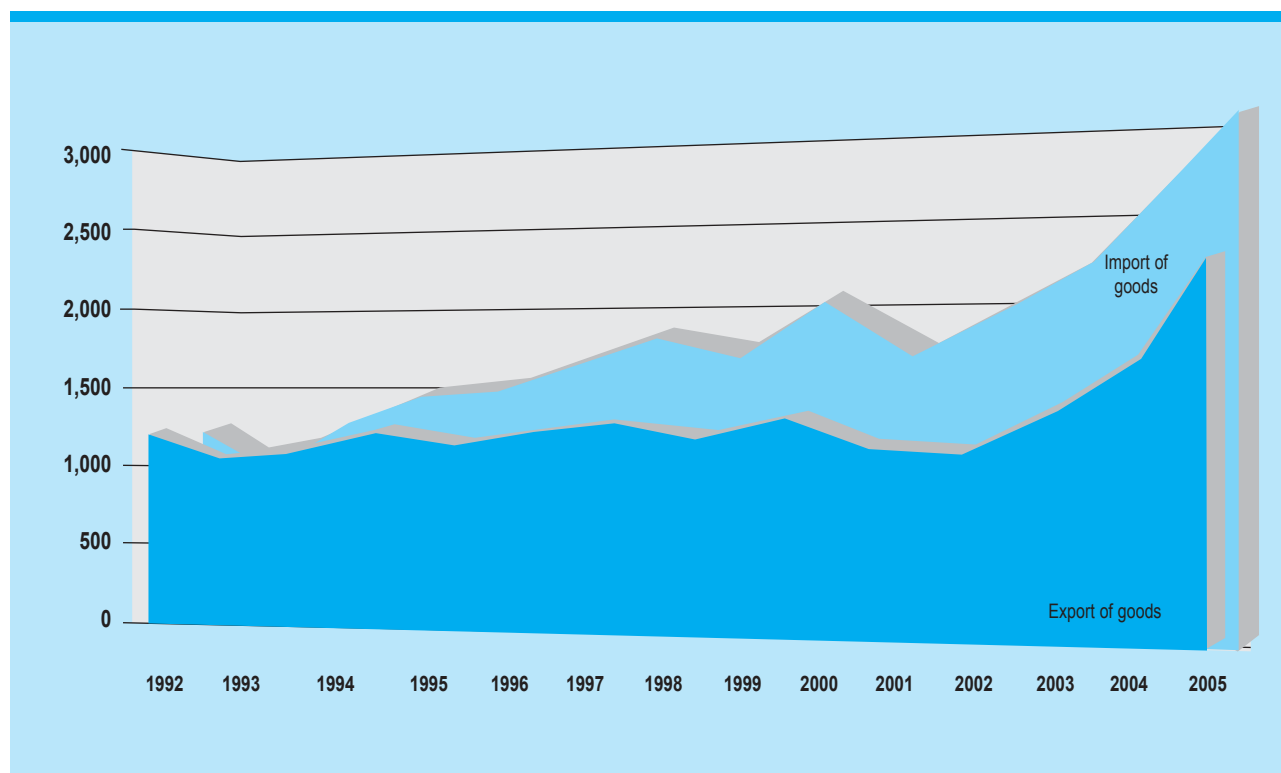
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Consumer price index	2.3	2.6	-0.1	-0.7	5.8	5.5	1.8	1.2	-0.4	0.5
Retail prices	3.0	4.4	0.8	-1.1	10.6	5.2	1.4	2.4	0.9	2.1

	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	450.6	719.1	-268.5	87.3	73.6	13.7	88.2	47.0	41.2
	Q2	585.1	967.5	-382.4	88.2	96.5	-8.3	141.7	67.8	73.9
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	122.9	206.3	-83.4	26.4	20.8	5.6	22.5	12.1	10.4
	II	147.9	213.9	-66.0	29.1	23.6	5.5	29.3	13.3	16.0
	III	179.8	298.9	-119.1	31.8	29.2	2.6	36.4	21.6	14.8
	IV	176.4	310.4	-134.0	29.2	28.0	1.2	41.2	19.8	21.4
	V	203.8	321.9	-118.1	29.1	35.6	-6.5	51.5	25.2	26.3
	VI	204.9	335.2	-130.3	29.9	32.9	-3.0	49.0	22.8	26.2

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	8.4	-1.9	52.7	40.7	12.0	60.1	61.8	-1.7	6.0	137.5	-131.5
6.5	11.3	-4.8	56.1	61.2	-5.1	97.1	89.2	7.9	6.4	92.2	-85.8
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	25.8	26.3	-0.5	2.0	50.6	-48.6
1.5	2.4	-0.9	19.8	14.4	5.4	24.7	25.7	-1.0	1.8	27.0	-25.2
2.9	5.1	-2.2	19.0	21.9	-2.9	35.1	29.5	5.6	2.2	27.1	-24.9
2.1	3.8	-1.7	17.3	24.9	-7.6	37.3	34.0	3.3	2.4	38.1	-35.7

LABOUR FORCE SURVEY

Methodological explanations

The Labour Force Survey (LFS) is the most voluminous research of the economic activity of the population and its demographic, educational and other characteristics. The goal of this research is to obtain data about the size, the structure and the characteristics of the active population according to the international standards. This Survey is conducted in accordance with the methodological recommendations of the International Labour Organization (ILO) and the recommendations of the European Statistical Bureau (Eurostat).

Starting from 2004, the LFS is conducted as an continuous activity throughout whole year, whereas calculations are made quarterly and annually. The sample used for this survey are 10,000 households from the whole territory of the country, that is 1.8% of total number of households in Macedonia.

Basic concepts and definitions

Working age population:

- according to the recommendations of International Labour Organization (ILO) comprises all persons aged 15 years and over.
- according to the recommendations of European Statistical Bureau (EUROSTAT) comprises all persons aged 15-64 years.

Economically active population consists of employed and unemployed persons (labour force). Following the recommendations of the ILO, category employed includes persons aged 15-79 years who:

- during the week of the report have worked for money (in cash or in kind) or for profit at least one hour;
- during the week of the report were temporary absent from work (because of illness; leaves; studies; break of the activity of the legal entity, etc.), but were formally employed; were helping on the family property or in the family enterprise without pay.

Economic status of the employed

Employees - persons who work in public enterprises, state institutions, mixed and collective legal entities or for a private employer;

Employers - persons who run their own legal entity or owners who work in their shops or owners of an agricultural land who employ other people;

Self employed - persons who work in their own legal entity, business, professional practice or who work on farm for the purpose of earning a profit and who do not employ any other person;

Unpaid family workers - persons who work without pay in a firm, a shop or on an agricultural land owned by a family member.

According to the ILO standards, unemployed are persons who meet the following three criteria:

Employed by sectors of activity - annual data

	2001	2002	2003	2004	2005
Total	599.308	561.341	545.108	522.995	545.254
Agriculture, hunting and forestry	149.163	133.581	119.951	87.608	106.179
Fishing	303	712	181	442	354
Minerals and stone mining	9.314	6.937	2.498	2.813	3.554
Manufacturing	149.223	132.405	131.307	116.300	119.953
Electricity, gas and water supply	16.508	14.769	15.176	15.784	17.035
Construction	35.620	32.806	35.874	36.493	35.326
Wholesale and retail trade	66.653	64.265	62.507	74.218	74.690
Hotels and restaurants	12.438	11.230	12.766	12.672	13.558
Transport, storage and communication	33.180	32.595	30.642	30.785	32.720
Financial intermediation	8.776	8.422	7.093	7.703	6.303
Real estate, renting and business activities	10.432	11.953	10.811	13.529	14.804
Public administration and defence; compulsory social security	33.937	32.956	34.744	39.700	38.301
Education	26.990	33.700	32.027	33.635	31.652
Health and social work	26.907	26.226	30.233	29.914	31.320
Other community, social and personal service activities	18.567	17.521	17.760	19.654	18.175
Private households with employees	-	319	-	156	414
Exterior organisations and bodies	1.296	945	1.537	1.589	916

- during the week of the report they did not work (according to the above mentioned definitions);
- searched actively for a job or took concrete activities to find a job;
- were prepared to accept work in the week of the report or in the week that followed.

Activity rate:

- participation of the labour force in the working age population over 15 years of age.

Employment rate:

- share of the number of employed in the working age population aged 15 years and over, according to the recommendations of the ILO.
- share of the number of employed in the working age population aged 15-64 years, according to the recommendations of the EUROSTAT.

Unemployment rate:

- share of the number of unemployed in the total labour force.

Employed by sectors of activity - quarterly data

	2004				2005				2006
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Total	519.594	541.308	532.210	498.867	507.397	552.797	564.880	555.937	559.702
Agriculture, hunting and forestry	76.125	106.716	100.528	67.184	76.307	125.840	135.561	87.431	103.137
Fishing	665	495	496	111		354	151	490	182
Minerals and stone mining	3.782	2.877	2.809	1.784	3.413	2.619	3.627	4.558	2.965
Manufacturing	114.383	114.142	116.849	119.705	124.969	120.636	112.500	121.706	127.747
Electricity, gas and water supply	13.977	16.562	16.627	15.970	16.331	13.932	17.405	20.472	17.120
Construction	35.745	35.882	38.620	35.726	33.924	37.401	36.625	33.353	42.523
Wholesale and retail trade	80.705	75.285	70.296	70.585	67.730	73.275	74.175	83.580	74.717
Hotels and restaurants	13.557	12.054	13.187	11.890	13.339	12.410	12.237	16.245	19.891
Transport, storage and communication	31.586	30.378	31.134	29.924	31.969	32.669	33.130	33.110	29.303
Financial intermediation	8.684	8.095	6.157	7.876	6.709	6.758	4.886	6.862	6.922
Real estate, renting and business activities	15.336	15.585	11.452	11.861	15.258	14.127	14.882	14.948	14.848
Public administration and defence; compulsory social security	39.114	37.317	39.198	43.172	38.261	35.786	38.378	40.777	38.233
Education	36.133	35.467	31.524	31.415	31.974	30.029	30.157	34.450	32.719
Health and social work	28.256	28.259	32.518	30.623	29.813	29.236	31.651	34.579	31.435
Other community, social and personal service activities	19.210	20.584	19.720	19.103	15.284	16.822	18.308	22.286	16.482
Private households with employees	105	225	146	147	795	261	299	300	397
Exterior organisations and bodies	2.229	1.384	948	1.795	1.323	642	908	790	1.081

Active population by educational level

Active population and participation rates

	Working age population	Active population (labour force)			participation rate	Employed rate	Unemployed rate
		total	employed	unemployed			
2001	1.554.420	862.504	599.308	263.196	55,5	38,6	30,5
2002	1.566.954	824.824	561.341	263.483	52,6	35,8	31,9
2003	1.579.450	860.976	545.108	315.868	54,5	34,5	36,7
2004	1.594.557	832.281	522.995	309.286	52,2	32,8	37,2
2005	1.607.997	869.187	545.253	323.934	54,1	33,9	37,3
2004 / QI	1.588.995	826.689	519.594	307.095	52,0	32,7	37,1
2004 / QII	1.592.821	842.816	541.308	301.508	52,9	34,0	35,8
2004 / QIII	1.595.886	854.620	532.210	322.410	53,6	33,3	37,7
2004 / QIV	1.600.526	804.998	498.867	306.131	50,3	31,2	38,0
2005 / QI	1.603.675	827.428	507.397	320.030	51,6	31,6	38,7
2005 / QII	1.606.833	883.522	552.797	330.724	55,0	34,4	37,4
2005 / QIII	1.609.071	889.725	564.880	324.845	55,3	35,1	36,5
2005 / QIV	1.605.336	876.074	555.938	320.136	54,6	34,6	36,5
2006 / Q1	1.615.584	877.798	559.702	318.096	54,3	34,6	36,2

	Active population		Employed		Unemployed	
	Q1 2005	Q1 2006	Q1 2005	Q1 2006	Q1 2005	Q1 2006
Total	827.428	877.798	507.398	559.702	320.031	318.096
Without education	7.124	9.318	3.524	3.266	3.601	6.052
Incomplete primary education	36.067	44.062	22.331	28.399	13.736	15.662
Primary education	199.598	236.491	102.390	135.862	97.208	100.629
3 year secondary education	117.684	116.496	63.854	61.258	53.829	55.239
4 year secondary education	339.433	343.591	210.328	228.793	129.106	114.798
Advanced education	41.754	34.325	34.761	28.893	6.993	5.432
Tertiary education	85.768	93.515	70.210	73.231	15.558	20.284
Total Males	500.867	538.686	308.968	343.363	191.898	195.322
Without education	3.753	5.013	1.884	1.760	1.868	3.252
Incomplete primary education	21.580	24.511	12.892	15.562	8.688	8.949
Primary education	132.238	159.443	70.570	93.501	61.668	65.941
3 year secondary education	81.358	79.897	46.090	42.379	35.269	37.518
4 year secondary education	196.074	201.386	123.549	134.467	72.525	66.920
Advanced education	22.542	21.435	18.472	17.861	4.069	3.574
Tertiary education	43.322	47.001	35.511	37.833	7.811	9.168
Total Females	326.562	339.112	198.429	216.337	128.132	122.775
Without education	3.372	4.306	1.639	1.506	1.733	2.800
Incomplete primary education	14.487	19.550	9.439	12.837	5.048	6.713
Primary education	67.360	77.048	31.820	42.361	35.540	34.687
3 year secondary education	36.325	36.599	17.765	18.878	18.560	17.721
4 year secondary education	143.360	142.205	86.779	94.326	56.581	47.879
Advanced education	19.212	12.890	16.288	11.032	2.923	1.858
Tertiary education	42.446	46.514	34.699	35.397	7.747	11.117

SHORT-TERM ECONOMIC TRENDS

JUNE 2006

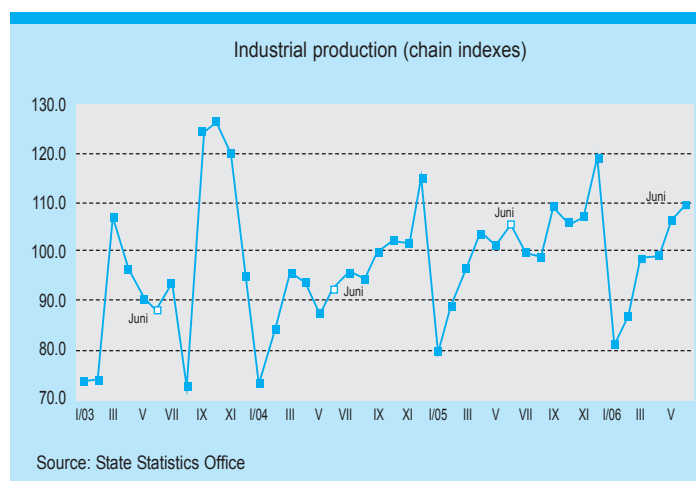
SUMMARY OF THE MOST IMPORTANT SHORT-TERM ECONOMIC DEVELOPMENTS IN JUNE 2006

- Industrial production increased by 2.8% on monthly basis, i.e. by 13.2% on annual basis;
- Costs of living dropped by 0.7% on monthly basis, thus the average inflation reached 3.1% on annual basis;
- Growth of export of goods in H1 in 2006 by 4.1% on annual basis, with simultaneous growth of export by 5.8%;
- Foreign trade deficit grew in the first six months by US\$ 52 million and it reached US\$ 651 million;
- External debt declined on monthly basis by US\$ 32 million, reaching a level of US\$ 2,128 million;
- Central government budget deficit amounted to Denar 462 million, while there was a surplus realized in the consolidated budget in the amount of Denar 790 million;
- Gross foreign exchange reserves at end-June 2006 reached US\$ 1.555 million and on monthly basis, they remained at the same level on monthly basis;
- At end-June 2006, number of registered unemployed persons was 324,695, which was by 8.7% lower in relation to the previous month, and on annual level, it dropped by 49,584 persons or by 13.3%.

1. REAL SECTOR

1.1. Industrial production

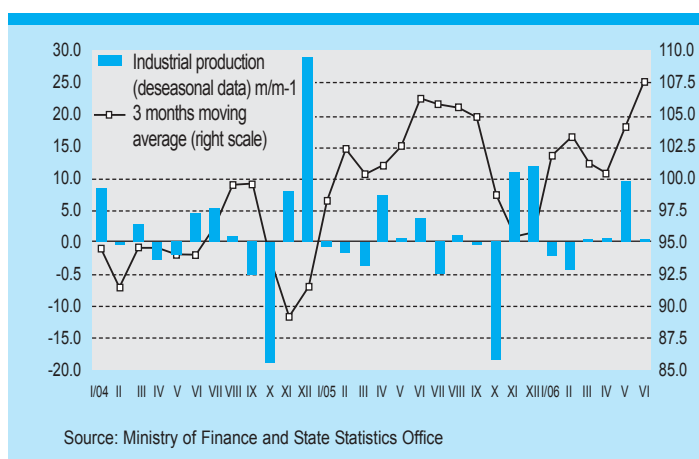
Similar to the previous period, upward trend of continuous monthly increase in the industrial production index, which commenced at the beginning of the year, continued in June 2006. Thus, following May increase by 7.6%, in June 2006, industrial production grew by 2.8% on monthly basis. At the same time, on annual level, industrial activity increased by 4.1% in relation to June 2005. Compared to the average production in 2003, industry grew by 13.2% in June 2006.



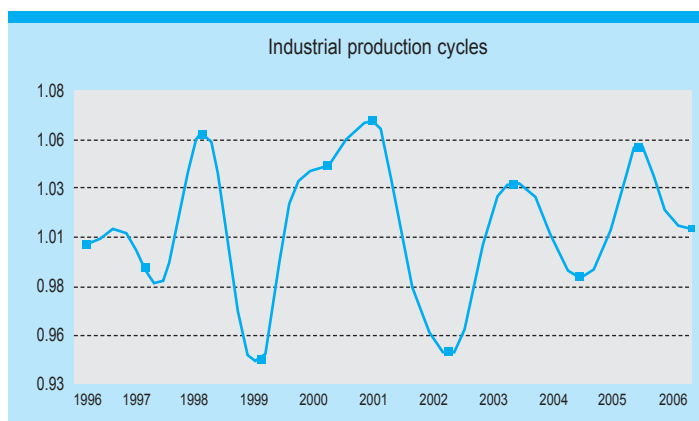
Analysis of the index of physical output of the industrial production on monthly basis points out to the conclusion that positive June results were due to the increase activity in many industrial branches, such as tobacco industry (increase by 20.2%), light textile industry (19.6%), publishing (9.8%), chemical industry (14.3%), as well as production of base metals (11.5%, initiated by the increased production in the steel industry). What is worth mentioning is the fact that increase of the production on monthly basis

was recorded in 17 out of 24 industrial branches. In June 2006, more significant negative trends were registered only in the mining (metal ore extraction), production of electric machines and devices (drop by 34.5%), and electricity supply (-8.5%).

At the same time, there was positive trend noted in the index of de-seasoned industrial production, which for a fourth month already showed positive, although minimal (except in May), results, this time by 0.1% on monthly basis. Such result points out to the existence of significant seasonal component in certain industrial branches, contributing to the June increase in the production. This group covers tobacco, textile and chemical industry.



Positive trends in the past several months contributed to increase in the industrial production index to the level of 1.1% in the first six months (compared to the same period last year), being an increase by 2 percentage points compared to the April index. Such results were far from the projections, envisaging an increase in the industrial production by 5% through-

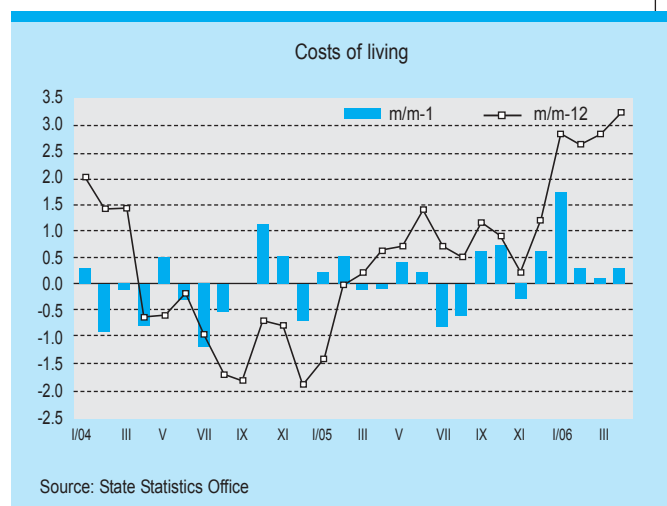


out 2006. Thus, to achieve the projections, it will be necessary to significantly accelerate the economic activity in the second half of the year. Hope for such development of the events are the data on the cycle of industrial production, showing that the industry has already overcome the negative part of the cycle, which in the next months, in particular the last quarter, will be followed by intensification of the activity.

1.2. Prices

Trend of modest increase of the costs of living on monthly basis present in the past five months was stopped by June decline in the costs of living by 0.7%. Thus, in H1 in 2006, average inflation rate reached the level of 3.1%, almost unchanged in relation to the previous month. Compared to June last year, costs of living increased by 3%.

On monthly basis, drop 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 June 2006, under the influence of the seasonal effects usually present in this period of the year, prices of vegetables dropped by even 11.1%, which combined with the drop of the refinery and retail prices of oil derivatives, led to reduction of the costs of living. In fact, on 29th May 2006, Energy Regulatory Commission adopted Decision on Reduction of Retail Prices and Refinery Prices of Oil Derivatives, according to the movements of the prices of crude oil and oil derivatives on the world markets. Therefore, retail prices of oil deriva-



1) In the period January-April 2006, cumulative index of industrial production was negative 0.9%

tives were reduced in average by 5.52%, i.e. by 3.69% respectively. Taking into account the change in the statistical recording of prices, reduction in May was included in the June inflation index. With respect to the other products, no significant changes were recorded regarding the price level.

On cumulative basis, in the period January - June 2006, average inflation rate reached the level of 3.1%, being the highest level in the past several years. 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). With respect to the rest of the groups of products, more significant increase was recorded in food and non-alcoholic beverages (1.8%), health services (1.2%) and transportation (9%), while the decline was registered only in clothes and footwear (-0.1%) and communications (-3%).

Within the CPI, in the period January - June 2006, increase was also noted at goods and services, being higher by 3.5%, i.e. 1.4% respectively.

Prices of producers of industrial products in June 2006 were lower by 1% on monthly basis, due to the reduced prices of the producers in the processing industry. Thereby, within this sector, highest decline was recorded at the prices of the producers of oil derivatives (by 8.3% pursuant to the decisions by the Energy Regulatory Commission) and of producers of furniture (by -0.2%). On cumulative basis, in H1 in 2006, prices of producers of industrial products were higher by 5.7%, as a result of the increased prices of the producers in the processing industry (6.5%). Thereby, highest increase was recorded at the prices of producers of oil derivatives (34.5%) and of tobacco products (20.1%).

Value of the consumer basket regarding food and beverages for a four-member family in June 2006, calculated on the basis of the retail prices, amounted

to Denar 10,395, which compared to the previous month, was lower by 2.1%.

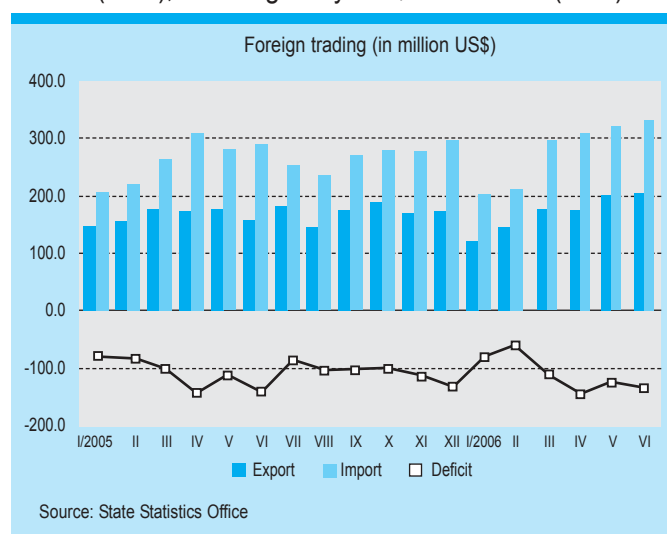
2. EXTERNAL SECTOR

2.1. Foreign Trade

Foreign trade in the Republic of Macedonia in June 2006 increased on monthly basis by 18.9% mainly due to the better results on the import side by 28.8% and the increased export activity by 13.5%. External debt reached the level of US\$ 130 million, accounting for an increase by US\$ 12.2 million on monthly basis.

Analyzed on annual level, there was 4% cumulative increase of the export of goods, expressed in US dollars, in H1 in 2006, compared to the same period in 2005. At the same time, increased import by 5.8% resulted in increase of the foreign trade deficit by US\$ 52 million in relation to the one in 2005 and it amounted to US\$ 651 million. Coverage of import with export amounted to 61.4% annually.

Export increase in H1 in 2006, in relation to the same period last year, was registered on metal ore and waste by US\$ 23.5 million (283.7%), oil by US\$ 19.5 million (31%), fruit and vegetables by US\$ 9.6 million (28%), beverages by US\$ 9.3 million (29%).



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

3) June index also covers the increase of refinery (in average by 0.56%) and retail prices of oil derivatives (reduction by 0.13%) carried out on 12th June. Since its influence was insignificant, it was not included in the analysis of the costs of living.

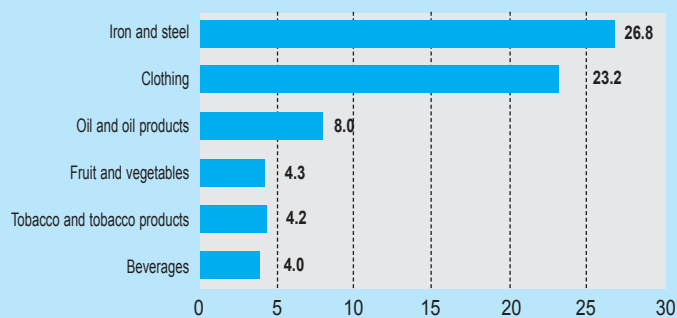
4) According to COICOP Classification (Classification of Individual Consumption by Purpose), tobacco products increased by 36.9% on cumulative basis.

On the other hand, export of iron and steel dropped by around US\$ 31 million or by 10%, export of cloths remained at the last-year level, while export of footwear declined by US\$ 3.3 million or by 13.2%.

Groups of products most exported in the first six months in 2006 were the following: iron and steel (US\$ 278 million), clothing (US\$ 240 million), oil and oil products (US\$ 82 million), fruit and vegetables (US\$ 44 million), tobacco and tobacco processed products (US\$ 44 million), beverages (US\$ 41 million). These six groups of products comprise 70.5% of the total export of the country.

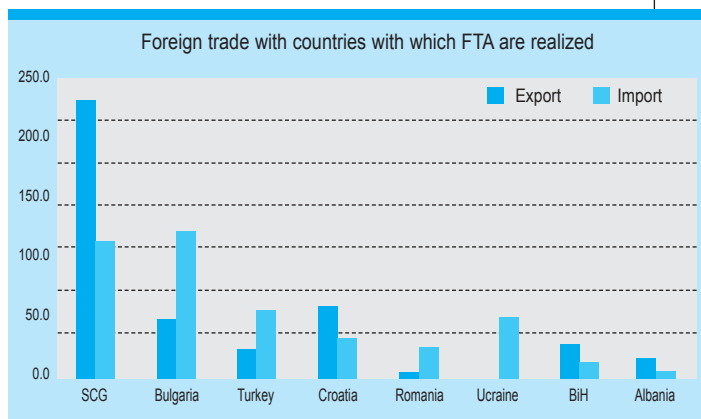
In the period January-June 2006, 55.6% of the total exported goods were placed on the European Union market, while 45% of the total goods imported in the Republic of Macedonia originated from the Union.

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



Source: State Statistics Office

Export to the European Union was higher by 5.1%, and the import by 4.6%. Serbia and Montenegro, Germany, Greece, Italy, Croatia and Bulgaria are our



biggest partners, the share of which in the export is 75.8%.

On the import side, (according to SITC), 15% out of the total imported goods accounted for oil and oil products, 9.6% for textile yarns, 8.5% for iron and steel, 5.9% for road vehicles, 2.7% for electricity, etc.

Around 26% 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 shows positive upward tendencies in the export in euros by EUR 39.1 million, i.e. 6.7%, and in the import by US\$ 26.9 million (11.7%). At the same time, import of goods from the euro market increased by EUR 153.5 million, i.e. by 19.3%, and the import from US\$ areas increased by US\$ 88.8 million or by 21.9%.

FOREIGN TRADE of the Republic of Macedonia
(by currency)

Export	I-VI 2005					I-VI 2006					absolute change in currency value	relative change in currency value (in %)
currency	000 t	amount of export in currency	average Denar exch. rate in relation to currencies	export in Denar	structure in %	000 t	amount of export in currency	average Denar exch. rate in relation to currencies	export in Denar	structure in %		
EUR	919	585.515.611	61.3880	35,943,632,331	75.9	1.050	624.635.349	61.1996	38,227,433,489	74.2	39,119,738	6.7
USD	342	230.193.313	47.7476	10,991,178,211	23.2	351	257,065,378	49.8504	12,814,811,921	24.9	26,872,065	11.7
EUR+USD	1.261			46,934,810,542	99.1	1.401			51,042,245,410	99.1		
Deficit	1.265			47,362,800,629	100.0	1.404			51,514,764,304	100.0		8.8

Source: State Statistics Office and NBRM

In the analyzed period, the export of goods by the Republic of Macedonia, expressed in denar equivalent, noted higher increase than the one expressed in US dollars (due to US\$ appreciation on annual level of around 4.4%) by 8.8%.

2.2. External Debt

External debt based on long-term credits and loans, at end-June this year, amounted to US\$ 2.128 million and, in relation to May, it declined by US\$ 32 million. Monthly decline of the debt, at insignificantly greater utilization of foreign credits from the debt principal repayment, was mostly due to the exchange rate differences.

Multilateral creditors account for more than half of the structure of the external debt by creditors (51.7%) largely IDA, IBRD, EIB and EU, meaning no significant changes. Bilateral creditors comprise 10.0%, while the private creditors account for 38.2%, 29.4% of which are on the basis of eurobonds.

During June, funds were disbursed on the basis of long-term credits and loans in the amount of US\$ 11.6 million. US\$ 6.7 million were disbursed from multilateral creditors, mostly from EBRD (US\$ 3.4 million). The remaining funds were disbursed from bilateral creditors (US\$ 1.0 million) and private creditors (US\$ 3.9 million). In the first half of this year, funds in the amount of US\$ 132.1 million were disbursed, US\$ 92.5 million of which from private creditors.

During June, new credits were concluded in the amount of US\$ 66.2 million, which is the highest

amount since beginning of the year, of which 77,7% refer to public enterprises and the remaining part is borrowing of the private sector. For the first six months of this year, US\$ 217.8 million were signed, US\$ 160.5 million of which with private banks, financial institutions, as well as non-financial private sector. New credits are expected to be used in the next period.

Regular and timely servicing of the liabilities towards abroad continued in June as well, whereby US\$ 14.5 million was repaid, US\$ 10.7 million out of which as principal. Out of the total liabilities towards abroad, US\$ 6.6 million were paid to multilateral creditors (EBRD, IBRD), and the remaining part towards private banks, financial institutions and non-financial private sector. Cumulatively, for the first six months of this year, US\$ 318.1 million were serviced, US\$ 288.3 million of which as principal. Out of the total liabilities, US\$ 265.5 million were paid to private creditors, US\$ 227,5 million of which towards the London Club.

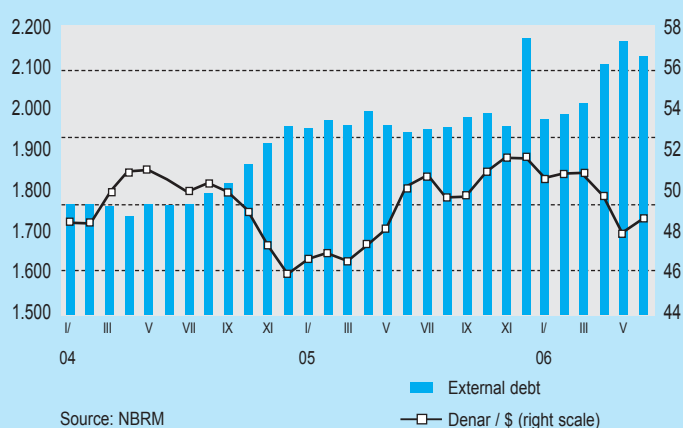
According to the repayment schedule of the National Bank of the Republic of Macedonia, in the period July - December 2006, liabilities towards abroad in the amount of US\$ 153.2 million fall due, US\$ 108.7 million out of which as principal.

Short-term debt at end-June 2006 amounted to US\$ 110.5 million and for the first time since 2001, in addition to the private sector, the public sector also appears as debtor. Out of the Total short-term debt, US\$ 109.5 million is a debt on the basis of financial credits, and US\$ 1.0 million on the basis of commercial credits in the private sector. During June, short-term financial credits were used in the amount of US\$ 6.5 million, and liabilities towards abroad in the amount of US\$ 0.2 million were repaid. During the first six months of the year, US\$ 40.5 million was disbursed, and liabilities were paid in the amount of US\$ 31.1 million, of which US\$ 29.3 million as principal.

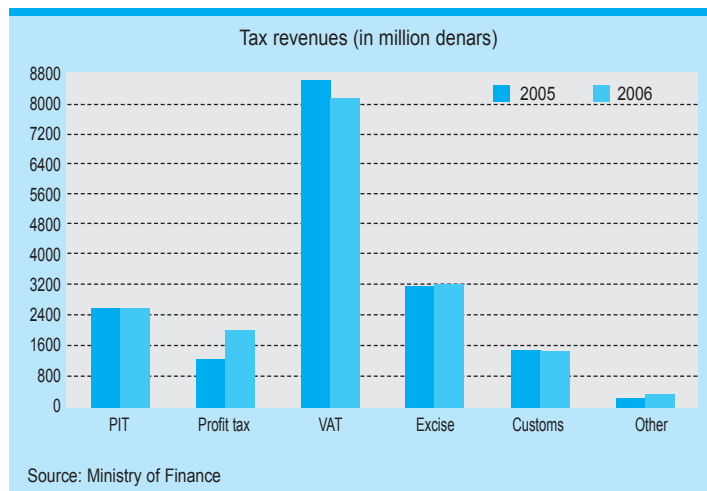
3. FISCAL SECTOR

In the first half of 2006, total central government budget revenues reached the amount of Denar 29,614 million, which was 7.6% increase in relation to the same period last year. Higher performance of the

Movements of external debt and US\$ ex. rate



total revenues was, above all, due to the increase of the all tax revenues, in particular excise revenues. In the first six months of 2006, tax revenues reached the



amount of Denar 27,454 million, which was by 5.8% higher in relation to the realized tax revenues in same period last year.

In the first half of 2006, share of VAT in total tax revenues reached 45.8%, i.e. together with excise, it reached 64.3% in the total tax revenues. Thereby, on the basis of VAT, total of Denar 12,570 million was collected, being a slight increase by 0.5% (or Denar 58 million more) compared to the same period in 2005. Thereby, the procedure of deferred payment of VAT for goods for inward processing started to apply in 2006, according to the new Customs Law from 1st January 2006. Excise revenues in this period were realized in the amount of Denar 5,080 million, which was almost the same amount (0.3% or Denar 13 million lower) in relation to the same period last year. During this period, and taking into account the foreign trade, customs revenues slightly increased on annual basis (0.9%). Revenues from import fees in this period were realised in the amount of Denar 2,487 million.

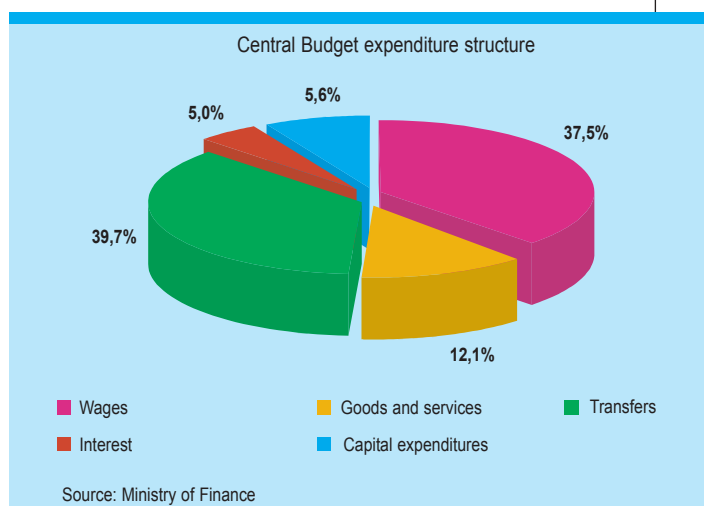
Regarding direct taxes, in H1 in 2006, PIT revenues reached the amount of Denar 4,031 million, accounting for 3.7% increase on annual basis. Thereby, profit tax revenues reached a significant amount of Denar 2,639 million, i.e. Denar 959 million or 57.1% more in relation to last year. Such performance accounted for 82.9% in the total projected PT revenues for 2006.

On the expenditure side, in the first six months of 2006, total central budget expenditures amounted to Denar 29,268 million, or 3.9% more in relation to the same period last year. In nominal terms, central government budget expenditures were by Denar 1,102 million higher. Expenditures for salaries and allowances accounted amount to Denar 11,051 million (increase by 2.2% on annual basis), and these expenditures participated with 37.8% in the total budget expenditures. Expenditures for goods and services reached the amount of Denar 3,659 million, i.e. 2.8% more in relation to the same period last year.

With regard to transfers (share of 37.8% in the total central budget expenditures), Denar 11,052 million was spent in this period, i.e. 7.4% more than in 2005. Transfers to the Pension and Disability Insurance Fund were in the amount of Denar 4,157 million (by Denar 4.5% higher on annual basis).

In this period, Denar 2,152 million was spent as capital expenditures, and these expenditures underperformed by 10.3% (Denar 247 million) compared to the capital expenditures in the H1 in 2005. During the same period, funds were spent in the amount of Denar 1,354 million on the basis of interest (increase by 22.3% on annual basis).

In the first six months of 2006, such trends in the fiscal sphere led to central government budget surplus in the amount of Denar 346 million, and consolidated budget surplus in the amount of Denar 373 million.



4. MONETARY SECTOR

In June 2006, monetary policy was implemented in conditions of relatively expansive fiscal policy (central government budget realized deficit in the amount of Denar 462 million), as well as favourable movements on the foreign exchange market, whereby NBRM carried out net purchase of foreign currency.

In this period, total liquid assets of the banks dropped by 14.8% compared to the previous month. Autonomous factors in June registered divergent movements. NBRM transactions on the foreign currency market were aimed at liquidity creation, whereby net purchase of foreign currency asset was realized, mainly on the basis of the high foreign exchange inflows in the exchange offices. At the same time, additional liquidity was created through the monetary policy instruments. CB bills were lower by Denar 811 million on monthly basis, while treasury bills for monetary purposes dropped by Denar 324 million. Average interest rate on CB bills remained unchanged in relation to the last month and was 5.8%, while average monthly weighted interest rates on treasury bills with 3-, 6- and 12-month maturity were 6.53%, 6.92% and 8.66%.

Liquidity was mopped up by Denar deposits of government at the NBRM, which were higher by Denar 3,313 million on monthly basis. Increase of the balance of the Denar government account at the NBRM was due to the realization of the non-tax revenues in the Budget on the basis of the sale of government shares by the Pension and Disability Insurance Fund.

At end-June 2005, primary money was by 1.8% lower on monthly basis, mainly as a result of the reduction of liquidity of the banking sector, i.e. funds of the banks on the giro accounts. At the same time, ready money in circulation grew by 5%, and cash in vaults increased by 4.8%. Such trends determined 4% growth of M1 monetary aggregate on monthly basis, when in addition to ready money in circulation, transaction deposits also had influence, increasing by 3.2%. Broader monetary aggregates M2 and M4 dropped monthly identically by 0.3% and 0.1% respectively, reflecting the decline of short- and long-term deposits at the banks. Annually, monetary aggregates M2 and M4 grew by 12.8% and 13% respectively.

In June 2006, total deposit potential of the commercial banks increased by 1.5% on monthly basis. From the point of view of the currency structure, decline was determined by the drop of Denar deposits by 8.2%, when foreign currency deposits grew by 3%. At the same time, analysis of the deposit potential on the basis of maturity showed monthly decline of short-term deposits, while long-term deposits grew by 3.9%. Credits to the private sector in June 2006 increased by 4.2% on monthly basis, and such increase was identically significant at both the Denar credits and the foreign exchange credits. Dominant contribution to the increase of the credits was provided by the long-term Denar credits aimed at the household sector and the long-term foreign exchange credits allocated to the corporate sector.

Total credits by the banks to the private sector in June 2006 grew monthly by 4.2%, reflecting the enhanced crediting in both domestic currency by 4.2%. In June, banks were aimed at crediting the

Monetary aggregate and their components	III.05	VI.05	IX.05	XII.05	III.06	VI.06
Currency in circulation	13207	13390	13490	14439	13700	14580
Deposit money	13741	13752	14416	15224	14262	16188
M1	26948	27142	27906	29663	27962	30768
Short-term deposits-denar	23336	26335	20732	24364	27889	28062
Short-term deposits - foreign currency	42495	45462	48142	49107	50756	52815
M2	92779	98939	96780	103134	106607	111645
Non-monetary deposit	4644	4902	4871	5040	5305	5688
Denars	3111	3093	3130	3057	3123	3255
Foreign currency	1533	1809	1741	1983	2182	2433
M4	97423	103841	101651	108174	111912	117333

Source: National Bank of the Republic of Macedonia

Deposit potential and credits to private sector	(in mill. denars)	monthly changes	annual changes
Deposit potential	86565	-1.43	12.86
Denar	31317	-8.26	6.42
In foreign currency	55248	2.91	16.88
Short-term	80877	-1.78	12.65
Long-term	5688	3.85	16.03
Credits to private sector	79563	4.18	26.28
Denar	58993	4.19	21.47
In foreign currency	20570	4.16	42.45

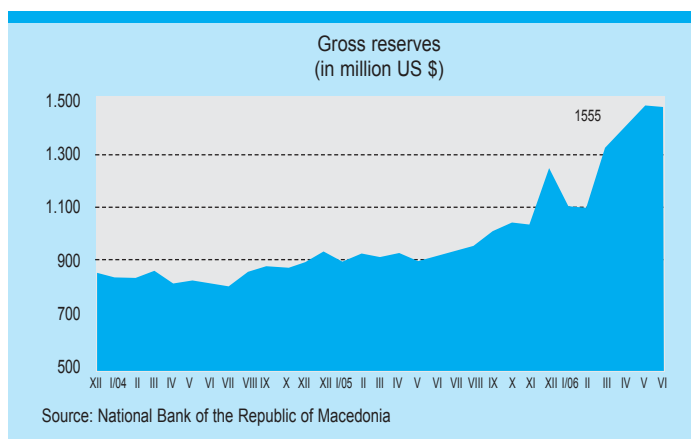
Source: National Bank of the Republic of Macedonia

enterprises (67.3% of the total monthly increase). Credits to enterprises grew by 4.4% 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 June. In fact, average weighted interest rates on Denar credits in June 2006 amounted to 11.3%, and compared to the previous month, it was an insignificant decline by 0.2 percentage points. At the same time, interest rates on the foreign currency credits amounted to 8%, being at same level as in the previous month. Average interest on credit balance on Denar deposits in June 2006 increased by 0.1 percentage points, reaching the level of 4.3%, while interest rate on foreign currency deposits remained at the same level as in the previous month (1.5%).

4.1. Gross foreign exchange reserves

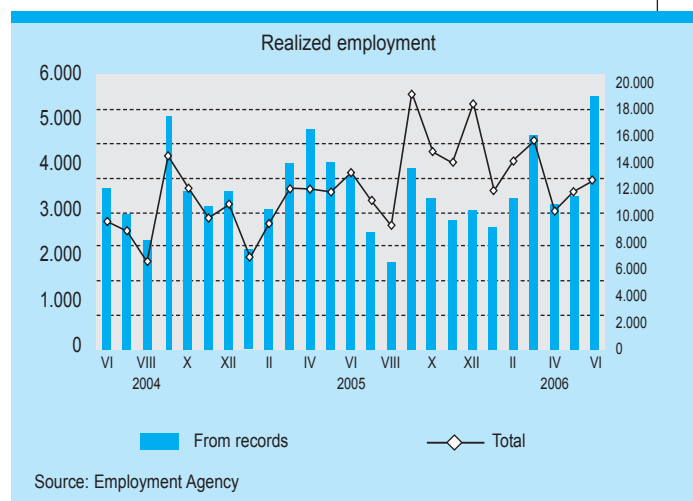
In June 2006, interventions by NBRM on the foreign exchange market were aimed at creation of primary money, whereby this month NBRM sold US\$ 600,000 and redeemed US\$ 43.2 million, and the net effect therefrom was US\$ 42.6 million. Such developments on the foreign exchange market, repayments to creditors, as well as the exchange rate differences caused for the gross foreign exchange reserves at end-June 2006 to reach US\$ 1,555 million, and in relation to end-May 2006, they were at the same level.



5. LABOUR MARKET

5.1. Employment

In June 2006, Employment Agency of the Republic of Macedonia registered 12,034 new employments, being by 6.4% less in relation to June last year. Thereby, employment of persons from the records of the Employment Agency, i.e. from the registered unemployed persons, participated with 27% in the total employment in June 2006, while the remaining employment was directly from the previously inactive population or persons who changed job positions.



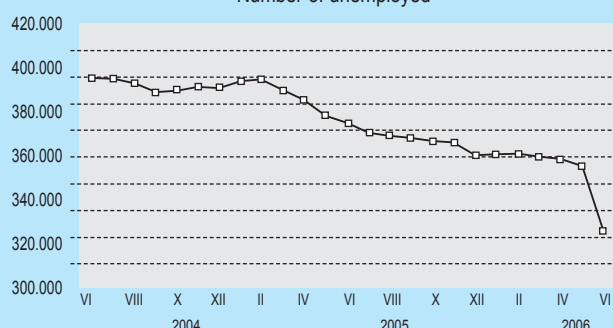
5.2. Unemployment

In June 2006, there were 324,695 persons registered as unemployed, which was by 8.7% less in relation to the previous month. The decline by 30,000 was mainly due to the recent manner of recording the unemployed persons in the Employment Agency, where they are recorded as passive job seekers, i.e. they applied only for the purpose of being eligible for health insurance. Annually, number of registered unemployed persons dropped by 49,584 persons or by 13.2%. This drop was due to the enhanced controls during registration and recording of unemployed persons.

Number of persons in registered in the Employment Agency in June 2006 was 8,687 persons, most of which were persons whose employment was terminated (42.3%), 18.6% were persons who registered

in the unemployment records for the first time, 27.5% were inflow from previously deleted persons from the records, and the remaining were persons registered on other bases (moved from 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 (39,468 persons), 8.5% were employed, 11.1 were persons deleted from the records due to non-registering and 80.3% were deleted from the registry on other bases, i.e. they belong to the group of passive job seekers.

Number of unemployed



Source: Employment Agency

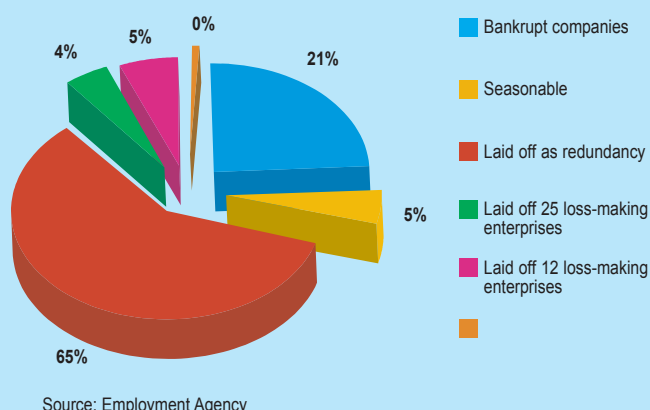
In June 2006, with respect to the registered unemployed persons, 48.2% were unskilled and semi-qualified, 28% were with completed secondary vocational education, 17.3% were qualified and highly skilled, and 6.5% were with completed community college and university. According to the sex structure, men participate with 56.8% in the total unemployment.

5.3. Beneficiaries of unemployment benefit and right to health insurance

Number of beneficiaries of pecuniary unemployment allowance in June 2006 was 36,184 persons, i.e. 11.1 of the registered unemployed persons. In relation to the same period last year, the number of beneficiaries of pecuniary allowance declined by 17.0%.

Out of the total number of registered unemployed persons, 74.3% used free health insurance from the Employment Agency in June 2006. On annual basis, the number of health insurance beneficiaries declined

Beneficiaries of pecuniary unemployment allowance (structure)



Source: Employment Agency

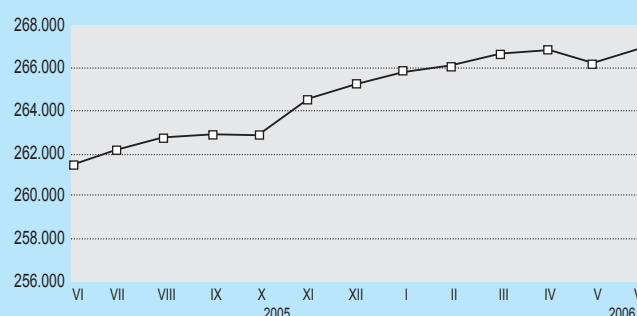
by 1.7%. Thereby, even 85% of these persons exercised the right to free insurance through the Agency due to the fact that they did not have any other basis for insurance, increasing the initiative for the persons to register as unemployed (for instance, those who work in the grey economy or are actually economically inactive).

5.4. Beneficiaries of Pensions and Welfare

According to the last available data from the PDF, in June 2006, 266,842 pensioners were registered, which compared to May was an increase by 0.2% or by 600 persons. Observed by structure, most of the pensions were old-age pensions - 54.1%, followed by survivors pensions - 27.3% and disability pensions - 18.6%.

Pensioners from the first group (up to Denar 11.710) accounted for 88.2% in the total number of these beneficiaries, while the one from the second group (over Denar 11.710) accounted for 11.8%. On annual basis, this number increased by 2.2% per-

Total number of pensioners (by months)



Source: Pension and Disability Insurance Fund of Macedonia

sons, i.e. by 5,837. This month, Denar 1,961 million was spent for payment of pensions.

Average pension in June 2006 amounted to Denar 7,518, 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 June 2006 was 55.4%.

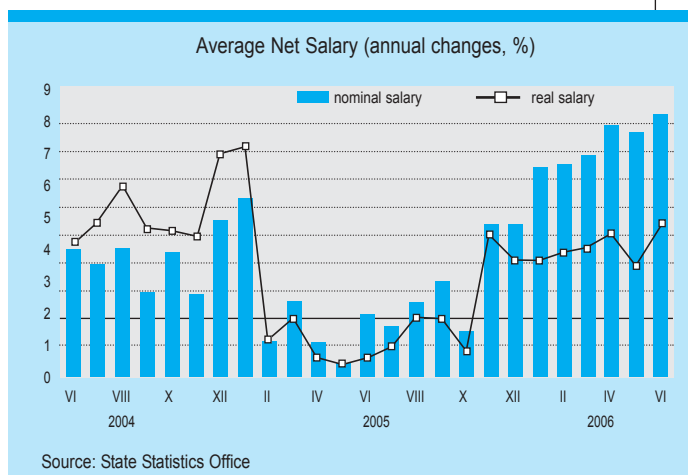
5.5. Average Net Salary

In June 2006, average paid monthly net salary per employee amounted to Denar 13,557. Compared to the previous month, this was a nominal increase by 0.1% and an increase in real terms by 0.8%. The highest monthly increase of the average paid net salary by 36.7% in June 2006 was registered in the activity named "Production of rubber and plastic mass products".

Regarding the level of salaries, they were the highest in the sector "financial intermediation" (Denar 26,470), while the lowest salary was paid in "civil

engineering" (Denar 10,018). On annual level, the nominal and real average salary grew by 7.2%, i.e. by 4% respectively.

The percentage of employees in Macedonia receiving belated salaries was at the same level as in the previous month. In fact, in June 2006, only 13.9% of the workers in the Republic of Macedonia did not receive salary.



EXTERNAL DEBT

External debt based on long-term credits and loans, at end-June this year, amounted to US\$ 2.128 million and, in relation to May, it declined by US\$ 32 million. Monthly decline of the debt, at insignificantly greater utilization of foreign credits from the debt principal repayment, was mostly due to the exchange rate differences.

Multilateral creditors account for more than half of the structure of the external debt by creditors (51.7%) largely IDA, IBRD, EIB and EU, meaning no significant changes. Bilateral creditors comprise 10.0%, while the private creditors account for 38.2%, 29.4% of which are on the basis of eurobonds.

During June, funds were disbursed on the basis of long-term credits and loans in the amount of US\$ 11.6 million. US\$ 6.7 million were disbursed from multilateral creditors, mostly from EBRD (US\$ 3.4 million). The remaining funds were disbursed from bilateral creditors (US\$ 1.0 million) and private creditors (US\$ 3.9 million). In the first half of this year, funds in the amount of US\$ 132.1 million were disbursed, US\$ 92.5 million of which from private creditors.

During June, new credits were concluded in the amount of US\$ 66.2 million, which is the highest amount since beginning of the year, of which 77,7% refer to public enterprises and the remaining part is borrowing of the private sector. For the first

six months of this year, US\$ 217.8 million were signed, US\$ 160.5 million of which with private banks, financial institutions, as well as non-financial private sector. New credits are expected to be used in the next period.

Regular and timely servicing of the liabilities towards abroad continued in June as well, whereby US\$ 14.5 million was repaid, US\$ 10.7 million out of which as principal. Out of the total liabilities towards abroad, US\$ 6.6 million were paid to multilateral creditors (EBRD, IBRD), and the remaining part towards private banks, financial institutions and non-financial private sector. Cumulatively, for the first six months of this year, US\$ 318.1 million were serviced, US\$ 288.3 million of which as principal. Out of the total liabilities, US\$ 265.5 million were paid to private creditors, US\$ 227,5 million of which towards the London Club.

According to the repayment schedule of the National Bank of the Republic of Macedonia, in the period July - December 2006, liabilities towards abroad in the amount of US\$ 153.2 million fall due, US\$ 108.7 million out of which as principal.

Short-term debt at end-June 2006 amounted to US\$ 110.5 million and for the first time since 2001, in addition to the private sector, the public sector also appears as debtor. Out of the Total short-term debt, US\$ 109.5 million is a debt on the

EXTERNAL DEBT OF THE REPUBLIC OF MACEDONIA ¹

(In million of US\$)

	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004	31.12.2005	31.01.2006	28.02.2006	31.03.2006	30.04.2006	31.05.2006	30.06.2006
Official creditors	1.052	973	1.034	1.193	1.314	1.257	1.263	1.251	1.265	1.303	1.333	1.313
Multilateral creditors	720	689	757	922	1.062	1.052	1.066	1.057	1.068	1.096	1.117	1.101
IMF	82	71	67	68	63	62	63	62	63	63	62	60
IBRD	123	124	145	181	223	248	250	246	249	255	259	255
IFC	57	33	18	13	9	6	6	6	6	5	5	5
IDA	250	255	296	358	389	362	366	364	366	374	379	377
EIB	69	75	102	116	148	140	143	145	146	149	152	148
EUROFIMA	17	14	12	8	8	7	7	7	7	8	8	8
CEDB	7	6	15	17	23	20	20	20	20	23	24	23
EBRD	74	62	32	40	65	87	88	87	89	92	97	98
EU	37	44	65	112	122	106	109	107	109	113	116	113
IFAD	3	4	5	7	11	13	13	13	13	14	14	14
EAR	1	1	1	1	1	0	0	0	0	0	0	0
Bilateral creditors	332	284	277	271,26	252	205	197	194	197	207	216	212
Commercial creditors	443	456	543	605	694	924	715	734	747	806	828	815
London club	253	262	254	243,3	233	222	0	0	0	0	0	0
Eurobond	0	0	0	0	0	177	181	178	181	188	193	188
Others	191	194	289	362	461	525	534	556	566	618	635	627
Banks and financ. institu.	136	131	205	202,25	238	265	262	258	261	288	293	290
Enterprises	55	63	85	159,68	223	260	272	298	305	330	342	337
TOTAL	1.495	1.429	1.577	1.799	2.008	2.181	1.978	1.985	2.012	2.109	2.161	2.128

Source: NBRM

1) Long - term and medium debt

basis of financial credits, and US\$ 1.0 million on the basis of commercial credits in the private sector. During June, short-term financial credits were used in the amount of US\$ 6.5 million, and liabilities towards abroad in the amount of US\$ 0.2

million were repaid. During the first six months of the year, US\$ 40.5 million was disbursed, and liabilities were paid in the amount of US\$ 31.1 million, of which US\$ 29.3 million as principal.

STOCK OF SHORT-TERM DEBT BY YEARS AND TYPES OF CREDITS

in 000 US \$

Type of credit	1999	2000	2001	2002	2003	2004	2005	30.06.06
Comercial credits	1.248	2.149	1.863	1.853	848	112	1.390	1.030
Financial credits	44.674	30.364	58.538	61.235	41.018	71.779	92.063	109.488
Short-term credits for liquidity	6.441	6.108	5.001	472	0	0	0	0
Credits for liquidity	28	14.218	0	0	0	0	0	0
Others	3.061	0	0	0	0	0	0	0
Total	55.452	52.839	65.402	63.560	41.866	71.891	93.453	110.518

Source: National Bank of the Republic of Macedonia

TOTAL EXTERNAL DEBT PER DEBTORS *

in million US \$

	2000	2001	2002	2003	2004	2005	31.01.06	28.02.06	31.03.06	30.04.06	31.05.06	30.06.06
Total external debt	1.664	1.696	1.574	1.473	1.529	1.928	1.717	1.748	1.735	1.763	1.265	2.238
Public sector	1.445	1.398	1.268	1.179	1.179	1.441	1.227	1.239	1.227	1.215	1.550	1.531
Government	1.154	1.192	1.089	1.006	993	1.245	1.039	1.047	1.038	1.030	1.317	1.298
Government (Govern. liabilities)	1.101	1.144	1.050	973	962	1.208	1.002	1.009	1.001	944	1.268	1.251
Road fund	53	48	39	33	31	37	37	38	36	36	49	47
Health fund	0	0	0	0	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0	0	0	0	0
NBRM	103	80	65	55	46	53	52	53	52	50	62	60
Public enterprises	189	125	114	119	139	143	136	139	137	135	171	173
Private sector	218	298	307	294	350	487	491	509	509	549	715	707
Banks	89	99	106	71	54	103	103	102	99	101	130	129
Enterprises	129	199	201	223	296	384	388	407	409	447	585	578

Source: National Bank of the Republic of Macedonia

* Short and log - term debt

EXTERNAL DEBT - PER CREDITORS

in million US \$

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total (Medium and long-term debt)	1.123	1.141	1.380	1.446	1.495	1.429	1.577	1.798	2.008	2.128
Multilateral creditors	468	490	687	702	720	689	757	922	1.062	1.052
IMF	80	103	114	102	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	69	75	102	116	148	140
EBRD	69	83	90	72	74	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	122	106
IFAD			1	2	3	4	6	8	11	13
Bilateral creditors	402	377	289	319	331	284	277	271	252	205
Private creditors	253	274	404	425	443	456	543	605	693	924
Commercial banks	229	241	243	245	253	262	254	243	233	222
Others	24	33	161	179	191	194	289	362	460	525
Total (without IMF)	1.043	1.038	1.266	1.344	1.413	1.358	1.510	1.756	1.936	2.066
Short-term debt			60	55	52	65	64	42	72	93

Source: National Bank of the Republic of Macedonia

PAYED LIABILITY (by creditors for long-term loans)

(in million US \$ at payment day)

	2000			2001			2002			2003			2004			2005			01.01. - 30.06.2006		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
Official creditors		43,94	120,66	110,58	44,64	155,22	117,16	35,82	152,98	106,46	33,84	140,30	101,67	28,95	130,62	91,70	30,99	122,69	36,13	16,48	52,61
Multilateral	49,14	29,30	78,44	65,99	27,37	93,36	82,35	22,61	104,96	61,96	20,95	82,91	55,04	20,54	75,58	50,45	23,11	73,56	20,65	12,96	33,61
IMF	19,34	2,96	22,30	7,62	2,03	9,65	8,84	1,16	10,00	21,86	0,83	22,69	20,29	0,93	21,22	10,67	1,34	12,01	4,41	1,06	5,48
IBRD	3,46	6,90	10,36	3,87	7,84	11,71	5,82	7,20	13,02	8,04	6,68	14,72	10,71	6,04	16,75	11,11	6,87	17,98	5,68	4,23	9,91
IFC	5,58	7,23	12,81	26,82	3,72	30,54	20,42	1,69	22,11	8,06	1,04	9,10	5,43	0,56	5,99	2,80	0,40	3,20	1,13	0,17	1,30
IDA	0,00	1,70	1,70	0,00	1,87	1,87	0,00	2,05	2,05	0,12	2,43	2,55	0,65	2,85	3,50	2,36	2,85	5,21	1,73	1,32	3,06
EIB	2,60	3,42	6,02	2,79	3,57	6,36	3,03	3,79	6,82	6,33	4,62	10,95	8,85	4,78	13,63	9,11	5,09	14,20	4,58	2,61	7,19
EUROFIMA	1,04	0,67	1,17	4,20	0,71	4,91	4,42	0,51	4,93	5,44	0,76	6,20	0,00	0,43	0,43	0,00	0,41	0,41	0,00	0,06	0,06
Council of Europ. Develop. Bank	1,15	0,09	1,24	0,96	0,24	1,20	0,98	0,36	1,34	0,00	0,57	0,57	0,00	0,50	0,50	0,15	0,58	0,73	0,00	0,33	0,33
EBRD	15,43	5,02	20,45	19,17	5,44	24,61	28,05	3,90	31,95	11,17	1,84	13,01	8,19	2,00	10,19	13,73	3,05	16,78	3,11	1,85	4,96
EU	0,54	1,28	1,83	0,00	1,91	1,91	0,00	1,92	1,92	0,00	2,14	2,14	0,00	2,38	2,38	0,00	2,43	2,43	0,00	1,28	1,28
IFAD	0,00	0,01	0,01	0,00	0,03	0,03	0,00	0,03	0,03	0,00	0,04	0,04	0,00	0,06	0,06	0,00	0,08	0,08	0,00	0,05	0,05
EAR	0,00	0,00	0,00	0,56	0,00	0,56	0,79	0,00	0,79	0,93	0,00	0,93	0,92	0,00	0,92	0,51	0,00	0,51	0,00	0,00	0,00
Bilateral	27,58	14,64	42,22	44,59	17,27	61,86	34,81	13,20	48,01	44,49	12,89	57,38	46,63	8,41	55,04	41,25	7,88	49,13	15,48	3,52	19,00
Commercial creditors	46,85	19,81	66,66	34,49	16,13	50,62	67,13	15,17	82,30	92,15	17,24	109,39	97,84	18,43	116,27	87,72	23,94	111,66	252,13	13,33	265,47
London club	0,00	9,41	9,41	0,00	9,79	9,79	7,85	9,92	17,77	10,46	6,36	16,82	10,46	4,84	15,30	10,46	7,38	17,84	222,38	5,16	227,54
Others	46,85	10,40	57,24	34,49	6,34	40,83	59,28	5,26	64,54	81,69	10,88	92,57	87,37	13,59	100,96	77,26	16,56	93,82	29,76	8,17	37,93
Banks and financial institution	39,42	7,83	47,25	27,34	4,72	32,06	47,06	4,35	51,41	59,55	9,46	69,01	63,57	9,23	72,80	48,71	11,33	60,04	18,91	5,15	24,06
Nonfinancial private sector	7,43	2,57	9,99	7,15	1,62	8,77	12,22	0,90	13,12	22,14	1,42	23,56	23,80	4,36	28,16	28,55	5,23	33,78	10,85	3,02	13,87
TOTAL	123,57	63,75	187	145,07	60,77	205,84	184,29	50,99	235,28	198,61	51,08	249,69	199,51	47,38	246,89	179,42	54,93	234,35	288,26	29,81	318,07

Source: National Bank of the Republic of Macedonia

AMORTIZATION PLAN (01.07. - 31.12.2006)

(in million US dollars at payment day)

	July			August			September			October			November			December			01.07. - 31.12.2006		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
Official creditors	16,51	5,06	21,57	4,84	3,37	8,21	3,65	2,30	5,95	7,98	2,34	10,32	6,94	2,63	9,57	7,05	3,48	10,53	46,96	19,18	66,14
Multilateral	3,70	1,64	5,34	2,81	3,06	5,87	3,10	2,09	5,19	7,09	2,08	9,17	6,30	2,47	8,77	6,90	3,29	10,19	29,89	14,64	44,52
IMF	0,00	0,00	0,00	0,00	0,57	0,57	0,00	0,00	0,00	2,09	0,00	2,09	4,59	0,57	5,16	2,34	0,00	2,34	9,01	1,18	10,19
IBRD	1,58	0,74	2,32	1,98	0,89	2,87	0,00	0,00	0,00	0,00	0,43	0,43	0,75	1,16	1,91	1,83	1,91	3,74	6,13	5,12	11,26
IFC	0,00	0,00	0,00	0,00	0,00	0,00	0,47	0,08	0,55	0,67	0,03	0,70	0,00	0,00	0,00	0,00	0,00	0,00	1,15	0,10	1,25
IDA	0,54	0,15	0,69	0,06	0,38	0,44	0,00	0,02	0,02	1,27	0,45	1,72	0,00	0,15	0,15	0,21	0,30	0,51	2,07	1,45	3,53
EIB	0,00	0,00	0,00	0,00	0,00	0,00	1,86	0,90	2,76	2,94	1,07	4,01	0,80	0,49	1,29	0,00	0,11	0,11	5,64	2,57	8,21
EUROFIMA	0,00	0,00	0,00	0,00	0,17	0,17	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	1,35	0,20	1,55	1,35	0,37	1,71
Council of Europ. Develop. Bank	0,00	0,02	0,02	0,00	0,04	0,04	0,16	0,05	0,21	0,00	0,06	0,06	0,16	0,08	0,24	0,35	0,05	0,40	0,67	0,32	0,99
EBRD	1,58	0,42	2,00	0,77	0,83	1,60	0,61	0,72	1,33	0,00	0,02	0,02	0,00	0,01	0,01	0,78	0,22	1,00	3,74	2,21	5,95
EU	0,00	0,30	0,30	0,00	0,19	0,19	0,00	0,30	0,30	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,47	0,47	0,00	1,26	1,26
IFAD	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,03	0,03	0,13	0,03	0,16	0,00	0,00	0,00	0,00	0,00	0,00	0,13	0,06	0,18
EAR	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	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Bilateral	12,81	3,42	16,23	2,03	0,30	2,33	0,55	0,21	0,76	0,89	0,26	1,15	0,64	0,16	0,80	0,15	0,19	0,34	17,08	4,54	21,62
Commercial creditors	9,96	3,91	13,87	5,38	2,01	7,39	16,92	2,40	19,32	6,95	4,13	11,08	6,20	0,93	7,13	16,33	11,99	28,32	61,74	25,36	87,10
London club	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	0,00	0,00	0,00	8,69	8,69	0,00	8,69	8,69
Others	9,96	3,91	13,87	5,38	2,01	7,39	16,92	2,40	19,32	6,95	4,13	11,08	6,20	0,93	7,13	16,33	3,30	19,63	61,74	16,67	78,41
Banks and financial institution	6,74	3,06	9,80	4,16	1,90	6,06	9,69	1,04	10,73	1,67	0,57	2,24	4,11	0,82	4,93	8,51	1,15	9,66	34,89	34,89	69,78
Nonfinancial private sector	3,21	0,85	4,06	1,22	0,11	1,33	7,23	1,35	8,58	5,29	3,55	8,84	2,09	0,12	2,21	7,81	2,15	9,96	26,86	26,86	53,72
TOTAL	26,47	8,97	35,44	10,22	5,38	15,60	20,57	4,70	25,27	14,93	6,47	21,40	13,14	3,56	16,70	23,38	15,47	38,85	108,70	44,55	153,25

Source: National Bank of the Republic of Macedonia

PAYED LIABILITIES OF SHORT-TERM CREDITS AND AMORTIZATION PLAN FOR 2006 BY TYPES OF CREDITS

(in US dollars)

Type of credit	Payed liabilities						Amortization plan					
	Q1			Q2			Q3			Q4		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
	49,473,00	6,688,00	56,161,00	112,137,00	2,108,00	114,245,00	51,480,00	1,049,00	52,529,00	17,160,00	114,00	17,274,00
Comercial credits	22,710,926,00	1,450,073,00	24,160,999,00	6,474,890,00	256,810,00	6,734,700,00	11,959,584,00	270,898,00	12,230,482,00	32,397,359,00	1,037,733,00	33,435,092,00
Financial credits	0,00	0,00	0,00	0,00	0,00	0,00	0	0	0,00	0	0,00	0,00
Short-term credit lines	22,760,399,00	1,456,761,00	24,217,160,00	6,587,027,00	261,918,00	6,848,945,00	12,011,064,00	271,947,00	12,283,011,00	32,414,519,00	1,037,847,00	33,452,336,00
Total												

THE PUBLIC DEBT OF THE REPUBLIC OF MACEDONIA

I. Public debt - definition and stock

Public debt of the Republic of Macedonia comprises the government debt and all financial liabilities in the form of loan and securities created via borrowing by the municipalities and the city of Skopje, as well as borrowing by the public enterprises and companies being fully or predominantly owned by the state. Hence, public debt issuers can be the Government of Macedonia, the municipalities and the city of Skopje, as well as public enterprises and companies being fully or predominantly owned by the state.

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.

Thus, as of June 30, 2006 inclusive, according to the GFS methodology, public debt amounts to EUR 1,972 million, i.e. 41% of GDP. Total public debt, according to the Law on Public Debt is EUR 1,770 million i.e. 37% of GDP. General government debt is EUR 1,678 million i.e. 35% of GDP. (Table 1)

Total public debt according to the GFS methodology declined in June 2006 compared to May 2006 by EUR 20 million, while according to the Law on Public Debt, the level of public debt remained unchanged.. External public debt in June amounted to EUR 1,219

million and grew compared to May, when it was EUR 1,207 million. Domestic public debt amounted to EUR 753 million and declined compared to the previous month by EUR 30 million.

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

1.1 Issue of first Eurobond of the Republic of Macedonia

In December 2005 the Republic of Macedonia appeared on the international market for the first time with an issue of an eurobond, the offers for which were EUR 593 million, i.e. four times its issued amount (EUR 150 million).

At the same time, rating agencies Standar and Poor's and Fitch assigned the following ratings to the newly issued Eurobond: BB+ (with stable outlook) and BB (with positive outlook), respectively.

The issued Eurobond in the amount of EUR 150 million is with 10-year maturity period, as well as 4,625% coupon interest rate.

Funds from the issue of Eurobond were used for complete buyout of the liabilities towards the London Club of Creditors, and partially for enhancing the foreign exchange reserves of the Republic of Macedonia.

1.2. Buyback of the debt towards the 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, which is the first major active measure of the Ministry of Finance to actively manage the public debt.

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;
- Improvement of government debt portfolio profile,

via replacement of non-market with market instrument, i.e. securities.

- Extending maturity of the debt portfolio;
- Avoidance of certain types of market risks, especially the risk of change of interest rates and risk of change of the exchange rate;
- Expansion of the base of foreign investors in Macedonia.

1.3. Fifth issue of denationalization bonds

Pursuant to the Law on Issuance of Denationalization 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 March 13, 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.

Trading with denationalization bonds from this issue commenced on March 16, 2006. Denationalization bonds are listed on the Macedonian Stock Exchange AD Skopje.

1.4. Continuous government securities

1.4.1. Primary government securities market

The policy of continuous issue of government securities continued in the first half of 2006. The focus was placed on the following:

- Increasing the issues of government securities

The stock of issued government securities as of December 31, 2005 was Denar 4,28 billion. In the next half of the year, it was increased by around one billion and as of June 30, 2006 it was Denar 5,22 billion. Total issued stock of government securities in the first six months of 2006 was Denar 6,3 billion, while the amount of net issues in the same period was Denar 0,9 billion. According to the projections for the 2006 Budget, Denar 3 billion are envisaged to be disbursed. Slight deviation from the projected net disbursement is due to the budget surplus in the current period.

- Increasing the maturity period of government securities

In the period January-June 2006, 3, 6 and 12-month T-bills were issued and one 2-year government bond. In creating the policy of issue of government securities, special emphasis is placed on extending their

maturity period, i.e. greater amounts were offered of government securities with longer maturity period, rather than 3-month government securities. Also, according to the 2006 Calendar of issues of government securities, until the end of the year, issue of the first 3-year government bond is planned, which is another element for extending the maturity period of government securities.

- Greater attractiveness of government securities and expansion of the base of foreign investors

As a result of the promotional campaign for investment in government securities and the enhancement of the portfolio with government securities with various maturity periods, especially those with longer maturity periods, the investors show increasing interest.

As a result of the greater demand, interest rates on government securities continuously decline and in the first half of 2006, they dropped on average by 1 to 2 percentage points, depending on their maturity period. Thereby, the biggest drop was noted in 3-month government securities due to the large demand for securities, which doubled the offer in this period, with exception of few auctions, but also due to the greater investor confidence.

1.4.2. Secondary government securities market

In parallel with the development of the primary market, secondary trading of government securities also developed. Most significant institutions where secondary trading was made were the Macedonian Stock Exchange and the OTC market.

One of the important novelties was the adoption of new Rulebook on the Manner and the Procedure for Trading and Settling Transactions in Securities on Over-the-Counter Market (Official Gazette of the RM, no. 71/06) which enables trading in government bonds on the over the counter market (excluding the denationalization bonds). These rules entered into force as of July 1st, 2006. Trading on the OTC market does not bear transaction costs and the settlement is made in real time. Until June 2006, 16 transactions in treasury bills were carried out on the OTC market.

1.4.3. Introduction of government securities for monetary purposes

The Ministry of Finance, in agreement with the NBRM, in March 2006 launched the issue of government securities for monetary purposes. In the first half of 2006 six auctions of government securities for mon-

etary purposes were held, issued at regular auctions of government securities, with the same features as the regular government securities.

The stock of issued government securities as of June 30, 2005 was Denar 2,67 billion. On the other hand, total issued stock of government securities for monetary purposes in the first six months of 2006 was Denar 4,07 billion, while the amount of net issues in the same period was Denar 2,63 billion.

1.5. Issued guarantees

1.5.1. 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 spread).

1.5.2. Guarantee for the project AD MEPSO - transmission of electricity and management with the electricity system

In March 2006 sovereign guarantee was issued, guaranteeing the settlement of the liabilities and the fulfillment of the provisions of the Loan Agreement for the project AD Mepso, signed between the AD MEPSO - transmission of electricity and management with the electricity system, in state ownership and the International Bank for Reconstruction and Development.

The approved loan was in the amount of EUR 20.700.000 with 17 year repayment period. The grace period is 5 years and the interest rate is LIBOR +0,75%.

1.5.3. Guarantee for the credit from DEPFA BANK for the implementation of the project HEC "Sv. Petka" by AD "Riko" - Ljubljana

In May 2006 the Parliament of the Republic of Macedonia adopted a Law guaranteeing the settlement

of the financial liabilities under the loan agreement for the project HEC "Sv. Petka", signed between AD ELEM and DEPFA Investment Bank from Nicosia, Cypress.

The approved loan was in the amount of EUR 41.037.621 under the following terms: interest EURI-BOR+2,75% p.a.; commitment fee 0,80% p.a.; grace period - 3 years and 6 months; default interest EURI-BOR+4,75%. There is a possibility for AD ELEM and DEPFA to negotiate on replacing the variable interest rate with fixed interest rate.

1.6. Newly concluded credit agreements

1.6.1. Credit for the Legal and Judicial Implementation and Institutional Support Project

In May 2006 the Parliament of the Republic of Macedonia enacted the Law on Borrowing a Loan by the Republic of Macedonia from the International Bank for Reconstruction and Development under the Loan Agreement for the Legal and Judicial Implementation and Institutional Support Project. The loan is in the amount of EUR 10.000.000 and the repayment period is 17 years including 5-year grace period and annual interest rate LIBOR +0.75%.

1.6.2. Credit for realization of the second stage of the Programme for the Rationalization of the Management System and Modernization of Biomedical Technology of the Health Sector

In May 2006, an agreement was signed on borrowing by the Republic of Macedonia from the Government of the Republic of Italy for realization of the second stage of the Programme for the Rationalization of the Management System and Modernization of Biomedical Technology of the Health Sector. The approved loan was in the amount of EUR 2.582.285 and will be used under the following terms: interest: 0,00%; repayment period: 39 years; grace period: 19 years.

II. Characteristics of the public debt portfolio

1. Total public debt

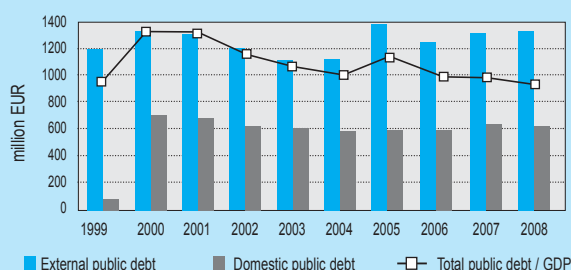
in million EUR				
	month			
	31.12.2005	30.04.2006	31.05.2006	30.06.2006
External public debt*	1.441,16	1.215,00	1.207,36	1.219,60
General Government debt	1.245,35	1.030,00	1.025,89	1.037,70
Central bank debt	52,66	50,00	48,39	47,82
Public enterprises debt	143,15	135,00	133,08	134,08
Domestic public debt	750,39	800,90	784,32	753,29
General Government debt	603,66	656,59	660,46	642,71
Central bank debt	0,00	49,05	49,03	43,64
Central bank debt	146,74	144,31	123,86	110,59
Public enterprises debt**	N / A	1,16	1,10	1,52
Total public debt according the GFS methodology	2.191,55	2.015,90	1.991,69	1.972,89
Total public debt as % of average GDP	48,55	42,19	41,68	41,29
Total public debt according the Public Debt Law	1.992,16	1.772,53	1.770,40	1.770,84
Total public debt as % of average GDP	44,1	37,9	37,05	37,06

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.

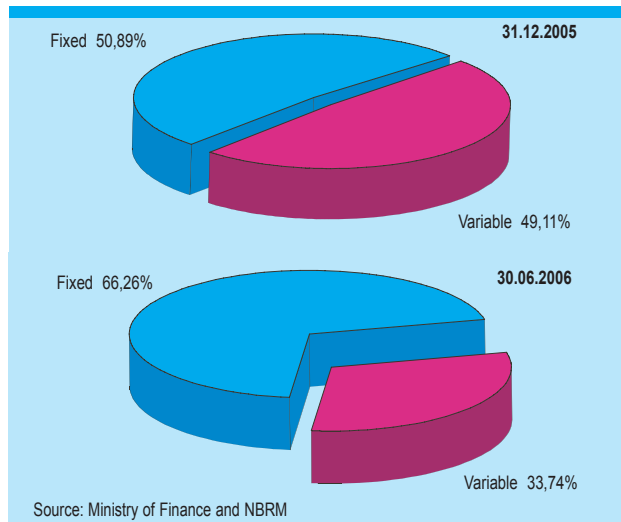
**Since April 2006, public enterprises began submitting reports on the debt stock (in line with the Public Debt Law) to the Ministry of Finance.

Movements of public debt / GDP



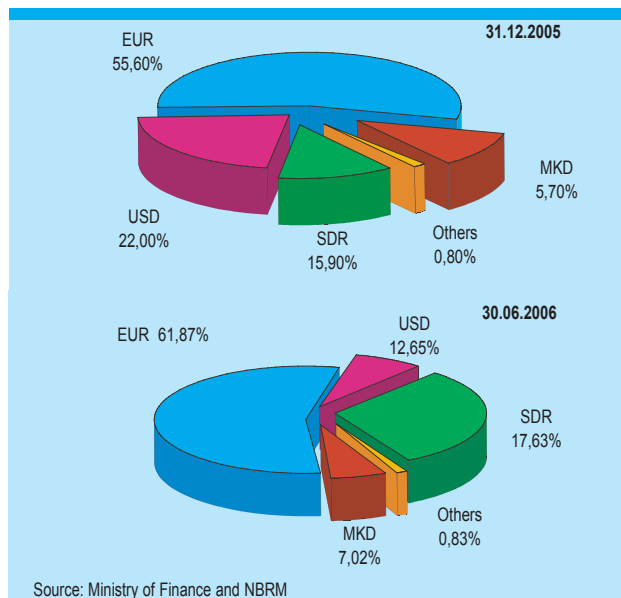
Source: Ministry of Finance and NBRM

Interest structure of the total public debt



Source: Ministry of Finance and NBRM

Currency structure of the total public debt



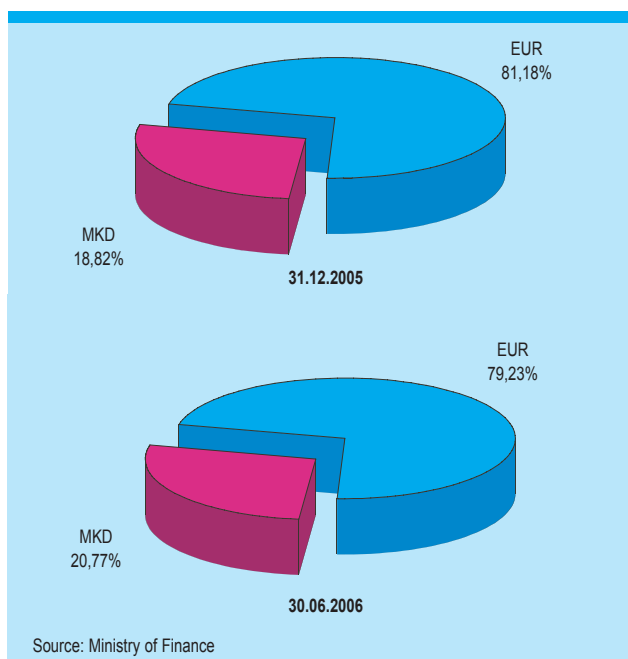
Source: Ministry of Finance and NBRM

2. Domestic public debt

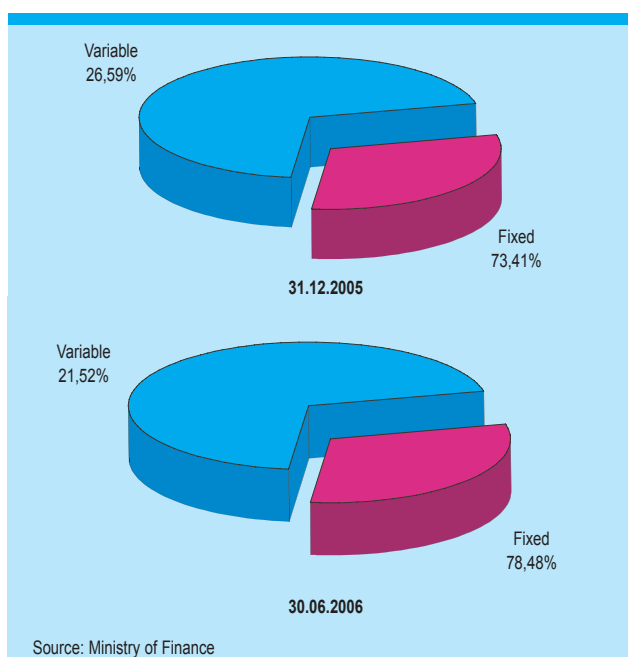
	months							EUR millions
	31.12.2005	31.01.2006	28.02.2006	31.03.2006	30.04.2006	31.05.2006	30.06.2006	
Domestic public debt according the GFS methodology	750,39	775,47	766,32	806,84	800,90	784,32	753,29	
Domestic public debt according the Public Debt Law	603,66	605,03	607,70	637,64	607,53	611,43	599,06	
General government debt	603,66	605,03	607,70	660,53	656,59	660,46	642,71	
Central government debt	603,46	604,83	607,50	660,33	655,22	659,16	640,98	
Structural bonds	533,50	532,95	532,56	559,20	528,65	528,26	512,00	
Rehabilitation of Stopanska banka bond	26,61	26,51	26,61	26,62	21,30	21,29	21,29	
Bond for selectiv credits	16,98	16,92	16,98	16,99	16,99	16,98	16,98	
Privatisation of Stopanska banka bond	77,24	77,24	77,24	75,10	75,10	75,10	72,95	
Old foreign exchange saving bond	306,50	306,50	306,50	306,51	280,97	280,97	280,90	
Denationalisation bond	106,16	105,78	105,23	133,99	134,29	133,92	119,87	
Continuous Government securities	69,96	71,87	74,94	101,12	126,58	130,90	128,98	
Treasury bills for monetary purposes	0,00	0,00	0,00	22,89	49,05	49,03	43,64	
Municipalities	0,20	0,20	0,20	0,20	0,20	0,20	0,20	
Central bank	146,74	170,44	158,62	146,31	144,31	123,86	110,59	
Public enterprises	N/A	N/A	N/A	N/A	1,16	1,10	1,52	

Source: Ministry of Finance

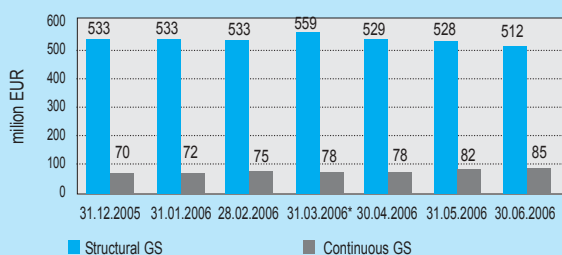
Interest structure of the domestic public debt



Interest structure of the domestic public debt



Structural and continuous government securities proportion



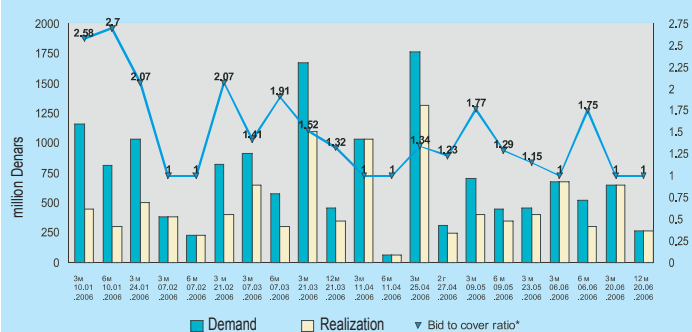
* In March 2006, fifth issue of denationalisation bonds was launched.

2.1. Primary government securities market

Weighted interest rates on issued government securities

Date of auction	Average interest rate of 3 - month treasury bills	Weighted rate of 6 - month treasury bills	Weighted rate of 12 - month treasury bills	Weighted rate of 2 - year treasury bills
January - 06	7,18	7,61		
February - 06	6,96	7,08		
March - 06	6,85	7,28	8,62	
April - 06	6,45	6,84		9,44
May - 06	7,11	7,13		
June - 06	6,54	6,92	8,66	

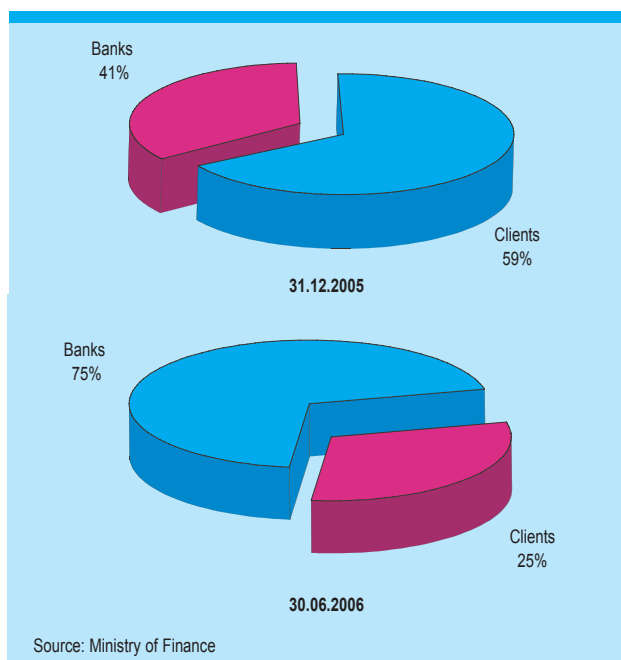
Demand and realization on government securities



Source: Ministry of Finance

*Bid to cover ratio - koeficient koj ja prika' uva pokrienosta na realizacijata so pobaruva-kata

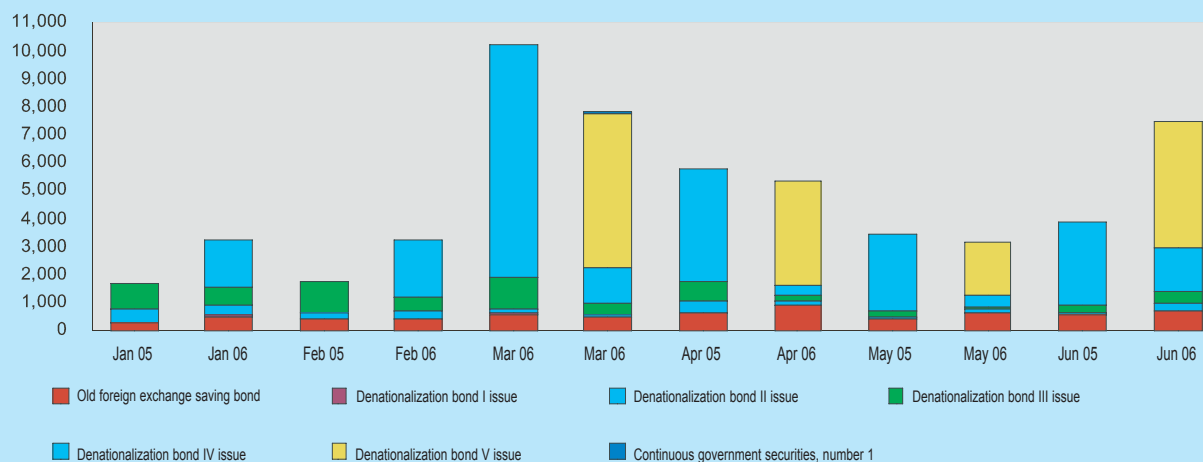
Ownership structure of continuous government securities



2.2. Secondary government securities market

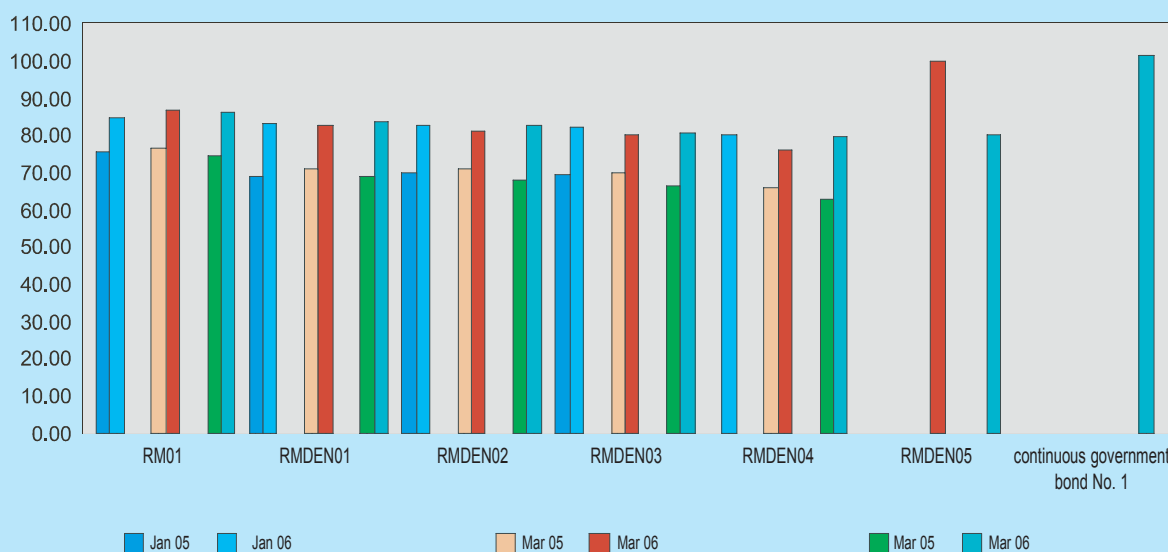
2.2.1 Macedonian Stock Exchange AD Skopje

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



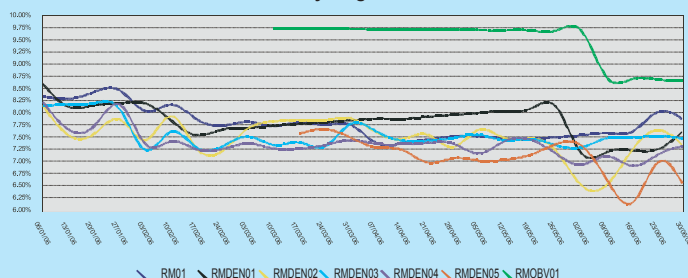
Source: Macedonian Stock Exchange AD Skopje

Average daily price of government bonds



Source: Macedonian Stock Exchange AD Skopje

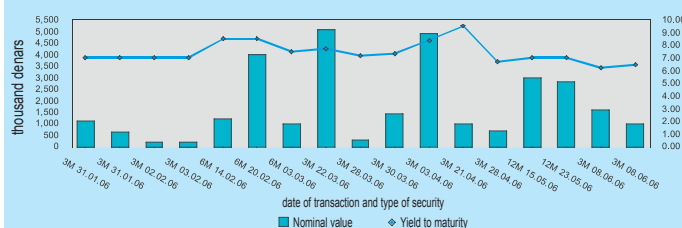
Yield to maturity of government bonds



Source: Macedonian Stock Exchange AD Skopje

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

Concluded transactions on the OTC Market in the period Jan-Jun 2006



Source: NBRM

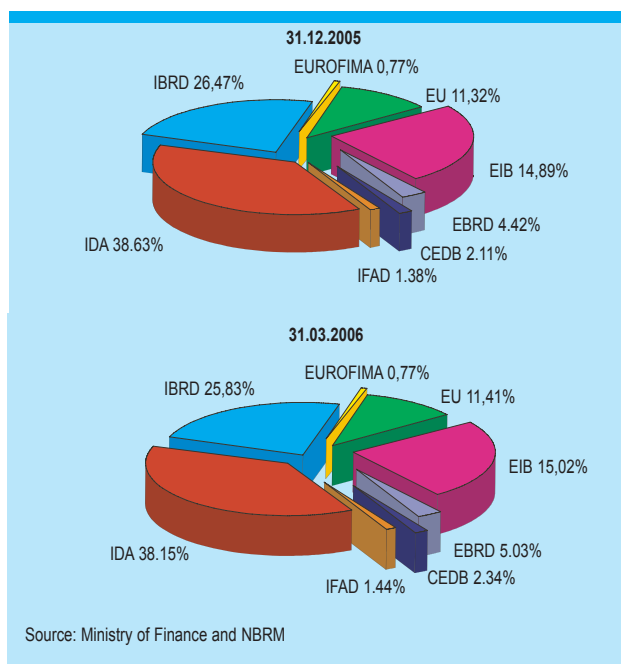
3. External public debt

External public debt by creditors and debtors

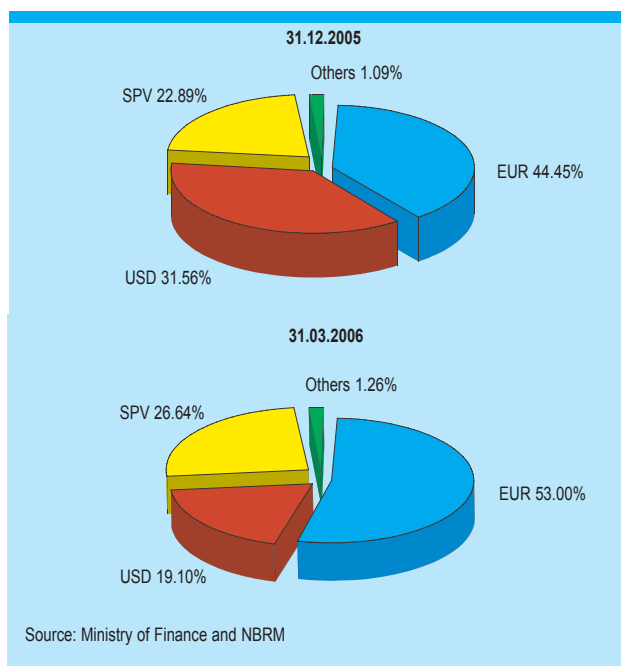
	31.12.05	30.04.06	31.05.06	30.06.06
Public debt according the GFS methodology	1,440.40	1,214.99	1,207.36	1,219.59
Public debt according the Public Debt Law	1,387.74	1,164.82	1,158.97	1,171.77
Government of Republic of Macedonia	1,244.59	1,030.14	1,025.89	1,037.69
Official creditors	906.09	879.42	875.18	887.03
Multilateral creditors	751.82	736.24	732.93	743.34
IBRD	185.18	179.15	177.18	179.34
IDA	307.13	298.68	295.54	300.94
IFAD	10.97	10.87	11.20	11.36
CEDB	16.78	18.48	18.48	18.48
EBRD	29.22	30.26	31.71	34.44
EIB	112.53	108.80	108.81	108.77
EU	90.00	90.00	90.00	90.00
Bilateral creditors	154.27	143.18	142.26	143.69
Rescheduled debt 1995	102.31	89.80	88.69	89.85
Non-rescheduled debt	6.63	6.63	6.63	6.63
Newly concluded loans	45.33	46.76	46.94	47.21
Private creditors	338.50	150.71	150.71	150.66
Eurobond	150.00	150.00	150.00	150.00
Other private creditors	188.50	0.71	0.71	0.66
Banks	188.50	0.71	0.71	0.66
Non banking private sector	0.00	0.00	0.00	0.00
Central bank of the Republic of Macedonia	52.66	50.16	48.39	47.82
IMF MMF	52.66	50.16	48.39	47.82
Public enterprises	143.15	134.69	133.08	134.08
Official creditors	59.99	61.23	61.19	61.23
Multilateral creditors	43.14	45.46	45.47	45.52
IBRD	25.25	24.36	24.36	24.41
EBRD	5.94	5.25	5.25	5.25
EIB	5.83	9.75	9.75	9.74
EUROFIMA	6.12	6.11	6.12	6.11
Bilateral creditors	16.85	15.76	15.72	15.71
Newly concluded loans	16.85	15.76	15.72	15.71
Private creditors	83.16	73.46	71.88	72.85
Other private creditors	83.16	73.46	71.88	72.85
Banks	80.19	70.84	69.32	70.22
Non banking private sector	2.97	2.62	2.56	2.62

Source: NBRM

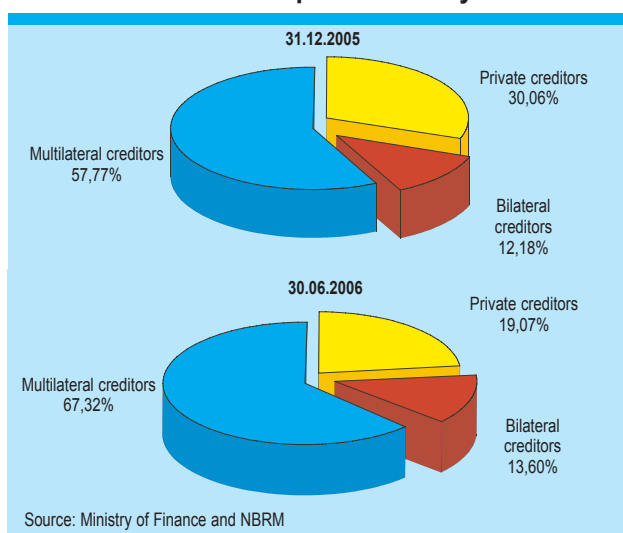
Structure of external public debt by multilateral creditors



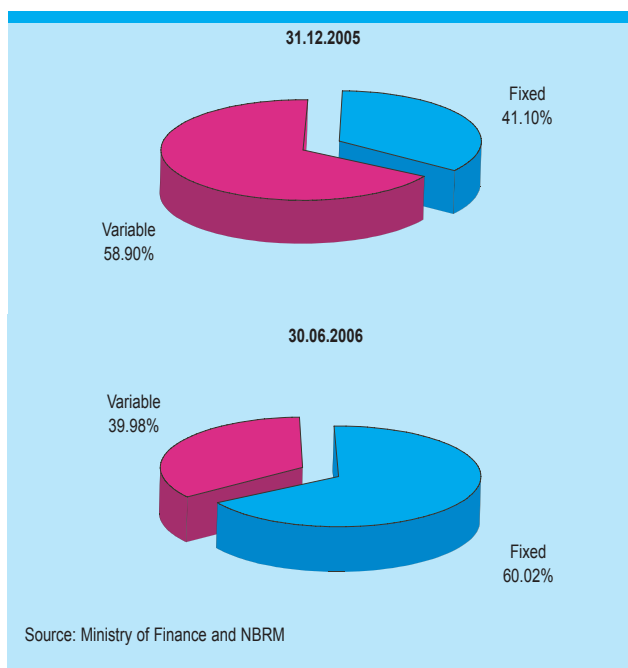
Currency structure of external public debt



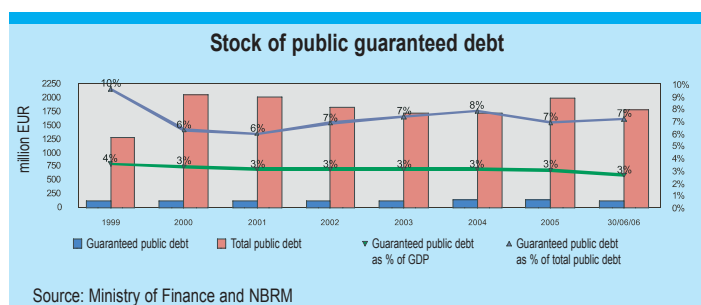
Structure of external public debt by creditors



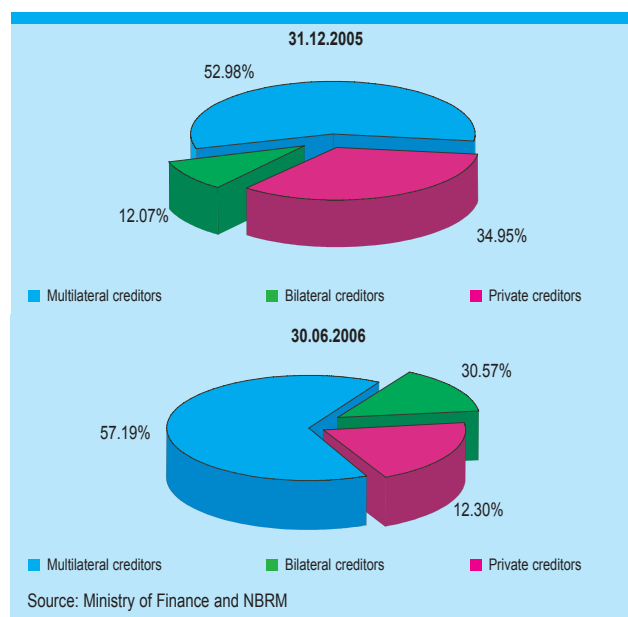
Interest structure of external public debt



4. Guaranteed public debt

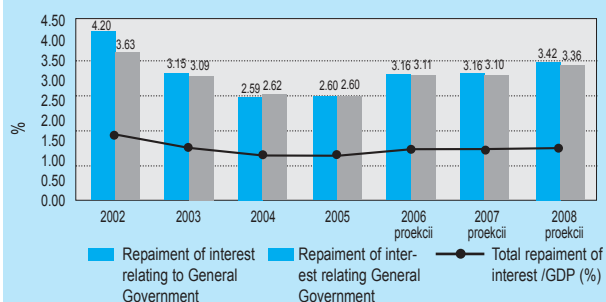


Guaranteed public debt by creditors

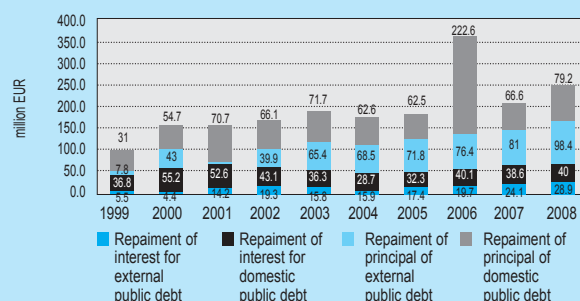


III. Servicing the total public debt

Repayment of interest in relation to revenues, expenditures and GDP



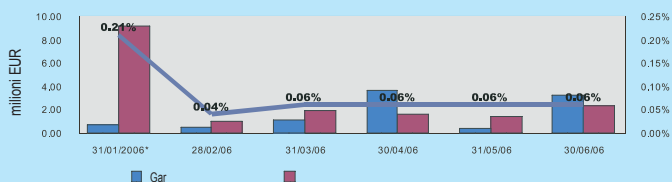
Repayment of interest and principal of the public debt



*On January 11, 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

Interest costs for servicing the total public debt



*On January 11, 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

Repayment on the basis of total public debt for the first half of 2006

Basis	Jan - 06	Feb - 06	Mar - 06	Apr - 06	May - 06	Jun - 06	Total
Interest of the basis of							
external public debt	9,17	0,94	1,93	1,62	1,44	2,27	17,38
Interest of the basis of							
domestic public debt	0,66	0,49	1,12	3,62	0,41	3,24	9,54
Interest of the basis of total							
public debt	9,83	1,42	3,06	5,23	1,85	5,52	26,92
Principal on the basis of							
external public debt	200,97	1,73	3,40	3,70	0,60	3,07	213,47
Principal on the basis of							
domestic public debt	0,00	0,00	2,15	30,87	0,00	13,57	46,58
Principal on the basis of total							
public debt	200,97	1,73	5,55	34,56	0,6	16,64	260,06

Source: Ministry of Finance and NBRM

CENTRAL BUDGET OF THE REPUBLIC OF MACEDONIA

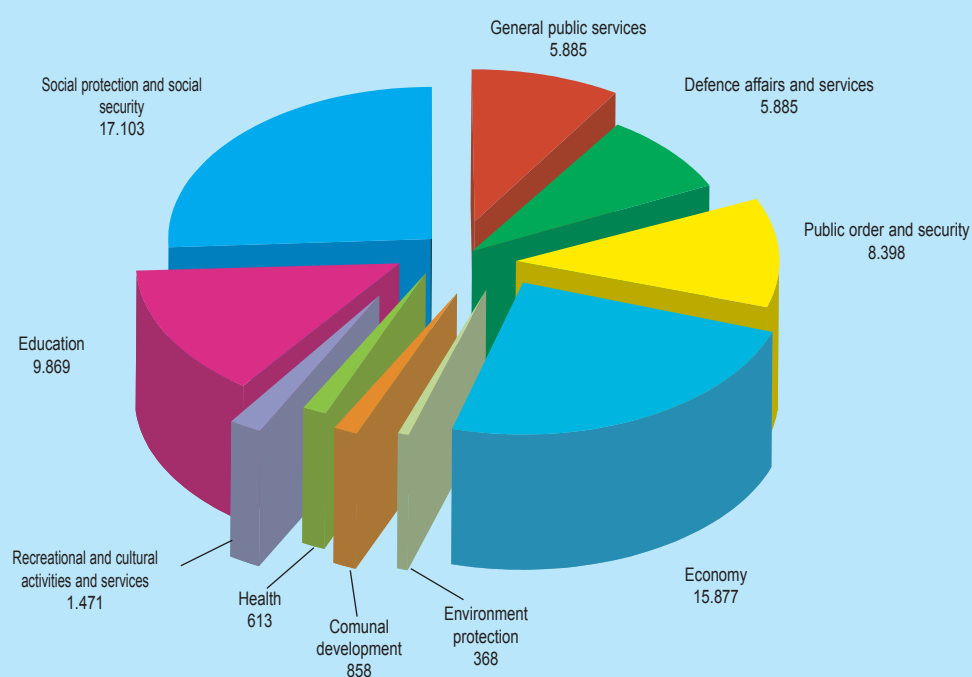
	2002 Final statement	2003 Final statement	2004 Final statement	2005 Rebalans	2006 Budget
TOTAL REVENUES	71.981.222.938	68.406.577.974	68.257.596.556	77.127.000.000	81.749.000.000
CURRENT REVENUES (TAX AND NON-TAX)	58.896.097.958	56.784.247.919	56.534.423.095	58.596.000.000	59.940.000.000
TAX REVENUES	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

FUNCTIONAL 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	V	VI	Q - 2 2006	Total 2006
24.627	27.928	26.641	100.928	103.198	7.365	6.756	8.976	23.097	9.255	8.666	9.139	27.060	50.157
21.172	21.285	23.152	84.581	88.198	5.957	5.933	7.958	19.848	7.907	7.532	7.343	22.782	42.630
75	70	91	304	177	19	21	39	79	14	8	28	50	129
13.944	14.107	15.316	55.681	57.581	4.014	3.382	5.262	12.658	5.317	5.061	4.719	15.097	27.755
2.052	1.951	2.260	8.097	8.051	511	662	760	1.933	703	666	729	2.098	4.031
600	623	534	2.837	3.185	180	383	1.162	1.725	311	244	359	914	2.639
6.767	6.652	7.918	27.082	28.334	1.760	1.284	2.184	5.228	2.812	2.555	1.975	7.342	12.570
2.937	3.385	2.965	11.748	12.543	1.191	653	698	2.542	868	965	1.006	2.839	5.381
1.441	1.335	1.464	5.266	4.848	280	327	386	993	456	540	498	1.494	2.487
147	161	175	651	620	92	73	72	237	167	91	152	410	647
7.153	7.108	7.745	28.596	30.440	1.924	2.530	2.657	7.111	2.576	2.463	2.596	7.635	14.746
4.569	4.553	4.948	18.300	19.810	1.250	1.651	1.718	4.619	1.690	1.588	1.691	4.969	9.588
325	322	353	1.312	1.370	85	120	117	322	113	109	114	336	658
2.259	2.233	2.442	8.982	9.260	588	759	822	2.169	773	766	791	2.330	4.499
3.088	5.284	2.951	13.818	12.943	684	704	918	2.306	1.133	870	1.512	3.515	5.821
1.673	1.549	1.676	6.312	7.377	303	372	559	1.234	413	469	235	1.117	2.351
260	2.837	139	3.319	1.031	83	13	7	103	359	19	28	406	509
459	358	453	1.657	1.500	107	131	157	395	114	176	136	426	821
122	70	115	434	573	28	27	25	80	23	26	27	76	156
69	55	64	246	300	20	20	25	65	27	22	21	70	135
52	53	72	264	382	47	38	24	109	51	4	915	970	1.079
441	462	432	1.675	1.780	97	103	121	321	146	155	151	452	773
107	587	127	933	502	52	49	42	143	57	161	172	390	533
259	672	411	1.494	1.555	641	69	45	755	126	88	85	299	1.054
1	0	0	2	0	31	1	13	45	33	15	26	74	119
23.875	24.482	29.096	100.219	104.905	6.903	8.206	8.429	23.538	8.340	7.977	9.928	26.245	49.783
22.180	21.707	24.482	90.026	93.420	6.687	7.679	8.109	22.475	7.945	7.307	8.873	24.125	46.600
5.736	5.566	5.894	22.836	23.997	1.869	1.933	1.948	5.750	1.938	1.927	2.013	5.878	11.628
3.140	2.620	4.028	12.985	12.579	702	933	1.221	2.856	1.078	1.096	1.090	3.264	6.120
12.639	12.795	13.911	51.597	53.585	3.624	4.740	4.716	13.080	4.617	4.188	5.460	14.265	27.345
220	192	341	913	613	46	52	69	167	66	61	82	209	376
11.670	11.533	12.085	46.870	48.906	3.419	3.977	4.170	11.566	4.001	3.834	4.891	12.726	24.292
6.241	6.151	6.285	24.971	26.999	2.020	2.143	2.233	6.396	2.190	2.214	2.236	6.640	13.036
767	715	675	2.940	2.500	267	203	189	659	186	170	165	521	1.180
1.026	1.113	1.034	4.138	3.954	53	548	347	948	338	165	442	945	1.893
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
3.637	3.557	4.092	14.825	15.450	1.079	1.082	1.400	3.561	1.287	1.285	2.049	4.621	8.182
704	1.037	1.453	3.681	3.975	159	704	463	1.326	544	287	477	1.308	2.634
45	33	33	135	91	0	7	14	21	6	6	10	22	43
666	727	648	2.610	3.259	492	73	225	790	313	95	309	717	1.507
433	163	362	1.074	1.259	41	30	69	140	221	25	198	444	584
233	564	286	1.536	2.000	451	43	156	650	92	70	111	273	923
0	0	0	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	670	1.056	2.120	3.183
752	3.446	-2.455	709	-1.708	462	-1.450	547	-441	916	689	-790	815	374
-752	-3.446	2.455	-709	1.708	-462	1.450	-547	441	-916	-689	790	-815	-374
2.015	-1.964	4.554	7.063	16.556	8.488	1.493	-250	9.731	1.173	-689	1.702	2.186	11.917
231	147	740	1.383	15.821	0	0	13.899	13.899	0	0	3.846	3.846	17.745
0	0	0	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	137	216	478	638
-343	-3.398	-7.588	-9.797	-6.594	8.305	1.248	-14.387	-4.834	1.331	-2.016	-3.513	-4.198	-9.032
905	427	-315	1.538	3.000	138	171	175	484	-283	509	196	422	906
3	24	1	29	20	0	21	3	24	0	682	957	1.639	1.663
2.765	1.483	2.099	7.772	14.848	8.950	43	297	9.290	2.089	0	912	3.001	12.291
2.765	1.483	2.099	7.772	14.848	8.950	43	297	9.290	2.089	0	912	3.001	12.291
331	1.305	404	3.295	10.119	8.950	43	166	9.159	201	0	82	283	9.442
2.435	178	1.695	4.478	4.729	0	0	131	131	1.888	0	830	2.718	2.849

BALANCE OF PAYMENT OF THE REPUBLIC OF MACEDONIA

(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	IV-06	V-06	I-V / 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	-8,70	9,17	-17,67	-29,83	-5,52	-52,55
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	-75,24	-57,48	-107,02	-121,46	-105,07	-466,27
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	147,57	179,63	176,20	203,39	829,15
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	-197,60	-205,06	-286,64	-297,66	-308,46	-1.295,42
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	1,29	-3,29	-3,96	-1,79	-2,30	-10,05
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	-1,85	2,92	4,86	0,07	-7,11	-1,12
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	-6,33	-1,73	-1,28	-2,58	-3,56	-15,48
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	93,36	108,97	424,90
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	8,70	5,35	30,96
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	84,66	103,61	393,93
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	5,45	-11,04	21,69	34,06	10,09	60,25
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	-0,21	-0,34	-0,11
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	-0,21	-0,34	-0,11
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	-0,21	-0,34	-0,11
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	5,61	-11,23	21,27	34,27	10,43	60,36
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	6,56	3,73	300,82
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	5,58	17,96	37,73
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	-196,66	-13,21	-45,67	65,34	17,85	-172,34
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	-9,50	-38,15	29,93	17,36	8,26	7,91
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	-182,67	26,56	-5,56	52,74	-13,68	-122,61
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	-6,40	-2,88	-73,94	-7,90	-5,76	-96,87
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	0,00	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	-0,98	9,62	15,66
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	-1,95	-8,09	-11,41	-6,92	-15,38	-43,75
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	1,91	1,25	3,90	3,14	29,03	39,23
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	-43,21	-29,12	-105,86
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	3,25	1,87	-4,02	-4,23	-4,58	-7,70

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 half of 2006 are by 5,6% higher than those in the same period of 2005 and amount to Denar 14.961 million. Most of the revenues, i.e. 62,2%, were revenues on the basis of salary contributions, where an increase of 10,6% was realized. Budget revenues account for 29,1% in the total revenues and are by 3,5% higher, while the revenues of the Employment Agency for insurance of unemployed beneficiaries of pecuniary allowance continues to decline and has declined by 16,7% and their share in the total revenues accounts for 4,4%.

Expenditures in the PDF in the observed period amount to Denar 15.089 million and are by 5,6% higher than the same period last year. Most of the total expenditures, i.e. 82,9%, were for payment of pensions to the beneficiaries. Thereby, 95,4% of the pensions were paid for regular pensions, and they increased by 3,8%. Expenditures for the contribution for health protection participated with 11,7% in the total expenditures of the Pension and Disability Insurance Fund.

PDF **deficit** in the first half of 2006 is Denar 128 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-Jun.
REVENUES	21.229	22.883	24.289	25.811	28.191	28.983	28.878	14.961
Contribution from salaries	14.316	15.722	15.671	15.784	16.882	17.204	17.484	9.302
Contribution from income	311	311	331	283	307	383	388	154
Revenues from the Government Budget	3.266	4.174	5.744	6.961	7.741	8.486	8.291	4.358
Revenues from the private sectors	439	404	377	409	394	412	390	117
Revenues from individual farmers	65	58	41	61	71	41	39	17
Revenues from excises	632	804	716	688	677	661	659	301
Contributions from the Employment Agency	868	1.101	1.126	1.404	1.536	1.719	1.550	665
Other revenues	45	74	73	29	65	57	59	32
Revenues from dividends	245	68	209	192	42	21	18	15
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	15.089
Pensions	17.756	19.774	21.278	22.255	24.008	25.121	24.969	12.511
Regular pensions	16.977	18.948	19.041	19.982	21.667	22.824	23.335	11.943
War veteran pensions	458	505	514	518	499	509	479	229
Agricultural pensions	321	321	297	262	234	217	178	77
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	36
Early retirement by the Law from year 2001	0	0	148	254	262	247	240	88
Early retirement by the Law from year 2004						91	53	
Compensation for body injury							526	
Compensation for disability insurance	69	72	72	83	80	82	82	41
Employment and accommodations for disabled children	95	94	91	76	98	97	110	64
Health care contribution	13	12	7	9	6	6	6	2
Compensation for administration	2.450	2.672	2.805	2.934	3.184	3.349	3.416	1.767
Other expenditures	132	141	153	165	172	170	172	91
Capital expenditures	154	175	254	222	192	257	190	75
BALANCE	-	-	37	145	0	50	70	12
Deficit / Surplus	560	-57	-408	-78	451	-149	-137	-128

Health Insurance Fund

In the period January-June 2006, the HIF **revenues** amounted to Denar 8.363 million, which is by 16,9% more compared to the same period last year. Regarding the revenue structure, highest share (21,1%) went to the contributions from the PDF, realizing an increase by 19,6%. Contributions paid by the Employment Agency for the unemployed persons account for 12,4% and declined by only 0,3% compared to the last year.

PDF **expenditures** for health insurance in the first six months of 2006 were Denar 8.359 million, i.e. 14,4% more than last year. Highest share in the expenditures went to the outpatient expenditures (88,5%).

In the observed period, the HIF had **surplus** of Denar 4 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-Jun.
REVENUES	12.068	12.790	12.295	13.656	14.698	14.886	15.083	8.363
Contributions	7.363	7.745	7.528	7.823	8.418	8.762	8.982	4.499
Contributions from the Pension Fund	2.417	2.649	2.616	3.075	3.184	3.349	3.417	1.768
Contributions from the Employment Agency	1.350	1.941	1.554	1.763	1.849	1.998	2.062	1.037
Contributions from the Ministry of Labour	0	0	48	54	64	41	64	33
Other revenues	938	455	70	734	1.064	676	79	850
Revenues on the basis of contracts for health insurance cards	0	0	0	0	0	0	0	20
Transfers from the Central Budget for mandatory health insurance	-	-	166	111	29	60	479	156
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	8.359
Outpatient expenditures	2.491	2.486	2.505	4.430	5.132	5.959	7.129	7.397
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	128
Medical treatment abroad	161	70	90	144	221	117	151	108
Other treatment (contributions)	801	694	769	832	968	941	1.062	549
Administration	288	250	268	360	309	254	276	133
Equipment and maintenance	39	90	44	656	219	23	106	44
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	4

Source: Internal data of the Ministry of Finance

Employment Agency

In the first six months of 2006, the Employment Agency had **revenues** of Denar 2.946 million, meaning 17,8% decline in relation to last year. Revenues from contributions are by 3,3% higher, and budget transfers, despite their largest share in the revenue structure (77,4%), declined by 22,4%. Regarding the budget grants structure, 87,9% was on the basis of covering the deficit of the Agency.

Expenditures of the Employment Agency were Denar 3.096 million, i.e. 12,7% less compared to the first six months last year. Expenditures related to the function amounted to

Denar 2.977 million, or 96,2% of the total expenditures, and they decreased by 13,4%. Out of these, 35,4% were used for payment of unemployment benefit for the unemployed persons, and only 4,1% were used for active measures (for employment encouragement and employment projects). Expenditures for professional service accounted for 3,8% in the total expenditures, and are by 8,24% higher than last year.

In the first six months of 2006 the Employment Agency had **deficit** of Denar 150 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-Jun.
	4.129	5.119	4.827	5.918	6.241	7.456	6.940	2.946
REVENUES	1.058	1.121	1.136	1.180	1.224	1.270	1.313	659
Revenues from contributions	1.037	1.098	1.113	1.178	1.223	1.155	1.192	567
Contributions from wages	21	22	23	2	0	24	23	10
Contributions from self-employed								
Contributions from the people who work abroad	0	0	0	0	1	4	5	2
Contributions from previous year	0	0	0	0	0	88	93	80
Revenues from the Government budget	3.066	3.990	3.677	4.726	5.002	6.163	5.616	2.281
For covering the deficit of the								
Employment Agency	2.575	3.470	3.170	3.742	3.958	4.522	4.612	2.006
For paying allowances to the employees of the								
loss-making enterprises	490	516	481	944	980	988	418	153
Public administration reform	-	-	26	19	3	61	22	6
Others	0	3	26	21	61	592	564	116
Other revenues	6	8	13	12	16	23	11	6
	4.135	5.110	4.749	5.868	6.214	7.325	6.938	3.096
EXPENDITURES	3.970	4.913	4.571	5.658	6.005	7.102	6.710	2.977
Expenditures for the functions								
Unemployment benefits	1.755	1.875	1.879	2.273	2.377	2.697	2.425	1.055
Contributions for health insurance	1.347	1.936	1.555	1.763	1.849	1.998	2.063	1.036
Contributions for pension and disability insurance	868	1.102	1.138	1.453	1.557	1.729	1.552	683
Transfers for employment of disabled persons	-	-	-	128	121	58	114	58
Payments according to the new Law	-	-	-	-	61	592	526	63
Compensation for training	-	-	-	41	40	29	30	22
Expenditures for the personnel								60
Wages and salaries	165	198	178	210	209	223	228	119
Allowances	105	118	116	124	134	132	133	68
Goods and other services	17	19	18	22	20	20	22	11
Current transfers	34	54	43	42	51	68	69	40
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	-150

Source: Internal data of the Ministry of Finance

Regional and National Road Fund

The Road Fund, in the past six months of 2006 collected **revenues** in the amount of Denar 1.386 million, meaning 4,8% less compared to the same period last year. The budget revenues, having the largest share, account for 43,3% of total revenues, but are lower by 9,1%, while the amount from road fee grew by only 1,3%.

Expenditures of the Road Fund in the observed period were Denar 1.428 million. Most part of them, around 48,1% of the costs are for road maintenance and around 28% for investments. Expenditures related to studies, drafting plans, surveillance, commissions and material costs participated with 5,2% in the total expenditures.

In the first half of 2006, the Road Fund had **deficit** of Denar 42 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-Jun.
REVENUES	3.793	3.506	4.012	3.434	3.668	3.299	3.031	1.386
Revenues from Budget	924	1.590	1.655	1.305	1.603	1.610	1.320	600
Paytoll by foreign motor vehicles								
Annual fee for motor vehicles subject to registration	54	82	73	87	82	77	90	47
Paytoll for use of motorway								
Foreign credit	518	746	704	761	797	853	842	404
Other revenues	492	537	375	381	728	741	743	321
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	1.428
Expenditures for studies, projections, supervision, fees and material costs	1.985	1.662	1.756	1.250	1.107	1.753	1.405	396
Road maintenance	0	179	286	289	205	156	164	74
Repayment of loans	790	952	926	900	1.063	1.081	1.013	687
Funds for local roads	148	212	299	304	424	242	254	131
Other expenditures	386	502	596	528	666	611	508	140
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	-42

Source: Internal data of the Ministry of Finance

MACEDONIAN SECURITIES STOCK EXCHANGE

Stock Exchange Indicators - May 2006

In May 2006, trading on the Macedonian Securities Stock Exchange via traditional trading amounted to Denar 687.7 million, which, in relation to April, grew by 10.94%. Trading realized via block transactions on the Stock Exchange in May amounted to Denar 73.7 million. In May 2006, government securities were traded in the amount of Denar 683.3 million. In May 2006, total trading on the Macedonian Stock Exchange via traditional trading, block transactions and with government securities amounted to Denar 1,444.7 million, which, in relation to the previous month, increased by 113.80%.

In May 2006, average daily trading amounted to Denar 32.7 million, which in relation to the previous month increased by 0.37%. Average daily number of transactions in the analyzed period was 144 and, in relation to April, it was by 7.10% lower.

Trading with shares participated in the total turnover on the Stock Exchange realised via traditional trading, which in May amounted to Denar 687.7 million, with Denar 532.5 million, which compared to the previous month, increased by 47.45%. During the analyzed period, trading with government bonds amounted to Denar 155.2 million, and compared to the previous month, there was a decrease by 40.02%.

If one analysis the total trading with government bonds of the Republic of Macedonia in May 2006, one can conclude that trading with government bonds for the old foreign exchange saving amounted to Denar 33.7 million, whereby the average price of these bonds amounted to 86.83% of their nominal value, being an increase by 0.4 percentage points compared to the previous month. In the analyzed period, trading with denationalization bonds from the second issue amounted to Denar 4.3 million, and they were sold at average price of 85% of their nominal value, which in relation to the previous month was by 0.5 percentage points higher.

Denationalization bonds from the third issue were sold at average price of 82.92% of their nominal value, which in relation to April this year was by 0.72 percentage

points higher, and their total trading in May was Denar 6.4 million. In May 2006, total trading in denationalization bonds from the fourth issue was Denar 18.4 million and their average price was 81.71% of their nominal value, which in relation to the previous month was an increase by 0.9 percentage points.

In May 2006, when trading in government bonds, denationalization bonds from the fifth issue were sold in the amount of Denar 92.2 million and their average price was 77% of their nominal value, which in relation to the previous month was a decline by 0.76 percentage points.

Official stock exchange index (MSEI - 10), as an indicator of the movement of prices of shares, amounted to Denar 2,676.38 in May 2006, and compared to the previous month, there was an increase by 2.24%.

Trading on the official market on the Macedonian Securities Stock Exchange in May 2006 was Denar 597.3 million, being 41.34% of the total trading on the SE. Total trading on the unofficial market in the analyzed period was Denar 90.4 million, accounting for 6.26% of the total trading on the SE. Trading via block transactions in May 2006 was Denar 73.7 million, being 5.10% of the total SE trading volume. During the analyzed period, trading in government securities amounted to Denar 683.3 million, accounting for 47.30% of the total trading on the SE.

In May 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 501 million, whereby the trading with shares of the following companies was the most significant: Komercijalna banka Skopje - 52.47% of the trading volume, Alkaloid - Skopje - 9.73% of the trading volume and Fakom Skopje - 7.14% of the trading volume.

The shares of the following companies noted the biggest rise in the average price in May 2006 in relation to the previous month: Ohis - Skopje, the average growth of which was 40.74% and the average price per

share was Denar 190, Komercijalna banka Skopje - the average share price growth of which was 9.76%, and the average price per share was Denar 4,148.53. The price of the preference shares of Komercijalna Banka Skopje in the analyzed period grew by 8.97%, and in May 2006 was Denar 4,059.74.

Shares of the following companies noted the biggest decline in the average price in May 2006 in relation to the previous month: EMO - Ohrid, the average share price of which was by 24% lower and was Denar 300.50, Replek - Skopje, the average share price of which was by 6.51% lower and was Denar 23,482.50 and Skopski Pazar Skopje, the average share price of which was by 4.10% lower in relation to the previous month and was Denar 6,530.

In May 2006, market capitalization of the shares on the Macedonian Securities Stock Exchange amounted to Denar 60,6 billion, which in relation to the previous month, increased by 9.26%.

Market capitalization of the bonds on the Macedonian Securities Stock Exchange in the analyzed period amounted to Denar 24.2 billion, which in relation to the previous month, declined by 2.71%. Total market capitalization on the Macedonian Securities Stock Exchange in May 2006 amounted to Denar 84.8 billion, which in relation to April, grew by 5.55%.

In May 2006, the analysis of the dividend of the 10 joint stock companies having the largest share in the trading volume on the official market on the Macedonian SE showed that the shares of Ohridska banka Ohrid had the highest dividend per share of 5.27%, followed by the shares of Stopanska banka Bitola with 5% and by Toplifikacija Skopje with 4.72%.

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 May 2006: Komercijalna banka AD Skopje - 27.18% foreign capital, Toplifikacija AD - Skopje - 24.74% foreign capital and Ohridska banka Ohrid - 14.47% foreign capital.

In May 2006, regarding the total trading realized on the official market on the Macedonian Stock Exchange, foreign investors participated with 14.66%, and in relation to the previous month, their share increased by 0.04%. Share of foreign investors in the total trading on the Stock Exchange in the analyzed period was 5.57%, whereby the realized trading amounted to Denar 80.4 million.

The share of foreign investors in the total buyout on the Stock Exchange in May 2006 was 42.57%, i.e. foreign investors participated with Denar 615 million in the total trading on the Macedonian Stock Exchange.

Stock Exchange Indicators - June 2006

In June 2006, trading on the Macedonian Securities Stock Exchange via traditional trading amounted to Denar 1,196.3 million, which, in relation to May, grew by 73.95%. Turnover realized via block transactions on the Stock Exchange in June amounted to Denar 247.8 million, and compared to the previous month, there was an increase by 236.21%. In June 2006, government securities were traded in the amount of Denar 5,529.4 million, and it increased by 709.18% in relation to May. Such high increase in trading in government securities was mostly due to the sale of Telecom shares. In fact, in June 2006, the Government sold 9.99% out of the 47.1% of the capital of Macedonian Telecommunications, which shares were state-owned ones. Value of these shares in the amount of 9.99% of the total capital of Macedonian Telecommunications, traded in June 2006, was Denar 3,690.8 million.

In June 2006, total trading on the Macedonian Stock Exchange via traditional trading, block transactions and with government securities amounted to Denar 6,973.5 million, which, in relation to the previous month, increased by 382.67%.

In June 2006, average daily trading amounted to Denar 54.3 million, which in relation to the previous month, increased by 66.04%. During the analysed period, average daily number of transactions was 159, and compared to May, it was higher by 10.42%.

Trading with shares participated in the total turnover on the Stock Exchange realised via traditional trading, which in June amounted to Denar 1,196.3 million, with Denar 820.4 million, which compared to the previous month, increased by 54.07%. During the analyzed period, trading with government bonds amounted to Denar 375.8 million, and compared to the previous month, there was an increase by 142.13%.

If one analysis the total trading with government bonds of the Republic of Macedonia in June 2006, one can conclude that trading with government bonds for the old foreign exchange saving amounted to Denar 34.8 million, whereby the average price of these bonds amounted to 86.50% of their nominal value, being drop by 0.33 percentage points compared to the previous month. In June 2006, denationalization bonds from the first issue were sold at average price of 84% of their nominal value, whereby the realized trading was in the amount of Denar 853.8 thousand. In the analyzed period, denationalization bonds from the second issue were sold at their average price of 83% of their nominal value, which in relation to May was by 2 percentage points higher, and the realized trading with these bonds amounted to Denar 15.7 million.

Denationalization bonds from the third issue were sold at average price of 80.76% of their nominal value, which in relation to May this year was by 2.16 percentage points lower, and their total trading in June was Denar 18.9 million. In June 2006, total trading with denationalization bonds from the fourth issue amounted to Denar 78.5 million, while the average price of these bonds amounted to 79.5% of their nominal value, which compared to the previous month, decreased by 2.21 percentage points.

In June 2006, when trading in government bonds, denationalization bonds from the fifth issue were sold in the amount of Denar 218.2 million and their average price was 80.43% of their nominal value, which in relation to the previous month was an increase by 3.3 percentage points

Official stock exchange index (MSEI - 10), as an indicator of the movement of prices of shares, amounted to Denar 2,911.68 in June 2006, and compared to the previous month, there was an increase by 8.79%.

Trading on the official market on the Macedonian Securities Stock Exchange in June 2006 was Denar 961.9 million, being 13.79% of the total trading on the SE. Total trading on the unofficial market on the SE in the analyzed period was Denar 234.4 million, accounting for 3.36% of the total trading on the SE. Trading via block transactions on the Macedonian Stock Exchange in June 2006 was Denar 247.8 million, being 3.55% of the total SE trading volume. During the analyzed period, trading in government securities was the largest in the last 6 months, amounting to Denar 5,529.4 million, accounting for 79.29 of the total trading on the SE in June 2006.

In June 2006, total trading in the 10 most liquid shareholding companies on the official market on the Macedonian Securities Stock Exchange was Denar 791.7 million, whereby the trading with shares of the following companies was the most significant: Komercijalna banka Skopje - 23.9% of the trading volume, Blagoj Gorev - Veles - 18.43% of the trading volume and Agropod - Resen - 8.6% of the trading volume.

Highest increase of the average price of the shares in July 2006, compared to the previous month, was noticed at the prices of the shares of: RZ Makstil Skopje, the average growth of which was 20.63% and the average price per share was Denar 29.30, Makpetrol Skopje, the average share price growth of which was 20.60%, and the average price per share was Denar 25,645.15. Price of shares of Replek - Skopje in the analyzed period grew by 18.70%, and in June 2006, it was Denar 27,873.99.

Shares of the following company noted the biggest decline in the average price in June 2006 in relation to the previous month: Teteks-Kreditna banka Skopje, the average share price of which was by 24.62% lower and was Denar 251, Ohis - Skopje, the average share price of which was by 23% lower and amounted to Denar 144.67, and RZ Uslugi Skopje, the average share price of which was by 5.26% lower in relation to the previous month and amounted to Denar 39.29.

In June 2006, market capitalization of the shares on the Macedonian Securities Stock Exchange amounted to Denar 61.5 billion, which in relation to the previous month, increased by 1.54%.

Market capitalization of the bonds on the Macedonian Securities Stock Exchange in the analyzed period amounted to Denar 24 billion, which in relation to the previous month, declined by 0.65%. Total market capitalization on the Macedonian Securities Stock Exchange in June 2006 amounted to Denar 85.6 billion, which in relation to May, grew by 0.92%.

In June 2006, the analysis of the dividend of the 10 joint stock companies having the largest share in the trading volume on the official market on the Macedonian SE showed that the shares of Stopanska banka Bitola had the highest dividend per share of 5.20%, followed by the shares of Ohridska banka Ohrid with 5.15% and by Toplifikacija Skopje with 4.61%.

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 June 2006: Komercijalna banka AD Skopje - 32.67% foreign capital, Toplifikacija AD - Skopje - 25.09% foreign capital and Granit - Skopje - 17.38% foreign capital.

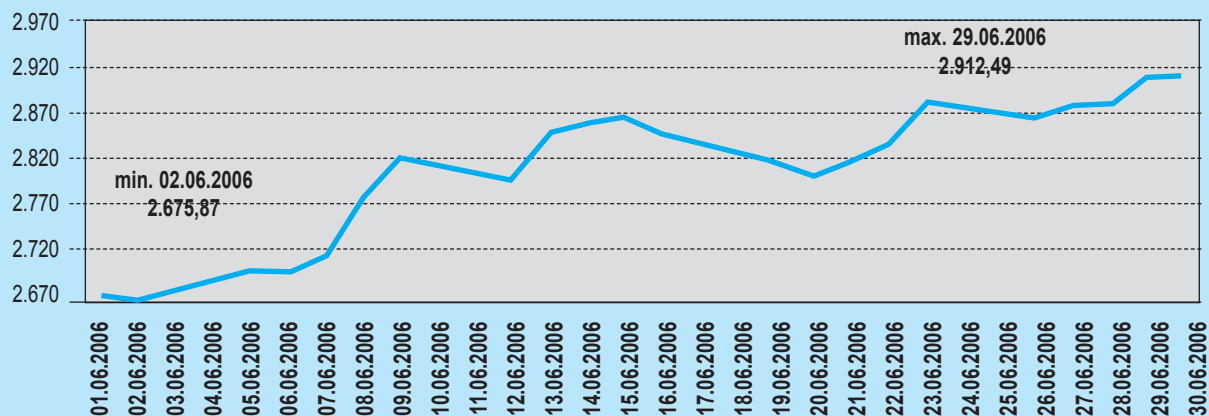
In June 2006, regarding the total trading realized on the official market on the Macedonian Stock Exchange, foreign investors participated with 14.90%, and in relation to the previous month, their share increased by 0.24%. Share of foreign investors in the total trading on the Stock Exchange in the analyzed period was 1.54%, whereby the share of the domestic investors accounted for 48.47%.

Share of foreign investors in the total buyout on the Stock Exchange in June 2006 was 7.60%, while the domestic investors participated with 42.39% in the total buyout on the Macedonian Stock Exchange.

Macedonian Stock Exchange

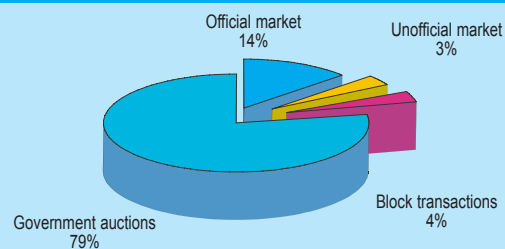
MACEDONIAN STOCK EXCHANGE

	May 2006	June 2006	% Change
TURNOVER (denars)			
TRADING IN BEST	687.751.649	1.196.321.926	73,95%
Shares	532.528.980	820.486.149	54,07%
Bonds	155.222.669	375.835.777	142,13%
DAILY AVERAGE TURNOVER (denars)	32.750.078	54.378.269	66,04%
DAILY AVERAGE NUMBER OF TRANSACTIONS	144	159	10,42%
BLOCK TRANSACTIONS	73.707.794	247.815.846	236,21%
GOVERNMENT AUCTIONS	683.340.550	5.529.460.826	709,18%
Shares	683.340.550	4.734.419.271	592,83%
Stakes	-	795.041.555	-
TOTAL	1.444.799.993	6.973.598.598	382,67%
VOLUME (in securities)			
SHARES	573.192	11.315.935	1.874,20%
TRADING IN BEST	375.023	782.558	108,67%
BLOCK TRANSACTIONS	48.212	230.998	379,13%
GOVERNMENT AUCTIONS	149.957	10.302.379	-
BONDS (NV in EURO'S)	-	3	-
NUMBER OF TRANSACTIONS	3.161.730	7.425.793	134,86%
TRADING IN BEST			
BLOCK TRANSACTIONS	3.017	3.493	15,78%
GOVERNMENT AUCTIONS	8	20	150,00%
TOTAL	10	382	-
MARKET CAPITALIZATION (denars)	3.035	3.895	28,34%
MARKET CAPITALIZATION OF SHARES			
LISTED SHARES	60.637.781.542	61.570.949.788	1,54%
PUBLICLY HELD COMPANIES	38.509.828.324	39.146.091.368	1,65%
MARKET CAPITALIZATION OF BONDS	22.127.953.218	22.424.858.420	1,34%
TOTAL MARKET CAPITALIZATION	24.208.401.729	24.051.577.086	- 0,65%
MBI-10	84.846.183.271	85.622.526.874	0,92%
NUMBER OF LISTED SECURITIES	2.676,38	2.911,68	8,79%
	50	50	-
	21	22	4,76%



Turnover structure

Market segment	Turnover (denars)	Turnover (EUR)	%	No. of trans.
Official market	961.913.460	15.725.390	13,79	3.006
Unofficial market	234.408.466	3.831.998	3,36	487
Block transactions	247.815.846	4.051.154	3,55	20
Government auctions	5.529.460.826	90.409.038	79,29	382
TOTAL	6.973.598.598	114.017.580	100,00	3.895



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	5.000	4.380	4.725	41.278	189.216.702	3.093.354	23,90	394	9.995.003.686
Blagoj Gorev veles	1.273	850	908	147.494	145.911.038	2.385.200	18,43	82	656.868.000
Agropod Resen	12.602	12.235	12.419	5.404	68.077.353	1.112.892	8,60	7	264.957.050
Alkaloid Skopje	4.150	3.900	4.047	16.774	67.917.608	1.110.328	8,58	366	5.794.748.600
Replek Skopje	28.390	24.720	27.874	2.183	65.002.344	1.062.643	8,21	14	735.868.800
Makpetrol Skopje	28.839	22.301	25.645	1.987	51.443.059	841.001	6,50	204	3.161.137.559
Stopanska banka Bitola	10.100	9.599	9.753	4.835	47.340.073	773.908	5,98	84	3.541.346.315
Granit Skopje	400	326	370	119.051	45.352.907	741.418	5,73	267	1.218.468.083
Makedonija Turist Skopje	2.500	2.400	2.434	9.432	23.358.850	381.849	2,95	47	1.130.617.500
KIB Kumanovo	1.190	1.082	1.136	19.978	18.827.410	307.795	2,38	7	153.099.450
Other				154.561	69.252.995	1.132.181	8,75	676	12.493.976.325
TOTAL				522.977	791.700.339	12.942.570	100,00	2.148	39.146.091.368

TOP 3 GAINERS*

Issuer	May 2006 Average price (denars)	June 2006 Average price (denars)	% change
RZ Makstil Skopje	24,29	29,30	20,63%
Makpetrol Skopje	21.265,40	25.645,15	20,60%
Replek Skopje	23.482,50	27.873,99	18,70%

TOP 3 LOSERS*

Issuer	March 2006 Average price (denars)	April 2006 Average price (denars)	% change
Teteks kreditna banka Sk.	333,00	251,00	24,62%
Ohis Skopje	190,00	144,67	23,86%
Replek Skopje	41,47	39,29	5,26%

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)	86,9	85,1	86,50	30.06.2006	658.237	34.821.784,05	569.295,56	7,85%
Government bonds Denationalization I issue (RMDEN01)	84	84	84,00	30.06.2006	16.616	853.835,64	13.957,44	7,64%
Government bonds Denationalization II issue (RMDEN02)	83	81,9	83,00	29.06.2006	313.340	15.760.255,84	257.643,00	7,30%
Government bonds Denationalization III issue (RMDEN03)	83	79	80,76	30.06.2006	383.425	18.983.066,19	310.336,25	7,46%
Government bonds Denationalization IV issue (RMDEN04)	83,2	78,5	79,50	30.06.2006	1.592.240	78.597.659,39	1.284.898,51	7,31%
Government bonds Denationalization V issue (RMDEN05)	83	77	80,43	30.06.2006	4.461.089	218.223.816,69	3.567.522,57	6,47%
Continuous Government bonds No.1 (RMBV01)	101,6	101,6	101,60	14.06.2006	846	8.595.360,00	140.514,13	8,67%

*The model for calculation of yield to maturity is adapted to the characteristics of the bonds. Calculation date is 30.06.2006, 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⁾	May 2005 ³⁾	June 2006 ³⁾	
Alkaloid Skopje	17,97	1,88%	8,39%	9,43%	1,04%
Granit Skopje	5,32	3,78%	7,78%	17,38%	9,60%
ZK Pelagonija Bitola	28,07	0,00%	2,05%	3,28%	1,23%
Komercijalna banka Skopje	24,74	3,02%	27,18%	32,67%	5,49%
Makedonijaturist Skopje	10,34	4,01%	3,42%	4,00%	0,58%
Makpetrol Skopje	21,36	2,24%	3,90%	6,92%	3,02%
Ohridska banka Ohrid	19,59	5,15%	14,47%	15,21%	0,74%
Stopanska banka Bitola	14,00	5,20%	10,42%	16,06%	5,64%
Toplifkacija Skopje	18,42	4,61%	24,74%	25,09%	0,35%
Fersped Skopje	9,43	1,11%	3,45%	10,90%	7,45%

FOREIGN INVESTORS ON THE OFFICIAL MARKET ³⁾

	Foreign legal entities June 2006	Foreign private entities June 2006	Total foreign investors June 2006	Total foreign investors May 2006	% Change
Shares	16,81%	1,06%	17,87%	16,50%	1,37%
Bonds	6,17%	4,27%	10,44%	11,70%	-1,26%
Total official market	12,56%	2,34%	14,90%	14,66%	0,24%

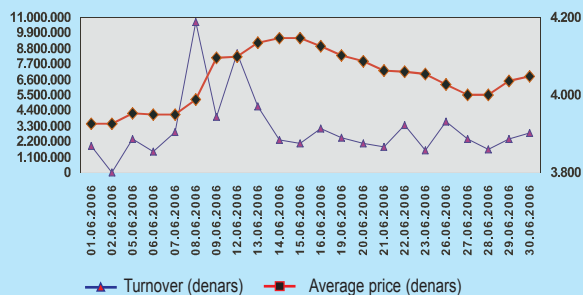
FOREIGN AND DOMESTIC INVESTORS IN THE TOTAL TURNOVER

June 2006	Buying % of total	Selling % of total	TOTAL
Foreign private investors	0,33%	0,31%	0,64%
Foreign legal investors	7,27%	1,23%	8,50%
Domestic private investors	7,49%	9,96%	17,45%
Domestic legal investors	34,90%	38,51%	73,41%

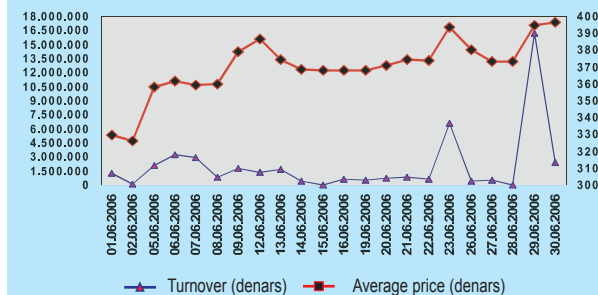
TURNOVER PER MEMBERS

Issuer	code	Trading in Best System	Trading in Best System (%)	State	State %	Block	Block %	Total
UNI banka AD	BL	33.490.865	1,40	0	0,00	3.743.943.864	67,71	3.777.434.729
Komercijalna banka AD	KB	483.065.656	20,19	0	0,00	371.132.198	6,71	854.197.854
Euro broker AD	EU	56.105.947	2,34	0	0,00	795.070.750	14,38	851.176.697
Tutunskabroker AD	TN	450.502.949	18,83	0	0,00	30.223.328	0,55	480.726.277
MAK broker AD	MK	173.604.621	7,26	254.850.000	51,42	0	0,00	428.454.621
Teteks-kreditna banka	TK	386.401.962	16,15	0	0,00	7.079.433	0,13	393.481.395
INVESTBROKER	MI	92.237.108	3,86	10.211.200	2,06	223.740.142	4,05	326.188.450
Fersped broker AD	FR	83.357.436	3,48	145.109.100	29,28	24.806.600	0,45	253.273.136
Stopanska banka AD	SB	116.701.749	4,88	0	0,00	128.737.410	2,33	245.439.159
INOVO broker AD	IN	89.151.313	3,73	0	0,00	125.845.670	2,28	214.996.983
Ilirika Investments	IL	95.095.019	3,97	21.299.312	4,30	70.095.511	1,27	186.489.842
Bitola broker AD	BB	172.342.954	7,20	0	0,00	312.000	0,01	172.654.954
Postel broker AD	PT	11.123.229	0,46	64.162.080	12,95	3.097.380	0,06	78.382.689
Ohridska banka AD	OH	50.907.003	2,13	0	0,00	388.050	0,01	51.295.053
Alta Vista broker AD	AV	45.641.317	1,91	0	0,00	3.355.950	0,06	48.997.267
Bro-dil AD	BD	36.914.180	1,54	0	0,00	1.511.640	0,03	38.425.820
Sileks banka AD	SL	16.000.547	0,67	0	0,00	120.900	0,00	16.121.447
Total		2.392.643.855	100,00	495.631.692	100,00	5.529.460.826	100,00	8.417.736.373

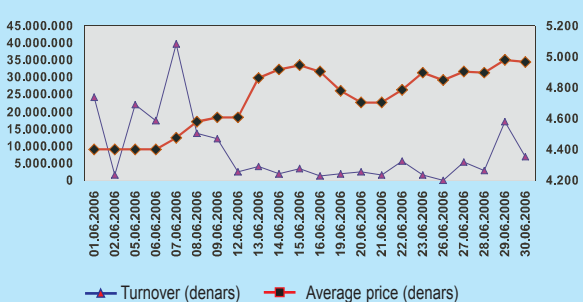
ALKALOID AD SKOPJE



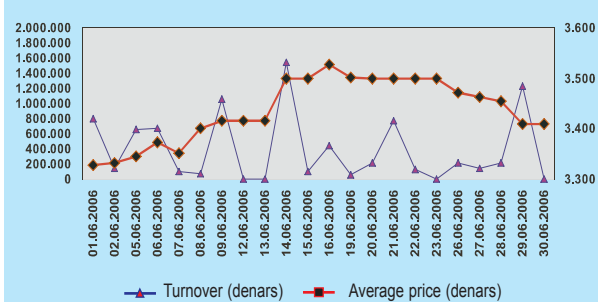
GRANIT AD SKOPJE



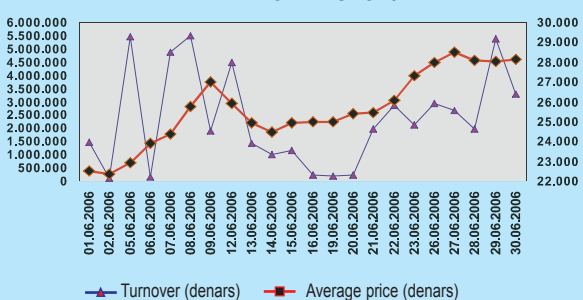
KOMERCIJALNA BANKA AD SKOPJE



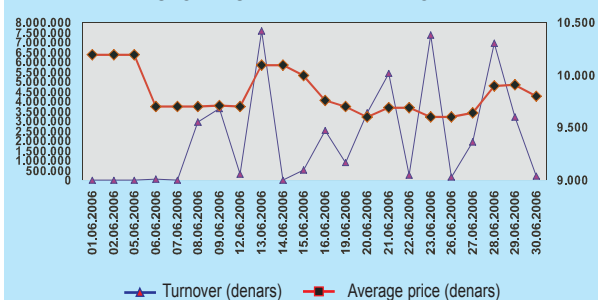
TOPLIFIKACIJA AD SKOPJE



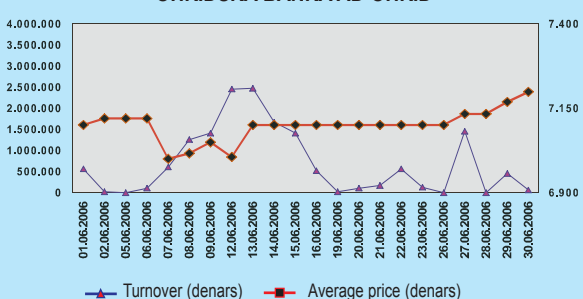
MAKPETROL AD SKOPJE



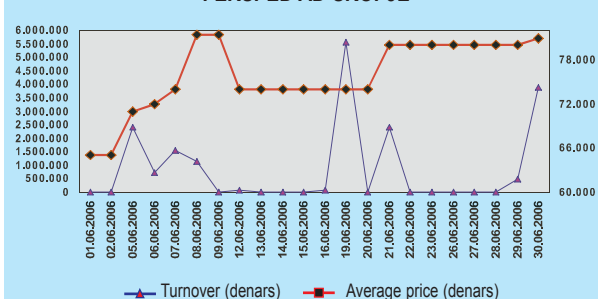
STOPANSKA BANKA AD BITOLA



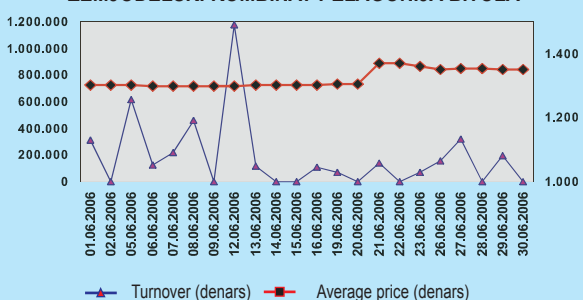
OHRIDSKA BANKA AD OHRID



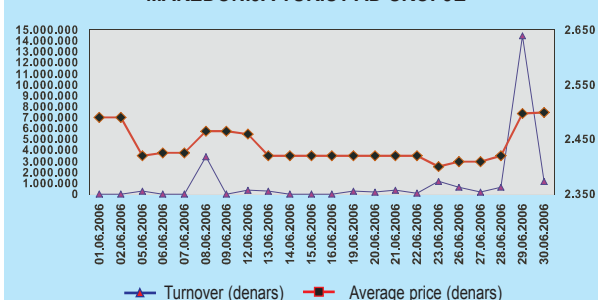
FERSPED AD SKOPJE



ZEMJODELSKI KOMBINAT PELAGONIJA BITOLA



MAKEDONIJA TURIST AD SKOPJE



MONEY AND SHORT-TERM SECURITIES MARKET

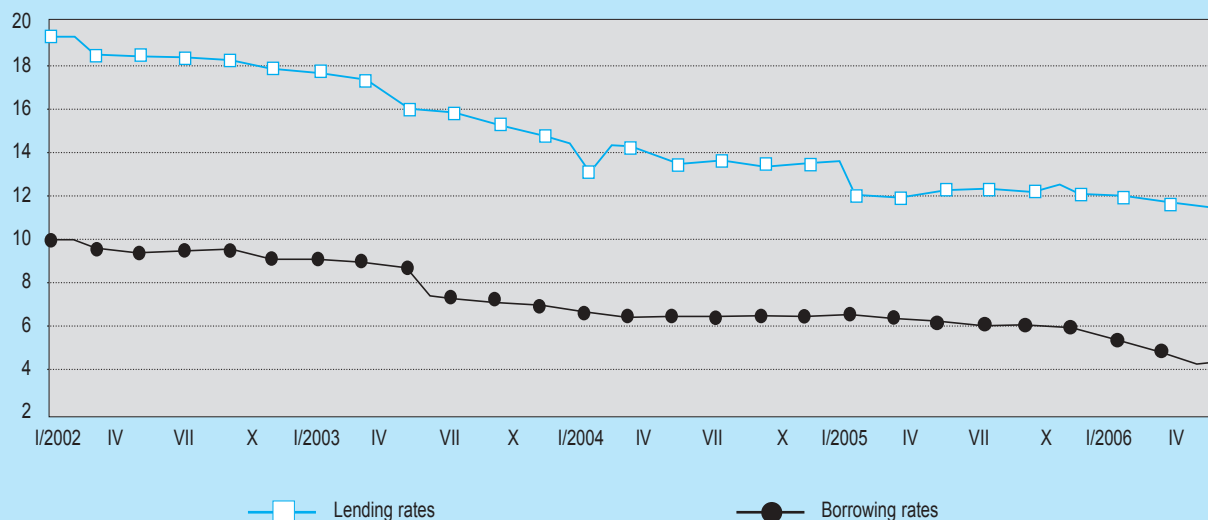
In May 2006 no transactions were made on the official money market. On the other hand, the direct bilateral trading by banks was intensified, so the turnover on the non-institutionalised money market was Denar 1.188 million (monthly rise by 1.8 times). Average interest rate on the inter-bank money market in May was 5,7% (compared to the previous month, it is by 0,7 percentage points lower).

With respect to the interest rate policy of the banks, in June 2006, there were no significant changes. Thus, the average weighted interest rate on debit balance on denar credits, for all terms and sectors in May 2006 remained at the same level as in the previous month and was 11,5%, while the average weighted interest on credit balances for all terms and sectors on monthly basis was lower by 0,4 percentage points and was 4,2%. Thereby, the interest margin was expanded by 0,4 percentage points.

In June 2006, total turnover on the inter-bank money market was Denar 1.407 million, which is an increase by 18,4% on monthly basis. Average interest rate on the inter-bank money market in June was 5,4% (compared to the previous month, it is by 0,3 percentage points lower).

With respect to the interest rate policy of the banks, in June 2006, there were no significant changes. Thus, the average weighted interest rate on debit balance on denar credits, for all terms and sectors in June 2006 was 11,3% and reduced on monthly basis by 0,2, while the average weighted interest on credit balances for all terms and sectors grew on monthly basis by 0,1 percentage points and was 4,3%.

Lending and borrowing interest rate of the commercial banks



DEPOSITS OF CITIZENS AND ENTERPRISES AT THE BANKS

Total bank deposits in May 2006 grew monthly by 1,4%, and from the aspect of the currency structure, divergent trends were registered. Foreign currency deposits on monthly basis declined by 0,2%, as a result of the decline in the long-term foreign currency deposits by 10%. On the other hand, increased propensity to save in domestic currency on both short and long term (growth of short-term and long-term denar deposits by 4,4% and 0,5%, respectively) caused positive monthly change in total denar deposits (4% growth).

Analysis by sectors shows moderate growth of deposits of the population by 0,2%, as well as higher level of denar deposits up to three months and foreign currency deposits up to one year. Monthly increase of short-term and long-term deposits is 0,1% and 2,4%, respectively, and at the same time, Denar and foreign currency deposits grew by 0,6% and 0,1%.

Deposits of enterprises at end-May 2006 amounted to Denar 26.964 million, being an increase by 4,4% on monthly basis, mainly as a result of the intensive monthly growth one-month Denar deposits. On annual level (May 2005 / May 2006) total deposits of the private sector at banks are by 17,4% higher.

Total deposits with the banks in June 2006 declined by 1,4% in relation to the previous month, after continuous nine-month growth. Such dynamics is a result of the deposit decline in domestic currency by 8,3% (decline in short-term and long-term denar deposits by 9,1 and 0,5%, respectively). Foreign currency deposits grew monthly by 2,9%.

Observed by sectors, the decline of the denar deposits (by 10,2%) was caused by the decline in the short-term denar

deposits of the corporate sector, caused by the realized purchase of state auctions by a single large enterprise. Foreign currency deposits of enterprises increased on monthly basis by 5,1%.

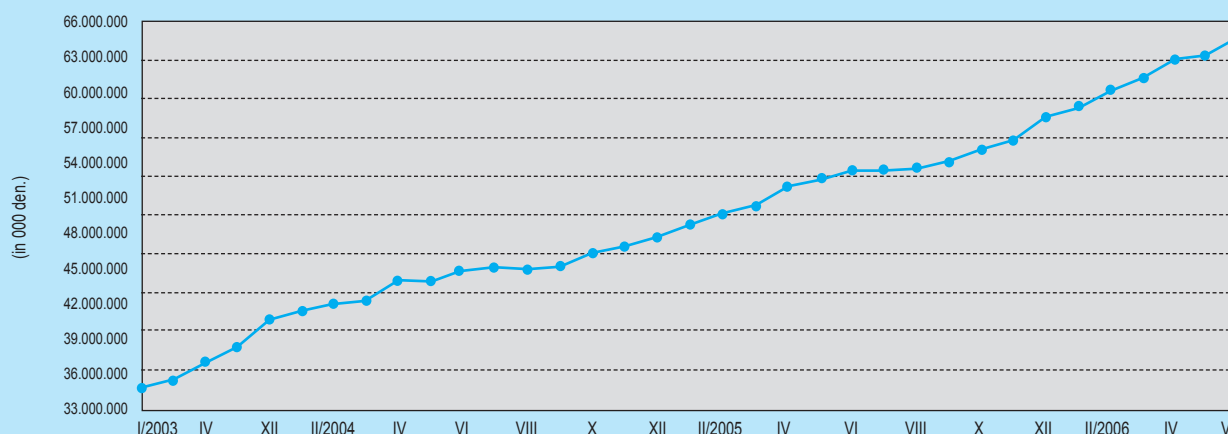
Deposits of the citizens reached Denar 60.436 million, i.e. they were by 2,3% higher on monthly basis, reflecting the growth of all categories of deposits from the aspect of the maturity and the currency structure, excluding the insignificant decline of the time denar deposits over one year. On annual level total deposits of the private sector with the banks in June this year were by 12,9% higher.

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

Deposit Insurance Fund

Out of the total calculated obligation for indemnification in the amount of (3 banks and 2 savings houses) in the amount of Denar 185.287 million, by June 30, 2006, the Deposit Insurance Fund paid indemnification in the amount of Denar 173.774 million. As of June this year inclusive, the Fund paid 93,79% out of the total calculated obligation for indemnification and for the sixth month only, the paid indemnification is Denar 3.000.000. The ratio of total Fund assets and total deposits of physical persons is 3,3%.

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

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

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

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

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

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

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

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

Guarantees	Guarantee fund - project of the Swedish International Development Cooperation Agency (SIDA)	Credit fund	Fund for crediting of SMEs - USAID project
Conditions for approval of guarantee to final beneficiaries	Guarantees are extended for all credits from the credit lines distributed via the banks - signatories for cooperation with the GF (except consumer and housing credits)	Types of credits	Short-term innovative credits for working capital for the SMEs: credits for financing orders for known buyer, export-oriented production, factoring etc.
Types of guarantees	<p align="center">Credit guarantees:</p> <p>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> <p align="center">Suppliers guarantees:</p> <p>1. for purchase of fixed assets 2. for procurement of raw materials and intermediate materials</p>	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

IMF: MACEDONIAN ECONOMIC PERFORMANCE IMPROVES

Economic performance in the Republic of Macedonia has started to improve. This was stated by the International Monetary Fund in its country report recently. IMF representatives also expressed this position during their visit of the country several months ago, aimed at a general review of the economic policy in Macedonia. On 28th July 2006, IMF Executive Board of Directors concluded the consultations under Article IV with Macedonia.

"Following the decade of sluggish economic growth, mainly result of the external shocks, economic growth now reached 4% in the two years in a row. Growth in 2005 was stimulated by the strong export. Balanced fiscal policy and fixed exchange rate mainly kept the inflation in the country under control. External position of the country was strengthened, with foreign currency reserves increasing from EUR 700 at the end of 2004 to EUR 1.2 billion in May 2006, covering even more of the 4-month import of the country or 25% of GDP. There was a sharp decline of the current account deficit to 1.3% of GDP in 2005, which was



due to the increased private transfers, although they can also include some capital transactions", says the IMF report.

They also emphasized that banking credit in the country expanded, especially to households and in foreign currency, although slowly in relation to the crediting in the other countries in the region.

However, IMF remarked in its report that transparency in spending budget funds still improved with a slow pace. This remark was also the main one during their recent screening of the economic performance in Macedonia. IMF are at the position that control over spending budget funds is the weakest point regarding the Health Insurance Fund, as well as the management with public enterprises. IMF representatives concluded that, despite the many administrative reforms in the Health Insurance Fund, this sector is still over-employed and inefficient, and funds are still spend in a non-transparent manner.

MACEDONIAN COMPANIES INVESTED US\$ 4 MILLION ABROAD LAST YEAR

According to the data in the National Bank of the Republic of Macedonia (NBRM), Macedonian companies invested US\$ 4,096,303.44 abroad last year. Most money was invested in mining, metallurgy and office equipment and computers. Target of the Macedonian companies is also retail and wholesale. According to NBRM, our companies invested the most in Albania (US\$ 2.5 million), China (US\$ 1.1 million), and Serbia and Montenegro (US\$ 312 million). In the first three months in 2006, investments abroad amounted to US\$ 116,402.39. Most of the funds were invested in the food products-related business. In the first three months in 2006, most of the investments were in Serbia and Montenegro.

EXPLORING MACEDONIA HAS OVER 2,000 VISITORS DAILY

Following the release of the video on Macedonia on the Internet website Richard Bangs Adventures, number of visitors to the national tourist portal Exploring Macedonia increased twice. "In a week, the number of different visitors to our site has increased twice, and now we have over 2,000 visitors daily", said Sasa Gavrilovik, Exploring Macedonia Manager. On the other hand, number of Internet websites the visitors to Exploring Macedonia open through their site is 200,000.

Gavrilovik said that in this period most of the interested foreign tourists for adventurous places in the country are from the near region. Exploring Macedonia are ready to



provide accommodation to all tourists who would wish to feel the adventures of Macedonia presented through the videos of Richardr Bangs.

USAID Director, Mr. Richard Goldman, stated that he hoped tourist industry in Macedonia would be ready to accept all tourists who, thanks to this promotion on Yahoo, would like to come to Macedonia. According to Gavrilovik, aim of the video on Macedonia, shown on the front page of adventures.yahoo was not to present Macedonia as mass tourist market, but rather as an adventurous destination. Video on Macedonia on the front page of adventures.yahoo will remain by the end of July.

RAMSTORE - BIGGEST INVESTOR, ON.NET - MOST INNOVATIVE

Ramstore Macedonia is the biggest greenfield investment in Macedonia, while On.net won the national award for "Most Innovative Domestic Investor of the Year". The award Ramstore received was for its investment in the amount of EUR 22 million, first by buying construction plot in Skopje, construction of the facility, and then for the management therein.

On.net was awarded for Wi-Fi investment, wireless internet connection under the mobile telephony principle. The awards were presented at the event "Investor of the Year in 2006 for Southeast Europe", intended for international and domestic companies that invested in



Macedonia, Bosnia and Herzegovina, Croatia, Moldova, Montenegro, Romania and Serbia last year.

"21 companies were nominated for the International Investors of the Year award, total investments of which amounted to around EUR 6.1 billion. 14 companies were nominated for the Innovative Domestic Investor of the Year award, which hold 43 registered patents in the period from 2003 to 2005", said director of the Foreign Investments Agency, Mr. Viktor Delov. "The Agency nominated "Ramstore Macedonia" for greenfield investment and in the largest employer category, "Bucim Radovis", i.e. "Solvei Industry" from St. Vincent and the Grenadines in the subcategory - privatization, acquisition and concession, and "On.net", "EinSoft" and "Alkaloid" in the Innovative Domestic Investors category.

Biggest investor in Southeast Europe was "Erste Bank" (the largest privatization in SEE) for the privatization of Banca Comerciala in Romania in the amount of EUR 3.7 billion.

ESM PUT NEW SUB-STATION INTO OPERATION IN STIP

"ESM Distribution and Supply" put new sub-station into operation in Stip today. Thus sub-station is to supply with electricity around 4,000 consumers in this region. Substation 35/10 is with 6 MW installation power, and its construction costs EUR 600,000. The company provided money for the construction from its own funds. Substation construction commenced in January last year.

"Investments in new facilities is primary objective of ESM, as part of EVN Group", state Chairman of the Management Board, Mr. Georg Waldner. He also added that the company's priority is quality and safe electricity supply for the consumers.

DUTCH COOPERATION ASSISTANCE IN THE BUSINESS AREA

Netherlands government agency will provide assistance to the Macedonian small and medium-sized enterprises to easily seek for strategic partners in the Netherlands so as to realize joint investment projects. It is about the Agency for International Business and Cooperation (EVD) of the Ministry of Economic Affairs and Ministry of Foreign Affairs of the Netherlands, which is interested, besides in Macedonia, to also extend assistance to the local compa-

nies in Albania, Bosnia and Herzegovina and Serbia. To the end of realizing these plans, the Agency will organize Conference on Investments on the Balkans in October in Sarajevo, so as to promote the region as an attractive destination for investments by the Dutch companies. EVD and the Dutch embassies in the Balkan countries, as it is announced on the official website of the Chamber of Commerce of the Republic of Macedonia, have already commenced the preparations for the Conference through the implementation of the Contact Facilitation Program.

Local companies interested in participating in the Program can submit the forms, together with project description, to the Embassy of the Kingdom of the Netherlands in Skopje or through their website. Chamber of Commerce informed that should there be a contact from the Netherlands, the local company should apply to the Agency with EUR 5,000 voucher. The local company can use this voucher to engage a consulting company, that will assist in the establishment of the contact between the local company and the potential Dutch partner. The local company should also bear the travel costs in the amount of EUR 1,000 for the persons to visit the potential partner in the Netherlands.

BANKS - MOST PROFITABLE COMPANIES

Komercijalna banka, "Toplifikacija", "Alkaloid", Stopanska banka - Bitola and Ohridska banka - these are the most profitable companies in the country according to non-revised financial reports the listed companies submitted to the Macedonian Securities Stock Exchange.

Banking remains to be the most lucrative business in the country. Out of the thirty and so joint stock companies that submitted semi-annual reports to the Stock Exchange, the banks still have the most favourable results in the first half of the year. This has been the case several years already, however, this year even three, out of the first five companies, according to their successful financial performance, are banks.

Komercijalna banka is a company with higher profit in the first half of the year compared to the companies listed on the Stock Exchange. It is followed by "Toplifikacija" and "Alkaloid", Stopanska banka - Bitola and Ohridska banka.

In the period January-June 2006, Komercijalna banka realized profit of over EUR 6 million, being twice as much compared to the same period last year. Experts say that good financial results are one of the reasons for the

increase of the share prices in this joint stock company, despite the announcements for entry of foreign capital. Invest banka and Ohridska banka realized significantly higher profit.



Businessmen are at the position that the economic state in the country is slightly better compared to the one last year, when most of the companies realized less profit than in 2004. This year more than half of the companies, having submitted semi-annual non-revised income statements, achieved better results in relation to the same period last year, and most of the other companies have almost identical results to the last year ones.

CROATIAN POSTAL BANK INVESTED EUR 4.5 MILLION IN SHARES IN TUTUNSKA BANKA AND GRANIT - SKOPJE

Croatian Postal Bank invested EUR 4.5 million in shares in Tutunska banka and in Granit - Skopje, says the most recent official monthly report of the Central Securities depositary, only government authorized institution that keeps shareholders lists of the domestic companies. According to the available data, Croatian Postal Bank has portfolio investment in Tutunska banka, where it bought 5.12% of the ordinary shares of the bank, paying around EUR 2.74 million. Croatian Postal Bank, taking into account this portfolio investment, has entered among the ten largest individual shareholders in the bank.

With respect to Granit, this Bank paid EUR 1.77 million for its portfolio investment. The Bank bought ordinary shares in Granit (7.8% of the total ordinary shares) sold by Pension and Disability Fund of Macedonia, and the Bank paid EUR 1.4 million, and additional EUR 372,000 for the shares bought via traditional trading on the Stock Exchange. According to the latest available data, the bank has assets worth EUR 1 billion by the end of 2005,

accounting for 31.1% growth in relation to 2004. The Bank completed last year with a profit in the amount of EUR 12.4 million. The Bank was established in 1990, employs 290 persons, offers credits to companies, citizens, deals with investment banking, and also offers its clients portfolio creation. Last year, it decided to start investing in securities in the Republic of Macedonia, Serbia and Montenegro. It is seated in Zagreb, and has 7 branch offices and 4 subsidiaries in Croatia.

NUMBER OF PAYMENT CARD USERS INCREASED BY 40% IN A YEAR

Number of payment cards in June 2006 reached close to 227,000, including both debit and credit ones. In only a year, Macedonian citizens opened new 70,000 cards, accounting for 44% annual increase. However, despite the increase in the number of cards in circulation, volume of the transactions executed through cards was lower in June compared to the same month last year. Last month, EUR 18 million was paid with cards, being by EUR 680,000 less in relation to June last year. Most of the cards in circulation or 102,000 are debit ones, meaning that one cannot withdraw funds more than the funds deposited on the account. Around 80,000 cards are credit ones, enabling to borrow at the banks. In June, half of the total transactions with payment cards were made with debit ones, and one third with credit ones.

MBDP PROMOTES CREDITS FOR SMALL AND MEDIUM-SIZE ENTERPRISES WITH 7% INTEREST

Today, Macedonian Bank for Development Promotion (MBDP) promoted the new credit line, extended by the Council of Europe Development Bank (CEB). It is a credit in the amount of EUR 10 million intended for financing small and medium-sized enterprises in Macedonia. "This credit line is of great significance for the Macedonian economy, since it is expected to open and keep at least 950 job positions. So far, such kind of loan has not been offered in our country. Its attractiveness is mainly in its flexibility and possibility to be combined with other credit lines", pointed out MBDP General Manager. According to the Ministry of Finance, this credit line is also of great importance owing to the fact it has been extended with no sovereign guarantee. "Rarely it happens for a loan to be awarded without sovereign guarantee. It means that the European Bank for Development Promotion considers our banking system as stable, which is an exceptional success, but it is also a responsibility, in particular for the

commercial banks, the Ministry and the Government", said representatives from the Ministry. Funds from the credit line will be disbursed through the commercial banks. It is envisaged for all sector, except agriculture and military industry, to be financed.

Maximum amount of the credits is EUR 400,000, with a support up to 50% of the total value of the project. Repayment period is seven years, and it will start after two years. Interest rate is variable and is around 7% at annual level. Small and medium-sized companies with maximum of 250 employees can apply for this credit.

SLOVENIAN YACHTS TO BE MANUFACTURED IN GEVGELIJA

Slovenian company "Evi" from Ljubljana, specialized in production of medical equipment, special equipment, plastic and high-quality comfortable luxurious boats, plans to open a plant for manufacturing of smaller yachts in Gevgelija. Company representatives met municipal high representatives and requested assistance in ensuring a workshop covering an area of 2,000 square meters and a courtyard for final processing and storing of the yachts.



"Evi" representative stated that they would like to invest in Gevgelija because it is close to the Thessalonika port and because of their plans to expand the company on the Greek market, but also because of the qualified labour force. The company manufactures medium-sized yachts, i.e. sail boats, intended for cruising. It will perform the final processing of already made models, mainly from plastic mass, as well as full equipping of the boats, for which there is a high demand in Slovenia, Italy, Austria and Hungary. "Evi" yachts are intended for medium class buyers.

EMERGING MARKETS AND INTEREST RATES - BERNANKE HAS IT EASY

Developing countries have their own monetary headaches



Sputtering platinum smelters and dwindling diamond deposits do not rank highly on the list of concerns of the world's "big three" central bankers-Ben Bernanke, chairman of the Federal Reserve, Jean-Claude Trichet, president of the European Central Bank and Toshihiko Fukui, governor of the Bank of Japan. Both, however, feature in the latest inflation report of the South African Reserve Bank, which, as *The Economist* went to press, was expected to raise its benchmark interest rate by as much as half a percentage point, to 8%, having already raised it by the same amount in June.

The connection between tight monetary policy and troubled quarries and furnaces may seem a bit murky. But such is the lot of a central banker in an emerging economy, where troubles brew in remote places then break with unpredictable force. Platinum, palladium, gold and diamonds account for almost a quarter of South Africa's exports. But mining output struggled last year and shrank by about 6% in the first five months of this year. South Africa's lacklustre exports are one reason why its merchandise trade deficit was the

worst on record in the first quarter and not much better in the second. The trade gap put downward pressure on the rand, which has, in turn, put upward pressure on prices. Hence the increase in interest rates.

South Africa's central bank is not alone in spreading its wings and sharpening its talons. The Czechs, Indians, Slovaks, Israelis, Hungarians and Turks all raised rates last month. Like their counterparts in Pretoria, central bankers in these countries face their own idiosyncratic challenges to price stability. In Israel, for example, the central bank wants to know how much slack remains in the job market. But how to calculate that, when the Israeli army might any day call up its reserves, which represent about 18% of the labour force?

These peculiarities aside, the central bankers share some common complaints. Their lives have all been complicated by Mr Fukui's recent triumph over deflation and Mr Bernanke's rearguard action against inflation. Thanks in part to their efforts, money is now harder to come by.

Investors thus became less willing to throw it at emerging-market assets. As a result, currencies fell in May and June, stoking inflationary pressures.

Turkey's central bank has waged the fiercest fight. It has raised rates by as much in two months as the Fed has in two years. In December 2005, it set itself the target of reducing annual inflation steadily from 7.7% to 5% by the end of this year. By June, however, annual inflation was running at over 10%. Has Turkey been overheating? The economy grew by 6.4% in the year to the first quarter, the stockmarket boomed and the current-account deficit widened. Perhaps most telling, Harvey Nichols plans to open a luxury store in Istanbul.

But the central bank lays the blame elsewhere. In an open letter, explaining the breach of its target, it bemoans higher oil, food and gold prices. Most of all it blames the lira, which fell by 23% against the dollar between May 5th and June 23rd. Were it not for this currency mischief, the bank calculates, annual inflation would have been a pardonable 8.6% in June.

The central banks of both Turkey and South Africa have promised not to allow faster inflation to persist. But so far, it seems, only South Africa's commitment is much believed. Despite the fall in the rand, South Africans expect their central bank to keep inflation within its target range of 3-6% this year and next-after all, it has done so successfully since September 2003. The weaker lira has, however, "disrupted inflation expectations" in Turkey, the central bank admitted in the minutes of its July meeting, released this week. According to its latest survey, Turks now think inflation will exceed 8% in a year, and be over 6% two years hence.

Forint or against it

As investors become pickier, keen to distinguish one emerging market from another, they may begin to see Hungary in the same light as Turkey and South Africa. It too runs a big current-account deficit, which the IMF thinks will exceed 9% of GDP this year. Indeed, on fiscal matters, the comparison is rather to Hungary's disadvantage. Turkey may labour under heavy public debts, but it is at least running a heroic budget surplus, before interest payments, estimated at 6.4% of GDP. South Africa now runs a modest fiscal deficit, but its stock of debt is quite manageable. Hungary, on the other hand, has both high debts (almost 60% of GDP in 2005) and a wide budget deficit. Nouriel Roubini, of Roubini Global Economics, calls it an "accident waiting to happen".

Curious then, that the Hungarian forint has so far escaped the traumas visited on the rand and the lira, falling by 10.7% from peak to trough this year. Inflation remains at just 2.8% but Hungary's central bank is not taking any chances: it raised interest rates by half a percentage point on July 24th, after a quarter-point increase in June. Mr Roubini offers three possible explanations. Perhaps the markets are complacent-but surely the turmoil of May and June woke them up? Maybe Hungary is shielded by its prospective membership of the euro-but a tie to the D-mark did not save the Italian lira or the pound sterling in the early 1990s. Or the markets may be giving the benefit of the doubt to a new government, which has unveiled plans to put public finances in order.

If so, the government impressed the markets more than the IMF, which publicly cast doubt on the wisdom and credibility of Hungary's strategy. Temporary expedients would temporarily appease the markets, the fund said, but the country would remain vulnerable.

No amount of monetary rectitude can save a country from fiscal recklessness. Indeed, hard money, which preserves the real value of domestic debts, may only serve to hasten the day of reckoning. Central bankers in

No amount of monetary rectitude can save a country from fiscal recklessness. Indeed, hard money, which preserves the real value of domestic debts, may only serve to hasten the day of reckoning. Central bankers in emerging economies must hazard faltering exports, vengeful currency markets and political tensions. But nothing troubles a central banker more than a profligate finance minister

emerging economies must hazard faltering exports, vengeful currency markets and political tensions. But nothing troubles a central banker more than a profligate finance minister.

The ECB and interest rates

"Predictable" would be an understatement. In early July Jean-Claude Trichet, president of the European Central Bank (ECB), had made it pretty plain that euro-area interest rates would rise this week. He mentioned vigilance a lot, which markets saw as barely disguised

code, and said that rather than confer by telephone, the usual August practice, rate-setters would swap swimwear for suits and gather in Frankfurt on August 3rd. Press conference to follow, in case you needed another hint. Rates duly went up by a quarter of a percentage point, to 3%.

On the real side of ledger, the euro area's GDP grew by 0.6% in the first quarter and probably managed something similar in the second. In the United States, where the economy grew by about this amount in the second quarter, this sort of pace is regarded as worryingly slow. In the euro zone, it looks unsustainably quick



Quite a few economists think that the ECB, having raised rates in December. March and June, will now do so every two months rather than three, implying rates of 3.5% by December. Although the bank is unlikely to plan things so mechanically - and would be foolish to - further increases look likely and will probably be justified.

For a start, policy is still loose by any measure: after allowing for inflation, rates are no more than 0.5%. Inflation stayed at 2.5% last month, according to a first estimate published this week, well above the ECB's target of below but close to 2%.

Nor does inflationary pressure look like easing, and not just because of the risk posed by oil prices. The ECB pays far more attention to monetary developments than other central banks, seeing in fast money growth warn-

ing signs about asset prices as well as consumer-price inflation. Although credit growth slowed last month, notably for house purchases, it is still much faster than the ECB would like.

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Faster growth is reflected in more buoyant labour markets. Although there are few signs yet that lower unemployment is feeding inflation, it is reaching the stage where it is worth watching (see chart). The unemployment rate across the zone fell to 7.8% in June, the lowest for nearly five years. Germany, the euro area's biggest economy, is looking much brighter-even if some of the sunshine will fade now that the World Cup is over: the jobless rate was 7.9% in June, down from 9.1% a year ago. Figures from the national labour office, which uses a different definition, suggest further marked improvement in July.

With strong retail sales in both Germany and France, this indicates, as the ECB has said for a while, that the euro area's recovery is becoming more broadly based, shifting from exports towards domestic demand. American economy is slowing sharply, that is just well.

Taken from:
"The Economist", August 5th-11th 2006

UNEMPLOYMENT IN FYR MACEDONIA

The analysis of different sources of employment data suggests that unemployment is probably less than 37 percent, but still high

Christine Dieterich

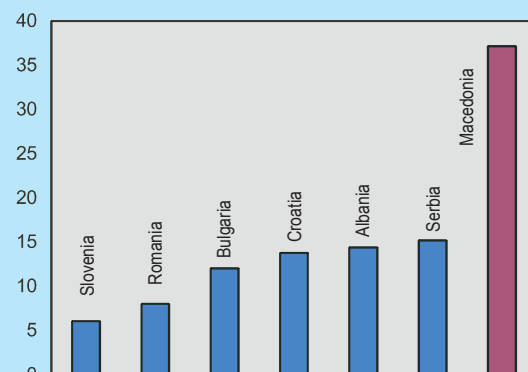
Christine Dieterich was born on December 3, 1965, in Stuttgart. She holds Degree in Economics at the University of Tuebingen, Germany. She has 4 years of working experience as an economist at the German Ministry of Finance and since 1998 she is with the IMF. Her main areas of expertise are public finance and taxation.

A. Introduction

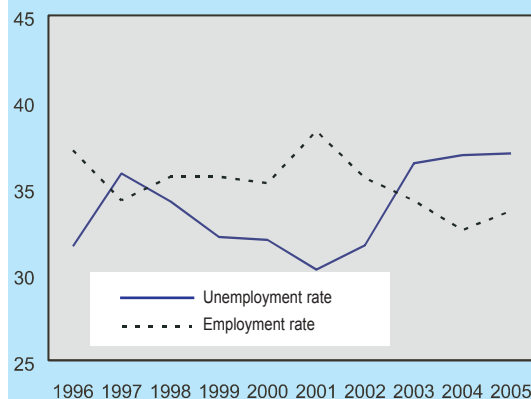
The official unemployment rate in FYR Macedonia is very high at around 37 percent in 2005-by far the highest in the region. Unemployment has been a problem in FYR Macedonia for a long time. Its unemployment rate was the highest among the former Yugoslav republics-close to 20 percent-and the situation was further aggravated during the transition process, during which unemployment has fluctuated at around 35 percent. Although employment finally started to pickup in 2005, the unemployment rate has remained stable due to an increase in labor force participation.

This paper will examine the reasons for FYR Macedonia's high unemployment by comparing it with other countries in the region. After a short description of the specifics of unemployment in FYR Macedonia, the paper discusses possible measurement problems that con-

Unemployment rate, 2004



Unemployment and employment rates



tribute to the high official unemployment rate. Using alternative sources of data, the unemployment rate fluctuates between 15 and 51 percent with the most reliable estimate around 25 percent. The paper then analyzes reasons for high unemployment and concludes with some reform proposals. These include increasing incentives for formal sector employment, changes in labor and tax legislation, and reform of the education system. However, in view of the still significant hidden unemployment and large share of long-term unemployed, reducing unemployment will be a long-run challenge.

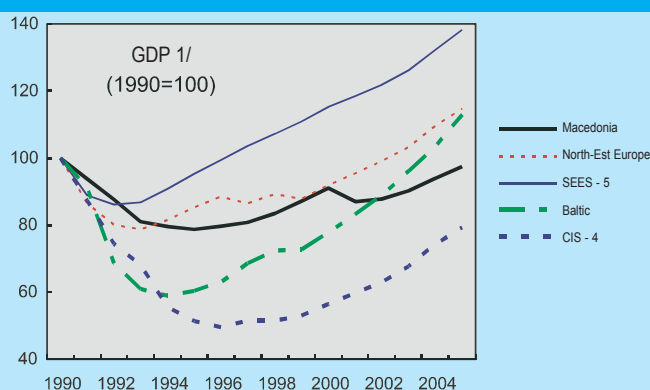
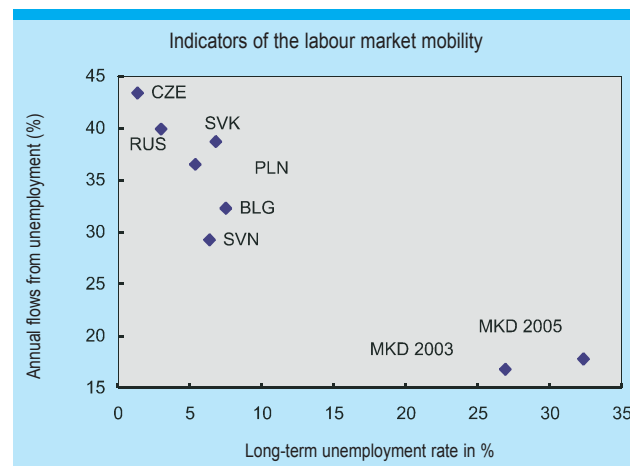
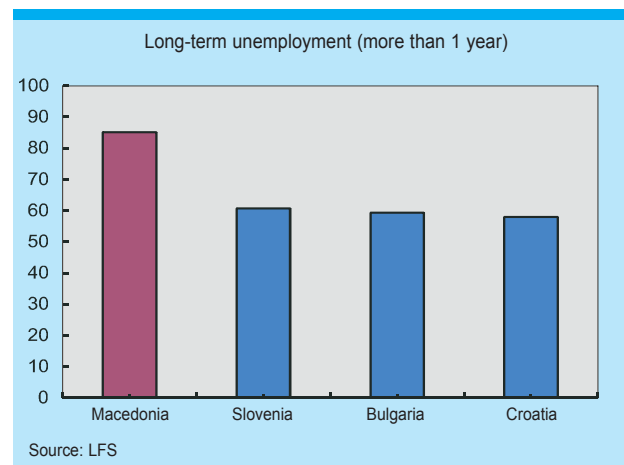
B. Labor Market Developments since Independence

Compared with other countries in the region, FYR Macedonia's performance has been rather weak. The CEEC 5 countries were able to limit the GDP decline early on and nevertheless show a strong growth performance. While GDP growth in the Baltic countries declined sharply during the early phase of transition, the recovery has been more pronounced than in FYR Macedonia. The economic recovery in Southeastern European countries was also stronger than in FYR Macedonia which reached its pre-transition GDP level only in 2005.

mies reveals very low flows from unemployment to employment in FYR Macedonia, resulting in very high long-term unemployment rates. On the positive side, labor market mobility increased in 2005, but this was mainly caused by the inflow of non-active workers into employment while long-term unemployment continued to increase. Another indicator of the sclerotic structure of the labor market is the high youth unemployment rate (about 65 percent of the labor force aged 15 to 24).

Gender, ethnic, and education indicators paint the following picture:

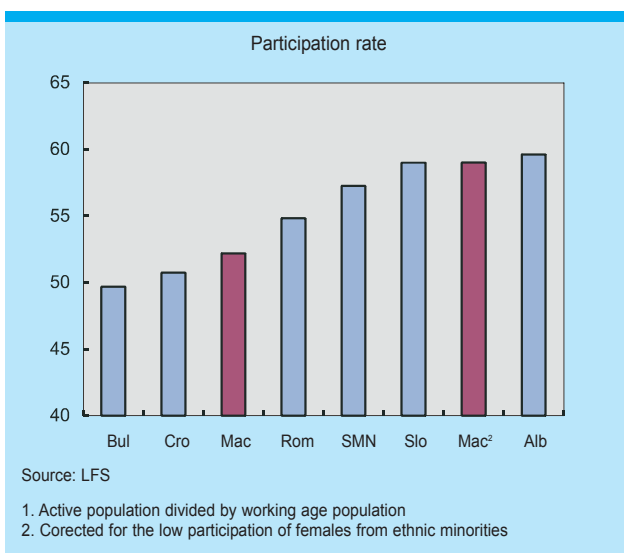
- The average unemployment rate is higher for women (around 38 percent) than for men (around 35 percent) which is in line with most European countries. The gender gap is largest for low skilled labor.
- FYR Macedonia's participation rate is low compared to other countries in the region. However, this mainly reflects ethnic factors, in particular, the low participation rate among ethnic Albanian women. Once corrected for this, FYR Macedonia's participation rate is quite high for the region.



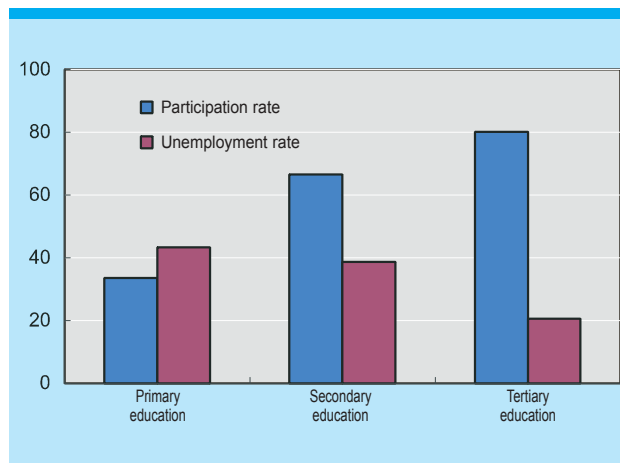
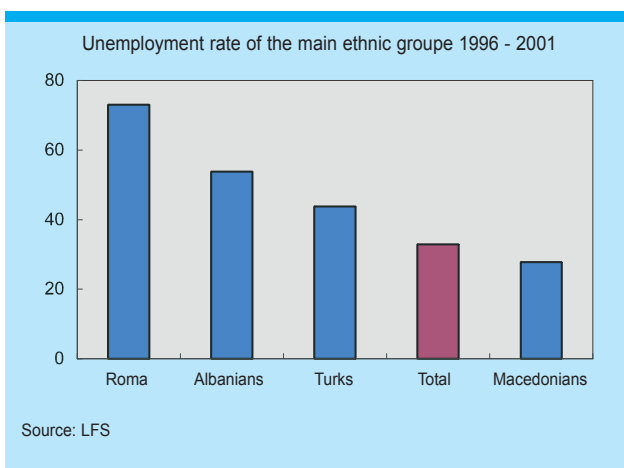
1. CIS-4 are: Belarus, Moldova, Russia and Ukraine
 CEEC-5 are: Czech republic, Hungary, Poland, Slovakia and Slovenia
 South-east Europe: Albania, Bulgaria, Croatia, Macedonia, Romania and SMN

The disappointing performance at the macro level is reflected in a sclerotic labor market structure, indicating a severe insider-outsider problem. While flow data between employment and unemployment is not widely available, a comparison with other transition econo-

- Based on 2001 data-the last LFS submission that included data by ethnicity-unemployment rates differ significantly among ethnicities. Anecdotal evidence suggests that ethnic factors also create barriers to regional mobility. However, the analysis of regional patterns of unemployment is constrained by the lack of regional data in the LFS.
- The higher the education level, the lower the unemployment rate and the higher the participation rate. Low skilled workers seem to rely more on grey economy employment which is in line with employment pattern in other transition economies (Rutkowski (2005)).



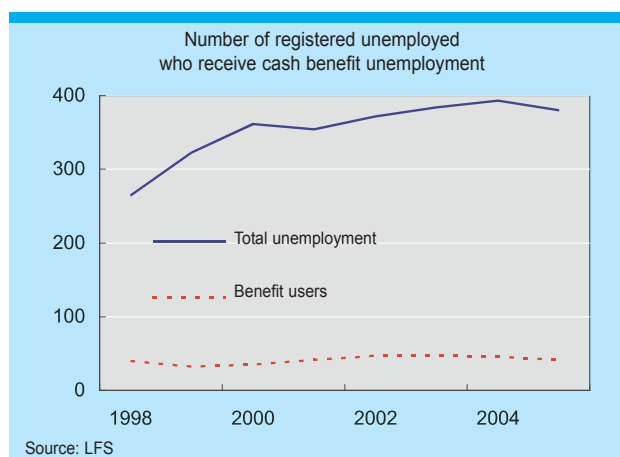
- Despite high unemployment, there is still significant hidden unemployment within firms as reflected in high wage arrears (around 15 percent of total wages), which has been relatively stable over the last years.



C. Is Unemployment Really 37 Percent?

6. The analysis of different sources of employment data suggests that unemployment is probably less than 37 percent, but still high. Three different data sources were analyzed to determine a more accurate estimate of unemployment:

- Official Labor Force Survey (LFS) and Employment Fund (EF) data: The LFS is the source of the official unemployment rate of 37 percent. Registered unemployment as recorded by the EF is even higher at 51 percent, inflated by grey economy workers registering as unemployed to obtain free health insurance.
- LFS and EF data corrected for grey economy activities: Estimates regarding the size of the grey economy fluctuate between 30 and 45 percent of formal GDP. Applying a grey economy estimate of Schneider (2005), which is around 37 percent for FYR Macedonia, the LFS and EF unemployment rates would drop to 15 and 34 percent (assuming that the level of unemployment is reduced by 37



percent of formal employment to include grey economy activity). The truth is probably somewhere in between as some grey economy workers registered with the EF already provide information about their employment status in the LFS. Another way of approaching the problem is to assume that all unemployed registered with the EF who only receive health insurance, but not unemployment insurance benefit, are actually employed in the grey economy. As most of the unemployed receive only health insurance, this would give an unemployment rate of around 15 percent. However, this approach neglects the fact that some people, in particular, youth unemployed, do not qualify for unemployment insurance as they have no contribution history.

- Household consumer survey (HCS): Participants of the HCS provide information on their sources of income, including the number of household members

Unemployment rate

	LFS	EF
Unemployment rate according to official data	37	51
Official data corrected for grey economy employment	15	33
EF data excluding recipients of health insurance only	...	15

Sources: SSO Employment fund, and IMF staff estimates

receiving wages. This data can be used to extrapolate the unemployment rate. However, data on some variables relevant for compiling employment are missing, in particular, the number of unpaid family workers. In the LFS, around 10 percent of the total employed are unpaid family workers. Applying this ratio to the number of employed according to the HCS data results in an unemployment rate of around 24 percent.

7. With estimates ranging between 15 and 51 percent it is difficult to assess the true unemployment rate. Probably the HCS is the most reliable source as it is least affected by the institutional incentive to register as unemployed to receive health benefits. Also, data collection at the household level might be less biased than the LFS, where respondents may fear that the government could use the individual information to track fraudulent unemployment registration of grey economy workers.

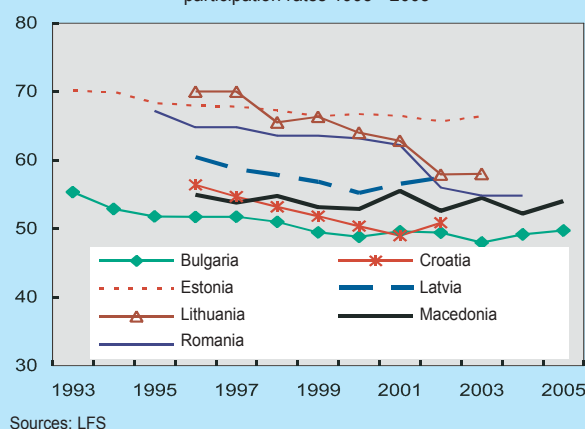
D. Why is Unemployment So High in FYR Macedonia?

Growth related factors

8. FYR Macedonia's low growth has limited the creation of new jobs to offset job losses in state owned companies. Reasons for the poor growth performance include political shocks like the closure of the Greek border, trade restrictions from the UN embargo on Serbia, and the Kosovo crisis which created an unfavorable business climate. But FYR Macedonia also entered the transition process with an economy that was dependent on a few, traditional sectors, in particular, agriculture, steel, and textiles. Similar to the trend in the CIS (Verme (2004)), such poor starting conditions made the transition process more difficult. Finally, institutional weaknesses hampered investment and growth (see Chapter II).

9. Poor growth might partly explain the stability of FYR Macedonia's participation rate compared to other transition countries which have suffered sharp employment losses. FYR Macedonia's participation rates have been remarkably stable at around 57 percent. In contrast, in many countries that underwent strong employment loss, participation rates have shown a downward trend. Consequently, the increase in unemployment was not as pronounced as the loss in employment. Why is the participation rate so resilient in FYR Macedonia? Possibly low GDP growth did not allow for the luxury of retiring from the work

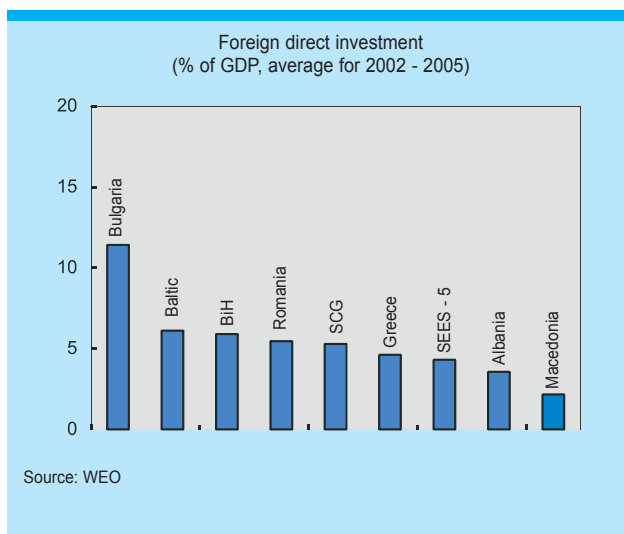
participation rates 1993 - 2005



force. Another explanation could be that free health insurance created an incentive to register as part of the work force.

Corporate structure

10. Low foreign investment, partly caused by insider privatizations, has also limited job creation. Management and employee buyouts dominated the privatization process, limiting foreign direct investment which is low compared to other countries in the region. Empirical evidence from other transition economies suggests that privatization to workers is detrimental for a company's performance while privatization to investment funds and foreign investors has the most positive effect (Djankov, Murrell, 2002). Also, employ-



ment creation is highest in newly created companies that are foreign owned. These results were confirmed for FYR Macedonia by Zaldueño (2003) who found that the deficiencies of management and employee buyouts caused declining productivity and low profits. As employee buyouts followed the social ownership ideology that a company's main purpose is employment, they also explain the high level of hidden unemployment as reflected in wage arrears.

11. Small and medium size companies (SME) which have a strong dynamic in employment creation face difficult conditions. Besides foreign owned companies, newly created SMEs show the strongest dynamic in creating employment (World Bank (2003)). The number of SMEs per capita in FYR Macedonia is in the middle range of other countries in the region, but they face difficulties in doing business, in particular, due to limited access to financing.

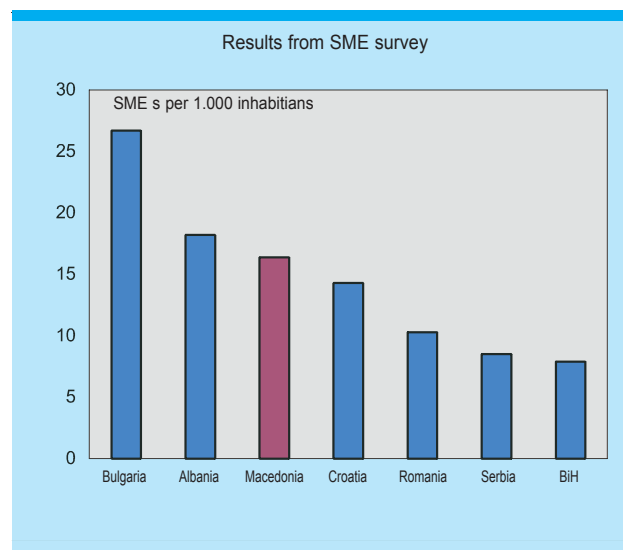
12. FYR Macedonia's large grey economy reduces the efficiency of the labor market. With the grey economy estimated at around one third to almost one half

of the formal sector, wage costs depend on how easily a business can hide its activities. The loss of tax revenues from informal activities causes low quality public services, susceptibility for bribes due to low public wages, and pressure to increase the tax burden on the formal sector-a vicious circle.

13. Looking at the causes of the large informal sector, the poor judiciary seems to be the major problem. A judicial system providing reliable enforcement of contracts is considered the most important incentive for formal sector activity (Dabla-Norris (2005)). UNDP surveys on the public perception of state institutions indicates that the judicial sector is the least trusted institution in FYR Macedonia. While the government prepared for a comprehensive judicial reform by changing the constitution and numerous laws in 2005, implementation has only just started. The state's weak enforcement and inspection activities are another reason for the large grey economy.

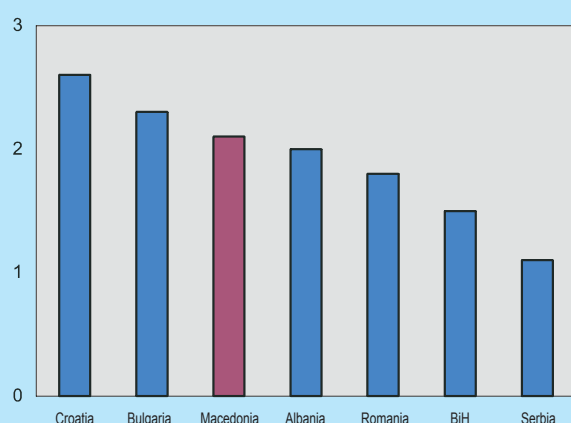
Labor market

14. Labor market regulations were liberalized in 2005 and are broadly in line with other countries in the region. As fixed-term employment has proven to be an important source of job creation in transition economies (Rutkowski (2005)), the 2005 labor market reform eased restrictions in this area. The reform also streamlined complicated layoff procedures which were often challenged in courts, causing long delays and



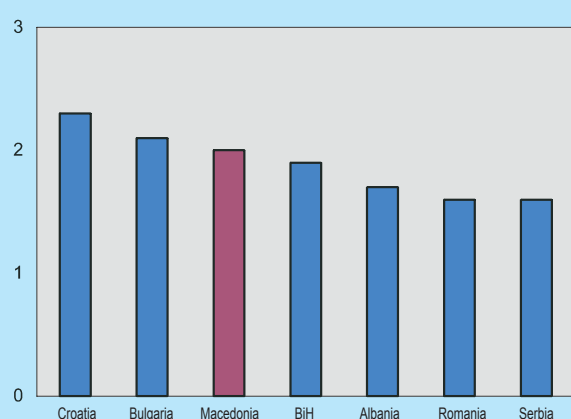
unpredictable outcomes. While the labor market reform eased conditions for part-time employment, this is still discriminated against by a minimum social

Institutional ratingd 1/



Source: OECD (2003)

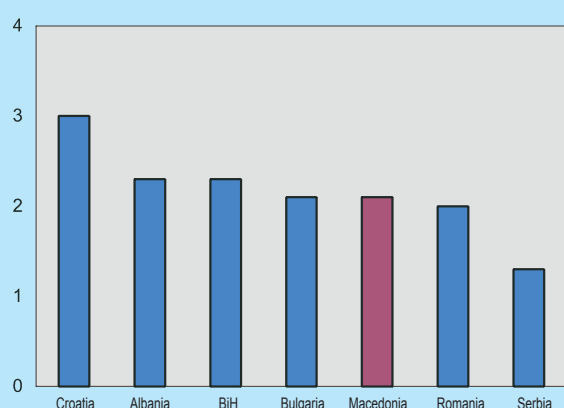
Perception of the tax framework 1/



Source: OECD (2003)

1) The higher, the better

Perception of access to finance 1/



Source: OECD (2003)

contribution which is based on the average full-time monthly sectoral wage. Consequently, this high social contribution wedge drives most part-time employment to the informal sector. (While cross-country data on part-time employment is limited, FYR Macedonia's

share of official part-time employment seems low at around 5 percent compared to 9 percent in Croatia.) The government is committed to reducing these onerous minimum contributions over time, but the administrative conditions for doing so are not expected to be in place before end-2007.

15. While past reforms reduced unemployment benefits and access to early retirement, free health care for the registered unemployed discourages formal sector employment. Unemployment benefits are in line with other countries in the region except that their duration is somewhat longer than average. After the entitlement for unemployment benefits expires, the unemployment fund pays for health insurance. Alternatively, people with very low incomes can apply for social allowances which also include health insurance.

16. Past active labor market policies spending focused on measures with little long-term impact on employment. Spending for "Branko's Law", a lump-sum wage subsidy of around 70 euros per month paid

Cross Country Comparison of Unemployment Insurance Characteristics

	Difficulty of hiring index	Rigidity of hours index	Difficulty of hiring index	Rigidity of employment index	Hiring costs (% of wages)	Firing costs (% of wages)
Baltic states average	44	60	50	51	28	28
CEEC - 5 average	27	60	34	40	30	27
SEEC - average	59	63	36	53	29	49
Macedonia - before reform	61	60	40	54	33	41
Macedonia - after reform	61	...	40	...	33	22

Source: Data from the WB database

1) Higher indicator means more rigid regulation

over 24 months, was equivalent to more than ? percent of GDP. While no evaluation is available for "Branko's Law", such programs suffered in other countries from deadweight and substitution effects. Once the legal obligation for employment expired, workers were often laid-off again. In contrast, job counseling services can have a positive impact on employment as can training services, if properly targeted. As the Employment Fund's financial and administrative capacities are already stretched with the administration of health benefits, very little job counseling and training services are provided. Recently, the government has started a public works program in coordination with UNDP but it has received

Cross Country Comparison of Unemployment Insurance Characteristics

	Bulgaria	Croatia	Czech Republic	Estonia	Hungary	Macedonia	Poland	Rusia	Ukraine
Duration of payment	6-12	78-312	6	6	3-12	3-14	12	12-24	180-360
	month	days	month	meseci	month	month	month	month	days
Average benefits in percent of average wage	29	32	30	39	28	37	36	42	22.7

Source: Mojsoska / Blazeovski (2006).

little interest among the unemployed. While public works programs have proven inefficient in bringing back the unemployed into the labor market, they are considered a useful tool in providing minimum income to the long-term unemployed. Also, they could serve as a screening instrument to limit access to unemployment and health insurance (Martin, Grubb (2001)) .

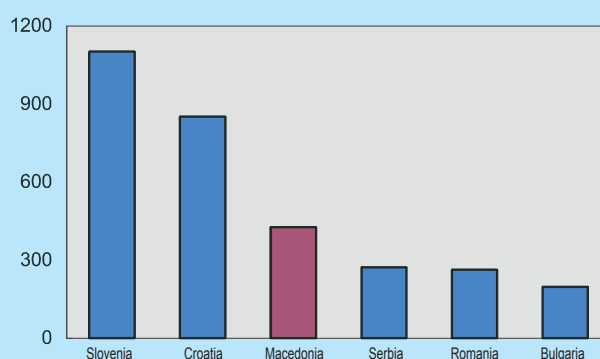
17. In view of the high unemployment rate, it is surprising that wage costs in FYR Macedonia are elevated compared to other countries in the region. Except for Slovenia and Croatia which have higher productivity levels, FYR Macedonia's wage costs (defined as gross wages plus employers' social contribution) are the highest in the region (for an analysis of competitiveness see Chapter I). As cross-country wage data for this region are constrained by methodological problems in the LFS, these results have to be interpreted cautiously. However, the high wage costs might be explained by the relatively high tax wedge and the strong position of trade unions in the formal sector. In contrast, the representation of employers' interests suffered in the past from a weak employer's association with mandatory membership. While the rules for the representation of employers' and employees' rights have been liberalized in the 2005 labor market reform, the implementation will take time.

Education system

18. Compared to other countries in the region, FYR Macedonia's education system is very weak. Although employment opportunities increase significantly with higher education, enrollment ratios for higher education are lower than in most comparator countries. The quality of education is also poor as reflected in test scores which are below other countries of similar income levels. Some test scores also show a deteriorating trend since the late-1990s when FYR Macedonia started participating in international test-

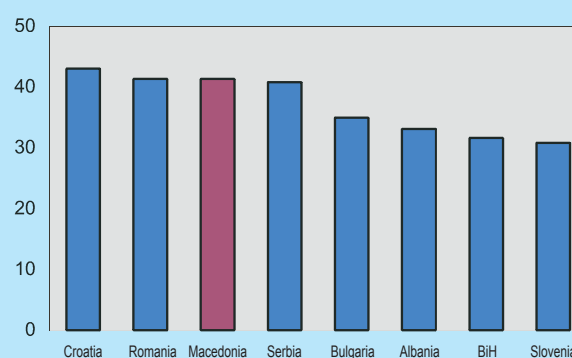
ing. There also seems to be a problem with secondary education which does not provide the skills needed by the labor market (Mojsoska-Blazeovski (2006)).

Wage costs in the manufacturing sector, in EUR



Sources: LFSs, ILO and OECD

Tax wedge on wages (in %)



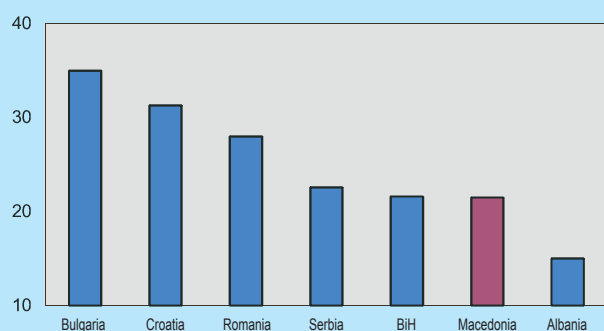
Sources: LFSs, ILO and OECD

Demographic factors

19. Strong population growth contributed to the increase in unemployment. Despite significant emigration, FYR Macedonia's population is growing at a

faster pace than most countries in the region, adding pressure to the labor market. Between 1996 and 2005, the increase in the population slightly exceeded labor force growth. In absolute terms, the increase in the labor force is roughly equal to the increase in the number of unemployed. However, as migration data is very poor, these results need to be interpreted with some caution.

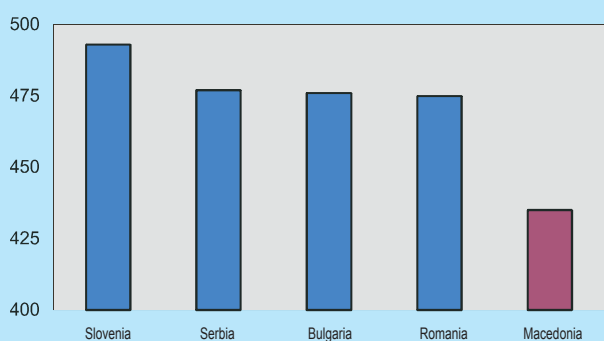
Tertiary education enrollment (in %)



Source: National Center for Statistics (TIMSS) and World Bank

1/ The international average score in 466.

Math scores of 8 graders 1/



Source: National Center for Statistics (TIMSS) and World Bank

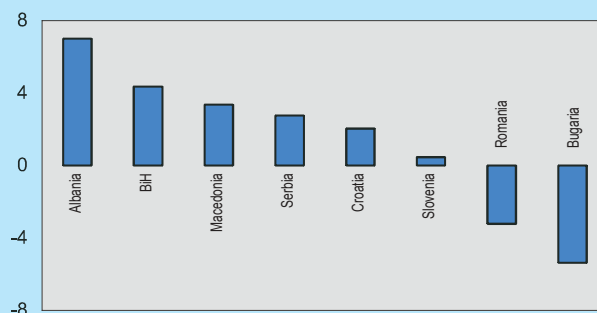
1/ The international average score in 466.

E. What Can Be Done to Reduce Unemployment?

20. Any long-term solution for FYR Macedonia's unemployment problem is conditional on enhancing growth. Only a permanent turnaround in growth will create conditions for long-term employment sufficient enough to absorb the growing work force and reduce unemployment. However, in view of the structure of

unemployment—mainly long-term and unskilled—the natural unemployment rate will remain high over the medium-term. Also, it might take quite some time until GDP growth will translate into tangible employment

Population growth between 1997 and 2005



Sources: Labor Force Surveys and Census

FYR Macedonia: Labor market developments, 1996-2005

	Change between 1996 and 2005	
	in 000	%
Working age population	172	12
Labor force	80	10
Employment	8	1
Unemployment	72	29

Sources: Labor Force Surveys and Census

growth in view of the still significant hidden unemployment. This is underscored by recent developments where after several years of relatively satisfactory GDP growth, unemployment finally began to decline in 2005.

21. The government should create incentives for formal sector activities. Strengthening conditions for formal sector employment will enhance the efficiency of the labor market and create room for reducing taxes and improving public services. They will also particularly benefit employment creating foreign investors who, as outsiders, usually depend more on the conditions in the formal economy. In particular, the following measures should be considered:

- Implementation of the judicial reform is crucial for bringing economic activity back into the formal sector. Building efficient judicial institutions will require the reallocation of staff and resources.
- A reduction in the tax wedge could be financed by an increase in the VAT rate. As the VAT rate is somewhat lower than in other countries of the region, higher VAT revenues could be used to

reduce the tax burden on wages. The macroeconomic incidence of taxing consumption and taxing wages is identical, but as the VAT is collected indirectly, it has a higher probability of also covering at least part of the value added of grey economy sales.

- The planned merger of PIT and social contributions by 2008 will reduce the administrative burden for the formal sector. As the simplification of social contribution and PIT collection will free resources for enforcement and audit, this measure will provide funding for lowering the tax wedge. It is also a precondition for abolishing the minimum social contribution which currently drives part-time employment into informality.
- The government should strengthen audit and inspection activities, including the labor inspectorate. As businesses expressed concerns that inspection and audit often suffer from corruption, the government should take measures to strengthen governance in these institutions so that grey economy companies can no longer bribe inspectors.
- Measures to reduce red-tape should be accelerated. The government has already made efforts in reducing red-tape, including the one stop shop for company registration. However, progress in abolishing the large number of licenses has been slow and should be accelerated. As SMEs suffer the most from red-tape and the corruption associated with it, they will benefit particularly from this measure.

22. Subsidies and tax investment incentives are not efficient tools for attracting foreign direct investment. The importance of foreign investment for growth and employment should not stop the government from moving ahead with plans to abolish investment schemes which erode the corporate income tax base and create room for tax evasion. Current practices of providing subsidized land to foreign investors are non-transparent and come with large fiscal costs, but play only a minor role in attracting investment.

23. In order to create conditions that facilitate the transmission of GDP growth into employment growth, the government should consider institutional changes in the labor market in the following areas:

- Health insurance provision to the unemployed should be delinked from registration status. The government has several reform options. For example, the current insurance based system could be replaced with a basic health care system for all citizens which would be financed by tax revenues. This would reduce the tax wedge, free the resources at



Any long-term solution for FYR Macedonia's unemployment problem is conditional on enhancing growth. Only a permanent turnaround in growth will create conditions for long-term employment sufficient enough to absorb the growing work force and reduce unemployment

the Employment Fund for job intermediation, and ensure basic health services for all citizens. Alternatively, if the government wants to keep the insurance based system, free health insurance should no longer be granted automatically for all unemployed, but limited to low-income households after unemployment benefits expire.

- Public works programs should be used for screening unemployed from grey economy workers. They could also be used as a screening instrument for eligibility to unemployment benefits.
- Unemployment insurance benefits could be reduced. There is fairly general support in the literature that benefits matter for finding a job-exit rates from unemployment benefits tend to increase as workers approach the time when benefits are due to expire. However, there is little evidence over the magnitude of the impact (Fredriksson, Homlund, 2003). In view of the uncertainties about the incidence, the small number of unemployment benefit recipients, and the consistency with the level of unemployment benefits in the region, a moderate cut in the duration of unemployment benefits should be considered. Alternatively, the government could consider the gradual reduction of benefits over the duration of unemployment. This reform should be

supplemented by a reform of social allowances so that the unemployed below a certain income level receive basic benefits.

24. The government should develop a comprehensive strategy for enhancing education. For a small, land locked country like FYR Macedonia with few natural resources, a well trained labor force is a major asset in attracting investment and increasing per capita income over the long-term. The government should therefore give priority to enhancing the quality of the school system and providing incentives for training. The on-going Public Expenditure Review of the World Bank will be an opportunity to identify weaknesses in the education system and to develop a reform strategy.

F. Conclusion

25. Many different factors are responsible for FYR Macedonia's high unemployment rate. Policies to reduce unemployment will therefore need to be broad based, including pro-growth oriented policies, incentives for formal economy activities, and measures to enhance the institutional framework in the labor market. A good start has been made with the moderate recovery of growth rates since 2004, the reform of the labor market, and measures to free resources for well-targeted active labor market policy. Areas that have not been in the center of the government's attention include the reform of the education system, high wage costs, and the coordination of unemployment benefits with the social system.

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INSURANCE SUPERVISION - TOWARDS CREATING STABLE AND DEVELOPED INSURANCE MARKET

For a supervisory system to be fully effective, it is necessary to implement the core insurance principles of the International Association of Insurance Supervisors (IAIS). Insurance supervisors should apply these principles to all insured persons on the territory in which they are competent pursuant to law. Core insurance principles serve as basic reference for the insurance supervisors in all jurisdictions*

Kosta Spaseski

Kosta Spaseski, born on 3rd June 1997, graduated from the Faculty of Economics in Skopje, major - Financial and Accounting Management. At the moment, she attends post-graduate studies in the field of Monetary Economy. He is employed at the Ministry of Finance since 2002. As an employee in the Insurance System Unit, he takes active role in the preparation of the Law on Motor TPL Insurance, processing of requests for issuance of licences for performing insurance activities, insurance brokerage activities and consents, pursuant to the Law on Insurance Supervision; he took part in answering the questions to the European Commission in the process of approximation of the Macedonian legislation to the EU one, in the field of insurance. At the moment, he is appointed as Head of the Insurance Supervision Unit, and takes active role in the on-going reform for institutional strengthening of the insurance supervision function. He has taken part in many courses, seminars, workshops, related to the issues of insurance system and supervision.

In conditions of fast development of the financial markets in the world and increase of both the supply and the demand of financial instruments on the most developed and the underdeveloped and the developing markets, insurance products take a significant place and role.

Insurance industry provides different kinds of coverage for almost any kind of risk and unpredicted damage any physical person or legal entity can suffer. On the other hand, insurance companies constantly accumulate funds that are significant part of the structural investments in a country. Life insurance is part of the social protection system. Policyholders and insured are relying on the security of their insurance companies having to trust them to be in a position to meet their commitments over the considerable time lag between the payment of premiums and the receipt of benefits. Taking this situation in mind, it is not strange that almost all countries in the world have state supervision of

the private insurance sector. Common objective of the insurance supervision everywhere is to protect the policyholder, the insured person, the user of the insurance agreement, as well as the third party that might have right to direct damage compensation from the insurer, according to certain insurance agreements, by ensuring that each insurance company is capable of meeting the obligations at any time.

For a supervisory system to be fully ef-



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fective, it is necessary to implement the core insurance principles of the International Association of Insurance Supervisors (IAIS). Insurance supervisors should apply these principles to all insured persons on the territory in which they are competent pursuant to law. Core insurance principles serve as basic reference for the insurance supervisors in all jurisdictions?. When necessary, they are supplemented with other measures, designed to address to the particular conditions and risks that exist in certain jurisdictions. They are used in assisting the countries to strengthen their regulatory and supervisory arrangements.

An insurance supervisor is expected primarily to protect policyholders and promote a secure and efficient market by ensuring that companies comply with the legislation and regulations governing the business of insurance. The insurance supervisor intervenes as necessary, using powers available under the legislation. When meeting this objective, insurance supervisor adheres to the following are key principles:

Companies wishing to underwrite insurance in the domestic insurance market should be licensed. Where the insurance supervisor has authority to grant a license, the insurance supervisor: in granting a license, should assess the suitability of owners, directors, and/or senior management, and the soundness of the business plan and in permitting access to the domestic market, should choose to rely on the work carried out by an insurance supervisor in another jurisdiction



maintain sufficient staff with high professional standards who follow the appropriate standards of confidentiality.

2. Licensing and changes in control

Companies wishing to underwrite insurance in the domestic insurance market should be licensed. Where the insurance supervisor has authority to grant a license, the insurance supervisor: in granting a license, should assess the suitability of owners, directors, and/or senior management, and the soundness of the business plan, which could include pro forma financial statements, a capital plan and projected solvency margins; and in permitting access to the domestic market, should choose to rely on the work carried out by an insurance supervisor in another jurisdiction if the prudential rules of the two jurisdictions are broadly equivalent.

The insurance supervisor should review changes in the control of companies that are licensed in the jurisdiction. The insurance supervisor should establish clear requirements to be met when a change in control occurs. These may be the same as, or similar to, the requirements which apply in granting a license. In particular, the insurance supervisor should require the purchaser or the licensed insurance company to provide notification of the change in control and seek approval of the proposed change; and establish criteria to assess the appropriateness of the change, which could include the assessment of the suitability of the new owners, as well as any new directors and senior managers, should there be any changes, and the soundness of any new business plan.

1. Organization of an insurance supervisor

Insurance supervisor should be organised so that it is able to accomplish its primary task, i.e. to maintain efficient, fair, safe and stable insurance market for the benefit and protection of policyholders. In particular, the insurance supervisor should be operationally independent and accountable in the exercising of its functions and powers, have adequate powers, legal protection and financial resources to perform its functions and exercise its powers, adopt a clear, transparent and consistent regulatory and supervisory process, clearly define the responsibility for decision making, and hire, train and

3. Corporate governance

It is desirable that standards be established in the jurisdictions which deal with corporate governance. Where the insurance supervisor has responsibility for setting requirements for corporate governance, these requirements should be with respect to the following: the roles and responsibilities of the board of directors; reliance on other supervisors for companies licensed in another jurisdiction; and the distinction between the standards to be met by companies incorporated in his jurisdiction and branch operations of companies incorporated in another jurisdiction.

* Jurisdiction means country, state, province or other territory on which, according to the legal order, local insurance law applies, pursuant to which insurance company is established and operates

4. Internal control

The insurance supervisor should be able to review the internal controls that the board of directors and management approve and apply, and request strengthening of the controls where necessary; and require the board of directors to provide suitable prudential oversight, such as setting standards for underwriting risks and setting qualitative and quantitative standards for investment and liquidity management.

5. Prudential rules

Insurance companies, by the very nature of their business, are exposed to risk. They should meet prudential standards established to limit, i.e. manage the amount of risk that they retain. In establishing the special requirements, the insurance supervisor should consider whether standards that apply to companies that are incorporated in the jurisdiction should differ from those that apply to branches of companies incorporated in another jurisdiction.

Assets

Standards should be established with respect to the assets of companies licensed to operate in the jurisdiction. Where insurance supervisors have the authority to establish the standards, these should apply at least to an amount of assets equal to the total of the technical provisions, and should address: a) diversification by type; b) any limits, or restrictions, on the amount that may be held in financial instruments, property, and receivables; c) the basis for valuing assets which are included in the financial reports; d) the safekeeping of assets; e) appropriate matching of assets and liabilities; and f) liquidity.

Liabilities

Insurance supervisors should establish standards with respect to the liabilities of companies licensed to operate in their jurisdiction. In developing the standards, the insurance supervisor should consider: a) what is to be included as a liability of the company, for example, claims incurred but not paid, claims incurred but not reported, amounts owed to others, amounts owed that are in dispute, premiums received in advance, as well as the provision for policy liabilities or technical provisions

that may be set by an actuary; b) the standards for establishing policy liabilities or technical provisions; and c) the amount of credit allowed to reduce liabilities for amounts recoverable under reinsurance arrangements with a given reinsurer, making provision for the ultimate collectability.

Capital adequacy and solvency

The requirements regarding the capital to be maintained by companies which are licensed, or seek a licence, in the jurisdiction should be clearly defined and should address the minimum levels of capital or the levels of deposits that should be maintained. Capital adequacy requirements should reflect the size, complexity, and business risks of the company in the jurisdiction.

Derivatives and "off-balance sheet" items

The insurance supervisor should be able to set requirements with respect to the use of financial instruments that may not form a part of the financial report of a company licensed in the jurisdiction. In setting these requirements, the insurance supervisor should address: a) restrictions in the use of derivatives and other off-balance sheet items; b) disclosure requirements for derivatives and other off-balance sheet items; and c) the establishment of adequate internal controls and monitoring of derivative positions.

Reinsurance

Insurance companies use reinsurance as a means of risk containment. The insurance supervisor must be able to review reinsurance arrangements, to assess the degree of reliance placed on these arrangements and to determine the appropriateness of such reliance. Insurance companies would be expected to assess the financial positions of their reinsurers in determining an appropriate level of exposure to them.

The insurance supervisor should set requirements with respect to reinsurance contracts or reinsurance companies addressing: a) the amount of the credit taken for reinsurance ceded. The amount of credit taken should reflect an assessment of the ultimate collectability of the reinsurance recoverables and may take into account the supervisory control over the reinsurer, and b) the amount of reliance placed on the insurance super-

visor of the reinsurance business of a company which is incorporated in another jurisdiction.

6. Market conduct

Insurance supervisors should ensure that insurers and intermediaries exercise the necessary knowledge, skills and integrity in dealings with their customers.

Insurers and intermediaries should: a) at all times act honestly and in a straightforward manner; b) act with due skill, care and diligence in conducting their business activities; c) conduct their business and organise their affairs with prudence; d) pay due regard to the information needs of their customers and treat them fairly; e) seek from their customers information which might reasonably be expected before giving advice or concluding a contract; f) avoid conflicts of interest; g) deal with their regulators in an open and cooperative way; h) support a system of complaints handling where applicable; and i) organise and control their affairs effectively.

The insurance supervisor should be able to review the internal controls that the board of directors and management approve and apply, and request strengthening of the controls where necessary



7. Monitoring and on-site inspection

Monitoring - Financial Reporting

It is important that insurance supervisors get the information they need to properly form an opinion on the financial strength of the operations of each insurance company in their jurisdiction. The information needed to carry out this review and analysis is obtained from the financial and statistical reports that are filed on a regular basis, supported by information obtained through special information requests, on-site inspections and communication with actuaries and external auditors.

A process should be established for: a) setting the scope and frequency of reports requested and received from all companies licensed in the jurisdiction, including financial reports, statistical reports, actuarial reports and other information; b) setting the accounting requirements for the preparation of financial reports in the jurisdiction; c) ensuring that external audits of insurance companies operating in the jurisdiction are acceptable; and d) set-

ting the standards for the establishment of technical provisions or policy and other liabilities to be included in the financial reports in the jurisdiction.

In so doing a distinction should be made: a) between the standards that apply to reports and calculations prepared for disclosure to policyholders and investors, and those prepared for the insurance supervisor; and b) between the financial reports and calculations prepared for companies incorporated in the jurisdiction, and branch operations of companies incorporated in another jurisdiction.

On-site inspection

The insurance supervisor should be able to: a) carry out on-site inspections to review the business and affairs of the company, including the inspection of books, records, accounts, and other documents. This may be limited to the operation of the company in the jurisdiction or, subject to the agreement of the respective supervisors, include other jurisdictions in which the company operates; and b) request and receive any information from companies licensed in its jurisdiction, whether this information be specific to a company or be requested of all companies.

8. Sanctions

Insurance supervisors must have the power to take remedial action where problems involving licensed companies are identified. The insurance supervisor must have a range of actions available in order to apply appropriate sanctions to problems encountered. Laws should clearly set out the powers available to the insurance supervisor and may include: a) the power to restrict the business activities of a company, for example, by withholding approval for concluding new contracts or acquisitions in other entities; b) the power to direct a company to stop practices or policies that are unsafe or unsound, and to take action to remedy an unsafe or unsound business practice; and c) the option to invoke other sanctions on a company or its business operation in the jurisdiction, for example, by revoking the licence of a company or imposing remedial measures where a company violates the insurance laws of the jurisdiction.

9. Cross-border business operations

Insurance companies are becoming increasingly international in scope, establishing branches and subsidiaries outside their home jurisdiction and sometimes conducting cross-border business on a services basis only. The insurance supervisor should ensure that: a) no foreign insurance establishment performing insurance operations on the territory of the home jurisdiction escapes supervision; b) all insurance establishments of international insurance groups and international insurers are subject to effective supervision; c) the creation of a cross-border insurance establishment is subject to prior notification between host and home supervisors; and d) foreign insurers providing insurance cover on a cross-border services basis are subject to effective supervision.

10. Coordination, cooperation and confidentiality

Coordination and cooperation

Increasingly, insurance supervisors liaise with each other to ensure that each is aware of the other's concerns with respect to an insurance company that operates in more than one jurisdiction either directly or through a separate corporate entity.

In order to share relevant information with other insurance supervisors, adequate and effective communications should be developed and maintained.

In developing and implementing a regulatory framework, consideration should be given to whether the insurance supervisor: a) is able to enter into an agreement or understanding with any other supervisor both in other jurisdictions and in other sectors of the industry (i.e. insurance, banking or securities) to share information or otherwise work together; b) is permitted to share information, or otherwise work together, with an insurance supervisor in another jurisdiction. This is limited to

insurance supervisors who have agreed, and are legally able, to treat the information as confidential; c) should be informed of findings of investigations where power to investigate fraud, money laundering, and other such activities rests with a body other than the insurance supervisor; and d) is permitted to set out the types of information and the basis on which information obtained by the insurance supervisor may be shared.

Confidentiality

All insurance supervisors should be subject to professional secrecy constraints in respect of information obtained in the course of their activities, including during the conduct of on-site inspections.

The insurance supervisor is required to hold confidential any information received from other insurance supervisors, except where constrained by law or in situations



Jurisdictions whose confidentiality requirements continue to constrain or prevent the sharing of information for supervisory purposes with insurance supervisors in other jurisdictions, and jurisdictions where information received from another insurance supervisor cannot be kept confidential, are under constant pressure to review and amend their legal requirements

where the insurance supervisor who provided the information provides authorisation for its release.

Jurisdictions whose confidentiality requirements continue to constrain or prevent the sharing of information for supervisory purposes with insurance supervisors in other jurisdictions, and jurisdictions where information received from another insurance supervisor cannot be kept confidential, are under constant pressure to review and amend their legal requirements.

PUBLIC DEBT MANAGEMENT AND RISKS

The optimum structure of public debt is set in a public debt management strategy which determines, on medium term, the borrowing policy of the country, and the objectives of this strategy would be harmonized with the monetary and fiscal policy objectives. In addition, the strategy should define risks to which the debt portfolio is exposed, along with the measures that should be undertaken so as to mitigate the effects of these risks

Renata Davitkova

Ms. Renata Davitkova was born in March, 1978. She graduated in October 2000 from the Faculty of Economics in Skopje, Department of Business Economics, major Foreign Trade. She continued her education at this Faculty, at the post-graduate studies, major Foreign Trade. She is currently preparing her MA thesis entitled "The role of clusters in improvement of the exporting opportunities of the Republic of Macedonia", and her mentor is Prof. Vladimir Petkovski PhD. She has been working in the Ministry of Finance since March 2001, as Junior Associate in the Public Debt Management Unit within the Treasury Department. After the establishment of the Public Debt Management Department, she was assigned as Head of the Back-Office. She attended large number of national and international trainings and seminars in the area of public finance, public debt management, financial risks, project management and competitiveness. In 2005 she obtained a scholarship from the Ecole Nationale d'Administration (ENA). She is fluent in English and has partial knowledge of German and Russian.

Introduction

Public debt management is a process oriented towards ensuring financing of the needs and the financial liabilities of the state with the lowest possible cost, on medium and long term at sustainable risk level. One of the most important roles of public debt management is to identify risks to which the debt portfolio is exposed, to assess their size and develop strategy that would determine the optimum terms of trade-off between expected costs and risks of the debt portfolio.

The public debt of the country includes internal and external debt of the public sector. The debt portfolio is usually the biggest financial portfolio of a country and is exposed to large number of financial risks that could cause financial crisis and instability. In addition, the size of the liabilities arising from the public sector debt are often uncertain since they are determined and depend on future trends of economic variables and future policy decisions. Hence, it is necessary to define the optimum structure of public

debt that would enable the economic policy-makers to reduce the exposure of debt to financial risks by establishing qualitative and quantitative criteria on currency, maturity and interest structure of the debt.

The optimum structure of public debt is set in a public debt management strategy which determines, on medium term, the borrowing policy of the country, and the objectives of this strategy would be harmonized with the monetary and fiscal policy objectives. In addition, the strategy should define risks to which the debt portfolio is exposed, along with the measures that should be undertaken so as to mitigate the effects of these risks.

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The implementation of the public debt management strategy means setting an optimum proportion between costs and other objectives on one hand and exposure to risks on the other.

Types of risks to which public debt is exposed

Setting and managing public debt management strategy means facing many dilemmas and options regarding the objectives and the acceptable risk level.. Most frequently encountered risks in public debt management are the following:

Market risk arising from the exposure of the debt-related financial liabilities to changes of economic variables, especially the interest rate on the domestic and international capital market and the variations in exchange rate. Hence, the market risk encompasses:

Exchange rate risk - the debt level could grow as a result of the exchange rate variations. The exchange rate risk is related to public debt instruments denominated and settled or indexed to foreign currency. External debt (or domestic debt denominated in foreign currency) is key factor in the developing countries which should be actively managed. Significant changes in the exchange rate risk could largely increase the envisaged costs for repayment upon public debt expressed in denars.

Interest rate risk - arises from the effect of the variations of market interest rates on the debt portfolio, where the interest rate rise results in greater borrowing costs. The appropriate combination between the fixed and variable interest rates ensures diversification of interest rate risk and reduction of debt servicing costs. Interest rate risk is closely related to refinancing risk since the debt falls due in a future period where the interest rate variations are unknown.

Market risk is especially evident in those portfolios where major part of the debt is denominated in foreign currency and with variable interest rate. The change of interest rates on domestic and international markets affects the debt costs on the day when the fixed interest rate debt is refinanced or the day when the interest is reset for the variable interest rate debt. Hence the short-term variable interest rate debt is usually with greater risk compared to the long-term fixed interest rate debt. Public debt management policy could reduce these risks by reducing the foreign currency denominated part of the debt via transactions for early repayment of part of such debt, via refinancing part of the non-matured external debt with internal debt and extending the maturity period of the issued debt.

Refinancing risk - risk where the existing debt should be refinanced by additional issue of new debt, i.e. cover the repayments of the existing debt with new borrowing. The refinancing risk affects the possibility to accumulate resources necessary for repayment of the due debt, as well as on the financing price, i.e. the level of the interest rate. The level of refinancing risk is a function of the time distribution and the level of repayments, and it is managed by ensuring proper schedule of maturity and preventing the maturity of large amount in one period.

Refinancing risk refers to risks related to the debt repayment period, availability of financial resources for debt repayment and the costs related to new borrowings. This risk is especially relevant when the due debt should be refinanced with additional issue of new debt, i.e. when the repayments of the existing debt should be covered by new borrowing.

The public debt of the country includes internal and external debt of the public sector. The debt portfolio is usually the biggest financial portfolio of a country and is exposed to large number of financial risks that could cause financial crisis and instability

Risks connected to the scope of public debt - Public debt level is considered sustainable if it enables timely servicing and refinancing for a longer period. This level depends also on the size of the economy. Hence, a usually applied measure for the debt level is its level to GDP. Sustainable level of public debt in relation to GDP depends on many factors: level of economic development, economic growth rate, exposure to the international economic instability, domestic social and political stability, the quality of public institutions, inflation rate, interest rates, public debt portfolio structure (according to instruments and entities), development of the domestic financial market and the access to international financial markets. The lower the general development level of the country, the higher the risk of obstacles in the timely repayment of public debt and its refinancing. Therefore, the financial markets require the developing countries to have lower public debt-to-GDP ratio and higher capital return ratio to financing public debt than the developed countries.

Liquidity risk - risk related to the impossibility to sell certain assets although there is a need to do so quickly.

ly. Liquidity risk is related to the opportunity to synchronize short-term liabilities with the resources necessary to finance them.

The objective of portfolio liquidity risk management is to own liquid assets in sufficient volume so as to be able to repay liabilities falling due. One of the possibilities for liquidity risk management is via policies imposing an obligation to keep certain volume of assets from the quantity and quality aspect. The main instrument of liquidity management is the government's holding of liquid financial assets on accounts with the NBRM. The level of these deposits guarantees safe financing of the government's needs and protects the budget from financial crises which would prevent the raising of funds by borrowing on the financial market.

The exchange rate risk is related to public debt instruments denominated and settled or indexed to foreign currency. External debt (or domestic debt denominated in foreign currency) is key factor in the developing countries which should be actively managed



Liquidity risk management consists of two types of actions:

- keeping a safety reserve at optimal level - this is helped by improving the process of planning and monitoring government budget liquidity, building adequate infrastructure and organisational solutions, including improved cash flow forecasting and account monitoring; and
- managing liquid assets, which should generate budget revenue in order to counterbalance the costs of maintaining a specified, safe level of liquidity.

Risks associated with the debt structure - these are closely connected to the sensitivity of the debt portfolio. Should the debt portfolio is characterized by high sensitivity, in that case the risks (interest rate risk, exchange rate risk and liquidity risk) affecting the debt structure would be higher. The degree of sensitivity of the debt portfolio depends on the expectations on the direction in which the capital market moves. If positive trends are expected on the capital market, it would be more effective for the portfolio structure to be more sensitive. Otherwise, if the capital market expectations are negative, then the portfolio sensitivity should be

less so as to avoid experiencing adverse effects from the capital market.

Credit risk - is the risk of non-performance by borrowers of their obligations. This risk is particularly relevant in cases where public debt management includes the management of liquid assets. It may also be relevant in the acceptance of bids in auctions of government securities, when issuing guarantees and in derivative contracts.

Operational risks - risks pertaining to people, organisational schemes and systematisation, software and electronic system, working processes and external events. These risks include: errors in the various stages of executing and recording transactions, data and payments; inadequacies or failures in internal controls; legal risks; natural disasters and other external events that affect business activity and continuity. It also includes poor management, lack of supervision, and weak accountability and control.

Trade-off between costs and risks related to public debt

Risk management is increasingly becoming an integral and very important segment of the strategic debt management. This is due to the CaR (Cost-at-Risk) criteria ensure definition of an optimum debt portfolio structure, thus protecting the fiscal position of the government.

Although the theory states few basic principles for strong and prudent risk management, still, in practise, there are several different manners of debt risk assessment and management. The manner to be selected depends on the specific circumstances in the country, such as the macroeconomic situation and the development of the domestic debt market, as well as debt size and structure.

In general, risk management ensures determination of trade-offs between the expected costs and the risk to which the debt portfolio is exposed.

Debt servicing costs include two components: (1) Actual financial costs, referring to debt servicing costs on medium and long term; and (2) Contingent costs that could occur as a result of real economic losses and financial crises in cases when the government cannot refinance its debt or service it.

The projection of debt servicing costs is made on the basis of an assumption of the future interest rate and exchange rate variations, as well as future borrowing needs. Therefore, expected costs could be assessed in two ways:

1. the projected financial impact on the government budget or other measures in their fiscal position, and
2. possible actual costs should the projected debt servicing is potentially unsustainable from the aspect of its effect on the future tax rates or government programmes, or should there be a possibility for non-payment of certain liabilities.

Risk assessment is most commonly made by applying so-called stress-test, examining the impact and the effects of various economic and financial shocks to which the economy is potentially exposed, on the debt portfolio of the country. Such assessment is most commonly made by applying financial models that could be simple, but also very complex models, including highly sophisticated statistical and simulation techniques. Basically, the applied models should ensure:

- Projection of the expected debt servicing costs on medium and long term, on the basis of the assumption on the factors affecting the debt service ability, such as: new financing needs, maturity profile of the debt stock, features of the interest rates and the currency of the new borrowing, assumption on the future variations in interest rates and exchange rate and the behaviour of certain non-financial variable (for example, the commodity process in certain countries);
- Creation of "debt profile" that would include the key risk indicators of the existing and the projected debt portfolio during the projected period;
- Calculation of the risk of the future debt servicing costs from financial and real aspect by summing up the results from the stress-tests, designed on the basis of economic and financial shocks to which the government and the country are exposed. Risks are most commonly measured via the potential increase of the debt servicing costs under the assumption that certain risks would occur in relation to expected costs; and
- Summing up the costs and risks of alternative debt portfolio management strategies as basis for making decisions on future financing alternatives.

Whether a debt management strategy is acceptable or not, depends on the degree of risk the government is willing to accept in debt management. This risk changes in time and largely depends on the scope of the debt portfolio and the vulnerability of the economy to the economic and financial shocks. In general, the larger the debt portfolio and the vulnerability of the

economy to economic shocks, the greater the potential risk of losses due to financial crises and inability of the country to timely and regularly service its liabilities, and in this case, greater emphasis should be place on reducing the risk rather than the costs. To the end of reducing the risk, such strategy includes careful making future decisions referring to the borrowing terms and conditions, such as maturity period, borrowing currency and interest rate, as well as setting rigid borrowing limits by fiscal authorities. The latter approach could be the sole option for the countries having limited access to market borrowing instruments, such as those countries that rely mainly on concessional financing from bilateral and multilateral creditors.



The refinancing risk affects the possibility to accumulate resources necessary for repayment of the due debt, as well as on the financing price, i.e. the level of the interest rate. The level of refinancing risk is a function of the time distribution and the level of repayments

The case of the Republic of Macedonia

Public debt portfolio of the Republic of Macedonia which is marked by significant share of foreign currency denominated debt (89% as of December 31, 2005), as well as variable interest rate debt (3% as of December 31, 2005), is largely exposed to market risks, i.e. exchange rate risk and interest rate risk, as well as refinancing risk. The intensity of the effect of these risks is determined of the uncertainty of the economic growth of the Macedonian economy, as well as of possible shocks in the external environment.

Hence, when designing medium-term borrowing policy of the country for the next period, we made an analysis of the public debt sustainability, assessing the sustainability of the present debt structure to the market risks, i.e. shocks.

The analysis contains a scenarion on the movement of the general government debt in the period 2005 - 2010, based on the medium-term projections of macroeconomic indicators, as well as four alternative scenarios testing the effect of the changes in macroeconomic and fiscal variables on the general government debt.

The analysis covers the following scenarios:

Scenario 1: Average level of historical data on the real interest rates, increased by two standard deviations;

Scenario 2: Average level of historical data on the real GDP growth, reduced by two standard deviations in 2006 and 2007;

Scenario 3: Average level of historical data on the primary balance, reduced by two standard deviations in 2006 and 2007;

Scenario 4: Denar depreciation by 30% in 2005.

The results of the analyses are shown in Chart 1. It shows that if macroeconomic indicators are realized as envisaged in the fundamental macroeconomic policy, the debt-to-GDP ratio in the period 2005 - 2010 would decline and in 2010 it would reach 30.9%. On the other hand, the analysis shows that the debt growth could be affected at the most if the GDP growth is not achieved as envisaged in the macroeconomic policy. Low GDP growth could negatively affect

financed with new borrowing which would cause rising of the debt more than expected.

Also, for the needs of the borrowing policy, three-year 2006 - 2008 Strategy was drafted and adopted, setting the basic framework for all future borrowings, as well as other operations focused on optimizing the debt portfolio.

Also, a simple model was prepared for this strategy, making attempt to define the optimum debt structure to which the country should be focused on medium term. The model makes projection of the future flows of public debt repayments for alternative structures of the debt portfolio (borrowing strategies) and makes assessment of the relations between the costs and risks arising from these structures under four different scenarios on the movement of the fundamental macroeconomic indicators.

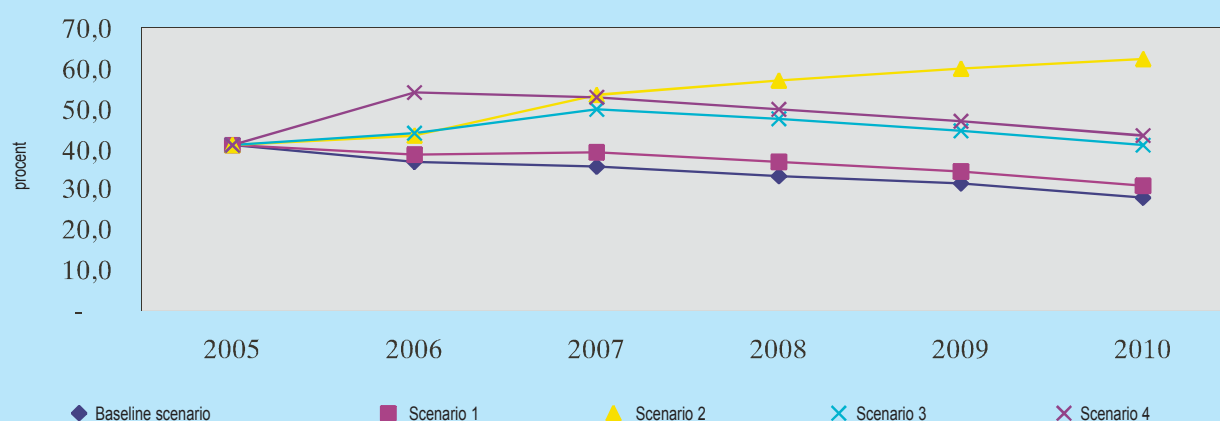
As a result of this analysis, it was determined that it is necessary to restructure the debt portfolio as follows:

- Gradual increase in debt with fixed interest rates;
- Increasing the proportion on debt denominated in Denars;
- Increasing the proportion of Euro denominated debt in the structure of the currency denominated debt;
- Increasing the proportion of domestic debt while decreasing external borrowing;
- Increasing the share of market instruments, while gradually decreasing the loans from official creditors;
- Extending the maturity period of the public debt;
- Ensuring smooth profile of repayments;
- Taking advantage of the early repayment of public debt where cost effective to do so; and
- Restrictive approach to financing public projects

Results of the analyses show that if macroeconomic indicators are realized as envisaged in the fundamental macroeconomic policy, the debt-to-GDP ratio in the period 2005 - 2010 would decline and in 2010 it would reach 30.9%.

the performance of the business entities and they would earn lower revenues than expected, which, in turn, would cause lower realization of budget revenues. There is a possibility to realize the deficit on lower level than expected and it would need to be

Trend of debt/GDP ratio in different scenarios



Source: Ministry of Finance and IMF

with generating government debt or issuing sovereign guarantees.

In order to achieve such structure of debt portfolio, the strategy determines the following measures that the Ministry of Finance should undertake in the next period:

- Development of primary market of government securities
 - Introduction of primary dealers;
 - Introduction of a non-competitive offers;
 - Implementation of the project on issue of treasury bills for monetary purposes;
 - continuation of the maturity period of the government securities portfolio;
 - organizing marketing campaign so as to expand the investor base;
 - Improvement of the electronic system used for the auctions;

- Development of secondary market of government securities
 - increase of the annual net issue of government securities;
 - using repo operations by the NBRM and the banks;
 - enabling the usage of repo and OTC trading for the continuous long-term government securities as well;
 - monitoring the activities of the banks on the government securities market and possible selection of market makers; and
 - increase of the transparency of the results from the OTC trading.
- Maintain an active dialogue with rating agencies;
- Attracting investors and diversification of the investor structure;
- Ensuring integrated records in the form of public debt registry.

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PUBLISHER**MINISTRY OF FINANCE
REPUBLIC OF MACEDONIA**

str. Dame Gruev 14, 1000 Skopje,
Phone: (389) 02 117 288, Fax: (389) 02 117 280
<http://www.finance.gov.mk>

EDITOR-IN-CHIEF

d-r Trajko Slaveski

ASSISTANT EDITOR-IN-CHIEF

Dejan Runteovski
dejan.runteovski@finance.gov.mk

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TRANSLATOR

Zana Sokarovska
Maja Petrovska

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