

# BULLETIN

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Skopje, November/December 2006

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HONOURABLE,



According to 2006 data, based on quarterly surveys, gross domestic product increased by 3.1%. However, some indirect indicators of the economic activity point out that real DGP growth realized might be higher. This statement is also included in the Letter of Intent signed by the Government of the Republic of Macedonia and the IMF, one of the documents presented at the adoption of the Second Review under the Stand-By Arrangement before the IMF Executive Board on 27th April 2007. GDP growth was achieved in conditions of low one-digit inflation (3.2%), disciplined fiscal policy with central government budget deficit of 0.5% of GDP, reduced general government debt by 6.6 percentage points in relation to last year, unemployment reduction by two percentage points, as well as strong increase of credits to private sector by 26%. Such stable macroeconomic performance is good basis for realization of the ambitious economic program of the Government of the Republic of Macedonia in the coming period.

The growth of economic activity in 2006 also lead to greater commodity trade, whereby, in the analyzed period, export of goods grew by 17.6%, and the import grew by around 16.5%, contributing to increase of foreign trade deficit (around 15%) in relation to the one realized last year. Such situation was largely initiated by the significant rise of oil price on the world stock markets, i.e. the share of oil in the increase of trade deficit is approximately 51%. Significant inflow on the basis of private transfers in 2006 contributed to significant drop of the current account deficit (US\$ 14 million pr only 0.6% of GDP).

Increased export activity and high inflow of private transfers in the past period led to reduced BOP current account deficit and pressures on the foreign exchange market for Denar exchange rate depreciation. To the end of maintaining the stability of the Denar nominal exchange rate against the Euro, net purchase of foreign exchange on the foreign currency market was realized through the forex transactions of the NBRM during the analyzed period.

Such positive trends in the external market also had a positive influence on the level of foreign exchange reserves. At the end of 2006, foreign exchange reserves reached EUR 1.4 billion, which compared to the end of 2005, increased by 25% and amounted to 5.5 months of import. Such trends at the foreign exchange reserves are a motif for the Ministry of Finance to undertake activities to minimize the costs related to government debt servicing and the issued sovereign guarantees, as well as to reduce the risks related to public debt structure, pursuant to the Law on Public Debt (Official Gazette of the Republic of Macedonia, no. 62/2005). To that end, in April 2007, Ministry of Finance, in addition to the already announced activity to prepay the debt towards the Paris Club of Creditors in the amount of EUR 77 million, started the operation of prepayment of part of the World Bank and European Investment Bank credits, in the total amount of EUR 103.7 million. Prepayment of part of the external public debt was led by the following:

From the point of view of interest-related costs, which are direct burden to the Budget of the Republic of Macedonia, prepayment of loans bearing unfavourable inter-

est rates is planned, regardless of whether it is a matter of loans with high fixed interest rates or variable interest rates are used when making the calculations, which, at the moment, and according to the future expectations, are not the most favourable ones. Most often interest rate on these loans is higher than the spot interest rates which Republic of Macedonia can use for borrowing on the foreign markets (6-month LIBOR for euros, increased by the margin of 0.5 percentage points higher, approximately amounting to 4.5%).

From currency structure point of view, most of the loans planned to be prepaid are concluded and repaid in non-Euro currencies, which is contrary to the objectives included in the medium-term Public Debt Management Strategy, where one of the main objectives is to increase the debt concluded in EUR currency within the external public debt. Movements regarding the euro-dollar exchange rate speaks in favour of this prepayment due to the fact that the present dollar value is reduced in relation to the euro, and the prepayment will be carried out with euro deposits, thus realizing positive exchange rate differences.

Debt prepayment leads to improvement of the features of the total public debt portfolio both from currency and interest structure point of view. In fact, most of the debt, subject to this prepayment, is in different euro currencies, and interest rates higher than 6%.

Debt prepayment is also a positive operation from the point of view of savings in the Budget of the Republic of Macedonia, as well as the budgets of the institutions being part of the general government. The funds previously reserved for debt repayment can now be used for capital investments. Thus, for instance, with the prepayment of the debt of the Road Fund, which is part of the general government, it will have additional funds available, which were previously reserved for payment of interest under the credits, for capital investments in the coming years.

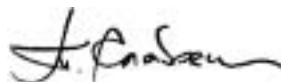
Future planned privatization proceeds give room for further analysis of the restructuring of public debt portfolio of the Republic of Macedonia by the Ministry of Finance, aimed at improvement of the debt structure and reduction of interest costs.

Enjoy reading the Bulletin of the Ministry of Finance.

Yours sincerely,

**Trajko Slaveski, PhD**

Minister of Finance



# BULLETIN

MINISTRY OF FINANCE

## II. ANALYSES, TABLES, GRAPHIC PRESENTATIONS



Table 1: BASIC MACROECONOMIC INDICATORS

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005*	2006*
Real GD	%	1.2	1.4	3.4	4.3	4.5	-4.5	0.9	2.8	4.1	3.8	4.0
GDP	USD mil,	3,390	3,458	3,581	3,674	3,588	3,437	3,769	4,631	5,368	5,766	6,201
Inflation (average)	%	2.3	2.6	-0.1	-0.7	5.8	5.5	1.8	1.2	-0.4	0.5	3.2
Inflation (end of period)	%	-0.7	2.7	-2.4	2.4	6.1	3.7	1.1	2.6	-1.9	1.2	2.9
GDP deflator	%	2.9	3.4	1.4	2.7	8.2	3.6	3.4	0.3	1.3	3.3	3.2
Budget balance												
(Central budget and funds)	% BDP	-0.5	-0.4	-1.7	0.0	1.8	-7.2	-5.7	-0.6	0.4	0.3	-0.5
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	mesece	2.2	1.9	2.2	3.2	3.7	4.7	4.0	3.9	3.3	3.6	5.5
External dept <sup>1)</sup>	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	39.2	37.3
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	6.2

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 <sup>1)</sup>				Current account balance <sup>2)</sup>			
	2004	2005	2006	2007	2004	2005	2006	2007	2004	2005	2006	2007
<b>Emerging markets - Total</b>	<b>6.5</b>	<b>5.4</b>	<b>5.3</b>	<b>5.0</b>	<b>6.1</b>	<b>4.8</b>	<b>5.3</b>	<b>4.6</b>	<b>-5.7</b>	<b>-5.2</b>	<b>-5.7</b>	<b>-5.4</b>
Bulgaria	5.7	5.5	5.6	5.8	6.1	5.0	7.4	3.8	-5.8	-11.8	-12.4	-12.2
Czech Republic	4.2	6.1	6.0	4.8	2.8	1.8	2.9	3.3	-6.0	-2.1	-1.9	-1.6
Estonia	7.8	9.8	9.5	8.0	3.0	4.1	4.6	3.8	-13.0	-11.0	-12.0	-11.7
Hungary	5.2	4.1	4.5	3.5	6.8	3.6	3.5	5.8	-8.6	-7.4	-9.1	-8.0
Latvia	8.6	10.2	11.0	9.0	6.2	6.8	6.6	6.3	-12.9	-12.4	-14.0	-13.7
Lithuania	7.0	7.5	6.8	6.5	1.2	2.7	3.6	3.3	-7.7	-6.9	-7.5	-7.4
Poland	5.3	3.4	5.0	4.5	3.5	2.1	0.9	2.3	-4.2	-1.4	-1.7	-1.9
Romania	8.4	4.1	5.5	5.5	11.9	9.0	7.8	5.7	-8.5	-8.7	-10.9	-11.1
Slovak Republic	5.4	6.1	6.5	7.0	7.5	2.7	4.7	3.6	-3.6	-8.6	-7.7	-5.9
Slovenia	4.2	3.9	4.2	4.0	3.6	2.5	2.5	2.3	-2.1	-1.1	-2.0	-2.3
Croatia	3.8	4.1	4.6	4.7	2.1	3.3	3.5	2.8	-5.4	-6.3	-6.8	-6.8
Malta	-1.5	2.5	1.6	1.8	2.7	2.5	2.9	2.8	-9.6	-13.1	-12.5	-12.0
Turkey	8.9	7.4	5.0	5.0	8.6	8.2	10.2	7.2	-5.2	-6.4	-6.7	-5.8

1) Annual average

2) Percent of GDP

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

# SHORT-TERM ECONOMIC TRENDS

## DECEMBER 2006

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

#### 1. REAL SECTOR

**1.1 Industrial production in December 2006, compared to November 2006 is by 4,0% higher, and on cumulative basis it grew by 2,5%.**

Such growth is driven by the higher output in the following groups: energy 15,8%, consumer durables 22,6%, consumer non-durables 2,0%.

Thereby, what is especially important for the December growth of the industrial activity is the fact that it is a result of the growth of production in 11 industrial sectors. The biggest production growth was noted in food indus-

try (8,9%), publishing activity, printing and reproduction of recorded media (20,7%), oil industry (15,2%), electricity generation (16%), and recycling (41,9%).

**1.2. Average inflation in 2006 is at the level of 3,2%, while the retail price index in 2006 compared to 2005 grew by 3,9%.**

Value of the consumer basket of food and beverages for a four-member household in December 2006, calculated on the basis of retail prices, was Denar 10.347 and compared to the previous month, it was by 0,3% higher.

**1.3. In December 2006 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. The biggest growth on monthly level was in nickel, the stock market price of which grew by around 7% compared to November 2006. In December 2006 the nickel was sold at average price of US\$ 34.570 for metric ton, being a significant price growth on annual basis.**

Low growth of stock market prices was recorded in oil, lamb, sugar, gold and zinc. The stock market prices of steel and steel sheets remained at the same level as the previous month.

#### 2. EXTERNAL SECTOR

**2.1. On annual level, in 2006 export of goods grew significantly, expressed in US\$, and is 17,6%, while the import grew by 16,6%.**

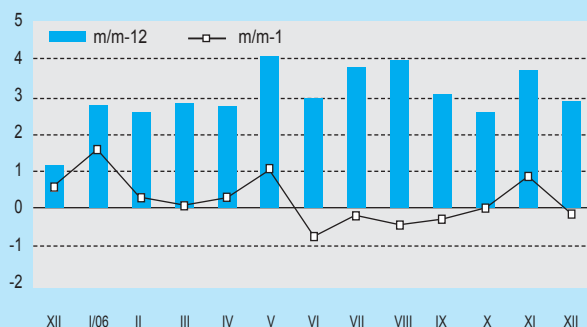
Hence, foreign trade deficit in 2006 grew by US\$ 175,2 million in relation to the one in 2005 and it amounted to US\$ 1.362,0 million. The coverage of import with export on annual level amounted to 63,8%.

Industrial production (chain indexes)



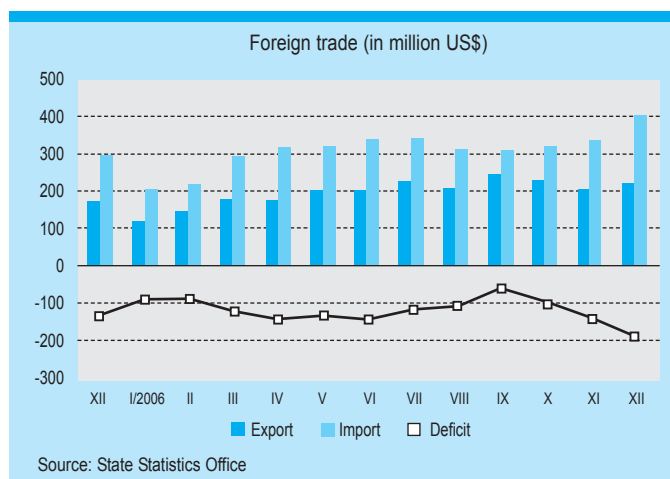
Source: State Statistics Office

Costs of living



Source: State Statistics Office





**2.2. The largest export groups of products 2006** were the following: iron and steel (US\$ 668 million), clothes (US\$ 508 million), oil and oil products (US\$ 203,6 million), tobacco and processed tobacco, fruit and vegetables, beverages, metal ore and scrap metal.

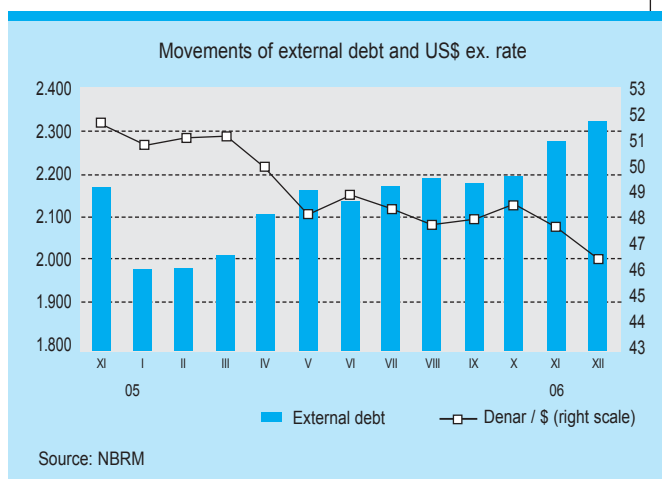
These seven groups of products comprise 73% of the total export of the country. On the import side, (according to SITC), 28,9% out of the imported goods accounted for oil and oil products, 16,6% for iron and steel, 9% for textile yarns and 5,4% for road vehicles.

**2.3. Thereby, 55,2% of the total exported goods** were placed on the European Union market, while 43,9% of the total goods imported in the Republic of Macedonia originate from the Union.

Export to the European Union grew by 22,4%, and the import by 12,4%. Serbia and Montenegro, Germany, Greece, Italy, Croatia and Bulgaria are our biggest partners, the share of which in the total export is around 74,3%.

The analysis of the foreign trade currency structure shows tendencies of rise of the export in euros by EUR 174 million, (14,2%), and the part of the import realized on the "dollar market" grew by EUR 123 million, (25,3%). At the same time, import of goods from the euro market grew by 12,3%, and the import from the US dollar area by 23,2%.

**2.4. External debt of the Republic of Macedonia** based on long-term credits and loans, at end-December 2006 amounted to US\$ 2.315 million and, in relation to end-2005, it grew by US\$ 134 million.



**2.5. In 2006, funds were used in the amount of US\$ 350 million, US\$ 243 million out of which from private creditors.**

Regular servicing of the liabilities continues further, whereby, cumulatively, US\$ 481 million was repaid in 2006, US\$ 404 million out of which as principal.

**2.6. The stock of short-term debt at end-December 2006** amounted to US\$ 118 million and it fully refers to the private sector, and is on the basis of financial credits.

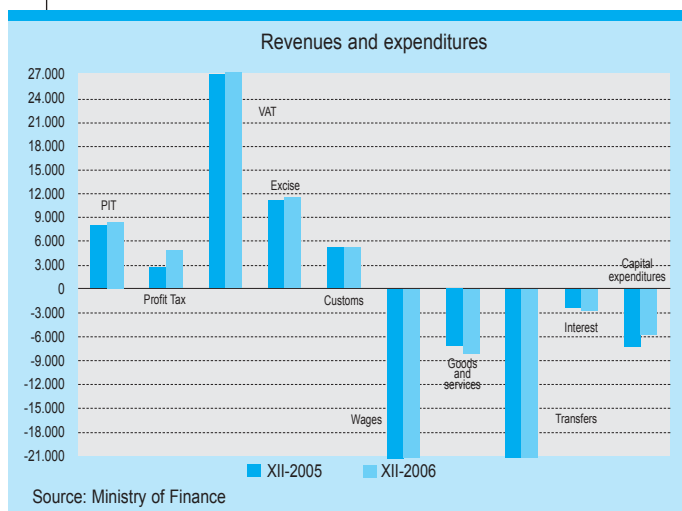
### 3. FISCAL SECTOR

**3.1. In 2006, total central government budget revenues** amount to Denar 62.955 million, which is 2,8% increase compared to the last year.

Tax revenues in 2006 were realized in the amount of Denar 58.914 million, which was an increase in by 7,1% compared to the previous year.

Share of VAT in the total tax revenues in 2006 were 46,2%, and the excise 19,5%. During this period, personal income tax revenues were collected in the amount of Denar 8.414 million, which is 3,8% in relation to the same period in 2005. Significant growth by Denar 1.871 million (66,0%) in relation to last year was achieved in the profit tax. In 2006, customs revenues grew by 2,9% compared to the previous year.

**3.2. In 2006, total central budget expenditures** amounted to Denar 63.555 million, which was by 5,8% more compared to 2005.



The biggest expenditure items were transfers (38,5%) and salaries and allowances (35%).

Transfer were by 13,3% higher compared to 2005. Transfers to the Pension and Disability Insurance Fund were in the amount of Denar 8.900 million or by Denar 1.071 million higher (13,7%) in relation 2005. In this period, capital expenditures were in the amount of Denar 5.721 million, being a decline by 20,5% or by Denar 1.480 million in relation to 2005.

**3.3. Higher collection of public revenues but greater spending of budget funds led to central government budget deficit of Denar 600 million while the consolidated budget deficit amounts to Denar 1.704 million.**

**3.4. At end-December 2006, general government debt amounted to US\$ 2.050,1 million and compared to end-2005, it declined by US\$ 6,4%.**

#### 4. MONETARY SECTOR

**4.1. The average interest rate on central bank bills in December 2006 was 5,74%, while the average monthly weighted interest rates on 3-, 6- and 12-month treasury bills were 6,26%, 7,02% and 8,86% respectively.**

In December 2006, in conditions of intensive budget spending and further redemption of foreign currency on the foreign exchange market by the National Bank,

total liquid assets of banks amounted to Denar 8.685 million, and increased by 3,3% on monthly basis.

Denar deposits with NBRM declined by Denar 3.837 million on monthly basis and were the main driver for creation of the liquidity in the banking sector. Creating liquidity in the banking sector was made also by foreign exchange transactions of NBRM (realized net redemption on the foreign exchange market), while cash in circulation resulted in withdrawal of liquidity. Monetary instruments affected the disbursement of liquidity which is fully due to the higher level of central bank bills (Denar 1.437 million).

**4.2. At end-December 2006, primary money were by 7,9% higher on monthly basis, and the demand for cash in circulation grew on monthly basis by 13,3%, as a result of the New Year and Christmas holidays.**

M1 monetary aggregate grew on monthly basis by 8,5%, which is a result of the growth of cash in circulation, while on annual level it grew by 17,1%. 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 4,2% and 4,0%, respectively. Annually, monetary aggregates M2 and M4 grew by 24,5% and 24,9%, respectively.

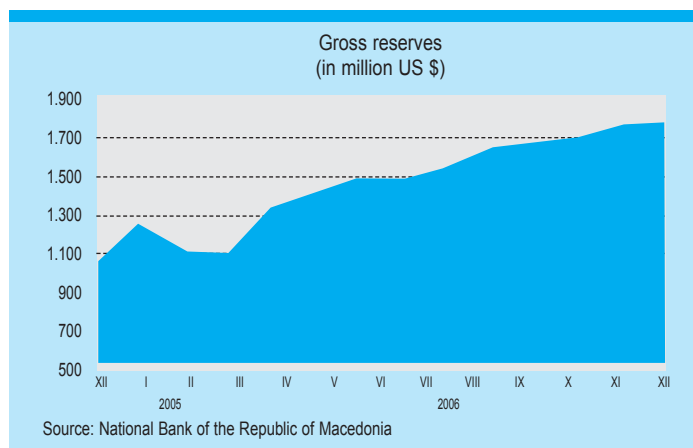
**4.3. In December 2006, total foreign currency potential of the commercial banks grew by 2,6% on monthly basis, and by 27,8% on annual basis.**

Credits to the private sector in December 2006 grew by 30,5% in relation to December 2005 whereby credits denominated in national currency grew by 28,5%, and credits denominated in foreign currency increased by 36,7%.

With respect to the interest rate policy of the commercial banks, in December there were no significant changes. Average weighted interest rates on denar credits in December 2006 were 10,7% and compared to the previous month are by 0,1 percentage point lower, and interest rates on foreign currency credits were 8,5% and on monthly basis are by 0,1 percent-

age point higher. Average interest on credit balance on Denar deposits were 4,4% and are at the same level as in November, and the interest rates on foreign currency deposits are by 0,1 percentage point higher and were 1,7%.

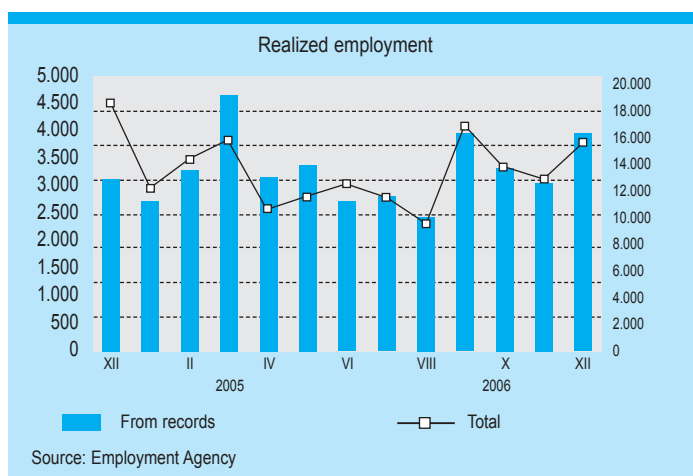
**4.4. Gross foreign exchange reserves at end-December 2006 amounted to US\$ 1.865,7 million, which was by US\$ 541 million higher in relation to December 2005.**



During December 2006, while making interventions on the foreign exchange market, the NBRM sold US\$ 7,1 million and bought back US\$ 21,2 million, and the net effect therefrom was US\$ 14,2 million.

## 5. SOCIAL SECTOR

**5.1. In 2006, Employment Agency of the Republic of Macedonia registered 150.815 new employments (both full time and part time and seasonal) which means 1,9% growth on annual level.**



Thereby, in December 2006 only, the Employment Agency of the Republic of Macedonia registered 14.999 new employments.

Full-time employment accounted for 45,7% in the total employment. Employment of registered unemployed persons in December 2006 participated with 24,6% in the total employment, while the remaining employment was directly from the previously inactive population or persons who changed job positions.

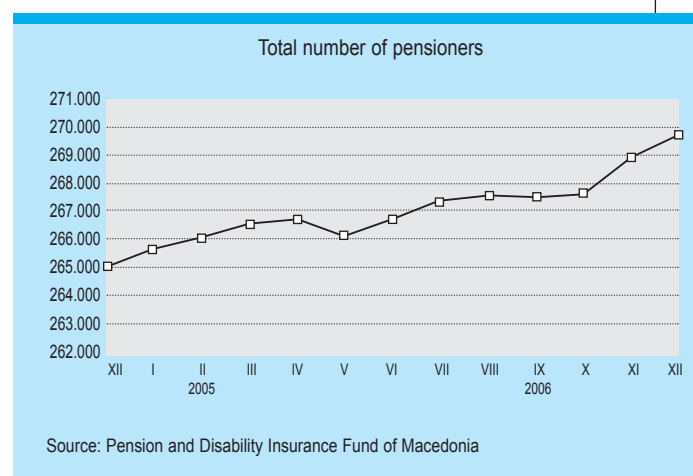
**5.2. In 2006, according to the Employment Agency of the Republic of Macedonia, 366.551 unemployed persons were registered.**

Inflow of persons in the registry of the Employment Agency in December 2006 was 9.765, while 7.677 persons were registered as outflow from the Employment Agency.

According to the education structure, registered unemployment is unfavourable taking into account 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. As of December 2006 the PDF registered 269.681 pensioners, which compared to November 2006 was a slight increase.**

This month, Denar 2.025 million was spent for payment of pensions.



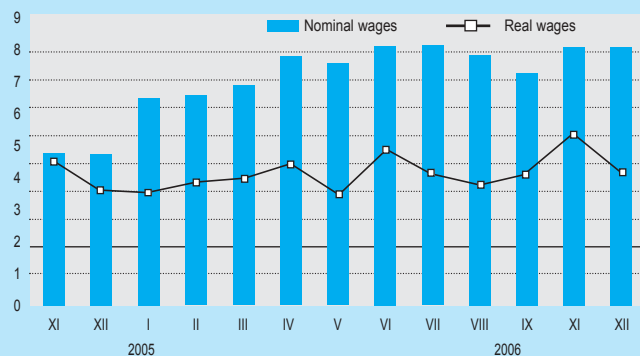
Average pension in December 2006 amounted to Denar 7.684, being an increase by 3,0% on annual level. Ratio between the average pension and the average net paid salary in November 2006 amounted to 55,3%.

**5.4. In November 2006 the average paid monthly net salary per employee amounted to Denar 13.895, which is an increase by 0,6% on monthly basis, i.e. 0,3% reduction in real terms.**

Cummulatively, the nominal and real average salary grew by 7,5% and 4,2% respectively.

In November 2006, 13,3% of the workers in the Republic of Macedonia did not receive salary.

Average Net Salary (annual changes, %)



Source: State Statistics Office

**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
		<b>A + B</b>	<b>C + D + E</b>	<b>F</b>	<b>G</b>	<b>H</b>	<b>I</b>	<b>J + K + L</b>	<b>M + N + O + P</b>				
<b>2000</b>	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
	<b>00/99</b>	<b>1.0</b>	<b>9.4</b>	<b>2.6</b>	<b>3.0</b>	<b>-11.3</b>	<b>8.5</b>	<b>2.7</b>	<b>0.1</b>	<b>1.7</b>	<b>4.1</b>	<b>7.5</b>	<b>4.5</b>
<b>2001</b>	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
	<b>01/00</b>	<b>-10.8</b>	<b>-4.6</b>	<b>-14.4</b>	<b>-0.8</b>	<b>-4.5</b>	<b>-8.3</b>	<b>2.1</b>	<b>-2.3</b>	<b>-10.5</b>	<b>-4.4</b>	<b>-5.1</b>	<b>-4.5</b>
<b>2002</b>	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
	<b>02/01</b>	<b>-2.0</b>	<b>-0.8</b>	<b>0.6</b>	<b>5.4</b>	<b>16.7</b>	<b>-1.8</b>	<b>-3.7</b>	<b>3.5</b>	<b>1.8</b>	<b>0.4</b>	<b>3.3</b>	<b>0.9</b>
<b>2003</b>	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
	<b>03/02</b>	<b>4.8</b>	<b>5.0</b>	<b>13.3</b>	<b>1.8</b>	<b>9.6</b>	<b>0.4</b>	<b>-3.6</b>	<b>4.9</b>	<b>-1.2</b>	<b>3.3</b>	<b>0.6</b>	<b>2.8</b>
<b>2004</b>	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
	<b>04/03</b>	<b>6.2</b>	<b>-0.8</b>	<b>7.4</b>	<b>15.7</b>	<b>-11.3</b>	<b>-4.8</b>	<b>11.8</b>	<b>-0.6</b>	<b>12.5</b>	<b>4.0</b>	<b>4.4</b>	<b>4.1</b>
<b>2005*</b>	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
	<b>05/04</b>	<b>3.1</b>	<b>6.8</b>	<b>-5.0</b>	<b>7.9</b>	<b>6.6</b>	<b>6.1</b>	<b>1.4</b>	<b>1.5</b>	<b>2.9</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
<b>2006*</b>	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	2.8	1.6	1.4	4.3	-0.4	7.3	1.8	2.7	5.2	2.6	2.6	2.7
	III	3.0	4.3	5.0	6.0	4.5	7.0	2.8	1.0	2.5	3.0	3.0	3.0

\* 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	2005				2006				2006
							Q - 1	Q - 2	Q - 3	Q - 4	Q - 1	Q - 2	Q - 3	Q - 4	
<b>REAL SECTOR</b>															
<b>Production real rates of change</b>															
Gross domestic product	4.6	-4.5	0.9	2.8	4.1	4.0	2.9	5.0	4.1	3.8	2.6	2.8	3.0		
Industrial production	3.5	-3.1	-0.8	6.6	-2.1	7.0	4.8	13.0	6.0	4.1	0.5	1.7	4.0	3.2	2.5
nominal rates of change															
Investment in machines and equipment	20.8	-16.9	16.4	-7.7	4.9	4.9	5.7	4.8	-2.8	7.4	9.2	-			
<b>Prices</b>															
Consumer Price Index	5.8	5.5	1.8	1.2	-0.4	0.5	-0.4	0.9	0.9	0.8	2.7	3.5	3.6	2.3	3.2
Industrial producer prices	8.9	2.0	-0.9	-0.3	0.9	3.2	1.9	2.3	4.5	3.8	5.6	5.7	0.1	0.2	4.5
<b>Competition of the industry</b>															
Productivity	6.0	0.5	3.0	13.1	3.9	11.8	2.8	11.5	-7.3	-1.9	3.8	5.9	8.9	10.9	6.4
Unit labour cost	-4.7	-0.7	0.2	-10.3	0.7	-11.8	-10.4	-18.4	-5.6	-5.6	-3.6	-1.2	-4.0	-4.3	-3.2
Real unit labour cost	-12.5	-2.7	1.1	-10.1	-0.4	-15.1	-13.9	-20.1	-8.1	-7.1	-9.3	-7.3	-8.3	-7.2	-7.6
<b>Commodity prices of the major Macedonian export and import products</b> Prices in US \$															
Crude oil Brent	28.3	24.4	25.0	28.9	38.3	54.4	47.6	53.1	61.6	56.9	61.9	69.8	70.1	59.7	65.4
Lamb	261.9	291.2	330.3	388.4	461.4	443.3	478.1	479.7	429.2	410.8	383.9	420.3	408.5	399.3	403.6
Nickel	8,638.0	5,944.7	6,772.0	9,629.0	13,823.4	14,744.0	15,348.0	16,191.0	14,567.4	12,649.0	14,810.0	19,925.0	29,154.0	33,129.0	24,254.0
Copper	1,813.0	1,578.3	1,559.0	1,779.0	2,866.0	3,679.0	3,268.0	3,379.0	3,756.6	4,302.0	4,940.0	7,210.0	7,670.0	7,068.0	6,722.0
Lead	45.4	47.6	45.3	51.5	88.7	97.6	97.8	100.4	89.2	104.9	124.2	110.0	119.0	162.7	129.0
Zink	112.8	88.6	77.9	82.8	104.8	138.1	131.5	137.2	129.7	164.0	224.2	329.2	336.3	420.4	327.5
Steel cold rolled coilsreat	385.8	299.2	328.3	444.6	607.1	733.3	683.3	712.5	750.0	750.0	750.0	666.7	700.0	658.3	693.8
Steel hot rolled coilsreat	295.8	216.5	246.7	320.2	502.5	633.3	583.3	612.5	650.0	650.0	650.0	591.7	600.0	558.3	600.0
<b>EXTERNAL SECTOR</b>															
nominal rates of change in dollar amount															
Export of goods (FOB)	11.0	-12.7	-3.7	22.2	22.4	21.8	31.7	39	14.3	8.0	-6.5	14.1	35.7	22.8	17.6
Import of goods (CIF)	17.9	-19.4	16.3	15.3	25.9	10.1	13.8	24.6	8.8	-2.8	-6.4	8.4	25.8	24.8	16.6
Trade balance (in millions of US \$)	-771	-533	-849	-937	-1,230	1,187	-219.2	-380.0	-263.0	-326.6	-206.0	-382.6	-269.2	-214.6	1,362.0
Current account balance (in millions of US \$)	-236	-38	-324	-277	-415	-81.5	-21.0	-111.0	78.4	-27.9	-44.6	-64.1	133.5	-48.6	-23.7
"Foreign exchange reserves (in millions of US \$)    "-" means decrease	235.6	62.0	-40.5	168.8	82.3	415.1	13.4	29.5	111.9	260.3	33.5	112.8	167.8	61.7	375.8
Medium and long-term external debt (end of period, in millions of US \$)	1,495.1	1,429.0	1,577.0	1,798.6	2,007.5	2,181.3	1,961.0	1,994.2	1,980.0	2,181.3	2,017.4	2,141.0	2,184.5	2,315.8	2,315.8
<b>Foreign exchange rates</b>															
Denar / EURO	60.73	60.91	60.98	61.26	61.34	61.30	61.40	61.37	61.22	61.19	61.23	61.17	61.70	61.19	61.19
Denar / USA	65.89	68.04	64.73	54.30	49.41	49.2919	46.80	48.68	50.16	51.47	50.97	48.75	48.00	47.47	48.79

	2000	2001	2002	2003	2004	2005	2005				2006				2006
							Q - 1	Q - 2	Q - 3	Q - 4	Q - 1	Q - 2	Q - 3	Q - 4	
<b>GOVERNMENT FINANCE</b>															
nominal rates of change															
Revenues	22.5	-10.3	10.1	-7.4	5.8	7.5	-9.0	5.8	27.3	6.3	-6.1	-11.4	-10.2	9.2	2.8
Tax revenues	22.1	-6.9	14.0	-9.6	6.8	4.8	-3.1	6.2	7.3	8.0	-0.3	-8.4	9.8	6.8	7.1
VAT	75.2	-1.8	19.8	3.2	21.6	5.1	-5.9	4.4	10.4	10.7	-14.3	-9.2	7.6	-5.1	0.6
Expenditures	12.7	27.0	-0.1	-13.8	0.3	6.1	5.6	0.6	6.2	10.9	10.0	2.9	1.1	12.6	5.8
Current expenditures	1.8	31.9	17.2	-1.2	1.4	2.2	3.6	-0.5	3.7	1.6	11.2	3.2	3.3	22.2	9.4
Capital expenditures	94.5	28.3	11.8	-447.0	-3.4	47.4	42.2	11.4	32.7	85	5.4	0.3	-17.4	-29.5	-20.5
Central budget balance (in millions of denars)	6.285	-12.490	7.343	-2.551	371	1.183	-1.005	357	3.593	-1.672	-1.275	1.538	1.557	-2.466	-600
General government balance (in million of denars)	5.905	-13.171	-13.019	-2.596	7	-1.708	-1.035	750	3.501	-2.420	-492	23	1.131	-2.366	-1.704
<b>MONETARY SECTOR</b>															
nominal rates of change (end of the period)															
Net foreign assets	73.8	57.6	-19.1	5.3	4.7	30.3	4.0	13.4	10.0	30.3	41.2	34.8	40.2	28.4	28.4
Credit to private sector	17.2	7.3	12.7	15.8	18.7	20.5	25.0	23.0	22.0	20.5	21.0	26.3	24.7	30.5	30.5
Cash in circulation	16.6	48.5	0.0	0.3	-0.1	2.0	2.0	0.5	1.3	2.0	3.7	8.9	9.8	12.2	12.2
M1	22.6	5.6	4.6	1.1	-1.1	7.5	6.5	3.8	6.0	7.5	3.8	13.3	14.9	17.1	17.1
M2	29.4	61.9	-7.0	15.9	15.1	16.0	23.4	14.5	14.1	16.0	14.9	12.8	21.9	24.5	24.5
M4	25.6	56.7		13.2	15.3	15.1	21.4	21.5	13.7	15.1	14.9	12.9	21.9	24.9	24.9
Foreign exchange reserves / M4 (denars)	1.65	1.88	1.51	1.51	1.62	2.30	1.68	1.78	1.92	2.30	2.55	2.47	2.61	2.49	2.49
<b>SOCIAL SECTOR</b>															
<b>Labour market</b>															
Unemployment rate (Labor Force Survey)	32.2	30.5	31.9	36.7	36.7	36.5	38.6	37.4	36.5	36.5	36.2	36.1	35.9	35.9	35.9
Number of new employed	101,996	90,308	110,401	79,921	112,013	147,965	27,845	63,873	102,114	147,965	40,433	73,887	110,257	150,815	150,815
Number of new employed on full time	63,987	63,346	74,341	49,661	63,538	85,033	16,801	36,212	59,363	85,033	22,258	37,428	51,998	68,878	68,878
<b>Wages</b>															
Nominal net wages	5.5	3.5	6.9	4.8	4.0	4.5	3.0	2.2	2.2	3.6	6.6	7.7	7.6	7.2	7.3
Real net wages	-0.3	-1.9	5.0	3.6	4.4	2.0	3.4	2.0	1.3	2.8	3.8	4.1	3.9	4.8	4.0
Consumer basket	2.5	5.2	2.7	-0.7	-2.7	-1.2	-4.0	-3.3	0.5	-0.5	4.3	4.7	4.5	4.7	4.6
<b>Social protection</b>															
Number of pensioners	241,221	247,200	249,421	254,267	260,075	265,152	260,879	260,879	262,833	265,152	266,615	266,842	267,636	269,681	269,681
"Number of households that receivesocial protection"	77,309	80,160	82,673	64,453	66,940	66,485	69,667	69,667	68,517	66,485	67,629	64,402	65,380	65,540	65,540
"Number of persons that receiveunemployment benefits"	35,046	41,375	46,772	47,324	45,867	40,230	44,230	44,230	41,412	40,124	36,982	36,184	33,196	30,572	30,572

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 sector	Description	2000	2001	2002	2003	2004	2005	Index 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; compulsory social security	7,466 14,333	8,304 14,445	8,168 16,145	8,453 16,984	8,853 17,874	8,024 20,721	90.6 115.9
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
<b>A.</b>	<b>Value added</b>	<b>197,344</b>	<b>195,230</b>	<b>198,592</b>	<b>214,969</b>	<b>228,155</b>	<b>240,140</b>	<b>105.3</b>
<b>B.</b>	<b>Net taxes on production</b>	<b>39,045</b>	<b>38,611</b>	<b>45,378</b>	<b>36,516</b>	<b>37,101</b>	<b>44,086</b>	<b>118.8</b>
<b>A + B</b>	<b>GROSS DOMESTIC PRODUCT</b>	<b>236,389</b>	<b>233,841</b>	<b>243,970</b>	<b>251,485</b>	<b>265,256</b>	<b>284,226</b>	<b>107.2</b>

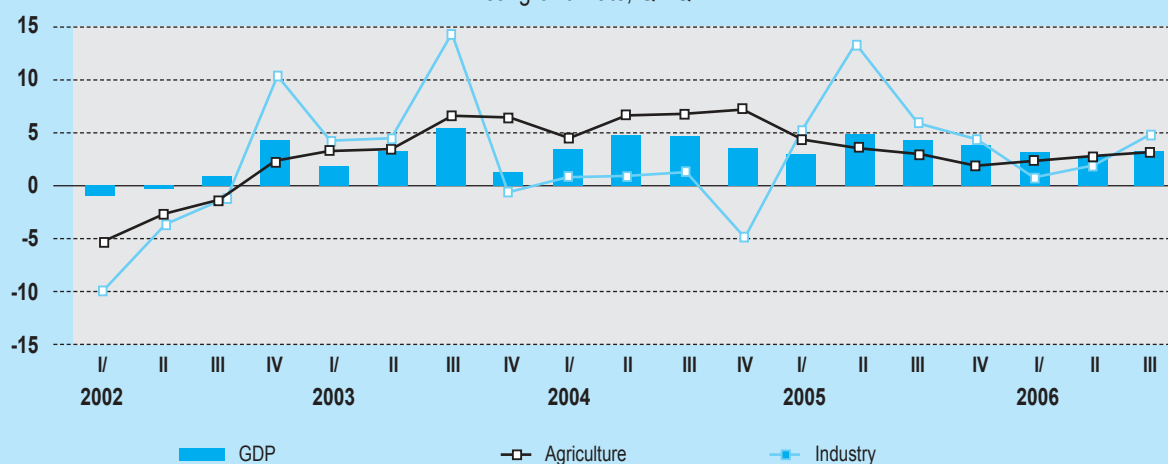
**Table 6: GROSS DOMESTIC PRODUCT (EXPENDITURE APPROACH)**

	In millions of denars						in %					
	2000	2001	2002	2003	2004	2005	2000	2001	2002	2003	2004	2005
<b>GROSS DOMESTIC PRODUCT</b>	<b>236,389</b>	<b>233,841</b>	<b>243,970</b>	<b>251,486</b>	<b>265,256</b>	<b>284,226</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
(current prices)												
<b>Final consumption</b>	<b>218,986</b>	<b>221,771</b>	<b>242,795</b>	<b>243,853</b>	<b>262,208</b>	<b>276,880</b>	<b>92.6</b>	<b>94.8</b>	<b>99.5</b>	<b>97.0</b>	<b>98.9</b>	<b>97.4</b>
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
<b>Gross capital formation</b>	<b>50,683</b>	<b>42,759</b>	<b>50,276</b>	<b>50,261</b>	<b>56,716</b>	<b>56,792</b>	<b>21.4</b>	<b>18.3</b>	<b>20.6</b>	<b>20.0</b>	<b>21.4</b>	<b>20.0</b>
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
<b>Export of goods and services</b>	<b>114,209</b>	<b>99,091</b>	<b>92,780</b>	<b>95,254</b>	<b>106,758</b>	<b>128,137</b>	<b>48.3</b>	<b>42.4</b>	<b>38.0</b>	<b>37.9</b>	<b>40.2</b>	<b>45.1</b>
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
<b>Import of goods and services</b>	<b>147,489</b>	<b>129,780</b>	<b>141,881</b>	<b>137,882</b>	<b>160,426</b>	<b>177,583</b>	<b>62.4</b>	<b>55.5</b>	<b>58.2</b>	<b>54.8</b>	<b>60.5</b>	<b>62.5</b>
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



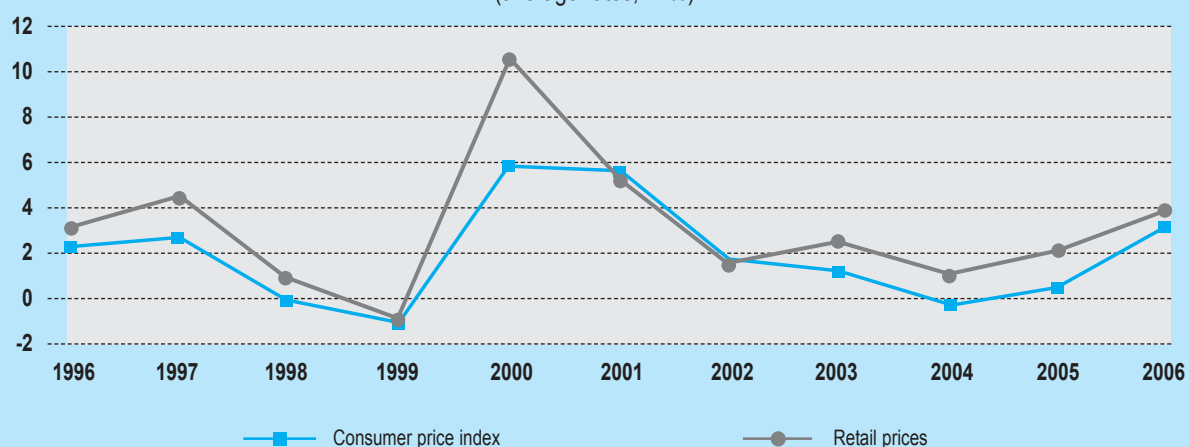
**Graphic 1: GROSS DOMESTIC PRODUCT**  
real growth rate, Q / Q - 4



Gross Domestic Product <sup>1)</sup>	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

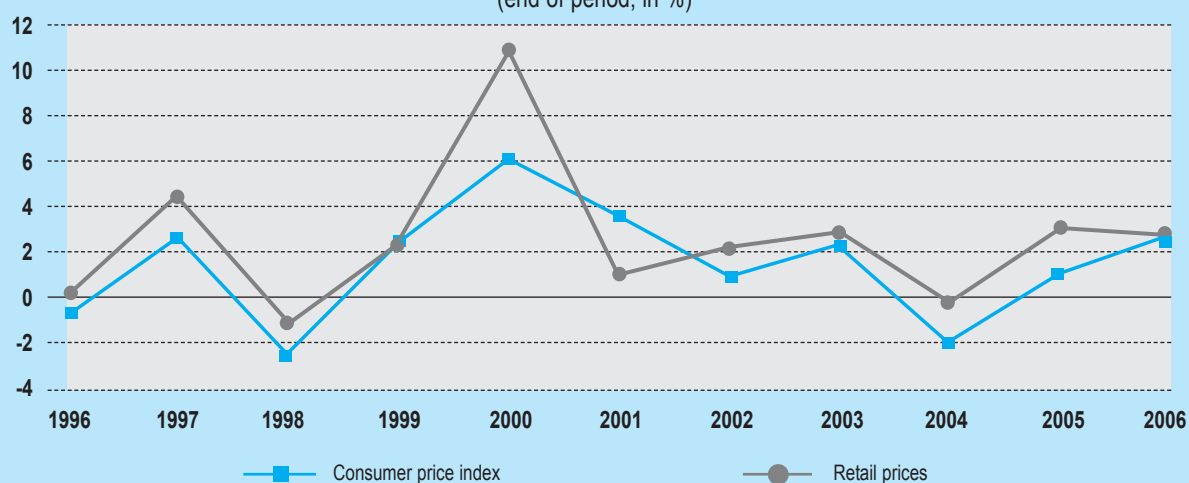
1) Calculated according to UN PARE methodology by which a conversion is made with an exchange rate adjusted towards the movements of the prices in the national economy. The US dollar exchange rate is taken on basis compared with the denar in 1994 and an indexation with the deflator for each coming year.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



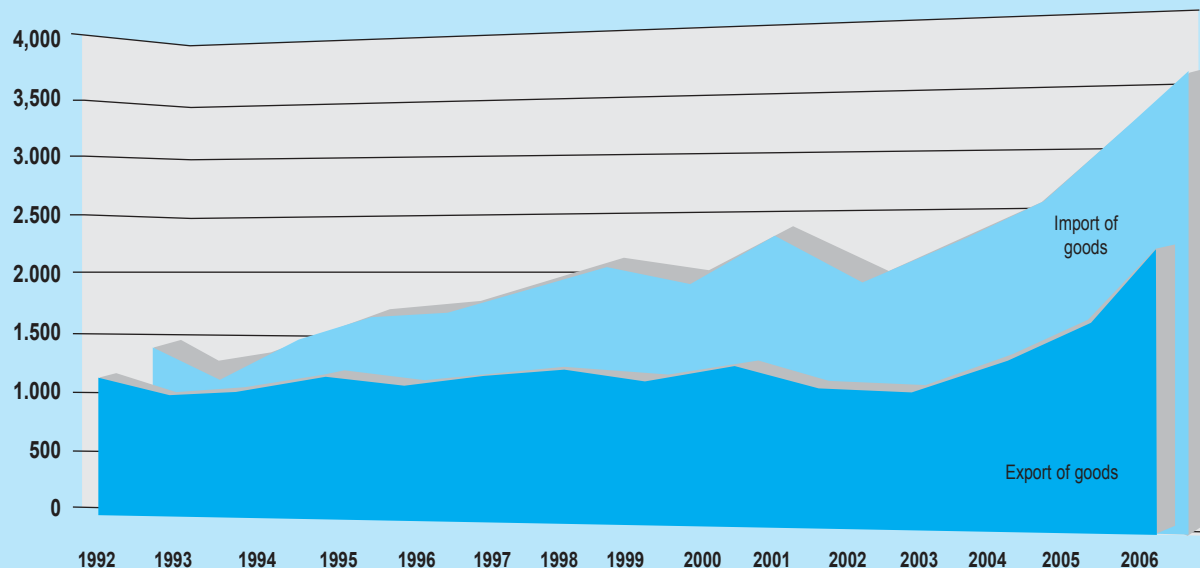
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Consumer price index	2.3	2.6	-0.1	-0.7	5.8	5.5	1.8	1.2	-0.4	0.5	3.2
Retail prices	3.0	4.4	0.8	-1.1	10.6	5.2	1.4	2.4	0.9	2.1	3.9

**Graphic 3: INFLATION**  
(end of period, in %)



	End of period, in %										
	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	-1.0	2.3	10.8	1.2	2.2	2.9	-0.1	3.2	2.9

**Graphic 4: FOREIGN TRADE**  
(in million US \$)



	in million of US \$														
	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\$)

	1998	1999	2000	2001	2002	2003	2004	Q-1	Q-2	Q-3	Q-4	2005	Q-1	Q-2	Q-3	Q-4	2006
<b>CURRENT ACCOUNT</b>	<b>-269,29</b>	<b>-32,46</b>	<b>-75,28</b>	<b>-235,43</b>	<b>-357,81</b>	<b>-152,28</b>	<b>-414,82</b>	<b>-20,95</b>	<b>-110,98</b>	<b>78,35</b>	<b>-27,90</b>	<b>-81,48</b>	<b>-44,46</b>	<b>-64,11</b>	<b>133,46</b>	<b>-48,61</b>	<b>-23,73</b>
<b>Goods, net</b>	<b>-515,09</b>	<b>-495,81</b>	<b>-690,41</b>	<b>-523,23</b>	<b>-804,34</b>	<b>-851,48</b>	<b>-1112,08</b>	<b>-190,66</b>	<b>-342,99</b>	<b>-230,08</b>	<b>-293,74</b>	<b>-1,057,47</b>	<b>-266,83</b>	<b>-367,20</b>	<b>-261,39</b>	<b>-389,82</b>	<b>-1,285,24</b>
Export, f.o.b.	1,291,52	1,189,98	1,320,73	1,153,33	1,112,15	1,359,04	1,672,43	481,72	512,81	507,36	537,76	2,039,64	449,87	586,05	699,82	660,51	2,396,26
Import, f.o.b. <sup>2</sup>	-1,806,61	-1,685,79	-2,011,14	-1,676,56	-1,916,49	-2,210,52	-2,784,51	-672,38	-855,80	-737,44	-831,49	-3,097,11	-716,70	-953,26	-961,21	-1,050,33	-3,681,49
Services, net	<b>-59,60</b>	<b>41,83</b>	<b>47,05</b>	<b>-15,79</b>	<b>-22,13</b>	<b>-2,56</b>	<b>-54,39</b>	<b>-3,72</b>	<b>-17,00</b>	<b>11,39</b>	<b>-24,53</b>	<b>-33,87</b>	<b>-6,18</b>	<b>-5,60</b>	<b>30,02</b>	<b>6,96</b>	<b>25,20</b>
Income, net	<b>-44,82</b>	<b>-42,15</b>	<b>-45,44</b>	<b>-39,46</b>	<b>-29,78</b>	<b>-32,33</b>	<b>-39,23</b>	<b>0,61</b>	<b>-20,55</b>	<b>-44,78</b>	<b>9,73</b>	<b>-54,99</b>	<b>5,89</b>	<b>-1,88</b>	<b>-11,88</b>	<b>4,78</b>	<b>-3,09</b>
o/w : interest, net	-44,34	-41,41	-39,15	-33,59	-18,64	-31,88	-26,22	-10,03	-4,62	-10,50	-0,80	-25,95	-9,38	-3,60	-6,70	-4,66	-24,34
Current transfers, net	<b>350,21</b>	<b>463,66</b>	<b>613,53</b>	<b>343,06</b>	<b>498,45</b>	<b>734,09</b>	<b>790,88</b>	<b>172,82</b>	<b>269,56</b>	<b>341,83</b>	<b>280,65</b>	<b>1,064,85</b>	<b>222,66</b>	<b>310,57</b>	<b>376,71</b>	<b>329,47</b>	<b>1,239,40</b>
Official	37,39	72,69	132,30	48,65	100,50	103,36	70,07	11,73	15,83	20,08	16,75	64,39	16,93	19,73	17,83	19,26	73,75
Private	312,82	390,97	481,23	294,41	397,95	630,73	720,81	161,09	253,73	321,75	263,90	1,000,47	205,73	290,84	358,88	310,21	1,165,66
<b>CAPITAL AND FINANCIAL ACCOUNT</b>	<b>281,84</b>	<b>-128,46</b>	<b>11,28</b>	<b>178,23</b>	<b>376,87</b>	<b>169,97</b>	<b>407,01</b>	<b>26,06</b>	<b>107,35</b>	<b>-72,88</b>	<b>34,13</b>	<b>94,67</b>	<b>42,00</b>	<b>58,71</b>	<b>-135,45</b>	<b>48,60</b>	<b>13,87</b>
<b>Capital account, net</b>	<b>-1,79</b>	<b>0,00</b>	<b>0,31</b>	<b>1,30</b>	<b>8,26</b>	<b>-6,69</b>	<b>-4,61</b>	<b>-0,01</b>	<b>-0,15</b>	<b>0,24</b>	<b>-2,09</b>	<b>-2,01</b>	<b>0,44</b>	<b>-0,54</b>	<b>-0,26</b>	<b>-0,76</b>	<b>-1,11</b>
Capital transfers, net	0,00	0,00	0,31	3,64	9,92	-6,60	-4,61	-0,01	-0,15	0,24	-2,09	-2,01	0,44	-0,54	-0,26	-0,76	-1,11
Official	0,00	0,00	0,00	3,64	9,92	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Other	0,00	0,00	0,31	0,00	0,00	-6,60	-4,61	-0,01	-0,15	0,24	-2,09	-2,01	0,44	-0,54	-0,26	-0,76	-1,11
Acquisition/disposal of nonfinancial assets	-1,79	0,00	0,00	-2,34	-1,66	-0,09	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
<b>Financial account, net</b>	<b>283,63</b>	<b>-128,46</b>	<b>10,97</b>	<b>176,93</b>	<b>368,62</b>	<b>176,66</b>	<b>411,62</b>	<b>26,07</b>	<b>107,51</b>	<b>-73,12</b>	<b>36,22</b>	<b>96,68</b>	<b>41,56</b>	<b>59,24</b>	<b>-135,19</b>	<b>49,37</b>	<b>14,98</b>
Direct investment, net	117,72	31,80	176,23	442,32	77,72	94,26	155,85	36,15	33,18	17,33	10,43	97,08	290,53	21,61	11,97	26,22	350,33
Portfolio investment, net	7,79	0,14	-0,09	0,36	0,35	3,39	14,82	16,47	4,78	17,71	196,15	235,11	14,19	31,53	8,96	28,63	83,31
Other investment, net	226,66	-32,01	85,05	-183,27	159,98	129,97	260,42	-13,13	99,09	3,69	89,91	179,56	-229,63	118,90	11,67	56,21	-42,84
Trade credits, net	45,39	7,13	146,54	-125,08	83,1	82,95	170,05	-60,00	84,96	-38,62	38,25	24,60	7,18	40,11	-57,21	51,09	41,17
Loans, net	219,87	54,83	13,51	-107,31	8,19	23,47	59,82	18,71	80,99	6,55	47,69	153,94	-161,58	70,55	31,56	40,27	-19,20
Currency and deposits, net	-40,62	-135,01	-122,53	27,09	44,69	2,85	-3,66	23,69	-72,10	30,04	-6,40	-24,77	-81,16	-3,88	29,43	-48,14	-103,75
o/w monetary authorities, net	0,00	-21,20	-0,19	-77,08	68,79	17,77	26,44	0,00	-0,41	1,18	0,00	0,77	-68,78	0,00	65,66	-0,14	-3,26
o/w commercial banks, net	-28,77	-51,28	-93,26	-272,39	112,17	-54,59	-105,08	21,65	-60,98	49,22	16,68	26,57	7,02	24,63	-22,48	-24,74	-15,58
o/w individuals, net	-11,85	-62,52	-29,08	376,56	-136,27	39,68	74,97	2,04	-10,71	-20,35	-23,08	-52,10	-19,40	-28,50	-13,74	-23,25	-84,90
Other, net	2,03	41,04	47,53	22,03	24,00	20,69	34,22	4,47	5,23	5,72	10,37	25,79	5,93	12,12	7,89	12,99	38,94
Gross official reserves ("-" = increase) <sup>3</sup>	-68,54	-128,39	-250,22	-82,48	130,57	-50,96	-19,47	-13,42	-29,54	-111,84	-260,27	-415,07	-33,53	-112,80	-167,80	-61,69	-375,82
<b>ERRORS AND OMISSIONS</b>	<b>-12,55</b>	<b>160,92</b>	<b>64,00</b>	<b>57,19</b>	<b>-19,07</b>	<b>-17,70</b>	<b>7,81</b>	<b>-5,11</b>	<b>3,63</b>	<b>-5,47</b>	<b>-6,23</b>	<b>-13,19</b>	<b>2,46</b>	<b>5,40</b>	<b>1,99</b>	<b>0,00</b>	<b>9,86</b>

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

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

## EXTERNAL DEBT

External debt of the Republic of as of 31st December 2006 amounted to US\$ 2,315 million, and compared to end of 2005, it was by US\$ 134 million higher.

Analysed by debtors, external debt of the public sector at the end of 2006 amounted to US\$ 1,614.4, and in relation to 2005, it dropped by US\$ 92 million. Within the public sector debt, decrease in relation to 2005 was also noticed at the central government and the NBRM, while increase was recorded at the public funds and the public enterprises.

Regarding the structure of the external debt by creditors, there were no significant changes in relation to the last year, whereby more than half of the debt (50.2%) was towards multilateral creditors, among which IDA, IBRD, EIB, EU and EBRD accounted for most. Bilateral creditors accounted for 9.5% in the debt structure and private creditors for 40.4%, 21.1% out of which were for the eurobonds.

During December 2006, funds were disbursed in the amount of US\$ 60.1 million. Cumulatively, funds were disbursed in the amount of US\$ 349.9 million in 2006, US\$ 243 million out of which from private banks, financial institutions and non-financial private sector. US\$ 73.1 million was disbursed from multilateral creditors (EBRD, EIB, IBRD, CEDB) and US\$ 33.3 million from bilateral creditors.

Servicing of the liabilities continues to be regular, whereby in December, US\$ 36.4 million was repaid (US\$ 21.5 mil-

lion as principal). Cumulatively, liabilities towards abroad were repaid in the amount of US\$ 481.5 million in 2006, US\$ 403.8 million out of which as principal. Most of the total repayments were towards private creditors (US\$ 366.1 million), US\$ 227.5 million out of which to the London Club. Repayments towards multilateral creditors were in the amount of US\$ 76.1 million (IBRD, EIB, EBRD, IMF, IDA), followed by repayments to bilateral creditors in the amount of US\$ 39.3 million.

The new credit agreements concluded in December 2006 were in the amount of US\$ 125.5 million and the whole amount was borrowing by the private sector. Throughout 2006, new credits were signed in the amount of US\$ 481 million, most part of which (US\$ 312 million) with private creditors, and are expected to be disbursed in the next period.

According to the NBRM repayment schedule, liabilities towards foreign creditors in the amount of US\$ 326.5 million fall due in 2007, US\$ 242.8 million out of which as principal.

At the end of 2006, short-term external debt amounted to US\$ 118.8 million on the basis of financial credits. In 2006, financial credits in the amount of US\$ 70.8 million were used, and liabilities in the amount of US\$ 59.6 million were repaid towards abroad.

### EXTERNAL DEBT OF THE REPUBLIC OF MACEDONIA <sup>1</sup>

(In million of US\$)

	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004	31.12.2005	31.03.2006	30.06.2006	30.09.06	31.12.2006
<b>Official creditors</b>	1,052	973	1,034	1,193	1,314	1,257	1,264	1,313	1,326	1,380
<b>Multilateral creditors</b>	720	689	757	922	1,062	1,052	1,068	1,102	1,119	1,161
IMF	82	71	67	68	63	62	63	60	60	56
IBRD	123	124	145	181	223	248	249	255	258	264
IFC	57	33	18	13	9	6	6	5	5	4
IDA	250	255	296	358	389	362	366	377	377	2,384
EIB	69	75	102	116	148	140	146	148	154	165
EUROFIMA	17	14	12	8	8	7	7	8	8	6
CEDB	7	6	15	17	23	20	20	23	23	30
EBRD	74	62	32	40	65	87	89	98	104	116
EU	37	44	65	112	122	106	109	113	114	118
IFAD	3	4	5	7	11	13	13	14	15	16
EAR	1	1	1	1	1	0	0	0	0	0
<b>Bilateral creditors</b>	332	284	277	271	252	205	196	211	208	219
<b>Commercial creditors</b>	443	456	543	605	694	924	754	827	857	935
London club	253	262	254	243	233	222	0	0	0	0
Eurobond	0	0	0	0	0	177	181	188	190	197
Others	191	194	289	362	461	525	572	639	668	738
Banks and financ. institutions	136	131	205	202	238	265	264	296	316	374
Enterprises	55	63	85	159	223	260	308	343	351	363
<b>TOTAL</b>	1,495	1,429	1,577	1	2,008	2,181	2,018	2,141	2,184	2,315

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

### November - December 2006

External public debt in December 2005 was EUR 1.441 million and has been constantly declining, so in the period December 2005 - November 2006 it declined by 15% and amounts to EUR 1.225 million. As of December 31st, 2006 inclusive, the external debt declined by additional EUR 1.223 million.

	EUR million		
Base	2005	30.11.2006	31.12.2006
	1,441.2	1,225.0	1,223.0
<b>External public debt*</b>	<b>1,245.4</b>	<b>1,024.1</b>	<b>1,025.2</b>
General Government debt	52.7	43.6	42.4
Central bank debt	143.2	157.3	155.4
Public enterprises debt	750.4	801.8	804.9
<b>Domestic public debt</b>	<b>603.7</b>	<b>669.0</b>	<b>648.4</b>
General Government debt	0.00	83.1	75.9
Of which: treasury bills for monetary purposes	146.7	131.7	155.3
Central bank debt	N/A	1.2	1.2
Public enterprises debt**	2,191.6	2,026.9	2,027.9
Total public debt according the GFS methodology	48.5	41.5	41.5
Total public debt as % of average GDP	1,849.0	1,693.1	1,673.6
General Government debt according the GFS methodology	40.9	34.7	34.3
General Government debt as % of average GDP	1,992.2	1,768.4	1,754.3

Source: Ministry of Finance and NBRM

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

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

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 the same time, domestic public debt in December 2005 was EUR 750 million and by end-2006 it grew by EUR 54 million, i.e. 7,3%. On monthly level, in November, the domestic public debt was EUR 801 million, and in December it reached EUR 804 million. Domestic public debt growth is due to the introduction of treasury bills for monetary purposes, as a monetary policy instruments with no implications for the fiscal policy.

The total public debt calculated according to the GFS methodology in December last year was EUR 2.191 million. In November 2006, the domestic public debt was EUR 2.026 million, and in December it was EUR 2.027 million.

At the same time, general government debt, calculated according to the GFS methodology in December 2005 reached EUR 1.849 million; in November 2006 it



continued the declining trend and amounted to EUR 1.693 million, and in end-December it declined to EUR 1.673 million.

Calculated according to the GFS methodology, the total public debt as percentage of the average GDP, in December 2005 was 48,5%, and in November 2006 it declined to 41,3% of the average GDP, remaining at the same level in December.

According to the GFS methodology, general government debt as percentage of GDP in December last year was 40,9% 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 34,7% in November, and in December it continued declining to 34,3%. 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 2005 was EUR 1.992 million, in November it declined to EUR 1.768 million, and in December it declined to EUR 1.754 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 2005 was 44,0%, and in November 2006 it declined to 36,2%, while in December it was 35,9%.

As of December, 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. 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**

As of November 23, 2006 the Ministry of Finance issued for the first time 3-year government bond. The amount offered at the auction was Denar 300 million, and the demand for this amount was Denar 290 million. The achieved weighted yield at the auction was 9,621%

and compared to the auction of the weighted return on the 2-year government bond held at end-October it was by 0,3 percentage points higher. Banks had dominant share in the ownership structure with 80%, while the remaining part went to non-bank entities, with significant share of the pension companies in the realized section of the auction.

The Ministry of Finance, on December 29, 2006 made early redemption of the 5-year continuous government bond no. 2 in 2005 with ISIN number MKMINF20N016. The redemption of the bond was at nominal value, whereby the coupon fallen due for the last year was paid. The Ministry of Finance decided on taking this step on the basis of the current favorable budget position, as well as the fact that the early redemption would result in interest savings for the Ministry of Finance in the next four years.

#### **III.2 Primary government securities market**

Interest rates on GS in the past period of two months after the insignificant decline in early November, grew in December. This also refers to both the 3-month GS and 6-month GS. Interest rate on 3-month GS, after its decline in November from 6,31% to 6,10%, at the end of the year it reached 6,36%, which is an increase by 0,26 percentage points.

Similar trend in the interest rates was observed in 6-month GS, whereby after the mild decline in November, at the last auction held in December it grew to 7,02%. There is slight increase in the interest rate on 12-month GS, whereby the achieved interest rate of 8,86% is by 0,2 percentage points higher than the interest rate achieved at the auction held in November.

The comparative analysis of GS interest rate trends in 2005 and 2006 suggests declining trend. The weighted interest rate on 3-month treasury bills achieved at auctions in December 2005 was 8,0%, while the interest rate at the auctions in the same month in 2006 declined by over 1,5 percentage points and was 6,26%. At 6-month treasury bills, weighted interest rate in December 2005 was 8,81% and by continuously declining in the course of the year, in December 2006 it reached a level of 7,02%. The trend of the interest rates is identical as the one in other GS.



### III.3. Secondary government securities market

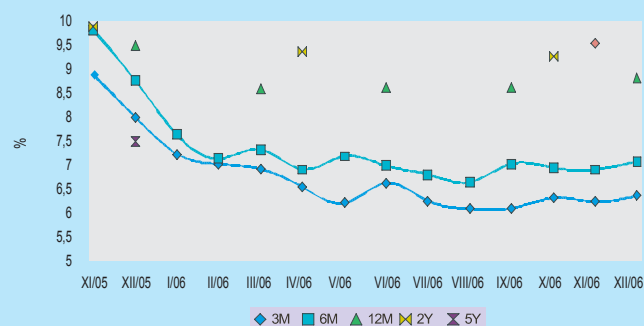
#### IV. New public debt in the period November-December 2006 and disbursement of already concluded credits

- Domestic debt
- In the period November-December 2006 there are no new borrowings.

#### ● External Debt

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

Weighted interest rate of the auction of the government securities



Source: Ministry of Finance

Disbursements as of December 31, 2006

	Disbursement Q - 1	Disbursement Q - 2	Disbursement Q - 3	Disbursement Q - 4	Total 2006	Disbursement by the Public debt strategy	Discrepancy
Public sector	8,3	15,2	29,5	33,1	86,1	131,7	-45,6
Government of R. M.	4,3	15,1	18,0	11,2	48,6	91,9	-43,4
Multilateral creditors	2,7	11,9	14,6	7,961	37,2	68,5	-31,3
IBRD/IDA	1,2	4,9	3,6	2,23	12,0	30,3	-18,3
CEDB	0,0	1,7	0,0	0,0	1,7	3,5	-1,8
EIB	0,0	0,0	5,0	0,0	5,0	13,7	-8,7
EBRD	1,3	4,8	4,8	5,3	16,2	13,1	3,2
EU	0,0	0,0	0,0	0,0	0,0	0,0	0,0
IFAD	0,2	0,5	1,1	0,5	2,3	2,0	0,3
Bilateral creditors	1,6	3,2	3,4	3,3	11,4	23,5	-12,1
Private creditors	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Public enterprises	4,0	0,1	11,6	21,9	32,5	39,8	-7,3
Multilateral creditors	4,0	0,1	2,8	9,578	11,5	29,5	-18,0
IBRD	0,0	0,1	1,0	0,12	1,3	3,2	-1,9
EIB	4,0	0,0	0,0	3,5	7,5	3,3	4,2
CEDB	0,0	0,0	0,0	5,0	5,0	3,5	1,5
EBRD	0,0	0,0	1,8	1,0	2,8	23,0	-20,2
Bilateral creditors	0,0	0,0	0,0	0,0	0,0	7,7	-7,7
Private creditors	0,0	0,0	8,7	12,3	21,0	2,6	18,4

Source: State Statistical office

**Table 9: CENTRAL BUDGET OF THE REPUBLIC OF MACEDONIA**

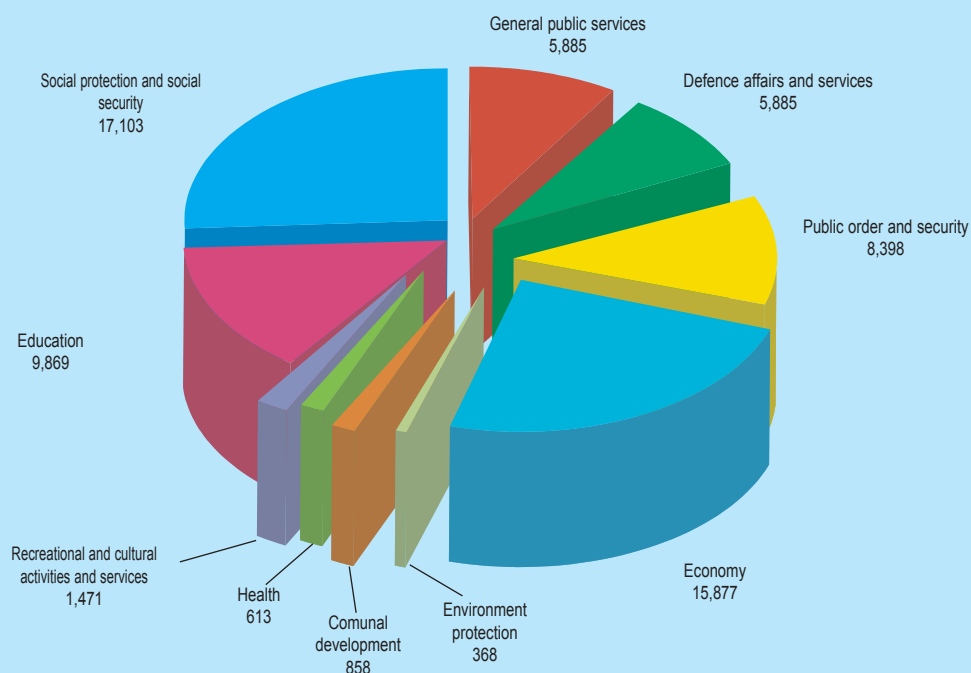
	2002 Final statement	2003 Final statement	2004 Final statement	2005 Final statement	2006 Budget
<b>TOTAL REVENUES</b>	<b>71,981,222,938</b>	<b>68,406,577,974</b>	<b>68,257,596,556</b>	<b>77,264,085,977</b>	<b>81,749,000,000</b>
<b>CURRENT REVENUES (TAX AND NON-TAX)</b>	<b>58,896,097,958</b>	<b>56,784,247,919</b>	<b>56,534,423,095</b>	<b>60,465,813,344</b>	<b>59,940,000,000</b>
<b>TAX REVENUES</b>	<b>54,389,136,894</b>	<b>49,166,396,854</b>	<b>52,527,458,366</b>	<b>55,024,034,252</b>	<b>56,840,000,000</b>
<b>Taxes on income, profits and capital gains</b>	<b>10,137,596,496</b>	<b>10,772,545,343</b>	<b>10,068,869,008</b>	<b>10,934,484,390</b>	<b>11,236,000,000</b>
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	<b>31,235,879,140</b>	<b>31,741,066,910</b>	<b>36,093,219,422</b>	<b>38,172,046,946</b>	<b>40,136,000,000</b>
<b>Domestic taxes on goods and services</b>	<b>20,521,036,109</b>	<b>21,175,919,119</b>	<b>25,756,854,524</b>	<b>27,081,128,583</b>	<b>28,334,000,000</b>
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	<b>6,336,011,440</b>	<b>6,141,579,944</b>	<b>5,814,503,205</b>	<b>5,265,767,731</b>	<b>4,848,000,000</b>
<b>Taxes on international trade and transactions</b>	<b>5,230,636,743</b>	<b>4,909,408,470</b>	<b>4,597,751,176</b>	<b>4,251,685,006</b>	<b>3,817,121,000</b>
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
<b>Other taxes</b>	<b>3,359,937</b>	<b>3,894,080</b>	<b>5,216,895</b>	<b>0</b>	<b>0</b>
<b>Taxes on specific services</b>	<b>340,562,742</b>	<b>475,513,109</b>	<b>545,887,314</b>	<b>651,735,186</b>	<b>620,000,000</b>
<b>Fees for usage and permissions for performing activities</b>	<b>6,335,727,139</b>	<b>31,746,374</b>	<b>237,478</b>	<b>-</b>	<b>-</b>
<b>Financial transactions tax</b>	<b>4,506,961,064</b>	<b>7,617,851,065</b>	<b>4,006,964,729</b>	<b>5,441,779,092</b>	<b>3,100,000,000</b>
<b>NON-TAX REVENUES</b>	<b>931,379,088</b>	<b>1,963,471,700</b>	<b>1,752,484,628</b>	<b>3,441,892,427</b>	<b>1,100,000,000</b>
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	<b>7,193,569,639</b>	<b>4,081,105,548</b>	<b>3,341,846,311</b>	<b>2,045,598,523</b>	<b>16,227,000,000</b>
<b>CAPITAL REVENUES</b>	<b>6,244,440,021</b>	<b>4,002,729,305</b>	<b>3,158,721,234</b>	<b>1,455,155,987</b>	<b>16,027,000,000</b>
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	<b>3,808,557,430</b>	<b>3,651,554,878</b>	<b>4,932,545,381</b>	<b>894,339,868</b>	<b>540,000,000</b>
<b>TRANSFERS AND DONATIONS</b>	<b>1,167,411,039</b>	<b>1,136,220,479</b>	<b>3,888,654,831</b>	<b>508,533,363</b>	<b>0</b>
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	<b>480,521,896</b>		<b>1,908,760,868</b>	<b>1,538,911,272</b>	<b>3,000,000,000</b>
<b>DOMESTIC LOANS</b>	<b>1,584,121,754</b>	<b>3,766,572,092</b>	<b>1,529,500,321</b>	<b>12,319,422,970</b>	<b>2,042,000,000</b>
<b>BORROWING FROM ABROAD</b>	<b>1,584,121,754</b>	<b>3,766,572,092</b>	<b>1,529,500,321</b>	<b>12,319,422,970</b>	<b>2,042,000,000</b>
International development agencies	<b>18,354,261</b>	<b>123,097,537</b>	<b>10,520,580</b>	<b>0</b>	<b>0</b>
<b>REVENUES FROM REPAYMENT OF LOANS</b>					
<b>TOTAL EXPENDITURES</b>	<b>71,700,272,895</b>	<b>64,462,761,283</b>	<b>63,743,917,129</b>	<b>67,090,435,530</b>	<b>81,749,000,000</b>
<b>CURRENT EXPENDITURES</b>	<b>56,314,747,304</b>	<b>51,104,920,817</b>	<b>51,667,851,725</b>	<b>45,930,102,078</b>	<b>49,295,088,000</b>
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
<b>SUBSIDIES AND TRANSFERS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,675,836,361</b>	<b>2,111,209,000</b>
<b>SOCIAL TRANSFERS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,171,063,594</b>	<b>3,633,264,000</b>
<b>CAPITAL EXPENDITURES</b>	<b>8,366,132,516</b>	<b>4,687,684,918</b>	<b>4,867,347,044</b>	<b>7,198,053,448</b>	<b>12,543,385,000</b>
<b>LENDING, EQUITY PARTICIPATION AND DEBT REPAYMENT</b>	<b>7,019,393,075</b>	<b>8,670,155,548</b>	<b>7,208,718,360</b>	<b>7,115,380,049</b>	<b>14,166,054,000</b>
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	2005	2006	2005	2006
	in million of denars		structure		% from GDP	
<b>TOTAL</b>	<b>66,327</b>	<b>91,868</b>	<b>100.0</b>	<b>100.0</b>	<b>23.9</b>	<b>31.3</b>
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 2005



**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	I	II	III
<b>TOTAL REVENUES</b>	<b>21,732</b>	<b>24,627</b>	<b>27,928</b>	<b>26,641</b>	<b>100,928</b>	<b>103,198</b>	<b>109,029</b>	<b>7,337</b>	<b>6,756</b>	<b>8,976</b>
Taxes and Contributions	18,972	21,172	21,285	23,152	84,581	88,198	89,507	5,957	5,933	7,958
Tax Revenues (SRA)	68	75	70	91	304	177	240	19	21	39
Taxes	12,314	13,944	14,107	15,316	55,681	57,581	58,688	4,014	3,382	5,262
Personal Income Tax	1,834	2,052	1,951	2,260	8,097	8,051	8,256	511	662	760
Profit Tax	1,080	600	623	534	2,837	3,185	4,423	180	383	1,162
VAT	5,745	6,767	6,652	7,918	27,082	28,334	27,374	1,760	1,284	2,184
Excises	2,461	2,937	3,385	2,965	11,748	12,543	11,652	1,191	653	698
Import Duties	1,026	1,441	1,335	1,464	5,266	4,848	5,483	280	327	386
Other Taxes	168	147	161	175	651	620	1,500	92	73	72
Contributions	6,590	7,153	7,108	7,745	28,596	30,440	30,579	1,924	2,530	2,657
Pension Insurance Contributions	4,230	4,569	4,553	4,948	18,300	19,810	19,933	1,250	1,651	1,718
Unemployment Contributions	312	325	322	353	1,312	1,370	1,370	85	120	117
Health Insurance Contributions	2,048	2,259	2,233	2,442	8,982	9,260	9,276	589	759	822
Non Tax Revenues	2,495	3,088	5,284	2,951	13,818	12,943	15,992	684	704	918
Non Tax Revenues (SRA)	1,414	1,673	1,549	1,676	6,312	7,377	8,377	303	372	559
Profit of Public Financial Institutions	83	260	2,837	139	3,319	1,031	3,084	83	13	7
Administrative Taxes and Charges	387	459	358	453	1,657	1,500	1,500	107	131	157
Health co-payment	127	122	70	115	434	573	573	28	27	25
Other Administrative Taxes	58	69	55	64	246	300	300	20	20	25
Other Non Tax Revenues	87	52	53	72	264	382	508	47	38	24
Road Fund Fees	340	441	462	432	1,675	1,780	1,650	97	103	121
Capital Revenues	112	107	587	127	933	502	700	52	49	42
Foreign Donations	152	259	672	411	1,494	1,555	2,430	613	69	45
Revenues from repayment of loans	1	1	0	0	2	0	400	31	1	13
<b>TOTAL EXPENDITURES</b>	<b>22,766</b>	<b>23,875</b>	<b>24,482</b>	<b>29,096</b>	<b>100,219</b>	<b>104,905</b>	<b>111,365</b>	<b>6,903</b>	<b>8,206</b>	<b>8,429</b>
Current Expenditures	21,657	22,180	21,707	24,482	90,026	93,420	98,542	6,687	7,679	8,109
Wages and Allowances	5,640	5,736	5,566	5,894	22,836	23,997	23,922	1,869	1,933	1,948
Goods and Services	3,197	3,140	2,620	4,028	12,985	12,579	14,868	702	933	1,221
Transfers	12,252	12,639	12,795	13,911	51,597	53,585	56,389	3,624	4,740	4,716
Transfers (SRA)	160	220	192	341	913	613	1,047	46	52	69
Social Transfers	11,582	11,670	11,533	12,085	46,870	48,906	49,406	3,419	3,977	4,170
Pensions	6,294	6,241	6,151	6,285	24,971	26,999	29,884	2,020	2,143	2,233
Unemployment Benefits	783	767	715	675	2,940	2,500	2,152	267	203	189
Social Benefits	965	1,026	1,113	1,034	4,138	3,954	4,279	53	548	347
Structural Reforms	0	0	0	0	0	0	0	0	0	0
Public Administration Reform	0	0	0	0	0	3	4	0	0	0
Health Care	3,539	3,637	3,557	4,092	14,825	15,450	16,087	1,079	1,082	1,400
Other Transfers	487	704	1,037	1,453	3,681	3,975	5,850	159	704	463
Refugees	24	45	33	33	135	91	86	0	7	14
Interest	569	666	727	648	2,610	3,259	3,363	492	73	225
Domestic	116	433	163	362	1,074	1,259	1,259	41	30	69
Foreign	453	233	564	286	1,536	2,000	2,104	451	43	156
Guaranties	0	0	0	0	0	0	0	0	0	0
Capital Expenditures	1,108	1,695	2,775	4,613	10,191	11,486	12,823	216	527	320
<b>BUDGET BALANCE</b>	<b>-1,034</b>	<b>752</b>	<b>3,446</b>	<b>-2,455</b>	<b>709</b>	<b>-1,708</b>	<b>-2,336</b>	<b>434</b>	<b>-1,450</b>	<b>547</b>
<b>FINANCING</b>	<b>1,034</b>	<b>-752</b>	<b>-3,446</b>	<b>2,455</b>	<b>-709</b>	<b>1,708</b>	<b>2,336</b>	<b>-434</b>	<b>1,450</b>	<b>-547</b>
Inflow	2,458	2,015	-1,964	4,554	7,063	16,556	21,154	8,516	1,493	-250
Privatisation Receipts	265	231	147	740	1,383	15,821	20,831	28	1	13,899
Foreign donations	0	0	0	0	0	0	0	0	0	0
Foreign Loans	139	1,219	838	11,717	13,913	4,309	2,147	45	54	61
Deposits	1,532	-343	-3,398	-7,588	-9,797	-6,594	-6,585	8,305	1,247	-14,387
Domestic borrowing	521	905	427	-315	1,538	3,000	3,000	138	171	175
Sell of Shares	1	3	24	1	29	20	1,761	0	21	3
Outflow	1,425	2,765	1,483	2,099	7,772	14,848	18,818	8,950	43	297
Repayment of Principal	1,425	2,765	1,483	2,099	7,772	14,848	18,818	8,950	43	297
Foreign	1,255	331	1,305	404	3,295	10,119	14,089	8,950	43	166
Domestic	170	2,435	178	1,695	4,478	4,729	4,729	0	0	131

Q - 1 2006	IV	V	VI	Q - 2 2006	VII	VIII	IX	Q - 3 2006	X	XI	XII	Q - 4 2006	Total 2006
23,069	9,255	8,666	8,345	26,306	9,202	8,483	8,537	26,222	8,846	8,706	10,952	28,504	104,101
19,848	7,907	7,532	7,343	22,782	8,284	7,366	7,430	23,080	7,624	7,811	9,453	24,888	90,598
79	14	8	28	50	6	10	19	35	9	15	11	35	199
12,658	5,317	5,061	4,719	15,097	5,730	4,844	4,886	15,460	4,999	5,117	6,244	16,360	59,575
1,933	703	666	729	2,098	666	676	683	2,025	693	684	981	2,358	8,414
1,725	311	244	359	914	313	347	290	950	442	281	396	1,119	4,708
5,228	2,812	2,555	1,975	7,342	2,931	2,009	2,215	7,155	2,145	2,304	3,085	7,534	27,259
2,542	868	965	1,006	2,839	1,138	1,179	1,057	3,374	1,063	1,212	1,144	3,419	12,174
993	456	540	498	1,494	512	475	995	1,982	1,010	1,150	1,083	3,243	7,712
237	167	91	152	410	170	158	62	390	53	62	61	176	1,213
7,111	2,576	2,463	2,596	7,635	2,547	2,512	2,526	7,586	2,616	2,679	3,198	8,493	30,825
4,619	1,690	1,588	1,691	4,969	1,658	1,616	1,619	4,893	1,697	1,724	2,046	5,467	19,948
322	113	109	114	336	112	112	113	337	115	117	143	375	1,370
2,170	773	766	791	2,330	778	784	794	2,356	804	838	1,009	2,651	9,507
2,306	1,133	870	718	2,721	743	942	942	2,627	976	713	1,137	2,826	10,480
1,234	413	469	235	1,117	295	592	609	1,496	654	435	567	1,656	5,503
103	359	19	28	406	20	16	20	56	15	16	227	258	823
395	114	176	136	426	86	103	119	308	118	117	129	364	1,493
80	23	26	27	76	19	25	21	65	22	0	0	22	243
65	27	22	21	70	20	20	19	59	10	8	8	26	220
109	51	4	121	176	139	32	38	209	9	19	97	125	619
321	146	155	151	452	163	153	117	434	147	118	109	374	1,581
143	57	161	172	390	72	34	37	143	43	46	183	272	948
727	126	88	85	299	30	105	31	166	105	40	86	231	1,423
45	33	15	26	74	21	36	96	153	98	96	94	288	560
23,538	8,340	7,977	9,948	26,265	9,425	8,123	7,536	25,085	7,670	9,272	13,929	30,871	105,759
22,475	7,945	7,307	8,893	24,145	8,275	7,002	7,058	22,335	7,115	8,343	12,111	27,569	96,524
5,750	1,938	1,927	2,013	5,878	1,968	1,767	1,972	5,707	2,001	2,016	2,069	6,086	23,421
2,856	1,078	1,096	1,090	3,264	1,141	912	602	2,655	735	968	2,425	4,128	12,903
13,080	4,617	4,188	5,460	14,265	4,556	4,237	4,374	13,167	4,036	5,224	6,903	16,163	56,675
167	66	61	82	209	57	73	35	165	66	84	90	240	781
11,566	4,001	3,834	4,891	12,726	3,961	3,939	4,173	12,072	3,615	4,372	4,479	12,466	48,830
6,396	2,190	2,214	2,236	6,640	2,227	2,209	2,315	6,751	2,273	2,264	2,410	6,947	26,734
659	186	170	165	521	169	161	157	487	155	149	146	450	2,117
948	338	165	442	945	452	340	322	1,114	320	368	402	1,090	4,097
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
3,561	1,287	1,285	2,049	4,621	1,112	1,228	1,378	3,718	867	1,591	1,521	3,979	15,879
1,326	544	287	477	1,308	528	219	164	911	351	766	2,334	3,451	6,996
21	6	6	10	22	10	7	3	20	5	2	0	7	70
790	313	94	329	736	223	86	109	418	344	135	714	1,193	3,137
140	221	25	198	444	30	27	22	79	234	37	148	419	1,082
650	92	69	131	292	193	59	87	339	110	98	566	774	2,055
0	0	0	0	0	387	0	0	387	0	0	0	0	387
1,063	394	670	1,056	2,120	1,151	1,121	479	2,751	554	929	1,818	3,301	9,235
-469	916	690	-1,604	2	-276	359	1,000	1,083	1,177	-565	-2,977	-2,365	-1,749
469	-916	-690	1,604	-2	276	-359	-1,000	-1,083	-1,187	565	2,977	2,355	1,739
9,759	1,173	-690	2,614	3,097	937	-280	-823	-166	727	625	4,038	5,390	18,080
13,928	0	0	3,846	3,846	0	0	0	0	0	0	0	0	17,774
0	0	0	0	0	0	0	0	0	0	0	0	0	0
159	125	137	234	496	99	273	112	484	80	207	247	534	1,673
-4,835	1,330	-2,017	-3,414	-4,101	1,131	-380	-1,446	-695	-86	116	3,711	3,741	-5,890
484	-283	509	196	422	-295	-173	511	43	720	286	64	1,070	2,019
24	0	682	1,751	2,433	2	0	0	2	0	0	0	0	2,459
9,290	2,089	0	1,010	3,099	661	79	177	917	1,904	60	1,061	3,025	16,331
9,290	2,089	0	1,010	3,099	661	79	177	917	1,904	60	1,061	3,025	16,331
9,159	201	0	180	381	661	79	177	917	213	60	214	487	10,944
131	1,888	0	830	2,718	0	0	0	0	1,691	0	847	2,538	5,387

## Pension and Disability Insurance Fund

**Revenues** generated by the PDF in 2006 are by 9% higher than those in 2005 and amount to Denar 31.467 million. Most of the revenues, i.e. 61,5%, were revenues on the basis of salary contributions, where an increase of 10,8% was realized. Budget revenues accounted for 29,8% in the total revenues and were by 13,2% higher, while the revenues of the Employment Agency for insurance of unemployed beneficiaries of pecuniary allowance declined by 20,6% and their share in the total revenues accounted for 3,9%.

**Expenditures** in the PDF in the observed year amount to Denar 31.204 million and are by 7,5% compared to the previous year. Most of the total expenditures, i.e. 81,4%, were for payment of pensions to the beneficiaries. Thereby, 95,5% of the pensions were paid for regular pensions, and they increased by 4%. Expenditures for health care contribution participated with 11,5% in the total expenditures of the Pension and Disability Insurance Fund.

PDF **surplus** in 2006 was Denar 263 million.

### PENSION AND DISABILITY INSURANCE FUND

(In million of denars)

Types of revenues / expenditures	1999	2000	2001	2002	2003	2004	2005	2006
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
	<b>21,229</b>	<b>22,883</b>	<b>24,289</b>	<b>25,811</b>	<b>28,191</b>	<b>28,983</b>	<b>28,878</b>	<b>31,467</b>
<b>REVENUES</b>	14,316	15,722	15,671	15,784	16,882	17,204	17,484	19,369
Contribution from salaries	311	311	331	283	307	383	388	303
Contribution from income	3,266	4,174	5,744	6,961	7,741	8,486	8,291	9,385
Revenues from the Government Budget	439	404	377	409	394	412	390	244
Revenues from the private sectors	65	58	41	61	71	41	39	33
Revenues from individual farmers	632	804	716	688	677	661	659	661
Revenues from excises	868	1,101	1,126	1,404	1,536	1,719	1,550	1,230
Contributions from the Employment Agency	45	74	73	29	65	57	59	219
Other revenues	245	68	209	192	42	21	18	23
Revenues from dividends	841	167	0	0	0	0	0	0
Revenues from new employment	201	0	0	0	476	0	0	0
Transferred income from the previous year	<b>20,669</b>	<b>22,940</b>	<b>24,697</b>	<b>25,889</b>	<b>27,740</b>	<b>29,132</b>	<b>29,015</b>	<b>31,204</b>
<b>EXPENDITURES</b>	17,756	19,774	21,278	22,255	24,008	25,121	24,969	25,410
Pensions	16,977	18,948	19,041	19,982	21,667	22,824	23,335	24,272
Regular pensions	458	505	514	518	499	509	479	455
War veteran pensions	321	321	297	262	234	217	178	154
Agricultural pensions	0	0	1,167	1,136	1,131	1,027	455	0
Retroactive payment of 8%	0	0	112	103	121	88	90	70
Early retirement by the Law from year 2000	0	0	148	254	262	247	240	178
Early retirement by the Law from year 2001							91	115
Early retirement by the Law from year 2004								166
Compensation for body injury								1,325
Compensation for disability insurance	69	72	72	83	80	82	82	82
Employment and accommodations for disabled children	95	94	91	76	98	97	110	138
Health care contribution	13	12	7	9	6	6	6	4
Compensation for administration	2,450	2,672	2,805	2,934	3,184	3,349	3,416	3,582
Other expenditures	132	141	153	165	172	170	172	208
Capital expenditures	154	175	254	222	192	257	190	258
<b>BALANCE</b>	-	-	37	145	0	50	70	196
Deficit / Surplus	<b>560</b>	<b>-57</b>	<b>-408</b>	<b>-78</b>	<b>451</b>	<b>-149</b>	<b>-137</b>	<b>263</b>

## Health Insurance Fund

In 2006, the HIF **revenues** amounted to Denar 15.698 million, which is by 4,1% more compared to the previous year. Regarding the revenue structure, highest share (60,6%) accounted for the health insurance contributions, realizing an increase by 5,8%. Contributions from the PDF accounted for 22,8% in total revenues and were by 4,9% higher, while contributions paid by the Employment Agency for the unemployed persons accounted for 13,7% in the revenues and were by 4% higher.

**Expenditures** of the Health Insurance Fund in 2006 were Denar 16.308 million, i.e. 7,2% more than the previous year. Outpatient expenditures, having the highest share in the expenditures (88,2%) more than doubled.

In 2006, HIF had a **deficit** in the amount of Denar 610 million.

HEALTH INSURANCE FUND								
(In million of denars)								
Types of revenues / expenditures	1999	2000	2001	2002	2003	2004	2005	2006
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
<b>REVENUES</b>	<b>12,068</b>	<b>12,790</b>	<b>12,295</b>	<b>13,656</b>	<b>14,698</b>	<b>14,886</b>	<b>15,083</b>	<b>15,698</b>
Contributions	7,363	7,745	7,528	7,823	8,418	8,762	8,982	9,506
Contributions from the Pension Fund	2,417	2,649	2,616	3,075	3,184	3,349	3,417	3,584
Contributions from the Employment Agency	1,350	1,941	1,554	1,763	1,849	1,998	2,062	2,145
Contributions from the Ministry of Labour	0	0	48	54	64	41	64	56
Other revenues	938	455	70	734	1,064	676	79	124
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
Transferred income from the previous year	0	0	313	96	91	1	0	0
<b>EXPENDITURES</b>	<b>11,692</b>	<b>12,463</b>	<b>12,205</b>	<b>13,611</b>	<b>14,678</b>	<b>14,722</b>	<b>15,206</b>	<b>16,308</b>
Outpatient expenditures	2,491	2,486	2,505	4,430	5,132	5,959	7,129	14,387
Hospital treatment	5,482	5,737	5,919	4,929	5,038	5,098	6,311	0
Costs for programs	125	105	306	123	21	0	0	0
Medicines	1,249	1,681	1,555	1,305	1,868	2,006	0	0
Dental care	667	687	522	521	630	0	0	0
Orthopedic expenses	154	143	111	134	150	280	171	182
Medical treatment abroad	161	70	90	144	221	117	151	164
Other treatment (contributions)	801	694	769	832	968	941	1,062	1,145
Administration	288	250	268	360	309	254	276	373
Equipment and maintenance	39	90	44	656	219	23	106	57
Other expenditures	234	200	48	23	32	27	0	0
Loans and interest payments	0	321	71	154	90	17	0	0
<b>BALANCE</b>								
Deficit/Surplus	<b>376</b>	<b>326</b>	<b>90</b>	<b>45</b>	<b>21</b>	<b>164</b>	<b>-123</b>	<b>-610</b>

Source: Internal data of the Ministry of Finance

## Employment Agency

The Employment Agency in 2006 earned total **revenues** of Denar 5.685 million which is around 18% decline compared to 2005. This is a result of the reduced budget grants by 23,4% although they have the highest share in the revenue structure of 75,7%. Regarding the budget grants structure, 89,8% was on the basis of covering the deficit of the Agency. At the same time, revenues from contributions grew by 4,4%.

In 2006, **expenditures** of the Employment Agency amounted to Denar 5.933 million, being a decrease by 14,5% compared to the previous year. Expenditures related to the function amounted to Denar 5.699 million, or 96% of the total

expenditures, and they decreased by 15%. Out of these expenditures, 35% were used for payment of unemployment benefit for the unemployed persons, and only 1,9% were used for active measures (for employment encouragement and re-qualification allowance). Expenditures for professional service accounted for 4% in the total expenditures, and are by 2,6% higher than in 2005.

In 2006 the Employment Agency had **deficit** of Denar 248 million.

EMPLOYMENT AGENCY								
(In million of denars)								
Types of revenues / expenditures	1999	2000	2001	2002	2003	2004	2005	2006
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
	<b>4,129</b>	<b>5,119</b>	<b>4,827</b>	<b>5,918</b>	<b>6,241</b>	<b>7,456</b>	<b>6,940</b>	<b>5,685</b>
<b>REVENUES</b>	1,058	1,121	1,136	1,180	1,224	1,270	1,313	1,371
Revenues from contributions	1,037	1,098	1,113	1,178	1,223	1,155	1,192	1,264
Contributions from wages	21	22	23	2	0	24	23	18
Contributions from self-employed								
Contributions from the people who work abroad	0	0	0	0	1	4	5	3
Contributions from previous year	0	0	0	0	0	88	93	86
<b>Revenues from the Government budget</b>	3,066	3,990	3,677	4,726	5,002	6,163	5,616	4,302
For covering the deficit of the								
Employment Agency	2,575	3,470	3,170	3,742	3,958	4,522	4,612	3,865
For paying allowances to the employees of the								
loss-making enterprises	490	516	481	944	980	988	418	288
Public administration reform	-	-	26	19	3	61	22	9
Others	0	3	26	21	61	592	564	140
<b>Other revenues</b>	6	8	13	12	16	23	11	12
	<b>4,135</b>	<b>5,110</b>	<b>4,749</b>	<b>5,868</b>	<b>6,214</b>	<b>7,325</b>	<b>6,938</b>	<b>5,933</b>
<b>EXPENDITURES</b>	3,970	4,913	4,571	5,658	6,005	7,102	6,710	5,699
<b>Expenditures for the functions</b>								
Unemployment benefits	1,755	1,875	1,879	2,273	2,377	2,697	2,425	1,991
Contributions for health insurance	1,347	1,936	1,555	1,763	1,849	1,998	2,063	2,144
Contributions for pension and disability insurance	868	1,102	1,138	1,453	1,557	1,729	1,552	1,236
Transfers for employment of disabled persons	-	-	-	128	121	58	114	219
Payments according to the new Law	-	-	-	-	61	592	526	65
Compensation for training	-	-	-	41	40	29	30	44
<b>Expenditures for the personnel</b>								0
Wages and salaries	<b>165</b>	<b>198</b>	<b>178</b>	<b>210</b>	<b>209</b>	<b>223</b>	<b>228</b>	<b>234</b>
Allowances	105	118	116	124	134	132	133	135
Goods and other services	17	19	18	22	20	20	22	21
Current transfers	34	54	43	42	51	68	69	73
Interest payments	0	0	0	0	0	0	0	0
Capital expenditures	0	1	0	0	0	0	0	0
	8	6	2	22	4	3	4	5
<b>BALANCE</b>								
Deficit / Surplus	<b>-6</b>	<b>9</b>	<b>78</b>	<b>50</b>	<b>27</b>	<b>132</b>	<b>2</b>	<b>-248</b>

Source: Internal data of the Ministry of Finance



## Regional and National Road Fund

The Road Fund in 2006 collected **revenues** in the amount of Denar 2.975 million, meaning 1,9% decline compared to the previous year. Highest share of 45,4% in the total revenues accounted for the revenues of the Budget, which grew by 2,3% compared to 2005, while the amount of revenues on the basis of annual fee for passenger vehicles declined by 6,2% and accounted for 26,6% in the total revenues.

**Expenditures** of the Road Fund in 2006 were Denar 3.525 million. Most of the expenditures (46,2%) were for investment purposes. Regarding road maintenance,

Denar 1.032 million was spent, being an increase by 1,9% compared to the last year. Expenditures related to studies, drafting plans, surveillance, commissions and material costs participated with 4,2% in the total expenditures.

In 2006, the Road Fund had **deficit** of Denar 550 million.

REGIONAL AND NATIONAL ROAD FUND								
(In million of denars)								
Types of revenues / expenditures	1999	2000	2001	2002	2003	2004	2005	2006
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
<b>REVENUES</b>	<b>3,793</b>	<b>3,506</b>	<b>4,012</b>	<b>3,434</b>	<b>3,668</b>	<b>3,299</b>	<b>3,031</b>	<b>2,975</b>
Revenues from Budget	924	1,590	1,655	1,305	1,603	1,610	1,320	1,350
Paytoll by foreign motor vehicles								
Annual fee for motor vehicles subject to registration	54	82	73	87	82	77	90	102
Paytoll for use of motorway								
Foreign credit	518	746	704	761	797	853	842	790
Other revenues	492	537	375	381	728	741	743	687
Grants	1,793	538	1,098	862	418	9	0	0
	13	14	21	2	39	9	36	46
<b>EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>87</b>	<b>36</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
Investments	<b>3,793</b>	<b>3,506</b>	<b>4,013</b>	<b>3,420</b>	<b>3,661</b>	<b>3,889</b>	<b>3,389</b>	<b>3,525</b>
Expenditures for studies, projections, supervision, fees and material costs	1,985	1,662	1,756	1,250	1,107	1,753	1,405	1,630
Road maintenance	0	179	286	289	205	156	164	148
Repayment of loans	790	952	926	900	1,063	1,081	1,013	1,032
Funds for local roads	148	212	299	304	424	242	254	274
Other expenditures	386	502	596	528	666	611	508	441
Liabilities from the previous year	142	0	0	0	46	45	45	0
Liabilities towards the Bank Rehabilitation Agency	342	0	0	0	0	0	0	0
	0	0	150	149	150	0	0	0
<b>BALANCE</b>								
Deficit / Surplus	<b>0</b>	<b>0</b>	<b>-1</b>	<b>14</b>	<b>7</b>	<b>-590</b>	<b>-358</b>	<b>-550</b>

Source: Internal data of the Ministry of Finance

# MACEDONIAN SECURITIES STOCK EXCHANGE

Novelties marking the trading on the Macedonian SE in 2006 are the sale of AD Elektrostopanstvo na Makedonija, announcement of the sale of Komercijalna Banka, introduction of trading five times a week, introduction of the SEI-NET - online application for posting information by listed companies, introduction of interruptible auctions, as well as public stock market auctions through which the sale of several packages of bank shares was realized.

The results achieved in 2006, statistically observed, are the best in the history of the Macedonian securities market, and total trading shows growth by 248% on all bases compared to 2005. Observed by structure, results by segments are also positive. Enormous growth was achieved in block transactions in traditional trading, accounting for 45% of the trading.

Unlike the previous years, when during July and August the trading volume on the Macedonian Stock Exchange showed downward trend, in 2006 the MSEI-10 in August grew by 24,5%, as a result of the entry of foreign legal entities and physical persons from the region in the Macedonian SE, i.e. more specifically, investors from Croatia, Slovenia and Bulgaria, as well as the greater interest of national legal entities and physical persons who see the investment of their available cash in the SE as an opportunity for higher earnings.

The reasons for the growth of the trading volume and prices in 2006 include the significant enhancement of transparency in the operations of listed companies, inflow of foreign portfolio investors, reforms in the pension system, more dynamic banking system, stable exchange rate, developed and safe market infrastructure, as well as more favorable economic environment.

From the aspect of the movements of MSEI-10 in 2006 the index shows positive monthly trends in all months except the last two. The highest growth was noted in June, 14,07% and July, 27,09%, but if compared to the index in the regional SE, the index on the Macedonian SE is in the index growth zone.

## STOCK MARKET INDICATORS - 2006/2005

In the period January-December 2006, turnover on the Macedonian Securities Stock Exchange via traditional trading amounted to Denar 10.794,8 million, which, in relation to January-December 2005 is a growth by 61,08%. The

turnover realized via block transactions on the Stock Exchange in the observed period amounted to Denar 13.970,9 million, being a monthly increase by 700,96% compared to 2005. In 2006 the trading in shares and stocks of the government segment was Denar 6.237,2 million. In 2006, total traditional trading on the Macedonian Stock Exchange and block transactions amounted to Denar 31 million, which, in relation to 2005, is a growth by 248,92%.

Average daily turnover in 2006 amounted to Denar 42,8 million, which, compared to 2005, is an increase by 28,48%. Average daily number of transactions in the analyzed period is 208 and in relation to 2005 is by 30,59% higher.

Should we analyze the total turnover in government bonds of the Republic of Macedonia in 2006, we could conclude that trading in government bonds for old foreign exchange saving amounted to Denar 358,2 million, whereby the average price of these bonds was 85,87% of their nominal value. In 2006, denationalization bonds from the first issue were sold at average price of 85% of their nominal value and the turnover of these bonds was Denar 3,4 thousand. In the observed period, denationalization bonds from the second issue were sold at average price of 82% of their nominal value, and their total trading amounted to Denar 124,5 million.

Denationalization bonds from the third issue were sold in 2006 at average price of 80,20% of their nominal value, and their total trading amounted to Denar 237 million. Total trading in denationalization bonds from the fourth issue was Denar 564,8 million, and their average price was 79,52% of their nominal value. In the observed period, trading in denationalization bonds from the fifth issue was Denar 906,8 million, and their average price was 79% of their nominal value.

Official Macedonian stock exchange index (MSEI - 10), as an indicator of the movement of prices of shares in 2006 amounted to Denar 3.702,54 and compared to 2005, it grew by 61,54%.

Total turnover on the official market on the Macedonian Securities Stock Exchange in 2006 was Denar 9.176 million, meaning 29,58% of the total trading on the SE. Total trading on the unofficial market in the analyzed period was Denar 1.618,2 million, accounting for 5,22% of the total trading. The trading via block transactions on the Macedonian SE in 2006 was Denar 13.970,9 million, being 45,04% of the total SE trading volume.

In 2006, the total turnover of the 10 most liquid share-holding companies on the official market on the Macedonian Securities Stock Exchange was Denar 9.388 million, whereby the trading with shares of the following companies was the most significant: Komercijalna banka Skopje - 26,96% of the trading volume, Evropa Skopje - 11,72% of the trading volume and Stopanska Banka Bitola - 9,15% of the trading volume.

In 2006, the highest increase of the average price of the shares was the one of AD OHIS Skopje, AD OTEKS Ohrid and AD Evropa Skopje.

Average market capitalization of the shares on the Macedonian Securities Stock Exchange in 2006 amounted to Denar 86,4 billion which in relation to 2005, it increased by 71,50%.

Average market capitalization of the bonds on the Macedonian Securities Stock Exchange in the analyzed period amounted to Denar 22,4 billion which in relation to the period January-December 2005 is a decline by 6,41%.

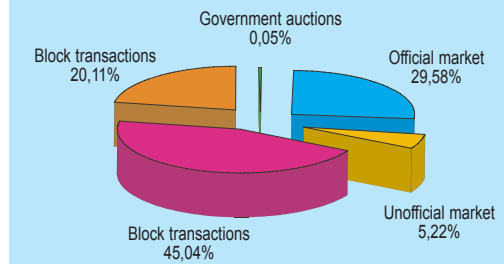
In 2006, when analyzing the dividend of the 10 joint stock companies with highest share in the trading on the official market of the Macedonian Stock Exchange, it can be noted that the shares of Stopanska Banka Bitola had the highest dividend per share in the amount of 4,95%, followed by the shares of Ohridska Banka Ohrid with dividend of 3,99%, and the shares of Toplifikacija AD Skopje with dividend of 3,85%.

In 2006 foreign investors invested the most in the following joint-stock companies listed on the Macedonian SE: AD Granit Skopje - 19,49%, AD Stopanska Banka Bitola - 18,81% and Komercijalna banka AD Skopje - 12,25% foreign capital.

MACEDONIAN STOCK EXCHANGE			
	January-December 2005	January-December 2006	% Change
<b>TURNOVER (denars)</b>			
<b>TRADING IN BEST</b>	6.701.682.415	10.794.815.753	61,08
Shares	4.625.430.914	8.564.838.251	85,17
Bonds	2.076.251.501	2.229.977.502	7,40
DAILY AVERAGE TURNOVER (denars)	33.341.704	42.836.570	28,48
DAILY AVERAGE NUMBER OF TRANSACTIONS	159	208	30,59
<b>BLOCK TRANSACTIONS</b>	1.744.277.253	13.970.939.088	700,96
<b>GOVERNMENT AUCTIONS</b>	443.607.845	6.237.256.707	-
Shares	35.672.350	5.442.215.152	-
Stakes	407.935.495	795.041.555	94,89
<b>OTHER SECURITIES</b>	0	14.921.940	-
<b>TOTAL</b>	8.889.567.513	31.017.933.488	248,92
<b>NUMBER OF TRANSACTIONS</b>			
<b>TRADING IN BEST</b>	31.985	52.326	63,60
<b>BLOCK TRANSACTIONS</b>	85	204	140,00
<b>GOVERNMENT AUCTIONS</b>	41	399	873,17
<b>DRUGI HARTII OD VREDNOST</b>	0	1	-
<b>TOTAL</b>	32.111	52.930	64,83
<b>MARKET CAPITALIZATION (denars)</b>			
<b>MARKET CAPITALIZATION OF SHARES</b>	50.425.546.869	86.482.150.528	71,50
LISTED SHARES	33.171.013.757	51.021.283.559	53,81
PUBLICLY HELD COMPANIES	17.254.533.112	35.460.866.969	105,52
<b>MARKET CAPITALIZATION OF BONDS</b>	23.972.382.237	22.436.317.815	-6,41
<b>TOTAL MARKET CAPITALIZATION</b>	74.397.929.106	108.918.468.343	46,40
<b>MBI-10</b>	2.292,04	3.702,54	61,54
<b>OMB</b>	-	99,06	-
<b>NUMBER OF LISTED SECURITIES</b>	57	43	-24,56
<b>NUMBER OF TRADING DAYS</b>	201	252	25,37

## Turnover structure in 2006

Market segment	Turnover (denars)	Turnover (EUR)	%	No. of trans.
Official market	9.176.566.913	149.978.626	29,58	44.502
Unofficial market	1.618.248.840	26.444.429	5,22	7.824
Block transactions	13.970.939.088	228.342.488	45,04	204
Block transactions	6.237.256.707	101.980.731	20,11	399
Government auctions	14.921.940	243.903	0,05	1
<b>TOTAL</b>	<b>31.017.933.488</b>	<b>506.990.177</b>	<b>100,00</b>	<b>52.930</b>



## TURNOVER PER MONTHS

Months	Trading in best (denars)		Block transactions (denars)		Government auctions (denars)		Total (denars)	
	Value	%	Value	%	Value	%	Value	%
1	707.760.345	6,55	22.061.390	0,16	0	0,00	729.821.735	2,35
2	469.372.955	4,34	87.101.811	0,62	21.078.973	0,34	577.553.739	1,86
3	846.685.463	7,83	10.837.183.845	77,57	3.044.858	0,05	11.686.914.166	37,68
4	619.939.835	5,74	55.839.760	0,40	0	0,00	675.779.595	2,18
5	687.751.649	6,36	73.707.794	0,53	683.340.550	10,96	1.444.799.993	4,66
6	1.196.321.927	11,07	247.815.846	1,77	5.529.460.826	88,65	6.973.598.599	22,48
7	673.712.985	6,23	131.656.561	0,94	0	0,00	805.369.546	2,60
8	1.401.175.725	12,96	232.459.086	1,66	0	0,00	1.633.634.811	5,27
9	867.611.153	8,03	213.198.896	1,53	0	0,00	1.080.810.049	3,48
10	1.556.796.123	14,40	690.849.331	4,94	0	0,00	2.247.645.454	7,25
11	1.049.812.620	9,71	141.195.917	1,01	0	0,00	1.191.008.537	3,84
12	732.796.913	6,78	1.237.868.851	8,86	331.500	0,01	1.970.997.264	6,35
<b>Total</b>	<b>10.809.737.693</b>	<b>100,00</b>	<b>13.970.939.088</b>	<b>100,00</b>	<b>6.237.256.707</b>	<b>100,00</b>	<b>31.017.933.488</b>	<b>100,00</b>

## 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	80,00	85,87	29.12.2006	6.768.703	358.279.629	5.855.454	8,76%
Government bonds Denationalization I issue (RMDEN01)	85,00	83,20	85,00	22.11.2006	67.615	3.483.180	56.903	8,00%
Government bonds Denationalization II issue (RMDEN02)	85,00	80,10	82,00	27.12.2006	2.462.413	124.562.185	2.034.685	8,55%
Government bonds Denationalization III issue (RMDEN03)	85,60	79,00	80,20	29.12.2006	4.762.898	237.047.537	3.872.887	8,42%
Government bonds Denationalization VI issue (RMDEN04)	83,20	76,10	79,52	29.12.2006	11.558.254	564.893.100	9.229.293	7,95%
Government bonds Denationalization V issue (RMDEN05)	83,00	73,50	79,00	29.12.2006	19.090.773	906.837.911	14.824.041	7,40%
Continuous Government bonds No.1 (RMBV01)	101,60	100,30	101,60	14.06.2006	3.466	34.873.960	569.834	8,67%

\*The model for calculation of yield to maturity is adapted to the characteristics of the bonds.

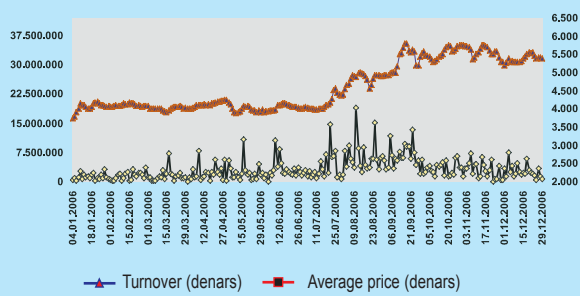
## LISTED COMPANIES

Issuer	Nominal value	Number of outstanding shares	Number of trades shares	High	Low	Average price	value denars	%	Market capitaliz. (000 denars)
Komercijalna banka Skopje	1000 DEN	1.985.041	501.194	7.499	3.649	5.171,74	2.531.510.827	28,50	11.273.007.900,00
Evropa Skopje	100 DEM	255.583	230.075	8.896	1.100	2.258,99	1.100.483.221	12,39	2.012.716.125,00
Stopanska banka Bitola	3000 DEN	389.779	83.370	12.200	7.700	10.245,72	859.084.162	9,67	4.025.031.292,00
Alkaloid Skopje	25,56 EMU	1.431.353	166.647	5.890	3.700	4.605,78	785.011.852	8,84	7.694.323.932,68
Zemjod. komb. Pelagonija Bitola	51,13 EMU	278.620	158.382	4.000	979	2.186,23	484.209.762	5,45	807.440.760,00
Makpetrol Skopje	511,29 EMU	112.382	12.078	63.000	18.004	36.235,36	433.325.096	4,88	5.394.336.000,00
Granit Skopje	5 EMU	3.071.377	935.033	601	259	419,92	405.378.725	4,56	1.714.565.496,48
Ohridska banka Ohrid	2650 DEN	288.549	36.938	10.999	5.798	8.440,75	306.579.220	3,45	2.683.505.700,00
Investbanka Skopje	2670 DEN	242.208	62.633	7.600	2.851	5.014,45	290.665.701	3,27	1.479.358.824,00
Toplifikacija Skopje	100 DEM	450.000	72.279	4.850	3.291	3.829,86	287.932.851	3,24	1.840.500.000,00
RZ Makstil Skopje	5,11 EMU	14.622.944	4.067.137	97	16	44,41	249.419.991	2,81	873.135.986,24
EMO Ohrid	30,68 EMU	367.641	109.911	1.751	300	1.185,91	169.675.509	1,91	583.659.498,78
Replek Skopje	562,42 EMU	25.920	5.150	41.899	20.170	32.675,06	160.698.333	1,81	984.985.920,00
TTK Banka AD Skopje	1000 DEN	680.916	65.373	3.799	1.400	2.530,74	151.712.174	1,71	1.462.287.537,48
Makedonija Turist Skopje	25,56 EMU	452.247	46.552	3.100	2.015	2.636,43	122.451.908	1,38	1.243.227.003,00
Beton Skopje	500 DEM	43.684	16.793	11.581	3.100	5.790,39	118.292.745	1,33	371.657.356,24
Fersped Skopje	37400 DEN	18.113	1.285	149.000	59.000	87.289,78	99.412.134	1,12	1.919.978.000,00
RZ Uslugi Skopje	5,11 EMU	1.571.667	451.863	199	30	69,02	47.711.765	0,54	209.848.977,84
Skopski Pazar Skopje	51,13 EMU	74.320	7.008	7.908	6.000	6.886,39	47.051.860	0,53	613.865.600,00
Fakom Skopje	51,13 EMU	67.000	16.095	2.450	1.800	2.329,86	39.356.200	0,44	125.811.260,00
Karpos Skopje	200 DEM	49.852	17.304	4.800	1.061	2.109,05	38.334.673	0,43	73.531.700,00
Lotarija na Makedonija Skopje	51,03 EMU	161.540	22.411	4.000	600	1.632,67	25.326.786	0,29	215.171.280,00
KIB Kumanovo	2741,56 DEN	128.655	25.520	1.400	657	1.121,84	25.221.454	0,28	102.924.000,00
Vinarska vizba Tikves Skopje	100 DEM	206.500	2.432	10.000	1.600	4.691,00	20.073.297	0,23	335.149.500,00
Hoteli Metropol Ohrid	5 EMU	1.035.000	48.183	355	60	299,59	15.752.375	0,18	310.500.000,00
OHIS Skopje	51,12 EMU	927.974	19.544	1.271	120	550,62	13.808.284	0,16	491.826.220,00
Zito Vardar Veles	51,13 EMU	73.037	12.132	900	690	761,71	10.264.160	0,12	65.733.300,00
Oteks Ohrid	1941 DEN	488.736	143.037	500	50	140,00	7.196.850	0,08	244.368.000,00
Komuna Skopje	50 DEM	279.000	11.631	798	205	524,94	6.693.975	0,08	132.525.000,00
Teteks Tetovo	100 DEM	456.787	19.353	600	310	342,34	6.460.869	0,07	274.072.200,00
GP Mavrovo Skopje	51,13 EMU	248.249	9.951	1.035	410	562,97	5.594.606	0,06	102.372.922,62
RZ Institut Skopje	10 DEM	113.392	11.543	657	226	362,18	4.530.690	0,05	25.739.984,00
Tehnometal Vardar Skopje	51,13 EMU	80.186	2.912	2.446	851	1.252,28	4.038.927	0,05	72.327.772,00
Interesenal Hotels AD Skopje	1 EMU	530.554	8.930	301	301	301,00	2.687.930	0,03	159.696.754,00
RZ Ekonomika Skopje	10 DEM	535.245	30.492	108	35	60,10	2.060.104	0,02	34.790.925,00
Makoteks Skopje	35,9 DEM	94.063	7.899	231	50	209,35	1.717.179	0,02	14.109.450,00
Makosped Skopje	1000 DEN	788.424	2.406	517	361	453,17	1.119.932	0,01	284.621.064,00
Tutunski kombinat Prilep	100 DEM	509.050	1.421	950	310	542,93	763.885	0,01	279.977.500,00
Zito Luks Skopje	35,79 EMU	819.234	2.626	595	91	255,70	679.003	0,01	250.182.300,00
RZ Inter-Transsped Skopje	5,11 EMU	585.399	654	30	20	21,53	13.900	0,00	12.878.778,00
Vitaminka Prilep	50 EMU	80.980	0	0	0	1.900	0	0,00	153.862.000,00
Dimko Mitrev Veles	51,13 EMU	40.000	0	0	0	1.000	0	0,00	40.000.000,00
Kiro Cucuk Veles	153,38 EMU	25.967	0	0	0	1.220	0	0,00	31.679.740,00
<b>TOTAL</b>		<b>34.687.168</b>	<b>7.446.177</b>				<b>8.882.302.915</b>	<b>100,00</b>	<b>52.664.954.399,36</b>

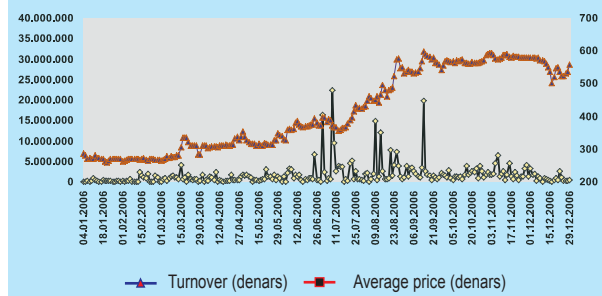
## TURNOVER PER MEMBERS

Issuer	code	Trading in Best System	Trading in Best System (%)	State	State %	Block	Block %	Total
Komercijalna banka AD Skopje	KB	5.733.675.529	26,52	1.810.642.556	27,87	1.027.291.298	16,47	8.571.609.383
Univerz. Invest. Banka AD Skopje	BL	593.458.451	2,75	115.049.140	1,77	3.743.943.864	60,03	4.452.451.455
NLB Tutunska broker AD Skopje	TN	2.921.875.205	13,52	441.093.258	6,79	30.551.328	0,49	3.393.519.791
Investbroker AD Skopje	MI	1.410.505.606	6,52	973.329.128	14,98	234.054.115	3,75	2.617.888.850
Fersped Broker AD Skopje	FR	879.436.401	4,07	1.414.205.076	21,77	24.806.600	0,40	2.318.448.077
MAK Broker AD Skopje	MK	1.595.137.165	7,38	565.873.849	8,71	0	0,00	2.161.011.014
TTK Banka Skopje	TK	1.838.377.983	8,50	161.755.668	2,49	9.914.433	0,16	2.010.048.084
Stopanska Banka AD Skopje	SB	1.320.233.913	6,11	314.212.750	4,84	136.339.410	2,19	1.770.786.073
EURObroker AD Skopje	EU	420.544.496	1,95	90.198.800	1,39	795.070.750	12,75	1.305.814.046
Inovo broker AD Skopje	IN	1.026.978.819	4,75	99.454.886	1,53	125.845.670	2,02	1.252.279.375
Ilirika Investments AD Skopje	IL	880.965.759	4,07	98.587.064	1,52	70.427.011	1,13	1.049.979.834
Bitola broker AD Bitola	BB	941.600.749	4,36	22.527.820	0,35	312.000	0,01	964.440.569
Bro-Dil AD Skopje	BD	720.368.043	3,33	146.214.988	2,25	1.511.640	0,02	868.094.671
Ohridska Banka AD Ohrid	OH	403.316.837	1,87	159.120.850	2,45	30.614.358	0,49	593.052.045
Postel Broker AD Skopje	PT	338.552.815	1,57	84.064.320	1,29	3.097.380	0,05	425.714.515
Alta Vista broker AD Skopje	AV	408.914.059	1,89	0	0,00	3.355.950	0,05	412.270.009
Sileks Banka AD Skopje	SL	185.533.557	0,86	0	0,00	120.900	0,00	185.654.457
<b>Total</b>		<b>21.619.475.387</b>	<b>100,00</b>	<b>6.496.330.153</b>	<b>100,00</b>	<b>6.237.256.707</b>	<b>100,00</b>	<b>34.353.062.248</b>

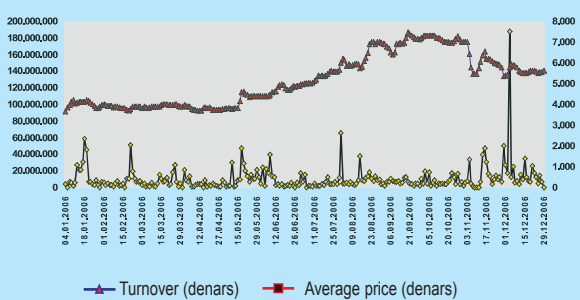
## ALKALOID AD SKOPJE



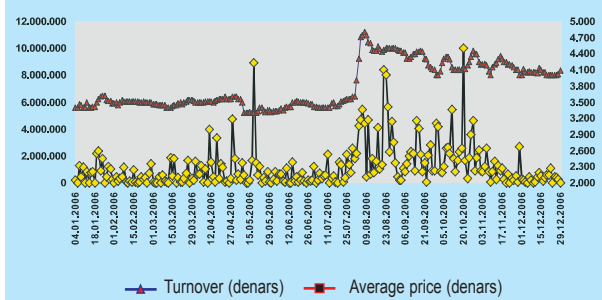
## GRANIT AD SKOPJE



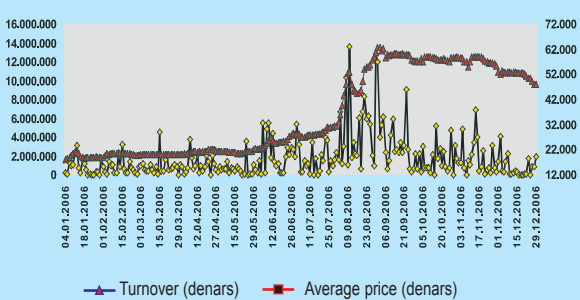
## KOMERCIJALNA BANKA AD SKOPJE



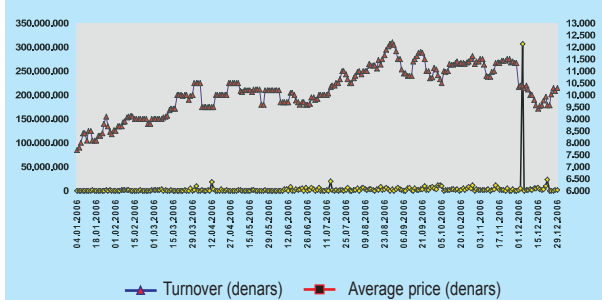
## TOPLIFIKACIJA AD SKOPJE



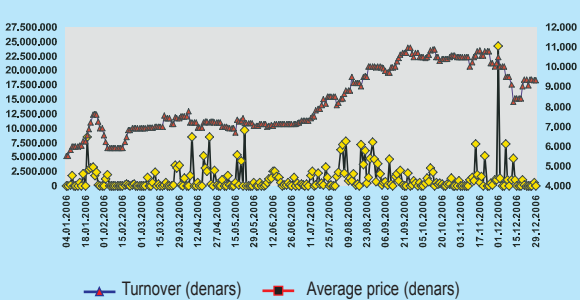
## MAKPETROL AD SKOPJE



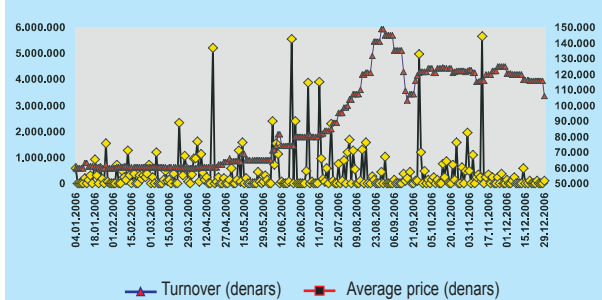
## STOPANSKA BANKA AD BITOLA



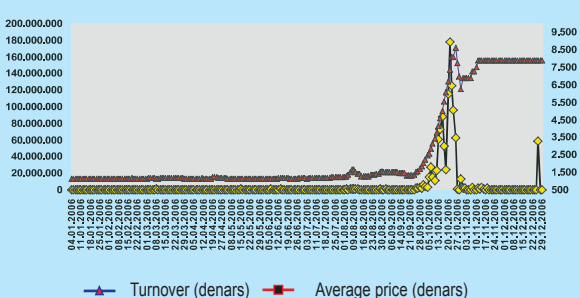
## OHRIDSKA BANKA AD OHRID



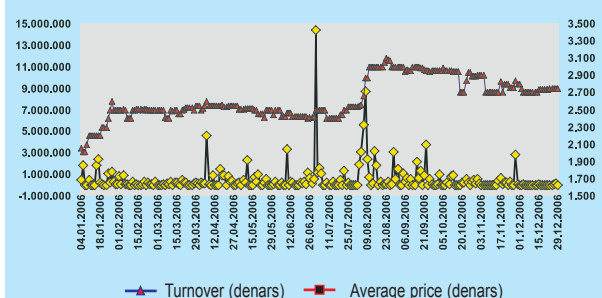
## FERSPED AD SKOPJE



## EVROPA AD SKOPJE



## MAKEDONIJA TURIST AD SKOPJE





# DEPOSITS OF CITIZENS AND ENTERPRISES WITH THE BANKS

## Deposits of natural persons and legal entities

During 2006, **deposits of citizens** continuously grew. In **November 2006** deposits of citizens were in the amount of Denar 69.854 million, which was 1,1% higher in relation to the previous month, i.e. significant growth by 25,4% on annual basis. The growth was mainly due to the growth of denar deposits by 1,8%. Sight deposits of the citizens declined by 2,2%, while time deposits increased by 3,9%.

In **December 2006** **deposits of citizens** were in the amount of Denar 71.446 million, which was 2,3% increase in relation to the previous month, i.e. more significant increase by almost 24% on annual basis. If we analyze the deposits according the maturity, we would see that sight deposits increased by 1,3%, i.e. by 15,6% on annual basis, while time deposits grew by 3,1%, and by 40,2% on annual basis. Observed by currencies, denar deposits amounted to Denar 26.263 million, and grew on annual basis by 55%.

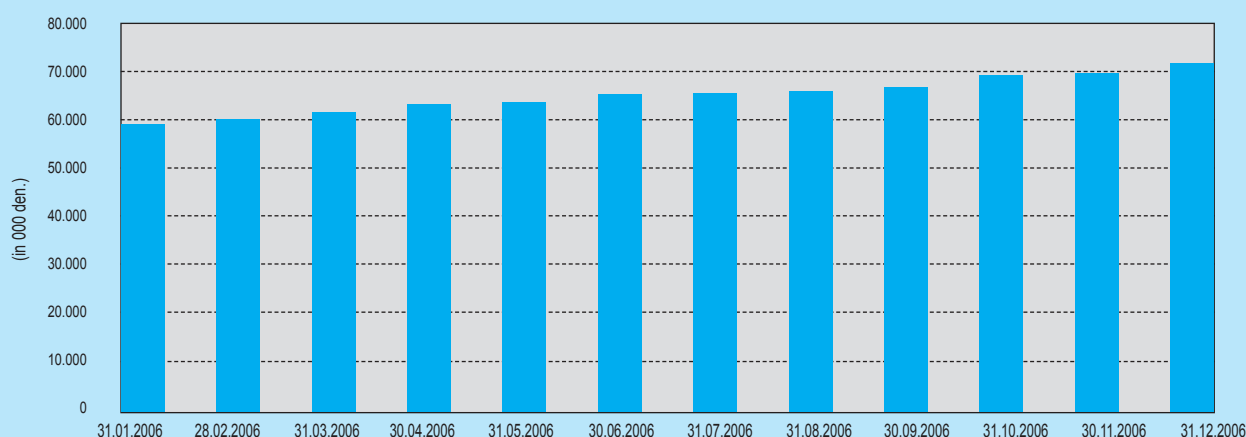
## Deposits of enterprises

**Deposits of enterprises** grew on monthly basis by 3,4%. Annual increase of the total credits by the banks to the private sector was 28,8% in November 2006.

## 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 185,287 million, by 31st December 2006, the Deposit Insurance Fund paid indemnification in the amount of Denar 174.847 million. As of December this year inclusive, the Fund paid 94,4% of the total calculated obligation for indemnification. The ratio of total Fund assets and total deposits of physical persons was 3,3%.

Deposits of physical persons and saving houses



**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.		
Komerčijalna 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								
									EUR									
									USD									
									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%	4.10%		
									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%		
				Deposit of legal entities						Foreign currency deposits of legal entities								
			4.50%		5.00%	5.50%	6.00%			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%	
	0.00%	5.00%		5.50%	6.00%	6.50%	7-8%		USD	0.00%	1.25%	1.50%	1.75%	2.00%	2.50%	
MAKEDONSKA BANKA AD Interest rates from January. 2007	0.9%	5.50%		6.50%	7.0%	7.30%	7.50%		EUR	0.00%	1.00%	1.50%	2.00%	2.50%	3.00%	
	0.70%	1.30%		4.50%	5.00%	5.50%	6.20%		USD	0.00%	1.25%	1.50%	1.75%	2.00%	2.50%	
ALFA BANKA AD SKOPJE Interest rates from January. 2007	1.0%	4.50%		5.75%	6.25%	7.00%	7.50%	8.00%	EUR	0.80%	1.50%	1.50%	1.70%	1.90%	2.10%	
	0.70%	4.00%		4.50%	5.00%	5.50%	6.00%		USD	0.50%	0.80%	1.00%	1.20%	1.30%	1.50%	
EUROSTANDARD BANKA Interest rates from January. 2007	1.0%	5.50%		6.50%	7.50%	8.00%	9.00%	10.00%	CHF	1.00%	1.60%	1.80%	2.10%			
	0.80%	4.00%		5.00%	5.50%	6.50%			Other currencies	0.20%						
UNI BANKA AD SKOPJE Interest rates from January. 2007	2-4%	6.00%		7.50%	8.00%	9.00%	10.00%	11.00%	EUR	0.00%	0.00%	0.00%	0.00%	0.00%		
	1.0%	4.50%		5.00%	5.50%	6.50%	7.00%	7.50%	USD	0.00%	0.00%	0.00%	0.00%	0.00%		
INVEST BANKA AD SKOPJE Interest rates from January. 2007	0.6-2%	4.50%		5.00%	5.50%	6.50%	7.00%	7.50%	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%	
TUTUNSKA BANKA AD Skopje Interest rates from January. 2007	1.0%	5.50%		6.50%	7.20%	7.50%	8.00%	8.50%	CHF	0.50%	0.70%	1.00%	1.20%	1.40%	1.70%	2.00%
	1.2-2%	4.00%		4.25%	4.50%	5.25%	6.25%	6.75%	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%
									EUR	2.20%	2.40%	2.60%	2.80%	2.90%	3.00%	
									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%	
									AUD	1.70%	2.50%	3.00%	4.00%	4.20%	4.50%	
									Other currencies	0.80%	1.50%	1.75%	1.80%	2.20%		
									EUR	0.60%	1.50%	2.00%	2.10%	2.20%		
									USD	0.10%	0.40%	0.50%	0.60%	0.80%		
									CHF	0.70%	1.00%	1.20%	1.40%	1.80%		
									Other currencies	0.53%	1.06%	1.06%	1.08%	1.09%		
									EUR	0.96%	1.92%	2.00%	2.09%	2.18%		
									USD	0.18%	0.36%	0.38%	0.40%	0.45%		
									CHF	0.96%	1.92%	2.00%	2.09%	2.18%		
									Other currencies							

\*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"> <li>- amount: from EUR 50,000 to EUR 500,000;</li> <li>- repayment period: from 1 to 3 years;</li> <li>- interest rate of 7% for companies that already used a credit from the commodity credit line and 8% for the other interested companies;</li> <li>- purpose: permanent working capital.</li> </ul>		
	<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%; Komeracijalna 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, Komeracijalna 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, Komeracijalna 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%; Komerijalna 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, Komerijalna 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		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
<b>Conditions for approval of guarantee</b>	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	<b>Types of credits</b>	Short-term innovative credits for working capital for the SMEs: credits for financing orders for known buyer, export-oriented production, factoring etc.
<b>Types of guarantees</b>	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)	<b>Credit purpose</b>	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.
<b>Maximum amount</b>	- 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.	<b>Amount</b>	from US\$ 10,000 to US\$ 120,000
<b>Credit repayment period</b>	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	<b>Repayment period</b>	from 30 to 179 days
<b>Guarantee fee</b>	2.2% annual on the guarantee balance	Credit guarantees: - 2% annual of the guarantee amount; Suppliers guarantees: - 3% annual of the guarantee amount;	<b>Annual interest rate</b>	from 8% to 12%
<b>Operating costs</b>		- 1.5% one-off for the credit guarantee; - 1% one-off for suppliers guarantees.	<b>Fees</b>	1. US\$ 100 for submission of credit application; 2. 0.5% for application processing; and 3. 2% for credit administration.
<b>Securing instrument</b>	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.	<b>Securing instrument</b>	Irrevocable L/C, bank guarantees, export insurance policy, crossed cheque, collateral, bill of exchange, etc.
<b>Target groups</b>	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	<b>Target groups</b>	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.

<b>Implementing agency</b>	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	<b>Implementing agency</b>	SMEs Fund - Skopje
<b>Purpose of the guarantee</b>	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)	<b>Founder of the Fund</b>	The SMEs Fund is established and managed by the Crimson Capital Corp. USA with US\$ 1.5 million credit fund.
<b>Note</b>	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. 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>	<b>Note</b>	<p><b>SMEs Fund credits private legal entities that:</b></p> <ol style="list-style-type: none"> <li>1. perform activities in the field of production, trade and services;</li> <li>2. show positive financial results in the so-far operations;</li> <li>3. employees between 5 to 200 persons;</li> <li>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;</li> <li>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.</li> </ol>



# BULLETIN

MINISTRY OF FINANCE

## III. ACTUAL NEWS, ARTICLES



## Actual news

### "INVEST IN MACEDONIA - NEW BUSINESS HEAVEN IN EUROPE", CAMPAIGN TO PROMOTE MACEDONIAN BUSINESS POTENTIAL

"Invest in Macedonia - New Business Heaven in Europe" is the motto of the campaign the Government started on 19th January to promote Macedonian business potential.



- The campaign to promote Macedonia as an investment destination will be carried out from 1st March through 50 leading newspapers in 35 countries, 21 out of which from the EU, in 24 languages. Total number of copies of these printed media exceeds 9 million, and their popularity is over 30 million, said Prime Minister Nikola Gruevski at the press conference in the Government. Possibilities Macedonia offers to the foreign investors will be also presented on the websites of 20, out of the total of 50, newspapers.

Among the newspapers to advertise Macedonia are Financial Times, New York Times, The Economist, The Wall Street Journal, Herald Tribune, The Banker, Le Figaro, Le Monde, Die Presse, Corriere della Sera, The Australian, The Sunday Telegraph, 24 Hours, Irish Times, ...

- Macedonia, underlined Prime Minister Gruevski, will offer the following advantages to the investors: low profit tax of 10%, "lowest income tax of 10%, 0% tax on re-invested profit, fast registration of companies in 3 days only, EUR 370 gross average salary, free access to a large market of 650 million consumers, macroeconomic stability with 3.1% inflation, great infrastructure and candidate country for membership in the EU and NATO. This is practically a pre-campaign to stimulate the investors to think

about investing in Macedonia, but will also have an excellent effect on the overall image of the country. The Government does not have unrealistic expectations regarding the campaign and it believes it will contribute to increasing the interest of the foreign investors. We do not expect immediate investment boom, since realistically the first results should come after a certain period of time. This is only the beginning of a permanent campaign which Macedonia lacked so far, stressed Prime Minister Gruevski.

The Government already announced a tender for concluding contracts with 20 foreign consulting firms the task of which, as Prime Minister Gruevski said, will be to promote Macedonia in the companies in their countries.

- Consulting firms will conclude a contract with the Government, according to which they should prepare a program on their work every three months. In fact, they are "forward players", specialized in attracting foreign investors, and should they show specific results they shall be awarded, Prime Minister stated.

Foreign Investment Agency has introduced a telephone line to be opened from 8 a.m. to 10 p.m. every day, with five lines available, providing detailed information to the potential investors.

Website [www.investinmacedonia.com](http://www.investinmacedonia.com) was also prepared for the campaign in eight world languages: English, German, French, Russian, Italian, Spanish, Japanese and Chinese.

Prime Minister also said that reforms in the Cadastre are on going.

- By 2008, we expect for the situation in the Cadastre to be significantly improved. We have a specific program for the envisaged reforms, stating set realization deadlines. Should the Director not manage to meet these deadlines, he shall be dismissed, pointed out the President of the Government.

### CEFTA 2006 - A MODERN AGREEMENT TO INTENSIFY THE COOPERATION AMONG THE COUNTRIES IN THE REGION AND ENABLE PROGRESS TOWARDS THE EU

Large expansion of the market, abolishment of export subsidies, possibility for intensive economic cooperation, attracting foreign investments and approaching the EU, are only part of the benefits from the new CEFTA 2006 Agreement, signed by Macedonia, Croatia, Bosnia and

Herzegovina, Serbia, Montenegro, Moldova, Albania, Romania, Bulgaria and UNMIK, said Vice Prime Minister Zoran Stavreski, following the end of the Summit in Bucharest.



- Under CEFTA, said Stavreski, the countries will have a possibility, through free policies, free trade and mutual cooperation, to place large number of their products abroad and at the same time to achieve other forms of cooperation. Real policy means compromise, and this is what is going to be actually achieved with the final solution, i.e. the signing of CEFTA 2006. It is a matter of a modern trade agreement to enable the countries in the region to move forward in the preparations for EU membership. At the same time, they can practically feel what is means to have a single market and how to deal with the competitiveness on that market, because they will apply open and transparent trade policies, said Stavreski.

According to him, CEFTA 2006 replaces the complex bilateral free trade agreements, total of 23 in the region, and sends a strong signal to the investors that the countries are ready to be invested in them.

### **REDUCTION OF TAXES CREATES ROOM FOR INVESTMENTS AND NEW EMPLOYMENT**

Job creation and simplified calculation of the salaries of employees are part of the advantages arising from the introduction of the flat tax, which Minister of Finance, Mr. Trajko Slaveski, presented at the meeting with the representatives from 130 largest taxpayers in Macedonia.

- Lot of you will use the funds obtained on the basis of tax reduction for investments and new employment, recommended Minister Slaveski to the attendees, pointing out that estimates of the Government are that new 20,000 job positions will be opened.

He also added that during the discussion he was informed that PIT reduction will provide for a possibility to increase the salaries of the employees.

In addition to the advantages arising from the introduction of the flat tax, Minister Slaveski announced that they can use the benefit from the zero tax on re-invested profit on the calculated profit for 2006, and regarding the salaries, he announced that health insurance portion of the salaries will be taxed with the general tax rate, which is to be discussed in the second half of 2007.

### **TWICE MORE FUNDS FOR MACEDONIA FROM IPA**

Macedonia is getting higher and higher on the investment map of the European Union. This was personally confirmed by the resident representative of the Kingdom of Sweden in EU Headquarters in Brussels, Ms. Teresa Norden, who, in front of 50 and so Swedish and Macedonian investors in the Holiday In Hotel, presented the three-year strategy for financial support by the Union through the IPA funds. According to her, in the period 2007 - 2010, Macedonia will receive almost twice the amount, i.e. EUR 76 million per year, instead of the so-far EUR 45 million (so far used through five counterpart funds).

### **PARIS CLUB OF CREDITORS ACCEPTED THE DEBT BUYBACK OFFER BY MACEDONIA**

Paris Club of Creditors accepted the debt buyback offer by the Republic of Macedonia, being presented to the creditors by the Minister of Finance, Mr. Trajko Slaveski.

At the meeting of the Paris Club, Minister Slaveski presented to the representatives from the governments of Austria, Denmark, France, Germany, Italy, Japan, Kuwait, the Netherlands, Spain, Sweden, Great Britain and the USA, the debt buyback offer in the amount of US\$ 104 million at nominal value.

Paris Club recommended the creditor countries to realize the offer in the period between 31st January 2007 and 30th April 2007. During this period, bilateral agreements with the 13 member states will be signed, and the debt will be bought back.

Early buyback of the inherited debt of the Republic of Macedonia towards the Paris Club (from former SFRY), rescheduled in 1995, contributes to improvement of the credit rating of the country and to savings in the 2007 Budget in the amount of around EUR 2.7 million, as a result of the reduced liabilities on the basis of interest.

In Paris, Minister Slaveski also met the Governor of the Council of Europe Development Bank, Mr. Rapha?

Alomar. Slaveski and Alomar discussed the realization of CEB-funded projects in the previous period, and generally agreed on the future financing of two projects - first one in the field of education (construction of sports halls in the schools), and the second one pertaining to improvement of the conditions in the houses of correction in the Republic of Macedonia.

#### **MAT AND SEMAR GROUP SIGNED AGREEMENT ON PARTICIPATION IN THE TOURISM DEVELOPMENT PROJECT**

Macedonian Air Transport - MAT and Semar Group English company, professionally managing the "Metropol" hotel compound in Ohrid, signed and made official



the Agreement on Long-Term Business Cooperation and Joint Performance in the mega project for real sustainable development of the modern tourism in the Republic of Macedonia. The English partner, with the planned completion of the offer for services with investments that are in progress, as stated in the MAT announcement, expects to ensure, through its international agency network, constant interest and tourist arrangement for 12 months, especially for the attractive Ohrid. To that end, national airline MAT, as stated in the announcement, i.e. already preparing to open three new regular lines, connecting Ohrid to Paris, London and Amsterdam. This project, as MAT point out, even in its initial stage is of special interest for the Ohrid region and the Ohrid Airport, which is expected to serve more than 35,000 passengers annually, combined tourist arrangement and regular passengers, according to the set flight schedule to the already defined initial destinations.

#### **GOVERNMENT TO STIMULATE FIRST EMPLOYMENT WITH DENAR 500 MILLION**

The Government allocated over Denar 500 million to the 2007 Budget for employment of young people, single parents, handicapped persons and long-term unemployed persons, stated the Minister of Labour and Social Policy, Mr. Ljupco Meskov, at the Conference on Employment Policies, presenting the 2006-2010 National Employment Policy, as well as the 2006-2008 National Employment Action Plan. National Employment Strategy sets the objectives and specific employment policies according to the real situation, conditions and possibilities in Macedonia.

As the Minister of Labour and Social Policy pointed out both the National Strategy and the Action Plan are pre-



pared within the broader partnership with many bodies and organizations, social partners and Association of Local Government Units. In 2007, Ministry of Labour and Social Policy allocated EUR 10 million within the credit line approved by the Council of Europe Development Bank earmarked for job creation. At the same time, in 2007 the Ministry will extend financial support to self-employment, where the target group are persons living in undeveloped areas and long-term unemployed persons. Employment Policy project is financed by the European Union, and it administered by the European Agency for Reconstruction. Project objective is for the employment rate in Macedonia to be increased to 48% by 2010 from the 37.9% of employed persons last year.

## **AQUAPURA, INVESTOR IN PRESPA, PRESENTED THE HOTEL COMPOUND TO THE MINISTERS**

Aquapura, Portuguese company that builds luxurious hotel compounds, presented the Government the project for construction of another hotel compound of the Aquapura chain of brands, in Prespa. In June 2006, it bought 50 hectares of land along the Prespa Lake. Construction of the hotel compound in Prespa will cost from EUR 35 to 40 million. It will be built in former tourist places Otesevo and Carina on an area covering 50 hectares, and it will comprise an exclusive hotel with 70 rooms and apartments, 50 villas, and a spa complex spreading on 2.000 square meters, business center with meeting rooms equipped with latest audio and visual communication systems, ski center on Galicica Mountain and 6.000 hectares of hunting area in the village of Brajcino.

The project envisages elite tourist center to be surrounded by the protected area of the Galicica National Park within a radius of one kilometer.

Construction companies from Macedonia will be engaged in the construction process, and the hotel compound will opened 350 to 400 new job positions. It is planned for the hotel compound to be completed by the end of 2010.

The Portuguese company bought the land in Prespa at the price of EUR 1 per square meter, to the end of reviving the standstill region on the Prespa Lake. This project is one more project within the chain of luxurious hotel facilities with the name of the Portuguese company Aquapura. Designer of the architectural solution for the hotel compound to be built in Prespa is the leading Portuguese architect Manuel Aries Mateus.

## **SWEDMILK TO OFFER LONG-TERM CONTRACTS TO THE FARMERS**

Construction of dairy plant "Swedmilk Macedonia" in Belimbegovo near Skopje, Swedish-Macedonian investment worth EUR 15 million, started. The first stage covers the construction of the plant on an area of 6,600 square meters with latest technology for milk processing. The dairy plant, to process 250 tones purchased milk a day, is planned to employ 100 persons. The company announced that 50 tones of milk will be purchased a day at the beginning. Director of "Swedmilk Macedonia", Mr. Roger Oscarson, said that they invest in the country because they found business opportunities to develop

the milk industry. - Farmers will be offered long-term cooperation contracts. Our objective is to replace the imported milk with the domestic one, said Oscarson. The foundation stone ceremony was opened by Prime Minister Nikola Gruevski. He said that the investment is "welcomed for mitigating the milk crisis that happens in the country every year".

- Other investment are also possible so as to become large milk producers, said Gruevski.

Swedish ambassador to Macedonia, H.E. Ms. Ulrika Kronenberg-Mossberg, said that this is the largest Swedish investment in the country, thus realizing the idea for the Macedonian consumers to buy quality domestic milk and milk products. Products from the dairy plant will be exported to Kosovo and Albania too. "Swedmilk Macedonia" is a direct foreign investment, with a majority Swedish capital. One of the shareholders, with almost 30 percentage share in the ownership, is the Swedfund commercial investment fund of the Swedish Government. Contractor for the facility is ELSA-D company from Skopje, and the deadline for the construction of the dairy plant is 31st May 2007.

## **TWINNING PROJECT TO DEAL WITH LAND DEGRADATION AND DEVASTATION**

Macedonian will be awarded technical and expert assistance from OSCE to locate the problem of land degradation, devastation and the manner how to prevent the pollution and degradation from the industry, mining, concessionaries using mineral raw materials.

As the Ministry of Environment and Spatial Planning announced, it was agreed on the meeting at the 15th Economy Forum in Vienna, between the Macedonian delegation headed by the Deputy Minister of Environment and Spatial Planning, Ms. Sonja Lepitkova, and the OSCE Mission Project Officer, Ms. Alice Akerman.

Macedonian delegation also established contacts with the delegations from Croatia, Albania and Serbia on the regional participation in resolving this problem, as well as the expert team from Germany, who offered assistance in resolving similar problems they faced in the past years, and resolved successfully.

It was agreed for republic of Macedonia to participate in more training program in the future, to the end of establishing cooperation, exchanging experience and implementing the latest knowledge in this area.



Main topic on the 15th Economy Forum in Vienna was "Land degradation and devastation - a challenge to public safety and sustainable development", organized by OSCE.

It is believed that land degradation and devastation are global problems, and the Forum is of essential importance to planning the activities for prevention of these phenomena. Estimates are that devastation influences over a billion people in 110 countries, most of them poor.

### AQUA PARK TO BE BUILT IN OHRID

Aqua Park is going to be built near Metropol Hotel compound. The investment is worth EUR 30 million. English management team, which recently started managing the Metropol Hotel and the Bellevue Hotel, is to construct the Aqua Park.

Construction of the Acqua Park will start this year, and it will serve up to 2,000 visitors daily.

Construction of the Aqua Park, as well as the realization of the planned projects for construction of golf courses and winter ski center Galicia are expected to enrich the offer by the city of Ohrid, and to make it an attractive tourist destination.

### NEW PRODUCTION OF BIO-DIESEL

Blagoj Gorev - Veles, a factory producing cooking oil, margarine and other canned products, will open new facilities for production of bio-diesel in May. The investment will be in the amount of EUR 1 million, and the factory will produce 100 tones bio-diesel daily, said the company management.

- Decision to produce bio-diesel was reached at the Management Board. What remains to be done is the preparation of the investment plan and to find raw materials at favourable prices, said Nikola Varadinov, General Manager at Blagoj Gorev.

Production of bio-diesel will be located in the existing facilities of the Veles oil factory. Varadinov said that machines for production of cooking oil should only be adapted so to be able to produce bio-diesel.

- We already have 80% of the necessary oil refine level to obtain the bio-diesel. We need to provide additional 20% of equipment and Blagoj Gorev will be ready to produce bio-diesel, said Varadinov. Bio-diesel facilities will start operating with 20 or so workers. There will be no new employment, but part of the existing 418 employees in Blagoj Gorev will be shifted to new facilities.

As Varadinov said, it is possible for the bio-diesel to be sold to the bio-diesel factory Makpetrol builds at the moment. Should the negotiations with Makpetrol fail, bio-diesel will be exported to Slovenia and Germany. Veles factory for cooking oil, Blagoj Gorev, was restarted in August last year and at the moment it operates with 30% utilization of the facilities. Four dominant owners invested EUR 2 million when the factory was restarted. Last autumn, Blagoj Gorev purchased 3,790 tones of sunflower, and at the moment, it is processing 500 tones of oil monthly.

### HYPO BANK STARTS LEASING OPERATIONS IN MACEDONIA

Austrian Hypo Alpe Adria Bank, which acquired the license to perform leasing operations in Macedonia, finally commences its operations. According to "Vecer" newspaper, the started is envisaged in February.

At the beginning, the operations of the company will be aimed only at extending leasing for cars, and later on, it will extend it operations to granting real estate leasing services in Macedonia. Goal of Hypo Alpe Adria is to cover even 90% of the leasing market in the country, which is still underdeveloped.

License for a leasing company was issued prior to New Year, with all accompanying permits. The company is located in the premises of "Plaza" trade center.

Hypo Aple Adria is an international financial concern, having its offices in 12 countries around the world. Macedonia is the last of the former Yugoslav republics where Austrian Hypo Bank establish their office. Experience showed movements in the banking sector everywhere Hypo Bank are present.

At the moment, there are two dominant companies on the leasing market - Euro Leasing of Eurostandard bank and NLB Leasing of the NLB Tutunska Bank, although six other acquired working licenses.

### CASPIAN OIL IS TO FLOW IN 2010

After 13 years of promoting the idea for the AMBO long-distance oil pipeline to transport Caspian oil, and to pass through Bulgaria, Macedonia and Albania, convention for construction of this trans-Balkan long-distance oil pipeline was signed in Skopje. In the presence of the President of AMBO Consortium, Mr. Ted Ferguson, the convention was signed by the Ministries of Economy of Macedonia, Ms. Vera Rafajlovska and Albania Mr. Genz Ruli, and the

Minister of Regional Development and Public Works of Bulgaria, Mr. Asen Gagauzov. Construction of the long-distance oil pipeline will last for three years, and Mr. Ferguson expects the first oil tankers to depart from the Albanian port Vllona to the European countries and broader in 2010 or at the beginning of 2011.



- Signing of this convention is a very important part for the successful realization of the project. The convention is signed by the three countries. The signing was preceded by many negotiations with experts, but although AMBO was engaged in the negotiations all the time, most of the work was completed by these three countries, said Ferguson.

He also announced that the environmental study by the experts, to come to the countries, should be completed in the coming six months, and following that period, civil engineering works and the first orders of the materials are to begin. He expected for the construction of the long-distance oil pipeline to begin by the end of 2008.

Macedonian Minister of Economy, Ms. Vera Rafajlovska, said that the project is of great significance not only of the three countries, but also of the other European and other countries.

Long-distance oil pipeline is 894.5 km long, around 273 km of which pass through Macedonia. The line will pass through Deve Bair border crossing, through Kriva Palanka, Sveti Nikole, Veles, Bogomila, Krusevo, Sopotnica, Botun, Lakaica and the border with Albania.

### **INTERCONTINENTAL BUILDS HOTEL - CASINO AT BOGORODICA BORDER CROSSING IN THE AMOUNT OF EUR 50 MILLION**

World-known hotel brand Intercontinental will build a hotel at the Macedonian-Greek border crossing Bogorodica. The hotel will be built right next to the Flamingo Hotel-Casino. The construction is worth EUR 50 million, and it will begin in spring.

It will be a four-storey hotel, covering an area of 26,000 square meters. Gevgelija municipality confirms that this location is bought, and all utility fees are paid. It will be a super-luxurious 6-star hotel. The construction will begin in spring due to the fact that a hotel is being built in Kiev at the moment, and according to company rules, two facilities should not be built at the same time.

### **MACEDONIA - INVESTMENT PRIORITY**

Macedonia is one of the 15 countries the Netherlands sees as priority destination to invest. Businessmen from this country show the greatest interest in tourism, agriculture, IT, textile, metal, milk and graphic industry. According to the President of the Netherlands Chamber of Commerce, Mr. Peter John Bose, it is envisaged to realize six to seven projects this year, supported by the Dutch Government, or 20% more in comparison to last year.

The Netherlands is one of the main donors in our country.

### **"VITAMINKA" EXTENDED EUR 4 MILLION FROM EBRD TO PROCURE EQUIPMENT**

"Vitaminka" from Prilep is the first company from the Western Balkans to be beneficiary of EBRD loan in the amount of EUR 4 million. This credit line will be used for procurement of equipment for the new facility for production of cookies and biscuits.

- Under this investment, "Vitaminka" will start the medium-term development for a period of five to ten years. Placement for the new range of products, which we are focused on, is already ensured. 2,200 cookies and biscuits will be produced annually, 70% out of which will be for the domestic market, and 30% will be exported, said Simon Naumoski, Director at "Vitaminka".

Investment is to be finalized by the middle of the year, and 50 workers will be employed. EBRD representatives pointed out that this credit line is intended for the local enterprises in the Western Balkan countries.

- Total value is EUR 30 million. EUR 20 million is from EBRD, and EUR 10 million is provided by the Italian Government. Thus, EBRD supports and stimulates the new government in its efforts for faster economic development of the country, said Mr. Kenji Nakazawa.

"Vitaminka" is one of the three most successful companies from Prilep, with approximately 300 employees.



## SLOVENIANS CONSIDER MACEDONIA TO BE AN EXCELLENT INVESTMENT DESTINATION

- Macedonia offers excellent conditions for investments, and Slovenia has a lot of capital and it is an EU member state. There are no limitations regarding our interest in investing. I would like to point out the following as especially attractive fields to invest in: tourism, IT, energy and agricultural production, said the President of the Slovenian Private Chamber, Mr. Hribar Milik, at the opening of the Slovenian-Macedonian Business Forum.

Milik said that Slovenia could significantly contribute to the development of the Macedonian economy.

- We can significantly accelerate the economic development of Macedonia, contribute to job creation and stimulate the export of Macedonian products. Macedonia has land and educated personnel, oriented towards development and ready to manage the new tasks, said Milik.

Milik pointed out that more than 100 Slovenian companies attended the Forum in Skopje.



- We have more than 25% of the Slovenian economy here today, a highly influential group of people regarding energy, agriculture, IT and pharmaceutical industry. They are all interested in investing in Macedonia. There are a lot of announcements for specific deals. I expect for many contracts to be signed, pointed out the Director of the Slovenian Private Chamber.

Boris Lozei from "Meblo" in Nova Gorica announced a specific investment in Macedonia in two years at the latest.

- We plan to start with the production of part of the program regarding Jogi mattresses, upholstery and furniture. We plan to start production with a company from Vinica in two years at the latest, said Lozei, adding that the annual sale of Meblo in Macedonia amounted to EUR 300,000.

According to Marjan Kremer from Nova Ljubljanska Banka, one can successfully operate in Macedonia and realize the business interest, pointing out Tutunska Banka.

Primer Ministers of Macedonia and Slovenia, Mr. Nikola Gruevski and Mr. Janez Jansa, addressing the participants in the Forum, pointed out that although economic relations between the two countries were excel-

lent, there was still a room to intensify the cooperation.

- Energy, transport, IT, tourism and trade are the areas in which Macedonia and Slovenia can deepen their so-far cooperation. In the recent period, Macedonia has advanced a lot, it has become part of CEFTA and the energy system and it has reduced the taxes. It will increase the interest at the foreign investors, and will lead to job creation. Macedonian Government offers interesting proposals for the Slovenian businessmen, said Mr. Jansa.

Mr. Jansa also pointed out that in December 2006, Slovenian investments in Macedonia reached the amount of EUR 111 million, being 4% of all Slovenian investments abroad.

Mr. Gruevski said that Slovenia was a very important partner to Macedonia, not only from a political, but also from an economic point of view.

- Last year, trade was realized in the amount of EUR 150 million, and the inflow of direct investments was EUR 40 million, said Mr. Gruevski.

## FOUR NEW FACTORIES WORTH EUR 30 MILLION TO BE BUILT IN STRUMICA

Four new processing facilities, to employ 3,000 workers, are to be built in the next several years in Strumica surrounding. Factories for production of textile, textile raw materials, canning and electrical materials will be built by "Stefilko" multinational company with Greek, Dutch and Spanish capital, investing more than EUR 30 million.

Construction of the facility for textile raw materials and the canning factory will start in the summer period, and will start operating at the beginning of the next year. 1,500 persons are to be employed in both factories.

Regarding this important investment, around 40 hectares state-owned land will be leased to "Stefilko" for a period of 99 years.

- Municipality of Strumica will soon initiate a procedure for changing the usage of the land, which is now under concession of the Institute for Citrus Fruits, and urban plan for construction of the industrial facilities is to be adopted by mid-April. Ministry of Transport and Communications will afterwards publish an announcement for lease of the lot, which has not be cultivated so far due to its low agricultural value, and immediately after being awarded the concession, "Stefilko" will announce the opening of the fourth industrial zone, thus practically announcing the start of the intensive economic development in Strumica, said the mayor, Mr. Zoran Zaev.

"Stefilko" has already prepared a full feasibility study, with special project solutions for each factory, and part of the equipment to be embedded in the first two facilities has already arrived in Strumica.

## SIEMENS TO OPEN SOFTWARE DEVELOPMENT CENTER IN SKOPJE

German company Siemens will open Software Development Center in Skopje. This was announced by Mr. Vasilis Kastanis, Siemens' Regional Manager for Development, following the meeting at the Government with



the Vice Prime Minister in charge of Economic Issues, Mr. Zoran Stavreski.

During the first year, Siemens plan to employ 10 to 20 people when opening the Software Development center, who will undergo training in other countries where the company is present. To that end, advertisement would be placed for employment of new software engineers, said Mr. Kastanis, pointing out that the team to work with was to be composed within a month.

Mr. Stavreski said that the announced investment by Siemens would be a good signal for investments in Macedonia by other companies as well.

## AUSTRIAN COMPANY TO BUILD WASTE RECYCLING COMPANY IN STRUMICA REGION

Representatives of the Austrian company Zaubermaher, who have recently visited Strumica, said they were optimistic that upon conquering the Slovenian market, they would enter the Macedonian utility business too.

At their meetings with the mayors of the municipalities of Strumica, Novo Selo, Bosilovo and Vasilevo, which have recently launched a joint initiative for this company to collect, transport and recycle waste in the region of Strumica, the Austrians expressed full readiness to take over the waste treatment business in this region and build a factory for waste recycling.

- We hope to implement the so-far positive experience of most of the municipalities in the Republic of Slovenia in their cooperation with Zaubermaher in your country as well, and to finally resolve the utility waste issue in Strumica region, which will be a big step forward in the efforts to overcome the piled up environmental problems, for the good of the citizens, said the mayor of Strumica Municipality, Mr. Zoran Zaev.

Regarding the initiative for regional approach to the issue of utility waste management, there is a joint consent by all political parties, and the four municipalities are expected to give their positive opinion on the offer by the Austrian company by the end of March.

- We are now in a stage of finding the model how Zaubermaher company can, in the most rational manner, collect and transport the utility waste in the whole region, and how much it will cost the citizens. We expect certain difficulties in the inhabited places, where the waste is not collected in an organized manner and the citizens have not allocated funds for that purpose so far. However, we do hope that the environmental conscience of most of our citizens is at a satisfactory level and that sense for cleaner and healthier environment will finally prevail, said the mayor of Bosilevo Municipality, Mr. Gorgi Manusev.

## CROATIAN GS HOTELS TO DEVELOP MACEDONIAN TOURISM WITH FUNDS PROVIDED BY EBRD

Croatian company GS Hotels & Resorts will develop tourism in the country. The company was provided EUR 52.6 million from the European Bank for Reconstruction and Development (EBRD). Funds are intended for development of high-quality tourism. Apart from development of the tourism on the Croatian coast, the company, as envisaged in the project, should develop tourism in Macedonia, Bosnia and Herzegovina and Montenegro. GS Hotels & Resorts should transfer its experience in the development of tourist capacities and their management in these three countries in the region. The decision by EBRD will be reviewed at the bank's Management Board on 20th February.

GS Hotels & Resorts is leading hotel management company in Croatia. It owns the Bellevue Hotel, Dubrovnik Palace, Excelsior and Kompas in Dubrovnik and Bonavia Hotel in Rijeka.

# DETERMINANTS OF STOCK PRICES ON MACEDONIAN STOCK EXCHANGE<sup>1</sup>

**This study tries to meet two objectives: the first, to identify the factors that caused large upward shift of the stock index level in 2005; and the second, to test the relationship between the stock market returns and macroeconomic developments in the country**

**Dimitar Bogov, MA**

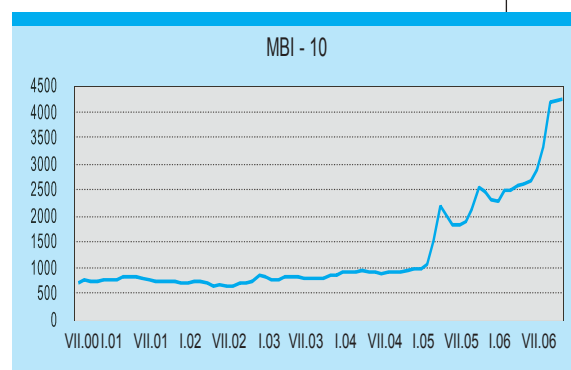
Dimitar Bogov has 14 years of working experience. He held managing positions in the State Statistics Office and the Ministry of Finance working on macroeconomic statistics, economic analyses, macroeconomic projections, economic policy and participated in the negotiations with the IMF. For a short period he worked in the Macedonian Business Centre, making financial analyses, investment projects and business plans for small private companies. The last four years he worked as Chief Economist in Stopanska Banka AD Skopje - the leading bank in Macedonia. As of February 2007, he is Vice Governor of the National Bank of the Republic of Macedonia.

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

This study is the first attempt to shed some light on the developments on MSE in the period 2000-2006. Short history of MBI 10 and insufficient statistics for listed companies were serious challenges during conducting of this pioneering research. Therefore, before embarking to any empirical research it was necessary to collect, estimate and backcast the necessary data. Thus, one of the most important by-products of this study is extensive statistics compiled and produced for the sample of ten companies whose stocks are included in MBI 10.

The period under observation in this study was from July 2000 to October 2006. It was selected on the base of data availability. Due to the structural break at the beginning of 2005, two sub-periods were distinguished: one from July 2001 to December 2004 and the second from January 2005 to October 2006. All analyses were conducted for the three time periods.

This study tries to meet two objectives: the first, to identify the factors that caused large upward shift of the stock index level in 2005; and the second, to test the relationship between the stock market returns



and macroeconomic developments in the country.

For that purpose I used several methods and tools. At the beginning I made a comparative overview of the developments on MSE with the similar stock exchanges in the region. Although small by size, MSE is quite comparable to the stock exchan-



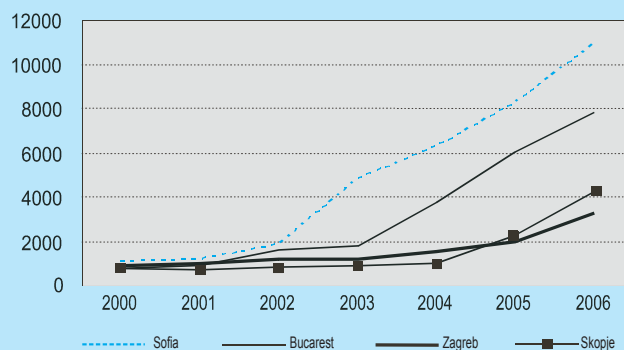
<sup>1</sup>) This article presents conclusions of the Dissertation prepared by the author as Master thesis on MBA studies at Sheffield University.

ges in the region like Bulgarian stock exchange, Bucharest stock exchange, Zagreb stock exchange, Belgrade stock exchange and Sarajevo stock exchange. In 2006 it even outperformed most of these stock exchanges by liquidity. This comparison revealed that MSE is a typical stock exchange for a transition economy in South Eastern Europe. All these stock exchanges have similar development paths and suffer from same deficiencies.

The next step in the comparison of MSE with peer institutions in the region was to analyze the stock index trend. This time comparison was done with the stock exchanges of the three countries which are more advanced in the transition and EU integration process: Bulgaria, Romania and Croatia. It was discovered astonishing similarity of the stock index development on all four stock exchanges. They all experienced a period of sharp price hike. The only difference was timing. Bulgarian and Bucharest stock exchanges were first to be hit by investors' optimism in 2002, followed by Zagreb stock exchange in

tion to the earlier stages of accession process. Investors are able to anticipate the future events, thus making earlier pricing of EU integration effects in the case of MSE.

Comparative overview of stock market indexes of four South-Eastern European countries<sup>2</sup>



The second step was to analyze developments of stock prices on MSE with use of descriptive statistics. For the sake of this exercise, MBI 10<sup>3</sup> was backcasted for the period July 2000 to December 2004 with the use of same methodology applied by MSE. Thus, the period of observation of MBI 10 was extended back for 54 months preceding to January 2005 when it was officially launched by MSE. A total of 1201 daily observations were covered in this analysis. Graphical presentation of data clearly distinguished two sub-periods. The first was from July 2000 to December 2004 with a total of 792 daily observations and the second from January 2005 to October 2006 with a total of 409 daily observations. Descriptive statistics of the two sub-samples was quite different. The first sub-period was characterized with small volatility in both directions, while the second sub-period showed high volatility but only in upward direction. The same descriptive statistics was inspected for the ten stocks included in MBI 10. The same two sub-periods could be distinguished in every single case.

Such pattern of the two sub-periods is related to the sharp shift in liquidity level. Before 2005, the average annual trading volumes of stock equaled EUR 30 million, while in 2005 and 2006 it soared to almost EUR 200 million in a year. Corrected by the number trading days, trading volume in the first sub-period was close to EUR 200 thousands per day, while in the second sub-period it reached almost EUR 900 thousands per day.

**Information can be quite useful tool in explaining the price movement on MSE. However, there are other factors that have substantial influence and have to be taken into account in the evaluation of investment possibilities on MSE.**

2004 and MSE in 2005. It was obvious that the price explosion on all four stock exchanges was triggered by the same diver. The magic word was EU integration. However, it could be noticed a difference in the EU integration milestones that raised investors' optimism. In the case of Bulgarian and Bucharest stock exchanges it was the start of the negotiations.

In the case of Zagreb stock exchange the trigger for stock prices rally was moved to an earlier milestone i.e. the granting of the status of a candidate country for EU membership. In the case of MSE investors' reaction came in the stage of delivering to the EU Commission the replies to the questionnaire used to assess the country's readiness for a candidate status. It seems that there is learning effect. Investors' experience acquired from the EU integration of other countries moves their reac-

2) Bulgarian Stock Exchange index base value is 100, while other three stock exchanges are based on 1000. In order to make them comparable in nominal values, Sofia stock index was multiplied by 10.

3) Due to incomplete data for the trading volume of all stocks before 2005, it is assumed stable sample of 10 stocks included in MBI 10. Therein, its content is taken as it was in the first half of 2006 (Alkaloid, Granit, Evropa, Komercijalna banka, Makedonija turist, Makpetrol, Ohridska banka, Stopanska banka Bitola, Toplifikacija i Fershped).



The third step in the study was to analyze stock prices developments through the information contained in the accounting data. Based on the empirical evidence in the literature as well as popularity among the investors, an analysis was focused on P/B and P/E ratios. Therein, the main consideration was based on Fairfield (1994) who states that P/E reflects anticipated changes in future profitability, while P/B reflects anticipated level of future profitability. If the market value of a stock is equal to the book value it means that market does not expect any increase of profitability in the future. If the market value is higher than the book value, then the market participants are paying premium for that stock anticipating higher than current profit in near future.

P/B of MBI 10 stocks

	ALK	KB	EVR	FER	GRA	MPT	MTU	OB	SBB	TPF
2001	0,42	0,24	0,47	0,19	0,15	0,31	0,21	0,66	0,22	0,44
2002	0,50	0,20	0,49	0,17	0,16	0,33	0,29	0,36	0,61	0,46
2003	0,51	0,28	0,36	0,16	0,17	0,37	0,30	0,69	0,55	0,41
2004	0,52	0,43	0,27	0,11	0,15	0,39	0,30	0,52	0,56	0,44
2005	1,09	1,68	0,39	0,42	0,47	0,52	0,55	1,55	1,47	0,85
2006	1,66	3,26	2,22	0,85	0,97	1,70	0,77	2,97	2,18	1,12

P/E and especially P/B point to substantial undervaluation of stocks on MSE till 2004. This made them very attractive for the investors. What was the level of undervaluation could be illustrated with the fact that despite the low ROE investors could return their investment in some of the MBI 10 stocks in only two or three years with the earned dividend from the same stocks. This could not pass unnoticed by investors when the EU future of the country became more certain. With the political risk going down the price rally was inevitable.

P/E of MBI 10 stocks

	ALK	KB	EVR	FER	GRA	MPT	MTU	OB	SBB	TPF
2001	9,1	8,1	46,9	1,3	1,7	-2,5	2,3	5,9	1,7	7,8
2002	9,9	3,9	387,8	1,6	2,2	8,2	3,9	2,7	4,1	7,8
2003	9,7	4,1	57,4	1,5	2,0	3,3	4,7	5,7	4,0	6,9
2004	9,3	2,3	28,3	1,1	1,9	10,8	4,7	4,2	4,0	7,0
2005	16,8	17,2	70,9	7,0	3,8	13,7	8,5	12,8	9,4	17,8
2006	25,5	33,3	403,9	14,2	7,9	44,6	11,9	24,5	13,9	23,7

In spite of the price increase in the last two years, which was up to eight times for some of the stocks, at the end of 2006 P/B ratio is still moderate for most of them

and for three stocks it is below 1. On the other hand, P/E ratio went quite high indicating that the new price level is too high if viewed through the current profitability of the companies in MBI 10. However, this is rather a consequence of the low current profitability than high price. Thus, it is logical to assume that investors anticipated higher profitability of the companies after the possible acquisition and improved management.

This assumption was tested with correction of MBI 10 companies' earnings with ROE characteristic for emerging markets companies in the same industries. After the corrective exercise, P/E ratios are much more plausible implying annual return of at least 7%. The only exception are two banks who publicly revealed their strategic goal to be acquired by strong EU based banking groups in near future and therefore caused speculative pressure on their stock prices.

Thus, this analysis implies that information can be quite useful tool in explaining the price movement on MSE. However, there are other factors that have substantial influence and have to be taken into account in the evaluation of investment possibilities on MSE.

Estimation of the cost of capital is a method that adds some additional insight into the stock prices analysis. Therefore, as a fourth step in this study I applied CAPM to the MBI 10 stocks. For application of this tool it was necessary to estimate beta risk factors for all MBI 10 stocks. Consistently with the set objectives beta were also calculated for two sub-periods. This was done by regressing weekly returns of 10 individual stocks with weekly return of MBI 10. Regression statistics significantly improve in the second sub-period. However, with the exception of two stocks R squared is still relatively low.

Low R square for eight out of the ten stocks indicates weak relationship between individual stocks and the market. It means that stocks are influenced by many other non-market factors and therefore they have some autonomous drivers. Estimation of stocks beta statistics also reveals that increase of trading volumes of individual stocks significantly improves their responsiveness to the market, which happened in the second sub-period. Also, stocks with higher trading volumes are better related to the market. Therefore, one should always be cau-

4) Capital Assets Pricing Model (CAPM)

5) R<sup>2</sup>

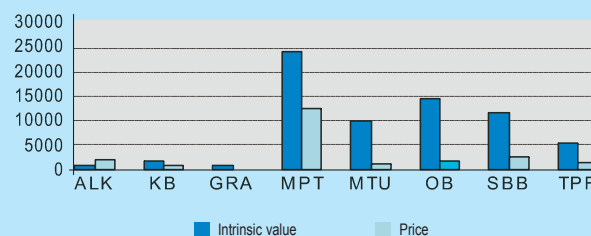
tious in interpreting betas of low trading volumes stocks on MSE, since they could be seriously underestimated.

Regression statistics of beta

2000-2006	ALK	KB	EVR	FER	GRA	MPT	MTU	OB	SBB	TPF
Beta	1,34	1,27	0,45	-0,03	0,92	0,91	0,35	0,61	0,65	0,49
R Square	0,59	0,37	0,03	0,00	0,22	0,27	0,06	0,13	0,09	0,13
t Stat	22,41	14,24	3,25	-0,40	9,95	11,41	4,86	7,15	5,94	7,03
2000-2004	ALK	KB	EVR	FER	GRA	MPT	MTU	OB	SBB	TPF
Beta	1,90	1,05	0,46	0,09	0,12	0,90	0,03	0,35	0,59	0,50
R Square	0,60	0,14	0,03	0,01	0,00	0,23	0,00	0,03	0,03	0,07
t Stat	18,67	6,06	2,66	1,36	1,05	8,25	0,26	2,53	2,58	4,21
2005-2006	ALK	KB	EVR	FER	GRA	MPT	MTU	OB	SBB	TPF
Beta	1,10	1,38	0,39	-0,17	1,26	0,91	0,48	0,70	0,68	0,48
R Square	0,70	0,67	0,02	0,01	0,38	0,29	0,18	0,22	0,36	0,18
t Stat	16,07	14,89	1,56	-0,97	8,34	6,71	4,99	5,63	7,92	4,95

Having this in mind I continued with the cost of capital analyses for eight stocks with acceptable beta estimates. Comparison of required rate of return with the expected rate of return on MBI 10 stocks revealed that in 2004 investors could expect much higher return than required for most of the stocks. Thus, the price rally in 2005 was a quite logical development. After the price hike in 2005 and 2006, situation dramatically changed in 2006 i.e. expected rate of return was lower than required rate of return, but investors' optimism did not vanish. Therefore, I made additional exercise and instead of using current

to 7% (including 4% real growth and 3% inflation). Required rate of return was estimated in the CAPM.

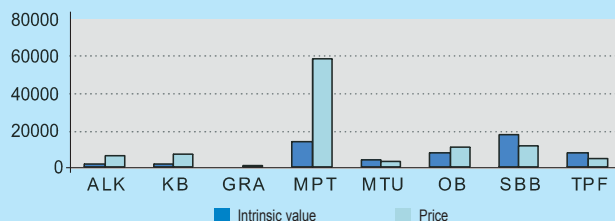
Intrinsic value vs. market price  
2004

DDM applied on MBI 10 individual stocks confirms the empirical findings that it gives best results for stable growth companies with stable payout ratio. Thus, not surprisingly DDM gives the most plausible results for the value of the stocks of two companies with the most stable dividend payout policy. Intrinsic value estimated by the DDM indicated that seven out of eight MBI 10 stocks were undervalued in 2004, but five of them turn to be overvalued in 2006. The situation did not change much even after correction of expected dividend with the dividends characteristic for the emerging markets companies from the same industries. These results just confirm the findings from P/E and CAPM analysis.

**Estimation of stocks beta statistics also reveals that increase of trading volumes of individual stocks significantly improves their responsiveness to the market**

earnings for estimation of expected earnings, I used earnings of emerging market companies from the appropriate industries. Situation has changed only for three companies. This means that investors' interest for these stocks is driven by other factors than the expected rate of return. Such conclusion is consistent with the result of the P/E and P/B analyses already elaborated above and can be explained by the expected acquisition of these banks.

Fifth step in this study was to estimate intrinsic value of the MBI 10 stocks with the use of DDM. For this purpose I used the Gordon stable growth model although one can argue that two stage model can be more appropriate. I assumed a growth rate of dividend to be equal to the growth rate of nominal GDP which was projected

Intrinsic value vs. market price  
2006

Eventually, I tested the relationship between fundamental risk factors and MBI 10. For this purpose were selected six macroeconomic variables which are reliable, are important indicators of economic activity, have sufficiently long and consistent history, are available at least with a monthly frequency, and have been used in similar analyses in other economies. Three of the variables were real and three nominal. Due to the structural break of MBI 10 in 2005, I introduced in a regression a dummy variable to control for it. Regression run for the period July 2001-September 2006 showed rather disappointing results. It appeared that only a dummy variable

is significant and explains almost all volatility of the MBI 10 return, while all six macro variables were rejected at 5% confidence interval. Second run of the regression without two variables with the weakest t-statistics just confirmed the same conclusion.

It is obvious that due to a structural break in the MBI 10 it is impossible to find any relation between macro-economic data and stock market return. Therefore, I decided to rerun regression for a shortened period i.e. July 2001-December 2004. It covered 42 monthly observations. The same six independent variables were used, but dummy variable was not needed any more. The first run of regression showed that only money supply is related to MBI 10, while benchmark interest rate was on the edge of acceptance. Therefore, second run was done without two real variables and one nominal that had the lowest t-statistics. This time all variables were significant. Thus, it appeared that MBI 10 shows relationship to M2, benchmark interest rate and export. Money supply and benchmark interest rate have inverse relationship and export positive relationship. This finding is consistent with the most empirical findings in the literature and in same time logical from the point of view of transmission mechanism in domestic economy.

The first five steps in this study give quite consistent findings in answering the causes of the MBI 10 pattern in the period July 2000-October 2006, which was the first objective of the study. There was a combination of several factors causing the increased trading and stock prices hike on MSE in 2005. They can be summarized as follows:

- legislation and institutional changes introduced in the period 2000-2002;
- political stabilization of the country endorsed by start of the EU integration process;
- reduction of country risk and issue of the first sovereign credit rating (BB) by Standard and Poor in 2004;
- inflow of foreign portfolio investments from the regional investments funds brought more realistic valuation of stock prices and had positive impact on domestic investors who discovered new investment opportunities;

- expectations and speculations for acquisitions of some listed companies by foreign strategic investors;
- tax advantages for both, listed companies and investors on the stock exchange;
- pension reform and start of the second pillar in 2005;
- increased financial transparency and obligatory disclosure of price sensitive information for listed companies introduced by MSE in 2004;
- attractive returns offered by highly undervalued stocks on MSE.



**DDM applied on MBI 10 individual stocks confirms the empirical findings that it gives best results for stable growth companies with stable payout ratio**

The second objective of the study was to test if the MBI 10 return can be explained by fundamental risk factors. The regression analysis conducted for this purpose showed that some relations characteristics for other stock exchanges could be noticed on MSE too. Developments on MSE cannot be isolated from the influence of macroeconomic policies and developments. However, in this turbulent juvenile period of the stock exchange, the impact of the macroeconomic variables is crowded out by structural one-off factors.

This is a pioneering study of the MSE. It showed that despite its small size and low liquidity, MSE is comparable to any other stock exchange of the emerging markets of South-Eastern Europe. It produced a comprehensive statistics for MBI 10 stocks and offered a framework for their analyses. For the first time were estimated beta factors and intrinsic values for MBI 10 stocks with the use of DDM.

The future researches of MSE developments could be focused on more in-depth analyses of risk premium, or the link between accounting information and stock returns. Also, it would be interesting to check the relationship between fundamental risk factors and MBI 10 return after accumulating two more years of monthly data.

# EXCHANGE RATE REGIME AND EXPORT PERFORMANCE OF THE REPUBLIC OF MACEDONIA

**For more than a decade, the Republic of Macedonia operates with an exchange rate targeting strategy. With de facto pegged currency, it is expected export performance of the country to strengthen as a result of the achieved macroeconomic stability in the economy, which then articulates positive impulses on export incentives. In the period 1997-2006, the fixed denar exchange rate policy of Macedonia positively affected export performance, so that this strategy has resulted with an effect of trade creation in the economy**

Marjan Petreski, MA

Marjan Petreski MSc was born in 1982 in Prilep. He graduated in 2005 from the Faculty of Economics in Prilep, major - Accounting, Finance and Audit with the highest average mark in his generation. He obtained MSc degree in 2006 on the University of Sheffield in the department of Banking and Finance, with a narrow focus on International Finance, acquiring title of distinction. He studied at Johan Wolfgang Goethe Universitat in Frankfurt attending a specialized course in European Central Banking, attending seminars in the European Central Bank and in the Deutsche Bundesbank. Currently, he is at the post-graduate studies in European Integration within the Centre International de Formation Européenne - CIFE in Berlin, under a scholarship from the European Commission. As of December 2006 he works within the Ministry of Finance, in the Macroeconomic Policy Department. At the same time, as of October 2006, he is a lecturer at the Euro-College, Kumanovo, teaching International Corporate Finance and Monetary policy & Banking. He conducted research and published a number of articles in various economic magazines in topics of his area of expertise.

## Introduction

Against a background of increasing propulsiveness towards more flexible options of exchange rates in the developing countries, one of the issues of academic interest is the effect of the chosen exchange rate regime in the developing countries on their export performance. Breaking-down this issue gains on importance in the developing countries since these countries often base their development strategy on the so-called export-led growth.

This study aims at determining whether and to what extent the pegged exchange rate in the Republic of Macedonia effected the export volume. Therefore, this article is structured as follows: The next section provides theoretical guidelines on the possible links between the regime and export, the third section underlines the findings of some previous studies, and the fourth section portrays the model that served as basis for this research, the econometric technique and the results.

## Exchange rate regimes and export

Ever increasing integration of financial markets worldwide imposes the issue on the appropriate exchange rate policy, including the developing countries, the participation of which in such capital flows intensifies. In such environment, managing the exchange rate policy of a country should be focused on ensuring internal balance, most frequently measured through the price stability and external balance measured through the exchange rate stability. In other words, exchange rate policy should be focused on avoiding significant deviations of the exchange rate from the level ensuring this macroeconomic equilibrium.

The literature underlines



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two approaches in exchange rate management: real targets and nominal anchor approach. According to the first approach, the nominal exchange rate is released to fluctuate or, at least, to fluctuate with the necessary official reserves interventions so as to avoid significant distortions in its stability. Hence, it should follow, not lead the other nominal variables.

Contrary to this approach, according to the nominal anchor approach, nominal exchange rate aims at anchoring the domestic inflation to the one of the anchor country, most often the country which accounts for major part of the foreign trade. Hence, the nominal exchange rate should lead, rather than to follow the other nominal variables. This approach means pegging of the exchange rate, a strategy de facto applied by the Republic of Macedonia.

Still, in the context of the export performance of a country, both strategies have advantages and disadvantages. Thus, in the countries depending on the export of one or several goods, a flexible regime would be useful, so as to enable them to adjust to external shocks. Such countries could also peg their currency to the international price of their main exporting good, thus minimizing the effects of the exogenous shocks related to the price of that good.

Alternately, for the countries dependent on the export of a single country, considered as their main trading partner, it would be useful to establish fixed exchange rate regime, pegging their currency to the one of the main trading partner, since this would contribute to enhancement of the economic efficiency through reduction of the uncertainty and the transaction costs.

Still, alternative exchange rate regimes emphasize the different tendencies towards different effects of the regime over the export in the developing countries. These effects could be summarized as follows:

- Deviations from the real effective exchange rate;
- Variability in the real effective exchange rate;
- Variability of the exchange rate in relation to the currency of the country - main trading partner.

Deviations of the real exchange rate are those deviations of the current real exchange rate from the one ensuring long-term stability, in terms of the value of the real exchange rate maintaining the internal and external balance, mentioned above. Thus, overvalued real exchange rate would erode the external competitiveness

of export and thus will harm the export performance of the country. Even worse, the overvalued exchange rate could instigate pressure for protectionist behaviour of authorities. In this case, the export orientation would additionally decline. Undervalued real exchange rate would positively affect the export.

Hence, countries based on the nominal anchor approach, such as the Republic of Macedonia, would more probably experience deviations in real exchange rate compared to the countries applying a more flexible alternative. But, according to the aforementioned, these deviations tend to increase or decrease export, depending on whether the currency is overvalued or undervalued.



**The literature underlines two approaches in exchange rate management: real targets and nominal anchor approach. According to the first approach, the nominal exchange rate is released to fluctuate, whereas in the nominal anchor approach, it aims at anchoring the domestic inflation to the one of the anchor country, most often the country which accounts for major part of the foreign trade**

With regard to the second effect - exchange rate variability, a frequently used measure is the standard deviation of the percentage changes of the exchange rate in a specific time period. In the context of export, this effect is most frequently related to the imposed uncertainty in the economic environment, which is not useful for improvement of the exporting performance of the country. Still, this effect remains blurred in the literature. If so, and although the flexible regime is the one related to the uncertainty in foreign trade, even if a country has fixed regime, its currency remains pegged to a currency of another country, but in relation to all others, it fluctuates. If the pegging currency exhibits variability on the world foreign exchange market, i.e. if it is highly variable in relation to the currencies of its trading partners, this variability is reflected over the pegged currency, as well.

Similar conclusion could be made on the effect of variability on the exchange rate in relation to the currency of the main trading partner. This generates uncertainty in export revenues and erodes export. The argument is that still, this variability resulting from the fluctuating exchange rate could be prevented most often through hedging instruments on the foreign exchange market.

But this means that the latter is well developed and diversified, which, again, is unsustainable assumption for the developing countries.

**Fixed exchange rate in the developing countries should reduce uncertainty in the business environment and thus strengthen export orientation of producers. But, it is believed that a positive effect on export would be seen at the exchange rate supported by credible macroeconomic policies**

Still, focusing on the fixed exchange rate only being subject to this article, the conclusion is that basically, fixed exchange rate in the developing countries should reduce uncertainty in the business environment and thus strengthen export orientation of producers. To this end, threats of deviations in exchange rate from its long-term trend could threaten stability and hence strengthen motives to change exchange rate parity. Hence, it is believed that a positive effect on export would be seen at the exchange rate supported by credible macroeconomic policies. Also, the longer is the fixed exchange rate in force, the higher the export is expected to be; as well, by strengthening the regime credibility, export performance should grow.

### Previous studies and findings

Many studies covered the relation subject to this article. For example, Nilsson and Nilsson (2000) analyze the effects from various exchange rate regimes on the export in the developing countries. Thereby, they include export of 100 developing countries in the EU, USA and Japan in the period 1983-1992. Findings show that the more flexible the exchange rate regime, the greater the export of the developing countries, other things equal. The effect of the exchange rate regime on export between the United Kingdom and the USA in the 1900-1998 was the subject to the study by Fountas and Aristotelous (2003), finding that although fixed and managed floating rate are equally effective in relation to trade, the free-floating exchange rate has greater effect on export.

Fritz-Krockow and Jurzyk (2004) examine the same relationship but include import as well, reviewing the effect of the regime on the entire bilateral trade in 24 Latin-American and Caribbean economies. Opposite to Nilsson and Nilsson (2000), they find that credible fixed

regime experiences positive effect on the bilateral trade, whereby both degree of credibility and the fixing time matter. Rose (2000) as well came to the same conclusion from the research conducted in 186 countries in the period 1970-1990. Opposite to this, Brada and Mendez (1988) find that bilateral trade is greater between countries with more flexible exchange rate.

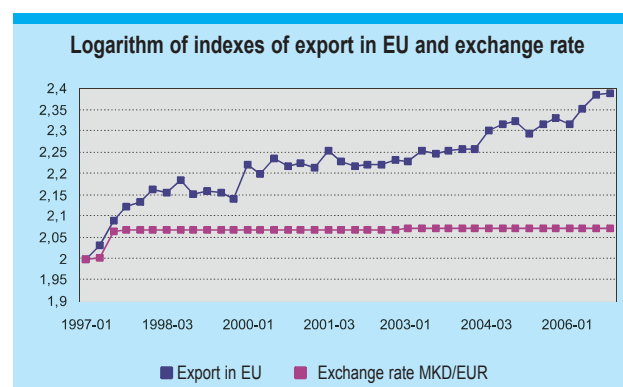
### Empirical research

Taking into account what was said on the relation between the exchange rate regime and the export performance of the developing countries, as well as the findings of the previous studies, we will return to the regime - export relation in the case of the Republic of Macedonia. The Republic of Macedonia has fixed exchange rate pegged to the euro (previously the German mark) officially as of October 1995, but de facto from the beginning of 1994. We took the de facto classification of denar exchange rate regime from Petreski (2007), so as to emphasize the difference between what is declared by the authorities as official regime of the country and what is pursued in practise.

The Republic of Macedonia is small and open economy, so the exchange rate is an important instrument of the monetary and exchange rate policy, which, among other, could be aimed at achieving economic development objectives. To this end, the examination of the implications of the regime on the export performance of Macedonia gains on importance.

### Data

The research examines how the exchange rate regime affected the export of Macedonia in the ten-year period 1997 - 2006, using quarterly data for the input variables. For simplification purposes and due to the limited space for explanation, we will take into account only the export



to the EU (EU-15 and EU-25). This was done for two reasons: First, the export to the EU is more than half (around 55% in 2006) of the overall export volume of Macedonia, and second, the Macedonian denar is pegged to the euro, which is a currency used by 13 EU Member States; still, most of the member states outside the Eurozone closely manage their currency as an obligation from participation in the ERM II.

### Model

The best way, according to the literature, to model the implications of the exchange rate regime on the export of a country in relation to another country is to use the so-called Gravity model. This model explains the export or the overall bilateral trade by using three sets of factors: potential demand of the importing country, potential supply of the exporting country and transaction costs. Transaction costs most often refer to transport costs, but also to costs of doing business, in terms of information costs. Nilsson и Nilsson (2000) treat the Gravity model as long-term equilibrium between factors of supply and demand achieved through the price mechanism. The latter implies that the model could include the prices as variable, but since they are endogenous, this is not done. The model shall include dummy variables so as to capture the effect of the exchange rate regime, and if necessary, additional dummy variables could be added.

The model is as follows:

$$X_{MK;EU} = \alpha + \beta_1(Y_{MK} * Y_{EU}) + \beta_2(Y_{MK} * y_{EU}) + \beta_3DMK;EU + \beta_4FIX + \beta_5EU + \varepsilon_{MK;EU}$$

whereby:  $X_{MK;EU}$  is the value of the export from Macedonia to the EU;  $\alpha$  is a constant;  $Y$  is the GDP of Macedonia and EU, respectively, expressed in euros;  $y$  is per capita GDP of Macedonia and EU, respectively, expressed in euros;  $DMK;EU$  is the distance between the capitals of Macedonia and EU;  $FIX$  is a dummy variable of the fixed exchange rate regime of Macedonia, EU is a dummy variable taking into account the enlargement of the EU in 2004, and  $\varepsilon_{MK;EU}$  is the error term. All entry variables are taken at constant 1997 prices.

Variables  $Y_{MK}$  and  $y_{MK}$  capture the export supply and is logical to expect a positive sign.  $Y_{EU}$  and  $y_{EU}$ , capture the import demand and are expected to have positive

sign since the richer the importing country, measured according to its GDP or GDP per capita, the more is its demand for imported products expected to grow. The distance variable is the average distance from Skopje to the capitals of EU member states (not to Brussels), so as to ensure greater accuracy of calculations.



**The Gravity model explains the export or the overall bilateral trade by using three sets of factors: potential demand of the importing country, potential supply of the exporting country and transaction costs, which most often refer to transport costs**

In the context of this research, the variable of the effect of the exchange rate regime on export is important. Thus, positive value of the  $FIX$  coefficient shall mean that Macedonia, due to its exchange rate regime, exports more than determined by the income level (expressed here through  $Y$  and  $y$  variables) and the distance between Macedonia and EU and vice versa.

### Results

In order to obtain reliable results, we used Vector autoregression technique. This technique overcomes the problem of endogenous variables, without making apriori differentiation of the input variables on endogenous and exogenous. VAR operates with stationary series only, i.e. series without unit root. Thereby, this technique lets variables dynamically interact and theoretically, takes into account indefinitely large number of time lags of variables included in the model.

First, we performed Augmented Dickey-Fuller and Phillips-Perron unit root tests so as to determine integration features of each time series. All included series are integrated of order one, meaning that VAR test must take into account the growth rate. Also, in order to eliminate seasonal variations in export, the export variable shall be seasonally adjusted through the CENSUS-X12 test. The VAR order will be determined through Akaike and Schwarz information criteria. According to these criteria, the best order of VAR is 8, which, taking into account the quarterly data, corresponds to a two-year time lag. The intercept of the regression was omitted, so as to take into account the two dummy variables.

Results are given below: The square brackets contain t-ratios.

$$\begin{aligned} \text{dlog}(X_{MK;EU}) = & -5.24 * \text{dlog}(Y_{MK} * Y_{EU}) + 4.98 * \text{dlog}(Y_{MK} * y_{EU}) - 7.54 * \text{dlog}(DMK;EU) + 0.065 * FIX + 0.092 * EU \\ & [-1.66]^* \quad [1.65]^* \quad [-1.69]^* \quad [3.00]^{***} \quad [2.92]^{***} \\ & R^2=63.9\% \end{aligned}$$

\*, \*\* and \*\*\* mark the significance of the variable on 10, 5 and 1% level, respectively.

We can observe that all included variables are statistically significant, but of different level of significance. The variable that captures GDP of Macedonia and EU showed negative sign, but it is on the edge of significance and hence, does not ensure significant explanation. The same refers to GDP per capita; although it has the expected sign and is a good approximation on the import demand, taking into account the income and the size of the economy. The distance variable is significant and has the expected sign, suggesting that by increasing the distance (taken as median distance from Skopje to the capitals of EU member states), the export of Macedonia to the EU declines since transporting costs mainly rise. The dummy variable set to encompass the effect of the export to the EU after its enlargement is also significant: after the EU enlargement, the export grew. R-square is significant - around 64% of the variations in export are explained by variations of the variables included in the regression.

**The variable capturing the fixed exchange rate shows high statistical significance and has the expected sign, suggesting that Macedonia induced positive effect on its export performance by pegging the exchange rate. In other words, Macedonia achieved around 6,5 percentage points higher quarterly export by pegging the exchange rate**

In the context of this research, the most important is the dummy variable capturing the effect of the fixed denar exchange rate regime on export. It shows high statistical significance (at 1% level) and has the expected sign, suggesting that Macedonia induced positive effect on its export performance by pegging the exchange rate. In other words, **Macedonia achieved around 6,5 percentage points higher quarterly export by pegging the exchange rate.** This is explained by the achieved macroeconomic stability and significantly reduced uncertainty in the business environment, giving positive momentum to exporters in conducting international trade.

The positive value of the fixed exchange rate dummy variable shows that the benefits of pegging the exchan-

ge rate to the currency of the main trading partner exceed the costs of the small diversification of production and export. Other reason for this positive effect can be sought in the low development level of financial markets in Macedonia, not offering sufficiently diversified hedging instruments that would absorb the possible external shocks. Therefore, the exchange rate stability, resulting from the pegging of the exchange rate to the currency of the main trading partner, in such conditions, results with an effect of trade creation, i.e. it has positive effect on the export performance of the country.

## Conclusion

This study aims at acknowledging the macroeconomic implications of exchange rate regime in the Republic of Macedonia on export. The observed period was 1997 - 2006, by using quarterly data, utilized in Gravity model and Vector autoregression technique.

The main finding in the research is that the fixed denar exchange rate positively effects the export performance of the Republic of Macedonia, i.e. by pegging it, Macedonia experienced positive effects on export in the observed period.

Still, the interpretation of the results should be done with caution since, firstly only the export towards the EU was taken into account, although EU absorbs over half of the Macedonian export and second, not all EU countries have the euro as their legal tender, although as mentioned, the majority of them, if not all, peg their currency to the euro or closely manage it (participate in the Exchange Rate Mechanism II).

Returning to the thesis from the beginning of this research that for a country such as the Republic of Macedonia, export-led growth could be significant, even dominant economic development strategy, further sphere of academic research could be the effect of the exchange rate regime over the economic growth, whereby this research is a small contribution and an initial platform to this end.





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# CHALLENGES FACING THE TEXTILE INDUSTRY IN THE REPUBLIC OF MACEDONIA

**The textile industry is a sector having a future in Europe and its interests are placed high on the European trade agenda**

**Nikolina Trajanoska, MA**

Nikolina Trajanovska MA works in the Ministry of Economy in the Department of Industry and Structural Reforms. She graduated from the Faculty of Technology in Skopje. She holds MA degree in international economy. IN the period 1994-1998 she was member of the Parliament of the Republic of Macedonia. She has extensive working experience in economic matters, and as of 1999 she works in the Ministry of Economy.

She attended a number of training courses and seminars in the country and abroad; special emphasis should be place on the training courses in project cycle and management and training course for international consultant in Netherlands.

She is fluent in English.

In addition to the regular working obligations, she also works in several international projects related to the competitiveness and human resource development. She is also a coordinator of the project for preparation of a Strategy for development of the textile industry in the Republic of Macedonia.

## Introduction

The Macedonian textile industry is thrown into the globalisation, and it increasingly faces its effects over the operations of this sensitive industry. The European textile industry and the clothing industry have been undergoing a difficult phase during the last three years both on the internal market and on the main export markets.

**Indicators of world market conditions  
2004 - 2006**

	2004	2005	2006*
GDP growth worldwide	5,1	4,0	4,2
USA	4,4	3,8	3,6
Japan	2,6	1,5	1,3
People's Republic of China	9,0	8,0	7,0
Russia	7,1	6,5	6,0
EU - 25	2,4	2,0	2,3
EU-10 (new members)	4,6	4,0	4,0
EU-12 (euro area)	2,0	1,6	1,6
Germany	1,6	0,7	1,5
Price growth in the euro zone	2,1	1,9	1,5
Growth of the world trade (commodities)	10,0	7,0	7,0
Oil price (US\$/barrel)	38	46	43
Exchange rate: euro/US\$	1,24	1,30	1,30

Source: Eurostat  
\*- assumptions

The textile industry is a sector having a future in Europe and its interests are placed high on the European trade agenda. This requires creation of new trade opportunities for the European industry so as to make it competitive internationally. But at the same time, it should be ensured that

the developing countries as well as the poor countries would effectively participate in the world trade system. The current negotiations held within the WTO - the Doha Development Agenda are key in this area.

**Indicators of market conditions in Macedonia  
in 2003-2005**

		2003	2004*	2005*
Real GDP	%	2,8	4,1	4,0
Inflation	%	1,2	-0,4	0,5
Exchange rate	Denar/US\$	54,3	49,4	49,3
Export (FOB)	US\$ million	1,359	1,672	2,041
Import (FOB)	US\$ million	2,211	2,758	3,097
FDI	US\$ million	94,3	150,1	120,0

Source: State Statistics Office and the Ministry of Finance  
\* assumptions

EU and the USA are the biggest manufacturers of textile and clothing items, accounting for 5,8% of the total EU trade. EU is also the leading textile



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

exporter, while second biggest textile importer after China. In 2002, total trade amounted to EUR 115 billion.

#### Textile industry and clothing industry in the EU - 25

	Unit	Value
Enterprises	Number	106,397
Employees	Persons	2,456,100
Revenue	EUR billion	187,1
Investments	EUR billion	5,5
Value added	EUR billion	57,1
Export (EU-15)	EUR billion	40,0
Import (EU-15)	EUR billion	71,0

Source: Eurostat

In many of the countries aspiring towards EU membership, the textile industry has traditionally been leading sector in their industries. In some countries, textile accounts for higher percentage than the European average (such as Turkey, where 40% of the total employments are in this industry). In the Republic of Macedonia, over 25% of the total employments are in this industry.

The main competitive advantage of the textile and clothing industry in these countries is the low cost of labour and their tradition in this sector, which on the other hand, guarantees high-quality products. A joint practice of the EU companies is to manufacture under the so-called "temporary import". But, European companies are increasingly interested to obtain "full package of services" which means development of international strategies and modern techniques for cooperation and application of modern technologies. Even more, the candidate countries should put additional efforts to harmonise their legislation in this area with the EU acquis, including capacities for facing the high competitiveness and work under the pressure of market forces.

#### Textile industry in Macedonia

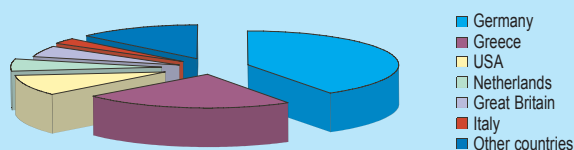
Textile is one of the most important leading sectors in Macedonia. In 2005 the share of textile in the Macedonian economy was as follows:

- 12,45% of GDP (0,67% manufacture of textile products and 10,80% manufacture of clothing items; processing and dying of fur);
- 21,8% of the industrial GDP;
- 25% of the total number of employees in industry;
- 26,98% of export.

#### Textile export from Macedonia

State	Share of textile export
Germany	42.04%
Greece	20.75%
USA	9.51%
Netherlands	6.71%
Great Britain	5.86%
Italy	2.9%
Other countries	12.23%

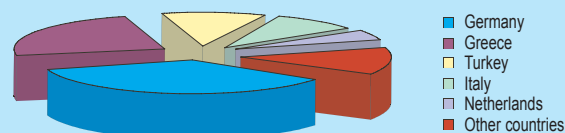
Source: State Statistics Office



#### Textile import in Macedonia

Country	Share of textile import
Germany	35.53%
Greece	25.44%
Turkey	9.39%
Italy	9.24%
Netherlands	5.42%
Other countries	14.98%

Source: State Statistics Office



#### Priorities in the preparations for EU membership

In order to achieve the conditions for full membership in the EU, all candidate countries should meet the economic and political criteria established in 1993 in Copenhagen.

The following two criteria are especially important:

- capacity to work under pressure of competitiveness and market forces within the Union;
- capability to assume membership obligations, including harmonization of the regulations to the acquis communautaire

With regard to the capacity to work under pressure of competitiveness and market forces within the Union, the candidate countries opened new potentials in the international economy. They should continue the process not only for increasing their competitiveness, but also due to the fact that their current advantage expressed via the low labour cost cannot be maintained for a long time.

The Commission closely monitors the progress of each candidate country. It recently launched studies of the competitiveness of the textile sector of the candidate countries. The improved pre-accession strategy also includes participation of the candidate countries in the EU programmes, agencies and committees. Furthermore, this participation is ensured for each country.

**the candidate countries should put additional efforts to harmonise their legislation in this area with the EU acquis, including capacities for facing the high competitiveness and work under the pressure of market forces**



### Adoption of *acquis communautaire*

#### Legislation

From industrial aspect, the EU legislation, applicable to the textile and clothing industry, is covered by Chapter 1 - Free movement of goods and Chapter 15 - Industrial policy. This is also covered by four directives of the Council and one directive of the Commission referring to the textile sector. The Republic of Macedonia incorporated these directives in the Macedonian legislation through three regulations, adopted in June 2006.

The textile and clothing industry are also covered by measures in other chapters of the *acquis* - such as:

- **Competitiveness:** Rules on approving pecuniary aid to the synthetic fibre industry. (OJ C 94 as of 30.03.1996). The Commission emphasized the continuation of the application of the Rules on financial assistance to the synthetic fiber industry (OJ C 24 as of 29.01.1999).

#### ● Approximation of the legislation

In the improved pre-accession strategy, EU assistance for approximation to the *acquis* in the textile sector is focused on three type of activities:

- Approval of the harmonization of the legal texts approved by the member states with regard to the approximation to the *acquis* (including a screening).

- Seminars and trainings for the civil servants of the candidate countries (twinning).
- In rare cases, such as the textile sector, upon the request by the candidate countries, negotiations on the protocols to the EC Treaty (PECA Protocol).

### Evaluation of competitiveness in Europe:

#### 1) Analysis of fibre and yarn areas

Growth of the imported quantities and decline of the overall value due to the significant decline in average prices, especially when importing from Asian countries.

Increased concentration: the first five states account for approximately 50% of the total import: China, Turkey, India, Pakistan and the Czech Republic. India is a leading country in the area of costs.

#### 2) Analysis of clothing and apparel areas

The import of clothing and apparels in the EU is very high and its value is around EUR 54 billion or around 4 million tons (three times higher compared to the textile sector).

Growth of the imported quantities and decline of the value as a result of the decline in average prices (in EUR).

The first five exporting countries account for approximately 50% of the total import: China - 28,9 % followed by Turkey, Romania, Bangladesh and Tunisia.

### Strategy for improvement of competitiveness - proposal of High Level Group

- Establishment of Euro-Mediterranean area (650 million consumers, 7 million workers in the textile and clothing industries)
- Technological break-through and progress (establishment of technological platform)
- Plan of activities and protection with regard to China
- Better access to third-country markets (lower customs, elimination of non-tariff barriers) so as to increase export.
- Improvement of the skills and knowledge of the people.
- Protection of the rights in the area of intellectual property.
- Keeping EU legislation attractive for investments.

### European technological platform for the future of the textile and clothing industry

The objective of the European technological platform for the future of the textile and clothing industry is the following:



- Gathering and focusing European experts, including industry, academy and policymakers.
- Development of long-term strategic vision of the future of industry and designing appropriate plans for structural development.
- Better access to the required resources and improvement of the general conditions for research and innovations.

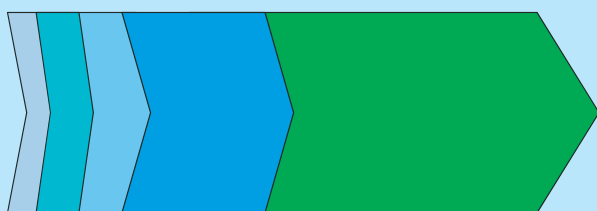
#### Distribution ensures major portion of the profit.

Technological platform was built on three supporting pillars, each of which reflects the essential elements for long-term development of the textile and clothing industries in Europe:



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Value added in the textile industry and clothing industry



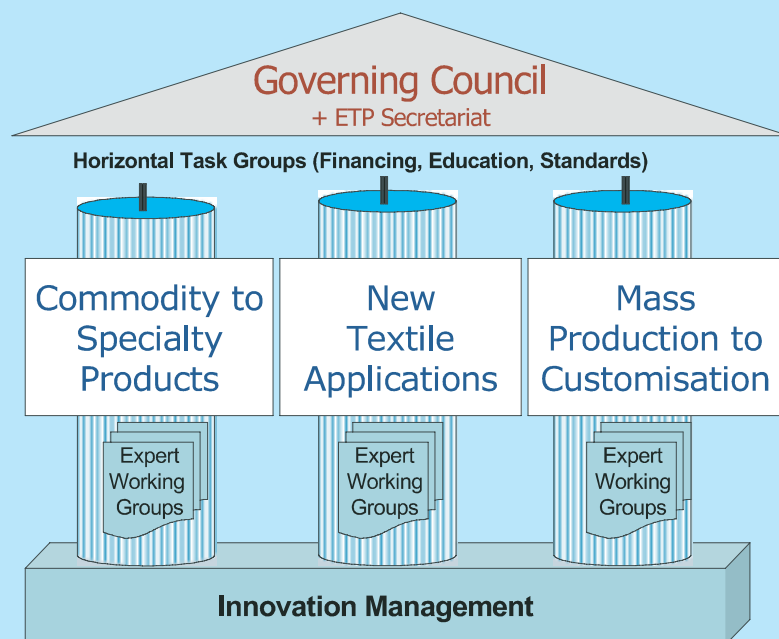
fibre/yarn/fabric/clothing/retail

1. Shift towards specialized products and highly-technological processes.

2. Usage of textile in multiple sectors and new areas of usage.

3. Elimination of the mass production and shift towards new directions - customer focus, personalization, smart products, logistics and distribution.

#### EUROPEAN TECHNOLOGICAL PLATFORM



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

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**TRANSLATOR**

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Maja Petrovska

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