

MINISTRY OF FINANCE
REPUBLIC OF MACEDONIA

January/February 2007

BULLETIN

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web site of the Central register of the Republic of Macedonia

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Skopje, January/February 2007

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HONOURABLE,



It is my utmost honour and pleasure to present to you the first double issue of the Bulletin of the Ministry of Finance in 2007 and to focus my address on the activities and achievements of our ministry in the process of approximation of the Republic of Macedonia to the European Union.

On December 1st 2006, the Republic of Macedonia submitted to the European Commission the first Pre-Accession Programme, prepared jointly by multiple institutions and coordinated by the Ministry of Finance. This is the first programme of such type prepared by the Government of the Republic of Macedonia in the process of approximation to the European Union. Its main goal is expedited economic growth and development of the country so as to reduce unemployment and improve the standard of living of Macedonian citizens. The Programme shows medium-term macroeconomic trends covering the developments in the real, external and monetary sectors, it presents the Fiscal Strategy of the Republic of Macedonia and the Public Debt Management Strategy and the ambitious structural reforms.

The preparation of the Pre-Accession Economic Programme as a coherent strategic document is a confirmation of the capacity of the public administration from the aspect of work coordination and efficiency. The programme obtained positive assessment from the European Commission, which welcomed the efforts for intensification of the structural reforms.

Also, I would like to mention the National Development Plan (NDP) prepared for the first time, which is a comprehensive framework of investments in the Republic of Macedonia in the period 2007-2009, the implementation of which will be (co-)financed by national and foreign public financial resources. Thereby, investment projects indicated in the NDP are in accordance with the main development objectives of the Republic of Macedonia in the indicated three-year period, in accordance with the working programme of the Government. This document, which the Government accepted early this year, is a basis for preparation of the Strategic Coherent Framework, a document prepared by the Ministry of Finance and submitted to Brussels. What is specific for this document is that for the first time, a programme was prepared covering a period of seven years (2007-2013). The strategic coherent framework is a basis for preparation of the operating programmes for the third (Regional Development) and fourth (Human Resource Development) components of the Instrument for Pre-Accession Assistance (IPA). Activities in the operating programmes are in the final stage, which is a confirmation of the seriousness and the capability of the Republic of Macedonia for economic planning and programming, as well as the determination to use the maximum of the pre-accession funds of the European Union.

The Ministry of Finance is a coordinator (together with the Secretariat for European Affairs) of the Sub-committee for economic and financial issues and statistics. This sub-committee is especially significant for assessment of the fulfilment of the second Copenhagen criterion, i.e.

"whether the Republic of Macedonia is a functioning market economy and whether it is capable of dealing with the competition from the European Union". It is my pleasure to emphasize that this-year sub-committee, held on March 15 and 16 in Brussels went smoothly, whereby the European Commission emphasized the evident progress in the Republic of Macedonia in the area of economy and finance. Such positive assessments give us realistic hopes to expect that the European Union should soon state the assessment that the Republic of Macedonia meets the second Copenhagen criterion.

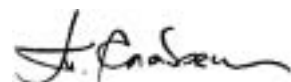
The Ministry of Finance conducts numerous activities aimed at approximation of our legislation to the *acquis*, i.e. transposition of a number of European directives. I would like to mention the Banking Law, the Law on the

NBRM, the Law on Securities, the Law on Investment Funds, the Law on Public Internal Financial Control, Law on Internal Audit in the Private Sector and a series of other laws.

Honourable, at the very end of this brief address, I would like to emphasise that the Ministry of Finance is aware of the challenges involved in the approximation towards the European Union, especially in the area of structural reforms and strengthening of the capacity of the public administration. We are aware that only by hard work and strong dedication we could obtain a date for negotiations and a positive assessment on the fulfilment of the economic criteria.

Enjoy reading the new Bulletin.

Yours sincerely,
Trajko Slaveski, PhD
Minister of Finance



BULLETIN

MINISTRY OF FINANCE

III. ANALYSES,
TABLES,
GRAPHIC PRESENTATIONS

Table 1: BASIC MACROECONOMIC INDICATORS

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005*	2006*
Real GD												
GDP	%	1.2	1.4	3.4	4.3	4.5	-4.5	0.9	2.8	4.1	4.1	4.0
Inflation (average)	USD mil.	3,390	3,458	3,581	3,674	3,588	3,437	3,769	4,631	5,368	5,815	6,306
Inflation (end of period)	%	2.3	2.6	-0.1	-0.7	5.8	5.5	1.8	1.2	-0.4	0.5	3.2
GDP deflator	%	-0.7	2.7	-2.4	2.4	6.1	3.7	1.1	2.6	-1.9	1.2	2.9
Budget balance	%	2.9	3.4	1.4	2.7	8.2	3.6	3.4	0.3	1.3	3.8	3.2
(Central budget and funds)	% GDP	-0.5	-0.4	-1.7	0.0	1.8	-7.2	-5.7	-0.6	0.4	0.3	-0.6
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	48.8
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	61.2
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	46.5
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	61.2
Export (f.o.b.)	USD mil.	1,147	1,237	1,291	1,190	1,321	1,155	1,112	1,362	1,672	2,041	2,401
Import (f.o.b.)	USD mil.	1,462	1,623	1,807	1,686	2,011	1,681	1,916	2,211	2,785	3,097	3,763
Trade balance	USD mil.	-315	-386	-516	-496	-690	-526	-804	-849	-1,113	-1,056	-1,362
Current account balance	USD mil.	-340	-286	-269	-32	-72	-244	-358	-149	-415	82	76
as % of GDP	%	-10.0	-8.3	-7.5	-0.9	-2.0	-7.1	-9.5	-3.2	-7.7	1.4	1.2
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	1.87
Import coverage	months	2.2	1.9	2.2	3.2	3.7	4.7	4.0	3.9	3.3	3.6	5.5
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	2,315
as % of GDP	%	33.1	33.5	41.4	41.5	39.9	41.0	43.1	44.9	44.6	38.8	36.7
Foreign direct investments	USD mil.	11.2	30.0	127.7	32.4	175.1	440.7	77.7	96.0	155.0	97.0	383.8
as % of GDP	%	0.3	0.9	3.6	0.9	4.9	12.8	2.1	2.1	2.9	1.7	6.1

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

Table 2: BASIC MACROECONOMIC INDICATORS IN THE SELECTED TRANSITIONAL ECONOMIES

	Real GDP				Consumer prices ¹⁾				Current account balance ²⁾			
	2004	2005	2006	2007	2004	2005	2006	2007	2004	2005	2006	2007
Emerging markets - Total	6.6	5.5	6.0	5.5	6.1	4.8	5.0	4.8	-5.8	-5.3	-6.7	-6.6
Bulgaria	5.7	5.5	6.2	6.0	6.1	5.0	7.3	5.3	-5.8	-11.3	-15.9	-15.7
Czech Republic	4.2	6.1	6.1	4.8	2.8	1.8	2.5	2.9	-6.0	-2.6	-4.2	-4.1
Estonia	8.1	10.5	11.4	9.9	3.0	4.1	4.4	4.8	-12.5	-10.5	-13.8	-12.9
Hungary	4.9	4.2	3.9	2.8	6.8	3.6	3.9	6.4	-8.4	-6.7	-6.9	-5.7
Latvia	8.6	10.2	11.9	10.5	6.2	6.7	6.5	7.3	-12.9	-12.7	-21.3	-23.0
Lithuania	7.3	7.6	7.5	7.0	1.2	2.7	3.8	3.5	-7.7	-7.1	-12.2	-12.3
Poland	5.3	3.5	5.8	5.8	3.5	2.1	1.0	2.2	-4.2	-1.7	-2.1	-2.7
Romania	8.4	4.1	7.7	6.5	11.9	9.0	6.6	4.5	-8.4	-8.7	-10.3	-10.3
Slovak Republic	5.4	6.0	8.2	8.2	7.5	2.8	4.4	2.4	-3.6	-8.6	-8.0	-5.7
Slovenia	4.4	4.0	5.2	4.5	3.7	2.5	2.5	2.3	-2.7	-2.0	-2.3	-2.6
Croatia	3.8	4.3	4.6	4.7	2.1	3.3	3.2	2.7	-5.4	-6.4	-8.1	-8.3
Malta	0.8	2.2	2.5	2.3	2.7	2.5	2.6	2.4	-8.1	-10.5	-11.2	-11.5
Turkey	8.9	7.4	5.5	5.0	8.6	8.2	9.6	8.0	-5.2	-6.3	-8.0	-7.3

1) Annual average

2) Percent of GDP

Source: World Economic Outlook, IMF, Washington D.C., April 2007

SHORT-TERM ECONOMIC TRENDS

FEBRUARY 2007

1. REAL SECTOR

1.1. Industrial production

In February 2007 industrial production index grew on monthly basis by 13.5%, as a result of the higher production in 17 of total of 24 industrial branches. The growth compared to the same month last year is 14.9%, while cumulatively, in the first two months of 2007, the industrial production grew by 12.9% compared to the same period last year.

Observed by sectors, the following industries positively affected the index growth on monthly basis: mining, i.e. extraction of ore and stone (57.1%); processing industry, i.e. production of food and beverages (18.8%); tobacco production (38.4%); yarn production (68.6%); clothes (16.4%); chemical industry (27.1%), oil industry (63.1%) etc.

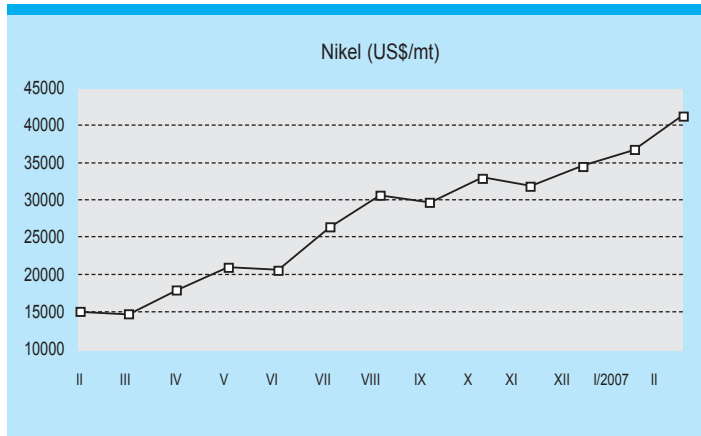
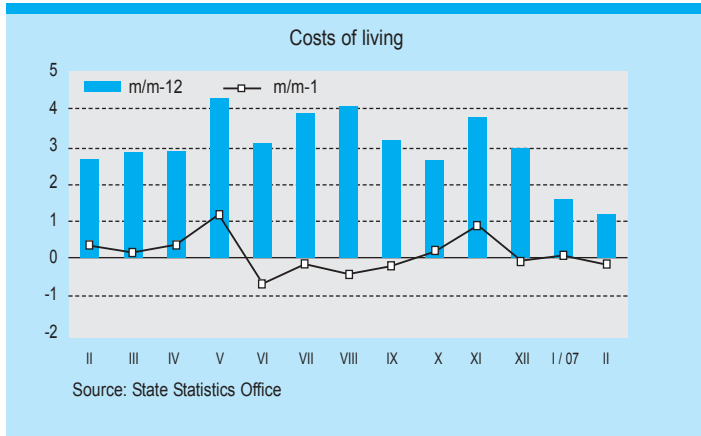
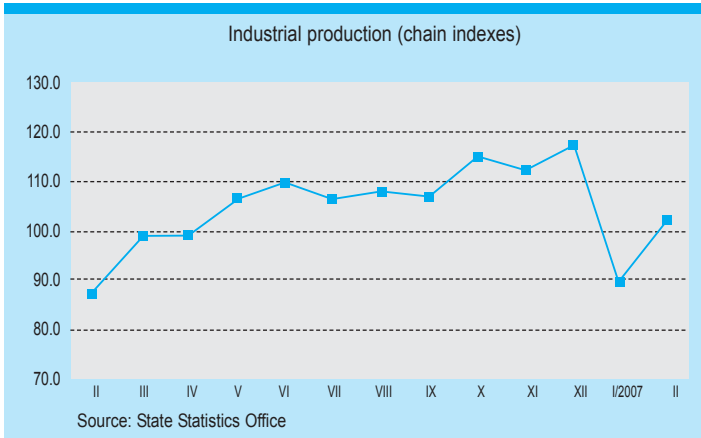
According to the February data and the expectations on the next few months, the industrial production is expected to reach around 6.1%, envisaged in the projections.

1.2. In February 2007, costs of living did not change on monthly basis, while on annual basis (compared to the same month last year) it grew by 0.5%. The CPI in the first two months of 2007 compared to the same period last year, grew by 0.7%.

Value of the consumer basket of food and beverages for a four-member household in February 2007, calculated on the basis of retail prices, was Denar 10,373 and compared to the previous month, it was by 0.4% higher.

Retail price index in January 2006 on monthly basis declined by 0.1%, while on annual basis it grew by 1.2%.

1.3. In February 2007 the trends on the world stock markets were rather stable, without major turmoil, especially regarding products being in our interest.



Thereby, the prices of the most significant products slightly grew or remained at the same level, excluding nickel. The biggest growth on monthly level was that of oil derivatives, the stock market price of which grew by

around 6.4% compared to January 2007. From the point of view of the Macedonian economy, what is especially favourable is the increase of the price of nickel, reaching the record level of US\$ 41.184 per metric ton. The nickel grew by 175% in February 2007 compared to the same month in 2006.

2. External Sector

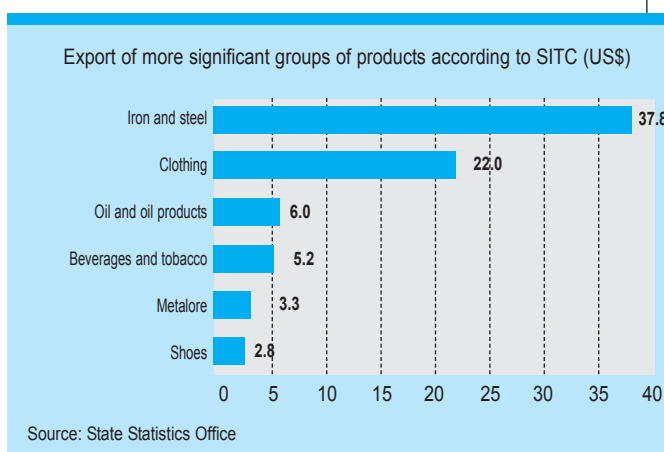
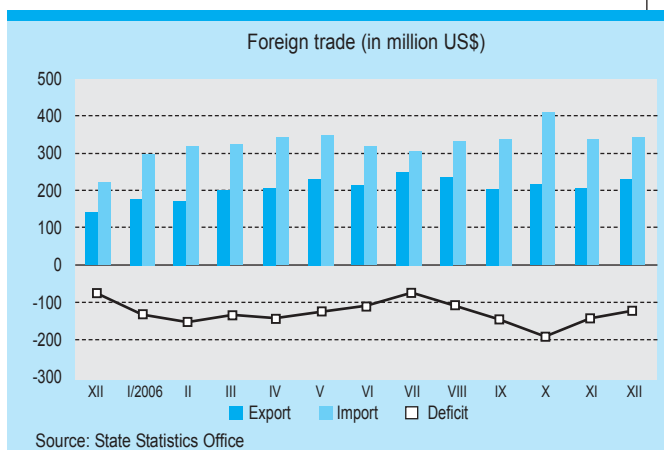
2.1. In the external sector, in the first two months of 2007 foreign trade grew exceptionally (in US\$ value) by 59.2%, which compared to the same period in the past years is the highest growth and points to an intensification of the economic activity. Thereby, the physical volume of export grew by over 34%, while its value reached US\$ 436 million, which is 60.8% growth. Growth of the quantity of import of goods is 47.5%, and its value was US\$ 676 million, or growth by 58.1%.

Observed by months, export in February compared to January grew by 10.7%, and the import only, by 1.9%, which resulted in lower trade deficit in February by US\$ 16 million compared to the deficit in January, whereby the import coverage improved, by 2.7 percentage points and is 64.5%.

2.2. Main import goods (according to SITC) having the biggest share in export in February are the following: iron and steel - 35%, clothes 23%, oil and oil products 5%, tobacco and beverages 5.3%, metal ore and metal scrap 4%. These five groups of products comprise 72% of the total export of the country. According to the statistical data, in this period the export of oil and oil products, as well as tobacco and tobacco processed goods, due to the lower prices than the ones in 2006, had lower export results.

2.3. In the first two months of 2007, around 70% of the total exported goods were placed on the European Union market, (EU27), while 49.5% of the total goods imported in the Republic of Macedonia originate from the Union. Export to the European Union was higher by 77.8%, and the import grew by 56.7% compared to the same period in 2006.

2.4. The analysis of the exported goods by economic purpose in the observed period points to the fact that the export of mass consumption goods grew by



31%, while export of raw materials and intermediate products grew significantly by 86%, increasing their structural share (68%) in the total export by 7.3 percentage points.

2.5. The analysis of the currency structure provides more realistic image in the foreign trade. Thus, export in euros grew by EUR 67 million (41.2%), and the part of export on the "US\$ market" grew significantly by US\$ 60 million (84.4%). Accordingly, in the analyzed period, the total export of goods expressed in denar equivalent grew by 48.2%. If the US dollar share of the export for this period is reduced to the average US dollar exchange rate realized during the same period of 2006, loss in export could be observed by around Denar 524 million or US\$ 10.5 million.

2.6. External debt of the Republic of Macedonia at end-February 2007 amounted to US\$ 2,278 million and, in relation to end-2006, it declined by US\$ 37 million largely as a result of the greater repayment amount of the debt compared to the used funds.

FOREIGN TRADE of the Republic of Macedonia
(by currency)

Export	I-II 2006					I-II 2007					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	izvoz vo valuta	average Denar exch. rate in relation to currencies	export in Denar	structure in %	
EUR	216	164.064.442	61,2526	10.049.373.640	72,7	305	231.723.651	61.1851	14.178.034.759	69,3	67.659.209	41,2
USD	108	70.777.002	50,9788	3.608.126.630	26,1	129	130.515.433	46.9581	6.128.756.754	29,9	59.738.421	84,4
EUR+USD	324			13.657.500.270	98,9	434			20.306.791.513	99,2		
Deficit	325			13.814.414.057	100,0	436			20.466.481.093	100,0		48,2

Source: State Statistics Office and NBRM

Analyzed by debtors, external debt of the public sector amounted to US\$ 1,543 million, being a monthly increase by US\$ 17 million, due to the growth of debt at the central government and public funds, while compared to 2006, it declined by US\$ 64 million. Within the public sector debt, decrease in relation to 2006 was also noticed at the central government debt, the debt of the public enterprises and the debt of the NBRM, while insignificant increase was recorded at the public funds.

2.7. In the first two months of this year, funds were disbursed in the amount of US\$ 26 million, US\$ 21 million out of which in the private sector. During this period, new credit agreements were concluded in the amount of US\$ 82 million, in the private sector only. Regular servicing of the liabilities continues further, whereby, US\$ 123 million was repaid in the first two months of 2007, US\$ 110 million out of which as principal. Most of the total repayments were towards bilateral creditors (US\$ 64 million), of which US\$ 59.5 million on the basis of the rescheduled debt from 1995.

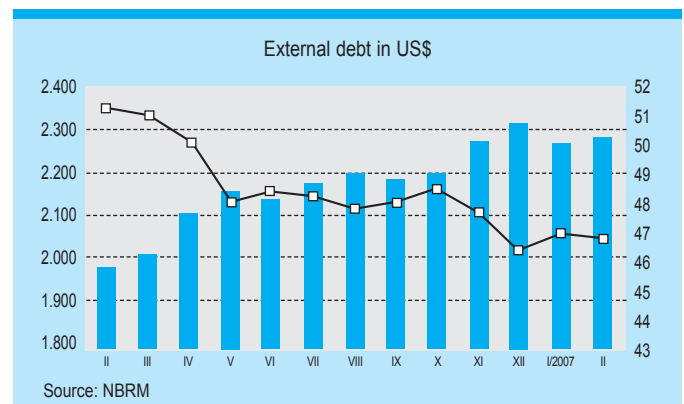
2.8. The stock of short-term debt at end-February 2007 amounted to US\$ 91 million and it fully refers to the private sector, and is on the basis of financial credits.

3. Fiscal Sector

3.1. In the first two months of 2007, total central government budget revenues amount to Denar 9,995 million, which is 28.4% increase compared to the same period last year.

Tax revenues in this period were in the amount of Denar 9,469 million, which is 29.8% growth in relation to same period last year.

Share of VAT in the total tax revenues in the period January-February 2007 were 49.6%, and the excise 18.8%. Revenues from these two taxes were Denar 6,476

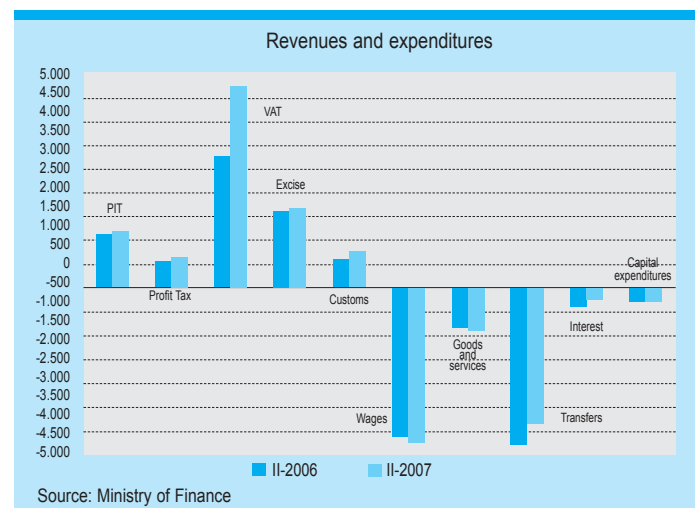


million. Thereby, VAT revenues in the analyzed period grew by 54.3%.

During this period, personal income tax revenues grew by 3.4% and amount to Denar 1,213 million while profit tax revenues grew by 15.3%.

Customs revenues grew by 31% in relation to the same period last year.

3.2. In the first two months of 2007, total central budget expenditures amounted to Denar 9,060 million, which was by 4.9% less compared to the same period in 2006.



The biggest expenditure items are salaries and allowances (Denar 3,775 million), with 41.7% share, and transfers (Denar 3,330 million) participating with 36.8%. Resources for wages and salaries and allowances were increased by 3.8% in relation to the same period last year. Expenditures for goods and services reached the amount of Denar 1,129 million, i.e. by 4.1% more compared to 2006.

With regard to transfers 13% less resources were spent. Transfers to the Pension and Disability Insurance Fund were in the amount of Denar 1,602 million or by Denar 60 million higher (3.9%) in relation to the same period last year.

3.3. Higher collection of public revenues and lower spending of budget funds led to central government budget surplus of Denar 935 million in the period January-February 2007 and a surplus of the consolidated budget realized in the amount of Denar 1,624 million.

4. Monetary Sector

4.1. In February 2007, total liquid resources of banks are on a higher level by Denar 199 million against a background of higher cash in circulation (Denar 459 million), which resulted in growth of primary money, which at end-February amounted to Denar 29,137 million.

From the aspect of liquidity, foreign exchange transactions of NBRM created liquidity (realized net redemption on the foreign exchange market), while other autonomous factors, i.e. denar deposits of the country and cash in circulation resulted in withdrawal of liquidity from the banking sector. Monetary instruments affected the creation of liquidity which is fully due to the higher level of central bank bills (Denar 464 million) while at the same time, treasury bills for monetary bills grew.

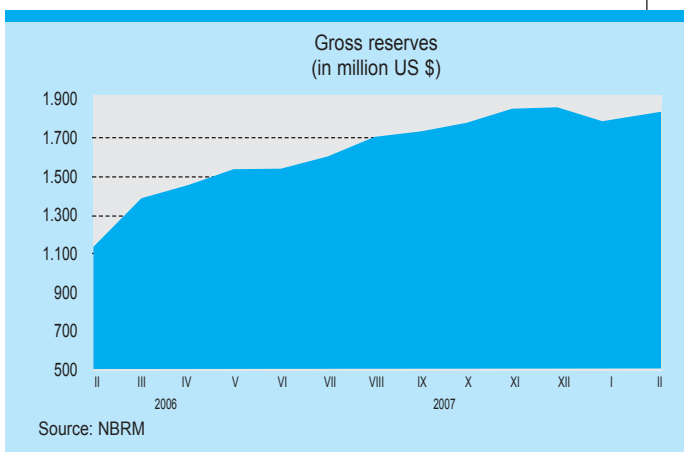
4.2. At end-February 2007, on monthly basis, primary money grew by 2.5%, and on annual base by 15.5%. The demand for cash in circulation grew on monthly and annual basis by 3.1% and 9.9% respectively.

M1 monetary aggregate grew on monthly basis by 2.6%, which is a result of the growth of cash in circulation, while on annual level it grew by 16.9%. This growth, followed by the increase in the total deposit potential of the banks, resulted in monthly increase of the broader monetary aggregates M2 and M4 by 3.1% and 2.9%, respectively. Annually, monetary aggregates M2 and M4 grew by 20.2% and 26.4%, respectively.

4.3. In December 2006, total deposit potential of the commercial banks grew by 2.8% on monthly basis, and by 29.8% on annual basis. Credits to the private sector in February 2007 grew by 32.2%, whereby credits denominated in national currency grew by 30.8%, and credits denominated in foreign currency increased by 36.2%.

4.4. With respect to the interest rate policy of the commercial banks, in February there were no significant changes. Average weighted interest rates on denar credits in February 2007 were 10.6% and compared to the previous month were by 0.1 percentage point lower, and interest rates on foreign currency credits remained at the level of the previous month and were 8.4%. Average interest on credit balance on Denar deposits were by 2 percentage points higher and amounted to 4.7% and interest rates on foreign currency deposits remained at the January level and were 1.8%.

4.5. Gross foreign exchange reserves at end-February 2007 amounted to US\$ 1,829 million, which was by US\$ 36 million higher in relation to December 2006. During February 2007, while making interventions on the foreign exchange market, the NBRM sold US\$ 1.9 million and bought back US\$ 19.2 million, and the net effect therefrom was US\$ 17.9 million.



5. Social Sector

5.1. In the first two months of 2007, Employment Agency of the Republic of Macedonia registered 28,864 new employments. In relation to the same period in 2006, the number of new employed persons grew by 3,694 or by 14.7%, and the positive trend of new employment continued. Full-time employment accounted for

46.5% in the total employment. Employment of registered unemployed persons in February 2007 participated with 27.7% in the total employment, while the remaining employment was directly from the previously inactive population or persons who changed job positions.

5.2. In February 2007, according to the Employment Agency of the Republic of Macedonia, 372,078 unemployed persons were registered. Compared to the same period last year, the number of unemployed persons is higher by 10,465 persons or by 2.9%. Thereby, 75,941 declared that they applied only to get health insurance. Major percentage of the unemployed, i.e. 67.4% come from urban areas (cities).

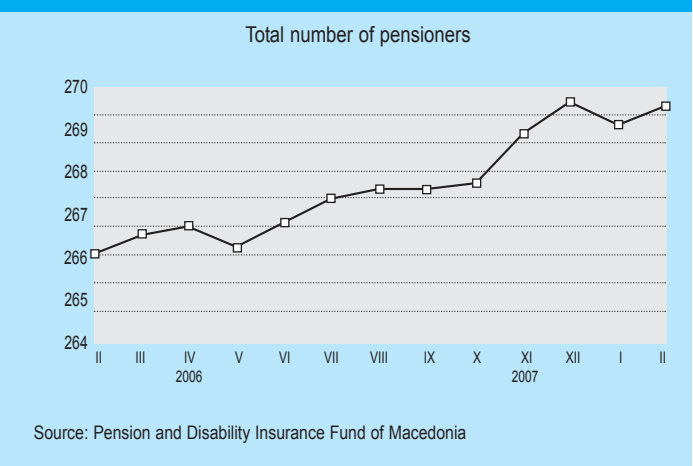
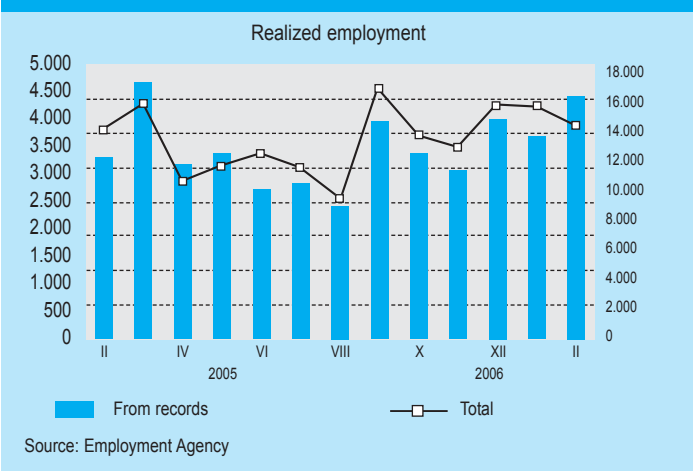
According to the education structure, no major changes are present, meaning that 51.2% of the unemployed persons were unskilled or semi-skilled, 24.9% were with finished secondary vocational education, skilled and highly skilled participated with 17%, while the ones with community college and university degree participated with 6.8%.

5.3. According to the most recent data from the Employment Agency of the RM, in February 2007, unemployment benefit was used by 29,300 persons, i.e. 7.9% of the registered unemployed persons.

5.4. According to the data from the PDF, in February 2007, 269,597 pensioners were registered, which compared to January 2006 was an increase by 3.1%. This month, Denar 2,050 million was spent for payment of pensions. Average pension in February 2007 amounted to Denar 7,738, being an increase by 1.3% on annual level. Ratio between the average pension and the average net paid salary in January amounted to 55.7%.

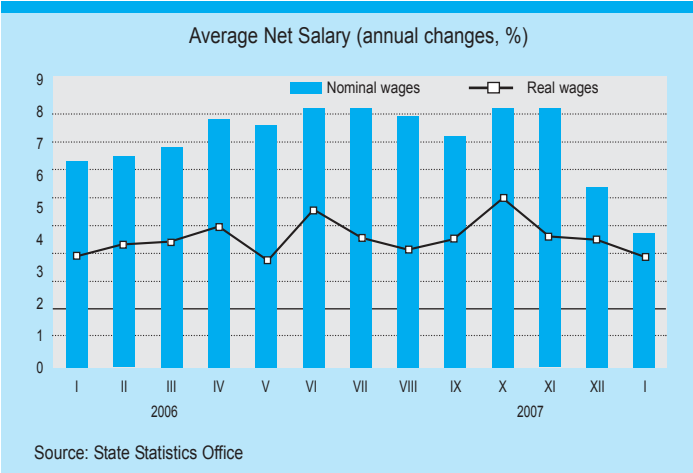
5.5. The last available data on beneficiaries of welfare show that in February 2007 Denar 133.3 million was spent for welfare paid to 66,962 households, which was by 4.5% more on annual basis.

In December, Denar 73.5 million was spent for 20,859 beneficiaries using third person care. In this month, 5,079 persons were registered as beneficiaries of permanent pecuniary allowance, for which Denar 16.6 million were spent, while 5,218 persons use healthcare (using healthcare under other bases).



5.6. In January 2007 the average paid monthly net salary per employee amounted to Denar 13,884, which was an increase by 0.2% on monthly basis, i.e. 0.2% reduction in real terms. The highest monthly increase of the average net salary by 16.9% was registered in the activity "Production of products from other non-metal minerals".

In January 2007, only 13.5% of the workers in the Republic of Macedonia did not receive salary.



1) Comparison is made with the average salary in the previous month, since data on salaries are announced with one month delay.

Table 3: 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	V + G + D	I	E	@	Z	Y + I + Q	J + K + L + N				
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	1.0	8.3	1.5	1.5	4.1	2.5	2.6	2.6
	II	0.8	4.9	1.4	4.7	-1.6	7.2	1.7	2.4	5.2	3.4	3.4	3.4
	III	0.5	8.3	1.8	4.8	-0.8	5.1	2.0	2.3	8.7	4.0	4.0	4.0
	IV	0.3	1.5	-3.2	5.8	1.4	9.4	1.0	2.3	1.2	2.6	2.6	2.6

* Preliminary data
Source: State Statistical Office

Table 4: BASIC SHORT - TERM ECONOMIC TRENDS
Percentage change from the same period previous year, if otherwise not stated

	2000	2001	2002	2003	2004	2005	2006				2006	2007	
							Q - 1	Q - 2	Q - 3	Q - 4		January	February
REAL SECTOR													
Production real rates of change													
Gross domestic product	4.6	-4.5	0.9	2.8	4.1	4.0	2.2	3.4	4.0	2.6	3.1		
Industrial production	3.5	-3.1	-0.8	6.6	-2.1	7.0	-0.9	4.9	8.3	1.5	3.6	10.6	14.9
nominal rates of change													
Investment in machines and equipment	20.8	-16.9	16.4	-7.7	4.9	4.9	9.2	24	24	13.3	18.3		
Prices													
Consumer Price Index	5.8	5.5	1.8	1.2	-0.4	0.5	2.7	3.5	3.6	2.3	3.2	1.6	0.5
Industrial producer prices	8.9	2.0	-0.9	-0.3	0.9	3.2	5.6	5.7	0.1	0.2	4.5	1.3	0.3
Competition of the industry													
Productivity	6.0	0.5	3.0	13.1	3.9	11.8	3.8	5.9	8.9	10.9	6.4	11.2	15.6
Unit labour cost	-4.7	-0.7	0.2	-10.3	0.7	-11.8	-3.6	-1.2	-4.0	-4.3	-3.2	-6.3	-7.3
Real unit labour cost	-12.5	-2.7	1.1	-10.1	-0.4	-15.1	-9.3	-7.3	-8.3	-7.2	-7.6	-6.6	-6.1
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	61.9	69.8	70.1	59.7	65.4	54.3	57.8
Lamb	261.9	291.2	330.3	388.4	461.4	443.3	383.9	420.3	408.5	399.3	403.6	404.6	400.7
Nickel	8,638.0	5,944.7	6,772.0	9,629.0	13,823.4	14,744.0	14,810.0	19,925.0	29,154.0	33,129.0	24,254.0	36,811.0	411.8
Copper	1,813.0	1,578.3	1,559.0	1,779.0	2,866.0	3,679.0	4,940.0	7,210.0	7,670.0	7,068.0	6,722.0	5,670.0	5,676.0
Lead	45.4	47.6	45.3	51.5	88.7	97.6	124.2	110.0	119.0	162.7	129.0	166.6	178.0
Zink	112.8	88.6	77.9	82.8	104.8	138.1	224.2	329.2	336.3	420.4	327.5	378.7	331.0
Steel cold rolled coilsreat	385.8	299.2	328.3	444.6	607.1	733.3	750.0	666.7	700.0	658.3	693.8	650.0	650.0
Steel hot rolled coilsreat	295.8	216.5	246.7	320.2	502.5	633.3	650.0	591.7	600.0	558.3	600.0	550.0	550.0
EXTERNAL SECTOR													
nominal rates of change in dollar amount													
Export of goods (FOB)	11.0	-12.7	-3.7	22.2	22.4	21.8	-6.5	14.1	35.7	22.8	17.6	60.3	54.9
Import of goods (CIF)	17.9	-19.4	16.3	15.3	25.9	10.1	-6.4	8.4	25.8	24.8	16.6	53.7	55.4
Trade balance (in millions of US \$)	-771	-533	-849	-937	-1,230	1,187	-206.0	-382.6	-269.2	-214.6	1,362.0	122.1	112.0
Current account balance (in millions of US \$)	-236	-38	-324	-277	-415	-81.5	-44.6	-64.1	133.5	-48.6	-23.7	-0.4	12.9
"Foreign exchange reserves (in millions of US \$) "-" means decrease	235.6	62.0	-40.5	168.8	82.3	415.1	33.5	112.8	167.8	61.7	375.8	-34.8	-16.0
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	2,017.4	2,141.0	2,184.5	2,315.8	2,315.8	2,265.6	2,278.1
Foreign exchange rates													
Denar / EURO	60.73	60.91	60.98	61.26	61.34	61.30	61.23	61.17	61.70	61.19	61.19	61.18	61.19
Denar / USA	65.89	68.04	64.73	54.30	49.41	49.2919	50.97	48.75	48.00	47.47	48.79	47.06	46.84

	2000	2001	2002	2003	2004	2005	2006				2006	2007	
							Q - 1	Q - 2	Q - 3	Q - 4		January	February
GOVERNMENT FINANCE													
nominal rates of change													
Revenues	22.5	-10.3	10.1	-7.4	5.8	7.5	-6.1	-11.4	-10.2	9.2	2.8	37.1	28.4
Tax revenues	22.1	-6.9	14.0	-9.6	6.8	4.8	-0.3	-8.4	9.8	6.8	7.1	39.8	29.8
VAT	75.2	-1.8	19.8	3.2	21.6	5.1	-14.3	-9.2	7.6	-5.1	0.6	67	54.3
Expenditures	12.7	27.0	-0.1	-13.8	0.3	6.1	10.0	2.9	1.1	12.6	5.8	-5.8	-4.9
Current expenditures	1.8	31.9	17.2	-1.2	1.4	2.2	11.2	3.2	3.3	22.2	9.4	-7.9	-5.2
Capital expenditures	94.5	28.3	11.8	-447.0	-3.4	47.4	5.4	0.3	-17.4	-29.5	-20.5	64.1	1.4
Central budget balance (in millions of denars)	6,285	-12,490	7,343	-2,551	371	1,183.0	-1,275.0	1,538.0	1,557.0	-2,466.0	-600.0	1,609.0	-674.0
General government balance (in million of denars)	5,905	-13,171	-13,019	-2,596	7	-1,708.0	-492.0	23.0	1,131.0	-2,366.0	-1,704.0	1,882.0	-256.0
MONETARY SECTOR													
nominal rates of change (end of the period)													
Net foreign assets	73.8	57.6	-19.1	5.3	4.7	30.3	41.2	34.8	40.2	28.4	28.4	31.7	25.3
Credit to private sector	17.2	7.3	12.7	15.8	18.7	20.5	21.0	26.3	24.7	30.5	30.5	31.4	32.2
Cash in circulation	16.6	48.5	0.0	0.3	-0.1	2.0	3.7	8.9	9.8	12.2	12.2	10.9	9.9
M1	22.6	5.6	4.6	1.1	-1.1	7.5	3.8	13.3	14.9	17.1	17.1	17.6	16.9
M2	29.4	61.9	-7.0	15.9	15.1	16.0	14.9	12.8	21.9	24.5	24.5	24.7	20.2
M4	25.6	56.7		13.2	15.3	15.1	14.9	12.9	21.9	24.9	24.9	24.0	26.4
Foreign exchange reserves / M4 (denars)	1.65	1.88	1.51	1.51	1.62	2.30	2.55	2.47	2.61	2.49	2.49	2.61	2.56
SOCIAL SECTOR													
Labour market													
Unemployment rate (Labor Force Survey)	32.2	30.5	31.9	36.7	36.7	36.5	36.2	36.1	35.9	35.9	35.9		
Number of new employed	101,996	90,308	110,401	79,921	112,013	147,965	40,433	73,887	110,257	150,815	150,815	15,062	28,864
Number of new employed on full time	63,987	63,346	74,341	49,661	63,538	85,033	22,258	37,428	51,998	68,878	68,878	7,095	13,420
Wages													
Nominal net wages	5.5	3.5	6.9	4.8	4.0	4.5	6.6	7.7	7.6	7.2	7.3	4.2	5.5
Real net wages	-0.3	-1.9	5.0	3.6	4.4	2.0	3.8	4.1	3.9	4.8	4.0	3.4	4.8
Consumer basket	2.5	5.2	2.7	-0.7	-2.7	-1.2	4.3	4.7	4.5	4.7	4.6	0.2	0.4
Social protection													
Number of pensioners	241,221	247,200	249,421	254,267	260,075	265,152	266,615	266,842	267,636	269,681	269,681	269,197	269,597
"Number of households that receivesocial protection"	77,309	80,160	82,673	64,453	66,940	66,485	67,629	64,402	65,380	65,540	65,540	66,317	66,962
"Number of persons that receiveunemployment benefits"	35,046	41,375	46,772	47,324	45,867	40,230	36,982	36,184	33,196	30,572	30,572	29,611	29,300

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

Table 5: GROSS DOMESTIC PRODUCT (PRODUCTION APPROACH)

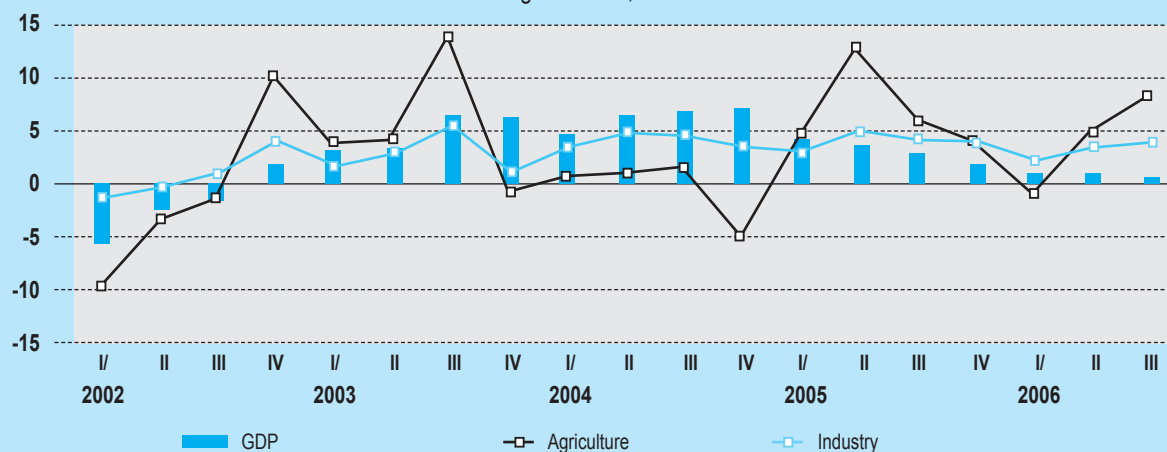
in million of denars								at current prices	
NACE	Description	2000	2001	2002	2003	2004	2005	Index	
sector								2005 / 2004	
		23,756	22,933	24,509	28,672	30,073	31,602	105.1	
A	Agriculture, hunting and forestry	14	24	48	27	21	26	123.8	
B	Fishing	1,856	1,312	960	989	1,042	1,400	134.4	
C	Minerals and stone mining	40,926	39,587	37,925	39,651	39,663	44,280	111.6	
D	Manufacturing	10,381	10,041	9,146	11,778	11,080	10,162	91.7	
E	Electricity, gas and water supply	13,361	11,801	11,893	13,537	14,736	14,552	98.8	
F	Construction								
G	Wholesale and retail trade	25,402	26,076	27,348	28,282	36,000	38,049	105.7	
H	Hotels and restaurants	3,463	3,410	4,088	4,653	4,172	4,200	100.7	
I	Transport, storage and communication	21,261	21,694	20,610	21,062	20,642	23,365	113.2	
J	Financial intermediation	7,342	7,420	7,427	6,110	7,510	8,295	110.5	
K	Real estate, renting and business activities								
L	Public administration and defence;	7,466	8,304	8,168	8,453	8,853	8,024	90.6	
	compulsory social security	14,333	14,445	16,145	16,984	17,874	20,721	115.9	
M	Education	8,266	8,048	8,688	9,436	9,913	10,253	103.4	
N	Health and social work	8,987	8,690	9,361	9,897	9,650	9,747	101.0	
O	Other community, social and personal service activities	5,217	5,548	5,553	5,503	5,984	6,363	106.3	
P	Imputed rents	10,465	10,631	10,792	13,732	15,662	15,574	99.4	
	Minus: Imputed banking services	5,153	4,738	4,160	3,797	4,720	5,933	125.7	
A.	Value added	197,344	195,230	198,592	214,969	228,155	240,140	105.3	
B.	Net taxes on production	39,045	38,611	45,378	36,516	37,101	44,086	118.8	
A + B	GROSS DOMESTIC PRODUCT	236,389	233,841	243,970	251,485	265,256	284,226	107.2	

Table 6: GROSS DOMESTIC PRODUCT (EXPENDITURE APPROACH)

	In millions of denars						in %					
	2000	2001	2002	2003	2004	2005	2000	2001	2002	2003	2004	2005
GROSS DOMESTIC PRODUCT	236,389	233,841	243,970	251,486	265,256	284,226	100.0	100.0	100.0	100.0	100.0	100.0
(current prices)												
Final consumption	218,986	221,771	242,795	243,853	262,208	276,880	92.6	94.8	99.5	97.0	98.9	97.4
Household consumption	175,965	163,788	188,179	191,873	209,075	222,890	74.4	70.0	77.1	76.3	78.8	78.4
Government consumption	43,021	57,983	54,616	51,980	53,133	53,990	18.2	24.8	22.4	20.7	20.0	19.0
Gross capital formation	50,683	42,759	50,276	50,261	56,716	56,792	21.4	18.3	20.6	20.0	21.4	20.0
Gross fixed capital formation	38,332	34,716	40,448	42,110	47,286	48,868	16.2	14.8	16.6	16.7	17.8	17.2
Change in stocks	12,351	8,043	9,828	8,151	9,430	7,924	5.2	3.4	4.0	3.2	3.6	2.8
Export of goods and services	114,209	99,091	92,780	95,254	106,758	128,137	48.3	42.4	38.0	37.9	40.2	45.1
Export of goods (FOB)	87,161	78,625	71,994	73,800	82,635	100,538	36.9	33.6	29.5	29.3	31.2	35.4
Export of services	19,971	15,894	16,387	17,705	20,154	23,250	8.4	6.8	6.7	7.0	7.6	8.2
Purchases of non-residents	7,077	4,572	4,399	3,749	3,968	4,349	3.0	2.0	1.8	1.5	1.5	1.5
Import of goods and services	147,489	129,780	141,881	137,882	160,426	177,583	62.4	55.5	58.2	54.8	60.5	62.5
Import of goods (FOB)	123,910	107,166	124,062	120,038	137,584	152,663	52.4	45.8	50.9	47.7	51.9	53.7
Import of services	23,579	22,614	17,819	17,844	22,842	24,920	10.0	9.7	7.3	7.1	8.6	8.8

Source: State Statistical Office

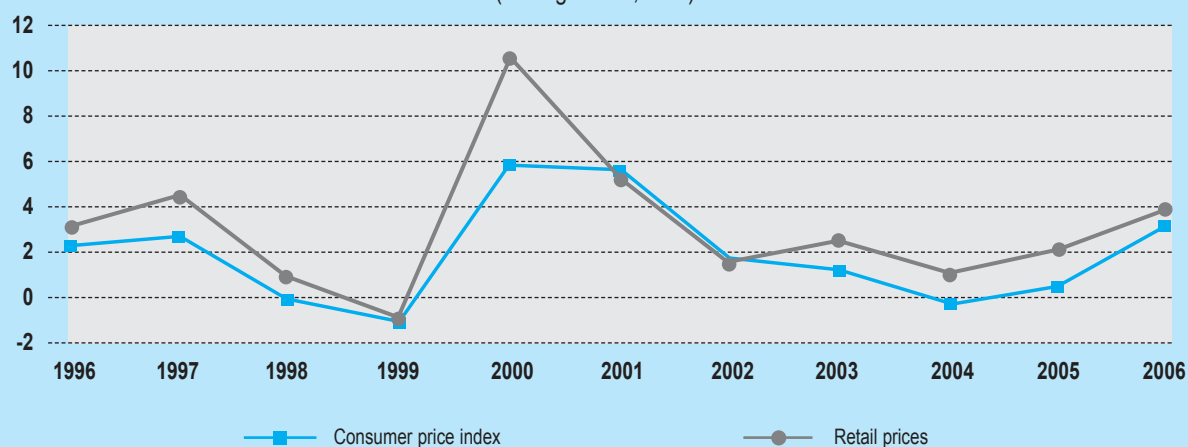
Graphic 1: GROSS DOMESTIC PRODUCT
real growth rate, Q / Q - 4



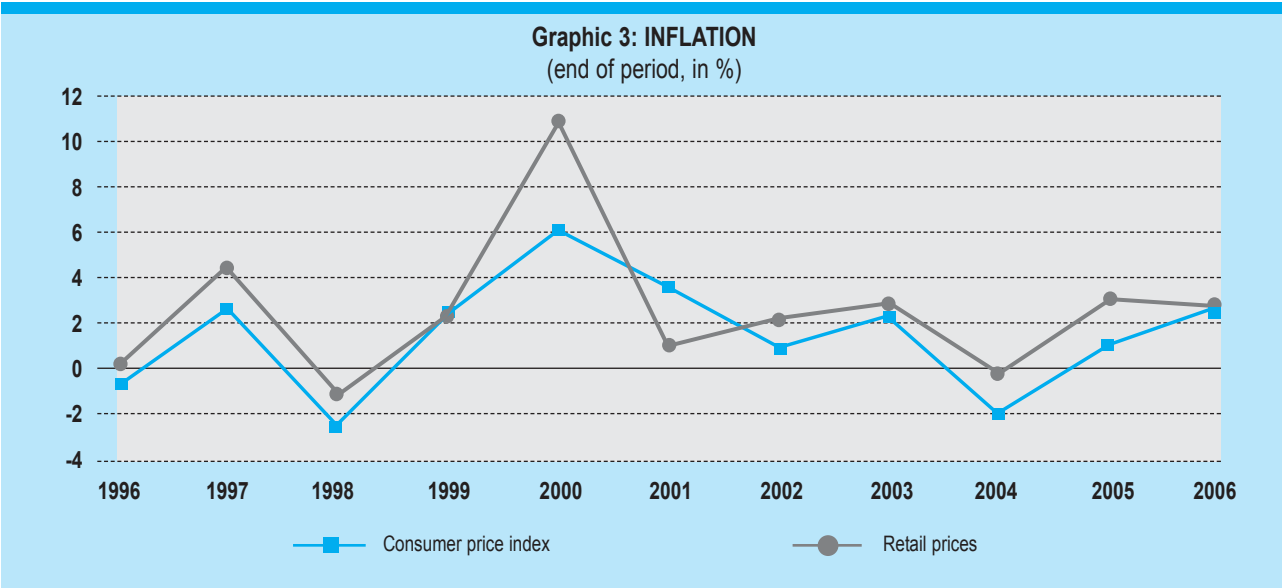
Gross Domestic Product ¹⁾	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
in million US \$	3,450	3,389	3,351	3,390	3,458	3,575	3,730	3,899	3,723	3,872	4,119	4,298	4,519
(per capita) in US \$	1,785	1,742	1,705	1,709	1,732	1,781	1,848	1,924	1,830	4,119	2,032	2,114	2,219

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. Starting from 2002, the base year is 2000, and inflation indexation with the deflator is calculated. Thus, data for 2002, 2003 and 2004 are not comparable with the previous years.

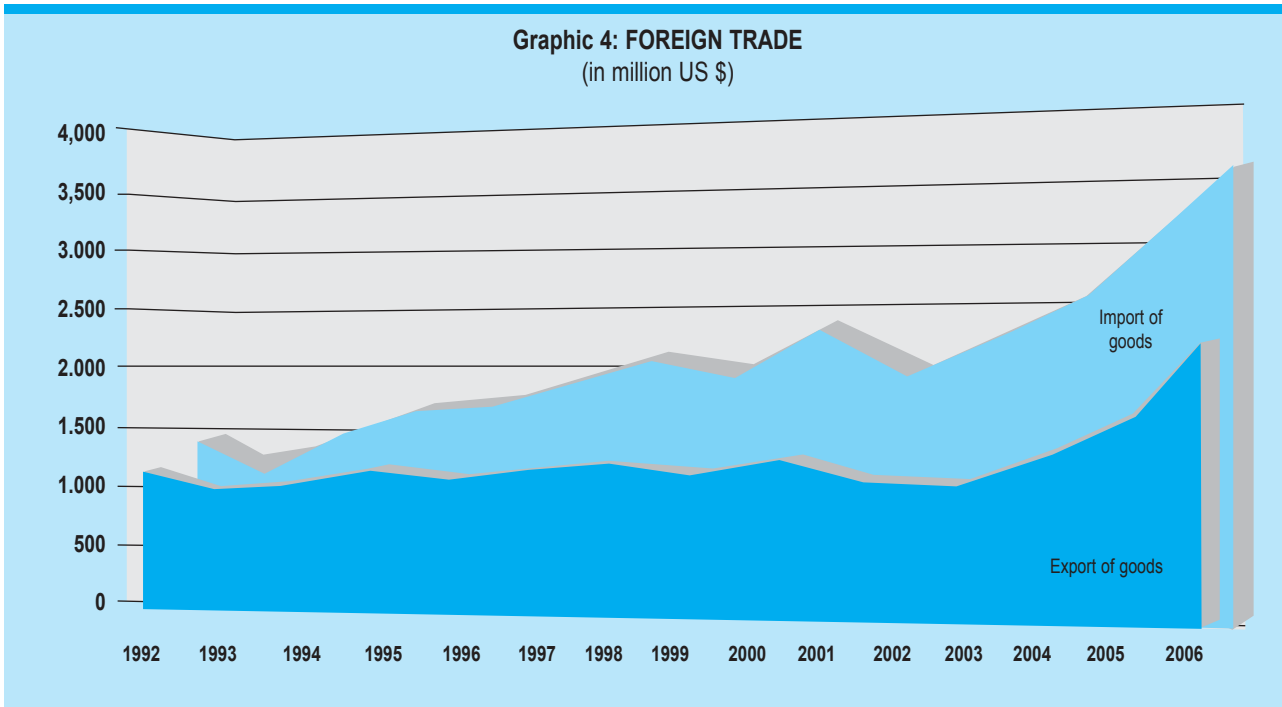
Graphic 2: INFLATION
(average rates, in %)



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Consumer price index	2.3	2.6	-0.1	-0.7	5.8	5.5	1.8	1.2	-0.4	0.5	3.2
Retail prices	3.0	4.4	0.8	-1.1	10.6	5.2	1.4	2.4	0.9	2.1	3.9



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Consumer price index	-0.7	2.7	-2.4	2.4	6.1	3.7	1.1	2.6	-1.9	1.2	2.9
Retail prices	0.2	4.5	-1	2.3	10.8	1.2	2.2	2.9	-0.1	3.2	2.9



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
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	2,401
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	3,682
Trade balance	-7	42	-185	-223	-315	-386	-515	-496	-690	-524	-805	-852	-1,119	-1,056	-1,281

Table 7: BALANCE OF PAYMENT OF THE REPUBLIC OF MACEDONIA

(in million of US\$)

	2000	2001	2002	2003	2004	2005	I/2006	II/2006	III/2006	Q1/2006	Q2/2006	Q3/2006	K4/2006	2006	I/2007	II/2007	I-II/2007
CURRENT ACCOUNT	-75.28	-235.43	-357.81	-152.28	-414.82	-81.48	-20.07	-6.78	-17.61	-44.46	-64.11	133.46	-48.61	-23.73	-0.39	12.89	12.50
Goods, net	-690.41	-523.23	-804.34	-851.48	-1112.08	-1,057.47	-86.64	-73.07	-107.11	-266.83	-367.20	-261.39	-389.82	-1,285.24	-93.00	-84.96	-177.96
Export, f.o.b.	1,320.73	1,153.33	1,112.15	1,359.04	1,672.43	2,039.64	122.70	147.52	179.63	449.87	586.05	699.82	660.51	2,396.26	208.31	229.32	437.63
Import, f.o.b. ²	-2,011.14	-1,676.56	-1,916.49	-2,210.52	-2,784.51	-3,097.11	-209.35	-220.59	-286.74	-716.70	-953.26	-961.21	-1,050.33	-3,681.49	-301.31	-314.27	-615.59
Services, net	47.05	-15.79	-22.13	-2.56	-54.39	-33.87	1.25	-3.39	-4.05	-6.18	-5.60	30.02	6.96	25.20	-2.78	1.05	-1.73
Income, net	-45.44	-39.46	-29.78	-32.33	-39.23	-54.99	-1.79	2.64	5.03	5.89	-1.88	-11.88	4.78	-3.09	6.39	4.39	10.78
o/w : interest, net	-39.15	-33.59	-18.64	-31.88	-26.22	-25.95	-6.26	-2.00697	-1.10	-9.38	-3.60	-6.70	-4.66	-24.34	-0.47	-2.41	-2.88
Current transfers, net	613.53	343.06	498.45	734.09	790.88	1,064.85	67.11	67.04	88.52	222.66	310.57	376.71	329.47	1,239.40	89.00	92.41	181.41
Official	132.30	48.65	100.50	103.36	70.07	64.39	1.79	4.48	10.67	16.93	19.73	17.83	19.26	73.75	4.13	1.92	6.05
Private	481.23	294.41	397.95	630.73	720.81	1,000.47	65.31	62.55	77.84	205.73	290.84	358.88	310.21	1,165.66	84.87	90.49	175.36
	11.28	178.23	376.87	169.97	407.01	94.67	16.33	4.55	21.11	42.00	58.71	-135.45	48.60	13.87	-0.49	-16.22	-16.71
CAPITAL AND FINANCIAL ACCOUNT	0.31	1.30	8.26	-6.69	-4.61	-2.01	-0.16	0.18	0.41	0.44	-0.54	-0.26	-0.76	-1.11	-1.62	0.12	-1.49
Capital account, net	0.31	3.64	9.92	-6.60	-4.61	-2.01	-0.16	0.18	0.41	0.44	-0.54	-0.26	-0.76	-1.11	-1.62	0.12	-1.49
Capital transfers, net	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	0.00
Official	0.31	0.00	0.00	-6.60	-4.61	-2.01	-0.16	0.18	0.41	0.44	-0.54	-0.26	-0.76	-1.11	-1.62	0.12	-1.49
Other																	
Acquisition/disposal of nonfinancial assets	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	0.00
Financial account, net	10.97	176.93	368.62	176.66	411.62	96.68	16.49	4.36	20.69	41.56	59.24	-135.19	49.37	14.98	1.13	-16.34	-15.21
Direct investment, net	176.23	442.32	77.72	94.26	155.85	97.08	7.77	3.46	279.29	290.53	21.61	11.97	26.22	350.33	0.00	7.06	7.06
Portfolio investment, net	-0.09	0.36	0.35	3.39	14.82	235.11	3.89	3.26	7.03	14.19	31.53	8.96	28.63	83.31	15.96	-10.09	5.87
Other investment, net	85.05	-183.27	159.98	129.97	260.42	179.56	-185.77	2.38	-46.24	-229.63	118.90	11.67	56.21	-42.84	-49.66	-29.35	-79.01
Trade credits, net	146.54	-125.08	83.1	82.95	170.05	24.60	1.22	-22.53	28.49	7.18	40.11	-57.21	51.09	41.17	-14.22	1.27	-12.95
Loans, net	13.51	-107.31	8.19	23.47	59.82	153.94	-182.80	25.89	-4.67	-161.58	70.55	31.56	40.27	-19.20	-45.69	-14.42	-60.11
Currency and deposits, net	-122.53	27.09	44.69	2.85	-3.66	-24.77	-6.03	-2.08	-73.04	-81.16	-3.88	29.43	-48.14	-103.75	7.63	-18.41	-10.78
o/w monetary authorities, net	-0.19	-77.08	68.79	17.77	26.44	0.77	0.00	0.00	-68.77	-68.78	0.00	65.66	-0.14	-3.26	0.00	-0.02	-0.02
o/w commercial banks, net	-93.26	-272.39	112.17	-54.59	-105.08	26.57	-4.44	5.20	6.25	7.02	24.63	-22.48	-24.74	-15.58	4.80	-10.03	-5.24
o/w individuals, net	-29.08	376.56	-136.27	39.68	74.97	-52.10	-1.58	-7.29	-10.52	-19.40	-28.50	-13.74	-23.25	-84.90	2.83	-8.36	-5.53
Other, net	47.53	22.03	24.00	20.69	34.22	25.79	1.83	1.10	2.98	5.93	12.12	7.89	12.99	38.94	2.61	2.21	4.83
Gross official reserves ("-" = increase) ³	-250.22	-82.48	130.57	-50.96	-19.47	-415.07	190.59	-4.74	-219.38	-33.53	-112.80	-167.80	-61.69	-375.82	34.83	16.04	50.87
ERRORS AND OMISSIONS	64.00	57.19	-19.07	-17.70	7.81	-13.19	3.74	2.23	-3.51	2.46	5.40	1.99	0.00	9.86	0.88	3.33	4.21

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, 2005 and 2006 - 4.06%

3. Excluding monetary gold and exchange rate differences;

Table 8: FOREIGN TRADE OF THE REPUBLIC OF MACEDONIA

		Total			Germany			Serbia and Montenegro			USA		
		Export	Import	Balance	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	165,6	83,0	82,6
2001		1.155,0	1.687,6	-532,6	237,5	213,3	24,2	266,8	157,2	109,6	99,7	51,5	48,2
2002		1.115,5	1.995,2	-879,7	234,0	284,7	-50,7	246,4	185,2	61,2	77,4	58,7	18,7
2003		1.363,2	2.299,9	-936,7	278,3	303,8	-25,5	273,8	212,6	61,2	72,8	56,2	16,6
2004		1.675,9	2.931,6	-1.255,7	317,1	368,1	-51,0	347,6	249,7	97,9	71,9	47,7	24,2
2005		2.041,3	3.228,0	-1.186,7	364,2	335,0	29,2	459,4	264,1	195,3	44,0	45,0	-1,0
2006		2.400,7	3.762,7	-1.362,0	375,5	369,3	6,2	557,8	282,8	275,0	22,4	41,0	-18,6
2000	Q1	331,1	606,8	-275,7	66,1	80,9	-14,8	78,8	47,8	31,0	49,6	16,3	33,3
	Q2	317,7	481,0	-163,3	56,9	52,7	4,2	76,3	47,3	29,0	48,6	16,5	32,1
	Q3	345,1	470,6	-125,5	70,8	55,0	15,8	82,8	47,3	35,5	37,5	23,4	14,1
	Q4	328,7	535,4	-206,7	63,7	64,7	-1,0	97,3	48,0	49,3	29,9	26,8	3,1
2001	Q1	291,5	400,4	-108,9	69,0	52,8	16,2	62,3	34,9	27,4	28,4	13,4	15,0
	Q2	285,3	416,6	-131,3	52,9	59,0	-6,1	74,1	39,2	34,9	23,4	15,6	7,8
	Q3	295,7	378,9	-83,2	61,9	42,8	19,1	62,9	33,4	29,5	26,9	11,7	15,2
	Q4	282,5	491,7	-209,2	53,7	58,7	-5,0	67,5	49,7	17,8	21,0	10,8	10,2
2002	Q1	244,0	444,2	-200,2	60,9	56,4	4,5	47,2	38,2	9,0	18,0	18,2	-0,2
	Q2	264,4	461,7	-197,3	54,0	70,5	-2,7	53,6	47,9	5,7	18,9	15,6	3,3
	Q3	289,1	497,1	-208,0	60,3	77,1	-10,4	55,8	47,9	7,9	16,5	10,7	5,8
	Q4	301,8	597,6	-295,8	57,0	89,2	-32,2	66,4	55,1	11,3	24,6	13,9	10,7
2003	Q1	293,7	531,7	-238,0	66,6	69,2	-2,6	47,2	50,4	-3,2	16,7	13,8	2,9
	Q2	355,8	580,9	-225,1	68,0	74,2	-6,2	76,4	54,8	21,6	13,8	19,1	-5,3
	Q3	337,8	550,2	-212,4	72,0	71,0	1,0	74,7	53,5	21,2	16,0	11,1	4,9
	Q4	375,9	637,1	-261,2	71,7	89,4	-17,7	75,5	53,9	21,6	26,3	12,2	14,1
2004	Q1	366,1	616,9	-250,8	82,1	84,4	-2,3	57,9	48,2	9,7	14,8	13,4	1,4
	Q2	368,0	716,6	-348,6	63,4	90,3	-26,9	84,4	63,7	20,7	14,1	11,6	2,5
	Q3	443,4	708,3	-264,9	78,5	83,1	-4,6	97,5	68,1	29,4	23,4	11,1	12,3
	Q4	498,4	889,8	-391,4	93,1	110,3	-17,2	107,8	69,7	38,1	19,6	11,6	8,0
2005	Q1	482,0	701,2	-219,2	112,0	73,7	38,3	75,0	58,8	16,2	7,5	13,7	-6,2
	Q2	512,7	892,6	-379,9	80,7	90,6	-9,9	123,2	71,2	52,0	11,9	12,2	-0,3
	Q3	507,9	769,0	-261,1	84,9	79,2	5,7	128,9	66,9	62,0	15,5	9,0	6,5
	Q4	538,7	865,2	-326,5	86,6	91,5	-4,9	132,3	67,2	65,1	9,1	10,1	-1,0
2006	Q1	450,9	727,6	-276,7	87,3	74,0	13,3	88,2	49,1	39,1	6,5	8,7	-2,2
	Q2	586,9	985,9	-399,0	88,3	97,8	-9,5	141,8	71,5	70,3	6,5	11,3	-4,8
	Q3	701,4	969,5	-268,1	100,4	91,1	9,3	177,3	74,6	102,7	5,8	9,6	-3,8
	Q4	661,5	1.079,7	-418,2	99,5	106,4	-6,9	150,5	87,6	62,9	3,6	11,4	-7,8
2004	I	102,5	176,7	-74,2	27,3	21,8	5,5	14,5	11,2	3,3	6,4	5,3	1,1
	II	132,0	199,6	-67,6	28,0	32,8	-4,8	20,0	17,0	3,0	4,6	3,8	0,8
	III	131,6	240,6	-109,0	26,8	29,8	-3,0	23,4	20,0	3,4	3,8	4,3	-0,5
	IV	125,2	238,4	-113,2	22,3	27,6	-5,3	26,4	22,5	3,9	3,6	4,6	-1,0
	V	118,2	224,3	-106,1	19,7	29,2	-9,5	27,9	22,6	5,3	4,5	3,6	0,9
	VI	124,6	253,9	-129,3	21,4	33,5	-12,1	30,1	18,6	11,5	6,0	3,4	2,6
	VII	155,8	253,4	-97,6	31,6	32,4	-0,8	31,2	20,2	11,0	7,9	3,2	4,7
	VIII	137,6	223,5	-85,9	25,0	25,4	-0,4	34,1	28,0	6,1	6,0	3,5	2,5
	IX	150,0	231,4	-81,4	21,9	25,3	-3,4	32,2	19,9	12,3	9,5	4,4	5,1
	X	158,2	257,9	-99,7	24,6	32,2	-7,6	33,4	21,7	11,7	8,0	3,5	4,5
	XI	154,0	295,2	-141,2	26,9	34,9	-8,0	33,0	21,4	11,6	4,4	4,6	-0,2
	XII	186,2	336,7	-150,5	41,6	43,2	-1,6	41,4	26,6	14,8	7,2	3,5	3,7
2005	I	147,9	209,9	-62,0	43,3	21,7	21,6	19,0	15,8	3,2	3,1	4,5	-1,4
	II	156,6	224,0	-67,4	35,5	25,7	9,8	22,4	16,7	5,7	1,8	5,7	-3,9
	III	177,5	267,3	-89,8	33,2	26,3	6,9	33,6	26,3	7,3	2,6	3,5	-0,9
	IV	174,5	312,7	-138,2	29,5	25,7	3,8	38,8	30,2	8,6	3,5	4,2	-0,7
	V	179,1	284,6	-105,5	23,1	31,2	-8,1	42,8	19,0	23,8	4,4	3,7	0,7
	VI	159,1	295,3	-136,2	28,1	33,7	-5,6	41,6	22,0	19,6	4,0	4,3	-0,3
	VII	184,5	256,8	-72,3	35,8	28,2	7,6	41,7	18,5	23,2	6,0	3,0	3,0
	VIII	146,8	239,5	-92,7	22,8	26,5	-3,7	42,3	21,6	20,7	4,5	3,0	1,5
	IX	176,6	272,7	-96,1	26,3	24,5	1,8	44,9	26,8	18,1	5,0	3,0	2,0
	X	191,4	283,7	-92,3	28,3	30,6	-2,3	50,7	24,5	26,2	4,1	2,7	1,4
	XI	171,7	280,9	-109,2	25,5	29,2	-3,7	42,5	20,1	22,4	3,0	3,7	-0,7
	XII	175,6	300,6	-125,0	32,8	31,7	1,1	39,1	22,6	16,5	2,0	3,7	-1,7
2006	I	123,2	208,0	-84,8	26,4	21,0	5,4	22,5	12,8	9,7	2,7	3,5	-0,8
	II	147,9	219,4	-71,5	29,1	23,7	5,4	29,3	14,6	14,7	2,4	2,0	0,4
	III	179,8	300,2	-120,4	31,8	29,3	2,5	36,4	21,7	14,7	1,4	3,2	-1,8
	IV	176,6	320,1	-143,5	29,2	28,4	0,8	41,2	20,6	20,6	1,5	2,4	-0,9
	V	203,7	326,7	-123,0	29,1	36,0	-6,9	51,5	27,0	24,5	2,9	5,1	-2,2
	VI	206,6	339,1	-132,5	30,0	33,4	-3,4	49,1	23,9	25,2	2,1	3,8	-1,7
	VII	232,0	343,6	-111,6	37,5	31,0	6,5	49,2	24,5	24,7	2,0	3,4	-1,4
	VIII	215,3	316,6	-101,3	29,4	32,4	-3,0	63,8	24,1	39,7	2,1	3,2	-1,1
	IX	254,1	309,3	-55,2	33,5	27,7	5,8	64,3	26,0	38,3	1,7	3,0	-1,3
	X	233,6	331,2	-97,6	26,6	34,3	-7,7	54,0	26,0	28,0	2,0	4,1	-2,1
	XI	204,5	342,4	-137,9	31,3	34,2	-2,9	48,0	25,7	22,3	1,2	3,0	-1,8
	XII	223,4	406,1	-182,7	41,6	37,9	3,7	48,5	35,9	12,6	0,4	4,3	-3,9
2007	I	207,0	334,7	-127,7	33,0	32,7	0,3	36,3	25,0	11,3	0,6	4,2	-3,6
	II	229,0	341,0	-112,0	40,8	35,9	4,9	40,1	23,0	17,1	1,0	3,8	-2,8

in million US \$

Italy			Greece			Russia				
Export	Import	Balance	Export	Import	Balance	Export	Import	Balance		
90.8	111.1	-20.3	84.1	201.5	-117.4	10.3	191.8	-181.5	2000	
88.7	107.7	-19.0	101.4	184.0	-82.6	13.9	139.4	-125.5	2001	
81.9	118.6	-36.7	116.9	237.9	-121.0	14.4	125.4	-111.0	2002	
95.4	122.5	-27.1	179.8	300.2	-120.4	13.7	177.8	-164.1	2003	
134.4	163.6	-29.2	228.8	277.9	-49.1	19.7	265.4	-245.7	2004	
169.5	185.2	-15.7	312.9	296.8	16.1	21.4	418.6	-397.2	2005	
236.8	226.8	10.0	361.2	319.9	41.3	25.5	569.5	-544.0	2006	
25.4	29.4	-4.0	19.7	43.1	-23.4	2.6	60.8	-58.2	2000	Q1
27.4	29.3	-1.9	18.4	42.3	-23.9	2.7	38.6	-35.9		Q2
18.1	25.4	-7.3	23.5	55.3	-31.8	2.1	33.2	-31.1		Q3
19.9	27.0	-7.1	22.5	60.8	-38.3	2.9	59.2	-56.3		Q4
24.0	19.2	4.8	21.2	40.2	-19.0	2.8	53.4	-50.6	2001	Q1
21.4	23.3	-1.9	24.3	38.7	-14.4	3.7	31.7	-28.0		Q2
24.3	29.5	-5.2	30.6	51.1	-20.5	3.3	26.9	-23.6		Q3
19.0	35.7	-16.7	25.3	54.0	-28.7	4.1	27.4	-23.3		Q4
26.7	24.6	2.1	19.2	46.0	-26.8	3.4	49.4	-46.0	2002	Q1
25.1	26.2	-1.1	27.6	49.4	-21.8	3.6	22.3	-18.7		Q2
21.2	29.4	-8.2	30.3	52.2	-21.9	3.5	13.3	-9.8		Q3
18.7	32.2	-13.5	35.6	56.3	-20.7	3.0	61.1	-58.1		Q4
26.9	21.6	5.3	35.1	98.4	-63.3	2.5	25.1	-22.6	2003	Q1
26.5	34.3	-7.8	52.1	76.4	-24.3	3.6	34.6	-31.0		Q2
21.6	29.3	-7.7	43.7	56.7	-13.0	3.4	53.5	-50.1		Q3
20.4	37.3	-16.9	48.9	68.7	-19.8	4.2	64.6	-60.4		Q4
24.5	26.3	-1.8	52.7	59.4	-6.7	3.9	63.1	-59.2	2004	Q1
29.1	45.4	-16.3	55.1	73.6	-18.5	4.7	47.9	-43.2		Q2
38.5	43.0	-4.5	54.6	69.9	-15.3	5.5	74.5	-69.0		Q3
42.3	48.9	-6.6	66.4	75.0	-8.6	5.6	79.9	-74.3		Q4
43.6	37.2	6.4	74.2	66.3	7.9	5.3	77.4	-72.1	2005	Q1
39.9	47.6	-7.7	80.8	79.2	1.6	5.1	99.9	-94.8		Q2
45.7	48.3	-2.6	81.1	72.2	8.9	5.3	113.0	-107.7		Q3
40.3	52.1	-11.8	76.8	79.1	-2.3	5.7	128.3	-122.6		Q4
52.6	41.1	11.5	60.1	62.5	-2.4	6.0	137.5	-131.5	2006	Q1
56.2	61.5	-5.3	98.6	90.4	8.2	6.4	98.6	-92.2		Q2
63.0	57.4	5.6	120.0	75.4	44.6	8.3	150.5	-142.2		Q3
65.0	66.8	-1.8	82.5	91.6	-9.1	4.8	182.9	-178.1		Q4
5.8	7.6	-1.8	12.5	17.7	-5.2	1.4	21.8	-20.4	2004	I
8.0	9.9	-1.9	17.8	21.0	-3.2	1.2	17.3	-16.1		II
10.7	8.8	1.9	22.4	20.7	1.7	1.3	24.0	-22.7		III
12.0	13.8	-1.8	19.9	23.0	-3.1	1.7	27.3	-25.6		IV
7.8	14.7	-6.9	17.1	24.8	-7.7	1.7	2.2	-0.5		V
9.3	16.9	-7.6	18.1	25.8	-7.7	1.3	18.4	-17.1		VI
13.3	19.5	-6.2	21.2	29.3	-8.1	1.8	22.7	-20.9		VII
13.1	11.0	2.1	13.7	17.5	-3.8	1.9	29.6	-27.7		VIII
12.1	12.5	-0.4	19.7	23.1	-3.4	1.8	22.2	-20.4		IX
12.4	14.7	-2.3	21.6	23.4	-1.8	1.8	26.4	-24.6		X
12.9	15.1	-2.2	23.7	25.0	-1.3	2.2	25.5	-23.3		XI
17.0	19.1	-2.1	21.1	26.6	-5.5	1.6	28.0	-26.4		XII
12.3	9.6	2.7	20.2	18.6	1.6	1.0	25.9	-24.9	2005	I
13.8	10.2	3.6	26.8	21.0	5.8	1.7	23.4	-21.7		II
17.5	17.4	0.1	27.2	26.7	0.5	2.6	28.1	-25.5		III
10.3	7.9	2.4	31.8	29.7	2.1	1.5	33.5	-32.0		IV
16.9	20.2	-3.3	23.9	25.3	-1.4	1.9	22.4	-20.5		V
12.7	19.5	-6.8	25.1	24.2	0.9	1.7	44.0	-42.3		VI
20.4	18.6	1.8	34.4	27.2	7.2	1.7	28.9	-27.2		VII
10.8	14.8	-4.0	19.9	19.8	0.1	1.9	37.4	-35.5		VIII
14.5	14.9	-0.4	26.8	25.2	1.6	1.7	46.7	-45.0		IX
14.8	16.8	-2.0	27.7	23.7	4.0	1.7	53.4	-51.7		X
12.8	15.0	-2.2	25.5	25.8	-0.3	1.6	40.3	-38.7		XI
12.7	20.3	-7.6	23.6	29.6	-6.0	2.4	34.6	-32.2		XII
14.7	10.7	4.0	16.1	17.3	-1.2	1.8	47.3	-45.5	2006	I
17.4	13.8	3.6	18.2	18.9	-0.7	2.2	39.6	-37.4		II
20.5	16.6	3.9	25.8	26.3	-0.5	2.0	50.6	-48.6		III
19.9	14.6	5.3	24.9	25.9	-1.0	1.8	33.4	-31.6		IV
19.0	21.9	-2.9	35.1	29.6	5.5	2.2	27.1	-24.9		V
17.3	25.0	-7.7	38.6	34.9	3.7	2.4	38.1	-35.7		VI
21.8	26.3	-4.5	38.3	29.0	9.3	3.3	48.1	-44.8		VII
13.7	15.4	-1.7	38.5	20.8	17.7	2.6	52.9	-50.3		VIII
27.5	15.7	11.8	43.2	25.6	17.6	2.4	49.5	-47.1		IX
22.5	22.7	-0.2	33.0	30.2	2.8	2.2	40.5	-38.3		X
18.2	18.6	-0.4	25.2	30.4	-5.2	1.5	63.2	-61.7		XI
24.3	25.5	-1.2	24.3	31.0	-6.7	1.1	79.2	-78.1		XII
25.4	16.9	8.5	27.6	26.9	0.7	1.4	48.6	-47.2	2007	I
17.1	16.6	0.5	29.9	30.7	-0.8	1.9	53.5	-51.6		II

EXTERNAL DEBT

External debt of the Republic of at end-February 2007 amounted to US\$ 2.278 million and compared to end of 2006, it dropped by US\$ 37 million. The drop in the external debt was mostly due to the higher amount of the repayments of the debt compared to the funds used.

Analyzed by debtors, external debt of the public sector at the end of February 2007 amounted to US\$ 1.543 million, being a monthly increase by US\$ 17 million, while compared to 2006, it declined by US\$ 64 million. Within the public sector debt, decrease in relation to 2006 was also noticed at the central government debt, the debt of the public enterprises and the debt of the NBRM, while insignificant increase was recorded at the public funds.

Regarding the structure of the external debt by debtor, external debt of the public sector accounted for 67.7%, while the external debt of the private sector accounted for 32.3%. Regarding the debt in the private sector, debt of the non-banking private sector accounted for the highest share (76.7%), and the remaining part went to the commercial banks.

During the first two month in 2007, funds were disbursed in the amount of US\$ 26 million, most of which (US\$ 21 million) in the private sector, i.e. the private banks, non-financial private sector and financial institutions. Regarding the public sector, funds from multilateral creditors were used in the amount of US\$ 4 million (EBRD, IBRD), as well as from bilateral creditors in the amount of US\$ 3 million.

Servicing of the liabilities continued to be regular, whereby on cumulative basis for the first two months in 2007, US\$ 123 million was repaid, US\$ 10 million out of which as principal. Most of the total repayments were towards bilateral creditors (US\$ 63 million), all on the basis of the rescheduled debt from 1995. Liabilities sin the amount of US\$ 40 million were serviced towards the private banks and the non-banking private sector, while the remaining US\$ 19 million was repaid towards multilateral creditors.

Newly concluded credit agreements in the first two months in 2007 amounted to US\$ 82 million, and the whole amount was borrowing of the private sector.

At the end of February 2007, short-term external debt amounted to US\$ 91 million on the basis of financial credits.

EXTERNAL DEBT OF THE REPUBLIC OF MACEDONIA ¹									
	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004	31.12.2005	31.12.06	31.01.07	28.02.07
Official creditors	1,052	973	1,034	1,193	1,314	1,257	1,380	1,255	1,247
Multilateral creditors	720	689	757	922	1,062	1,052	1,161	1,095	1,087
IMF	82	71	67	68	63	62	56	54	52
IBRD	123	124	145	181	223	248	264	260	262
IFC	57	33	18	13	9	6	4	4	4
IDA	250	255	296	358	389	362	384	379	383
EIB	69	75	102	116	148	140	165	163	166
EUROFIMA	17	14	12	8	8	7	6	6	7
CEDB	7	6	15	17	23	20	30	30	30
EBRD	74	62	32	40	65	87	116	120	93
EU	37	44	65	112	122	106	118	117	119
IFAD	3	4	5	7	11	13	16	17	17
EAR	1	1	1	1	1	0	0	0	0
Bilateral creditors	332	284	277	271.26	252	205	219	160	160
Commercial creditors	443	456	543	605	694	924	935	1,010	1,031
London club	253	262	254	243.3	233	222	0	0	0
Eurobond	0	0	0	0	0	177	197	195	198
Others	191	194	289	362	461	525	738	762	779
Banks and financ. institutions	136	131	205	202.25	238	265	374	364	377
Enterprises	55	63	85	159.68	223	260	363	396	403
TOTAL	1,495	1,429	1,577	1,799	2,008	2,181	2,315	2,265	2,278

Source: NBRM

1) Long - term and medium debt

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.

II. Trend of public debt in the period January-February 2007

External public debt in December 2006 was EUR 1.223 million and has been constantly declining, so at end-January 2007 it amounts to EUR 1.176 million, i.e. it declined by 3.8%. Such declining trend was observed in February as well, when the external debt declined and amounted to EUR 1.166 million. This decline is above all due to the buyback operation towards the Paris Club of Creditors in the amount of EUR 77 million, which began

	EUR million		
Base	31.12.2006	31.01.2007	28.02.2007
	1,223.0	1,176.1	1,166.3
External public debt*	1,025.2	982.8	978.4
General Government debt	42.4	41.9	39.2
Central bank debt	155.4	151.3	148.7
Public enterprises debt	804.9	834.8	834.6
Domestic public debt	648.4	642.7	650.1
General Government debt	75.9	72.9	79.0
Of which: treasury bills for monetary purposes	155.3	190.8	183.3
Central bank debt	1.2	1.2	1.2
Public enterprises debt**	2,027.9	2,010.9	2,000.9
Total public debt according the GFS methodology	41.5	36.6	36.5
Total public debt as % of average GDP	1,673.6	1,625.6	1,628.5
General Government debt according the GFS methodology	34.3	29.6	29.7
General Government debt as % of average GDP	1,754.3	1,705.2	1,699.4

Source: Ministry of Finance and NBRM

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 (GFS methodology) often applied 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 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.

at end-January by signing bilateral agreement with the member states USA and Kuwait. In February additional documents were signed with Sweden and Netherlands and the debt was paid. According to the Paris Agreement dated January 24, 2007, Macedonia, within the period January 31 - April 30, 2007 will redeem the total debt towards the Paris Club of Creditors at nominal value and without additional penalties and fees. The objectives for such operation are restructuring of the public debt portfolio so as to reduce external debt in non-euro currencies, reduction of the variable interest rate debt, as well as interest savings in the Budget of the RM until 2011. For this buyback funds from the foreign currency account of the Ministry of Finance with the National Bank of the Republic of Macedonia will be used.

At the same time, domestic public debt in December 2006 was EUR 805 million and by end-February 2007 it grew by EUR 30 million, i.e. 3.7%. On monthly level, in January, the domestic public debt was EUR 835 million, and in February it reached EUR 834.6 million. This rise

in domestic debt is in accordance with the medium-term Public Debt Management Strategy, according to which the share of domestic debt would gradually increase in the public debt portfolio.

The total public debt calculated according to the GFS methodology in December last year was EUR 2.027 million. In January 2007, it was EUR 2.010 million, and in February it declined to EUR 2.001 million.

At the same time, general government debt, calculated according to the GFS methodology in December 2006 reached EUR 1.673 million; in January 2007 it continued the declining trend and amounted to EUR 1.625 million, and in end-February it slightly increased to EUR 1.628 million.

Calculated according to the GFS methodology, the total public debt as percentage of the average GDP, in December 2006 was 41.5%, and in January it declined to 36.6% of the average GDP, remaining at the same level in February.

According to the GFS methodology, general government debt as percentage of GDP in December last year was 34.3% and is compliant with the Maastricht Criterion on public debt according to which the general government debt must not exceed 60% of GDP. In the next period, it declined to 29.6% in January, and in February it remained at the same level. This debt includes treasury bills for monetary purposes since they are issued by the Ministry of Finance, although on behalf of the NBRM.

Under the Law on Public Debt, the total public debt in December 2006 was EUR 1.754 million, in January 2007 it declined to EUR 1.705 million, and in February it declined to EUR 1.699 million.

At the same time, the total public debt as percentage of the average GDP, calculated according to the Law on Public Debt, in December 2006 was 35.9% and in January this year it declined to 31.1% while in February it declined to a record 31% of GDP.

As of December 2006, the share of domestic and external debt in the total public debt was 39.7%

i.e. 60.3%, respectively. There is a trend of increasing the share of domestic debt in the total public debt, while the external debt declines and at end-February this share was 41.5%, i.e. 58.5%. This trend means gradual reduction of the foreign exchange risk of the debt portfolio in the Republic of Macedonia, via the growth of debt in denars and decline of the debt in foreign currency.

III. Government securities

III.1. Trends on the financial market in Macedonia

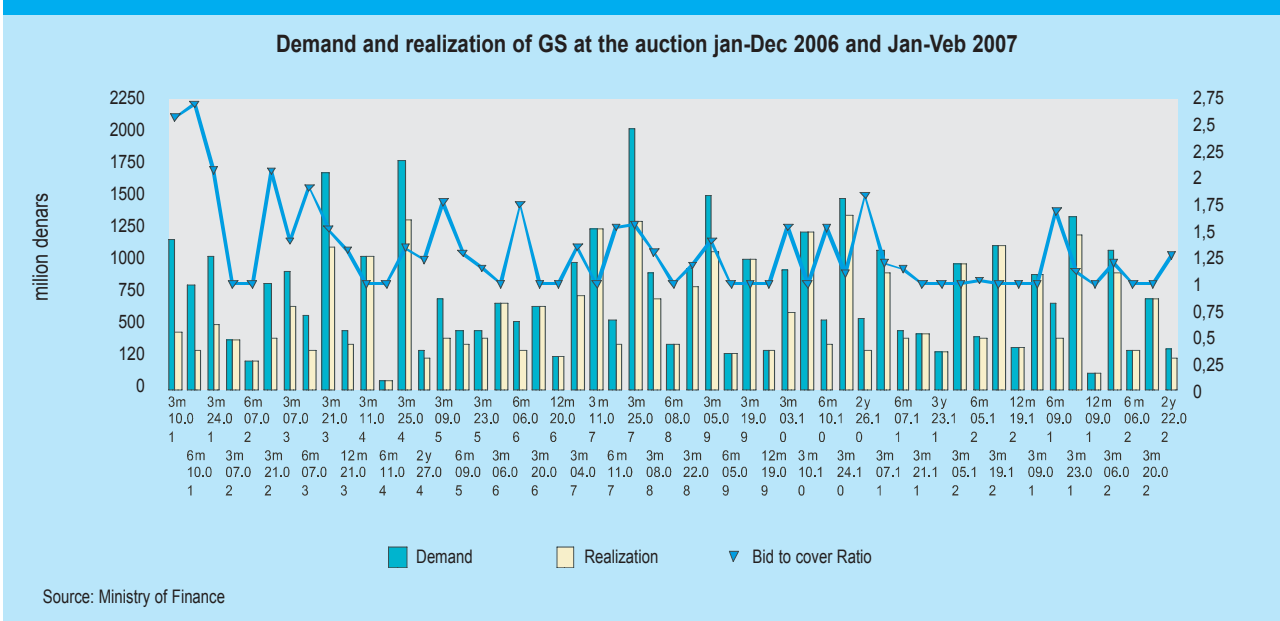
Interest rates on 3-month GS slightly grew in January and slightly declined in February, while with regard to 6-month GS, interest rates declined both in January and February. Interest rates on other GS declined with regard to previous auctions.

Interest rates on 3-month GS grew to 6.57% in January, and already in the next month it declined and reached the level of 6.30%. Interest rates on 6-month GS, which, after the decline in January, when it was 6.76%, on the last auction in February it slightly grew, reaching 6.78%.

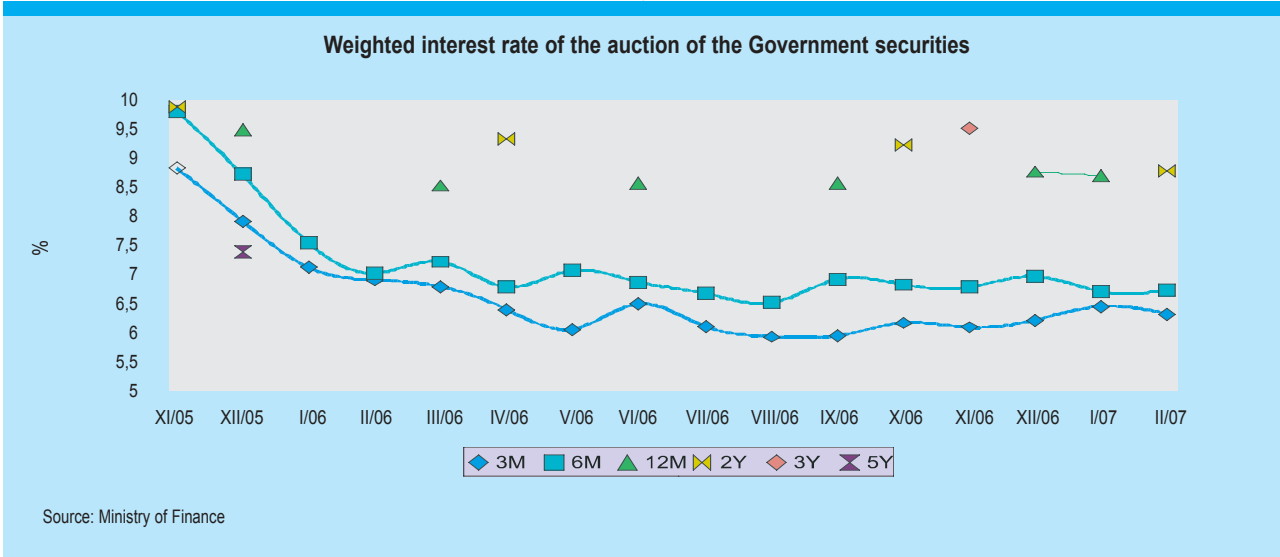
There is slight decline in the interest rate on 12-month GS, whereby the achieved interest rate of 8.79% is by 0.07 percentage points lower than the interest rate achieved at the auction held in December 2006. Interest rate on 2-year GB in February was 8.872%, i.e. it declined compared to the auction in October 2006, when it was 9.331%.

The comparative analysis of GS interest rate trends in 2006 and 2007 suggests declining trend. The weighted interest rate on 3-month treasury bills achieved at auctions in February 2006 was 6.96%, while the interest rate at the auctions in the same month in 2007 declined by around 0.6 percentage points and was 6.37%. At 6-month treasury bills, weighted interest rate in December 2006 was 7.08% and by continuously declining in the course of the year, in February 2007 it reached a level of 6.78%. The trend of the interest rates is identical as the one in other GS.

III.2 Primary government securities market



III.3. Secondary government securities market



IV. New debt in the period
January-February 2007

• Domestic debt

In the period January-February 2007 there are no new domestic borrowings.

• External Debt

In this period there are no new credits related to external public debt.

Table 9: CENTRAL BUDGET OF THE REPUBLIC OF MACEDONIA

	2002 Final statement	2003 Final statement	2004 Final statement	2005 Final statement	2006 Budget
TOTAL REVENUES	71,981,222,938	68,406,577,974	68,257,596,556	77,264,085,977	81,749,000,000
CURRENT REVENUES (TAX AND NON-TAX)	58,896,097,958	56,784,247,919	56,534,423,095	60,465,813,344	59,940,000,000
TAX REVENUES	54,389,136,894	49,166,396,854	52,527,458,366	55,024,034,252	56,840,000,000
Taxes on income, profits and capital gains	10,137,596,496	10,772,545,343	10,068,869,008	10,934,484,390	11,236,000,000
Personal income tax	7,513,310,320	7,502,459,597	7,706,705,300	8,098,696,839	8,051,000,000
Profit tax	2,624,286,176	3,270,085,746	2,362,163,708	2,835,787,551	3,185,000,000
Other taxes on income, profit and capital gains	31,235,879,140	31,741,066,910	36,093,219,422	38,172,046,946	40,136,000,000
Domestic taxes on goods and services	20,521,036,109	21,175,919,119	25,756,854,524	27,081,128,583	28,334,000,000
Value Added Tax (since 1.4.2000)	10,714,843,031	10,565,147,791	10,336,364,898	11,090,918,363	11,802,000,000
Excises	6,336,011,440	6,141,579,944	5,814,503,205	5,265,767,731	4,848,000,000
Taxes on international trade and transactions	5,230,636,743	4,909,408,470	4,597,751,176	4,251,685,006	3,817,121,000
Custom duties	1,105,374,697	1,232,171,474	1,216,752,029	1,014,082,725	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	651,735,186	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	5,441,779,092	3,100,000,000
NON-TAX REVENUES	931,379,088	1,963,471,700	1,752,484,628	3,441,892,427	1,100,000,000
Entrepreneurial income and property income	1,091,976,541	1,366,943,949	1,465,138,734	1,656,889,743	1,500,000,000
Fees and charges	205,764,069	370,052,922	257,196,740	246,001,080	300,000,000
Other government services	2,277,841,366	3,917,382,494	532,144,627	96,995,843	200,000,000
Other non-tax revenues	7,193,569,639	4,081,105,548	3,341,846,311	2,045,598,523	16,227,000,000
CAPITAL REVENUES	6,244,440,021	4,002,729,305	3,158,721,234	1,455,155,987	16,027,000,000
Sales of capital assets	949,129,619	78,376,243	183,125,077	590,442,536	200,000,000
Sales of land and intangible assets	3,808,557,430	3,651,554,878	4,932,545,381	894,339,868	540,000,000
TRANSFERS AND DONATIONS	1,167,411,039	1,136,220,479	3,888,654,831	508,533,363	0
Transfers from other levels of government	2,641,146,391	2,515,334,399	1,043,890,550	385,806,506	540,000,000
Foreign donations	480,521,896		1,908,760,868	1,538,911,272	3,000,000,000
DOMESTIC LOANS	1,584,121,754	3,766,572,092	1,529,500,321	12,319,422,970	2,042,000,000
BORROWING FROM ABROAD	1,584,121,754	3,766,572,092	1,529,500,321	12,319,422,970	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	67,090,435,530	81,749,000,000
CURRENT EXPENDITURES	56,314,747,304	51,104,920,817	51,667,851,725	45,930,102,078	49,295,088,000
Wages, salaries and allowances	18,337,661,335	20,233,542,216	20,943,062,394	21,655,526,155	22,668,904,000
Goods and other services	13,991,420,289	7,325,808,770	6,833,422,972	7,261,122,028	7,326,925,000
Current transfers	20,586,832,339	21,101,506,628	21,838,665,402	13,950,459,394	14,602,763,000
	-	-	-	812,346,952	1,819,000,000
Interest payments	3,398,833,341	2,444,063,205	2,052,700,957	2,250,647,550	2,877,496,000
SUBSIDIES AND TRANSFERS	-	-	-	2,675,836,361	2,111,209,000
SOCIAL TRANSFERS	-	-	-	4,171,063,594	3,633,264,000
CAPITAL EXPENDITURES	8,366,132,516	4,687,684,918	4,867,347,044	7,198,053,448	12,543,385,000
LENDING, EQUITY PARTICIPATION					
AND DEBT REPAYMENT	7,019,393,075	8,670,155,548	7,208,718,360	7,115,380,049	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	7,115,380,049	14,166,054,000

Table 10: FUNCTIONAL CLASSIFICATION OF THE CENTRAL BUDGET EXPENDITURES

	Budget 2005	Budget 2006	Budget 2005	Budget 2006	Budget 2005	Budget 2006
	in million 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
Comunal 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

Graphic 5: FUNCTIONAL CLASSIFICATION OF EXPENDITURES 2006

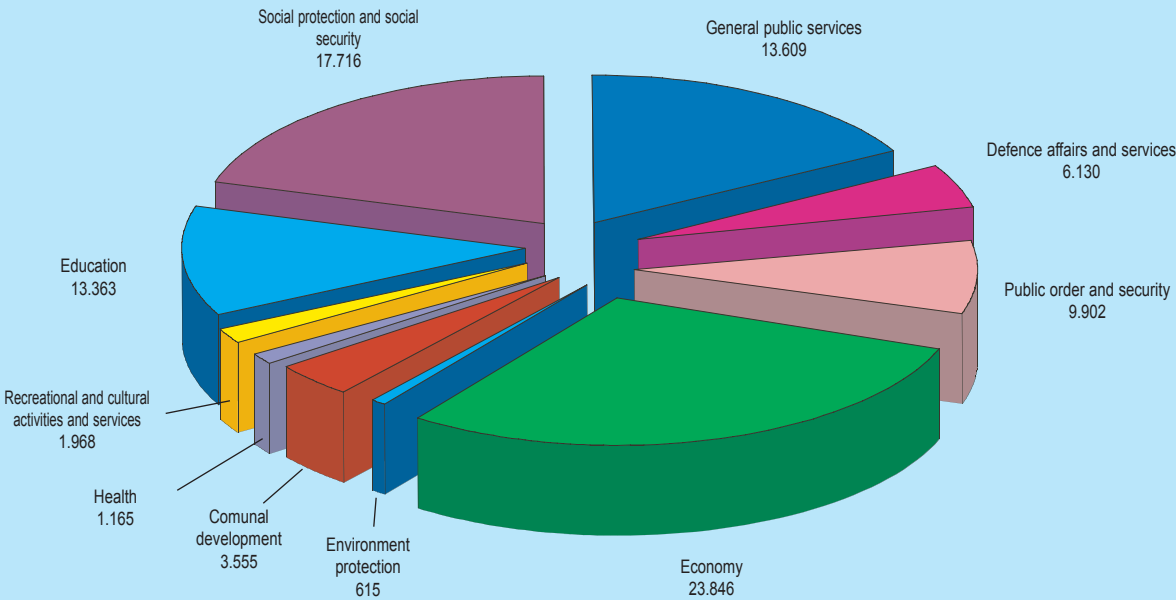


Table 11: BUDGET OF THE REPUBLIC OF MACEDONIA (central budget and extrabudgetary funds)

	Q - 1	Q - 2	Q - 3	Q - 4	Total 2005	Budget 2006	Sup. Bud. 2006
TOTAL REVENUES	21,732	24,627	27,928	26,641	100,928	103,198	109,029
Taxes and Contributions	18,972	21,172	21,285	23,152	84,581	88,198	89,507
Tax Revenues (SRA)	68	75	70	91	304	177	240
Taxes	12,314	13,944	14,107	15,316	55,681	57,581	58,688
Personal Income Tax	1,834	2,052	1,951	2,260	8,097	8,051	8,256
Profit Tax	1,080	600	623	534	2,837	3,185	4,423
VAT	5,745	6,767	6,652	7,918	27,082	28,334	27,374
Excises	2,461	2,937	3,385	2,965	11,748	12,543	11,652
Import Duties	1,026	1,441	1,335	1,464	5,266	4,848	5,483
Other Taxes	168	147	161	175	651	620	1,500
Contributions	6,590	7,153	7,108	7,745	28,596	30,440	30,579
Pension Insurance Contributions	4,230	4,569	4,553	4,948	18,300	19,810	19,933
Unemployment Contributions	312	325	322	353	1,312	1,370	1,370
Health Insurance Contributions	2,048	2,259	2,233	2,442	8,982	9,260	9,276
Non Tax Revenues	2,495	3,088	5,284	2,951	13,818	12,943	15,992
Non Tax Revenues (SRA)	1,414	1,673	1,549	1,676	6,312	7,377	8,377
Profit of Public Financial Institutions	83	260	2,837	139	3,319	1,031	3,084
Administrative Taxes and Charges	387	459	358	453	1,657	1,500	1,500
Health co-payment	127	122	70	115	434	573	573
Other Administrative Taxes	58	69	55	64	246	300	300
Other Non Tax Revenues	87	52	53	72	264	382	508
Road Fund Fees	340	441	462	432	1,675	1,780	1,650
Capital Revenues	112	107	587	127	933	502	700
Foreign Donations	152	259	672	411	1,494	1,555	2,430
Revenues from repayment of loans	1	1	0	0	2	0	400
TOTAL EXPENDITURES	22,766	23,875	24,482	29,096	100,219	104,905	111,365
Current Expenditures	21,657	22,180	21,707	24,482	90,026	93,420	98,542
Wages and Allowances	5,640	5,736	5,566	5,894	22,836	23,997	23,922
Goods and Services	3,197	3,140	2,620	4,028	12,985	12,579	14,868
Transfers	12,252	12,639	12,795	13,911	51,597	53,585	56,389
Transfers (SRA)	160	220	192	341	913	613	1,047
Social Transfers	11,582	11,670	11,533	12,085	46,870	48,906	49,406
Pensions	6,294	6,241	6,151	6,285	24,971	26,999	29,884
Unemployment Benefits	783	767	715	675	2,940	2,500	2,152
Social Benefits	965	1,026	1,113	1,034	4,138	3,954	4,279
Structural Reforms	0	0	0	0	0	0	0
Public Administration Reform	0	0	0	0	0	3	4
Health Care	3,539	3,637	3,557	4,092	14,825	15,450	16,087
Other Transfers	487	704	1,037	1,453	3,681	3,975	5,850
Refugees	24	45	33	33	135	91	86
Interest	569	666	727	648	2,610	3,259	3,363
Domestic	116	433	163	362	1,074	1,259	1,259
Foreign	453	233	564	286	1,536	2,000	2,104
Guaranties	0	0	0	0	0	0	0
Capital Expenditures	1,108	1,695	2,775	4,613	10,191	11,486	12,823
BUDGET BALANCE	-1,034	752	3,446	-2,455	709	-1,708	-2,336
FINANCING	1,034	-752	-3,446	2,455	-709	1,708	2,336
Inflow	2,458	2,015	-1,964	4,554	7,063	16,556	21,154
Privatisation Receipts	265	231	147	740	1,383	15,821	20,831
Foreign donations	139	1,219	838	11,717	13,913	4,309	2,147
Foreign Loans	1,532	-343	-3,398	-7,588	-9,797	-6,594	-6,585
Deposits	521	905	427	-315	1,538	3,000	3,000
Domestic borrowing	1	3	24	1	29	20	1,761
Sell of Shares	1,425	2,765	1,483	2,099	7,772	14,848	18,818
Outflow	1,425	2,765	1,483	2,099	7,772	14,848	18,818
Repayment of Principal	1,255	331	1,305	404	3,295	10,119	14,089
Foreign	170	2,435	178	1,695	4,478	4,729	4,729
Domestic							

I	II	III	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Total 2006	Budget 2007	I	II
7.337	6.756	8.976	23.069	26.306	26.222	28.504	104.101	108.634	8.721	7.651
5.957	5.933	7.958	19.848	22.782	23.080	24.888	90.598	92.824	7.807	6.735
19	21	39	79	50	35	35	199	211	11	30
4.014	3.382	5.262	12.658	15.097	15.460	16.360	59.575	61.511	5.580	3.986
511	662	760	1.933	2.098	2.025	2.358	8.414	7.471	624	589
180	383	1.162	1.725	914	950	1.119	4.708	3.704	252	397
1.760	1.284	2.184	5.228	7.342	7.155	7.534	27.259	30.390	2.940	1.756
1.191	653	698	2.542	2.839	3.374	3.419	12.174	12.627	1.091	786
280	327	386	993	1.494	1.982	3.243	7.712	5.519	417	378
92	73	72	237	410	390	176	1.213	1.800	256	80
1.924	2.530	2.657	7.111	7.635	7.586	8.493	30.825	31.102	2.216	2.719
1.250	1.651	1.718	4.619	4.969	4.893	5.467	19.948	20.671	1.443	1.770
85	120	117	322	336	337	375	1.370	1.390	89	128
589	759	822	2.170	2.330	2.356	2.651	9.507	9.041	684	821
684	704	918	2.306	2.721	2.627	2.826	10.480	13.755	775	798
303	372	559	1.234	1.117	1.496	1.656	5.503	6.471	446	470
83	13	7	103	406	56	258	823	2.370	23	44
107	131	157	395	426	308	364	1.493	1.500	129	137
28	27	25	80	76	65	22	243	452	25	18
20	20	25	65	70	59	26	220	300	24	20
47	38	24	109	176	209	125	619	677	29	25
97	103	121	321	452	434	374	1.581	1.680	99	84
52	49	42	143	390	143	272	948	550	75	43
613	69	45	727	299	166	231	1.423	1.505	44	75
31	1	13	45	74	153	288	560	0	20	0
6.903	8.206	8.429	23.538	26.265	25.085	30.871	105.759	112.027	6.839	7.907
6.687	7.679	8.109	22.475	24.145	22.335	27.569	96.524	100.098	6.522	7.645
1.869	1.933	1.948	5.750	5.878	5.707	6.086	23.421	24.852	1.981	1.995
702	933	1.221	2.856	3.264	2.655	4.128	12.903	14.833	841	904
3.624	4.740	4.716	13.080	14.265	13.167	16.163	56.675	57.279	3.471	4.574
46	52	69	167	209	165	240	781	633	76	54
3.419	3.977	4.170	11.566	12.726	12.072	12.466	48.830	50.987	3.265	4.228
2.020	2.143	2.233	6.396	6.640	6.751	6.947	26.734	28.865	2.232	2.283
267	203	189	659	521	487	450	2.117	2.058	142	138
53	548	347	948	945	1.114	1.090	4.097	4.131	84	581
0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	4	0	0
1.079	1.082	1.400	3.561	4.621	3.718	3.979	15.879	15.929	807	1.226
159	704	463	1.326	1.308	911	3.451	6.996	5.601	130	282
0	7	14	21	22	20	7	70	58	0	10
492	73	225	790	736	418	1.193	3.137	2.965	229	172
41	30	69	140	444	79	419	1.082	1.337	20	25
451	43	156	650	292	339	774	2.055	1.628	209	147
0	0	0	0	0	387	0	387	169	0	0
216	527	320	1.063	2.120	2.751	3.301	9.235	11.929	317	262
434	-1.450	547	-469	2	1.083	-2.365	-1.749	-3.393	1.882	-256
-434	1.450	-547	469	-2	-1.083	2.355	1.739	3.393	-1.882	256
8.516	1.493	-250	9.759	3.097	-166	5.390	18.080	14.791	902	1.715
28	1	13.899	13.928	3.846	0	0	17.774	750	0	0
45	54	61	159	496	484	534	1.673	3.477	31	135
8.305	1.247	-14.387	-4.835	-4.101	-695	3.741	-5.890	7.014	1.000	1.682
138	171	175	484	422	43	1.070	2.019	3.500	-129	-102
0	21	3	24	2.433	2	0	2.459	50	0	0
8.950	43	297	9.290	3.099	917	3.025	16.331	11.398	2.784	1.459
8.950	43	297	9.290	3.099	917	3.025	16.331	11.398	2.784	1.459
8.950	43	166	9.159	381	917	487	10.944	6.461	2.784	1.459
0	0	131	131	2.718	0	2.538	5.387	4.937	0	0

Pension and Disability Insurance Fund

Revenues earned by the Pension and Disability Insurance Fund in the first two months of 2007 were by Denar 6.3% higher compared to the same period in 2006 and amounted to Denar 5.163 million. Most of the revenues, i.e. 60.5%, were revenues on the basis of salary contributions, where an increase of 11.5% was realized. Budget revenues accounted for 32.4% in the total revenues and were by 4.1% higher, while the revenues of the Employment Agency for insurance of unemployed beneficiaries of pecuniary allowance declined by 29.3% and their share in the total revenues accounted for 3.1%.

During the analyzed period, Fund's **expenditures** amounted to Denar 5.243 million and were by 9.6% high-

er than the same period in 2006. Most of the total expenditures, i.e. 81.2%, were for payment of pensions to the beneficiaries. Thereby, 95.6% of the pensions were paid for regular pensions, and they increased by 4.3%. Expenditures for health care contribution participated with 11.6% in the total expenditures of the Pension and Disability Insurance Fund.

Deficit of the Pension and Disability Insurance Fund in the first two months in 2007 reached the amount of Denar 80 million.

PENSION AND DISABILITY INSURANCE FUND								
(In million of denars)								
Types of revenues / expenditures	2000	2001	2002	2003	2004	2005	2006	2007
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Jan.-Feb,
	22,883	24,289	25,811	28,191	28,983	28,878	31,467	5,163
REVENUES	15,722	15,671	15,784	16,882	17,204	17,484	19,369	3,125
Contribution from salaries	311	331	283	307	383	388	303	48
Contribution from income	4,174	5,744	6,961	7,741	8,486	8,291	9,385	1,674
Revenues from the Government Budget	404	377	409	394	412	390	244	36
Revenues from the private sectors	58	41	61	71	41	39	33	4
Revenues from individual farmers	804	716	688	677	661	659	661	97
Revenues from excises	1,101	1,126	1,404	1,536	1,719	1,550	1,230	162
Contributions from the Employment Agency	74	73	29	65	57	59	219	17
Other revenues	68	209	192	42	21	18	23	0
Revenues from dividends	167	0	0	0	0	0	0	0
Revenues from new employment	0	0	0	476	0	0	0	0
Transferred income from the previous year	22,940	24,697	25,889	27,740	29,132	29,015	31,204	5,243
EXPENDITURES	19,774	21,278	22,255	24,008	25,121	24,969	25,410	4,258
Pensions	18,948	19,041	19,982	21,667	22,824	23,335	24,272	4,070
Regular pensions	505	514	518	499	509	479	455	75
War veteran pensions	321	297	262	234	217	178	154	22
Agricultural pensions	0	1,167	1,136	1,131	1,027	455	0	0
Retroactive payment of 8%	0	112	103	121	88	90	70	10
Early retirement by the Law from year 2000	0	148	254	262	247	240	178	30
Early retirement by the Law from year 2001						91	115	22
Early retirement by the Law from year 2004							166	29
Compensation for body injury							1,325	257
Compensation for disability insurance	72	72	83	80	82	82	82	14
Employment and accomodations for disabled children	94	91	76	98	97	110	138	28
Health care contribution	12	7	9	6	6	6	4	0
Compensation for administration	2,672	2,805	2,934	3,184	3,349	3,416	3,582	610
Other expenditures	141	153	165	172	170	172	208	38
Capital expenditures	175	254	222	192	257	190	258	38
BALANCE	-	37	145	0	50	70	196	0
Deficit / Surplus	-57	-408	-78	451	-149	-137	263	-80

Health Insurance Fund

In the period January-February 2007, **revenues** of the Health Insurance Fund amounted to Denar 2.562 million, which was by 9.2% more compared to the same period last year. Regarding the revenue structure, highest share (58.7%) accounted for the health insurance contributions, realizing an increase by 11.7%. Contributions from the Fund accounted for 23.8% in total revenues and were by 11.3% higher, while contributions paid by the Employment Agency for the unemployed persons accounted for 15.1% in the revenues and were by 11.9% higher.

Expenditures of the Health Insurance Fund in the same period in 2007 were Denar 2.089 million, i.e. they were by 4.6% lower compared to the same period last year. Highest share in the expenditures went to the outpatient expenditures (84.8%), declining by 8.6%.

In the analyzed period, Health Insurance Fund had **surplus** in the amount of Denar 473 million.

HEALTH INSURANCE FUND								
(In million of denars)								
Types of revenues / expenditures	2000	2001	2002	2003	2004	2005	2006	2007
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Jan.-Feb.
REVENUES	12,790	12,295	13,656	14,698	14,886	15,083	15,698	2,562
Contributions	7,745	7,528	7,823	8,418	8,762	8,982	9,506	1,505
Contributions from the Pension Fund	2,649	2,616	3,075	3,184	3,349	3,417	3,584	610
Contributions from the Employment Agency	1,941	1,554	1,763	1,849	1,998	2,062	2,145	386
Contributions from the Ministry of Labour	0	48	54	64	41	64	56	12
Other revenues	455	70	734	1,064	676	79	124	6
Revenues on the basis of contracts for health insurance cards	0	0	0	0	0	0	0	0
Transfers from the Central Budget for mandatory health insurance	-	166	111	29	60	479	283	43
	0	313	96	91	1	0	0	0
Transferred income from the previous year								
EXPENDITURES	12,463	12,205	13,611	14,678	14,722	15,206	16,308	2,089
Outpatient expenditures	2,486	2,505	4,430	5,132	5,959	7,129	14,387	1,771
Hospital treatment	5,737	5,919	4,929	5,038	5,098	6,311	0	0
Costs for programs	105	306	123	21	0	0	0	0
Medicines	1,681	1,555	1,305	1,868	2,006	0	0	0
Dental care	687	522	521	630	0	0	0	0
Orthopedic expenses	143	111	134	150	280	171	182	37
Medical treatment abroad	70	90	144	221	117	151	164	13
Other treatment (contributions)	694	769	832	968	941	1,062	1,145	212
Administration	250	268	360	309	254	276	373	51
Equipment and maintenance	90	44	656	219	23	106	57	5
Other expenditures	200	48	23	32	27	0	0	0
Loans and interest payments	321	71	154	90	17	0	0	0
BALANCE								
Deficit/Surplus	326	90	45	21	164	-123	-610	473

Source: Internal data of the Ministry of Finance

Employment Agency

At the beginning of 2007, the Employment Agency realized total **revenues** in the amount of Denar 850 million, being a decrease by 14.5% compared to the same period last year. Revenues from contributions were by 5.8% higher, and budget grants, despite their largest share in the revenue structure (74.2%), declined by 19.8%. Regarding the budget grants structure, 92.7% was on the basis of covering the deficit of the Agency.

In the analyzed period in 2007, **expenditures** of the Employment Agency amounted to Denar 906 million, being a decrease by 17.6% compared to the previous year. Expenditures related to the function amounted to Denar 867

million, or 95.7% of the total expenditures, and they decreased by 18.3%. Out of these expenditures, 32.3% were used for payment of unemployment benefit to the unemployed persons, and almost 1% was used for active measures (for employment encouragement and re-qualification allowance). Expenditures for professional service remained unchanged compared to last year, and accounted for 4.3% in the total expenditures.

In 2005, the Employment Agency had **deficit** of Denar 56 million.

EMPLOYMENT AGENCY								
(In million of denars)								
Types of revenues / expenditures	2000	2001	2002	2003	2004	2005	2006	2007
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Jan.-Feb.
	5,119	4,827	5,918	6,241	7,456	6,940	5,685	850
REVENUES	1,121	1,136	1,180	1,224	1,270	1,313	1,371	217
Revenues from contributions	1,098	1,113	1,178	1,223	1,155	1,192	1,264	141
Contributions from wages	22	23	2	0	24	23	18	3
Contributions from self-employed								
Contributions from the people who work abroad	0	0	0	1	4	5	3	0
Contributions from previous year	0	0	0	0	88	93	86	73
Revenues from the Government budget	3,990	3,677	4,726	5,002	6,163	5,616	4,302	631
For covering the deficit of the								
Employment Agency	3,470	3,170	3,742	3,958	4,522	4,612	3,865	585
For paying allowances to the employees of the								
loss-making enterprises	516	481	944	980	988	418	288	40
Public administration reform	-	26	19	3	61	22	9	2
Others	3	26	21	61	592	564	140	4
Other revenues	8	13	12	16	23	11	12	2
	5,110	4,749	5,868	6,214	7,325	6,938	5,933	906
EXPENDITURES	4,913	4,571	5,658	6,005	7,102	6,710	5,699	867
Expenditures for the functions								
Unemployment benefits	1,875	1,879	2,273	2,377	2,697	2,425	1,991	280
Contributions for health insurance	1,936	1,555	1,763	1,849	1,998	2,063	2,144	384
Contributions for pension and disability insurance	1,102	1,138	1,453	1,557	1,729	1,552	1,236	162
Transfers for employment of disabled persons	-	-	128	121	58	114	219	33
Payments according to the new Law	-	-	-	61	592	526	65	0
Compensation for training	-	-	41	40	29	30	44	8
Expenditures for the personnel							0	0
Wages and salaries	198	178	210	209	223	228	234	39
Allowances	118	116	124	134	132	133	135	22
Goods and other services	19	18	22	20	20	22	21	3
Current transfers	54	43	42	51	68	69	73	14
Interest payments	0	0	0	0	0	0	0	0
Capital expenditures	1	0	0	0	0	0	0	0
	6	2	22	4	3	4	5	0
BALANCE								
Deficit / Surplus	9	78	50	27	132	2	-248	-56

Source: Internal data of the Ministry of Finance

Regional and National Road Fund

Road Fund, in the period January-February 2007, collected **revenues** in the amount of Denar 301 million, meaning 41.3% decline compared to the same period last year. Budget revenues amounting to Denar 100 million accounted the most in the total revenues - 33.2%, while in the same period last year, no revenues were realized on this basis. Share of funds for the annual fee for passenger vehicles declined by 8% and accounted for 30.6% in the total revenues.

In the analyzed period, **expenditures** of the Road Fund amounted to Denar 262 million. Most of the expenditures (46.9%) were for investment purposes. Regarding road maintenance, Denar 71 million was spent, being a decrease by 53.9% compared to the previous year. Expenditures related to studies, drafting plans, surveillance, commissions and material costs participated with 26% in the total expenditures.

During this period, Road Fund realized **surplus** in the amount of Denar 39 million.

REGIONAL AND NATIONAL ROAD FUND								
(In million of denars)								
Types of revenues / expenditures	2000	2001	2002	2003	2004	2005	2006	2007
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Jan.-Feb.
REVENUES	3,506	4,012	3,434	3,668	3,299	3,031	2,975	301
Revenues from Budget	1,590	1,655	1,305	1,603	1,610	1,320	1,350	100
Paytoll by foreign motor vehicles								
Annual fee for motor vehicles subject to registration	82	73	87	82	77	90	102	16
Paytoll for use of motorway								
Foreign credit	746	704	761	797	853	842	790	92
Other revenues	537	375	381	728	741	743	687	75
Grants	538	1,098	862	418	9	0	0	0
	14	21	2	39	9	36	46	18
EXPENDITURES	-	87	36	1	0	0	0	0
Investments	3,506	4,013	3,420	3,661	3,889	3,389	3,525	262
Expenditures for studies, projections, supervision, fees and material costs	1,662	1,756	1,250	1,107	1,753	1,405	1,630	123
Road maintenance	179	286	289	205	156	164	148	68
Repayment of loans	952	926	900	1,063	1,081	1,013	1,032	71
Funds for local roads	212	299	304	424	242	254	274	0
Other expenditures	502	596	528	666	611	508	441	0
Liabilities from the previous year	0	0	0	46	45	45	0	0
Liabilities towards the Bank Rehabilitation Agency	0	0	0	0	0	0	0	0
	0	150	149	150	0	0	0	0
BALANCE								
Deficit / Surplus	0	-1	14	7	-590	-358	-550	39

Source: Internal data of the Ministry of Finance

MACEDONIAN SECURITIES STOCK EXCHANGE

STOCK MARKET INDICATORS - FEBRUARY 2007

In February 2007, traditional trading on the Macedonian Securities Stock Exchange amounted to Denar 1,546 million, and in relation to January, it increased by 128.94%. Trading realized via block transactions on the Stock Exchange in February amounted to Denar 393 million, and compared to the previous month, there was a decline by 88.91%. In February 2007, there was no trading in government securities. The total traditional trading, block transactions and trading in government securities on the Macedonian Securities Stock Exchange in February 2007 was Denar 1,939 million, and in relation to the previous month, it dropped by 54.06%.

In February 2007, the average daily trading was in the amount of Denar 77 million, which in relation to the previous month increased by 128.94%. Average daily number of transactions in the observed period was 518, and in relation to January, it was by 76.19% higher.

In the total traditional trading volume of the SE, which in February amounted to Denar 1,546 million, the share trading accounted for Denar 1,480 million, which in relation to the previous month increased by 140.81%. During the analyzed period, trading with government bonds amounted to Denar 66 million, and compared to the previous month, there was an increase by 9.17%.

If one analyzes the total trading in government bonds of the Republic of Macedonia in February 2007, it can be concluded that trading in government bonds for the old foreign exchange saving amounted to Denar 9 million, whereby the average price of these bonds amounted to 87.51% of their nominal value, and was by 0.51 percentage points higher compared to the previous month. In the analyzed period, trading with denationalization bonds from the first issue was in the amount of Denar 688 million, and their average price was 82% of their nominal value and was by 3 percentage points lower compared to the previous month.

Denationalization bonds from the second issue were sold at average price of 83.70% of their nominal value, which in relation to January this year was by 0.70 percentage points higher, and their total trading in February was in the amount of Denar 1,583 million. In February 2007, total trading in denationalization bonds from the third issue was in the amount of Denar 9 million and their average price was 82.05% of their nominal value, which in relation to the previous month dropped by 0.05 percentage points.

Total trading in denationalization bonds from the fourth issue in February 2007 was in the amount of Denar 20 million and their average price was 81.10% of their nominal value, which in relation to the previous month grew by 0.10 percentage points.

When trading in government denationalization bonds from the fifth issue, trading was realized in the amount of Denar 25 million and their average price was 81.90% of their nominal value, which in relation to the previous month was a decline by 1.63 percentage points.

Official stock exchange index (MSEI - 10), as an indicator of the movement of prices of shares, in February 2007 was Denar 4536.71 and compared to the previous month, it grew by 12.88%.

Trading on the official market on the Macedonian Securities Stock Exchange in February 2007 was in the amount of Denar 1,271 million, being 65.55% of the total trading on SE. Total trading on the unofficial market of the Stock Exchange during the analysed period was in the amount of Denar 274 million, accounting for 14.17% of the total trading on the Stock Exchange. The trading via block transactions on the MSE in February 2007 was in the amount of Denar 393 million, being 20.28% of the total SE trading volume. During the analyzed period, no trading in government securities was realized.

In February 2007, total trading of the 10 most liquid share-holding companies on the official market on the Macedonian Securities Stock Exchange was in the amount of Denar 1,405 million, whereby the trading with shares of the following companies was the most significant: Komercijalna banka Skopje - 24.10% of the trading volume, Stopanska banka Bitola - 11.26% of the trading volume and Alkaloid Skopje - 9.86% of the trading volume.

The shares of the following companies noted the biggest growth in February 2007 in relation to the previous month: Wine Cellar Tikves - Skopje, the average growth of which was 76.44% and the average price per share was Denar 3708.84, Makosped Skopje the average share price growth of which was 51.90%, and the average price per share was Denar 683.16. In addition, the share price of Komuna - Skopje grew by 46.41% in the observed period, and in February 2007 it amounted to Denar 690.34.

The shares of the following company noted the biggest decline in the average price in February 2007 in relation to the previous month: Makoteks Skopje, the average share price of which was by 12.58% lower and was Denar 253.50, Ohridska banka Ohrid, the average share price of which was by 3.06%

lower and was Denar 8,566.38 and Stopanska banka Bitola, the average share price of which was by 1.37% lower in relation to the previous month and was Denar 8,777.78.

In February 2007, market capitalization of the shares on the Macedonian Securities Stock Exchange amounted to Denar 112,736 billion and in relation to the previous month, it grew by 18.14%.

The market capitalization of the bonds on the Macedonian Securities Stock Exchange in the analyzed period amounted to Denar 22,893 billion, which in relation to the previous month grew by 0.53%. The total market capitalization on the Macedonian Securities Stock Exchange in February 2007 amounted to Denar 135,630 billion, which in relation to January grew by 14.74%.

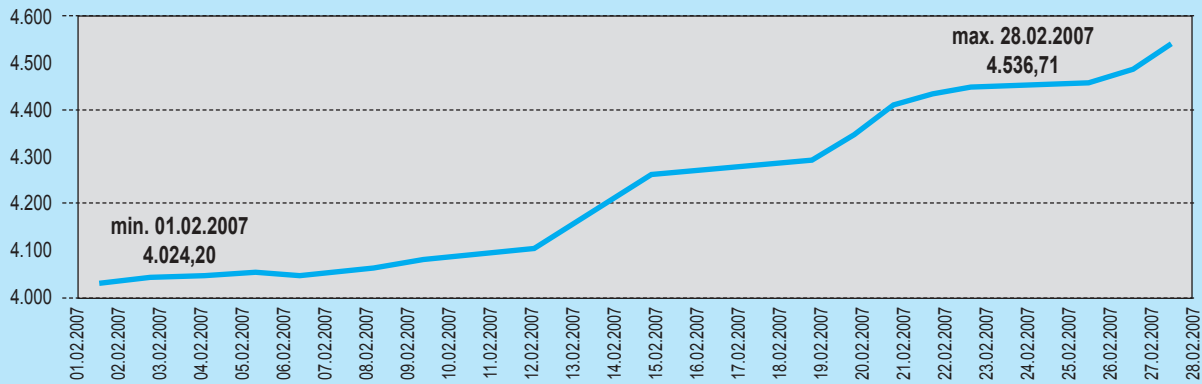
Should one analyze the dividend income of the 10 joint stock companies having the largest share in the trading volume on the official market on the Macedonian SE in February 2007, it can be concluded that the shares of Stopanska banka Bitola had the highest dividend per share of 4.28%, followed by the shares of Ohridska banka Ohrid with 4.24% and by Toplifikacija Skopje with 3.24%.

The analysis of the ownership structure of the capital of the shareholding companies shows that foreign investors are most present in the total capital of the following joint stock companies, being among the 10 most liquid companies on the Macedonian Securities Stock Exchange in February 2007: Maksteel Skoje with 84.02% foreign capital, Komercijalna Banka Skopje with 39.01% foreign capital and Stopanska Banka Bitola with 30.74% foreign capital in the total principal of the companies.

In February 2007, regarding the total trading realized on the official market of the Macedonian Stock Exchange, foreign investors participated with 18.56%, and in relation to the previous month, their share increased by 0.24%. In the observed period, the share of foreign investors in the total trading on the Stock Exchange when selling was 6.95%, and in relation to the previous month, their share declined by 3.21 percentage points, while their share when buying amounted to 54.84%, and in relation to the previous month, their share dropped by 4.36 percentage points.

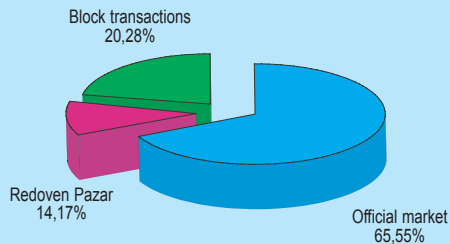
MACEDONIAN STOCK EXCHANGE			
	January 2007	February 2007	% CHANGE
TURNOVER (denars)			
TRADING IN BEST	675,534,925	1,546,575,948	128.94%
Shares	614,608,669	1,480,060,201	140.81%
Bonds	60,926,256	66,515,747	9.17%
DAILY AVERAGE TURNOVER (denars)	33,776,746	77,328,797	128.94%
DAILY AVERAGE NUMBER OF TRANSACTIONS	294	518	76.19%
BLOCK TRANSACTIONS	3,547,649,050	393,414,244	-88.91%
GOVERNMENT AUCTIONS	-	-	-
TOTAL	4,223,183,975	1,939,990,192	-54.06%
VOLUME (in securities)			
SHARES	3,595,121	1,488,432	- 58.60%
TRADING IN BEST	510,989	1,343,454	162.91%
BLOCK TRANSACTIONS	3,084,132	144,978	-95.30%
GOVERNMENT AUCTIONS	-	-	-
BONDS (NV in EURO's)	1,235,819	1,320,058	6.82%
NUMBER OF TRANSACTIONS			
TRADING IN BEST	5,879	10,358	76.18%
BLOCK TRANSACTIONS	7	11	57.14%
GOVERNMENT AUCTIONS	-	-	-
TOTAL	5,886	10,369	76.16%
MARKET CAPITALIZATION (denars)			
MARKET CAPITALIZATION OF SHARES	95,430,312,762	112,736,719,104	18.14%
LISTED SHARES	56,866,292,343	63,828,817,045	12.24%
PUBLICLY HELD COMPANIES	38,564,020,419	48,907,902,059	26.82%
MARKET CAPITALIZATION OF BONDS	22,772,652,957	22,893,969,587	0.53%
TOTAL MARKET CAPITALIZATION	118,202,965,719	135,630,688,691	14.74%
MBI-10	4,019.11	4,536.71	12.88%
OMB	100.12	100.89	0.77%
NUMBER OF LISTED SECURITIES	43	41	-4.65%
NUMBER OF TRADING DAYS	20	20	-

Macedonian Stock Exchange



Turnover structure in 2006

Market segment	Turnover (denars)	Turnover (EUR)	%	No. of trans.
Official market	1.271.681.756	20.783.592	65,55	7.527
Unofficial market	274.894.192	4.492.654	14,17	2.831
Block transactions	393.414.245	6.429.742	20,28	11
Government auctions	-	-	-	-
TOTAL	1.939.990.193	31.705.988	100,00	10.369



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 capitalization (denars)
Komercijalna banka Skopje	6.502	6.100	6.288	53.858	338.743.449	5.536.294	24,10	586	13.082.800.386,93
Stopanska banka Bitola	12.000	10.299	11.255	14.548	158.272.687	2.586.543	11,26	256	4.658.222.880,98
Alkaloid Skopje	6.700	5.600	5.864	23.251	138.566.350	2.264.662	9,86	532	9.351.601.976,47
Granit Skopje	980	651	836	132.132	112.783.668	1.843.255	8,02	858	2.992.213.179,24
Makpetrol Skopje	61.800	54.500	58.440	1.832	107.608.940	1.758.701	7,66	240	6.783.477.641,12
Beton Skopje	21.961	14.050	18.182	3.940	75.944.470	1.241.241	5,40	297	939.197.809,25
TTK Banka AD Skopje	3.050	2.457	2.759	24.005	65.569.196	1.071.594	4,66	493	1.998.972.659,37
Teteks Tetovo	2.648	1.101	1.733	30.516	56.302.450	920.156	4,01	400	962.481.179,16
EMO Ohrid	2.499	1.900	2.247	17.295	39.144.070	639.762	2,78	286	841.144.887,70
Fersped Skopje	151.000	126.000	142.877	248	35.863.442	586.197	2,55	73	2.716.950.000,00
Others				519.214	276.780.623	4.523.344	19,69	3.001	19.501.754.445
TOTAL				820.839	1.405.579.345	22.971.750	100,00	7022	63.828.817.045

TOP 3 GAINERS*

Issuer	january 2007 Average price (denars)	february 2007 Average price (denars)	% change
Vinar. vizb. Tikves Skopje	2.102,00	3.708,84	76,44
Makosped Skopje	449,75	683,16	51,90
Komuna Skopje	471,50	690,34	46,41

TOP 3 LOSERS*

Issuer	january 2007 Average price (denars)	february 2007 Average price (denars)	% change
Makoteks Skopje	289,97	253,50	-12,58
Ohridska banka Ohrid	8.837,00	8.566,38	-3,06
Stopanska Banka Bitola	8.900,00	8.777,78	-1,37

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)	88,00	87,00	87,51	28.02.2007	169.408	9.072.368	148.273	8,33%
Government bonds Denationalization I issue (RMDEN01)	85,00	82,00	82,00	26.02.2007	13.354	688.101	11.246	10,17%
Government bonds Denationalization II issue (RMDEN02)	83,70	83,00	83,70	27.02.2007	30.995	1.583.708	25.886	8,15%
Government bonds Denationalization III issue (RMDEN03)	82,60	80,40	82,05	26.02.2007	184.000	9.261.962	151.340	7,99%
Government bonds Denationalization IV issue (RMDEN04)	83,00	79,40	81,10	28.02.2007	417.714	20.842.747	340.652	7,64%
Government bonds Denationalization V issue (RMDEN05)	82,00	80,00	81,90	28.02.2007	504.587	25.066.859	409.611	6,67%

*The model for calculation of yield to maturity is adapted to the characteristics of the bonds. Calculation date is 28.02.2007, using the last average price of the bonds.

MBI-10 LISTED COMPANIES RATIOS

Issuer			Foreign investors	Foreign investors	
	P/E ratio ¹⁾	Dividend yield ²⁾	participation in january 2007 ³⁾	participation in february 2007 ³⁾	% Change
Alkaloid Skopje	25,52	1,33%	11,44%	11,80%	0,36%
Alkaloid Skopje	28,99	1,17%	13,02%	14,01%	0,99%
Beton Skopje	33,23	0,00%	27,60%	29,31%	1,71%
Granit Skopje	13,07	1,54%	25,92%	26,70%	0,78%
ZK Pelagonija Bitola	73,79	0,00%	7,80%	8,12%	0,32%
Komercijalna banka Skopje	32,61	2,31%	37,63%	39,01%	1,38%
Makpetrol Skopje	45,83	1,04%	6,97%	8,02%	1,05%
Makstil Skopje	9,78	0,00%	82,79%	84,02%	1,23%
Ohridska banka Ohrid	26,63	4,24%	19,46%	19,28%	-0,18%
Stopanska banka Bitola	18,49	4,28%	28,72%	30,74%	2,02%
Toplifikacija Skopje	26,23	3,24%	23,52%	23,48%	-0,04%

FOREIGN INVESTORS ON THE OFFICIAL MARKET ³⁾

	Foreign legal entities feb. 2007	Foreign private entities feb. 2007	Total foreign investors feb. 2007	Total foreign investors jan. 2007	% Change
Shares	22,95%	1,14%	24,09%	23,42%	0,67%
Bonds	6,92%	4,13%	11,05%	11,15%	-0,10%
Total official market	16,16%	2,40%	18,56%	18,32%	0,24%

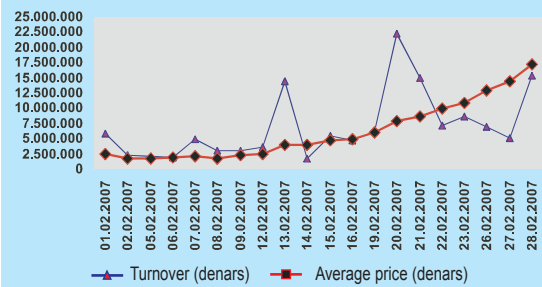
FOREIGN AND DOMESTIC INVESTORS IN THE TOTAL TURNOVER

February 2007	Buying % of total	Selling % of total
Foreign private investors	4,01%	2,12%
Foreign legal investors	50,83%	4,83%
Foreign	54,84%	6,95%
Domestic private investors	31,72%	54,12%
Domestic legal investors	13,44%	38,92%
Domestic	45,16%	93,04%

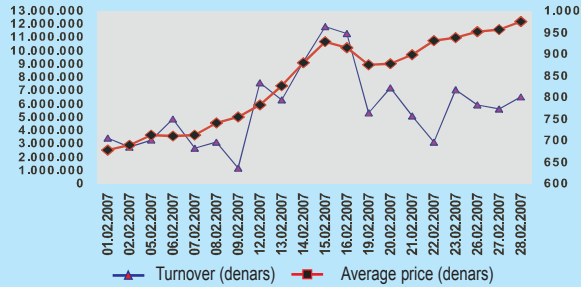
TURNOVER PER MEMBERS

Issuer	code	Trading in Best System	Trading in Best System (%)	State	State %	Block	Block %	Total
Komercijalna banka AD Skopje	KB	814.674.743	26,34	181.011.000	23,01	0	0	995.685.743
NLB Tutunska broker AD Skopje	TN	457.584.227	14,79	368.981.017	46,89	0	0	826.565.244
Ilirika Investments AD Skopje	IL	176.678.299	5,71	185.811.000	23,62	0	0	362.489.299
INOVO BROKER AD Skopje	IN	301.253.171	9,74	26.759.200	3,4	0	0	328.012.371
Stopanska Banka AD Skopje	SB	212.043.110	6,86	0	0	0	0	212.043.110
TTK Banka Skopje	TK	197.463.497	6,38	0	0	0	0	197.463.497
Bro-Dil AD Skopje	BD	181.174.473	5,86	0	0	0	0	181.174.473
MAK Broker AD Skopje	MK	125.540.212	4,06	0	0	0	0	125.540.212
INVESTBROKER AD Skopje	MI	115.065.694	3,72	0	0	0	0	115.065.694
Fersped Broker AD Skopje	FR	85.841.156	2,78	24.266.272	3,08	0	0	110.107.428
BITOLA BROKER AD Bitola	BB	95.893.833	3,1	0	0	0	0	95.893.833
Postel Broker AD Skopje	PT	76.643.417	2,48	0	0	0	0	76.643.417
Alta Vista broker AD Skopje	AV	75.839.179	2,45	0	0	0	0	75.839.179
EURObroker AD Skopje	EU	67.351.079	2,18	0	0	0	0	67.351.079
Ohridska Banka AD Ohrid	OH	65.011.042	2,1	0	0	0	0	65.011.042
Univerz. Invest. Banka AD Skopje	BL	41.158.649	1,33	0	0	0	0	41.158.649
Sileks Banka AD Skopje	SL	3.936.116	0,13	0	0	0	0	3.936.116
Total		3.093.151.896	100	786.828.489	100	0	100	3.879.980.385

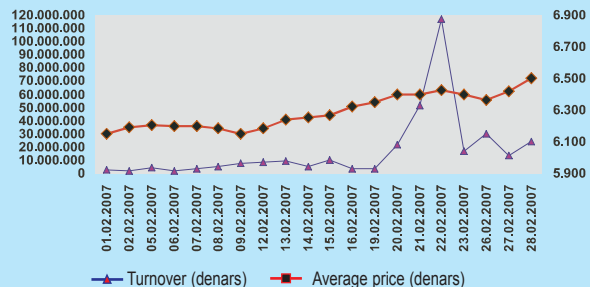
ALKALOID AD SKOPJE



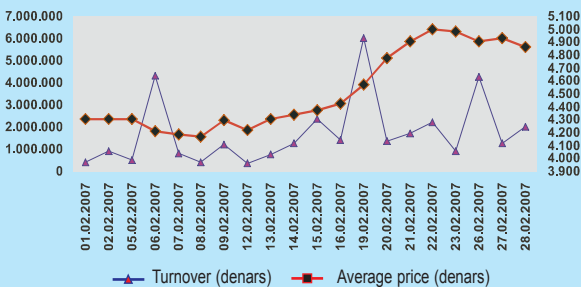
GRANIT AD SKOPJE



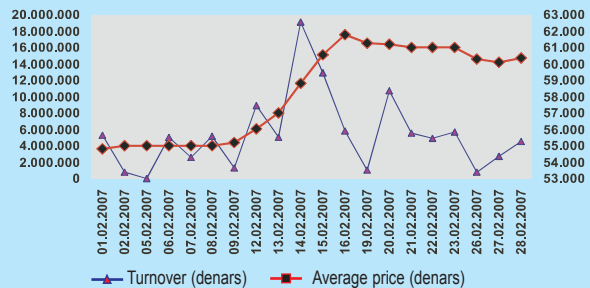
KOMERCIJALNA BANKA AD SKOPJE



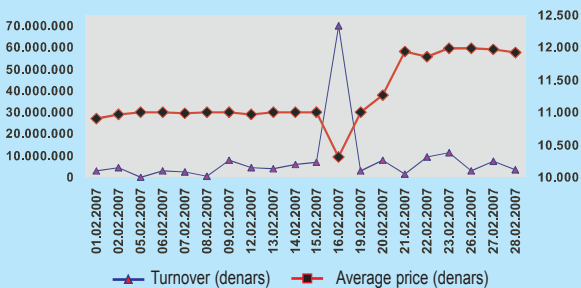
TOPLIFIKACIJA AD SKOPJE



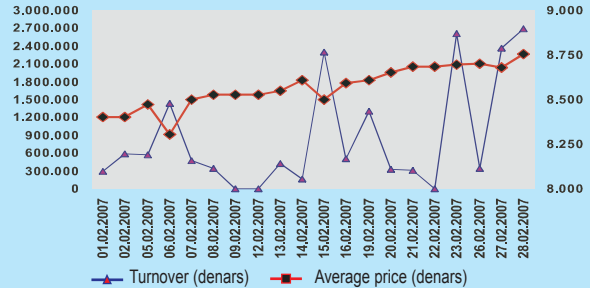
MAKPETROL AD SKOPJE



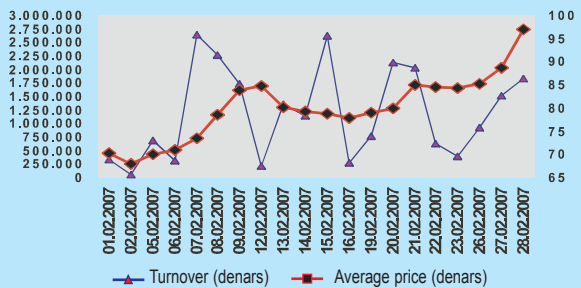
STOPANSKA BANKA AD BITOLA



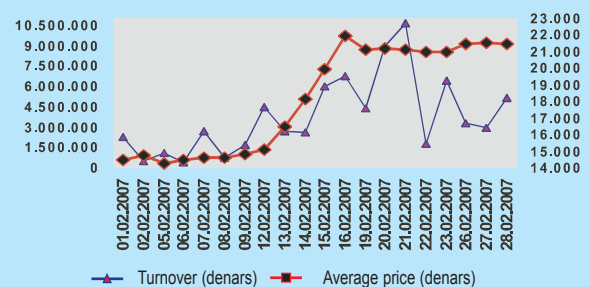
OHRIDSKA BANKA AD OHRID



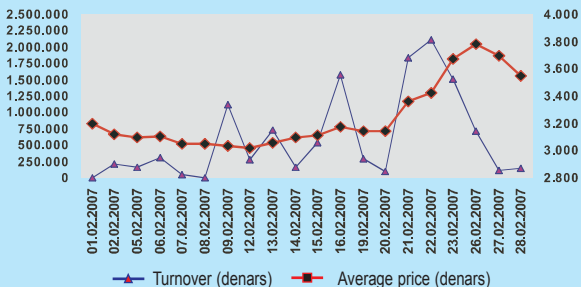
MAKSTIL AD SKOPJE



BETON AD SKOPJE



PELAGONIJA AD SKOPJE



DEPOSITS OF CITIZENS AND ENTERPRISES WITH THE BANKS

Deposits of natural persons and legal entities

At the beginning of 2007, deposits of citizens continuously grew. In January 2007, deposits of citizens were in the amount of Denar 73.299 million, being an increase by 2.59% in relation to the previous month, i.e. significant growth by 25.09% on annual basis. The growth was mainly due to the growth of Denar deposits by 3.96%. Sight deposits of the citizens increased by 0.69%, and time deposits increased by 4.06%.

In February 2007, deposits of citizens were in the amount of Denar 74.613 million, which increased by 1.79% in relation to the previous month, i.e. more significant increase by 24.53% on annual basis. If we analyze the deposits according to the maturity, we would see that sight deposits increased by 1.63%, i.e. by 11.66% on annual basis, while time deposits grew by 1.91%, and by 36.3% on annual basis. Observed by currencies, denar deposits amounted to Denar 28.367 million, and grew by 47.03% on annual basis.

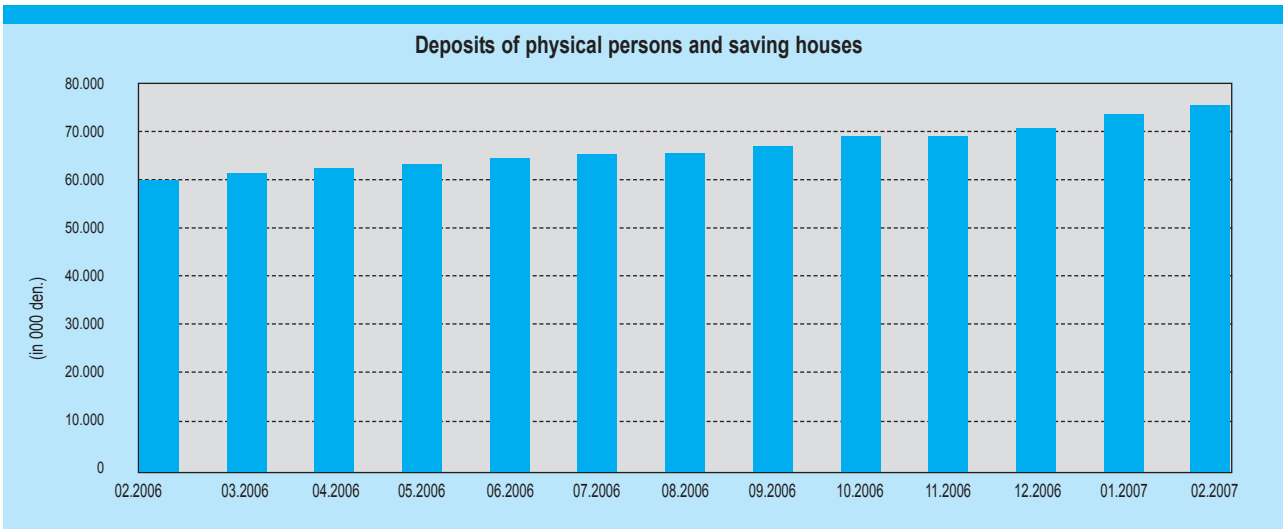
Deposits of enterprises

During January, banks extended credits to the citizens and the enterprises, whereby the credit to the citizens significantly contributed to

the increase of the total credits of the banks in January 2007 (58.8%). Total deposits with the banks in November 2007 grew by 58,8% on monthly basis. On annual level (January 2007 / January 2006), total credits of the banks to the private sector were by 31.5% higher, thus keeping the two-digit growth rates.

Deposit Insurance Fund indemnifies only the deposits of physical persons at the banks and the savings houses

Out of the total calculated obligation for indemnification (3 banks and 2 savings houses) in the amount of Denar 188,605 million, by 28th February 2007, the Deposit Insurance Fund paid indemnification in the amount of Denar 178,027 million. As of February 2007 inclusive, the Fund paid 94.39% of the total calculated obligation for indemnification. The ratio of total Fund assets and total deposits of physical persons was 3.29%.



**TABLE 12: INTEREST RATES ON DENAR AND FOREIGN CURRENCY DEPOSITS AT THE COMMERCIAL BANKS IN THE REPUBLIC OF MACEDONIA
(MATURITY AND CURRENCY)**

Denar savings deposits									Foreign currency deposits							
Bank	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 mon.	36 mon.
Komercijalna banka AD Skopje Interest rates from January 2007	1.0%	5.25%	5.5%	6.05-6.25%	6.6-6.8%	7.3-7.5%	8.0%	8.25%	EUR	0.80%	1.55%	1.65;1.75%	1.9;2%	2.4;2.5%	2.65%	2.70%
									USD	0.60%	1.50%	1.9;2%	2.15;2.25%	2.4;2.5%	2.75%	3.00%
									CHF	0.10%	0.15%	0.15;0.17%	0.18;2%	0.3;0.4%	0.60%	0.75%
									GBP	1.25%	2.15%	2.25;2.35%	2.45;2.55%	3.15;3.25%	3.35%	3.50%
			Deposit of legal entities						Foreign currency deposits of legal entities							
	0.5-5.3%	5.4-5.5%	5.8-6%	6.3-6.5%	6.7-7%	7-7.15%	7.1-7.25%	EUR	0.50%	1.00%						
								USD	0.50%	1.00%						
								CHF	0.50%	1.00%						
							GBP	0.5	1.00%							
Prokredit banka AD Skopje Interest rates from January 2007		5.64%	6.16%	6.70%	7.5%	7.76%	8.03%	8.30%	EUR		1.50%	2.00%	2.50%	2.75%	3.75%	4.50%
									USD		1.20%	1.30%	1.40%	1.80%	2.00%	2.25%
									CHF							
									GBP							
			Deposit of legal entities						Foreign currency deposits of legal entities							
								EUR								
								USD								
								CHF								
							GBP									
Postenska banka AD Skopje Interest rates from January 2007	0.8%	5.50%		6.50%	7.0%	7.50%	8.00%	8.50%	EUR		101.50%	102.00%	102.50%	102.75%	103.75%	104.50%
									USD		101.20%	101.30%	101.40%	101.80%	102.00%	102.25%
									CHF							
									GBP							
			Deposit of legal entities						Foreign currency deposits of legal entities							
	Up to 5,000,000.- den Exceeding denar 5,000,000.- den	4.00%	5.00%	5.50%	6.00%	6.50%	7.00%	7.50%	8.00%	EUR						
		5.00%	6.00%	6.50%	7.00%	7.50%	8.00%	CHF								
								GBP								
Ohridska Banka Ad Ohrid Interest rates from January 2007	1.0%	5.00%		6.00%	6.5%	7.00%	7.50%	8.00%	EUR	0.50%	1.50%	2.00%	2.30%	2.50%	2.60%	2.80%
									USD	0.20%	1.50%	2.00%	2.30%	2.50%	2.60%	2.80%
									CHF	0.10%	0.50%	0.80%	1.00%	1.00%	1.10%	1.20%
									GBP	0.50%				3.00%	3.20%	3.40%
								CAD	0.50%				3.00%	3.20%	3.40%	
								AUD	0.50%	3.00%	3.50%	4.00%	4.50%	5.00%	5.50%	
			Deposit of legal entities						Foreign currency deposits of legal entities							
	1.00%	5.00%	6.00%	6.50%	7.00%	7.50%	8.00%	EUR								
							USD									
							CHF									
							GBP									
	IK BANKA AD SKOPJE Interest rates from January 2007	1.0%			7.00%	7.5%	8.00%	8.50%	9.00%	EUR	0.80%		2.00%	2.50%	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 currenc.	0.50%		1.00%	1.20%	1.50%	1.70%	2.00%

ZIRAT BANKASI AD SKOPJE Interest rates from January. 2007		5.00%		5.50%	6.0%	7-8%			EUR	0.00%	1.00%	1.50%	2.00%	2.50%	3.00%	
				Deposit of legal entities					USD	0.00%	1.25%	1.50%	1.75%	2.00%	2.50%	
										Foreign currency deposits of legal entities						
	0.00%	5.00%	5.50%	6.00%	6.50%	7-8%			EUR	0.00%	1.00%	1.50%	2.00%	2.50%	3.00%	
MAKEDONSKA BANKA AD Interest rates from January. 2007	0.9%	5.50%		6.50%	7.0%	7.30%	7.50%		EUR	0.80%	1.50%	1.50%	1.70%	1.90%	2.10%	
				Depoziti na pravni lica					USD	0.50%	0.80%	1.00%	1.20%	1.30%	1.50%	
										Foreign currency deposits of legal entities						
	0.70%	1.30%		4.50%	5.00%	5.50%	6.20%		EUR	0.50%	0.90%	1.00%	1.10%			
ALFA BANKA AD SKOPJE Interest rates from January. 2007									USD	1.00%	1.60%	1.80%	2.10%			
	1.0%	4.50%		5.75%	6.25%	7.00%	7.50%	8.00%	EUR	0.70%	2.53%	2.65%	2.75%	2.87%		
				Deposit of legal entities					USD	0.50%	2.66%	2.68%	2.70%	2.72%		
									CHF	0.10%	1.04%	1.10%	1.15%	1.26%		
EUROSTANDARD BANKA Interest rates from January. 2007									Other currencies	0.20%						
										Foreign currency deposits of legal entities						
	0.70%	4.00%		4.50%	5.00%	5.50%	6.00%		EUR	0.00%	0.00%	0.00%	0.00%	0.00%		
	1.0%	5.50%	6.00%	6.50%	7.50%	8.00%	9.00%	10.00%	USD	0.00%	0.00%	0.00%	0.00%	0.00%		
UNI BANKA AD SKOPJE Interest rates from January. 2007									EUR	1.00%	2.00%	2.30%	2.50%	3.00%	4.00%	5.00%
									USD	1.00%	2.00%	2.30%	2.50%	2.80%	3.50%	
									CHF	0.50%	0.70%	1.00%	1.20%	1.50%	1.70%	2.00%
									GBP	1.00%	2.00%	2.30%	2.50%	2.80%	3.50%	
INVEST BANKA AD SKOPJE Interest rates from January. 2007									Other currencies	0.50%	0.80%	0.90%	1.00%	1.10%	1.50%	
										Foreign currency deposits of legal entities						
	0.80%	4.00%		5.00%	5.50%	6.50%			EUR	1.00%	2.00%	2.50%	3.00%	3.50%	5.00%	6.00%
	2-4%	6.00%		7.50%	8.00%	9.00%	10.00%	11.00%	USD	1.00%	2.00%	2.50%	3.00%	3.50%	5.00%	6.00%
TUTUNSKA BANKA AD Skopje Interest rates from January. 2007										Foreign currency deposits of legal entities						
	1.0%	4.50%		5.00%	5.50%	6.50%	7.00%	7.50%	EUR	2.00%	2.20%	2.40%	2.60%	2.80%	3.10%	3.50%
									USD	2.00%	2.50%	2.80%	3.00%	3.20%	3.50%	4.00%
									CHF	0.50%	0.70%	1.00%	1.20%	1.40%	1.70%	2.00%
TUTUNSKA BANKA AD Skopje Interest rates from January. 2007									AUD	1.70%	2.50%	3.00%	3.40%	4.00%	4.20%	4.60%
									Other currencies	1.00%	1.50%	1.70%	2.00%	2.30%	2.80%	3.20%
										Foreign currency deposits of legal entities						
	0.6-2%	4.50%		5.00%	5.50%	6.50%	7.00%	7.50%	EUR		2.20%	2.40%	2.60%	2.80%	2.90%	3.00%
TUTUNSKA BANKA AD Skopje Interest rates from January. 2007									USD		2.50%	2.80%	3.00%	3.20%	3.50%	4.00%
									GBP		2.00%	2.40%	2.70%	3.00%	3.50%	4.00%
									CAD		2.00%	2.50%	2.70%	3.00%	3.10%	3.25%
									CHF		0.70%	1.00%	1.20%	1.40%	1.70%	2.00%
TUTUNSKA BANKA AD Skopje Interest rates from January. 2007									AUD		1.70%	2.50%	3.00%	4.00%	4.20%	4.50%
										Foreign currency deposits of legal entities						
	1.0%	5.50%	6.00%	6.50%	7.20%	7.50%	8.00%	8.50%	EUR	0.80%	1.50%	1.75%	1.80%	2.20%		
									USD	0.60%	1.50%	2.00%	2.10%	2.20%		
TUTUNSKA BANKA AD Skopje Interest rates from January. 2007									CHF	0.10%	0.40%	0.50%	0.60%	0.80%		
									Other currencies	0.70%	1.00%	1.20%	1.40%	1.80%		
										Foreign currency deposits of legal entities						
	1.2-2%	4.00%	4.25%	4.50%	5.25%	6.25%	6.75%		EUR	0.53%	1.06%	1.06%	1.08%	1.09%		
TUTUNSKA BANKA AD Skopje Interest rates from January. 2007									USD	0.96%	1.92%	2.00%	2.09%	2.18%		
									CHF	0.18%	0.36%	0.38%	0.40%	0.45%		
									Other currencies	0.96%	1.92%	2.00%	2.09%	2.18%		

*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

Table 13: **CREDIT LINES FOR SMALL AND MEDIUM SIZE ENTERPRISES secured and guaranteed by the Republic of Macedonia, as of February 2007**

(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 MBDP	Crediting of small businesses (micro, small and medium-size enterprises) by the German KfW MBDP	Credit line for job creation in SMEs from the Council of Europe Development Bank MBDP
Amount	up to EUR 2,000,000	up to EUR 50,000	up to EUR 400,000
Repayment period	7 years	up to 4 years	Up to 7 years including grace period
Grace period	up to 1.5 year	up to 1 year	up to 2 years
Annual interest rate	7%	from 11% to 18% on annual level	Variable interest rate (at the moment, around 7% annually)
Securing instrument	1. mortgage on immovable assets; 2. collateral on equipment; 3. bills of exchange, etc.	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.	Standard securing instrument, acceptable to the participating banks (mortgage, collateral, etc.).
Credit purpose	Commodity credit for procurement of machines and equipment produced in Italy.	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).	Job creation through investments in all sectors, except primary agricultural production by small and medium-size companies.
Target groups	Profitable investment projects of private investors in the activities envisaged in the national classification of activities, except for: E - trade; J - public administration, mandatory social protection; M - private households with employed persons; and N - extraterritorial organizations and bodies.	Private companies, individuals, individual entrepreneurs, craftsmen, market sellers and self-employed.	small and medium-size companies
Extent of utilization of resources	Government of the Republic of Italy provided EUR 12,704,840 million, out of which EUR 1,700,000 million remain. Level of utilization is 86.62%.	First and second credit from the German KfW in the amount of EUR 13 million are 100% utilized. The collected annuities are pooled into a revolving fund. Therefore, on January 29, 2007, new EUR 7.7 million was awarded.	Total amount of the credit line is EUR 10,000,000, and EUR 5,000,000 has been used so far.
Commercial banks offering the credit	Eurostandard Bank Skopje, IK Bank Skopje, Investbank Skopje, Komercijalna Bank Skopje, Makedonska Bank Skopje, Ohridska Bank Ohrid, Sileks Bank Skopje, Stopanska Bank Skopje, Stopanska Bank Bitola, TTK Bank Skopje, Tutunska Bank Skopje, UNI Bank Skopje	Izvozna i kreditna banka AD Skopje, Tutunska Bank AD Skopje, ProCredit Bank AD Skopje and Moznosti DOO Skopje	Komercijalna Bank AD Skopje, Ohridska Bank AD Ohrid and Stopanska Bank AD Bitola
Note	<p>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:</p> <ul style="list-style-type: none"> - amount: from EUR 50,000 to EUR 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. 		
	<p>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.</p>		
	<p>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.</p>		

Credit line	Program for crediting the development of SMEs by the German KfW - revolving fund MBDP	Crediting the production intended for export from the funds awarded by the Government of the Republic of Macedonia - agent bank MBDP	Credit line for financing fixed assets awarded by the Government of the Republic of Macedonia - MBDP
Amount	50,000 - EUR 400,000	up to EUR 2,000,000	up to EUR 300,000
Repayment period	Up to 4 years including grace period	up to 15 months (for export arrangements)	3 years
Grace period	up to 6 months	none (credit repayment is one-off)	none
Annual interest rate	10%	8%	8%
Securing instrument	1. mortgage; 2. bills of exchange; 3. collateral on movables, rights and securities or collateral on immovable assets	1. mortgage; 2. collateral on movable assets and rights; 3. securities from solvent entities; 4. Other usual securing instruments	mortgage, collateral, bills of exchange and other instruments acceptable for the banks.
Credit purpose	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.	Financing of export arrangements for raw materials and intermediate materials on the basis of concluded export contracts.	Financing of working capital
Target groups	SMEs being over 51% private-owned.	Private companies having export-oriented production.	Export-oriented companies
Extent of utilization of resources	German KfW provided EUR 15 million, 100% out of which have been utilized. The collected annuities are 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.	
Commercial banks offering the credit	Eurostandard Bank AD Skopje, Izvozna i kreditna banka AD Skopje, Investbanka AD Skopje, Komercijalna Bank AD Skopje, Makedonska Bank AD Skopje, Ohridska Bank AD Ohrid, Sileks Bank AD Skopje, Stopanska Bank AD Skopje, Stopanska Bank AD Bitola, TTK Bank AD Skopje, Tutunska Bank AD Skopje, UNI Bank Skopje	Balkanska Bank AD Skopje, Eurostandard Bank AD Skopje, Izvozna i kreditna banka AD Skopje, Investbanka AD Skopje, Komercijalna Bank AD Skopje, Makedonska Bank AD Skopje, Ohridska Bank AD Ohrid, Stopanska Bank Skopje, Stopanska Bank AD Bitola, TTK Bank AD Skopje, Tutunska Bank AD Skopje, Sileks Bank AD Skopje	Eurostandard Bank Skopje, Izvozna i kreditna banka Skopje, Investbanka, Komercijalna Bank, Makedonska Bank, Ohridska Bank, Sileks Bank, Stopanska Bank Bitola, Stopanska Bank Skopje, Teteks - kreditna banka, Tetovo Bank, Tutunska Bank and UNI Bank
Note	15% own share. 0.50% annual commitment fee.		

Credit line	Credits from the credit line of the International Fund for Agriculture Development IFAD1, IFAD 2 and revolving fund	Project for private sector development by the International Cooperation and Development Fund from Taiwan, revolving fund NBRM	Credits from the MBRD for private sector developmentRevolving Fund - NBRM
Amount	1. EUR 2,000 micro credits; 2. EUR 50,000 for primary agricultural production; 3. EUR 150,000 for processing; 4. EUR 150,000 for trade in agricultural products	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 7 years, depending on the type and the purpose of the credit	1. up to 7 years for SMEs, 2. up to 5 years for agriculture	1. up to 3 years for working capital; 2. up to 5 years for investment projects concerning technological process modernization
Grace period	up to 3 years, depending on the type and purpose	up to 2 years	According to the credit policy of commercial banks
Annual interest rate	- from 6% to 18% annually for micro credits, - from 6% to 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	Ohridska Bank AD Ohrid - from 7.23% to 8.23%; Tutunska Bank AD Skopje - from 7.2388% to 12%; Komerijalna Bank AD Skopje - 7.23%; Tutunska Bank AD Skopje - 8.0075%; Investbanka AD Skopje - 6.34%; Makedonska Bank AD Skopje - 7.75%;	Ohridska Bank AD Ohrid - from 6.75% to 10.00% Tutunska Bank AD Skopje - from 6.77% to 12.56% Investbanka AD Skopje - from 8% to 10.00%, Stopanska Bank AD Bitola - from 8.50% to 9.00%
Securing instrument	1. collateral on movable assets (equipment, tractors, vehicles, machines, etc.); 2. mortgage on immovable assets; 3. creditworthy endorsers (natural persons or legal entities); 4. other securing instruments to be determined by the bank or the savings house.	According to the credit policy of the participating banks.	According to the credit policy of participating banks in the realization of the resources from the revolving fund.
Credit purpose	1. Farm production; 2. Plant production; 3. agriculture machines; 4. equipment and working assets for purchase of agricultural products to be processed; 5. trade in agricultural products and their processing.	1. Credits for small and medium size enterprises - for fixed assets (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.	1. Financing of working capital (procurement of raw materials, intermediate materials, additional equipment and spare parts to the end of increasing production volume for supporting export activities or import substitution); 2. Financing of investment projects concerning technological process modernization.
Target groups	1. Primary farmers; 2. food processing companies; and 3. traders with agricultural products.	SMEs and individual farmers, as well as enterprises engaged in production or marketing of agricultural products.	Private-owned enterprises, as well as individual farmers.
Extent of utilization of resources	International Fund for Agriculture Development awarded two credits: US\$ 6.2 million (IFAD 1) and US\$ 8 million (IFAD 2). All funds are disbursed, and 92% of the funds are utilized. Repaid annuities have pooled into revolving funds.	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.	Credit line for private sector development, approved by 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	Investbanka AD Skopje, Komerijalna Bank AD Skopje, Tutunska Bank AD Skopje, KIB Kumanovo, Stopanska Bank AD Bitola, Moznosti savings house and FULM savings house	Ohridska Bank AD Ohrid, Stopanska Bank AD Skopje, Komerijalna Bank AD Skopje, Tutunska Bank AD Skopje, Investbanka AD Skopje and Makedonska Bank AD Skopje.	Ohridska Bank AD Skopje, Tutunska Bank AD Skopje, Investbanka AD Skopje, Stopanska Bank AD Bitola.
Note	As of December 31st, 2006, 2,327 credits were refinanced through the Agriculture Credit Discount Fund, in the total amount of EUR 14 million (IFAD 1, IFAD 2 and revolving fund)	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%.	The resources of the sub-loan can be used to finance up to 70% of the total credit amount of the sub-project. The final beneficiary will finance the remaining part of at least 30%.

Credit line	Promotion of the development of SMEs by the Dutch Government - Macedonian Enterprise Development Foundation	Credit line for job creation in SMEs from the Council of Europe Development Bank revolving fund NBRM
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 15,000	no limit
Repayment period	up to 5 years (repayment period can be longer, depending on the production cycle).	from 5 to 10 years
Grace period	up to 1 year (grace period can be longer, depending on the production cycle).	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.	Stopanska Bank AD Skopje - from 9.643% to 9.730%; Komericialna Bank AD Skopje - from 6.89% to 6.90%; Ohridska Bank 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.
Credit purpose	For investments in fixed assets and working capital	Construction/purchase of property, procurement of machines and equipment, procurement of raw materials and spare parts, as well as educational training programs.
Target groups	type 1: individual farmers, self-employed and entrepreneurs of micro enterprises; type 2: small enterprises with up to 50 employees type 3: small enterprises with up to 10 employees	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.	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 Bank AD Skopje, IK Bank AD Skopje, Moznosti DOO Skopje	Stopanska Bank AD Skopje, Komericialna Bank AD Skopje and Ohridska Bank AD Ohrid.
Note	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	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	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	9 months	5 years	9 months	5 years
Grace period	3 months	1 year	3 months	1 year
Annual interest rate	3%	3%	3.5% below the discount rate of the NBRM	3.5% below the discount rate of the NBRM
Securing instrument	Bank guarantee	Mortgage level 2:1 or bank guarantee	Bank guarantee	Mortgage level 2:1 or bank guarantee
Credit purpose	1. raw materials; 2. intermediate materials;	investment projects	1. raw materials; 2. intermediate materials;	investment projects
Target groups	Economic SMEs		Economic SMEs	
Extent of utilization of resources	Repaid resources from foreign assistance generating counterpart funds. As of January 31, 2007, Denar 21,600,000 million was not allocated.		Repaid resources from foreign assistance generating counterpart funds. As of January 1st, 2007, Denar 77,400,000 million was not allocated.	
Commercial banks offering the credit	Ministry of Finance, Capital Management Department, Foreign Assistance Unit		Ministry of Finance, Capital Management Department, Foreign Assistance Unit	
Note	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.	

Table 14: **OTHER PROJECTS FOR SUPPORT TO SMEs, as of February 2007**
(the data are of informative nature, the detailed conditions are available at the implementing agencies)

Guarantees	Guarantee Fund of Macedonian Bank for Development Promotion - Project of the Macedonian Government	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	Guarantees are extended for all long-term credits for investments from the credit lines distributed via the banks - signatories for cooperation agreements with MBDP	Credit guarantees: they are issued for all credits from the credit lines distributed via the banks - signatories for cooperation with the GF Suppliers guarantees: they are issued to the suppliers with which the Guarantee Fund has concluded cooperation agreements, which sell equipment and intermediated materials on the basis of deferred payment	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	Credit guarantees, secured with securing instruments the banks do not accept.	1. Credit guarantees 2. Suppliers guarantees 3. Suppliers guarantees with a credit (a combination of the previous two types)	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	- 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.	- 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 10 years.	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	2.2% annual on the guarantee balance	Credit guarantees: - 2% annual of the guarantee amount; Suppliers guarantees: - 3% annual of the guarantee amount;	Annual interest rate	from 8% to 12%
Operating costs		- 1.5% one-off for the credit guarantee; - 1% one-off for suppliers guarantees.	Fees	1. US\$ 100 for submission of credit application; 2. 0.5% for application processing; and 3. 2% for credit administration.
Securing instrument	1. Mortgage ratio 1:1.2 at a commercial bank (for the whole credit amount) 2. Should no such assets be available, collateral is secured at MBDP (not accepted by the commercial bank), ratio 1:1.2, only for the guaranteed part of the credit.	Movable property (equipment, machines, vehicles) and real estate (buildings, land), crossed cheque, bills of exchange, etc.	Securing instrument	Irrevocable L/C, bank guarantees, export insurance policy, crossed cheque, collateral, bill of exchange, etc.
Target groups	Craftsmen, sole proprietors, micro, small and medium-size companies (registered in the Republic of Macedonia and with 51% private capital at least)	- potential SME founders - existing SMEs mostly private-owned and with up to 50 employees - farmers	Target groups	Enterprises from the indicated industrial branches can submit application for credits: 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; 7. production of machines and electrical devices.

Implementing agency	Komercijalna Bank AD Skopje, Stopanska Bank AD Bitola, Investbank: AD Skopje, Eurostandard Bank AD Skopje, TTK Bank AD Skopje, Silek Bank AD Skopje, Moznosti savings house	SMEs development center - Skopje	Implementing agency	SMEs Fund - Skopje
Purpose of the guarantee	For credits regarding investments in existing or new technologies that lead to increase of the Macedonian export	Business start-up or expansion (guarantee is not issued for the purpose of consumer and housing credits)	Founder of the Fund	The SMEs Fund is established and managed by the Crimson Capital Corp. USA with US\$ 1.5 million credit fund.
Note	In December 2005, Macedonian Government established Guarantee Fund, transferring Denar 231 million from the Budget of the republic of Macedonia. Objective of establishing the GF is to facilitate the access of the target groups to bank credits for investments, in terms of credit collateral.	<p>Guarantee Fund is an institution established in 2002. Capital for the issuance of guarantees is EUR 2,500,000, funds are provided by SIDA (Swedish International Development Cooperation Agency).</p> <p>As of January 31st, 2007, GF issued guarantees in the amount exceeding EUR 2,500,000, using revolving of funds.</p> <p>Regarding the current year, GF has around EUR 800,000 available (part of the funds are provided under new funds granted in January 2007 by SIDA, while the other part are from 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. employees between 5 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 the provide larger number of new jobs, realize net forex inflows, used domestic raw materials and take care for the environment protection.

BULLETIN

MINISTRY OF FINANCE

III. ACTUAL NEWS,
ARTICLES

Actual news

GOVERNMENT DECIDES TO SETTLE THE DEBT TOWARDS INTERNATIONAL FINANCIERS

The Government decided to early repay US\$ 137 million, debt towards the World Bank and the European Investment Bank. This was announced by Prime Minister Nikola Gruevski, adding that by repaying US\$ 103 million towards the Paris Club, Macedonia makes early repayment of total of US\$ 240 million of its external debt. This



attempt makes Macedonia move from the medium-indebted country to low-indebted country.

- Early repayment will be carried out with funds from the foreign currency reserves, which increased and are above the projections agreed with both the IMF and the World Bank under the on-going arrangements. Second tranche of the early debt repayment in the amount of US\$ 137 million accounts for 20 percentages of the debt towards the World Bank and six percentages towards EIB, stated Mr. Gruevski.

Such success in early repayment of the credits is rarely seen in international finance, which only Brazil, Russia and Argentina can recommend them in the near past.

- Early debt repayment is a proof that we run good and sound economic policy, having positive effect over the credit rating of the country, and on the business as a whole, said Mr. Gruevski.

Early repayment leads to savings of over EUR 30 million, supposed to be repaid by 2021. It includes eight old credits, inherited from former Yugoslavia, in the total amount of EUR 103.7 million. By early repaying the debt, external public debt is reduced by 9.1 percentage, and the total debt is decreased by 6 percentage. According to official data, total debt of the country towards the World Bank

is in the amount of EUR 487 million, and towards EIB, it amounts to EUR 122 million.

The repayment also includes interest savings in the state budget in 2007 in the amount of EUR 2.8 million, EUR 5.8 million in 2008, EUR 5.2 million in 2009, and interest savings will be realized by 2021, by what time last credit would fall due on regular basis, i.e. in the total amount of EUR 33.4 million.

The Government also plans to early repay the debt towards the IMF in the amount of EUR 37 million. Debt repayment towards the IMF will be the strongest signal to the international investors that Macedonia runs good and sound economic policy. Debt of the country towards abroad amounted to US\$ 2,368.86 million at end-February.

INTERNATIONAL MONETARY FUND AND WORLD BANK NOT AGAINST THE ANNOUNCEMENT THAT MACEDONIA WILL MAKE EARLY REPAYMENTS

- Ability of Macedonia to early repay the debt is a signal of strengthened economy, and, from the IMF point of view, we support it. It is a sign of strengthening. However, we expect to continue the strong cooperation with the Macedonian authorities, said Mark Griffiths, IMF Chief Mission. World Bank also welcomed the decision of the Government for early repayment of part of the debt, although they believe that in the reform period, it is necessary to have the Bank present.

- It is sure that additional finances are necessary in Macedonia. New investments are needed in the coming year, and the reforms require financial resources, and it is our pleasure to expect further cooperation, said Sandra Bloemenkamp, World Bank Country Manager.

According to the agreed Strategy, World Bank will lend Macedonian EUR 220 million to EUR 280 million for reform projects in the next four years. Cooperation with the IMF remains certain by August 2008.

- Being in a situation when IMF funds were necessary, we are now in a situation when we do not use the available funds, we do not make any disbursements, and we will decide on the type of cooperation we will have in future, said Trajko Slaveski, Minister of Finance.

National analysts believe that it is good for the reserves amounting to one billion eight hundred million euros to be

used productively, since money will be saved on the basis interest and dependence of the country on international financial institutions will be reduced.

LOWER TAXES BROUGHT MORE FUNDS IN THE BUDGET

In the first four months this year, budget revenues on the basis of personal income tax and profit tax increased by 20% compared to the projections. This is even better performance compared to the one in the first quarter, when the overperformance was 12%.

- Calculated risk is worthwhile, said Trajko Slaveski, Minister of Finance, who, encouraged by the state budget revenues, expects for ambitious government projections on economic growth of 6% for this year to be realized.

As already known, starting this year, flat tax was introduced in Macedonia, whereby personal income tax rate and profit tax rate were reduced to 12%, and starting 1st January 2008, they will drop to 10%.

Summarizing the work of the Ministry of Finance, at he first Spring Cocktail, Slaveski said that adopted amendments to the laws and those in preparatory stage will contribute to improvement of the overall climate in the country. Slaveski expects for liberalization of the banking sector with the new Banking Law, which provides for opening branch offices of foreign banks, to increase the competitiveness and to reduce the interest rates.

- This is not a zero sum game, when someone's gain is another one's loss, said Slaveski. On the contrary, everybody gains from the increased competition.

CUSTOMS CELEBRATED ITS ANNIVERSARY WITH 50% MORE COLLECTED REVENUES

In the first three months this year, percentage of revenue collection on the basis of customs duties increased by 50% compared to past year in the same period. It was due to the increased import of goods, as well as more efficient collection of duties from the importers. This was announced by Vanco Kargov, General Director of the Customs Administration, at the press conference at the occasion of the 15 years of independent operations of this institution.

As Vice Prime Minister for European Integration, Gabriela Konevska-Trajkovska, said, Customs Administration will donate part of the seized goods during the customs operations to eight humanitarian and health institutions, such as homes for parentless children and health homes.

According to Ms. Konevska-Trajkovska, the Customs Administration is among the first institutions that are almost fully ready to be integrated in the European Union. Harmonization of the Customs Administration has to be completed by 2010, said Ms. Konevska-Trajkovska.

According to Mr. Kargov, the only open issue is the debt of several companies towards the state regarding outstanding customs duties in the amount of EUR 30 million, which are resolve at regional level at the customs offices throughout the country.

JOHNSON METI TO START PRODUCING CATALYSTS IN BUNARGIK BY 2009

British company Johnson Meti will star producing catalyst in Bunargik in 2009, announced Johnson Meti representative, Collin Jeffry, at the occasion of signing the Memorandum of Cooperation with the Government.

- We have analysed 10 countries, among which Hungary, Poland, Czech Republic, Slovakia, Croatia, and Macedonia had the advantage regarding our most impor-



tant criteria - quality and available labour force, low labor costs, as well as the stimulative measures of the Government, land taxes and fees. Jeffry said that the decision was final and they considered no other choice.

Johnson Meti produce car catalysts, and the decision to enter the Macedonian market was on the basis of their need to increase the traditional production capacities. Jeffry did not specify the amount of the investment, but only indicated that it was a matter of million euros and hundred and so employments.

Prime Minister Nikola Gruevski expressed contentment with the decision by Johnson Meti. Gruevski said that it was a great challenge for Macedonia, for the production companies that operate in the country to be able to become their partners and a serious signal to other foreign companies to invest in Macedonia.

Ability of Macedonia to attract large companies such as Johnson Meti is a very positive signal for our advantages, attractive and low costs and strategic locations, pointed out Prime Minister Gruevski.

He also announced that there were ten and son other companies in an advanced stage to invest in Macedonia, and a company from Iceland was close to a decision to invest in the banking sector.

MOBILKOM AUSTRIA TO INVEST EUR 70 MILLION AND EMPLOY 200 PEOPLE

Mobikom Austria will invest EUR 70 million in business development in Macedonia and will employ 200 domestic experts, said Boris Nemsik, Telekom Austria Group CEI, at the awarding of the working licence by the Electronic Communications Agency.

- In five to six months telecommunication service prices will be reduced, and first line of Mobikom will be put in operation, said Nemsik.

Nemsik and Kosta Trpkovski, Director of the Electronic Communication Agency, did not want to disclose the prefix of the third mobile operator in Macedonia. They also did not disclose the brand the mobile operator would use on the displays of the mobile phones of its users.



In order to obtain working licence, i.e. to render telecommunication services for a period of 20 years, as envisaged in the law, Mobikom Austria registered communication services company in Macedonia, named "New Operator" limited liability company Skopje.

Austrian Group has mobile operators in six countries: Austria, Croatia, Slovenia, Serbia, Bulgaria and Lihtenstein. The company employs 6,000 people, servicing more than 10 million users.

TURKISH YARDIMCI TO BUILD DAIRY COMPLEX IN MACEDONIA

Turkish company Yardimci from Edrene will invest five to six million dollars in building an integrated dairy complex in Macedonia, that will include dairy and dairy products plant, but also land and cattle in their property. This was announced by the Turkish businessman Mustafa Yardimci, owner of the company Yardimci, who is also member of the TOBB Board (Union of Chambers and Commodity Stock Exchanges of Turkey) and President of the Commodity Stock Exchange of Edrene.

- I plan to invest in integrated capacity. One part would be land for production of agro cultures, other for cattle, and the third part will be the production capacity, explained Yardimci.

Yardimci said that at this moment his company is doing a research for the investment.

- At this moment we are in search for location, and according to the information I have, Eastern Macedonia would be more suitable for buying land, he said.

Yardimci said that only the factory and the closed space of the integrated capacity will have around 5.000 square meters.

According to him, beneficial for his company is the fact that Macedonia has low taxes, but the main problem is the high employment taxes.

Yardimci is one of the biggest companies in the town of Edrene. It has several branch offices throughout Turkey. Main activities include production of milk and milk products, and other agricultural products.

ONE-STOP-SHOP SYSTEM FOR IMPORT AND EXPORT OF GOODS

Government prepared Strategy for Introduction of One-Stop-Shop System on Import, Export and Control of Goods at border crossings so as to simplify the customs procedures. Government Spokesman, Ivica Bocevski, announced that one-stop-shop system would accelerate the flow of goods at the border crossings and reduce costs of companies and institutions. Necessary documents will remain to be submitted to all competent institutions, but goods will be controlled once and at one place. Bocevski said that so far different bodies controlled the goods at the customs terminals and it was an obstacle to the development of both the foreign trade and the economy.

- One-stop-shop system facilitates the access to information and accelerates and simplifies the flow of information between the public and the private sector. This sys-

tem should help the companies, rather than function for the needs of the state administration, said Bocevski. Recently the businessmen asked the Customs Administration to introduce integrated border management and one-stop-shop system so as to accelerate the flow of goods and services. Customs Administration Director, Vanco Kargov, asked for the provision of clear and transparent procedures and just collection of customs duties.



Director Kargov announced the introduction of the one-stop-shop system for the beginning of the next year. By that time guidelines in the Strategy should be transposed into legal measures. Customs Administration and USAID work together on this ambitious project. In addition to the Customs Administration, as bearer of the project activities, National Commission on Integrated Border-Crossing Management will also be included in the project realization.

CROATIAN PODRAVKA TO EXPAND ITS PRODUCTION IN MACEDONIA

Podravka Croatian company announced that they will expand their production in Macedonia, regarding the processing of fruit, vegetables and meat.

Podravka actually seeks for a Macedonian partner to produce under the Croatian brand. The Croatian company would use domestic raw materials and would engage domestic labour force.

Jugotutun company from Sveti Nikole produces goulash and vegetable stew for the needs of Podravka.

Podravka managers indicated the CEFTA Agreement as Macedonia's upside, on the basis of which the country can

export under favourable customs conditions in other CEFTA countries.

Podravka has already expanded its production operations in the Czech Republic and Poland, and the next destination to invest in would be Macedonia, said the representatives of this Croatian company.

STRUMICA REGION EMPLOYS 1,300 SEASONAL WORKERS

Four municipalities in the Strumica region are expected to employ over 1.300 seasonal workers this year, registered as unemployed on the list of the Employment Agency. Tobacco company Strumica Tabak, in the prime of processing and fermentation of the purchased tobacco, already employed 170 seasonal workers, most of which are women.

This year, 700 seasonal workers will be engaged on the vine plantations of Strumicko Pole and on the greenhouses for early-season vegetables of Plodno Pole. The factory for canning vegetables and fruit, being in the stage of reconstruction, is expected to employ from 150 to 200 persons to the end of realizing this objective, 150 to 200 persons will be temporary employed in the period from July to November.

Komunalec public enterprise for maintenance of city parks and green areas of public character, as well as the points for purchase of fruit and vegetables, will engage hundred and so seasonal workers during the summer period.

AGREEMENT ON INVESTMENT PROTECTION

Minister of Foreign Investments, Gligor Taskovic, signed the Agreement for Investment Promotion and Protection with OFID (OPEC Fund for International Development).

Agreement for Protection of Foreign Investments should promote and enhance the cooperation with the OPEC member states, and at the same time, confirm the commitment of the Government for promotion and protection of foreign investments.

The Agreement will be submitted to the Parliament for ratification, and the provisions in the Agreement are expected to have a legal effect in the coming few months.

OFID is a development financial institution, having as an objective to promote the cooperation between the OPEC member states and the other developing countries. The Fund has 13 OPEC member states as its members - Algeria, Gabon, Indonesia, Iran, Iraq, Kuwait, Lebanon, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

US\$ 30 MILLION FROM THE WORLD BANK

World Bank Board of Directors, within the new Country Partnership Strategy for Macedonia, approved US\$ 30 million for the Second Programmatic Development Policy Loan - PDPL 2. Funds are intended for support to the efforts of the Government to improve the investment climate and to strengthen the public sector management.

PDPL 2 is the second, out of three, loans to be awarded in a period of three to four years.



- Reforms supported by PDPL are aimed at sustainable economic development and employment encouragement, said Bruce Courtney, World Bank Team Leader for Macedonia. The program includes judiciary reforms, labour market reforms, reforms in the financial sector, part of the business regulation, as well as reforms in the public administration, health and decentralization.

CONSTRUCTION OF EPA CITY COMPLEX ON SKOPJE FAIR STARTS THIS YEAR

President of EPA Veljenje Management, Mr. Guido Omladik, announced that construction of one of the facilities of EPA City Business Center will commence this year, an investment worth total of EUR 150 million.

Omladik said that the construction will start with the 10-storey business facility, covering an area of 30,000 square meters. Business facility will be located where Mercedes showroom used to be.

Following the construction of the business center, the trade center and other accompanying facilities will be built. Whole EPA City project should be completed in three to five years.

EPA Veljenje will invest EUR 150 million, covering an area of 100,000 square meters, and will employ 900 persons.

Regarding the construction of EPA City, EUR 120 million will be invested in the huge trade center. It will comprise several facilities: small sports pavilion for tennis, aerobic, fitness, sauna and cafe bars, glass pavilion with boutiques, art galleries, restaurants and cafe bars, and a big pavilion with furniture, carpets, curtains, glass, china. The complex will also have an exhibition trade center with hypermarkets and boutiques, and an amusement center with seven small multi cinemas, as well as a big fountain and a space for open exhibitions.

In addition to EPA City and the business facility, Skopje Fair will build two-storey garages, which can accommodate 5,000 vehicles free of charge.

EPA City will be built taking the WTC Center in Ljubljana as an example, which is visited by 18 million people a year.

MACEDONIA AND MONTENEGRO TO INTENSIFY THE ECONOMIC COOPERATION

Macedonia and Montenegro will intensify the activities aimed at improving the economic cooperation. This was agreed at the meeting between the business communities of both countries at the Macedonian-Montenegro Business Forum in Skopje.

It was jointly assessed that overall trade was not at the level provided by both the potentials and the cooperation opportunities.

- Total trade, which in 2006 reached EUR 17.8 million, binds us to joint commitments to improve the economic cooperation. It is necessary for both countries to get familiar with the sectors, economic entities and the capacities in order to establish new business cooperation or to continue the so-far cooperation based on new postulates, said the President of the Macedonian Chamber of Commerce, Branko Azeski.

Azeski pointed out the investments in infrastructure and participation in private capital in public works as priority ones. According to him, regional free trade zones are a challenge and a chance for development, but at the same time it can also be a real threat to the survival of many businesses, should they not be able to increase their competitiveness to the global level.

In addition, Mr. Azeski asked the Chamber of Commerce of Montenegro to lobby with their Government to abolish the fee of EUR 2.5 paid by our construction workers on daily basis.

President of the Chamber of Commerce of Montenegro, Mr. Vladimir Vukomirovic, emphasized the possibility for much more intensive cooperation and development of the business relations between both countries.

- Our companies have to find new "fertile soil" to cooperate. We can do more and better, Vukomirovic said. Within the Forum, Macedonian and Montenegro Chambers of Commerce signed Memorandum of Establishment of Macedonian-Montenegro Business Council, thus making the first specific step for improving and deepening the economic cooperation in all spheres, both on bilateral level and from a point of view of joint appearance on third markets

FOREIGN COMPANIES WANT TO INVEST IN THE WINDMILL BUSINESS

Many foreign companies are interested in investing in construction of windmills. Most of the companies already contacted the Ministry of Economy, asking for the conditions and the possibilities to invest in this kind of business.

Most probably the model to be used will be private-public partnership, i.e. private companies, together with Electric Power Plants of Macedonian (ELEM), will invest in the construction of the wind parks.

At the moment, ELEM expert team surveys four locations. First results are to be obtained by June, and afterwards the most suitable locations to invest in, i.e. where wind power and direction are most favourable, will be known.

World Banks is also engaged in the project, providing technical assistance.

Initial analysis by ELEM shows that Macedonian can obtain 100 gigawatts of electricity annually.

Locations to prove as the most suitable for the construction of such energy facilities will be used to build the wind parks with installed power of 20-30 megawatts.

ELEM also announce new surveys on other locations, after completing the on-going ones.



"New Energy" Austria company established its company in Macedonia, through which 30 windmill are going to be built in Gevgelija along the course of the Vardar River.

In the meantime, Energy Regulatory Commission, together with the World Bank, started working on the preparation of the new tariff list on wind-generated energy. Commission President, Mr. Slave Ivanovski, said that the tariff list will guarantee higher prices for wind-generated electricity. Unlike the tariff list for electricity generated by small hydro power plants, this one will envisage single price regardless of the installed power.

ELEM BECAME MEMBER OF THE EUROPEAN SMALL HYDROPOWER ASSOCIATION

State company for electricity generation, Electric Power Plants of Macedonia joint stock company (ELEM), became official member of the ESHA Association (European Small Hydropower Association).

ELEM press release announced that ESHA is a non-profit international association, established in 1989 upon initiative by the European Commission.

At the same time, ESHA is founder of the European Renewable Energy Council (EREC), which unites the largest producers of renewable energy, as well as research associations. ELEM press release also stated that ESHA is a powerful lobby group on renewable energy in the EU.

GASPROM ENTERS MACEDONIA?

Russian oil giant "Gasprom" enters the Macedonian market. Russian company would be included in the realisation of the compensation agreement between the Macedonian and the Russian Governments for settlement of the Russian clearing debt towards Macedonia. Under the Agreement, to be soon signed by both Governments, the Russian side should participate in the construction of four gas pipelines projects in the country. "Gasprom" would participate as a partner in the projects.. This was confirmed by the representatives from the Russian Embassy to Macedonia and by the Government.

They say it is an important project, which will contribute to the development of the country. During the negotiations of the Macedonian-Russian Commission, Macedonian negotiation team defined the realisation of the primary and secondary gas pipeline system around Skopje and the construction of two national gas power pipelines as priority for the country.

The first should be built on the route from Klecovce to Stip, so as for the free economic zone in Stip to be sup-

plied with gas. The second system will be from Skopje to Tetovo so as to provide access to gas for the northwest part of Macedonia.

It is soon expected for the announced visit by Vice Prime Minister, Mr. Zoran Stavreski, to Russia to be realized, which was postponed at the request by the Russian side.

Moscow city delegation visited Skopje, headed by the manager, Mr. Vladimir Lebedev, who agreed with the city authorities for an intensive cooperation with Skopje public enterprises. The Russians are ready to deliver to "Ulici i patista" public enterprise and to "Komunalna higiena" public enterprise new technology for garbage collection. Russia sees the cooperation between the two countries in the civil engineering and asks for the Macedonian civil engineers to be included in the construction of around 50 skyscrapers in Moscow.

"ALEXANDER THE GREAT" DECLARES "WAR" TO THE COMPETITION

Skopje airport "Alexander the Great" and Ohrid airport "St. Apostle Pavle" will reduce the service prices by 10% at least compared to the airports in the region. These measures are expected to stimulate the air traffic in the country and the competitiveness of the airports. This was announced by the Minister of Transport and Communications, Mr. Mile Janakievski, presenting the new price list of Makedonija Public Enterprise for Airport Services, according to who Macedonian airports will



become the cheapest in the region, since the prices of "Alexander the Great" are reduced by 17% in average, and the ones of "St. Apostle Pavle" by 27%.

- There will be price of EUR 0 intended for organized tourist flights to the Ohrid airport and transporting tourist

with provided accommodation. A 40% discount is envisaged for the new destinations in the first year, 15% in the second year, as well as a discount up to 50% for diverted flights from Skopje to Ohrid due to bad weather conditions. There will be also higher discount from 20% to 50% for international flights that connect the two airports in the country, said Minister Janakievski.

Zoran Krstevski, Director of Makedonija Public Enterprise for Airport Services, said that the changes in the price list should provide for development of the air traffic, thus stimulating new investments and tourism development. In addition, by reducing service prices, Skopje airport will be cheaper than the Pristina airport, which is believed to be the biggest regional competitor. Krstevski believes that the price reduction will not have an adverse impact on the operations of the enterprises, since it is expected to increase the traffic volume.

- Once the airlines were announced the price reduction, in the first three month this year already the number of transported passengers increased by 13% in relation to same period last year, said Krstevski. He also explained that should the same volume of traffic last year be realized, revenues will be reduced by around EUR 200,000. However, these funds will be set off with the inflow from the increase in the traffic volume, based on the projected investments in 2008.

Krstevski compared the service price on Skopje airport with the price of the neighbouring airports. He said that for the same type of airplane, such as for instance "Boeing 737", if the process on Alexander the Great is EUR 950, Pristina airport charges EUR 1,395 for the same service, airport in Tirana charges EUR 1,350, while Belgrade airport charges EUR 1,062 excluding the fees for entry through the terminal building. Krstevski announced fee for bus tickets for the passengers from Skopje to Pristina, for only EUR 5, and according to him, it can provide for cooperation with low-budget companies having the lowest prices for passenger tickets.

St. Apostle Pavle, according to the amended price list for airport services, in force from 27th April this year, will reduce the service prices by 27.7%.

At today's meeting of the Ohrid airport management and thirty and so representatives from tourist agencies from Ohrid and Struga, Hotam and Atam, it was pointed out that regarding airport handling, the Ohrid airport was the cheapest in the region. Handling is free of charge for the tourist flights to Ohrid, and the airlines that establish new lines to Ohrid will have the handling prices reduced by 40% in the first year.

As it was announced, there will be greater advantages for the business aviation as well.

It is expected for the reduced prices to interest both the airlines and the tour operators, and the present average of passengers on the Ohrid airport of 60,000 to increase to 200,000 passenger annually.

Capacity of Ohrid airport is 750,000 passengers annually, i.e. it can handle over 50 airplanes a day.

CAFFETIN AWARDED GOLDEN "SUPERBRAND" IN SERBIA

Caffetin brand produced by Alkaloid AD Skopje was awarded the prestigious award golden "superbrand" in the category of pharmaceutical products, among 2,800 branded products present on the Serbian market, during the marketing vent "Superbrand" held in Belgrade.

Awards were awarded in 34 categories, and caffetin won in its category, before its competitive brands Aspirin, Durex, Ferveks, Hemofarm and Oligovit.

Caffetin and its extensions are sold in more than 15 countries.



- It is a great honour for our country and one more proof that Alkaloid is well positioned on the foreign markets. The award of golden superbrand is a result of long years of investments in the caffetin brand, which exists for 50 years, said Zivko Mukaetov, Alkaloid CEO.

Mukaetv said that in order to sell the product abroad, many investments are needed, as well as good strategy and vision, but, as he said, you have to have a good product first of all.

Selection of the 34 super brands was made by 17-member expert jury and several hundred consumers from Serbia.

Srgan Saper, President of the "Superbrand" Board and CEO of TNS Medium Gallup said that the brands show their true value on the market, and the idea of "Superbrand" was to stimulate the domestic producers to invest in their products.

Among the superbrands in Serbia, in addition to caffetin, are the Exit Festival, Coca Cola, Mercedes Benz, Siemens, BMA, Swarovski, Nivea, Sony, Nike, Smoki (snacks), Nescafe, Politikin Zabavnik (entertainment magazine), B92, Visa, ...

This acknowledgement is awarded in more than 60 countries in the world by "Superbrands International.

SKOVIN TO EXPORT TWO MILLION BOTTLES OF WINE TO RUSSIA

Skovin wine cellar concluded three-year agreement to export more than two million bottles of wine with MoRo company, the largest importer and distributor of alcohol beverages on the territory of Russia, said Skovin management.

First shipment, to be delivered by the end of April, includes 28,800 bottles of wine (3,600 bottles of each of the eight assorted wines: Muscat, Chardonnay, Semillon, Macedonian White, Macedonian Red, Kale, Vranec and Teran). It will be the first direct export by Skovin to Russia.

By the end of this year, 350,000 bottles of wine are going to be exported, the next year more than 500,000 bottles of wine, and in 2009, more than one million bottles of Skovin wines.

Wine cellar representatives said that the preparations for the first export to Russia are according to the plan, and by the end of the month, the first shipment will be delivered.

Negotiations with the Russian company - exporter lasted for more than one year, and according to the agreement, Skovin wines will be sold in a chain of retail stores in Russia.

TERME OLIMPIA AND PASKALIN TO INVEST UR 10 MILLION IN SPA CENTER IN SMOKVICA VILLAGE NEAR GEVGELIJA

Smokvica village near Gevgelija is the place Slovenian investor "Terme Olimpia" and the domestic company "Paskalin" chose to build new recreation center, worth around EUR 10 million of investment.

Hotel will be built on an area of 4.5 hectares, with 150 beds and a complex of pools to use the thermal water from the Vardar River.

CABLETEL BOUGHT THE 13 CABLE OPERATORS FOR EUR 20 MILLION

Bulgarian-American company CableTel paid EUR 20 million to takeover the 13 cable operators in Macedonia, and it will invest additional EUR 20 million for development of the cable network and purchase of new equipment to offer new services on the market, such as Triple Play, Video on demand and fixed telephony.

Mile Kokotov, former owner of KADIS, confirmed that the takeover was completed.

According to the agreement with CableTel, Kokotov and the owner of ZORA and Zora Cable, Stojan Gorgoski, will be part of management team to manage the 13 operators in Macedonia.

At the end of April, CableTel paid 10% of the total amount for the acquisition of the operators: ZORA, Zora Cable, Kabelskop, Maksat and Naumovski, Kabelsat, Galaksi, all from Skopje, Kabelfoks from Kocani, Astra99 and Starks from Kumanovo, Kadis 2002 from Stip, Sprint and Multikom from Veles and Sat Media from Tetovo.

PLANT BREEDING PROGRAM OF ALKALOID OBTAINED HACCP STANDARD AND CE MARK

Plant production program "Plant Breeding", being integral part of the production of Alkaloid AD Skopje, recently obtained HACCP certificate for production of safe food.

The certificate refers to teas, additives, spices, dried vegetables, processed salt and "Zacinal".

Certification was performed by the certified body QQS Quality Austria from Austria.

Alkaloid Marketing Department said the biggest contribution from the HACCAP certificate for the company is the satisfaction of the consumers as a result of high-quality and safe food they will consume.

At the same time, Alkaloid obtained CE mark, indicating the conformity with the medical X-ray films. This confirmed once again that Alkaloid also met the set provisions for production, in line with the EU Directives. The certificate was awarded by the Dutch KEMA Quality B.V.

Alkaloid had implemented the three ISO systems previously: quality management, good production practice, as well as environment management system. Their application and the application of the two new systems - HACCP certificate and CE mark, are one more proof of the quality in the operations, process and products of Alkaloid AD Skopje. It confirms the ability of the company to successfully place the products, even on the most selective international markets.

KOSOVO MARKET OPENS TO THE MACEDONIAN AGRICULTURAL PRODUCTS

Development of the regional trade as a result of the small distance and cheap transportation should be a challenge to the businessmen from both Macedonia and Kosovo. By signing specific agreements on purchase and export of vegetables and fruit to the Kosovo market, Macedonian-Kosovo bilateral meeting of economic delegations from the agricultural and food sector and canned industry was completed in Sirius Hotel in Strumica. The meeting was organized by the Agro Stock Exchange of Macedonia and the Chambers of Commerce of Kosovo and Macedonia. Thus, traditional Kosovo market is re-opening for the export of Macedonian agricultural products.

Traders from Kosovo, through their Chamber of Commerce, expressed large interest in placing fruit and vegetable on the market.

- We hope all non-tariff barriers existing between us will soon be abolished and we will achieve a higher level of economic cooperation, said Besim Becaj, President of the Chamber of Commerce of Kosovo.

Macedonian Chamber of Commerce announces new initiatives to enlarge and increase the trade.

- Kosovo is our large economic partner, however we need to do more in this field. We should ratify the CEFTA Agreement with Kosovo and, together with the Chamber of Northwest Macedonia and the Chamber of Kosovo, we will bring an initiative for enlargement of Jazince border crossing, as new transport corridor, said President of the Macedonian Chamber of Commerce, Branko Azeski.

Total trade between Macedonia and Kosovo reached over EUR 200 million last year, where, in addition to oil, construction materials, cigarettes, medicine and milk, export of agricultural and food products has significant share.

MACEDONIAN CONSTRUCTION WORKERS TO BUILD SKYSCRAPERS IN MOSCOW

Russia requires construction companies to construct fifty and so skyscrapers in Moscow, Qatar lacks qualified construction workers, and Montenegro is in the process of intensive construction of tourist facilities. This is only part of the offers Macedonian construction companies received these days from representatives of the political and business sectors from these countries, who recently visited Macedonia.

- There is large on-going construction and reconstruction of the facilities in Sochi tourist center, Russia. This city

is candidate for organizing the 2014 Olympic Games and it is preparing all its infrastructure therefore. In Moscow, furniture fair is organized in May, being an opportunity for the furniture producers to realize contacts for reconstruction of the interiors in Sochi. In September we will organize seminars where direct contacts for cooperation will be realized between the Macedonian and the Russian companies, said Dejan Besliev from the Macedonian-Russian Chamber of Commerce.

So far, Macedonian civil engineering on the foreign markets was present only in a form of contractors and sub-contractors of works by engaging cheap labour force, while it was less of full investments of our construction companies.

- We have our workers in Romania, Iran, Iraq and in many other countries. Problem we face in Montenegro is the fee of EUR 2.5 paid for engaging foreign construction workers in this country. Should up to 1,000 workers be engaged for larger-scale works, this amount is significant. We expect the fee to be abolished, thus opening the road

to seriously enter this market, said Shukri Shahini, pwner of construction company "Ozer" from Gostivar, which built "Ramstore" trade center in Skopje. Branko Azeski, President of the Chamber of Commerce of Macedonia, recently asked the business delegation from Montenegro for fast resolution of the problem regarding the payment of the fee.

According to Ilija Sukaorv, Deputy Director of "Mavrovo" construction company, they are looking into the possibilities for engagement in Montenegro, and at the moment they are working on many projects in Russia.

- We are working on the road Daskalovo - Dupnica in Bulgaria, which is in the final stage. We have also obtained the works on the road Kustendil - Sofia, said Sukaorv. A chance to win the markets on the Near East and MAGREB countries arose after the visit of our business delegation to Bulgaria, where chambers of commerce of both countries agreed on joint appearance in these countries.



LARGE AMOUNTS OF CASH IN CIRCULATION

- Reasons - Consequences - Solutions -



In a regulated and developed economy, using high amounts of cash in circulation becomes a luxury and an opportunity costs, but also a reflection of monetary bad culture

Tome Nenovski, Ph.D.

Tome Nenovski Ph.D. is a professor and Vice-President at the American College University in Skopje. He teaches subjects in the field of macroeconomics and finance. He was Vice-Governor in the National Bank of the Republic of Macedonia. He has participated in many specialized seminars and symposiums in the country and abroad, covering the topics in the field of macroeconomics and banking, he took part in the preparation of the National Strategy for Economic Development of the Republic of Macedonia and the project on Financial Management in Local Government Units. Mr. Nenovski has published six specialized books in the area of banking and macroeconomics, and has published over 250 academic and scientific works.

1. DEFINITION AND MEANING OF CASH IN CIRCULATION

There are various measurement units for the money supply in a country. These are the so-called monetary aggregates, which, depending on their coverage, are marked as M1, M2, M3, M4, M5 etc. If the monetary strategy the central bank implements in a specific country is aimed at limiting the growth of the money supply, subject to a monetary regulation (limiting) could be some of these monetary aggregates.

Most commonly used synonym of the stock of money supply in a country is the M1 monetary aggregate. It comprises deposit money the entities (enterprises, citizens, institutions, etc.) keep with the commercial banks and the cash in circulation. This structure of the money supply is subject to daily monitoring from the aspect of its size, components and effect on the economic trends in the country.

The subject of this analysis is neither the monetary strategy of the country, nor the size of the money supply in the coun-

try. We shall focus this time on the structure of the money supply in Macedonia, i.e. on the reasons and consequences of the high level of cash in circulation for the economic trends in the country, as well as for the possible solutions to reduce its size on reasonable and acceptable level.

Cash in circulation in Macedonia has been high for many years. This has serious implications which mainly manifest in the following manners:

a) high amount of cash in circulation creates serious problems in determining and implementing monetary policy whereby the stock of cash in circulation is very difficult to control. This, again, makes the demand for money instable, and thus not easy controllable. The control of the money supply is also very difficult;

b) high amount of cash in circulation negatively affects the bank liquidity and disables their optimum credit multiplication;

c) cash is subject to wear and tear on daily bases, so they must be periodically replaced with new ones. This, along with appropriate distribution is a significant cost the Central Bank must cover;

d) high amount of cash in circulation can be pinpointed as the basic reason for development of the so-called "grey economy", with all its adverse effects on various spheres of national economy.

2. LEVEL OF CASH IN CIRCULATION IN CERTAIN COUNTRIES

In April 1992 (the month Macedonia obtained monetary independence), the share of cash in circulation was 31% of the money supply in the country. Today, 15 years later, their share is 52% of the total money supply (other 48% is deposit money). The average share of cash in circulation in the past 10 years was 50.5% reaching 55.8% (end-2001). Absolute stock of cash in circulation in Macedonia in early 2007 ranges between Denar 12.5 and 13.0 billion. This means that in the cash registers of the enterprises and institutions and in the pockets of the citizens are between Denar 220 and 230 million!?

The share of cash in circulation in M1 of Macedonia is twice and a half greater than the one in the developed countries by around 20-25 percentage points above the share of more developed countries in transition and by around 11 percentage points above the average share of all CEE countries



The share of cash in circulation in M1 of Macedonia is twice and a half greater than the one in the developed countries by around 20-25 percentage points above the share of more developed countries in transition and by around 11 percentage points above the average share of all CEE countries. Among the countries of this part of Europe, cash in circulation has the highest share in Poland (35%) and in Croatia (32%) and the lowest in Slovenia (16.5%). What is specific is the in the previous years, similar share of cash in circulation in the overall money supply was noted in Macedonia, as well as in Romania and Bulgaria. However, intensified substitution (reduction) of cash in circulation by usage of smart cards of various types has dramatically reduced their share in the money supply of the country.

Comparative indicators point to the crushing fact that Macedonia shows record stock of cash in circulation not only in Europe, but also globally. This fact per se imposes the need to determine the factors that condition such

quantity as a basis for determining the possible solutions to improve the situation in this area of the national economy.

3. FACTORS DETERMINING THE HIGH LEVEL OF CASH IN CIRCULATION IN MACEDONIA

Factors (reasons) determining the high stock of cash in circulation in Macedonia are numerous. For a certain period, a significant effect was the lack of confidence by citizens in the banking system, primarily due to the known events with the so-called "frozen" foreign currency deposits and the collapse of several savings houses. However, in the past few years, this reasons declines, shown by the growing amounts of savings deposits of citizens in the banks.

A strong factor pointing to this continuous situation with cash in circulation is the long-standing regime of pegging the denar exchange rate as the official monetary strategy of the National Bank. Such regime directly effect the increase of the demand for money by the population and business entities. This happens despite the fact that keeping high amounts of cash in circulation is a significant opportunity cost for them having in mind the lost opportunity to invest part of the available cash in a bank or other financial instruments bearing appropriate yield (interest, dividend, etc.).

Occasional major destabilisation events in and around Macedonia also strongly affect the stock of cash in circulation. This was especially evident in 1999 (during the Kosovo crisis) when the refugees exchanged enormous amounts of foreign currency for denars. It seems that in this period the share of cash in circulation began increasing, and it remained until today.

What is specific are the events with the stock of cash in circulation in 2001. In the first half of the year, when a "war" was waged on the territory of Macedonia, the stock of cash in circulation declined to around 37% of the money supply. A probable cause therefor is the sudden drop in the usage of cash for the so-called "black economic transactions" as a result of the presence of high risk due to the aforementioned events. However, by the end of that year, after the military activities stopped, the situation with the cash in circulation not only stabilised, but, by the end of the year, they reached record level of 55.8% of M1.

Cash in circulation is very popular since they provide anonymity in the payment transactions. These payments are prompt and final and cannot be traced so as to evaluate the probable illegality of the payment transaction.

In Macedonia there is a mass default of payment of liabilities between clients, due to the lack of court protection of creditors and absence of efficient mechanisms and instruments for collection of claims. This results in immediate payment in cash of major part of the transactions between business entities. The same is the effect of the large number of frozen giro-accounts of enterprises, whereby they find a solution in charging the claims and payment of liabilities in cash.

Extending credits by some banks in Macedonia by payment in cash and exchange operations also increases the stock of cash in circulation.

Legal possibilities for payment in cash strongly affect the broad usage of cash in Macedonia. There are still companies paying the salaries in cash. The payment of pensions is largely made in cash. Every month mailmen deliver pensions in cash of around Denar 1.5 billion. This is also the case with major part of the agricultural products.

The legal opportunity to purchase goods in cash up to EUR 100 in denar equivalent also effects the increase of the stock of cash in circulation.

Ultimately, a strong effect on the high stock of cash in circulation has the opportunity to "launder" money through payment in cash from deposit, non-resident or other accounts.

4. "GREY" ECONOMY

It seems that major factor for the high amount of cash in circulation is the widespread "grey economy". It is an illegal (uncovered by the Law) economy.

The forms of "grey" economy can be seen everywhere. Its most common manifestation are mutual payments of companies in cash. This happens both in the wholesale and in the retail trade, in foreign trade etc. In the shops (at least such has been the situation until recently, when the implementation of fiscal devices was intensified) various sale and purchase transactions in cash are made daily, whereby noone could determine

he scope and direction. We could add to this form of "grey" economy the usage of cheques as cash, rather than cashless payment instrument. The most common case is to omit putting date of issuance on the cheques so they could "circle" for a very long time, thus avoiding their registration, payment of taxes etc.



Legal possibilities for payment in cash strongly affect the broad usage of cash in Macedonia. There are still companies paying the salaries in cash. The payment of pensions is largely made in cash. This is also the case with major part of the agricultural products

The "grey" economy occurs as a result of hiding (understating, i.e. unrealistically stating) the financial results of companies, understating values of sale and salaries of employees so as to evade taxes, mass occurrence of unregistered employees in the formal and even more in the informal sector, payment of various liabilities (salaries etc.) by companies in kind (in various products), contraband (evasion of customs duties, taxes and other state duties), white slavery, weapons smuggling, drug smuggling, prostitution etc.

More in the past period, and less today, the "grey" economy was manifested through the payments for imported goods in cash. Thereby, the companies either avoid presenting the required documentation or have two invoices, presenting to the customs authorities the lower-value invoice so as to pay lower customs duties and taxes.



It seems that major factor for the high amount of cash in circulation is the widespread "grey economy". It is an illegal (uncovered by the Law) economy

The consequences of these and other forms of "grey" economy mainly manifest in the level of government revenues. Avoiding fiscal obligations means far less revenues in the Budget than required. This reduces the efficiency of the fiscal policy in terms of possible reduction of fiscal duties by stimulating the economic development of the country, as well by smoothly financing state activities. Opposite to this, often the Budget has lack of resources which should be supported by intensifying other fiscal duties to business entities or citizens

or by borrowing by the country from abroad.

The recorded inflow of fiscal revenues leads to creation of large gaps in the social funds of the country. The HIF and the Employment Agency permanently face negative financial situation. The state pension fund has maintained the so-called positive zero, without its own accumulation, which is necessary for insuring its future as a social institutions and as potentially strong financial institution in the country.

Such ratio between cash in circulation and the size of the "grey" economy in the country brings us back to the problem of the stock of cash in circulation. The smaller their amount, the less the "grey" economy. Hence the strong need to introduce instruments and measures that would act to reduce cash in circulation

Despite all this, the "grey" economy leads towards strengthening of the unfair competition, the consequences of which are destruction of increasing number of sound enterprises and stimulating the highly present financial indiscipline in the country.

The "grey" economy is present, in various forms, in all economies worldwide. But it is rarely present is such high degree as in Macedonia. According to some analyses of scientific institutions and persons, the "grey" economy is between 50 and 62 percent of the country's GDP. Most probably the most correct indicator of its size is the percentage of share of cash in circulation in the money supply in the country. If the share of cash in circulation is 52 of the money supply, this is the percentage of the share of "grey" economy in the GDP.

The biggest effect on the development of the cashless payment would have the establishment of universal (accepted by all participants in payment operations) payment card. This is the so-called smart card, which is the basic payment instrument in a number of Western countries, and it is used to regulate the system of increasingly used e-money

5. POSSIBLE SOLUTIONS FOR REDUCTION OF CASH IN CIRCULATION

Such ratio between cash in circulation and the size of the "grey" economy in the country brings us back to the problem of the stock of cash in circulation. The smaller their amount, the less the "grey" economy. Hence the strong need to introduce instruments and measures that would act to reduce cash in circulation.

Some of them have already been introduced. Since recently, civil servants receive their salaries through payment cards. Soon, cheques will no longer be used as so far, i.e. their existence as credit instruments will be replaced with their true role of cashless payment instrument.

These positive measures should not be the only ones. Their effect will be multiplied by returning and strengthening of the role of other cashless payment instruments such as the cheques and bills of exchange.

The biggest effect on the development of the cashless payment would have the establishment of universal (accepted by all participants in payment operations) payment card. This is the so-called smart card, which is the basic payment instrument in a number of Western countries, and it is used to regulate the system of increasingly used e-money. Its introduction in our conditions would mean establishment of a strong instrument for uncompromising fight against all forms of "grey" economy and increasing the inflows in the state budget under all bases.

Reducing the legal possibilities to draw and use cash would also reduce their amount in circulation. It is also necessary to change the decision giving the right to the legal entities to independently determine their cash maximum and thus keep cash in their safes in unjustifiably high amounts. It is necessary to stimulate and promote cashless payment of salaries and other personal income, while the redemption of agricultural goods should be paid less in cash and more through accounts in the commercial banks. The payment of credits in cash should be prevented.

Finally, each empirical analysis would confirm that establishing permanent and sustainable economic growth and thus increasing the standard of living of the population would lead to a reduction of the stock of cash in circulation. In a regulated and developed econ-

omy, using high amounts of cash in circulation becomes a luxury and an opportunity costs, but also a reflection of monetary bad culture.

These and other possible solutions for reduction of cash in circulation would result in a number of effects. This would positively affect the liquidity of the banking system in the country. Through the intermediation process, banks would be able to significantly increase credit support to the real sector, thereby reducing the interest rates on debit balance and interest margins on truly reasonable levels.

Thus changes structure of money supply would significantly facilitate the process of planning and management with the bank liquidity by the National Bank. At the same time, this condition would significantly facilitate the process of monetary planning and enable implementation of the monetary strategy with development components.



Through the intermediation process, banks would be able to significantly increase credit support to the real sector, thereby reducing the interest rates on debit balance and interest margins on truly reasonable levels

The "grey" economy would finally start declining. Fiscal revenues in the country would increase, creating conditions for further fiscal unburdening of the real sector and expedited reduction of the public debt of the country towards the domestic and foreign creditors. All this would assist to finally achieve the long-awaited goal: long-lasing and sustainable economic growth in Macedonia.



INTRODUCTION TO PUBLIC INTERNAL FINANCIAL CONTROL (PIFC)

Financial management and control system is often represented as a managerial accountability, it is a sum of plans, policies, procedures and practices introduced by the management so as to enable the employees to realise the main objectives of the institution

Tanja Tanevska

Ms. Tanja Tanevska is a Bachelor of Economics and lives in Skopje. She has been working for 14 years in the public administration, 7 of which in the Ministry of Finance.

As Assistant to the Head of Public Internal Financial Control Department, she participates in the drafting of all laws, bylaws and guidelines on financial management and control and internal audit. She was also part of the team in the drafting of the Strategy for public internal financial control of the Republic of Macedonia.

She was a Team Leader in the preparation of the conditions for assistance for the project "Training of internal auditors in the public sector of the Republic of Macedonia in system auditing" and the Twinning fiche for the project "Strengthening of the public internal financial control system". She is fluent in English and has solid knowledge of German.

She participates in the organization and preparation of materials for training and seminars in financial management and control and internal audit and actively participates therein.

The manner of spending public funds is in the center of the public attention in every state. Therefore, behaviour of the public sector and the public servants has key influence on the creation of the public opinion and confidence of the citizens.

Ministry of Finance of the Republic of Macedonia is the competent institution to manage the funds in the Budget of the Republic of Macedonia, as well as the funds acquired from the Budget of the European Union. Thus, a need arises to establish and develop public internal financial control system, according to the legislation of the European Commission and the international standards.

Harmonisation of the legislation of the Republic of Macedonia with the EU acquis in the field of financial control means global approach to development of modern internal control systems in the public sector, as a combination of managerial accountability and functionally independent internal audit.

Simplest way to present basic elements of the public internal financial control system is the following formula:

$$\text{PIFC} = \text{FMC} + \text{IA} + \text{CHU}$$

- PIFC - public internal financial control
- FMC - financial management and control
- IA - internal audit
- CHU - Central Harmonisation Unit meaning that the financial management and control system and the internal audit system are united through the Central Harmonisation Unit in a complex public internal financial control system.



Financial management and control

Financial management and control system is often represented as a managerial accountability, it is a sum of plans, policies, procedures and practices introduced by the management so as to enable the employees to realise the main objectives of the institution:

- executing orderly, economical effective and efficient operations, according to the institution's mission;
- safeguarding resources against loss, misuse, wrong management, errors, frauds and irregularities;
- complying with the laws, bylaws and internal acts;
- preparing confidential and timely reports, on the basis of which future decisions are to be made.

In fact, the management introduces an internal control system that is an instrument in ensuring reasonable assurance that the set objectives are met. We say reasonable assurance since the internal control system is created more to manage failure risk or failure to meet the objectives and policies of the institution, rather than to eliminate it. Therefore, it is very important for the managers of organizational units at all levels to understand the role of the internal controls and to introduce an appropriate control environment that they will constantly follow and improve. Best designed control system will respond positively to their tasks only if they involve adequately qualified persons and only if the management undertakes measures to eliminate the identified irregularities.

Internal controls refer to all employees in an institution and depend on them, i.e. they will be more efficient should all the employees work according to the stipulated rules and regulations.

In order for the internal controls to be effective, they following is necessary:

- they should be appropriate, meaning introduction of right controls at the right place, according to the needs;
- they should be functioning consistently, the way they are planned, meaning not to miss a single control, for example, due to absence of the employee in charge or work overload;
- costs for their implementation should not exceed the benefit acquired.

In addition, it is important for the internal controls not to be treated as separate systems, but rather as control mechanisms, integrated in the whole cycle of planning, budgeting, managing, accounting and auditing. These

mechanisms should support the effectiveness at each level of that cycle and ensure continuous feedback to the management.

Introduction of an efficient internal control system is responsibility of each organization's management and should rely on the internal control standards. These standards provide unified and coherent framework on managerial accountability each organizations are to follow. Since this framework is given in general, the managers have the possibility to appropriately adjust the standards when implemented to the different working conditions.

International Internal Control Standards are the INTO-SAI standards on internal control in the public sector, based on COSO2 framework on internal controls. According to the COSO framework, main components of internal controls are the following:

- control environment
- risk assessment
- control activities
- information and communications
- monitoring

Control environment is basis for the overall internal control system, since it sets the structure, climate, discipline and it directly influences the internal control quality. Integrity and ethic values of the management directly affect the control environment, so called "ton of the top".



Financial management and control system and the internal audit system are united through the Central Harmonisation Unit in a complex public internal financial control system

Risk assessment is a process of identifying and analyzing that risks that could occur when fulfilling the organization's objectives. Management should identify the risks and undertake appropriate measures to keep the risk at reasonable level.

Control activities are policies and procedures introduced to the end of meeting the organization's objectives. Should they be recognized, the control activities reduce the possibility for occurrence of errors and irregularities, which would hinder the successful realization of the organization's objectives.

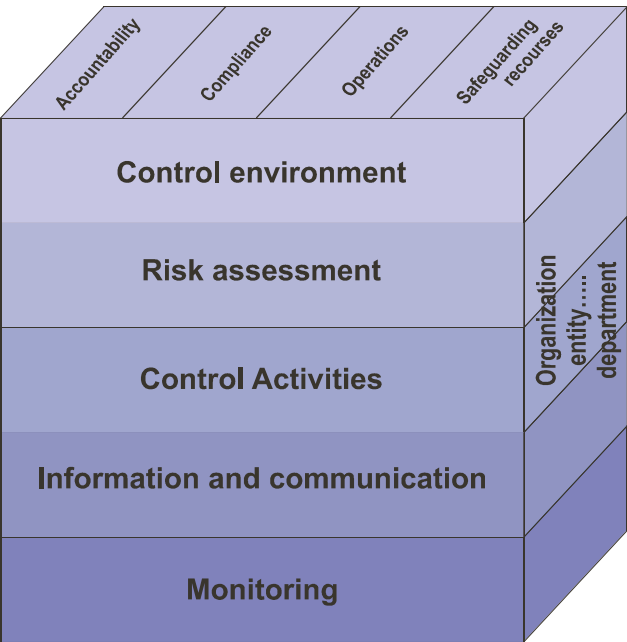
In addition, in order to meet the organization's objectives, the management needs complete, timely and

accurate information on all activities of the organization, as well as good vertical and horizontal communication network.

Functioning of the internal control system should be constantly monitored and adjusted to the occurred changes.

Internal control system is created more to manage failure risk or failure to meet the objectives and policies of the institution, rather than to eliminate it

These internal control components are directly correlated to the main objectives of the organization: while the main objectives describe what the organization wants to achieve, internal control components show what is necessary to achieve the set objectives. Mutual correlation of the main objectives of the organization and the main internal control components is best shown on the three-dimensional matrix in a form of cube¹:



Internal audit

Important part of the internal control system is the establishment of functionally independent internal audit: "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." (definition by the Institute of Internal Auditors, Florida, USA).

Internal auditor, with its advisory role, can contribute a lot to when creating the internal controls, but should in no case be their replacement. Functional independence of the internal auditor means that he works independently and objectively, according to the international standards and the Charter on Internal Audit, and it directly responsible to the top management in the organization for his work.

Internal auditor can help a lot to the management when assessing the effectiveness of the internal controls. Since he monitors the performance of the everyday activities of the institution on continuous basis, the internal auditor can best perceive the appropriateness and effectiveness of the internal controls and inform the management on the absence of certain controls or non-adherence to the already established internal controls.

Central Harmonisation Unit

Unit for harmonisation of financial management and control system and internal audit system (CHU) has important role in the successful introduction and development of efficient internal control system. This Unit should be the driving force to the development and improvement of the public internal financial control system. It means:

- development and improvement of the legislation;
- giving proposals for development and harmonization of the internal control and internal audit systems;
- development of standards on internal control and internal audit;
- monitoring the implementation of the legislation and the standards;
- development of training system;
- cooperation with the State Audit Office and other international organizations.

Ministry of Finance has the central role in the establishment of a comprehensive public internal financial

1) INTOSAI Guidelines for Internal Control Standards for the Public Sector
2) Committee of Sponsoring Organisations of the Treadway Commission

control system in a country. It should provide the main legal framework to present the elements of the public internal financial control, which are to be adhered to by all participants in the public sector.

Main document for the development of the public internal financial control system, prepared by the Central Harmonisation Unit within the Ministry of Finance, is the Strategy for Development of Public Internal Financial Control in the Republic of Macedonia, (PIFC Policy Paper), adopted by the Government of the Republic of Macedonia in February 2006.

According to the Strategy, Central Harmonisation Unit also prepared the Law on Public Internal Financial Control, which the Parliament of the Republic of Macedonia adopted in February 2007 (Official Gazette of the Republic of Macedonia, no. 22/2007).

Role of the State Audit Office

Supreme Audit Institution, i.e. the State Audit Office of the Republic of Macedonia, has major role in the creation of the internal control structure in a country. It should encourage and support the management in introducing the internal controls.

State Audit Office should establish good cooperation with the internal audit for the purpose of exchange of

experience, avoidance of overlapping of activities and complementarity of the audit function. Well-developed internal audit can to a great extent reduce the scope of operations of the State Audit Office.

To that end, the Ministry of Finance of the Republic of



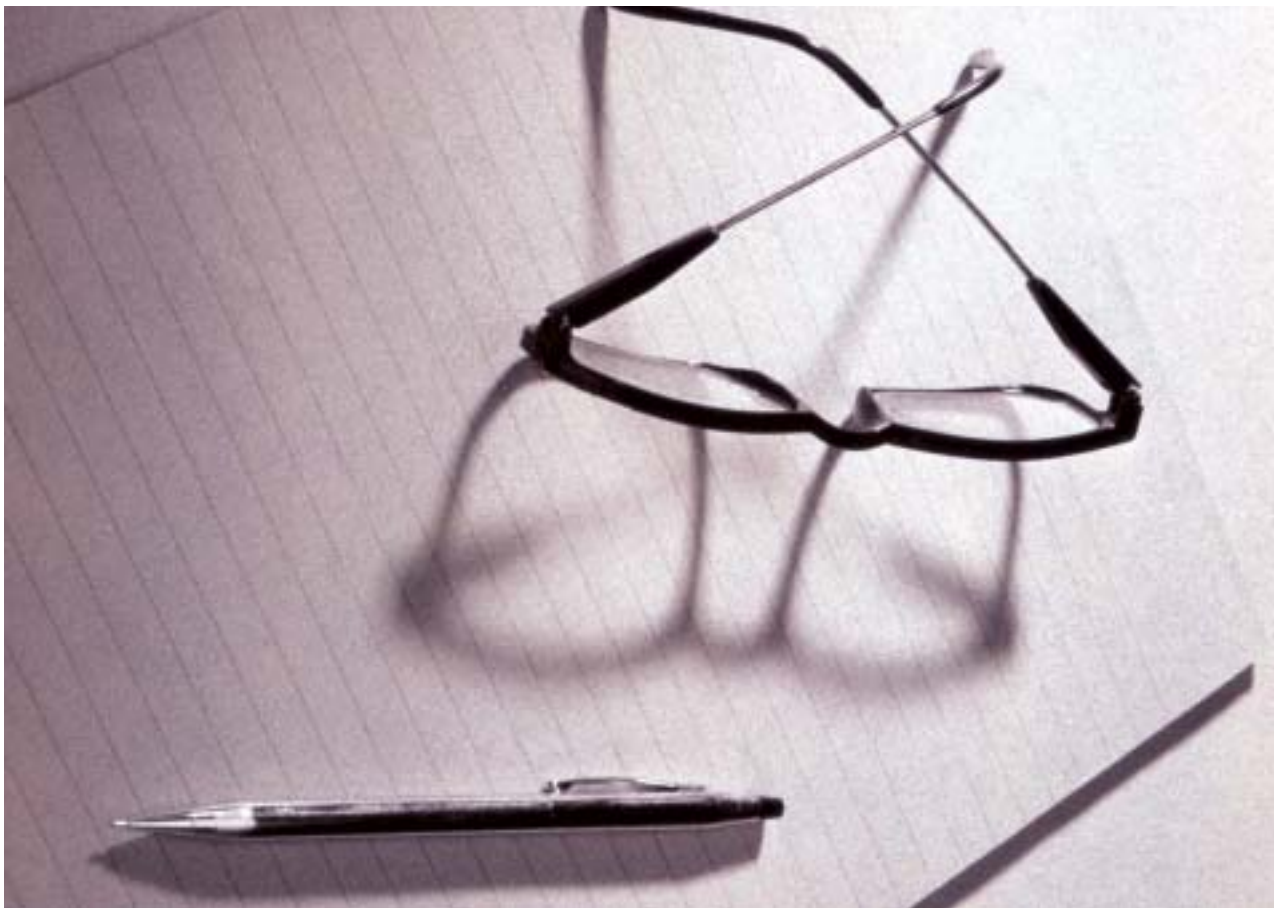
Control environment is basis for the overall internal control system, since it sets the structure, climate, discipline and it directly influences the internal control quality

Macedonia and the State Audit Office signed Protocol on Cooperation in October 2006.

Connection of the internal and external audit is clearly expressed in Chapter 32 - Financial Control in the Acquis communautaire, the main three elements being the following: public internal financial control, external audit and protection of the financial interests of the European Union.

..."The world created so far faces problems that cannot be solved at the same level of thinking we were at when we created them..."

Albert Einstein



CAN EUROPE AFFORD TO GROW OLD?

The EU must face up to recent projections showing that aging will have a major economic and budgetary impact

The population of the 25-member European Union (EU) in coming decades is set to become slightly smaller-but much older-posing significant risks to potential economic growth and putting substantial upward pressure on public spending. The region's old-age dependency ratio (the number of people 65 and over relative to those between 15 and 64) is projected to double to 54 percent by 2050, meaning that the EU will move from having four persons of working age for every elderly citizen to only two. In addition, upward pressure on spending has fueled concerns that unsustainable public finances could jeopardize the smooth functioning of the single currency, the euro.

Population aging in Europe is occurring because of the interaction of four demographic developments. First, fertility rates in all EU countries are, and are projected to remain, below the natural population replacement rate. Second, the recent decline in fertility rates followed the postwar baby boom, and the impending retirement of these cohorts will lead to a transitory increase (albeit lasting several decades) in the old-age dependency ratio. Third, life expectancy at birth, having increased by eight years since 1960, is projected to rise by a further six years for males and five years for females by 2050, with most gains resulting from longer life spans. Fourth, large net migration inflows are projected up to 2050: although cumulating to close to 40 million people, they will not offset low fertility and growing life expectancy.

Indeed, according to official projections, between 2004 and 2050, the number of young persons in the EU (aged 0-14) will drop by 18 percent (see table). The working-age population (15-64) will fall by 48 million, or 16 percent, whereas the elderly population aged 65+ will rise sharply, by 58 million (or 77 percent), and the fastest-growing segment of the population will be the very old (aged 80+).

Governments have not been idle in the face of the aging challenge. At the European level, the European Commission has worked with national authorities in the Economic Policy Committee (EPC) to develop more comparable long-term projections to assess how population aging will affect EU labor markets, economic growth potential, and public finances. Published in early 2006, the projections—which assume no change in current policies and follow up on an assessment published in 2001—point to the need for substantial policy reform and adjustment.

Dramatic repercussions for growth and labor

Although most of the debate on aging concerns the budgetary cost, the most immediate impact will be felt in the labor market. EU projections, however, point to a mixed picture, with improvements in employment delaying somewhat the onset of the economic repercussions of aging.

For the EU as a whole, the employment rate is projected to rise from 63 percent of the potential labor force in 2004 to 67 percent by 2010 and to 70 percent by 2020 (see Chart 1). This improved performance results mainly from higher female employment rates, which are projected to rise from just over 55 percent in 2004 to almost 65 percent by 2025 and is explained by the gradual replacement of older women by younger women who have higher educational attainment and a stronger attachment to the labor market. In addition, the employment rate of older workers (ages 55 to 64) is projected to increase substantially, reversing the trend toward earlier retirement and reflecting the positive effects of recent pension reforms.

Rising employment rates, however, can provide only a temporary cushion; the weight of demographic change eventually prevails. Three distinct periods can be observed (see Chart 2). Until 2011, the size of the EU's working-age population and overall employment levels will continue to rise: this can be

UNDERLYING PROJECTIONS

The EU's old-age dependency ratio is projected to double to 54 percent by 2050, even as the per capita growth rate slides

	EU25		EU12	
Demographic projections	2004	2050	2004	2050
Fertility rate (percent)	1.5	1.6	1.5	1.6
Life expectancy at birth (years)				
males	75.4	81.6	76.3	82.1
females	81.5	86.6	82.5	87.2
Life expectancy at 65 (years)				
males	15.9	19.9	16.4	20.1
females	19.5	23.3	20.1	23.7
Net migration				
hundreds thousands	1.3	0.9	1.2	0.7
percent of population	0.3	0.2	0.4	0.2
Population (millions)				
total	456.8	-1%	308.6	0%
young (0-14)	74.8	-18%	48.9	-17%
working age (15-64)	306.8	-16%	206.5	-16%
elderly (65+)	75.3	77%	53.3	75%
very elderly (80+)	18.2	174%	13.0	180%
Labor force projections				
Participation rate	(%)			
total	69.6	75.5	69.1	75.3
females	61.6	70.0	60.3	69.4
older workers (55-64)	42.7	60.4	40.4	60.5
Employment rate				
total	63.1	70.9	62.9	70.5
females	55.4	65.5	54.1	64.6
older workers (55-64)	39.9	58.9	37.4	58.5
Macroeconomic assumptions	2004-24	2025-50	2004-24	2025-50
Potential growth	2.2	1.3	1.9	1.2
GDP per capita growth	2.1	1.4	1.7	1.4
Labor productivity growth	1.8	1.8	1.5	1.7
TFP1 growth	1.2	1.1	1.0	1.1
Real interest rate	3.0	3.0	3.0	3.0
Dependency ratios	2004	2050	2004	2050
Old-age dependency ratio	24.5	54.4	25.8	53.6
Total dependency ratio	48.9	74.8	49.2	76.9
Economic old-age dependency ratio	37.4	70.2	39.7	73.8

Source: EPC and European Commission (2005).

Note: EU25 = the full EU membership; EU12 = the 12 members of the euro zone.

1TFP = total factor productivity.

viewed as the tail end of the demographic dividend of the baby-boom generation where the bulge in the size of the working-age population is conducive to growth. Between 2012 and 2017, rising employment rates will offset the projected decline in the size of the working-age population brought about by the baby-boom generation entering retirement. After 2018, the trend toward higher female employment rates will have come to an end, and, in the absence of further pension reform, the employment rate of older workers is projected to reach a steady state. Having increased by some 20 million between 2004 and 2017, employment during this last period is projected to contract by almost 30 million, giving a reduction of 9 million over the entire 2004-50 time horizon. Taken as a whole, the labor force projection indicates that Europe has a fast-closing "window of opportunity," when conditions will be relatively favorable to enacting structural reforms.

For the EU as a whole, the annual average potential GDP growth rate is projected to decline from 2.4 percent

during 2004-10 to only 1.2 percent between 2031 and 2050. For the 10 newly acceded members (EU10), the fall is much steeper, in part because of their less favorable demographic prospects. The sources of growth will alter dramatically. Employment will make a positive contribution to growth in both the core EU15 and the EU10 up to 2010, but becomes neutral during 2011-30 and turns significantly negative thereafter. Over time, labor productivity will become the dominant-in some countries, the only-source of growth (see Chart 3).

Significant projected increases in public spending

Coupled with the decline in the potential rate of GDP growth, the aging of the EU population is projected, on the basis of current policies, to lead to increases in public spending in most member states by 2050, although there are wide differences across countries (see Chart 4). For the EU as a whole, age-related spending in the baseline scenario is projected to increase by between 3 and 4 per-

centage points of GDP between 2004 and 2050, which would be equivalent to a 10 percent increase in the size of the government sector.

The bulk of the projected increase in public spending would go toward pensions, health care, and long-term care (see Chart 5). The potential savings on unemployment transfers and education are relatively small: it is arguable that in practice they may not materialize on education given pressures on governments to increase the quality of education and to develop life-long learning and training strategies to sustain productivity throughout longer working lives.

The projected change in public spending on pensions between 2004 and 2050 ranges from a decrease of 5.9 percentage points of GDP in Poland to an increase of 12.9 percentage points of GDP in Cyprus. Interestingly, very small increases in spending on pensions are projected in Sweden and (in the longer run) Italy because their schemes offer a notional rate of return tied to the growth in overall wage contributions, with individual benefits based on effective working-life contributions. Relatively moderate increases (between 1.5 and 3.5 percentage points of GDP) are projected in many other EU countries. Larger (more than 5 percentage points) increases are projected for Belgium, Cyprus, the Czech Republic, Hungary, Ireland, Luxembourg, Portugal, Slovenia, and Spain. The projected decreases in Estonia, Latvia, and Poland, as well as small projected increases in Lithuania and Slovakia, stem partly from pension reforms enacted during the past 10 years involving a partial switch from the public old-age pension scheme to privately funded schemes.

Regarding health care, the effect of an aging population alone would increase public spending by some 2 percentage points of GDP by 2050. But non-demographic factors also drive spending. For example, if healthy life expectancy evolves broadly in line with change in age-specific life expectancy, then the projected increase in spending on health care resulting from aging would be approximately halved. On the other hand, neither the effects of technology nor the prospects of demand for better-quality health care services have been modeled, and the projections may be significantly underestimating future pressures on spending coming from these sources.

Public spending on long-term care is even more sensitive to population aging than that on health care as disability rates rise very sharply with age, especially among those aged 80+. The EU rate is projected to rise by just under 1 percentage point of GDP by 2050 because of the aging of the population alone, but the increase varies across countries by between 0.1 percentage point of GDP in Poland

and 2.4 percentage points in Sweden. This reflects hugely different approaches to the provision and financing of formal care. Countries with very small projected increases in public spending currently have limited formal care systems within the public sector. With an aging population, a widening gap may emerge between the number of elderly citizens with disabilities who need care and the supply of formal care services. This pressure for more formal care linked to aging may be further exacerbated by the reduced availability of informal care at home as more women participate in the labor market.

How should policies change?

So what are the main implications of these economic and budgetary projections? We would like to draw six main conclusions on how the policies of EU member states need to be adapted and also on how future common projections at the EU level could be improved.

First, the projections support the current thrust of the EU's economic policy strategy, as defined in the Lisbon agenda (laid out by the European Council in Lisbon in 2000). The strategy focuses on policies to raise labor utilization with an emphasis on older workers and extending working lives, as well as on measures to increase labor productivity. However, the projections also underline the dangers of the gap between commitments to undertake reform and concrete actions. Moreover, the window of opportunity during which employment and demographic trends are set to remain broadly favorable to reform is fast closing.

Second, pension reforms appear to be working. This conclusion is based on the recent upsurge in the employment rates of older workers in many European countries, plus a comparison of the recent pension projections with those made in 2001, which point to much lower projected increases in spending on pensions in countries that have instituted reforms, for example, Austria, France, and Germany. While some reforms may not be sufficient to cope with the economic and budgetary consequences of aging populations, real progress has been made in recent years. But there is an ever-present danger of backsliding as governments face constant pressure to enact special, more favorable pension or early retirement schemes for special interest groups.

Third, pension systems should be designed to be sustainable in the face of uncertain economic and demographic developments. Recent measures in countries such as France, Germany, Italy, and Sweden to link pension entitlement to future changes in life expectancy are an interesting step in this direction and can help prevent the need for

frequent reforms to pension systems. Carone and others (2005) illustrate the dynamic nature of the challenge posed by continuous increases in life expectancy: although the EPC and European Commission (2006) project the average exit age from the labor market to increase by one year by 2050, life expectancy at retirement will increase by three years. Hence, even on the basis of reformed pension systems, additional reform to raise the average exit age by a further two years would be needed to stabilize the share of adult life (15+) spent in retirement at its 2004 level.

Fourth, aging may pose even more complex policy challenges in the area of health care and long-term care than pensions, especially when the effects of non-demographic drivers of spending, such as investment in medical research and in modern technologies, and the increasing demand for most advanced treatment are also considered. The control of public spending through aggregate cost-containment measures (controls on volume, prices, and wages, as well as budgetary caps) is likely to remain a key element of member states' comprehensive health care strategies: however, their effectiveness may diminish over time. Voters are growing older, making this older age group a constituency for higher spending that is difficult to resist. Suppliers may alter their behavior, and they risk introducing distortions that could lead to costly inefficiencies. Measures to improve cost efficiency, create incentive structures that encourage rational resource use, and achieve an effective management of technological advancement will be of critical importance.

Fifth, and of a more methodological nature, uncertainty in demographic and budgetary projections should be addressed more systematically. Like other organizations

that make long-run forecasts, the EPC and the European Commission deal with uncertainty via deterministic sensitivity tests. But these provide no indication of the probability of future outcomes or confidence intervals based on past forecast errors. Despite the lack of consensus among demographers and economists on how best to deal with uncertainty (for example, through the use of stochastic projections), the issue warrants attention in future common projection exercises.

Finally, even though full data comparability has not been achieved, long-run cross-country projections can provide a valuable tool to facilitate the conduct of difficult policy debates. Nonetheless, efforts should be made in future projection exercises to improve comparability and transparency. Regarding comparability, particular attention could be paid to improving the underlying data on migration flows and on health and long-term care spending. For transparency, more information could be made available on the different models used by national authorities to project pension spending.

* * * * *

In sum, the aging of populations will have large repercussions for EU labor markets, economic growth, and public finances. Aging, however, is not a tsunami that will overwhelm public finances when the baby-boom generation starts to retire. It is a slow-moving, largely predictable process that is therefore manageable, provided policymakers act in an efficient and timely manner.

*Giuseppe Carone and Declan Costello
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