



Quarterly Report

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CONTENTS

Macroeconomic Developments in the Republic of Macedonia in the first quarter of 2006	3
1. Prices	4
2. Economic activity	9
3. Wages and employment	13
4. Monetary policy	16
5. Banking sector	22
5.1. Deposits with banks	22
5.2. Placements and interest rates of the banks	26
6. Financial markets	29
6.1. Stock Exchange	29
6.2. Government securities market	31
7. Balance of payments	35
8. Foreign exchange developments	49
9. Public finances	54
Important economic events and amendments to the legal regulations in the first quarter of 2006	57
Statistical appendix	59



Macroeconomic developments in the Republic of Macedonia in the first quarter of 2006

*T*n the first quarter of 2006, the influence of the factors regarding the supply had dominant effect on the inflation performances. From the aspect of the economic dynamics, the main indicators show divergent movements in this period. Thus contrary to the slight average increase in the actual volume of the industrial output in the first three months of 2006 and the same annual volume of completed construction works, positive movements were registered in both agriculture and trade. The trend of positive movements in the banking sector towards increase in the deposit potential and positive credit support to the economy, given the simultaneous decrease in the loan price continued also in the first quarter of 2006.

The actual volume of the industrial output in the first three months of 2006, compared to the same period of the previous year, registered moderate increase of 0.5%, reflecting the divergent movements in the industrial sectors and activities. Thus the increase in the volume of the production in the sector "mining and quarrying" (reflecting the relaunching of one of more important mining facilities was neutralized to a great extent by lower production in the manufacturing industry and in the sector "electricity, gas and water supply").

In the first quarter of 2006 the inflation intensified, primarily as a result of the influence of the factors regarding the supply. Thus the average rate of inflation equals 2.7%, with the largest contribution to the increase in the inflation accounting for the increase in the consumer prices of tobacco and beverages (17.7%). The significant average increase in the costs in this category reflects the higher price of cigarettes, as an effect of the higher excise (further harmonization with the EU Directives) and the amendments to the regulations in January 2006, envisaging allocation of additional taxes for health and environment protection. If the effect of the increase in the price of cigarettes is excluded, the average rate of inflation in the first three months of 2006 is lower by 1.1 percentage point and it equals 1.6%. The core rate of inflation, excluding the effect of food and energy equals 3% in March 2006, pointing to the dominant effect of the increase in the price of cigarettes on the inflation in this period.

From the aspect of the movements in the external sector, despite more intensive annual increase in the import of goods (11.8%), compared to the increase in the export of goods (2%), the significantly higher foreign exchange inflows on the basis of private transfers contributed to almost identical balance in the balance of payments' current account in the first quarter of 2006, compared to the same period of the previous year. However, in terms when the largest portion of these foreign exchange inflows were directed towards the foreign exchange market and in conformity with the policy of foreign assets management by banks, in the first quarter of 2006 the NBRM realized net purchase of foreign assets, contributing to continuous increase in the gross foreign reserves. Part of the created liquidity through the foreign currency transactions of the NBRM (which are in function of maintaining stable nominal foreign exchange rate) was sterilized through the monetary instruments. From the aspect of the interest rate, the decrease in the interest rate of CB bills continued in the first three months, and in March 2006 it was lower by 1.74 percentage points compared to the end of the previous quarter. The drop in the interest rate of NBRM was followed by decrease in the interest rates on the Money and Short-term Government Securities Market.

In the first quarter of 2006, the banks' deposit potential continued to grow with almost identical dynamics as in the previous quarter (quarterly increase of 6.9%). However, 66% of the total growth of the deposits is due to the higher level of Denar deposits, which registered quarterly increase of 13.1%, thus proving the increasing propensity to save in domestic currency. The further intensification of the credit support of the economy can be perceived through the quarterly increase in the total banks' placements in the first three months of 2006 of 6.2%. However, 67.3% of this change are generated from the rise in the placements with the corporate sector, with orientation of enterprises for using loans in domestic currency¹ being registered in this quarter. In the first quarter of 2006, the loans extended to households went up by 6.7% on a quarterly basis, pointing to further supplementing of the purchasing power of this sector through bank loans.

¹ Foreign exchange indexed loans are also included.

**1.****Prices**

In the first quarter of 2006, the average inflation rate equals 2.7%

In the first quarter of 2006, intensified inflation was registered, primarily caused by the influence of the factors regarding the supply. Thus the average inflation rate, measured by the consumer price index², equaled 2.7% in the first quarter of 2006, with the largest contribution for the increase in the inflation accounting for the rise in the consumer prices of tobacco and beverages (17.7%). The intensive average increase in the costs in this category reflects the higher price of cigarettes (by 36.9%), as an effect of the higher excise (further harmonization with the EU Directives) and the amendments to the legal framework in January 2006 envisaging allocation of additional taxes for health care and environment protection³. *If the effect of increase in the price of cigarettes is excluded, the average rate of inflation in the first three months of 2006 is lower by 1.1 percentage point and it equals 1.6%.*

Contrary to the average decrease in the consumer prices of food (a category with the highest share in the inflation index) in the previous year, in the first quarter of 2006 this category registered rise of 1.6%. In terms of unchanged prices of the industrial food products, the increase in the prices of food is completely due to the increase in the prices of agricultural products of 5.4% (fruit, vegetable, meat and fish), partially as a result of the lower supply due to the late gathering of greenhouse products. A significant contribution to such rate of inflation accounts for the increase in the costs of transport equipment and services (2.7%), which is primarily due to the higher prices of liquid fuels⁴ (following the movement of the world prices of oil) and the higher costs of car maintenance⁵. The first three months of 2006, compared to the same period of the previous year, is characteristic for the rise in the costs of culture and entertainment (of 6%), mainly due to the higher prices of education⁶.

During the analyzed period, also the costs of housing registered an increase (0.9%), mainly as a reflection of the higher costs of fuel and lighting (by 1.7%, caused by higher prices of gas, liquid and solid fuels for heating and the price of central heating⁷).

In line with the movements of certain categories of consumer prices within the total inflation index, in the first three months of 2006 the costs of goods registered more intensive growth (3.2%) than the costs of services (0.9%).

The core inflation rate, which excludes the effect of food and energy as the most variable cost categories, equaled 3% in March 2003. The core inflation rate calculated in such a manner points to the dominant effect of the increase in the prices cigarettes on the inflation in this period. In case these prices are

² The costs of living (the consumer prices) refer to the prices of the goods and services aimed at personal consumption of the households.

³ According to the Law on Amendments to the Health Care Law ("Official Gazette of RM" No. 111/2005) and the Decision on determining products for which compensation for trade import/export is paid ("Official Gazette of RM" No. 75/2005) arising from the Law on Environment compensation for production or import of tobacco products is calculated and paid since January 01, 2006.

⁴ Since January 2006, the statistical monitoring of the prices of oil derivatives is made from 26th in the previous month to 25th in the current month in order to cover the multiple changes in the prices during the month. The period of statistical monitoring of other prices encompassed in the inflation index is unchanged (from 1st to 15th in the month).

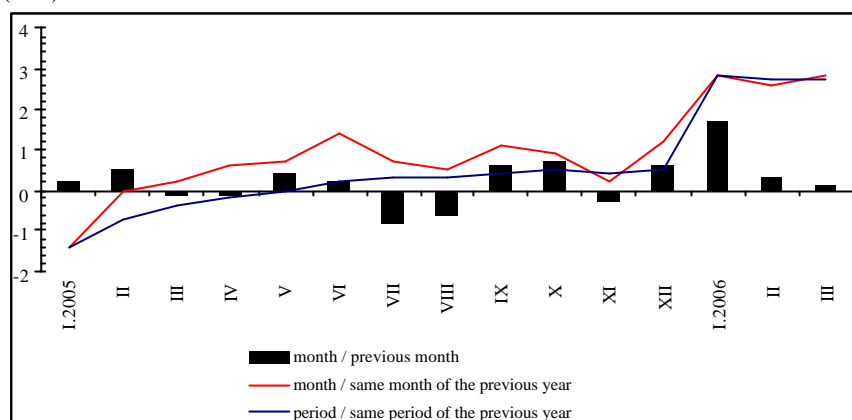
⁵ The increase in the costs of car maintenance equals 10.4% in the first quarter of 2006 and it is due to the low comparison base in the previous year. Namely, the prices of the obligatory insurance of vehicles were significantly incremented in August 2005 (15%).

⁶ In the second half of 2005, increase in the consumer prices of certain products and education services was registered.

⁷ On January 23, the Regulatory Energy Committee adopted a decision on increasing the price of heating energy by 2.3%. The implementation of the decision commenced on February 01, 2006 (Official Gazette of RM no. 9/2006).

excluded from the consumer price index as well, the core inflation rate equals 0.6%.

Figure 1
Consumer prices
(in %)



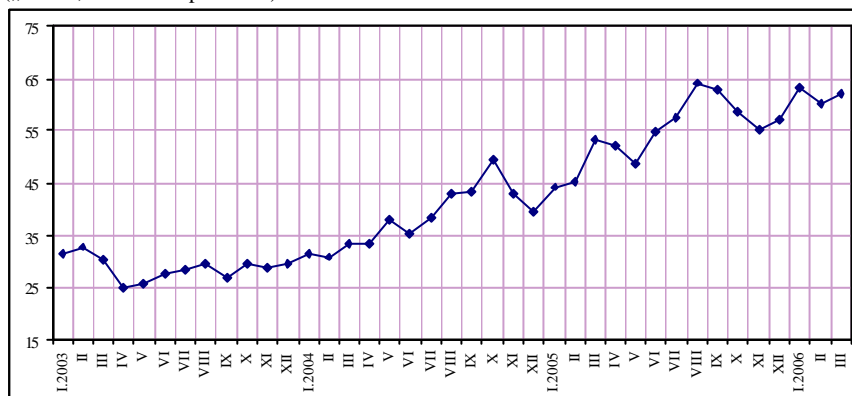
Source: State Statistical Office of the Republic of Macedonia

Attachment 1

Movements in the price of oil on the international stock exchanges in the first quarter of 2006

The intensive increase in the price of crude oil on the international stock exchanges which commenced in 2004, continued also in the first quarter of 2006. Thus the average price of crude oil in the first quarter of 2006, internationally, equaled US Dollar 61.83 per barrel, which is an annual increase of 30% and a growth of 8.4% compared to the previous quarter.

Figure 2
Average prices of oil on the international markets
(„Brent“, US Dollars per barrel)



Source: The Energy Information Administration (EIA) - Statistical Agency of the U.S. Department of Energy

In the first quarter of 2006, the monthly dynamics of the price of crude oil was determined by the influence of speculative factors, caused by the development of the political situation in the world. In *January* 2006, the price of crude oil equaled US Dollar 63.18, on average, per barrel, which is a monthly growth of 10.8%, as a result of the speculative announcements for possible reduced production by OPEC, the announcements for worsening of the stability on the Middle East (caused by the intensification of the conflict between Iran and the international community, due to the renewed nuclear activities of Iran) reduced global supply of crude oil (as a result of the lower export of oil from Iran and reduced production of crude oil in Nigeria). The irregular supply of natural gas



from Russia to several European countries affected the price of oil additionally (because of the worsen weather conditions) and lower export of oil from Iraq (due to the ceased production as a result of the worsen weather conditions). The monthly decrease in the price of crude oil in *February* (when it reduced to US Dollar 60.19 per barrel), is mainly a result of the increase in the oil derivatives reserves in the USA (which stirred expectations for further increase in the global supply of oil) and the lower tensions in the conflict between the international community and Iran. In *March* the price of crude oil incremented again, reaching US Dollar 62.12, on average, per barrel.

Sources: The Energy Information Administration (EIA) -statistical agency of the US Department of Energy, CNN Money, Reuters, Associated Press, Bloomberg calculations and analyses of the NBRM.

Analyzed by monthly dynamics, the highest monthly inflation was registered in January (1.7%), reflecting the one-time effect of the increase in the price of cigarettes and the higher prices of agricultural products. In February and March low and stable rates of inflation were recorded (0.3% and 0.1%, respectively), mainly conditioned by the movement of the prices of food products.

Attachment 2

Inflation in the Euro-zone in the first three months of 2006

The average rate of inflation in the Euro zone, measured through the Harmonized Index of Consumer Prices (HICP) equals 2.3% in the first quarter of 2006, with more intensive increase in the costs of goods (2.6%) than the increase in the costs of services (1.9%) being registered. The largest contribution to the average increase in the inflation accounts for the prices of energy, which went up by 12.2% averagely in terms of higher prices of oil on the international stock exchanges.

Table 1
Inflation in the Euro zone
(on annual basis, in %)

	Share in %	2005	I.2006	II.2006	II.2006	Q.1 2006 / Q.1 2005
Harmonized consumer price index (HICP)	100.0	2.2	2.4	2.3	2.2	2.3
Goods (total)	59.2	2.1	2.7	2.6	2.4	2.6
Energy	9.2	10.1	13.6	12.5	10.5	12.2
Unprocessed food	7.4	0.8	2.0	1.7	0.6	1.4
Processed food	11.8	2.0	1.9	1.9	2.3	2.0
Industrial products other than energy	30.7	0.3	0.2	0.3	0.5	0.3
Services (total)	40.8	2.3	2.0	2.0	1.9	1.9

Source: Eurostat and the European Central Bank

The month-by-month analysis indicates gradual slowing down of the annual rate of inflation, in conformity with the movements of the prices of energy and unprocessed food (raw agricultural products). Hence, the annual drop in the prices of energy (especially in March) is due to the high comparison base registered in the previous year and also verifies the high variability of the price of oil. Additional contribution to the decrease in the annual inflation rate accounts for the prices of raw products (of vegetables and fruit), which are gradually decreasing in line with the seasonal dynamics.

The core inflation rate in the Euro-zone, which excludes the movements of the most variable components (the prices of energy and the unprocessed food), in the first quarter of 2006 equals 1.4%, on average. However, the annual core inflation

rate is stable and it ranges within 1.3% in January and February to 1.4% in March 2006.

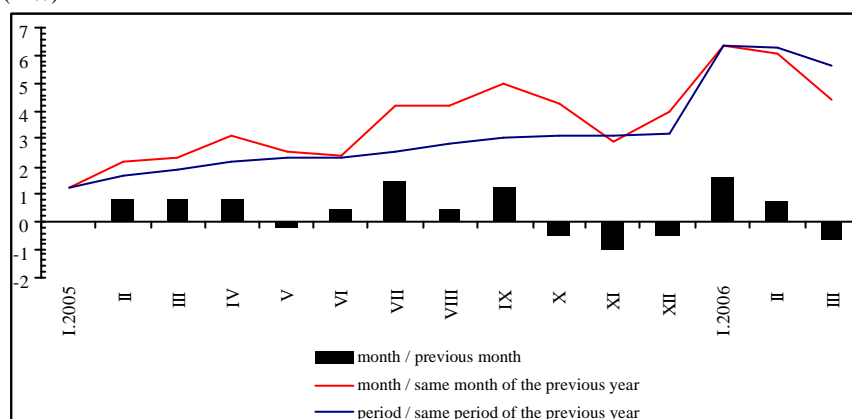
Source: Eurostat and the European Central Bank

The prices of producers of industrial products were by 5.6% higher, on average, in the first three months of 2006

The prices of the producers of industrial products in the first quarter of 2006 registered an average increase of 5.6%. Dominant effect on the increase had the higher production prices in the manufacturing industry (6.3%), mainly caused by the growth in the prices of the producers of oil derivatives (of 40.8%, which correspond to the movement of the price of oil on the international stock exchanges), tobacco products (of 17.1%), and metal products in the metal manufacturing stage, except machinery and apparatus (by 5.2%). On the other hand, the production prices of the basic metals recorded a significant drop (9.6%). In the first three months of 2006, also the prices of the producers in the sector "mining and quarrying" went up (by 4.2%), while the increase in the production prices in the sector "electricity, gas and water supply" is insignificant (0.7%).

The monthly dynamics of the prices of the producers of industrial products corresponds to the decisions of the Regulatory Energy Committee on refinery prices of oil derivatives, and thus in January and February the prices of the producers incremented (by 1.6% and 0.7%, respectively), while in March they registered monthly decline (of 0.6%).

Figure 3
Consumer prices
(in %)



Source: State Statistical Office of the Republic of Macedonia

The analysis of the domestic consumption components⁸ in the fourth quarter of 2005⁹ points to nominal annual increase in the *public consumption* (2.5%). Also, the movements of certain indicative variables¹⁰ point to rise in the *personal consumption*. The estimation is based on the following variables:

- annual increase in the wages (of 3.6%);
- enlarged annual retail trade volume (by 9.6%);
- intensified crediting to households (annual growth of households' loans of 43.7%);

⁸ Final consumption and gross investments. The SSO does not publish complete data on the expenditure side of GDP on quarterly basis, i.e. data are missing on the individual (personal) consumption, the investments in construction buildings and the change in the inventory. Accordingly, the quarterly analyses made for this purpose are based on estimations made on the basis of available data on other categories of indicative relevance and therefore, they should be taken with a great precaution.

⁹ Last available data of the SSO.

¹⁰ The stated categories are included in the estimation because of their strong positive correlation with the personal consumption movement.



- higher annual amount of registered income based on value added tax (by 10.7%); and
- higher level of net private transfers (by 70.8%).

Exception to this is the import of non-durables, which dropped annually (0.7%) in the fourth quarter of 2005. In conformity with the increase in the public consumption and the presumptions on enlarged personal consumption, annual growth of the *final consumption* in the fourth quarter of 2005 may be assumed.

The gross investments, as a domestic consumption component incorporate the investments in fixed assets and the change in the stocks. Having in mind that the change in the gross investments is determined by the change in stocks to great extent (despite the fact that 80% of the gross investments pertain to investments in fixed assets), the assessment of the movement of the total investments may not be derived precisely. Certain assessment may be derived on the basis of the available data on the annual increase in the *investments in machinery and equipment* (of 7.4%, participating with one third in the gross investments), as well as on the basis of the analysis of certain indicative categories. Thus the loans extended to enterprises, the completed construction works and the import of capital goods in the fourth quarter of 2005 went up annually (by 12.9%, 3.3% and 19%, respectively), indicating enhanced investment activity. On the other hand, the domestic output of capital products dropped (by 5.3%). Having in mind that most of the stated categories registered an increase in the fourth quarter of 2005, higher level of gross investment in the observed period can be assumed.

On the basis of the estimations for increase in the final consumption (which encompasses approximately 80% of the domestic consumption), and assumption for increase in the gross investments, the *domestic consumption* is assumed to increase in the fourth quarter of 2005. Net import of goods and services, given intensified annual increase in the export of goods and services (13%) is registered in the observed period, compared to the annual increase in the import of goods and services (8.9%).

Table 2
Expenditure aggregates of GDP
(nominal growth rates)

	IV Q.2005* / IV Q.2004
Public consumption	2.5
Investments in machinery and equipment	7.4
Export of goods and services	13.0
Import of goods and services	8.9

* Preliminary data of the State Statistical Office.

The movements of the indicative categories in the first three months of 2006 point to increase in the *personal consumption* in this period. Such expectations are based on the continuous increase in the lending to households (annual growth of 40.2%), increase in the wages (of 6.6%, annually), higher retail trade volume (by 20.8%) and enhanced import of non-durables (by 12.4%). Also in the first quarter of 2006, the current budget expenditures surged (3.8%), pointing to higher *public consumption*. On the other hand the investment activities indicators fail to give clear indication for the movement of the gross investments. Thus the import of means of operations augmented (by 4.8%, annually), while the intensified support to enterprises by the banking sector continues (annual increase of loans extended to enterprises by 13.1%). The domestic production of capital goods declined (by 2.5%), while the construction activity stagnates. In terms of insufficient coverage of the domestic consumption with domestic output, in the first quarter of 2006 net import of products, given



more intensive increase in the import (of 11.8%, annually) than the increase in the export (of 2%, annually), was registered.

The movements in the real, monetary and the foreign trade sectors in the last quarter of 2005 and the first quarter of 2006, indicating enhanced final, and to certain extent, investment consumption, point to potentially inflationary influence of the domestic consumption in the following period. The effect of import prices on the inflation rate can hardly be quantified, although pressure of the higher prices of oil and oil derivatives on the international stock exchanges can be expected.

2.

Economic activity

In the fourth quarter of 2005, positive annual rate of economic growth of 3.8% was registered

The positive performances within the economic activity domain in the first three quarters continued also in the third quarter of 2005. Thus in terms of real increase in all economy's sectors (except to the sector "construction" where the production went down by 0.2%), in the last quarter of 2005¹¹, the GDP registered real annual increase of 3.8%. The main reason for the increase in the fourth quarter is more intensive activity in the trade (where the highest growth rate of 8.7% is also registered), as well as in industry (growth rate of 4%), the mutual structural share of which in GDP equals 38.9%.

Table 3
Production side of GDP

	2005/2004	2005				2004	2005
		I Q.2005/ I Q.2004	II Q.2005/ II Q.2004	III Q.2005/ III Q.2004	IV Q.2005/ IV Q.2004		
		(real growth rates, in %)					
Gross Domestic Product	4	29	5.0	4.1	3.8		
Agriculture, hunting, forestry and fishing	3.1	4.1	3.6	2.8	1.8	9.7	9.6
Mining and quarrying; Manufacturing and electricity, gas and water supply	6.8	4.7	13.0	5.9	4.0	23.3	24.0
Construction	-5	-9.7	-8.9	-3.0	-0.2	5.8	5.3
Wholesales and retail sales, repair of motor vehicles, motorcycles and personal and household items	7.9	5.9	8.2	8.6	8.7	12.9	13.4
Hotels and restaurants	6.6	3.9	8.6	8.6	4.9	1.7	1.7
Transport, storage and communications	6.1	6.4	7.4	8.0	3.0	7.3	7.4
Financial intermediation; Real estate activities, renting and business activities	1.4	0.2	0.9	1.5	2.9	13.3	13.0
Public administration and defense, obligatory social security, Education, Health and social work and Exteritorial organizations and bodies	1.5	0.5	0.3	2.0	3.4	13.9	13.6

Source: State Statistical Office. Preliminary data.

The movements in the first quarter of 2006 point to more moderate real increase in GDP in comparison with the same period of 2005, having in mind the moderate increase in the industrial output, the unchanged value of the completed construction works and the enhanced activity in the agriculture. In line with the projection for 2006, real annual increase in the GDP of 2.3% is expected in the first quarter of 2006. The enhanced economic activity, especially in the trade and the higher volume of transactions in the payment operations in the first three months of 2006 led to higher velocity of circulation in the first quarter (7.1 compared to 6.8 in the same period of the preceding year).

In the first quarter of 2006, cumulative rate of growth in the industrial output of 0.5% was registered

In the first month three months of 2006, the actual volume of the industrial output registered slight increase of 0.5% in comparison with the same period of the previous year, reflecting the divergent movements in the industrial sectors and activities. Thus the production augmented in the group "intermediary products, except energy" as a result of intensified production activity in "mining and quarrying" (the production surged by two times as a result of the reactivation of one of more important mining facilities in May 2005) and in the activity

¹¹ Last available data of SSO.

"production of products of other non-metal minerals" (by 43.7%). Consequently, the production in this group (structural share of 33.8% in the total index) augmented by 5.6% and thus having the largest contribution to the average increase in the industrial output.

The enhanced production in individual activities, as well as the significantly higher export of oil derivatives generate increase in the production of oil derivatives (of 32.6%). Given reduced production and distribution of electricity, the augmented production of oil derivatives completely caused the increase in the group of energy (structural share of 21.8%).

Contrary to such movements, in the first three months of 2006 lower production in the group "non-durable joint consumption goods" is registered, reflecting the reduced production in most of the activities within this group. Thus, the lower production of food products and beverages (by 1.1%), tobacco products (by 14.6%, partially due to the lower consumption of cigarettes, in terms of higher prices of cigarettes), clothing apparel (by 4.9%), as well as lower production in publishing (by 22.5%), led to reduced production in the group "non-durable joint consumption goods" (structural share of 38% in the total index).

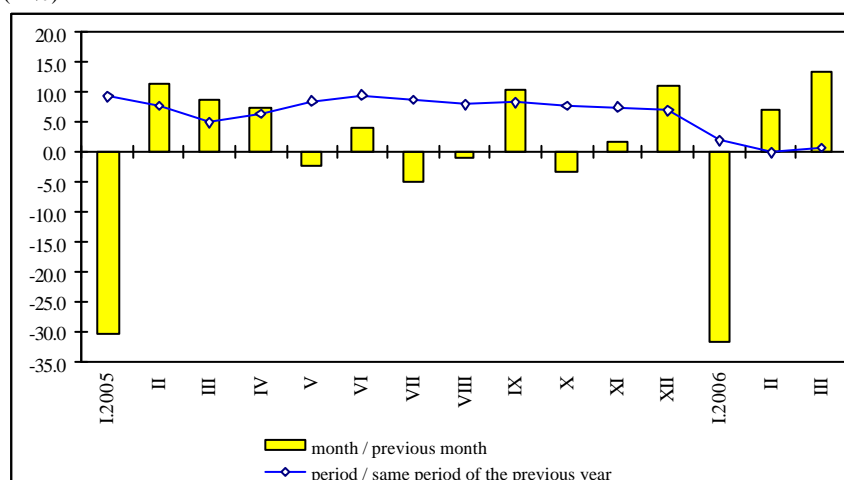
Table 4
Prices of metals on the international markets

	Jan.-Dec. 2005	Jan.-Mar. 2005	Jan.-Mar. 2006	January 2006	February 2006	March 2006
<i>US Dollars per ounce</i>						
Gold	444.8	427.1	554.0	549.9	555.0	557.1
<i>US Dollars per ounce</i>						
Silver	7.3	7.0	9.7	9.2	9.5	10.4
<i>US Dollar per dry metric tone unit</i>						
Iron ore	0.7	0.7	0.7	0.7	0.7	0.7
<i>US Dollar per metric tone</i>						
Nickel	14,744.0	15,348.4	14,810.5	14,555.2	14,978.8	14,897.4

Source: World Bank

The production of basic metals (with a structural share in the total index of 6%) in the first quarter of 2006 declined by 17.4%, on average, which corresponds to the reduced export and import of iron and steel. Also, in the first quarter of 2006 insignificant decrease in the price of nickel on the international market is registered, while the prices of gold and silver augmented. The reduced production of basic metals in the first three months of the year were the reason for lower production in the manufacturing industry to the largest part, as well.

Figure 4
Dynamics of the industrial output
(in %)



Source: State Statistical Office of the Republic of Macedonia

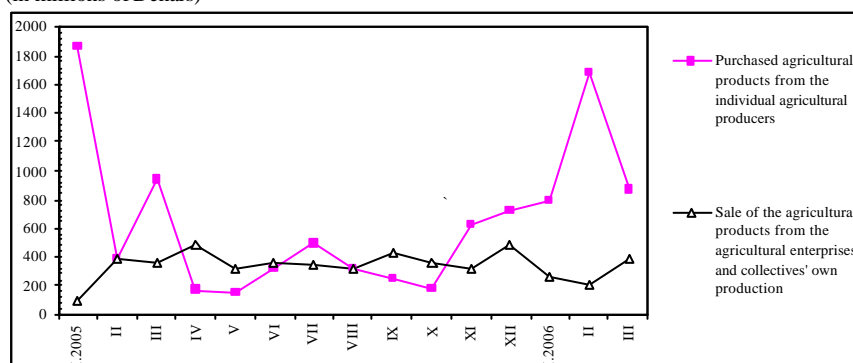
From the aspect of individual months, also in 2006 the actual volume of the industrial output follows the common seasonal dynamics. Namely, in January 2006 the industrial output went down by 31.7% on a monthly basis, which is common for the first month of the year (influenced by the seasonal factors, i.e. smaller number of working days). The low comparison basis registered in the first month of 2006 was the reason for the increase in the industrial output in February and March 2006. Thus in February the actual volume of the industrial output registers a monthly increase of 6.9%, while growth rate of 13.2% was registered in March.

In March 2006¹², the current economic standing of the enterprises was assessed as favourable relative to the end of the previous quarter (December 2005). However, the average exploitation of the capacities equals 61.2% in March 2006, which is a decrease compared to December 2005 when it equaled 63.8%. According to the economic agents, the main limiting factor for increased production volume remains to be the insufficient domestic demand. Also, the economic agents, as more significant limiting factors state also the insufficient foreign demand, financial problems and the uncertain economic environment. However, the economic agents gave optimistic assessments for the production volume and the selling prices for the forthcoming quarter.

In the first quarter of 2006 higher volume of sale of agriculture products was registered...

The total value of sold agricultural products of the own production of the agricultural companies and collectives in the first quarter of 2006 equaled Denar 851.6 million. The total sale of agricultural products registers moderate increase of 0.5% in comparison with the same period of the previous year due to the high comparison base of the preceding year), which is due to intensive average increase in the sale of alcoholic beverages in the first quarter of 2005¹³ in the first quarter of 2006. On the other hand, the sale with most of the categories of agricultural products of higher importance (from the aspect of their structural share) in the first quarter of 2006 is significantly higher. More important increase is registered in the sale of cereals and alcoholic beverages (of 22.1% and 19.3%, respectively), the share of which in the total sold agricultural products equals 71.2%. In the first quarter of 2006, agricultural products in the amount of Denar 3,358.2 million were purchased from the individual agricultural producers, i.e. by 5.1% more compared to the same period of the previous year. The main cause for the increase is the higher purchase of industrial products (monthly increase of 5.6%), having in mind the dominant structural share of the purchase of these products in the total purchase of agricultural products.

Figure 5
Sale and purchase of agricultural products
(in millions of Denars)



Source: State Statistical Office of the Republic of Macedonia

¹² Source: Business Tendency Survey in the manufacturing industry. State Statistical Office of the Republic of Macedonia.

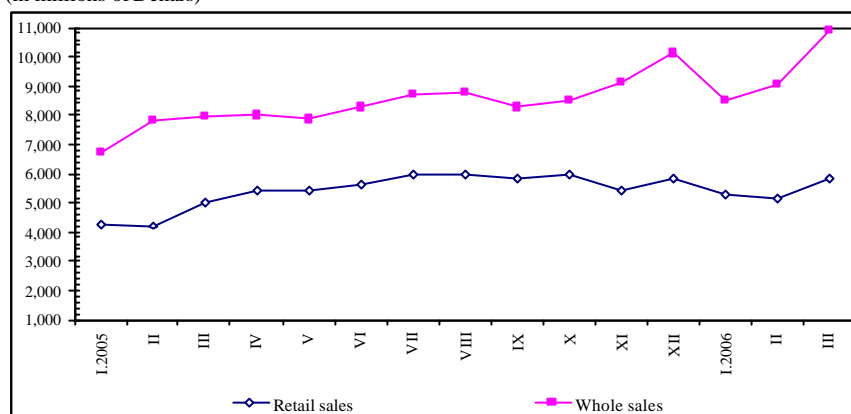
¹³ The alcoholic beverages are also encompassed in the structure of the own production of agricultural companies and collectives.



...as well as enhanced trade turnover

Besides the enhanced activity in the agriculture, an increase in the total trade turnover was also registered in the January - March period. Thus the total trade turnover amounted to Denar 44,773 million, which is a growth of 24.4% compared to the same period of 2005. However, 64% of the total turnover refer to the wholesale trade, where an average increase in the turnover of 26.6% is registered, while the remaining share accounts for the retail trade, where the turnover went up by 20.8%. Analyzed by months, in line with the common seasonal dynamics, the highest value of the total turnover (Denar 16,773 million) and the highest monthly growth rate is registered in March 2006, given the simultaneous increase in the retail and wholesale turnover.

Figure 6
Trade turnover
(in millions of Denars)

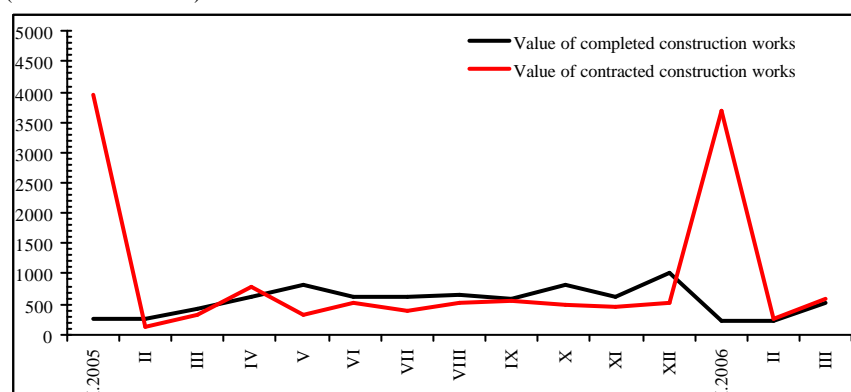


Source: State Statistical Office of the Republic of Macedonia

The value of the completed construction works remained unchanged in the first quarter of 2006, compared to the same period of the preceding year

Contrary to the favorable movements in agriculture, in the first quarter of 2006¹⁴, the construction activity stagnates. Namely, the value of the realized construction works (Denar 989 million) remained on the level registered in the first quarter of 2005. However, analyzed by months, gradual intensification of the construction activity may be noticed. Thus in March the value of the completed construction works augmented by two times on a monthly basis and by 14.3% annually.

Figure 7
Contracted and completed construction works
(in millions of Denars)



Source: State Statistical Office of the Republic of Macedonia

Positive movements in the contracted construction works is registered, i.e. in the first three months of the year construction works in the total amount of Denar 4,513 million, were contracted, which is a rise of 2.5% compared to the

¹⁴ The data on the construction dating January 2006 are based on revised sample of enterprises.

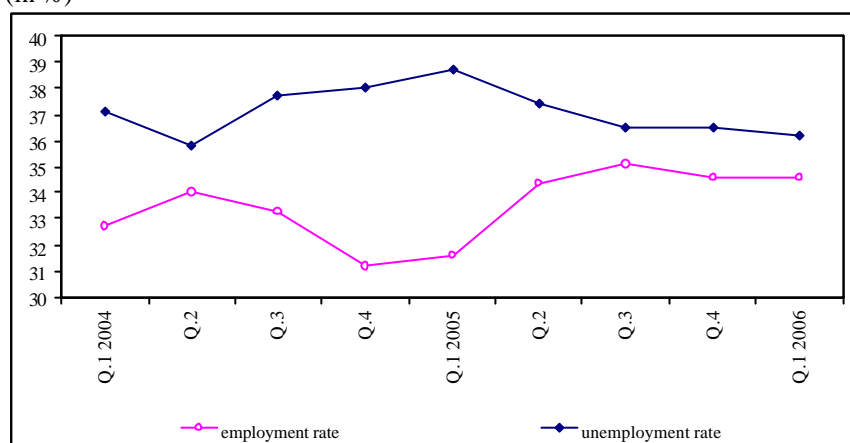
same period of the previous year. Their value is the highest in January and it equals Denar 3,666 million, which is in line with the common seasonal dynamics.

3.

Employment and wages

In the first quarter of 2006, the total number of employees according to the Labour Force Survey¹⁵ equaled 559,702, which is a significant increase of 10.3% compared to the same period of the preceding year. Consequently, the employment rate surged by 3 percentage points and reached 34.6%. On the other hand, decline in the number of unemployed is evidenced in the first quarter of 2006, which equaled 318,096 person (annual drop of 0.6%). The unemployment rate is lower by 2.5 percentage points compared to the same period of the previous year and it equaled 36.2%. More intensive increase in the number of unemployed led to an annual increase in the active population (employed and unemployed) of 6.1% in the first three months of 2006. .

Figure 8
Employment and unemployment rates
(in %)



Source: Labour Force Survey, State Statistical Office of the Republic of Macedonia

Analyzed by activity, the increase in the number of employed persons was a result of the higher number of employed persons in the three economy's sectors. Thus the number of employees in the agriculture sector augmented by 35%, in line with the intensified agriculture activity in the analyzed period. On the other hand, the number of employees in both industrial and services sector registers more moderate growth (of 4.9% and 5.3%, respectively), given more remarkable increase in the employment in construction (of 25.1%), trade (of 10.1%, given the increase in the total trade turnover) and in the activity "hotels and restaurants" (of 49.4%). The number of persons employed in the manufacturing industry, which is specific because it takes about one third of the total number of employees in the economy, went up by 0.3%.

Positive movements are also registered on a quarterly basis (first quarter of 2006 / fourth quarter of 2005). Thus the number of employees and the employment rate went up (by 0.7% and 0.1 percentage point, respectively), given simultaneous decline in the number of unemployed persons and the unemployment rate (of 0.6% and 0.3 percentage points). The moderate increase in the employment is a result of the divergent movements of the number of

¹⁵ The Labor Force Survey is conducted by the State Statistical Office of the Republic of Macedonia on the basis of a sample of 10,000 households on the whole territory of the country and it is in accordance with the methodological recommendations of the International Labor Organization (ILO) and the recommendations of the European Statistical Bureau (EUROSTAT). Starting from 2004, it is being conducted as a continuous survey throughout the year, while data are processed quarterly. .

employees in individual economy sectors. Thus their number surged in both agriculture and industrial sector (by 17.5% and 5.7%, respectively), whereas their number in the services sector (decline of 7.8%).

In the first quarter of 2006, 61.3% of the total employed persons are male, while 38.7% account for female. Both employment and unemployment rate with the male population equals 42.5% and 36.3%, respectively. Regarding the female population, the employment rate equals 26.8%, while the unemployment rate equals 36.2%.

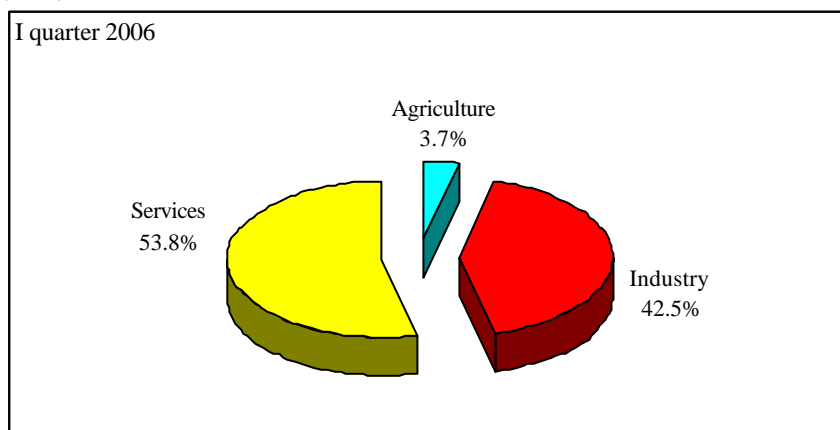
As to the age, no significant changes in the first quarter of 2006 are registered, with the highest employment rate being still evidenced with the population aged between 25 and 49, while the unemployment rate was highest with the population aged between 15 and 24.

In the first quarter of 2006, the average number of employees amounts to 262,783¹⁶. Analyzed by months, the largest number of employed person is registered in March. Also, in March the number of employees is higher by 0.6% in comparison with January 2006, in terms of more significant increase in the services sector. Within industry sector, the highest growth is recorded in the manufacturing industry (of 2.3%), which employs the largest number of persons out of the total number of employees (30.1%).

Compared to the last quarter of 2005¹⁷, the number of employees in the first quarter of 2006 went down by 3.9%, given decrease in the employment in the economy's three sectors. The number of employees in the industrial sector declined by 4.5%, reflecting the lower number of employees in all industrial activities. The drop in the largest industrial activity (manufacturing industry), equaled 4.3%. The number of employees in the agricultural sector decreased by 4.2%, while more moderate decrease of 3.4% is registered in the services sector.

The average number of employees in the first quarter of 2006 equaled 262,783 persons

Figure 9
Share of the sectors in the total number of employees
(in %)



Source: State Statistical Office of the Republic of Macedonia

¹⁶ Source: State Statistical Office of the Republic of Macedonia. Since January 2006, the number of employees in the activity "public administration and defense" for the first time includes the data provided by the Ministry of Internal Affairs and Ministry of Defense. Because of the changes in the sample, no adequate comparison between the number of employees in 2006 and other years is possible. In order to obtain comparable data and for the purpose of calculating the changes compared to 2005, the NBRM made adjustments to the data on the activity "public administration and defense", services sector, and the total number of employees.

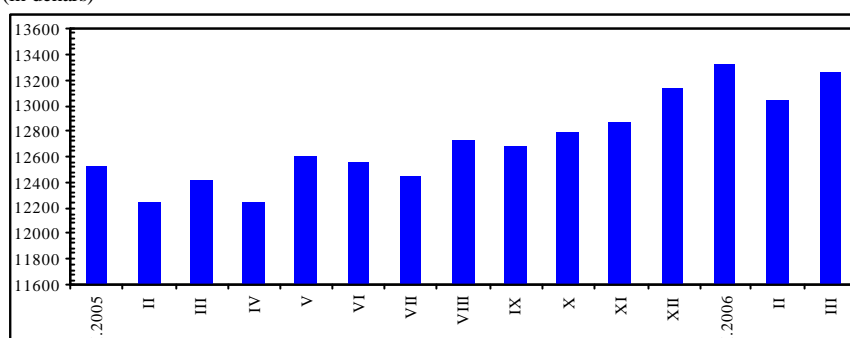
¹⁷ Adjusted calculations.

Compared to the previous quarter¹⁸, the number of employees remained almost unchanged (insignificant decrease of 0.1%), with an increase in the number of employed persons in the services sector and decline in the number of employees in the agricultural sector and industry being registered.

Increase in the nominal average net wage per employee in the first quarter of 2006 was registered

In the first quarter of 2005, the average net paid wage per worker in the Republic of Macedonia registered nominal and real increase compared to the same period of the previous year. Thus the nominal average net wage per employee (Denar 13,206) went up by 6.6%, given more moderate real growth of 3.8% (in terms of average inflation rate of 2.7%). In the first three months of 2006, the average gross paid wage per employee¹⁹ (Denar 22,558) registered increase in both nominal and real terms of 7.6% and 4.8%, respectively.

Figure 10
Average monthly net-wage per worker
(in denars)



Source: State Statistical Office of the Republic of Macedonia

Increase in the nominal net wages in the three sectors of the economy was registered in the first three months of 2006. The most intensive increase in the wages of 8.5% is registered in the industrial sector, which employs approximately 40% of the total number of employees. The highest growth rate (of 22.5%) was registered in "electricity, gas and water supply. The remaining industrial activities registered more moderate growth dynamics. The nominal net wage in the manufacturing industry, which employs about one third of the total number of employee, went up by 0.8%.

The nominal wages in the services sector and agriculture recorded more moderate increase (of 3.6 and 3.1%, respectively). Within the services sector, increase in the wages was recorded in all activities, except the wages in the health care. More significant growth rates of the wages are registered in trade (increase of 6.1% in conformity with the intensified trade activity in the first quarter of 2006), in "transportation, storage and communications" (by 6.1%) and in "public administration and defense" (by 10.5%, due to gradual process of decompression of the civil servants' wages, as well as due to the changes in the scope of data, i.e. increase in the number of employees encompassed in the sector²⁰).

On a quarterly basis (first quarter 2006 / fourth quarter of 2005), the average nominal net wage registers more moderate increase (of 2.2%) given the increase in the wages in industry and agriculture (of 3.2% and 1%, respectively). On a quarterly basis, the highest rate of increase in "electricity, gas and water

¹⁸ Adjusted calculations.

¹⁹ Source: State Statistical Office. The total gross paid wages include: net paid wages for the reported month, paid personal income tax and paid contributions (for pension and disability insurance, health care insurance, employment, professional decease and water supply).

²⁰ Source: State Statistical Office. In January 2006, the number of employees for the first time encompasses the data from the Ministry of Internal Affairs and the Ministry of Defense.



supply" (16.8%) was registered. In the first quarter of 2006, the highest wage in the amount of Denar 25,952 was paid in "financial intermediation".

In the first quarter of 2006, 13.7%, on average, of the total number of the employees did not receive wage. Relative to the previous quarter, it is a decline of 2.5 percentage points, while on annual level the decline equals 4.8 percentage points²¹.

4.

Monetary policy

In the first quarter of 2006, the movements in the external sector contributed to further maintenance of higher supply than demand for foreign exchange on the foreign exchange market. Consequently, the NBRM realized net purchase of foreign exchange on the foreign exchange market, with part of the additionally created Denar liquidity through foreign currency transactions being sterilized through the monetary instruments and simultaneous maintenance of the downward trend of the interest rates of NBRM. The monetary policy layout in this period contributed to further maintenance of the stability of the nominal foreign exchange rate of the Denar relative to the Euro, and hence the price stability. However, more intensive increase in the inflation in the first quarter (the average inflation rate for the January - March 2006 period equals 2.7%), is due to the influence of the factors on the side of supply, the effect of which will gradually become weaker.

In the first quarter of 2006, several changes in the monetary policy's operational framework were made, in function of creating preconditions for more efficient and more active liquidity management by the banks (abolishing the possibility for using cash in vault as an adequate mean for fulfilling the reserve requirement and lowering the interest rate on the Lombard credits) and active monetary and fiscal coordination (introduction of Treasury bills for monetary objectives, which should provide liquidity withdrawal on a longer-term basis and further development of the financial market).

In the first three months of 2006, the influence of the autonomous factors and the monetary policy instruments led to lower level of liquidity in the banking system²² by 8.5% on a quarterly basis. Namely, the created liquidity on the basis of the increase in the net foreign assets²³ of NBRM and lower demand for cash were completely neutralized through cumulating funds on the Government's account with the NBRM (partially as a result of the mobilized funds on the basis of Treasury bills for monetary purposes). In terms of insignificant quarterly change of the CB bills, they have no larger liquidity effect.

²¹ The decrease is primarily due to a methodological change, i.e. a decline in the sample, since the employees in closed companies were exempted from the records, in order to improve the quality and the accurateness of the obtained data.

²² The liquidity includes the account of the banks with the NBRM and the banks' cash in vault.

²³ The significant increase in the net foreign assets of the NBRM in March 2006 reflects the high external inflows (Euro 169.8 million) on the basis of ESM - Distribution Privatization.



Table 5
Liquidity creation and withdrawal*
(in millions of Denars)

	31.12.2005	Monthly changes			Total	31.03.2006
		January	February	March		
Liquidity of the banks	6,000	-1,150	1,320	-678	-508	5,492
Liquidity creation					6,364	
1. Net foreign assets	66,282	-9,152	167	14,610	5,625	71,907
2. Currency in circulation	14,439	1,339	-535	-65	739	13,700
Liquidity withdrawal					-6,872	
1. Net domestic assets	-45,843	6,663	1,688	-15,223	-6,872	-52,715
of which:						
CB bills	-8,921	-1,492	760	750	18	-8,903
Government Denar deposits with NBRM	-6,993	-660	793	-1,947	-1,814	-8,807
of which: Treasury bills for monetary purposes	-	-	-	-1,377	-1,377	-1,377
Government foreign currency deposits with NBRM	-15,286	8,625	64	-13,648	-4,959	-20,245
Other items, net	-17,978	190	-208	-377	-395	-18,373

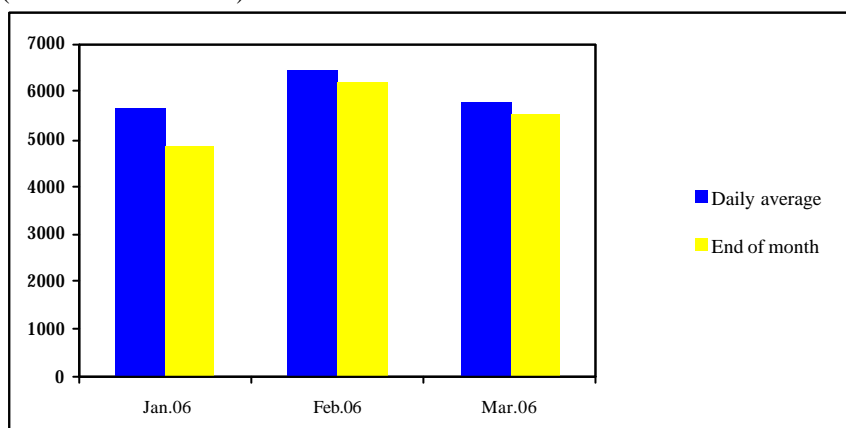
*The liquidity includes the bank accounts with the NBRM and the cash in vault of the banks

Source: NBRM

*Higher average daily
liquidity of the banks in the
first quarter of 2006*

In the first quarter of 2006, the average daily liquidity of the banking system equals Denar 5,965.6 million, which is an increase of Denar 789 million, or 15.2% compared to the previous quarter. The positive quarterly dynamics of the average daily liquidity reflects the effect of the foreign currency transactions of NBRM and the lower average amount of government Denar deposits, in terms of higher interest of banks to invest in CB bills and on average, higher demand for cash.

Figure 11
Average daily liquidity and liquidity of the banks at the end of the month*
(in millions of Denars)

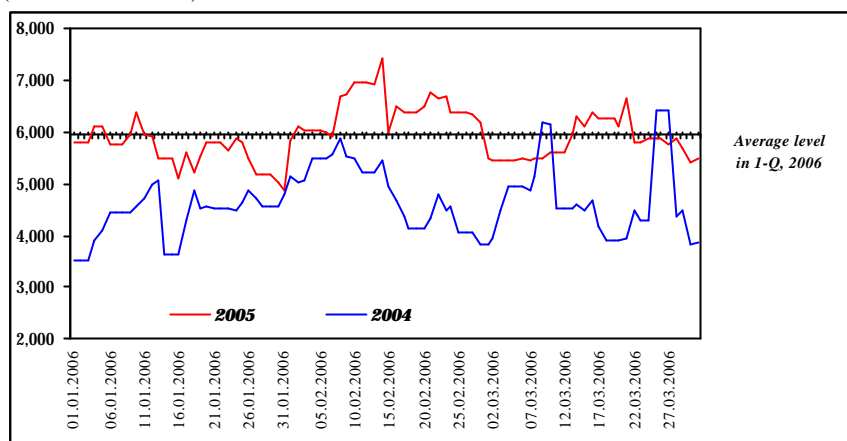


*The liquidity includes account of the banks with the NBRM and cash in vault of the banks

Source: NBRM

From the aspect of the monthly dynamics, the lowest average daily amount of liquidity of Denar 5,644.9 million is registered in January 2006, which corresponds to the relatively high interest of banks to invest in CB bills. In February, given lower average amount of CB bills and on average lower demand for cash, the average liquidity augmented and it equaled Denar 6,451.7 million (the highest average level of liquidity in the quarter). The average daily liquidity dropped in March (Denar 5,800.3 million) as a result of the withdrawal of funds through CB bills auctions and the increase in the currency in circulation.

Figure 12
Daily dynamics of the liquidity of the banks*
(in millions of Denars)



*The liquidity includes the banks' account with the NBRM and the banks' cash in vault
Source: NBRM

On January 11, 2006, the NBRM decision (adopted in November 2005) on revoking the recognition of the cash in vault as a mean for meeting the reserve requirement, for the purpose of more efficient liquidity planning and management by the banks, became effective. The changes in the reserve requirement as monetary instrument led to further lowering of the allocated surplus beyond the reserve requirement. Thus the excess liquid funds above reserve requirement (in Denars)²⁴ in the first quarter of 2006 equals 8.9%, on average, which is a significant decrease of 5.7 percentage points compared to the average registered in the previous quarter. In January the excess liquidity was below the average (5.1%), while in February it surged beyond the average level, reaching 12.8%. Excess liquidity identical to the average was registered in March. On February 16, 2006, the NBRM reduced the interest rate on Lombard credit from 13% to 11%, thus making this credit more attainable to the banks for overcoming temporary liquidity shortages. Such changes should contribute to more active liquidity management by the banks. Also, by changing the interest rate on Lombard credits, as an interest rate being an indicator for the upper limit in the interest rate corridor, the correlation between the reference interest rate²⁵ (interest rate on CB bills with maturity of 28 days) and the interest rate on Lombard credit reduced.

Liquidity creation through net purchase of foreign exchange by the NBRM on the foreign exchange market

In function of maintaining the stability of the Denar exchange rate relative to the Euro, in the first quarter of 2006, the NBRM took active participation on the foreign exchange market. During the quarter, favourable movements on the foreign exchange market were registered, except in January, when pressures for depreciation of the domestic currency emerged, generated from the foreign trade movements. Such a situation led to higher demand for than supply of foreign exchange, with the foreign exchange transactions of NBRM in January being in direction of net sale of foreign assets. However, the active participation of the banks in supplementing the supply of foreign exchange of the banks - enterprises segment, as well as the favourable movements in the external sector, contributed to fast stabilization of the foreign exchange market, as a result of which in February and March the NBRM realized again a net purchase of foreign exchange on the foreign exchange market. On cumulative basis, the NBRM registered net purchase of foreign exchange, acting towards liquidity creation.

²⁴ The period for maintaining (fulfilling) the banks' reserve requirement covers the 11th day of the current month to the 10th day of the following month

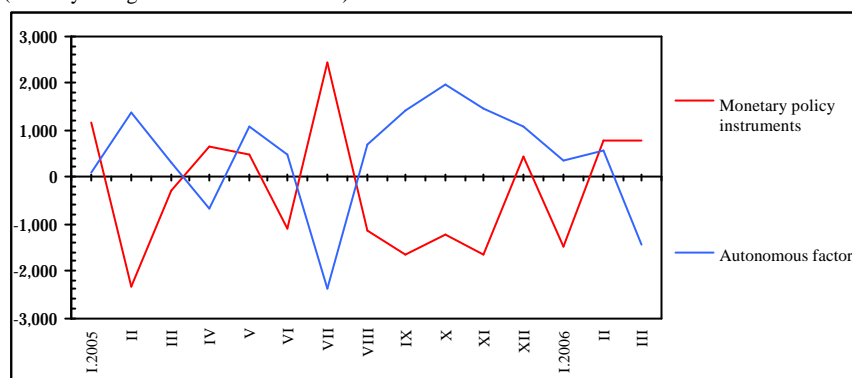
²⁵ The empirical analysis showed that the interest rate on the CB bills with maturity of 28 days represents a reference interest rate for the banks.



In the first quarter, the Government Denar deposits with the NBRM represented flow of liquidity withdrawal

In the first quarter of 2006, the Government Denar deposits with the NBRM went up by 25.9% on a quarterly basis, thus representing flow of liquidity withdrawal from the banking system. However, Denar 1,377 million out of the total increase in the Government Denar deposits (Denar 1,814 million) refer to Treasury bills for monetary purposes. Namely, on March 07, 2006, the NBRM in cooperation with the Ministry of Finance initiated a Treasury bills issue for monetary purposes, with maturity of three months, for the purpose of liquidity sterilization on a long-term basis and gradual replacement of the CB bills. During the quarter, the Treasury bills auctions enabled the Government to additionally mobilize Denar 1,905.11 million.²⁶

Figure 13
Monetary regulation instruments and autonomous factors of liquidity creation and withdrawal*
(monthly changes in millions of Denars)



*Positive change – liquidity creation, negative change – liquidity withdrawal

*Source: NBRM

The CB bills auctions acted towards liquidity creation

In the first quarter of 2006, the CB bills auctions acted towards liquidity creation (insignificant decrease in the level of the CB bills of Denar 18 million). From the aspect of the dynamics, deviation from this trend was registered only in January, when the level of the CB bill augment by Denar 1,492 million on a monthly basis. In function of stimulating the interbank transactions and in line with the plan of activities for introducing Treasury bills for monetary purposes, in February the NBRM reduced the frequency of the CB bills auctions (the auctions are held once a month instead of twice a week). Also the supply of CB bills decreased for the purpose of gradual channeling of banks to invest in Treasury bills for monetary objectives. Such changes were appropriately reflected by the lower level of CB bills in February and March by Denar 760 million and Denar 750 million, respectively. From the aspect of this monetary instrument layout, in the first quarter of 2006 the NBRM continued supplying CB bills with 28-day maturity on the "interest rate principle". In terms of averagely higher demand for than supply of CB bills compared to the previous quarter, the average weighted interest rate of CB bills went down by 2.12 percentage points, and it equaled 7.06%, on average.

Reduced turnover on the interbank Money Market

In the first quarter of 2006 continuous decrease in the turnover on the interbank Money Market is registered. Thus during the analyzed period the monthly turnover on the institutionalized Money Market amounts to Denar 61.5 million²⁷, which is a quarterly decrease of 1.9 times. In absence of demand for liquid funds, no transactions at all were realized in January. Reduced turnover was also registered within the bilateral interbank trading, with the monthly

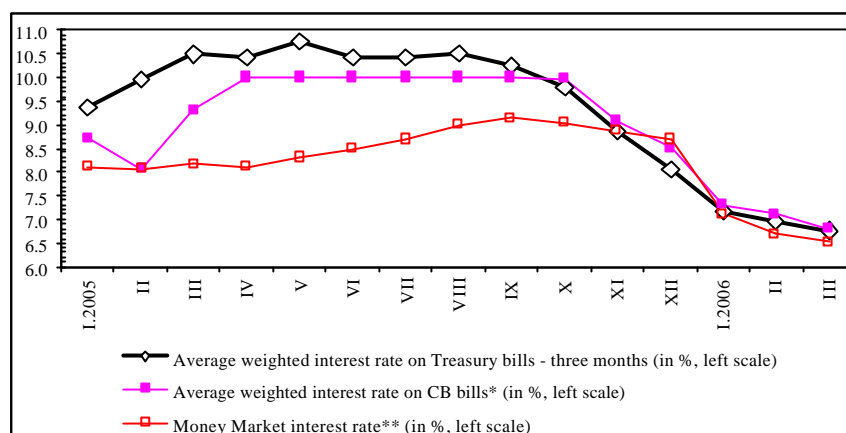
²⁶ Difference between the Treasury bills on March 21, 2006 (last auction held in March 2006) and the amount as of December 20, 2005 (last auction held in December 2005).

²⁷ The average turnover encompasses the transactions realized in February and March 2006.



turnover in the first quarter being equal to Denar 483.7 million, on average (quarterly decrease of 28.8%).

Figure 14
Short-term interest rates



*Average weighted interest rate on CB bills with all available maturities.

** Average weighted interest rate on the interbank Money Market (institutional and non-institutional market).

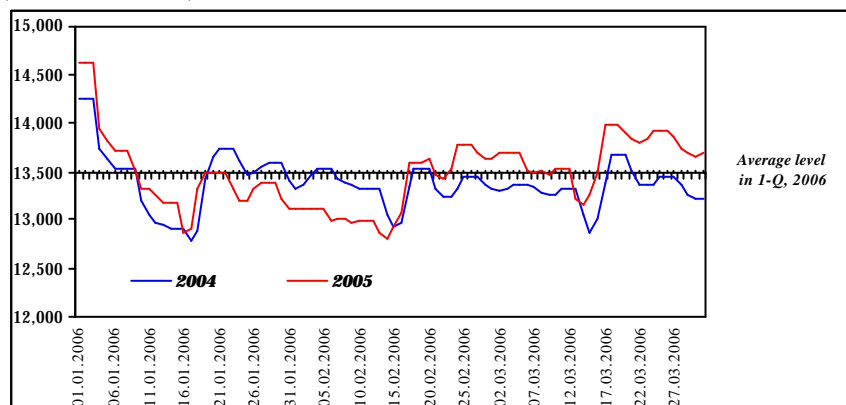
Source: NBRM, Money and Short-term Securities Market and Ministry of Finance.

In the first quarter of 2006, the average weighted interest rate on the Money Market (both segments) equals 6.8%, on average (8.9% in the previous quarter), pointing to the responsiveness of this interest rate to the changes in the interest rate on CB bills.

Lower demand for currency in circulation

By draining out the effects of the seasonal increase at the end of the previous year, at the end of March 2006 compared to the end of the previous quarter, the demand for cash declined by 5.1%. From the aspect of the average daily amount, the average level of currency in circulation was relatively stable during the quarter.

Figure 15
Daily dynamics of the currency in circulation
(in millions of Denars)

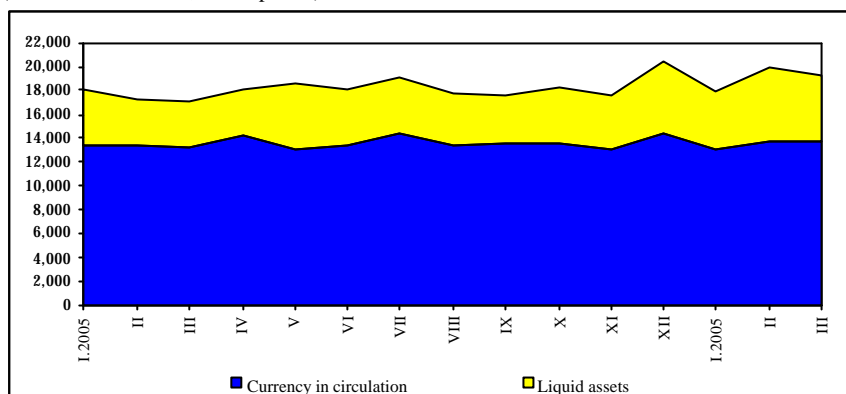


Source: NBRM

Lower reserve money in comparison with the previous quarter

At the end of the first quarter of 2006, compared to the previous year, the reserve money went down by 6.1%, given simultaneous drop in the currency in circulation and the total liquid funds of banks. On annual basis (March 2005 / March 2006) the reserve money augmented by 12.5%.

Figure 16
Reserve money
(in millions of Denars, end of period)



*The banks' liquid funds include the banks' account with the NBRM and the cash in the vault of the banks.

Source: NBRM

Attachment 3

Treasury bills for monetary objectives

The monetary instruments of the NBRM is laid on a flexible basis, enabling gradual change and adjustment to the current instruments, as well as introducing new instruments in order to increase their efficiency and successful realization of the set objectives. In terms of structural excess of Denar liquidity in the banking system, the insufficiently developed financial market and insufficiently diversified securities portfolio, the one-month securities of NBRM (CB bills) are the core instrument for liquidity management. The structural excess liquidity hampers the monetary policy conduct, i.e. it reduces the executiveness of the monetary transmission. Hence in function of structural excess liquidity reduction, i.e. its sterilization on longer term, as well as supporting the development of the government securities market, on March 07, the NBRM, in cooperation with the Ministry of Finance, introduced government bills issue for monetary objectives, with maturity of three months.

The Treasury bills for monetary objectives should enable more homogeneous securities market, i.e. gradual lowering of the market segmentation between the current government securities (in which both bank and non-bank entities may invest) and CB bills (being available only for banks on the primary market). The introduction of government securities for monetary objectives will enable increase in the amount of securities, which is expected to stimulate the development of the secondary government securities market in the Republic of Macedonia. Having in mind that the Treasury bills are an alternative way of investment of unrestricted funds not only of banks, but of non-bank entities as well (legal entities and natural persons), continuous increase in the attractiveness of these securities is expected, which will strengthen the connection and mutual conditionality of the interest rates on individual financial instruments. These changes would also be in function of more efficient transmission of the monetary policy through the interest rate channel. On the other hand, the investments in Treasury bills for monetary objectives, contrary to the CB bills, enable binding of unrestricted liquid funds, which is expected to contribute to resolving the structural excess liquidity problem in the banking system on a longer-term basis.

The Government securities for monetary objectives are issued on the regular government securities auctions, and they have the same features as the regular government securities intended for financing the needs of the Budget of the Republic of Macedonia. In that regard, from the aspect of the potential investors,

both types of government securities have identical characteristics (same maturity, same manner of selling, payment in and payment out). A significant difference between these types of government securities is the fact that according to the Law on Public Debt the government securities for monetary objectives are not part of the public debt, since they are issued for the needs of the monetary policy. Also, the Government is not entitled to manage with the withdrawn funds through issuance of Treasury bills for monetary objectives, which is the main reason for these securities to be treated as quasi monetary operation. Namely, the cash funds mobilized through government securities issue for monetary objectives are deposited on special account with the NBRM, which is opened especially for the monetary policy needs, thus making distinction between the Denar deposits of the Government with the NBRM and the Treasury bills for monetary objectives. For the purpose of regulating the mutual relationship, the Ministry of Finance and the NBRM concluded an Agreement on Treasury bills for monetary objectives.

In 2006, government securities issue for monetary objectives in the amount of Denar 3,000 million is envisaged, which will appropriately reduce the liquidity withdrawn through CB bills. The annual amount of Treasury bills for monetary objectives may be revised during the year, depending on the macroeconomic developments.

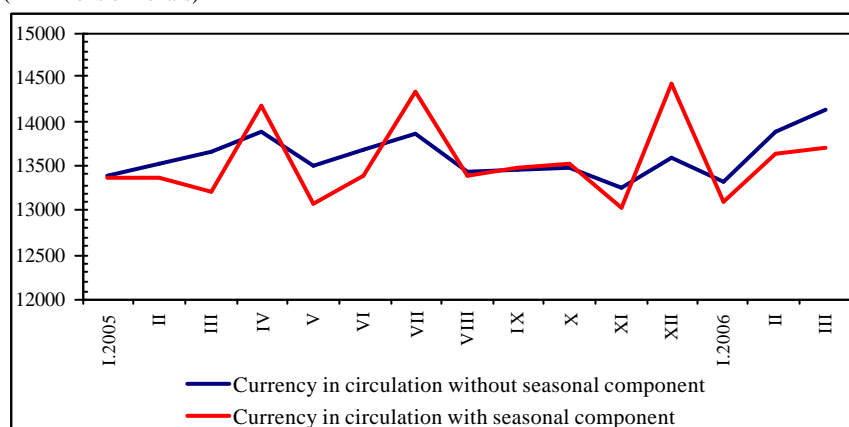
5.

Banking sector²⁸

5.1. Deposits with banks

In the first quarter of 2006, the dynamics of the monetary aggregates was influenced by the common seasonal normalization of the demand for currency in circulation, lower level of transaction deposits, as well as increase in the total deposit potential of the banks.

Figure 17
Currency in circulation with and without seasonal component
(in millions of Denars)



Source: NBRM

Quarterly decrease in the money supply M1

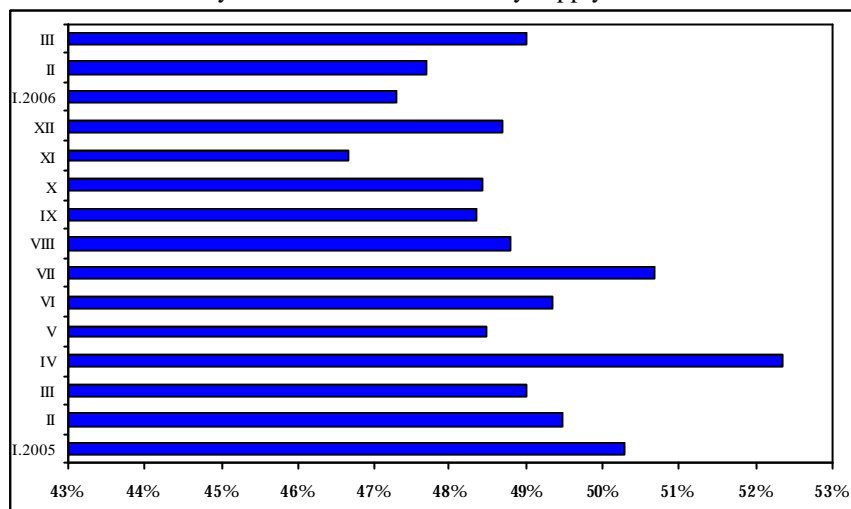
At the end of the first quarter of 2006, compared to the end of the previous quarter, the level of currency in circulation declined by 5.1%. Analyzed by months, after the high seasonal increase in the currency in circulation at the end of December 2005 (caused by the households' preferences to manage with cash before the New Year and Christmas Holidays), in January common decrease in their level was registered. After draining out the seasonal effects,

²⁸ Since May 2005, the data on the banks' deposits and credits exclude "Radobank" a.d. Skopje, to which the NBRM revoked the founding and operating license on May 27, 2005.



new intensifying of the demand for cash is registered in February, followed by moderate increase in March. Quarterly decrease was also registered with the transaction deposits (of 6.3%), given simultaneous decline in demand deposits of households and enterprises (of 3.1% and 9%, respectively). In conformity with the negative dynamics of currency in circulation and the demand deposits, at the end of the first quarter, compared to the previous year, the money supply M1 is lower by 5.7%. On annual basis (March 2006 / March 2005), the currency in circulation and the demand deposits went up by 3.7% and 3.8%, respectively. Consequently, in March 2006 the money supply M1 augmented by 3.8% compared to the same month of the previous year.

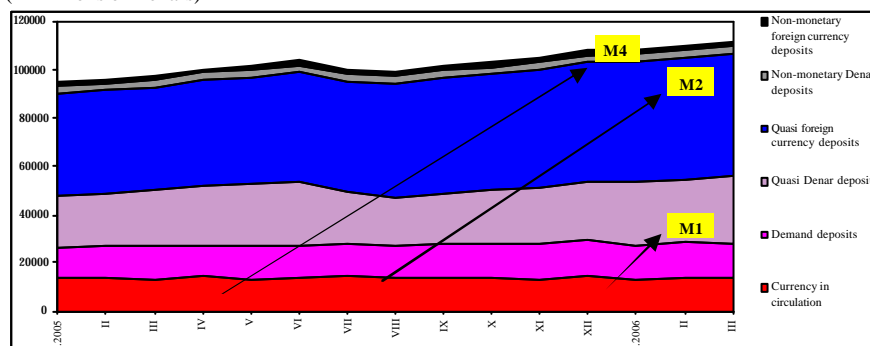
Figure 18
Share of the currency in circulation in the money supply M1



Source: NBRM

In the first quarter of 2006, the average share of the currency in circulation in the monetary aggregate M1 preserved the level registered in the previous quarter and it equals 48%. In comparison with the first quarter of 2005, the average share of the currency in circulation reduced by 1.6 percentage points, indicating favorable movements in the structure of the money supply M1. The average value of the monetary multiplier of the money supply M1 equals 1.48 in the first quarter (1.52 in the previous quarter and 1.54 in the first quarter of 2005).

Figure 19
Monetary aggregates' components
(in millions of Denars)



Source: NBRM



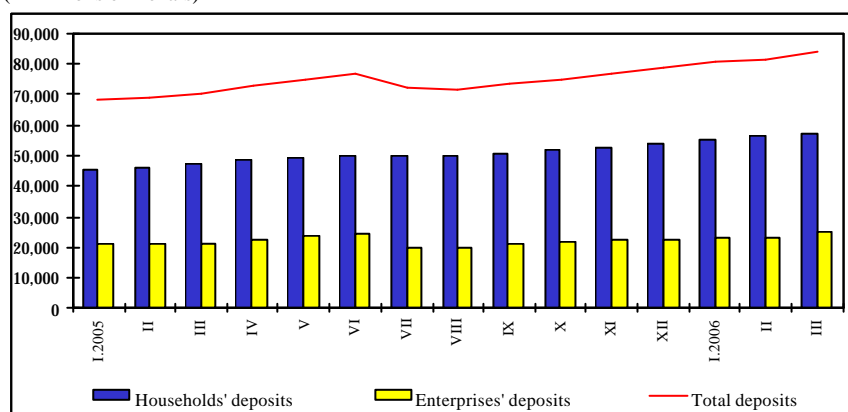
Higher level of the broad monetary aggregates on a quarterly basis

Besides the decrease in the money supply M1, the broad monetary aggregates M2 and M4 registered almost identical quarterly increase (of 3.4% and 3.5%, respectively), generated from the significant widening of the deposit base of the banks. Also, on annual basis (March 2006 / March 2005), the broad monetary aggregates went up by identical 14.9%, reflecting the high annual increase in the short-term and long-term deposits with banks (of 19.5% and 14.2%, respectively). Significant widening of the banks' deposit base as main determinant of the monetary growth in the first quarter of 2006 contributed to strengthen the monetary multiplication process. Thus the average monetary multipliers of the money supply M2 and M4 in the first quarter equaled 5.53 and 5.81, respectively, compared to 5.37 and 5.64, respectively in the previous quarter (in the first quarter of 2005 they equaled 5.24 and 5.51, respectively).

Higher total deposit potential of the banks on a quarterly basis

In the first quarter of 2006, the total deposits of the non-government sector with banks²⁹ registered intensive quarterly increase of 6.9%. From the aspect of the maturity structure, dominant contribution to the increase in the total deposits of 95.1% accounted for the short-term deposits, having in mind their high structural share (93.7%, on average, on a quarterly basis). Namely, the short-term deposits rose by 7% on a quarterly basis, given simultaneous increment in the short-term Denar and foreign currency deposits (of 14.5% and 3.4%, respectively). The long-term deposit potential of the banks augmented by 5.3% quarterly (2.2% with Denar and 10% with foreign currency deposits). The increased propensity to save in domestic currency reflected through the quarterly rise in the Denar deposits of 13.1%, with their contribution to the increase in the total deposits being equal to 66%. The growth of the foreign currency deposits was more moderate and at the end of March 2006, compared to the end of the previous year, they surged by 3.6%. On annual basis (March 2006 / March 2005) the total deposits of the non-Government sector with the banks incremented by 19.1%, primarily as a result of the increase in the short-term deposits (of 19.5%).

Figure 20
Deposit timeframes
(in millions of Denars)



Source: NBRM

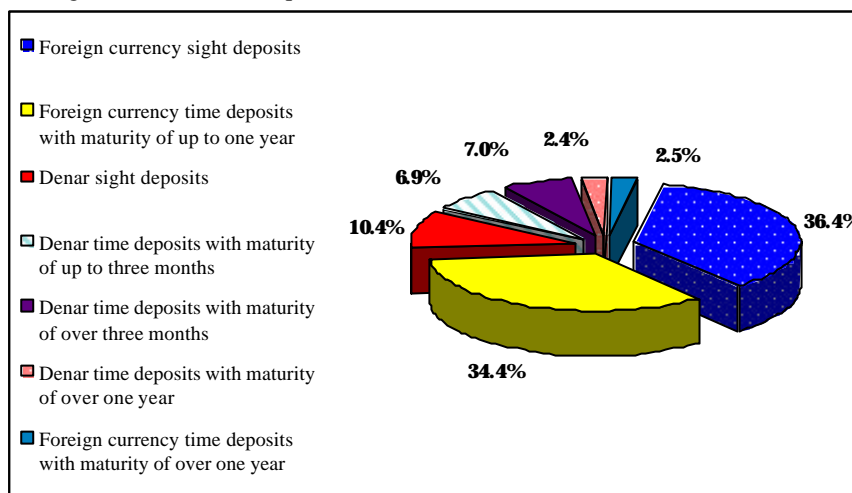
Quarterly increase in the households' deposits...

At the end of March 2006, compared to the end of the previous quarter, the total households' deposits rose by 6.3%. From the aspect of maturity, the households' short-term deposits registered quarterly increase of 6.2%, reflecting primarily the increase in the short-term foreign currency deposits and Denar deposits with maturity of six months to one year. The long-term saving of households (the average share in the total households' deposits of which is relatively low and equals 5.2% in the first quarter) surged by 8.2% and it is mainly caused by the higher foreign currency deposits. The dominant contribution to the short-term deposits of 93.4% in the increase in the total

²⁹ The total deposits of the non-Government sector encompass both short-term and long-term (Denar and foreign currency) deposits of the economic agents (without demand deposits).

households' deposits verifies the yet present propensity of households to invest in higher liquidity instruments. From the aspect of the currency structure, more intensive quarterly increase of 12.8% was registered with the households' Denar deposits, while the foreign currency deposits incremented by 3.9%. The share of the foreign currency deposits still dominates in the currency structure of the households' deposits, which equals 71.6%, on average in the first quarter of 2006. On annual basis, (March 2006 / March 2005) the total households' deposits with banks increased by significant 22.2%.

Figure 21
Structure of households' deposits
(average share in the first quarter of 2006)



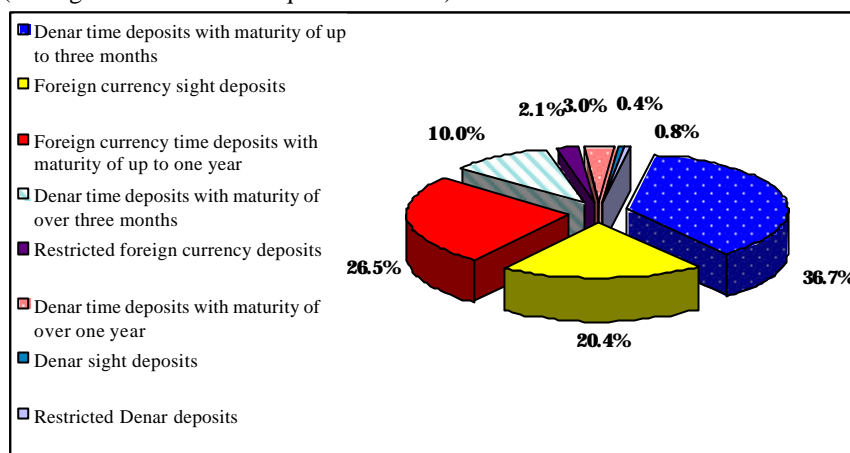
Source: NBRM

...and enterprises' deposits

Observed on a quarterly basis (March 2006 / December 2005), the total enterprises' deposits surged by 9.8%. The positive quarterly change in the total deposits of enterprises primarily reflects the preferences of the corporate sector for short-term time depositing of funds (registered quarterly increase in the short-term deposits of 10%). Namely, the short-term enterprises' deposits participated with 96.2% in the increase in the total deposits of enterprises, with the most intensive increase being recorded with the Denar time deposits with maturity of up to three months and the foreign currency sight deposits. The long-term deposits went up by 6.5% on a quarterly basis, with their share in the total enterprises' deposits continuing to be low and it equals 5.6%, on average, in the first quarter.



Figure 22
Structure of the enterprises' deposits
(average share in the first quarter of 2006)



Source: NBRM

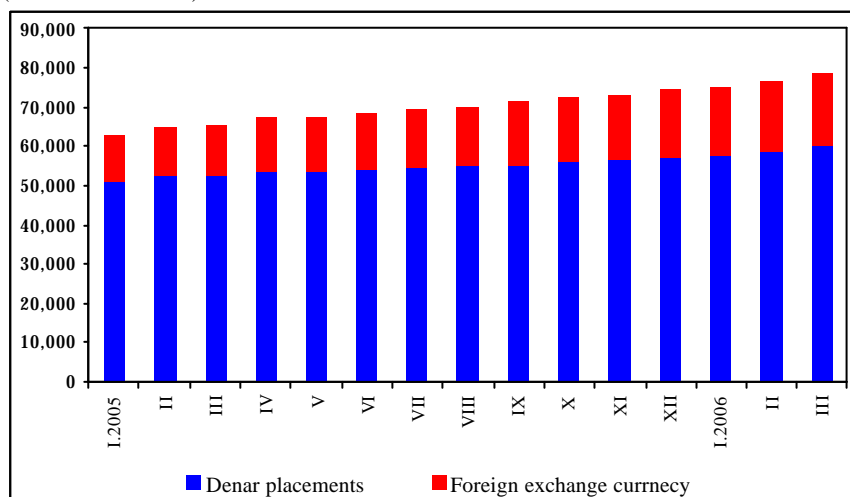
The analysis of the currency structure of the total enterprises' deposits indicates increase in the Denar and foreign currency deposits of 16.6% and 3.3% respectively, on a quarterly basis. The annual growth rate of the total enterprises' deposits with banks equals 16.2% in March.

5.2. Placements and interest rates of the banks

The significant widening of the banks' deposit base (increase in the crediting potential), as well as the positive developments in the banks' interest rate policy (decrease in the lending interest rates on certain credits), in the first quarter of 2006 contributed to high quarterly increase in the total placements extended to the private sector. Thus at the end of March 2006, compared to the previous year, the total bank placements to the private sector augmented by 6.2%.

*Intensified credit activity
in the first quarter*

Figure 23
Banks' placements by currency
(in millions of Denars)

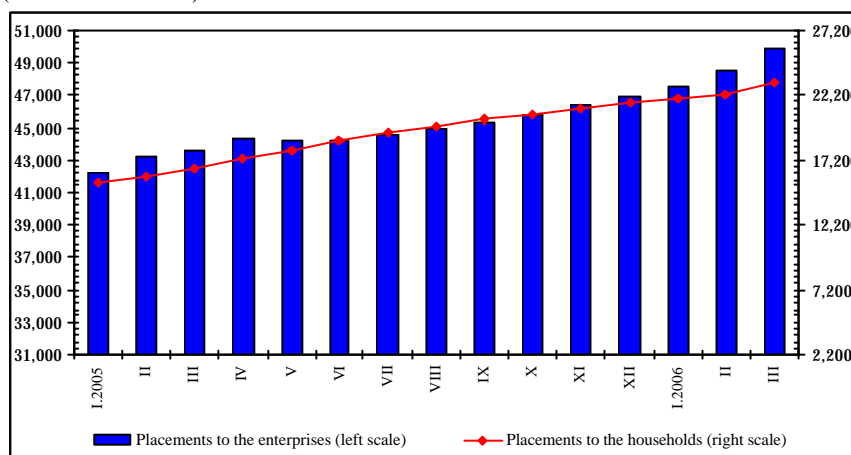


Source: NBRM

According to the currency structure, in the first quarter of 2006 the banks were primarily directed towards crediting in domestic currency. Thus the

Denar placements³⁰ surged on quarterly basis by 5.4% contributing to the increase in the total placements by 66.1%. However, 59.3% of the increase in the Denar placements pertains to credits placed with corporate sector, pointing to gradual reorientation of the enterprises to indebtedness in domestic currency. Having in mind that the main reason for the demand for bank loans in foreign currency is the corporate sector, such movements led to slowing down of the growth dynamics of the foreign currency placements. Thus the quarterly increase in the total foreign currency placements (the share of which in the total placements equals 25%, on average in the first quarter), equals 8.4% in March 2006. From the aspect of maturity, the short-term and the long-term bank placements went higher by 6.6% and 5.8%, respectively on a quarterly basis. Annually, (March 2006 / March 2005), the total bank placements increased by 21% with the private sector, given more intensive increase in the foreign currency placements (43.6, compared to the increase in the Denar placements (14.9%).

Figure 24
Banks' placements by sectors
(in millions of Denars)



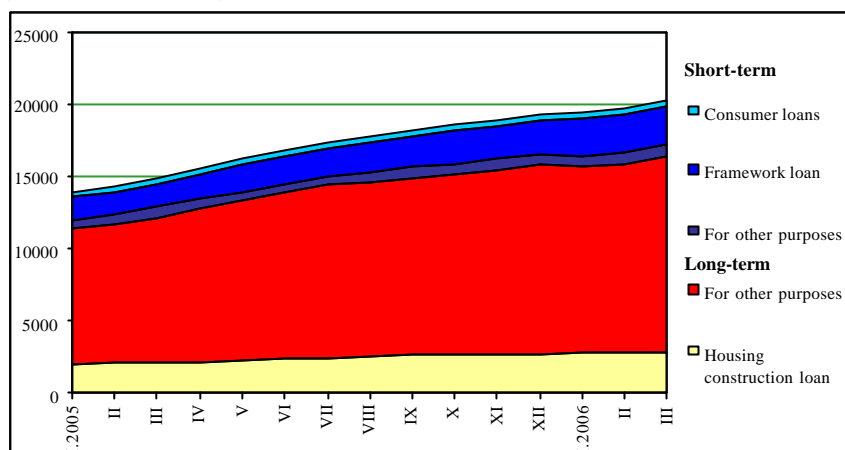
Source: NBRM

Higher lending to the households and enterprises

In the first quarter of 2006, the banks continued covering of the households' short-term and long-term needs for funds, which conditioned quarterly increase in the total placements with households of 6.7%. The main cause of the increase in the total placements with households is Denar placements (quarterly increase of 5.8%) the share of which in the total increase equals 83.1%. The foreign currency placements augmented by 33.2% on a quarterly basis, with their share in the total households' placements being higher by 0.7 percentage points (3.9% in the first quarter of 2006, compared to 3.2% in the previous quarter).

³⁰ The foreign currency indexed loans are also included

Figure 25
Distribution of the households' Denar credits by types of credits
(in millions of Denars)



Source: NBRM

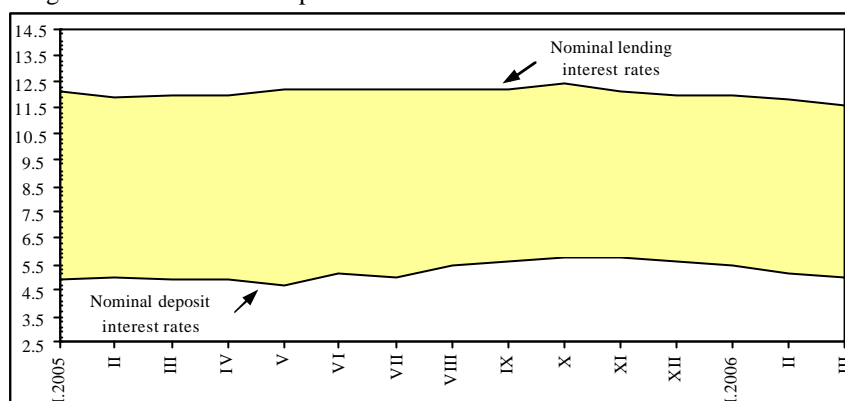
From the aspect of the maturity structure, the long-term households' loans registered a quarterly increase of 5.4%, in terms of increase in all categories of the long-term credits. In the first quarter, the largest portion of the long-term loans to households is in domestic currency (primarily housing loans and other purposes loans). The short-term households' loans went up by 11% on a quarterly basis, given higher volume of extended consumer and framework³¹ loans (increase of 9.3% and 15.7%, respectively). The annual growth rate of the bank placements with households equals 39.3% in March 2006.

At the end of March 2006, compared to the end of the previous year, the total placements to the enterprises went up by 6.1%, contributing with 67.3% in the increase in the total placements. Contrary to the previous year, when foreign currency lending to enterprises dominates, in the first quarter of 2006 the enterprises preferred borrowing in domestic currency³². Namely the Denar placements registered a quarterly increase of 5.4%, which is 58.1% of the increase in the total placements to enterprises. Positive quarterly change also with the foreign currency placements to enterprises is registered (increase of 7.3%), with their share in the total placements to the enterprises in the first quarter equaling 34.9%, on average. The analysis of the maturity structure of the total placements to corporate sector indicates almost identical quarterly growth with the short-term and long-term placements of 6% and 6.2%, respectively. On annual basis (March 2006 / March 2005), the total bank placements to enterprises surged by 14.3%.

³¹ Negative balances based on current accounts.

³² Foreign currency indexed loans are also included.

Figure 26
Weighted interest rate and spreads*



* Pertain to Denar loans and deposits for all maturities and sectors, with the Denar loans and the deposits with currency clause being included.

Source: NBRM

Moderate decline in the interest rates of the banks in the first quarter

In the first quarter of 2006, in terms of continuous decrease in the interest rate on CB bills, regarding the interest rate policy of banks positive changes towards moderate decrease in the banks' interest rates were registered. Thus, the average weighted lending interest rate on Denar loans for all maturities and sectors equals 11.6% in March 2006, which is a decline of 0.5 percentage points compared to December 2005. Within the Denar loans allocated to households, more significant decrease was registered with the interest rates on the short-term loans with and without currency clause (of 1 percentage point on a quarterly basis). Lower interest rates on almost all Denar loans extended to enterprises was registered, with the most intensive quarterly drop being recorded in the interest rate on long-term Denar loans without currency clause (9.2% in March 2006, compared to 10% in December 2005). The average weighted deposit interest rate on Denar loans for all maturities and sectors equals 5% in March 2006, compared to 5.6% in December 2005. The average weighted interest rate on foreign currency loans for all maturities, sectors and currencies equals 7.9%, which is a quarterly increase of 0.1 percentage point. Simultaneously, the average weighted interest rate on foreign currency deposits for all maturities, sectors and currencies remained unchanged regarding the previous quarter and in March it equaled 1.4%.

6.

Financial markets

6.1. Stock Exchange

Increase in the total turnover on the stock exchange in the first quarter of 2006 was registered...

The total turnover on the stock exchanges (including block transactions and Government segment) realized in the first quarter of 2006 amounts to Denar 12,994.3 million, i.e. an increase of 4.9 times compared to the last quarter of the previous year. The high growth in the stock exchange activity is due to the block transactions realized on both official and unofficial market segment of the Stock Exchange in the first quarter of 2006, the share of which in the total stock exchange turnover reached 84.2%. The main reason for such activity was the transaction realized on March 24th on the unofficial market segment through which sale of the Government shares in AD ESM - Distribution to foreign investor (EVN AG from Austria) in the amount of Denar 10,722.8 million was realized.

From structural aspect, the turnover realized on the official market segment represents 13.6% of the total turnover on the stock exchange, 2% of the



total stock exchange trading³³ are realized on the unofficial market, while 0.2% out of the total stock exchange turnover accounts for the concluded transactions with shares and stakes in the ownership of the Government, while the remaining share of 84.2% account for the realized block transactions.

In the first quarter of 2006, total turnover in the amount of Denar 2,023.8 million on the basis of classical trading (without block transactions) was recorded (compared to Denar 2,209.0 million in the fourth quarter of 2005), with the average daily³⁴ stock exchange turnover being equal to Denar 31.9 million, while 137 transactions per day, on average, are traded. In the first quarter of 2006, compared to the same period of the previous year the turnover registered on the stock exchange by classical trading increased by 14.6%. However, in March 2006, the turnover arising from classical trading in the amount of Denar 846.7 million dropped compared to the same period of 2005, when the highest monthly turnover since the establishing of the capital market was realized (Denar 1,189.3 million). March is characteristic for high trade volume, because General Meetings of most of the companies are held during this month, and thus possibility for receiving dividend soon after the purchase of shares. The reduced activity on the stock exchange in March 2006, compared to the same month of the previous year, may partially be explained with the repealing of the tax exemption on capital gain³⁵ originating from securities since January 2006. Such fiscal changes initially acted towards slowing the turnover on the Stock Exchange down, especially due to the investors' restrain from investing, which traditionally invest in shares in order to obtain capital gain. However, large contribution to the smaller interest of the investors to invest in securities accounts also for the preserved high prices of large number of listed companies, thus reducing the possibility for continuing increase in the prices of shares and registering capital gain.

In March 2006, the foreign investors participated with 37.15% on the side of the purchases and 4.06% on the side of the sales³⁶ out of the total turnover realized on the Stock Exchange. At the end of March 2006, compared to the end of 2005, insignificant increase in the participation of foreign investors in the total capital of all listed companies on the official Stock Exchange market was registered, as well as in the total face value of the listed bonds³⁷ (14.32% at the end of March 2006), compared to 13.82% as of December 31, 2005). However, 11.93% are owned by foreign legal entities, while the remaining 2.39% are owned by foreign natural persons.

At the end of March 2006, there are 50 joint stock companies listed on the official market segment of the Stock Exchange, i.e. by seven less compared to the end of the end of 2005.

³³ No trading with convertible certificates issued by the Government for compensating the depositors of the bankrupted savings houses was registered on the unofficial market.

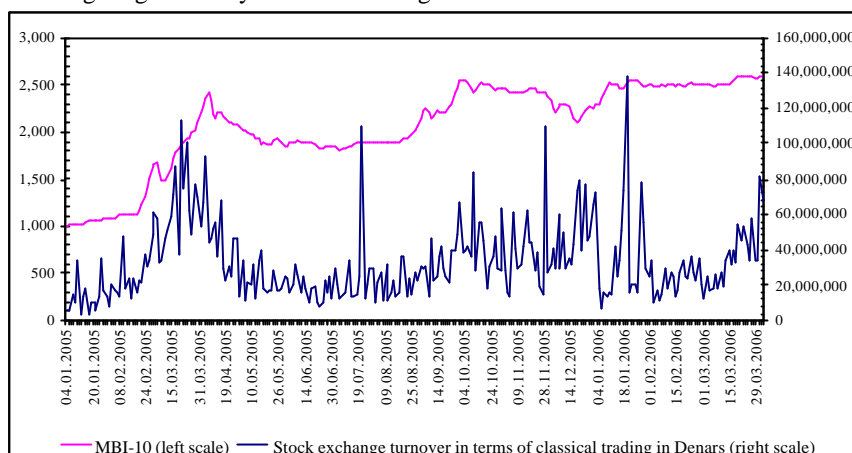
³⁴ Since January 01, 2006, the trading on Macedonian Stock-Exchange is held five times a week. Hence, this fact should be taken into consideration when making the comparative analysis of the average daily indicators.

³⁵ Capital gain from securities is income generated by the tax payer as a positive difference from the sale of securities, between their sale and purchase price. Until the end of 2005, the capital gain was exempted from taxation in order to stimulate the development of the securities market in the Republic of Macedonia. Since January 1, 2006, the capital gain will be taxed at rate of 15%, while the tax relief will equal only 25% of the calculated tax.

³⁶ According to the data provided by the Central Securities Depository.

³⁷ According to the data provided by the Central Securities Depository.

Figure 28
Macedonian Stock Exchange Index (MBI-10) and turnover on the Stock Exchange registered by classical trading



Source: Macedonian Stock Exchange of Long-term Securities a.d. Skopje

...and increase in the value of
the stock exchange index

In the first quarter of 2006, no larger oscillations in the movement of the Macedonian stock exchange index MBI-10³⁸ was registered. However, the value of the index maintained high, with the annual maximum reached on September 29, 2005 (2,577.15) being exceeded already on March 20, 2006, while the stock exchange index registered its new record level of 2,592.55 on March 31, 2006. The record high value of the stock exchange index evidenced at the end of the first quarter of 2006 reflects the average increase in the prices of the ten common shares comprising the index of 13.1%, compared to the end of 2005. In line with such a trend, the market capitalization of the ten most liquid companies listed on the official market segment in the first quarter of 2006 equals Denar 25,637.2 million, compared to Denar 22,120.1 million at the end of the previous quarter.

6.2. Government securities market

In the first quarter of 2006, **Government bonds** in the amount of Denar 714.3 million were traded on the Stock Exchange official market, which is an increase of 13.3% in comparison with the last quarter of 2005. The growth is primarily due to the quotation of new, i.e. Fifth issue of denationalization bonds³⁹, the largest share of the turnover refers to, as well as investments of the

³⁸ Price index weighted with the market capitalization which is composed of the common shares of ten listed companies on the official market

³⁹ On March 14, 2006, the Macedonian Stock Exchange adopted decisions on quotation of Fifth issue of both denationalization and government bonds aimed at covering the loss of the National Bank of the Republic of Macedonia, issued by the Republic of Macedonia. The Fifth issue of denationalization bonds is characteristic by the following:

- The bonds are issued in dematerialized form, in Euros, they state on a name, and they are unrestrictedly transferable;
- Total amount of the issue: Euro 34 million;
- Face value of one bond: Euro 1;
- Maturity date: June 01, 2016;
- Interest rate: 2% annually;
- Manner of payment: the interest rate and the principal are repaid in ten annual installments on June 01, starting from June, 01, 2007.

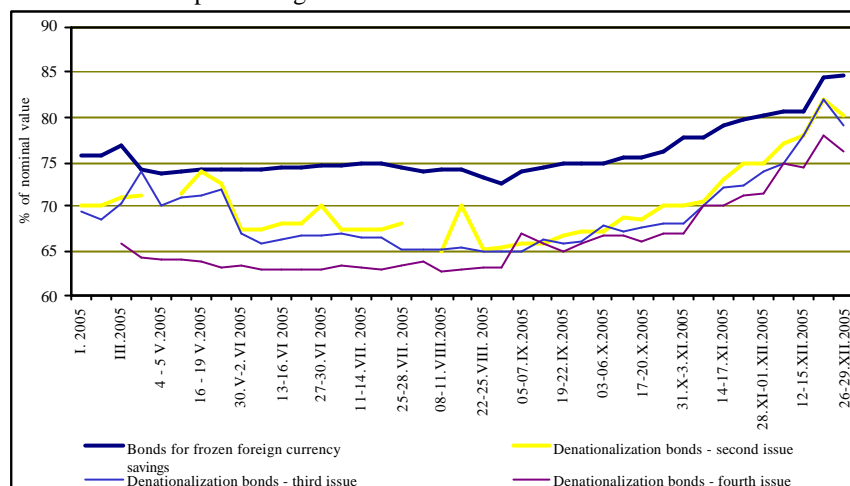
The government bonds for covering the loss of the National Bank of the Republic of Macedonia, issued by the Republic of Macedonia are characteristic by the following:

- They are issued in dematerialized form, in Denars, they state on a name, and they are unrestrictedly transferable;
- Total amount of the issue: Denar 716 million;
- Face value of one bond: Denar 10,000;
- Maturity date: December 30, 2010;
- Interest rate: 7.45% annually;
- Manner of payment: the interest rate is repaid in five annual installments on December 30, starting from December, 30 2006.

private pension funds, the total investment of which in the quoted government bonds equals Denar 110 million as of end of March 2006.

During the quarter, the government bonds were traded at price varying from 75.5% (the denationalization bond from the fifth issue) to 100.3%⁴⁰ of the face value (continuous bond).

Figure 29
Movement of the prices of government bonds



Source: Macedonian Stock Exchange a.d. Skopje

In the first quarter of 2006, six auctions of three-month Treasury bills were held on the primary Government securities market in accordance with the previously set calendar for Government securities issue⁴¹. The total supply of Treasury bills with maturity of three months amounted to Denar 3,500.0 million, the demanded amount Denar 6,000.2 million, while the total realization equaled Denar 3,482.8 million. The average weighted interest rate on the Treasury bills with maturity of three months registered on the auctions held in the first quarter, equaled 6.92%, compared to 9.0% as it equaled in last quarter of 2005.

During the quarter, the realized amount, as a percentage of the total demand, ranges between 43.2% in January and 67.5% of the demanded amount of three-month Treasury bills in March. Thus, the highest average weighted interest rate was realized in January (7.17%), when three-month Treasury bills in the amount of Denar 950 million were sold. In the following two months the interest rate decreased, in line with the decline of the interest rates on CB bills.

Three auctions of Treasury bills with maturity of six months were held during the quarter. The total supply equaled Denar 900 million, compared to the demanded amount of Denar 1,608.5 million. Analyzed by months, the demand exceeded the supply on every auction, with exception to February. The average weighted interest rate on the six-month Treasury bills on the auctions held during the quarter reached 7.34%, compared to 9.49% in the previous quarter.

During the first quarter of 2006, one auction of Treasury bills with maturity of twelve months was held. The demanded amount exceeded the supplied one by 31.8%, while the realization was in the amount of the total supply. However, the average weighted interest rate registered on this auction

⁴⁰ The interval is set according to the last average weakly price of trading with bonds within the analyzed quarter.

⁴¹ The calendar for holding auctions of Government securities is published six months in advance, with the precise amount for each auction being published four days before the auction is held



equaled 8.62%, compared to 9.59% registered on the last auction of Treasury bills held in 2005 (December 20, 2005).

Table 6
Supply, demand and interest rate of Treasury bills*

Three-month Treasury bills	Supply	Demand	Realization	Average weighted interest rate
	(in Denars)			
I.2006	950,000,000	2,197,120,000	950,000,000	7.168421053
II.2006	800,000,000	1,210,070,000	782,780,000	6.96
III.2006	1,750,000,000	2,592,970,000	1,750,000,000	6.774285714
Total for the quarter:	3,500,000,000	6,000,160,000	3,482,780,000	6.92

Six-month Treasury bills	Supply	Demand	Realization	Average weighted interest rate
	(in Denars)			
I.2006	300,000,000	809,830,000	300,000,000	7.61
II.2006	300,000,000	226,440,000	226,440,000	7.08
III.2006	300,000,000	572,260,000	300,000,000	7.28
Total for the quarter:	900,000,000	1,608,530,000	826,440,000	7.34

One-year Treasury bills	Supply	Demand	Realization	Average weighted interest rate
	(in Denars)			
III.2006	350,000,000	461,320,000	350,000,000	8.62
Total for the quarter:	350,000,000	461,320,000	350,000,000	8.62

Source: Ministry of Finance of the Republic of Macedonia

The high interest for investments in Government securities points to their growing significance as an instrument for investing the excess funds of the economic agents. The gradual diversification of this instrument is also in function of increase in its significance. The development of the Government securities market also creates additional possibilities for investments by the institutional investors. Thus only in the first three months from the official beginning, as well as from the legal requirement for the private pension funds investment, the investments in short-term Treasury bills of both funds as of March 31, 2006 amounted to Denar 38.3 million.

During the first quarter of 2006, purchase and sale transactions with securities in the amount of Denar 15.1 million were concluded on the Over the Counter Market⁴², which is smaller trading volume of 17.4% compared to the last quarter of 2005. The Treasury bills were traded within a range of 98.34% and 99.90% of their face value.

Attachment 4

Initiation of the reformed two-pillar pension system

On January 01, 2006 the reformed two-pillar pension system commenced operating. Thus the insured included in the second pension pillar started to pay their contributions (7.42% of the gross wage) in both companies for pension funds management, i.e. New Pension Fund Skopje (NPF) and KB First Open Pension Fund Skopje" (KB First). In line with the data provided by the Supervision of Capital Financed Pension Insurance Agency (MAPAS)⁴³, the second pillar totals 105,871 insured, 54% of which are on a voluntarily basis, while the remaining 46% account for the mandatory insured. The comparison with the expectations of the Pension and Disability Insurance Fund shows registering of significantly higher share than the expected. Thus instead of the

⁴² The Over the Counter Market commenced operating officially on April 25, 2005, and the first transaction was concluded on May 18, 2005. Purchase and sale transactions with securities outside the Stock Exchange and the Money and Short-term Securities Market are concluded. All short-term securities issued by the Republic of Macedonia are traded on the Market.

⁴³ "Situation in the obligatory capital financed pension insurance", Statistical Report No. 1, March 2006, Supervision of Capital Financed Pension Insurance Agency (MAPAS).

86,000 insured, or inclusion of 25% of the total insured⁴⁴ (the optimistic scenario) the interest in joining the new system exceeds the anticipated one by 23%.

Table 7

Membership distribution in the pension funds according to their status

Pension Fund	Voluntary	Mandatory				Total
		By contract	Distributed	Temporary distributed	Total	
NPF	25,784	16,477	4,001	3,466	23,944	49,728
KB First	31,481	16,966	3,983	3,713	24,662	56,143
TOTAL	57,265	33,443	7,984	7,179	48,606	105,871

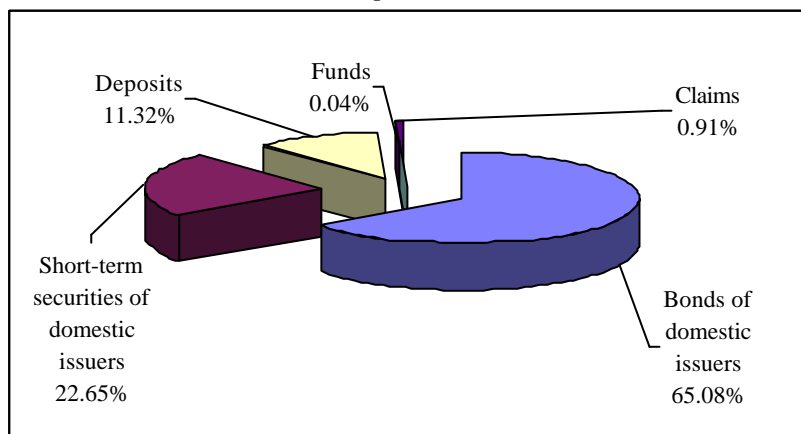
Source: Supervision of Capital Financed Pension Insurance Agency.

* The insured who mandatory joins the second pillar immediately after their employment are distributed in the pension fund by MAPAS at random choice in order to provide fructification in their funds from the very beginning of their membership. These insured should have to decide which fund they will join within three months. If they fail to select the fund they will join after the expiration of this deadline, they will remain in the pension fund which they have been temporarily assigned to.

The total funds originating from contributions of both pension funds as of March 31, 2006 amount to Denar 105 million. From the aspect of the investments structure, the data pertaining to the end of March 2006 show that 65.1% of the investments refer to investments in bonds by domestic elements, i.e. the two-year government bond, the denationalization bonds and the old foreign exchange saving bond. 22.7% are invested in short-term securities (three-month, six-month and twelve-month Treasury bills), while 11.3% are invested in deposits of the banking sector. The high percentage of funds placed in domestic securities points to the significant role of the new pension funds as institutional investors, which should especially become apparent with the gradual increase in the funds they manage with. Thus the new pension funds are expected to significantly contribute to further development and deepening of the financial market in the Republic of Macedonia.

Figure 29

Structure of the investments of the pension funds

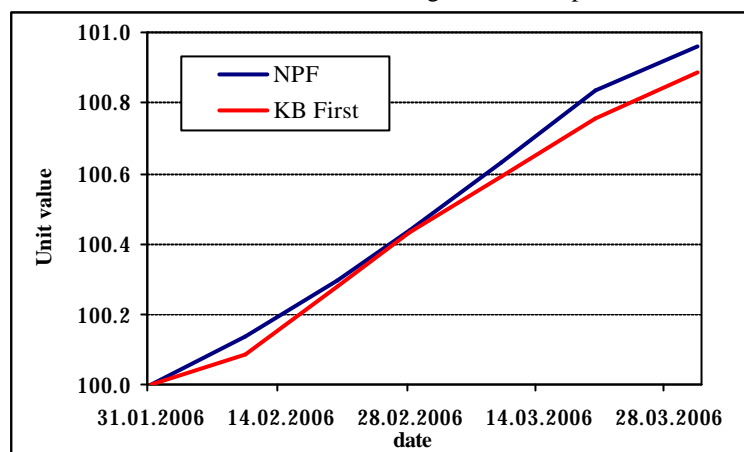


Source: Supervision and Capital Financed Pension Insurance Agency

Despite the extremely short period of time for evaluation of the results, the value of the accounting units in both pension funds may represent a leading indicator for the successfulness of the funds in fructification of the paid funds. According to the available data as of end of March 2006, the value of the accounting unit in both pension funds is considerably equalized.

⁴⁴ Actuary projections of the Pension and Disability Insurance Fund published in the Report on the pension system of the Republic of Macedonia with actuary projections.

Figure 30
Movement of the value of the accounting units in the pension funds



Source: Supervision and Capital Financed Pension Insurance Agency

7.

Balance of payments

Despite more intensive annual increase in the import regarding the increase in the export of goods, the significantly higher foreign exchange inflows on the basis of private transfers led to almost unchanged balance on the current account in the first quarter of 2006, compared to the same period of the previous year. From the aspect of the financing, in the first three months of 2006, significant inflow based on foreign direct investments on the capital and financial account was registered (primarily as a result of the privatization of ESM), as well as continuous inflow based on portfolio investments. Within the debt financing, a significant decrease in the external debt in this period was registered, as a result of the realized repayment of the total debt to the London Club of Creditors in January 2006 (for which funds originating from the issued Eurobonds in December 2005 are used). In line with such movements in the balance of payments, increase in the gross foreign reserves in the first three months of 2006 was registered.

A) Current account

Annual drop of the deficit on the current account of 6.7% in the first quarter of 2006 was registered

In the first quarter of 2006, insignificant decrease in the deficit on the balance of payments' current account on annual basis was registered, in terms of higher inflows of private transfers and favourable movements in the income balance. Thus in the first quarter of 2006, deficit in the amount of Euro 14.8 million was registered, which is lower by Euro 70.8 million and Euro 1.1 million compared to the same period of 2004 and 2005, respectively.

Table 8
Balance of payments' current account /1
(in millions of Euros)

	2004				2005				2006	2006-2005	2006-2004
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.1 difference	Q.1 changes in (%)
Goods, net (f.o.b.)*	-180.4	-264.9	-192.9	-255.9	-145.5	-272.0	-188.4	-247.4	-198.9	-53.4	36.7
Services, net	-26.7	-11.6	0.4	-5.6	-2.9	-13.1	9.4	-20.7	-6.3	-3.4	118.2
Income, net	0.9	-30.7	-9.7	6.3	0.5	-16.3	-36.8	8.2	5.2	4.7	897.8
Current transfers, net	120.5	162.7	198.4	155.3	131.9	214.6	280.7	236.0	185.2	53.2	40.3
Current account	-85.6	-144.5	-3.7	-99.8	-15.9	-86.8	64.8	-24.0	-14.8	1.1	-6.7

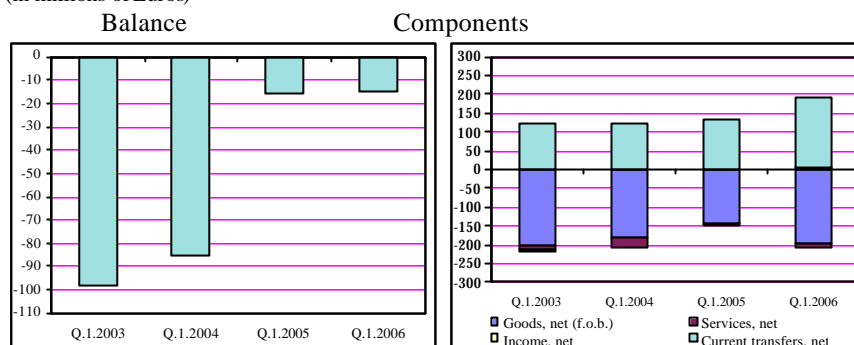
1/ Preliminary data.

Source: National Bank of the Republic of Macedonia.

Observed from the aspect of the current account components, the highest contribution to the decrease in the current account deficit in the first

quarter of 2006 accounts for the higher net inflows originating from private transfers (by Euro 48.2 million) and the higher positive balance in the income balance (by Euro 47 million). Simultaneously, in terms of faster dynamics of increase in the import than the export of goods, increased deficit in the balance of goods is registered (by Euro 53.4 million annually), thus causing also an increase in the deficit in the trade of services (of Euro 3.4 million).

Figure 31
Balance and current account components
(in millions of Euros)

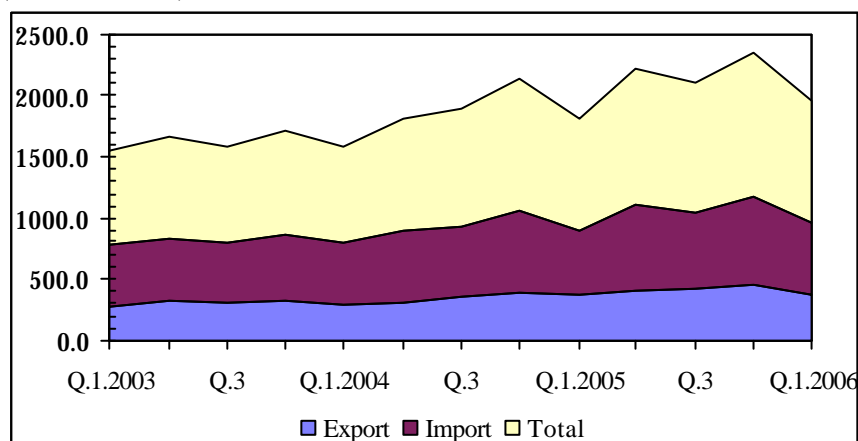


Source: National Bank of the Republic of Macedonia

Annual increase in the total foreign trade of goods of 7.8% in the first quarter of 2006 was registered ...

In terms of increase in both components, the total foreign trade of goods of the Republic of Macedonia in the first quarter of 2006 equaled Euro 973.1 million⁴⁵ (the highest amount of foreign trade realized in the first quarter of the year since 1996), which is a growth of 7.8% compared to the same period of the previous year.

Figure 32
Dynamics of the foreign trade of the Republic of Macedonia
(in millions of Euros)



Source: State Statistical Office of the Republic of Macedonia; the NBRM calculations in Euros

...given annual increase in the export of goods of 2%...

In the first quarter of 2006, the export of goods equaled Euro 374.9 million (the highest export realized in the first quarter of the year), which is an increase of 2% annually. The analysis from the aspect of the product categories with higher importance shows that the largest share of the increase in the export in the first quarter of 2006 accounts for the enhanced export of oil derivatives by 56% (completely caused by the increase in the price of oil derivatives of 2.1 times), metal ores and clothing and textile. The augmented export of clothing and textile (by 6%), as well as its continuous increase in 2005, except to the first

⁴⁵ Preliminary data of the State Statistical Office of the Republic of Macedonia, while the calculations in Euros are made by the NBRM. The export of goods is presented on f.o.b basis, while the import of goods on c.i.f. basis.

quarter, does not point to significant effect of the enhanced competitiveness from China on the placement of the clothing and textile on the foreign markets. In the first quarter of 2006, higher export of metal ore was registered (copper ore and concentrates) by 4.3 times compared to the same period of 2005, which is due to the continuous production and export activity of a significant mining facility after its reopening at the beginning of the second half of 2005.

Table 9

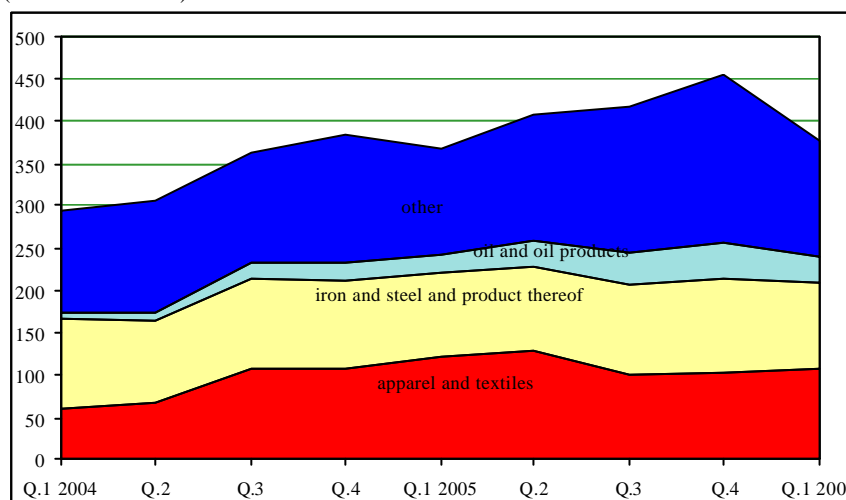
Export by groups of products according to the SITC/⁴⁶

groups of products	Q.1 2006- Q.1 2005		Q.1 2006/ Q.1 2005		Q.1 2005	Q.1 2006
	change in absolute amount	rates of change in (%)	structure in %			
				in million EURO		
Total export of goods	384.5	452.8	452.8	452.8	452.8	452.8
Fruits and vegetables	29.0	41.0	41.0	41.0	41.0	41.0
Tobacco and products thereof	16.7	22.3	22.3	22.3	22.3	22.3
Metal ore and waste	23.0	27.3	27.3	27.3	27.3	27.3
Clothing and textile	2.5	11.2	11.2	11.2	11.2	11.2
Iron and steel	110.7	120.6	120.6	120.6	120.6	120.6
Oil and oil products	22.3	41.2	41.2	41.2	41.2	41.2

Source: State Statistical Office of the Republic of Macedonia; the NBRM calculations in Euros

On the other hand, in the first three months of 2006, the export of iron and steel and products thereof, representing significant export category, equals Euro 106.3 million, which is a drop of 13.8% on an annual basis. Such a dynamics is caused by the lower production and export activity of a significant metallurgical facility in terms of unfavorable conjuncture on the world market.⁴⁷

Figure 32

Export dynamics by groups of products
(in millions of Euros)


Source: State Statistical Office of the Republic of Macedonia; the NBRM calculations in Euros

...and increase in the
import of goods of 11.8%

In the first quarter of 2006, the import of goods equals Euro 598.2 million, which is an annual increase of 11.8%, mainly reflecting the dependence of the Macedonian economy on the import, the increase in the price of crude oil and oil derivatives on the international markets and the effect of the reduced customs rates at the beginning of the year⁴⁸.

⁴⁶ Standard International Trade Classification

⁴⁷ Source: www.worldbank.org; commodity price index (pink sheet); NBRM calculations. In the first quarter of 2006, the average price of nickel amounts to US Dollar 14,810 MT (metric ton), which is a decrease of 3.5% compared to the same period of the previous year. Simultaneously, the average price of steel sheet registered a decrease of 5.8%, annually and it equals 760.6 cents/kilo.

⁴⁸ In conformity with the joining of the Republic of Macedonia to the WTO, since January 2006 the customs duties on individual products reduced, with the average customs rate beginning lowered

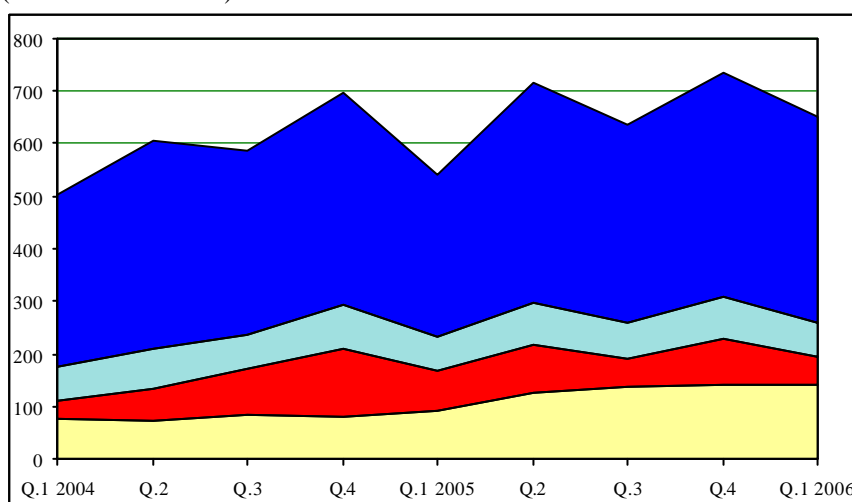
Table 10
Import by groups of products according to the SITC

groups of products	Q.1 2004	Q.1 2005	Q.1 2006	Q.1 2006/Q.1 2005		Q.1 2004	Q.1 2005	Q.1 2006
	in million EURO			change in absolute amounts in millions of euros	rates of change in (%)	structure in %		
Total import of goods	494.2	534.9	598.2	63.3	11.8			
Import of mineral fuels, lubricants, etc.	78.4	92.6	142.5	49.9	53.9	15.9	17.3	23.8
coal coke and briquette	4.7	5.1	7.2	2.1	41.4	0.9	0.9	1.2
oil and oil products	59.1	68.6	117.6	49.0	71.4	12.0	12.8	19.7
gas - natural or industrial	3.6	5.6	9.1	3.5	62.1	0.7	1.1	1.5
electricity	11.1	13.3	8.6	-4.7	-35.1	2.2	2.5	1.4
Raw materials, except fuel	12.9	14.0	25.8	11.8	84.7	2.6	2.6	4.3
metal ore and metal waste	2.1	4.0	15.7	11.7	288.5	0.4	0.8	2.6
Products classified by materials	66.2	165.3	148.7	-16.6	-10.0	13.4	30.9	24.9
iron and steel	19.0	63.1	35.5	-27.7	-43.8	3.8	11.8	5.9
Machinery and transport equipment	96.1	93.8	110.4	16.6	17.7	19.5	17.5	18.5
road vehicles	31.2	23.0	35.7	12.7	55.1	6.3	4.3	6.0

Source: State Statistical Office; the NBRM calculations in Euros

In the first quarter of 2006, the largest reason for the increase in the imports accounts for the higher import of energy by 81.8% and 53.9% in comparison with the first quarter of 2004 and 2005, respectively. Within different types of energy sources, the highest growth was registered in the import of crude oil (of 97.2% annually), reaching the value of Euro 105.2 million (compared to Euro 47.8 million and Euro 53.3 million in the first quarter of 2004 and 2005, respectively). The increase in the import of crude oil represents a combined effect of the enlarged quantities of imported oil (by 31%) and higher prices (by 50.6%). Among other energy sources, annual increase was registered in the import of gas and coal (of 62.1% and 41.4%, respectively). The increase in the gas is completely due to the augmented prices (by 3.1 times), given one-time decrease in the imported quantities (by 48%), while regarding the coal, growth is registered in the quantities and the price the import is realized at (of 12.3% and 25.9%, respectively).

Figure 34
Import timeframes by groups of products
(in millions of Euros)



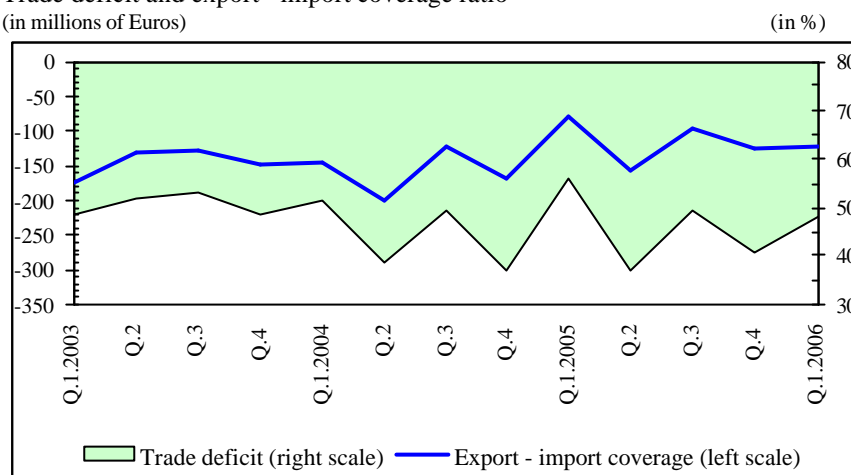
Source: State Statistical Office; the NBRM calculations in Euros

Among other groups of products, the significant increment in the import in the first quarter of 2006 is due to the intensified import of road vehicles and metal ore (by Euro 12.7 million and Euro 11.7 million, respectively).

from 10.12% in 2005 to 9.78% in 2006. However, larger decrease was registered with the average customs rate of agricultural products (of 0.87 percentage points), which equals 17.28% in 2006, while the average weighted customs rate on industrial products went down from 7.68% in 2005 to 7.45% in 2006.

Despite the increase in the prices on the international stock exchanges, in terms of lower level of imported quantities, in the first quarter of 2006 the realized import of oil derivatives⁴⁹ and electricity dropped by 26.9% and 35.1%, respectively. The lower production and export activity of one significant metallurgical facility (which depends on imports to a great extent), also acted towards import reduction. Thus the import of iron and steel registered in the first quarter of 2006 in the amount of Euro 35.5 million is by 43.8% lower compared to the same period of the previous year.

Figure 34
Trade deficit and export - import coverage ratio
(in millions of Euros)



Source: State Statistical Office; Calculations in Euro made at the National Bank of the Republic of Macedonia

*Augmented trade deficit
and lower export - import
coverage ratio*

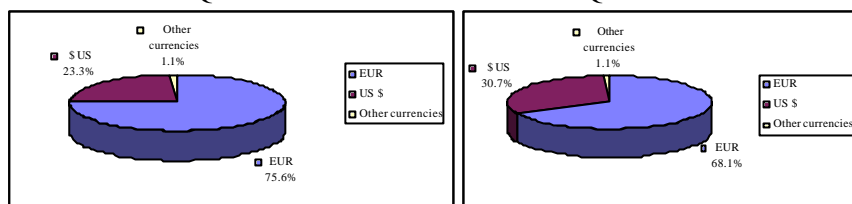
Such movements of the individual foreign trade components registered in the first quarter of 2006, resulted in widening of the trade deficit and decrease in the export - import coverage ratio. Thus in the first quarter of 2006, the trade deficit amounts to Euro 223.3 million, which means annual rise of 33.5%, while the export - import coverage ratio equals 62.72%, i.e. decline of 6.1 percentage points relative to the first quarter of 2005. Having in mind the high increase in the price of oil on the international markets, in function of assessment of its effect on the deepening of the trade deficit in the first quarter of 2006, simulation by evaluating the exported and imported quantities of crude oil and oil derivatives in the first quarter of 2006 at prices registered in the first quarter of 2004 was made (having in mind that the intensive increase in the price on the international stock exchanges began in the second half of 2004). The simulations show that the trade deficit in the first quarter of 2006 would be lower by Euro 23 million and Euro 40.4 million in the first and the second option, respectively.

*Higher presence of the US
Dollar in the total foreign
trade*

From the currency structure, in the first quarter of 2006 the share of the Euro in the total trade is by 7.5 percentage points lower on annual basis, while the share of the US Dollar goes up by 7.5 percentage points (primarily due to the higher import of oil and oil derivatives). The Euro dominates on the side of export and import of goods (72.5% and 65.4%, respectively), which is lower by 6.2 percentage points and 8.1 percentage point, respectively, compared to the first quarter of 2005.

⁴⁹ It pertains to tariff number 2710 - Oils produced of oil and oils produced of bitumen minerals, except raw products.

Figure 36
Currency structure of the foreign trade of the Republic of Macedonia in 2005
Q.1 2005 Q.1 2006

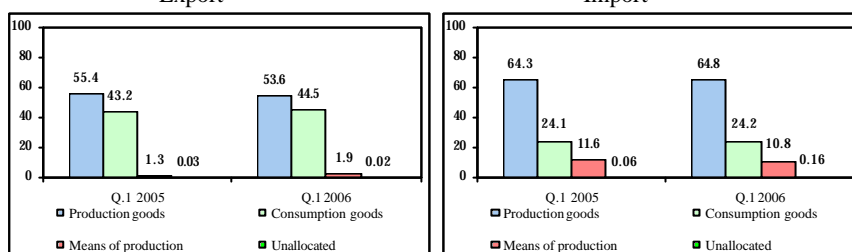


Source: State Statistical Office; Calculations in Euro made at the National Bank of the Republic of Macedonia.

Dominant share of production materials

The foreign trade analysis by economic use of the products in the first quarter of 2006 implies that the production materials⁵⁰ dominate the structure of export and import structure with 53.6% and 64.8%, respectively. The consumer goods account for 44.5% on the export side and 24.2% on the import side.

Figure 37
Foreign trade of the Republic of Macedonia by economic use of the goods
Export Import



Source: State Statistical Office; Calculations in Euro made in the National Bank of the Republic of Macedonia.

The analysis from the aspect of the dynamics shows that on annual basis, in the first quarter of 2006, changes on the export side towards higher share of consumer goods and means of operations (by 1.2 percentage points and 0.6 percentage points, respectively) were registered, given simultaneous decrease in the share of the production materials (of 1.9 percentage points, which is due to the lower export of iron and steel).

The European Union - dominant trade partner

The geographic distribution of the foreign trade in the first quarter of 2006 shows high orientation of the trade to the European Union markets (of 48.6%). Observing the individual trade components, this group of countries constitutes 57.1% and 43.4%, respectively, of the total export and import of goods. During the analyzed period in 2006, 21.4% of the foreign trade of the Republic of Macedonia was made with the countries of Central and Eastern Europe, and 16.4% with the former SFRY countries. The analysis according to the dynamics shows structural changes towards higher orientation towards markets of the Central and Eastern European countries, which is due to the higher import of crude oil from Russia. Changes in the first three the most important partner-states were registered, with Russia becoming the second most important partner. Thus the three most important partners of the Republic of Macedonia are Germany, Russia and Serbia and Montenegro, the share of which in the total foreign trade in the first quarter of 2006 equals 37.8%. The highest surplus (Euro 34.3 million) and the highest export - import coverage ratio (of 187.6%) is registered with Serbia and Montenegro, which is mainly due to the higher import of oil derivatives, while the largest deficit is registered in the trade with Russia (Euro 109.4 million), primarily as a result of the high import of crude oil. The list of the ten most important trading partners still includes China,

⁵⁰ Production materials include raw materials and intermediary products, machine fuel and finished production materials

the export - import coverage ration with which is the lowest (of 0.4%), due to continuous increase in the import of goods from this country.

Table 11
Geographic distribution of the foreign trade of the Republic of Macedonia

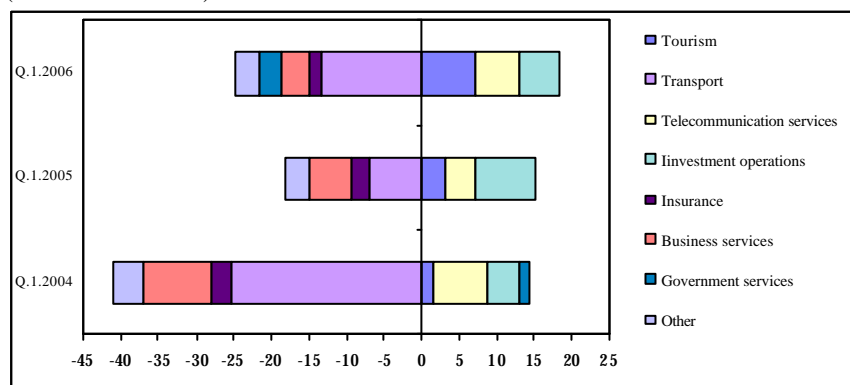
	Q. 1 2005					Q. 1 2006				
	Export	Import	Total trade	Trade balance	Import-export coverage ratio	Export	Import	Total trade	Trade balance	Import-export coverage ratio
	in millions of Euros					in millions of Euros				
	in %					in %				
European Union	227.8	240.9	468.7	-13.1	94.6	213.9	259.4	473.3	-45.4	82.5
Germany	85.48	56.22	141.70	29.25	152.03	72.73	61.20	133.93	11.53	118.85
Greece	56.57	50.74	107.31	5.83	111.50	49.99	51.41	101.39	-1.42	97.23
Italy	33.24	28.38	61.63	4.86	117.11	43.91	33.90	77.82	10.01	129.53
Other	52.5	105.5	158.1	-53.0	49.8	47.3	112.9	160.2	-65.5	41.9
Countries of Central and Eastern Europe and of former USSR	18.4	138.2	156.6	-119.8	13.3	30.5	177.4	207.9	-147.0	17.2
Russia	4.01	58.83	62.84	-54.82	6.82	5.00	114.40	119.40	-109.40	4.37
Bulgaria	9.80	41.19	50.99	-31.39	23.79	16.44	40.26	56.70	-23.81	40.85
Romania	0.62	17.76	18.38	-17.14	3.49	1.76	5.31	7.07	-3.55	33.16
Other	4.0	20.4	24.4	-16.4	19.5	7.3	17.5	24.7	-10.2	41.7
Former SFRY republics	77.7	59.8	137.5	18.0	130.1	105.1	54.8	159.8	50.3	191.9
Serbia and Montenegro	57.24	44.85	102.09	12.39	127.62	73.43	39.14	112.58	34.29	187.61
Other	20.5	14.9	35.4	5.6	137.4	31.6	15.6	47.2	16.0	202.6
Other countries	43.6	96.0	139.7	-52.4	45.4	25.4	106.6	132.0	-81.2	23.8
China	4.64	20.64	25.28	-15.99	22.50	0.10	23.43	23.54	-23.33	0.44
Other	39.0	75.4	114.4	-36.4	51.7	25.3	83.2	108.5	-57.9	30.4
TOTAL	367.6	534.9	902.5	-167.3	68.7	374.9	598.2	973.1	-223.3	62.7

Source: State Statistical Office; Calculations in Euro made at the National Bank of the Republic of Macedonia.

Higher service deficit

The first quarter of 2006 witnessed deepening of the deficit in the trade of *services*, merely caused by the movements in the foreign trade of goods. Thus the deficit in the services in the first quarter of 2006 in the amount of Euro 6.3 million was by Euro 3.4 million higher, compared to the same period of 2005 (increase in both inflows and outflows of Euro 18.3 million and Euro 21.7 million, respectively). From the aspect of individual categories of services, the highest increase in the outflows was registered with the transport services (a growth of Euro 11.2 million). The higher payments for transport services determine 51.5% of the increase in the total payments for services from abroad. On the other hand, the first quarter of 2006 registered higher inflows from tourism (by Euro 6.5 million compared to the first quarter of 2005), thus continuing the moderate increase that commenced in 2004.

Figure 38
Balance of certain service categories
(in millions of Euros)



Source: National Bank of the Republic of Macedonia.

Higher surplus in the income sub-balance

In the first quarter of 2006, the *income* sub-balance registered a surplus in the amount of Euro 5.2 million, which compared to the same period of 2005 increased by Euro 4.7 million. In environment of stable income developments based on investments (direct, portfolio and other investments), the higher positive balance of the income in the first quarter of 2006 is primarily due to the

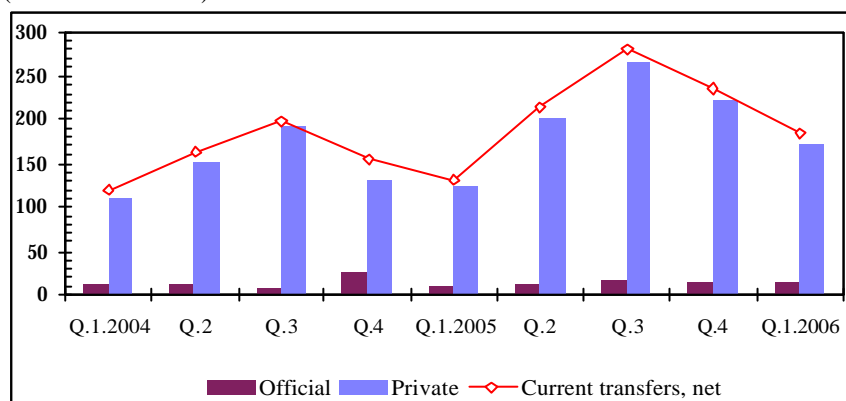


higher amount of received wages and other compensations for employed residents (by Euro 4.3 million).

Higher net-inflows from current transfers

The net-inflows from *current transfers* in the first quarter of 2006 reached Euro 185.2 million, which is an increase of Euro 53.2 million compared to the same period of 2005. Having higher net-inflows of official transfers by Euro 5 million, the increase primarily results from the higher net-inflows of private transfers. Thus, in the first quarter of 2006, the net-inflows from private transfers were worth Euro 171.1 million (increase of 39.2%). Most of the increase in the net private transfers (79.6%) is a result of the higher net-inflows from currency exchange operations, which is by Euro 38.4 million more relative to the first quarter of 2005. Consequently, their structural share in the total net-inflows of private transfers surged by 5.5 percentage points, reaching 65.7% in the first quarter of 2006. Simultaneously, the other components of private transfers registered minor increase. Thus over the observed period of 2006, the net-inflows from other private transfers and remittances (worth Euro 29.7 million and Euro 29 million, respectively) on annual basis are higher by Euro 5.5 million and Euro 4.3 million, respectively.

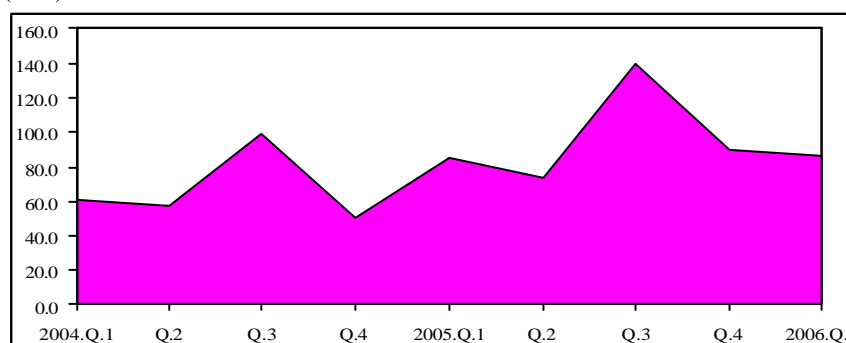
Figure 39
Current transfers, net
(in millions of Euros)



Source: National Bank of the Republic of Macedonia.

Despite the increase in the trade deficit evidenced in the first quarter of 2006, the higher foreign exchange inflows from private transfers during the analyzed period of 2006 funded 86% of the trade deficit, which is more by 1.5 percentage points and 25.5 percentage points compared to the same period of 2005 and 2004, respectively.

Figure 40
Coverage of trade deficit with private transfers
(in %)



Source: National Bank of the Republic of Macedonia.



B) Capital and financial account

Higher foreign exchange inflows in the capital and financial account

The transactions realized in the capital and the financial account of the balance of payments in the first quarter of 2006 are significantly different compared to the first quarter of the proceeding year. Namely, one-time transactions of high inflows and outflows of foreign assets on the financial account were realized. However, on a net basis, increment in the foreign exchange inflows of Euro 9.7 million in the first quarter of 2006 were registered, compared to the same period in 2005.

Table 12
Capital and financial account of the balance of payments /1
(in millions of Euros)

	2004				2005				2006	2006-2005	2006/2005
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.1	Q.1
										rates of change difference	in (%)
Capital account, net	-1.2	-1.5	-1.4	0.2	0.0	-0.2	0.2	-1.8	0.4	0.4	7532.3
Financial account, net	91.4	115.5	33.6	106.1	30.1	107.8	30.3	253.3	39.4	9.3	30.9
Direct investments, net	33.6	42.0	13.7	36.9	27.7	26.6	14.1	8.7	239.4	211.7	764.9
Portfolio investments, net*	0.5	-0.8	0.9	10.7	12.5	3.8	14.4	167.3	11.8	-0.7	-5.8
Trade credits, net	22.4	66.1	6.8	41.1	-45.7	66.4	-32.1	32.5	-17.1	28.6	-62.6
Loans, net	-10.3	16.3	16.1	25.8	14.3	64.8	4.7	41.2	-133.3	-147.6	-1033.5
Currencies and dposits, net**	39.4	-15.4	-12.2	-14.0	17.9	-57.9	24.4	-5.2	-67.1	-85.0	-474.5
Other, net***	5.7	7.2	8.4	5.5	3.4	4.2	4.7	8.8	5.8	2.4	69.1
Capital and financial account	90.2	114.0	32.2	106.3	30.1	107.7	30.5	251.6	39.8	9.7	32.2

1/ Preliminary data.

* in Q.4 2005 with Eurobonds.

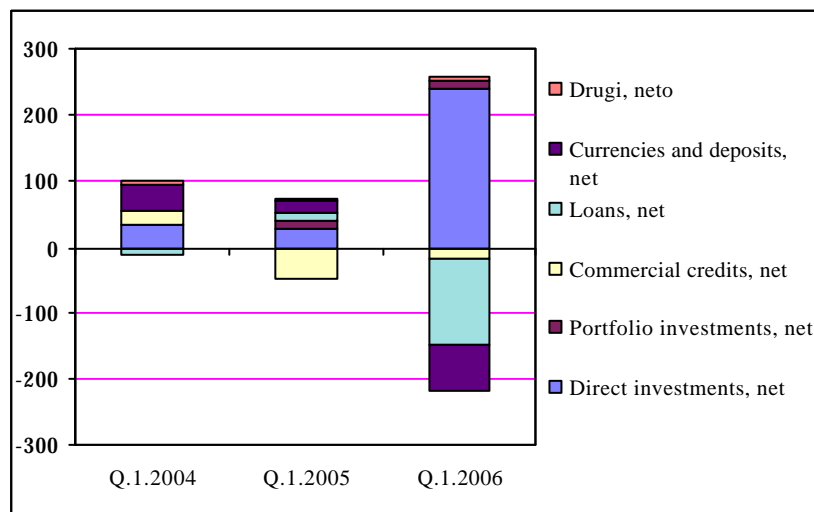
*(-) denotes reduction.

** overdue liabilities

Source: National Bank of the Republic of Macedonia.

Analyzed from the aspect of the individual components, remarkably higher inflows of net direct investments, having dominant share within financial inflows of 93.1% were realized in the first quarter of 2006 (compared to 36.5% in the same period of the preceding year). On the other hand, high outflows of foreign assets in the "loan" category were registered, due to the full repayment of the debt to the London Club of Creditors.

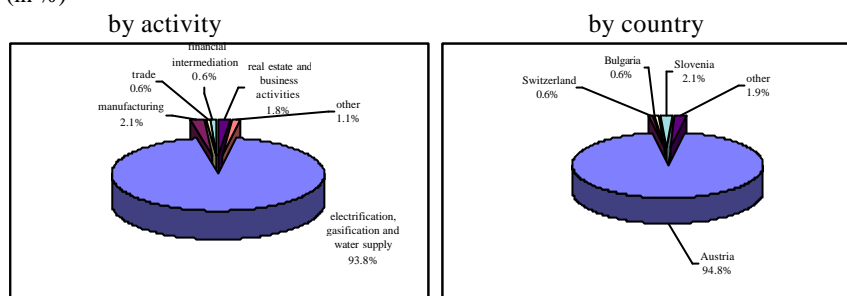
Figure 41
Financial account components
(in millions of Euros)



Source: National Bank of the Republic of Macedonia.

In the first quarter of 2006, the foreign direct investments in the country are reached the second highest quarterly amount⁵¹ since the independence of the Republic of Macedonia and equaled Euro 239.9 million. Euro 225 million out of this amount were received for privatization of the Macedonian electricity company ESM - Distribution⁵². The analysis by activity shows that most of the foreign direct investments in the country are allocated to energy sector and in companies engaged in intermediation for real estate and business activities. During the observed period of 2006, most of the investments originate from Austria (94.9%), while the larger investors from other countries are those from Slovenia, Switzerland and Bulgaria (Euro 5 million, Euro 1.5 million and Euro 1.3 million, respectively).

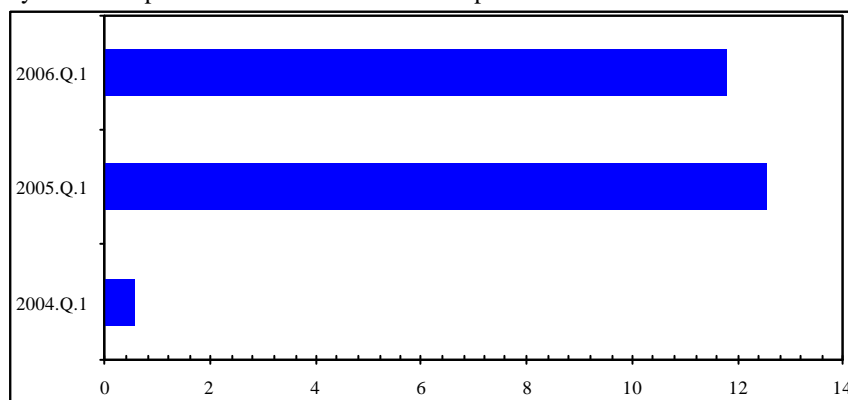
Figure 42
Foreign direct investments in the Republic of Macedonia in the fourth quarter of 2005
(in %)



Source: National Bank of the Republic of Macedonia.

In the first quarter of 2006, the Republic of Macedonia made direct investments abroad worth Euro 0.1 million, which were completely in funds. Thus, the most attractive activity for investing the funds of the domestic investors in the observed period of 2006 is the production (67.9%), and the main destination of the Macedonian investors were Serbia and Montenegro, Germany and Slovenia.

Figure 43
Dynamics of portfolio investments in the Republic of Macedonia



Source: National Bank of the Republic of Macedonia

⁵¹ The highest quarterly amount of foreign direct investments in the country in the amount of Euro 391.1 million was registered in the first quarter of 2001, Euro 350.2 million of which were received on the basis of the privatization of one of the largest public enterprises - the Macedonian Telecom.

⁵² On March 17, 2006, purchase and sale agreement between the Government of the Republic of Macedonia and the Austrian company EVN for majority of the set of shares of AD ESM - Distribution was signed, while on March 24, 2006, block transaction for purchase and sale of shares in the ownership of ESM - Distribution was realized, after which the Austrian company EVN became majority owner of this company. The EVN AG bid envisages Euro 225 million and investments in the amount of Euro 96 million in the following three years.



In the first three months of 2006, net inflows in the amount of Euro 11.8 million were realized on the basis of portfolio investments, which is almost the same level registered in the first quarter of 2005. In comparison with the first quarter of 2004, they went up by Euro 11.3 million, pointing to higher interest of the foreign investors for purchasing securities in 2006 compared to 2004.

The first quarter of 2006 registered a negative balance of commercial credits in the amount of Euro 17.1 million, owing to the higher payments than the actual import (compared to Euro 45.7 million in the same period of 2005). In terms of higher payments based on previously realized import of goods, the lower negative balance with this category (compared to the first quarter of the previous year), is completely due to the positive amount of extended loans for export of goods of Euro 20.8 million (compared to negative balance on this basis of Euro 14.2 million in the same period of 2005).

In the analyzed period of 2006, the currencies and deposits grew by Euro 67.1 million (relative to the drop of Euro 17.9 million in the first quarter of 2005). This growth is mostly due to the incremented funds of the monetary authority (in the amount of Euro 56.7 million), pertaining to part of the funds from privatization of ESM - Distribution, temporarily allocated on a special account (their use is conditioned by the EBRD decision as potential shareholder), and they do not participate in the gross foreign reserves of the Republic of Macedonia. Simultaneously, the cash foreign currency with the households surged by Euro 17.9 million, primarily due to the inflows based on the fast money transfer (Euro 13.8 million). On the other hand, the net foreign currency of the commercial banks reduced by Euro 7.5 million.

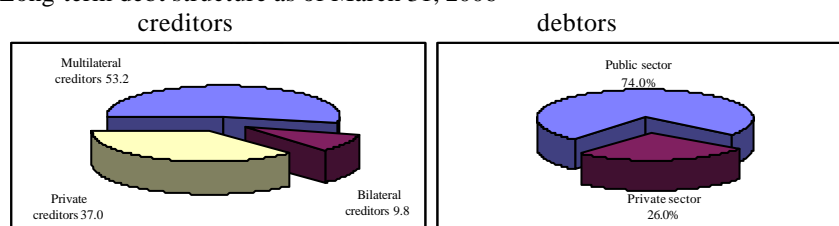
The total external debt of the Republic of Macedonia as of March 31, 2006 stands at Euro 1,745.2 million⁵³, which is by Euro 84.3 million less relative to the end of the previous year (the inflows based on Eurobonds, which were used for full repayment of the debt to the London Club of Creditors in January 2006, are included in the amount of the total external debt on December 31, 2005).

Quarterly decrease in the external long-term debt of 10.3%...

At the end of the first quarter of 2006, the external long-term debt totals Euro 1,658.8 million and went down by Euro 191.4 million, or by 10.3% compared to the end of the preceding quarter. The quarterly decline in the long-term debt is due to the realized exchange rate differentials, as well as to the lower amount of used funds relative to the principal paid. In the first quarter of 2006, the newly extended long-term loans and credits amounts to Euro 63.7 million, the largest portion of which (76.5%) accounts for the private sector.

The structural analysis from the aspect of creditors indicates that the official creditors (both multilateral and bilateral ones) participate with 63% in the total long-term debt, while 37% account for the private creditors. Observing by debtors, 74% of the long-term debt refer to the public sector, and the share of the private sector equals 26%.

Figure 44
Long-term debt structure as of March 31, 2006



Source: National Bank of the Republic of Macedonia.

⁵³ Basis cut-off date March 31, 2006.

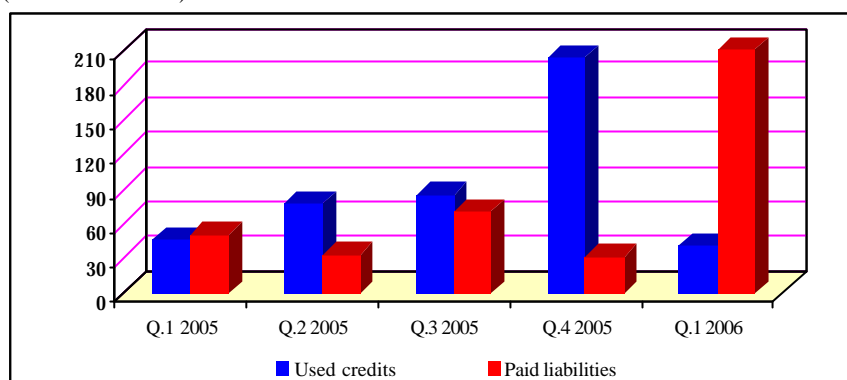


...and quarterly increase in the short-term debt of 9% was registered

As of March 31, 2006, the short-term debt totals Euro 86.3 million, which is by Euro 9% more on a quarterly basis, fully caused by the increase in the indebtedness of the private sector.

Figure 45

Used credits and paid liabilities based on long-term debt
(in millions of Euros)



Source: State Statistical Office of the Republic of Macedonia

In the first quarter of 2006, Euro 41.4 million on the basis of long-term loans and credits were used...

In the January - March 2006 period, the inflows based on lending to residents by foreign creditors on the basis of long-term loans and credits amount to Euro 41.4 million. The analysis from the aspect of the creditors shows that the largest portion of the funds, i.e. Euro 33.1 million are withdrawn from foreign private creditors, 91% of which (or Euro 30.2 million) account for the non-bank private sector. The used funds from the official creditors amounts to Euro 8.3 million, with the largest share of the funds (Euro 6.7 million) originating from the multilateral creditors. From the aspect of the debtors, Euro 33.1 million, or 80% of the used long-term loans and credits are withdrawn by the private sector. Analyzed on a monthly basis, the largest portion of funds was withdrawn in February (Euro 34 million), with the highest share being withdrawn by the private creditors. In the first quarter of 2006, on the basis of previously extended short-term credits, the funds withdrawn by the non-bank private sector reached Euro 8.4 million.

...while the paid liabilities equaled Euro 231.1 million

In the first three months of 2006, the total amount of paid liabilities to foreign creditors on the basis of used long-term loans and credits equal Euro 231.1 million, Euro 215.7 million of which are principal and Euro 15.4 million are interest. Observed from the aspect of creditors, Euro 205.7 million were paid to private creditors (Euro 188.6 million of which were used for full repayment of the debt to the London Club of Creditors), while Euro 25.4 million were paid to the official creditors. The analysis by debtors shows that the largest part of the paid liabilities in the amount of Euro 218.5 million accounts for the public sector, while the private sector paid liabilities in the amount of Euro 12.6 million. The highest amount of Euro 214.6 million was paid in January, mainly due to the full repayment of the debt to the London Club of Creditors. The paid liabilities based on short-term credits amounts to Euro 2.6 million in the first quarter of 2006, and the are completely realized by the private sector.

Attachment 5

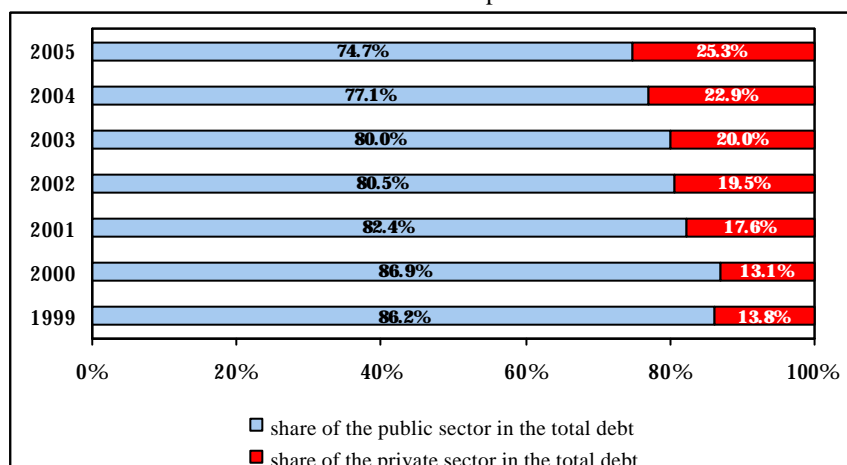
External debt of the private sector

The external indebtedness, i.e. the indebtedness with non-residents, is one of the components in the structure of the sources of financing of the private sector. There are several aspects with this type of indebtedness: 1) the external debt of the private sector is one of the components of the total external debt, the volume and the dynamics of which may significantly influence on the external position

of the domestic economy; 2) the volume of used credits from abroad may reflect the foreign entities' perception of the credit worthiness of the private sector, as well as of the situation in the economy, as a whole; 3) the external indebtedness of the banking sector may have significant implications on the monetary transmission, as well as on the entire monetary policy layout.

The analysis of the movement of the external debt of the private sector in the Republic of Macedonia in the 1999 - 2005 period shows an upward trend of its share in the total external debt, and during the analyzed period it equals 18.9%, on average. Although the average share in this period is relatively low, its increase, however, from 13.8% in 1999 to 25.3% in 2005 indicates larger contribution of the private sector to the external indebtedness domain. Observed from the aspect of the domestic factors that influenced the access of the Macedonian private sector to external sources of financing, the legal framework is deemed to be one of the key factors. Namely, until October 2002, the private sector could have borrowed from abroad only for special purposes, defined in the Decision on the foreign exchange policy and the balance of payments projection for the respective year, while with the new Law on the Foreign Exchange Operations dating from October 2002, the indebtedness of the private sector abroad was completely liberalized.

Figure 46
Sector structure of the external debt of the Republic of Macedonia



Source: Preliminary data of the National Bank of the Republic of Macedonia

Having in mind the different implications from the changes of the external debt of individual sectors, as well as the different factors determining its sustainability, the debt distribution of the private sector into a debt of the non-bank sector and debt of the bank sector is of immense importance.

The external indebtedness of the corporate sector, and especially its capacity for timely servicing of the liabilities, played significant role in the assessment of the external sensitivity of the domestic economy. The analysis of the indebtedness of the non-banking sector in the Republic of Macedonia shows an upward trend, especially obvious in the 2003 - 2005 period (the highest indebtedness in the amount of Euro 384.3 million was registered in 2005). Hence, the liberalization of the capital transactions provided by the amendments to the legal framework in October 2002, i.e. the adoption of the new Law on Foreign Exchange Operations⁵⁴ effected appropriately on the volume of utilization of foreign credits

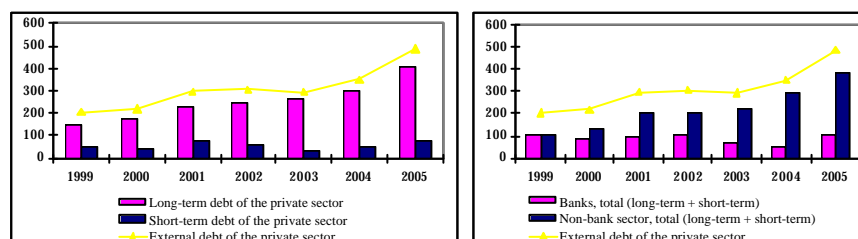
⁵⁴ For the purpose of harmonization of the Macedonian legal framework with the European Union (EU) directives and standards, on October 15, 2002 the implementation of the new Law on Foreign Exchange Operations (adopted in April 2001) commenced. Among other things, the Law on Foreign Exchange Operations creates possibility for the enterprises to borrow from foreign banks and companies, thus enabling better competitiveness on the credit market and faster effectuation of the credit lines, thus eliminating the complex administrative borrowing procedures.

by the corporate sector. Such movements may also be related to the significantly improved macroeconomic performances and the stable environment (this primarily refers to the exhaustion of the effects of the non-economic shocks - the Kosovo crisis in 1999 and the security crisis in 2001, which created instable environment and smaller possibility for utilization of foreign credits), thus improving the financial reliability of the domestic entities and facilitating their access to the external sources of financing.

The stability of the banking sector is of great importance also for the external stability. It is a sector the operations of which may have high level of maturity incompliance, but it is also a sector facing with problems about the asymmetrical information and moral hazard to a great extent. Hence, its capacity for smooth regulation of the external liabilities is determined by the quality of its operations, which depend on the set prudent framework, internal capacity, as well as the performances of the economy as a whole. The external debt of the banking system of the Republic of Macedonia has no defined trend in the 1999 - 2005 period. However, the analysis of the developments in 2005 and in the first quarter of 2006 points to apparent orientation of the banks for indebtedness abroad. Such a trend may partially be explained with the maturity structure of the deposit potential of the banking system. Namely, in the environment where the short-term deposits dominate in the banks' deposit base, (although one of them is stable core of deposits) one of the alternatives for financing the intensified credit activity is the utilization of longer-term external sources of funds. Also, such movements are determined by the presence of foreign capital, which enables the banks to borrow from the parent companies.

From the aspect of maturity, the largest share of the external debt of the private sector accounts for the long-term debt (average share of 81.1% in the 1999 - 2005 period). Analysed by individual sectors within the debt of the corporate sector, the dominant share of 80.1% in 2005 accounts for the debts the maturity of which exceeds one year (annual fall of 4.8 percentage points). However, the fact that the short-term indebtedness of the non-banking sector registers a continuing increase in the last three years should also be mentioned. The banking sector is mainly oriented towards long-term sources of funds, with the share of the long-term debt reaching 97.2% of the total debt of this sector in 2005 (annual increase of 12.7 percentage points), given the simultaneous decrease in the orientation towards short-term financing, which is especially apparent in 2005.

Figure 47
Dynamics of the external private debt by sectors and maturities
(in millions of Euros)



Source: Preliminary data of the National Bank of the Republic of Macedonia

The monitoring of the movement of the private external debt shows that in the last three years the amount of used funds significantly exceeds the amount of paid principal (which reflects also the larger orientation of the private sector to long-term sources of funds), which is not the case with the previous period, when this two categories coincide to great extent. The structure of the concluded credits and loans by creditors shows that the private sector is mainly oriented towards indebtedness with the private creditors (banks and non-banking sector).

Figure 48
Used funds and
paid liabilities
to the private sector
(in millions of Euros)

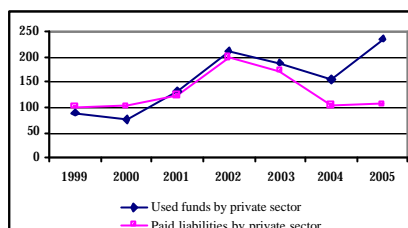
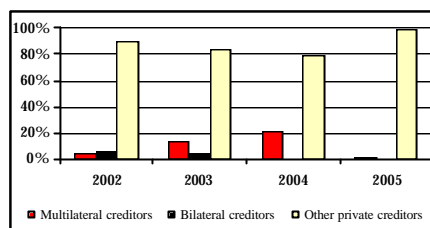


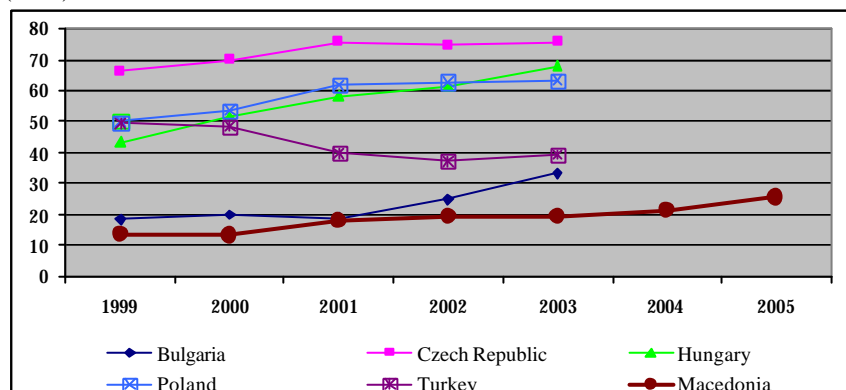
Figure 49
Structure of concluded credits and
loans by creditors



Source: Preliminary data of the National Bank of the Republic of Macedonia

The comparative analysis of the share of the private debt in the total external debt of individual countries (more developed countries in transition) shows that despite the increased debt of the private sector, the share of the debt of the private sector in the total external debt of the Republic of Macedonia. Still, having in mind the significantly improved economic performances, the stable environment, the credit rating given by the international credit rating agencies, the successful first appearance on the international capital market with the placement of the first Eurobond, as well as the expectations for additional foreign investments in the banking sector, maintenance of the upward trend of the external debt of the private sector may be expected in future.

Figure 50
Share of the private debt into the total; external debt by countries
(in %)



Source: The World Bank: Global Development Finance 2005; the calculations for individual countries are prepared at the NBRM, while the calculations for Macedonia are prepared according to the NBRM data

8.

Foreign exchange developments

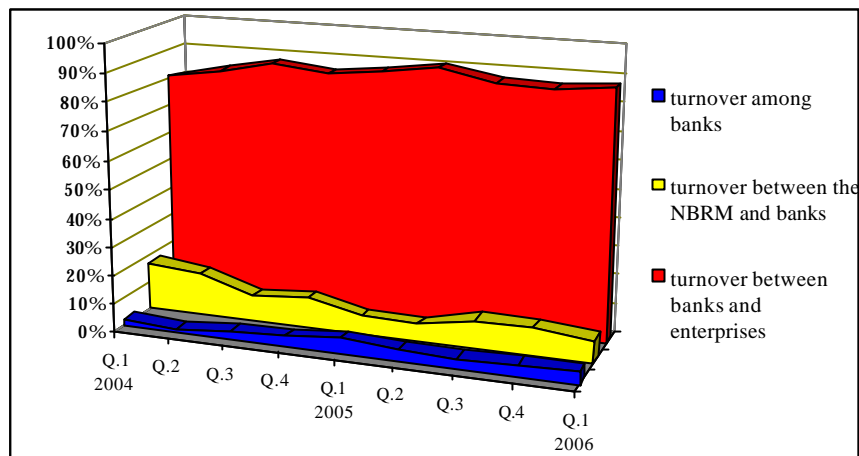
Annual increase in the turnover
on the foreign exchange market
of 14%

In the first quarter of 2006, the turnover on the *foreign exchange market* totaled Euro 852.5 million, which is an increment of 14%. Such a dynamics of the turnover on the foreign exchange market corresponds to the intensified foreign trade in the first quarter of 2006. In terms of intensified dynamics of the increase in the import than the export of goods (rise of 11.8 and 2%, respectively, on annual basis) more dynamic growth in the demand for than the increase in the supply of foreign currency by the enterprises was registered (annual rise of 19% and 7.9%, respectively). As a result of such movements, the banks registered increased net sale of foreign assets compared to the same quarter of the previous year (increase of 68.9%). The structure analysis from the aspect of individual segments the foreign exchange market turnover is realized at, points to unchanged share of the banks - enterprises turnover (87.6%)



compared to the first quarter of 2005, while the turnover registered among NBRM and the banks registered increased structural share in the total turnover (by 1.3 percentage points) and reached 8.1%.

Figure 51
Share of each segment in the total turnover on the foreign exchange market
(in %)



Source: National Bank of the Republic of Macedonia

In the first quarter of 2006, the average monthly turnover on the foreign exchange market stood at Euro 284.2 million, and relative to the preceding quarter it augmented by Euro 34.9 million. With respect to the monthly dynamics, in the first three months of 2006, March registered the highest turnover of Euro 299.4 million (by Euro 15.2 million higher than the average monthly turnover in the quarter), which is a result of the intensified foreign trade evidenced during this month.

Insignificant appreciation of the Denar against the Euro on the foreign exchange market...

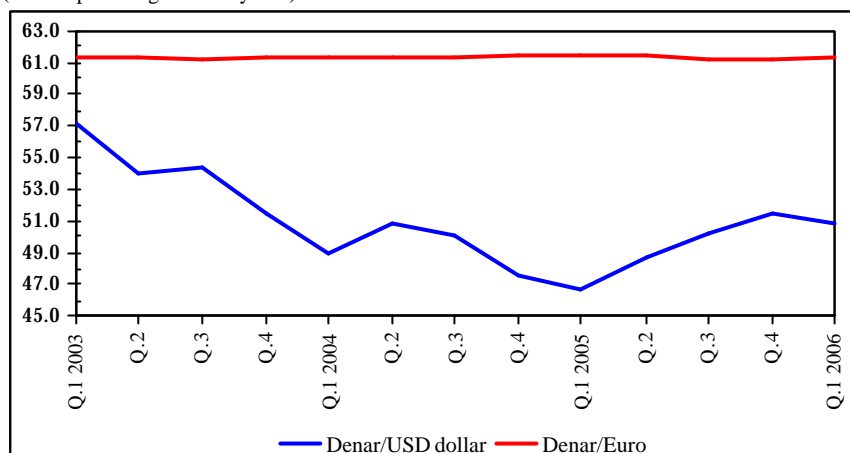
...and depreciation of the Denar against the US Dollar

In the first quarter of 2006, the NBRM took active participation on the foreign exchange market, thus closing the gap between the demand for and the supply of foreign currency. In conformity with the developments in the external sector and the business policy of the banks regarding utilization of foreign assets, the NBRM realized net purchase of foreign exchange. From the aspect of the monthly movements, net sale (given intensified demand for foreign currency due to the payment of the import realized in the fourth quarter of 2005) was realized in January, while in February and March the foreign exchange transactions of NBRM were in direction of net purchase of foreign assets. In line with such movements, pressures for depreciation were evidenced on the foreign exchange market in January, while in the following two months there were pressures for Denar appreciation. However, the foreign exchange transactions of the NBRM on the foreign exchange market resulted in maintenance of the stability of the foreign exchange rate of the Denar relative to the Euro. Thus the Denar exchange rate against the Euro in the first quarter of 2006 equaled Denar 61.24 per one Euro, on average, which is insignificant appreciation of 0.3% compared to the first quarter of 2005. The exchange rate of the Denar against the US Dollar was determined by the movement of the US Dollar on the international foreign exchange markets. Consequently, in the first quarter of 2006, relative to the same quarter in 2005, the value of the US Dollar strengthen relative to the Euro, with depreciation of the Denar relative to the US Dollar of 9.2% being registered. Thus in the first quarter of 2006, the US Dollar was traded for Denar 50.93, on average, compared to Denar 46.66 paid for one US Dollar in the same period of the previous year.

Figure 52

Average exchange rate of the Denar against the Euro and the US Dollar on the foreign exchange market

(Denars per foreign currency unit)



Source: National Bank of the Republic of Macedonia

Annual increase in the turnover on the currency exchange market of 13.1%

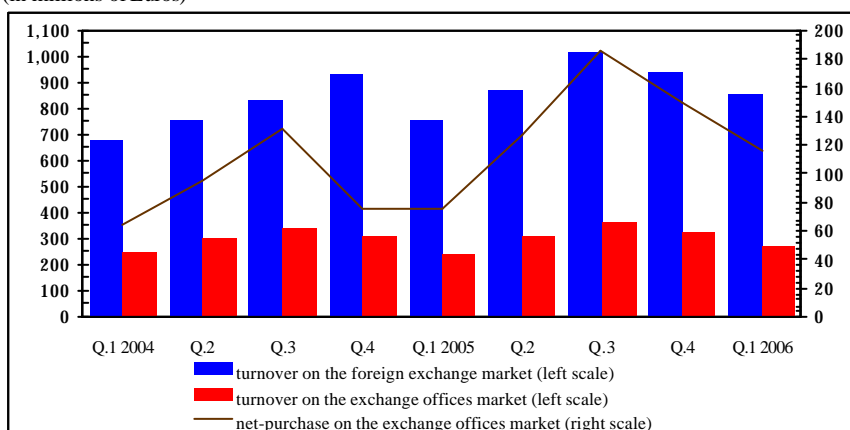
In the first quarter of 2006, the total turnover realized on the currency exchange market equaled Euro 264.5 million, i.e. it went up by 13.1% relative to the first quarter of 2005. In environment of higher supply (of 23.1%) and fall in the demand for foreign currency (of 6.4%), higher net purchase of foreign currency on the currency exchange market on an annual basis was recorded. Thus the net purchase on the currency exchange market totaled Euro 115.7 million in the first quarter of 2006, which is rise of 54.3% compared to the same quarter of 2005.

The analysis from the aspect of the monthly dynamics shows high amounts of supply of and demand for foreign currency in March (Euro 68.7 million and Euro 27.4 million, respectively), with the highest amount of net purchase of foreign currency of Euro 41.4 million being realized during this month.

Figure 53

Movement of the total turnover on the foreign exchange and currency exchange market

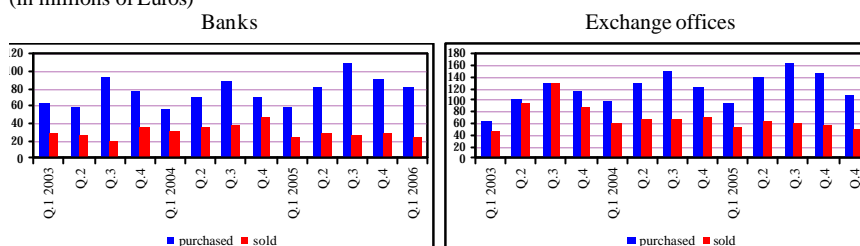
(in millions of Euros)



Source: National Bank of the Republic of Macedonia

The structure analysis indicates that 60.2% of the turnover on the currency exchange market in the first quarter of 2006 was made through the exchange offices (3.9 percentage points lower structural share), while the commercial banks participated with 39.8%.

Figure 54
Movement of the turnover on the currency exchange market
(in millions of Euros)

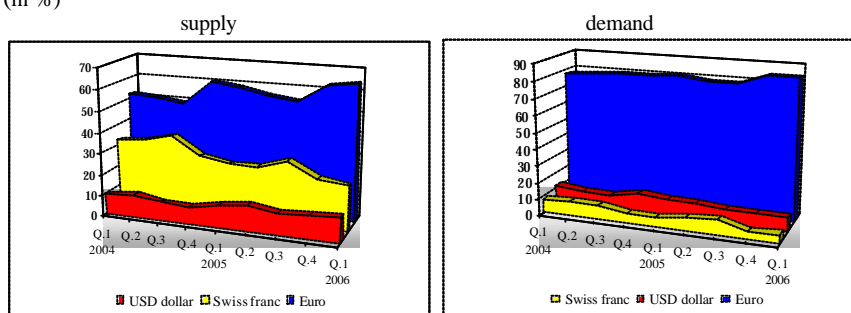


Source: National Bank of the Republic of Macedonia.

Higher structural share of the Euro

The analysis of the currency of denomination structure on the currency exchange market shows that the most common currencies on the side of the supply are the Euro, Swiss Franc and the US Dollar with a share of 64.3%, 21.2% and 11.5%, respectively. In comparison with the first quarter of the preceding year, the share of the Euro and US Dollar surged by 5.7 percentage points and 0.8 percentage points, respectively, while the share of the Swiss Franc fell by 4.6 percentage points. On the side of the demand, the Euro is deemed as the most attractive currency with a share of 84.6%, followed by the US Dollar and the Swiss Franc, the share of which equals 8.1% and 4.9%. The share of the Euro went up by 3.3 percentage points, while the share of the US Dollar and the Swiss Franc reduced by 2.2 percentage points and 0.9 percentage points, respectively compared to the first quarter of 2005.

Figure 55
Currency of denomination structure of the turnover on the currency exchange market
(in %)



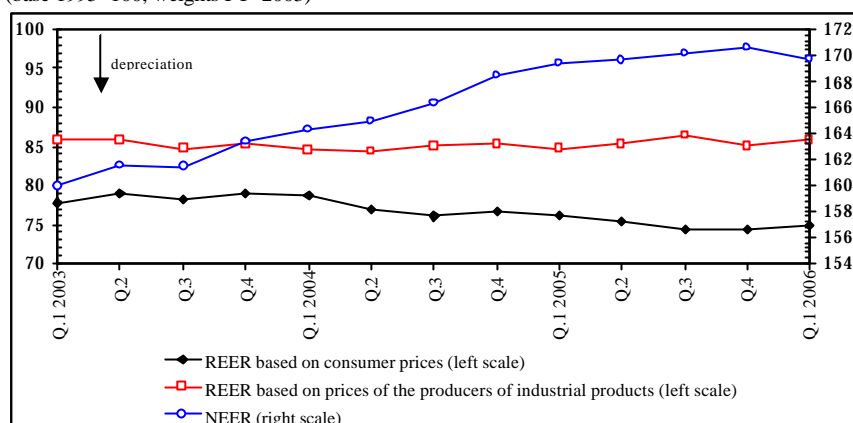
Source: National Bank of the Republic of Macedonia.

The exchange rate of the Denar against the Euro and the US Dollar on the currency exchange market follows the movements on the foreign exchange market

The foreign exchange rates on the currency exchange markets followed the movements of the foreign exchange rates on the foreign exchange market. Namely, in the first quarter of 2006, the average exchange rate of the Denar against the Euro on the currency exchange market equaled Denar 61.43 per one Euro, i.e. appreciation of the Denar of 0.3% relative to the same quarter of 2005. The US Dollar was traded for Denar 50.93, on average, and compared to the same quarter of the preceding year, the Denar depreciated by 8.8%.



Figure 56
Denar REER* and NEER Index
(base 1995=100, weights FT=2003)



*Index below 100 denotes higher export competitiveness.

Source: National Bank of the Republic of Macedonia

Depreciation of the Denar real effective exchange rate calculated according to the consumer price index

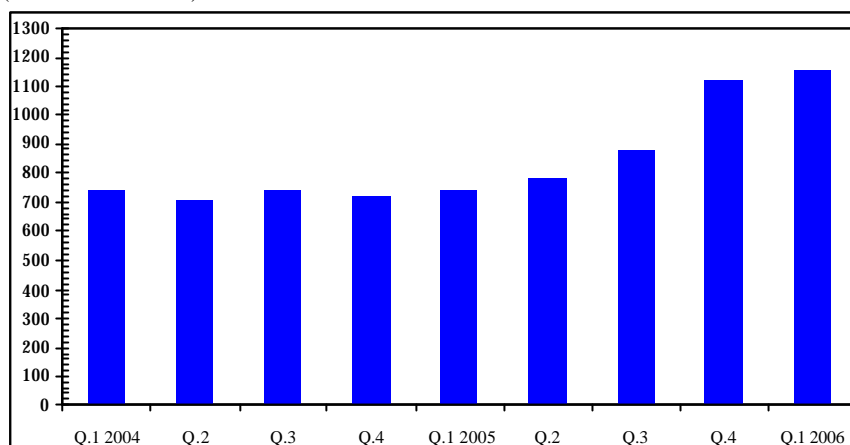
In the first quarter of 2006, the index of Denar real effective exchange rate (REER) calculated by consumer price index indicates higher competitiveness of the Republic of Macedonia on foreign markets. The average Denar REER in the first quarter of 2006 calculated by consumer price index depreciated by 0.8% relative to the same quarter in 2005, which in the environment of appreciation of the Denar nominal effective exchange rate (NEER) of 0.9%, is completely due to the faster growth in the foreign prices relative to the domestic prices⁵⁵ (of 4.6% and 2.7%, respectively). On the other hand, the average Denar REER calculated by the index of prices of the producers of industrial products in the first quarter of 2006 appreciated by 0.9% relative to the same quarter of the preceding year, which is fully due to the appreciation of the Denar NEER index.

Augmented gross foreign reserves by Euro 34.8 million

On March 31, 2006, the gross foreign reserves reached Euro 1,157.8 million, i.e. increase of Euro 34.8 million compared to the end of the previous year. If the inflow based on issued Eurobonds (Euro 149.2 million), used for full repayment of the debt to the London Club of Creditors in January is excluded from the level registered in the previous year, the increase in the gross foreign reserves equals Euro 184 million. Such a change is mainly determined by the funds received on the basis of the privatization of the Macedonian electricity company, as well as from the realized net purchase on the foreign exchange market by the NBRM.

⁵⁵ Refers to the change in the current quarter versus preceding quarter, with a base average 1995.

Figure 57
Gross foreign reserves
(in millions of Denars)



Source: National Bank of the Republic of Macedonia

9.

Public finance⁵⁶

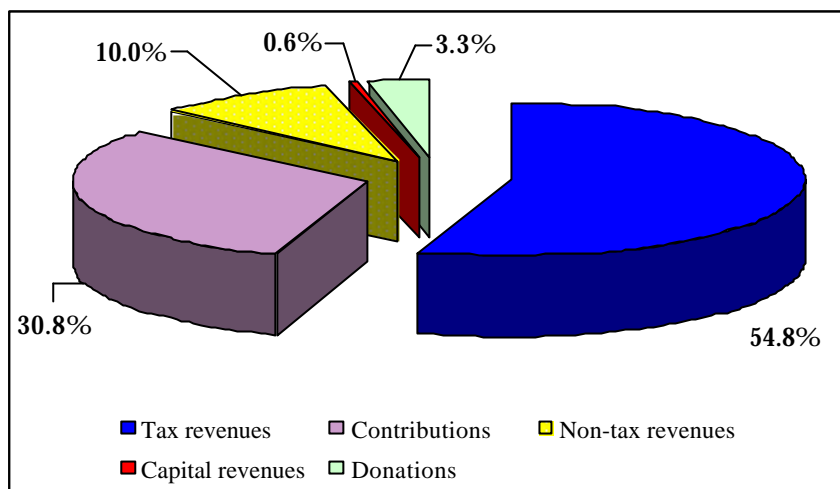
Higher public revenues of 6.3% in the first quarter of 2006 were registered...

In the first quarter of 2006, the total public revenues stood at Denar 23,097 million, being higher by 63% compared to the same period of the preceding year. The main reason for the increase is the higher level of revenues from taxes and contributions (by 4.6%), comprising 85.9% of the total public revenues. Within their structure, the revenues based on contributions registered more intensive annual increase (7.9%), given the growth in the revenues with all funds⁵⁷. The annual increase in the tax revenues is more moderate (2.8%) and it is mainly determined by the higher level of the profit tax revenues (59.7%), which corresponds to the improved economic activity of the enterprises in the previous year and consequently, improved financial results of their operating. Among other tax categories of higher importance, annual increase was registered in the personal income tax and the income based on excise (of 5.4% and 3.3%, respectively), while both value added tax and customs duties revenues registered a decline (of 9% and 3.2%, respectively).

⁵⁶ The part pertaining to the public finance refers to the revenues and the expenditures of the Central Government budget, which according to the new definition applied since 2005, consolidates the central budget (primary budget and budgets of self-financing activities, donations and loans) and the budgets of the extra budgetary funds (Pension and Disability Insurance Fund, Health Care Fund, Road Fund, Employment Agency of RM).

⁵⁷ Annual increase in the revenues from contributions in the first quarter of 2006 with the Pension and Disability Insurance Fund equals 9.2%, with the Health Insurance Fund 6% and the Employment Agency 3.2%.

Figure 58
Structural share of individual income categories in the total public revenues in the first quarter of 2006

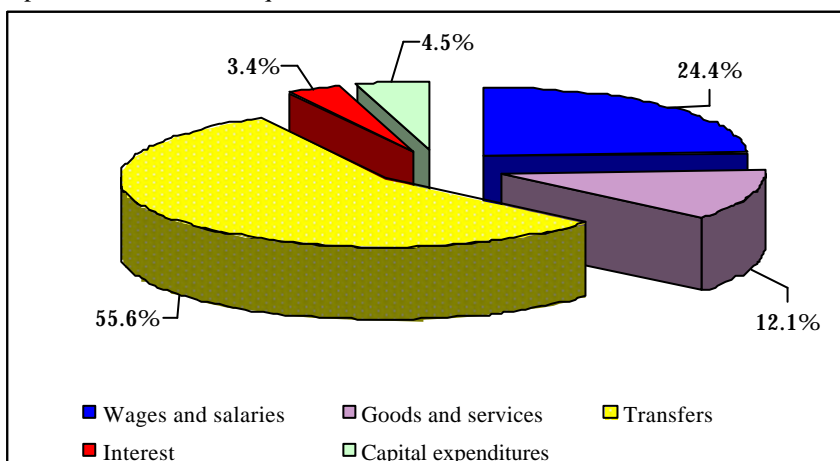


Source: Ministry of Finance of the Republic of Macedonia

Additional contribution to the increase in the total public revenues accounts for the foreign donations, which augmented by five times annually, thus determining also a growth in their share in the total income structure (in the first quarter of 2006 it equals 3.3%).

In the first three months of 2006, also the capital revenues registered an increase (of 27.7%, as a result of the higher revenues generated from the sale of state-owned land), while the non-tax revenues plunged on annual basis (7.6%). Within non-tax revenues (participating with 10% in the total income structure), the largest part refers to the accounts of own revenues, which record an annual decrease.

Figure 59
Structural share of the individual expenditures categories in the total public expenditures in the first quarter of 2006



Source: Ministry of Finance of the Republic of Macedonia

...given the simultaneous annual increase in the total public expenditures of 3.4%

In the first quarter of 2006, the total public expenditures stood at 2,538 million, which is by 3.4% more relative to the first quarter of the preceding year. The increase in the public expenditures is totally due to the higher current expenditures (by 3.8%), comprising the largest part of the total public revenues (95.5%). Within the current expenses, the largest part refers to the current transfers (55.6%), which went up on annual basis (6.7%). The wage and lease expenses (the second largest expenditures category) registered moderate annual increase (2.2%), while the



expenses for payment of interest augmented significantly (by 38.8%). The capital expenditures (participating with 4.5% in the total expenditures structure), declined (4.1%) in the first three months of 2006, which in the environment of higher capital transfers on annual basis, is completely due to the lower public investments in fixed assets.



***Important economic events and amendments to the legal regulations
in the first quarter of 2006***

- ❖ Since January 1, customs duties on about 3,700 out of total 12,000 tariff numbers decreased, with the average customs rate being reduced from 10.12% in 2005 to 9.78% in 2006. The reduction of the customs duties is conditioned by the joining of the Republic of Macedonia in the WTO.
- ❖ On January 1, the excise on cigarettes augmented, which is within the gradual harmonization of the taxes on cigarettes with the EU Directives in the 2005 - 2007 period. Since the beginning of January 2006, the amendments to the Health Care Law were enforced, with calculation and payment of compensation for production and import of tobacco products being envisaged.
- ❖ On January 1, the two-pillar pension system was launched officially, which is obligatory for all persons employed after January 1, 2003.
- ❖ On January 4, the functioning of the one stop-shop system commenced, the main objective of which is providing costs and time saving when registering new enterprise.
- ❖ On January 4, "IK Banka" was the first among the banks in the Republic of Macedonia that introduced international quality management standard (EN ISO 9001:2000).
- ❖ On January 23, the Regulatory Energy Committee adopted a decision on increasing the price of heating energy by 2.03%. The implementation of the decision will start on February 1, 2006 ("Official Gazette of RM", No. 9/2006).
- ❖ On January 27, within the cooperation process of the South-Eastern Europe, a Declaration for construction of modern railway network was signed, that should provide railroad connection in the region through creating an efficient transportation system.
- ❖ On February 1, the Business Service Center started operating in Macedonia within the established network in Albania, Bosnia and Herzegovina, Croatia and Serbia and Montenegro. The project is under auspices of the Stability Pact and its primary goal is to improve the regional cooperation and to facilitate the access of the Macedonian companies to the markets of the countries of Southeast Europe.
- ❖ On February 10, JP „Makedonski Zeleznici“ (Macedonian Railways - public enterprise) signed a Credit Agreement with the World Bank intended for completing the process of transformation of the company.
- ❖ On February 15, the „World Business Center“ was sold to the Austrian company "Soravia Dautregeg GMBH", at a public auction for Euro 10.3 million.
- ❖ On February 16, the Decision on changing the NBRM interest rates started being applied, by which the interest rate on the Lombard credit reduced from 13% to 11% ("Official Gazette of the Republic of Macedonia" No. 16/2006).
- ❖ On February 20, the fur manufacturing plant - „Velur“, restarted operating, the production of which is fully intended for the markets of Western Europe, particularly the Scandinavian countries.
- ❖ On February 22, a Memorandum of Understanding was signed between the Customs Administration of the Republic of Macedonia and the Group of International Freight Forwarders, establishing a Customs-Freight Forwarding Committee, the purpose of which is to facilitate and accelerate the customs procedures and the international trade.
- ❖ On February 25, the Program for Supporting the Entrepreneurship and Creating Competitiveness in the Retail Business ("Official Gazette of the Republic of Macedonia" No. 23/2006) started being applied.
- ❖ On February 27, the Republic of Macedonia signed the Central Europe Free Trade Agreement (CEFTA), which made it equal member of this organization. Also, all concluded bilateral agreements with the CEFTA member states (Croatia, Romania and Bulgaria) ceased being valid.
- ❖ On March 7, the National Bank of the Republic of Macedonia, in cooperation with the Ministry of Finance, commenced with the issuance of Treasury bills for monetary purposes, with maturity of three months, within the activities for gradual substitution of the CB bills. This would allow for sterilization of excess liquidity in a longer run, and it would make it possible to avoid segmentation of the short-term securities market, which should ultimately contribute to an improvement in the monetary transmission through the interest rates.



- ❖ *On March 14, the Macedonian Economic Chamber established the Council of Foreign Investors, which had an advisory and consultative function, regarding the issues from the economic area, for the need of the Chamber bodies, with respect to the issues of encouraging the investments in the Macedonian economy.*
- ❖ *On March 15, "Telecom" - Slovenia purchased 76% of the shares of the "On.net" company for Euro 4.7 million. The new owner expects this company, which provides internet services, to become a leading alternative PSTN operator.*
- ❖ *On March 23, the Ministry of Finance of the Republic of Macedonia and the US Agency for International Development (USAID) signed an agreement for realization of the several private sector development projects, in the amount of USD 10.8 million.*
- ❖ *On March 24, a block transaction was executed on the Stock Exchange, for purchasing of government-owned shares in ESM-Distribution, where the Austrian company EVN became majority owner of this company.*
- ❖ *In the first quarter of 2006, the Regulatory Energy Committee adopted the following decisions on setting the highest prices of some oil derivatives in accordance with the Methodology:*
 - *on January 9, Decision on increasing, the retail and refinery prices increased on average by 1.2% and 2.7%, respectively ("Official Gazette of RM" No. 2/2006);*
 - *on January 23, Decision on increasing the price of retail and refinery prices on average by 1.2% and 4.5%, respectively ("Official Gazette of RM", No. 8/2006);*
 - *on February 6, Decision on increasing the price of retail and refinery prices on average by 1.2% and 1.6%, respectively ("Official Gazette of RM", No. 15/2006);*
 - *on February 20, decision on decreasing the price of retail and refinery prices on average by 2.5% and 4.1%, respectively ("Official Gazette of RM", No. 21/2006);*
 - *on March 6, Decision on increasing the price of refinery prices on average by 0.82%, with the retail prices reduced by 0.15% ("Official Gazette of RM", No. 26/2006);*
 - *on March 20, Decision on increasing the price of retail and refinery prices on average by 0.94% and 1.19%, respectively ("Official Gazette of RM", No. 33/2006);*

New legal regulations:

- *Law on Mandatory Fully Funded Pension Insurance ("Official Gazette of RM" No. 11/2006)*
- *Law on Tax procedure ("Official Gazette of RM" No. 13/2006)*
- *Rulebook for the manner and the terms for regulating the heating energy prices ("Official Gazette of RM" No. 16/2006)*
- *Law on Tobacco and Tobacco products ("Official Gazette of RM" No. 24/2006)*
- *Law on Profit Tax ("Official Gazette of RM" No. 27/2006)*
- *Law on guarantee of the Republic of Macedonia of the obligations arising from the Loan Agreement ratification for the AD MEPSO Project, which will be concluded between AD MEPSO - Distribution of Electricity and management of the electricity system, in the government ownership, and the International Bank for Reconstruction and Development ("Official Gazette of RM" No. 37/2006).*



Statistical appendix

1. Prices

Table 1

Costs of living and retail prices

	III.2006 II.2006	III.2006 III.2005	I-III.2006 I-III.2005
	in %		
Costs of living	0.1	2.8	2.7
Food	0.7	1.9	1.6
Tobacco and beverages	0.0	17.7	17.7
Clothing and footwear	-0.5	-0.8	-0.5
Housing	-0.2	0.7	0.9
Flat (rent, water, services)	0.3	0.1	-0.2
Fuel and lighting	-0.3	1.3	1.7
Hygiene	0.4	1.4	0.3
Culture and entertainment	-0.2	6.3	6.0
Transport, communications, services	-0.6	1.8	2.7
<i>Goods</i>	<i>0.2</i>	<i>3.2</i>	<i>3.2</i>
<i>Services</i>	<i>-0.1</i>	<i>1.0</i>	<i>0.9</i>
Retail prices	-0.3	3.6	4.0
Agricultural products	0.3	5.1	5.4
Non-food industrial products	-0.7	5.2	6.2
Processed food products	0.5	0.5	0.0
Beverages	0.0	-0.4	-0.4
<i>Goods</i>	<i>-0.2</i>	<i>3.5</i>	<i>3.7</i>
<i>Services</i>	<i>-0.3</i>	<i>3.7</i>	<i>4.2</i>

Source: State Statistical Office of the Republic of Macedonia



Table 2
Prices of producers of industrial products

	III.2006 II.2006	III.2006 III.2005	I-III.2006 I-III.2005
	in %		
Prices of producers of industrial products	-0.6	4.4	5.6
Energy	-2.7	14.1	21.1
Intermediary goods (except Energy)	0.2	-3.0	-2.9
Capital goods	0.6	5.1	3.3
Durable consumer goods	-0.7	5.4	5.3
Non durable consumer goods	0.1	4.5	4.1
<i>Mining and quarrying</i>	<i>2.5</i>	<i>4.8</i>	<i>4.2</i>
<i>Manufacturing industry</i>	<i>-0.7</i>	<i>5.0</i>	<i>6.3</i>
Manufacture of food products and beverages	-0.1	0.0	-0.2
Manufacture of tobacco products	0.0	17.1	17.1
Manufacture of textiles	0.0	0.8	0.7
Manufacture of wearing apparel; dressing and dyeing of fur	0.1	-2.8	-2.4
Publishing, printing and reproduction of recorded media	0.0	2.3	2.3
Manufacture of coke, refined petroleum products and nuclear fuel	-4.5	27.1	40.8
Manufacture of chemicals and chemical products	0.0	-2.5	-1.6
Manufacture of rubber and plastic products	0.7	0.0	-1.6
Manufacture of other non-metallic mineral products	0.5	2.9	1.9
Manufacture of basic metals	0.0	-10.7	-9.6
Manufacture of fabricated metal products, except machinery and equipment	0.7	8.2	5.2
Manufacture of electrical machinery and apparatus n.e.c.	0.0	3.6	4.7
<i>Electricity, gas and water supply</i>	<i>0.0</i>	<i>-0.4</i>	<i>0.7</i>

* Previous data

Source: State Statistical Office of the Republic of Macedonia



Table 3
Consumers' basket for food and beverages*

	I.2006	II.2006	III.2006	III.2006 II.2006 in %
	in Denar			in %
Total	10,287	10,335	10,346	0.1
Bread and cereals	1,789	1,782	1,776	-0.3
Meat	2,251	2,255	2,251	-0.2
Fish	218	221	222	0.5
Milk and dairy products and eggs	1,753	1,761	1,774	0.7
Oils and fats	452	450	449	-0.2
Fruit	421	416	424	1.9
Vegetables	1,473	1,516	1,479	-2.4
Sugar, chocolate and confectionery	406	407	444	9.1
Other food products	306	309	310	0.3
Coffee, tea	317	316	315	-0.3
Non-alcoholic beverages	439	440	439	-0.2
Alcoholic beverages	462	462	463	0.2

* All products in "food and beverages" category, which compose the basket, are taken as average monthly needs of a four-member non-agricultural household, and that list of products is constant (same products – same quantities), during a one year period.

Source: State Statistical Office of the Republic of Macedonia



2. Economic activity

Table 4

Industrial output

	Structure in %	<u>III.2006</u>	<u>III.2006</u>	<u>I-III.2006</u>
		<u>II.2006</u>	<u>III.2005</u>	<u>I-III.2005</u>
			in %	
Total	100.0	13.2	1.9	0.5
Energy	21.8	9.1	5.7	3.0
Intermediary goods (except Energy)	33.8	20.7	4.7	5.6
Capital goods	4.8	22.3	24.2	-5.6
Durable consumer goods	1.4	2.4	19.4	10.8
Non durable consumer goods	38.1	7.8	-6.5	-6.1
Mining and quarrying	1.8	15.4	76.3	2 times
Manufacturing industry	79.4	14.9	1.5	-0.8
Manufacture of food products and beverages	20.0	11.2	-1.7	-1.1
Manufacture of tobacco products	3.9	94.8	-4.8	-14.6
Manufacture of textiles	2.5	22.1	25.2	2.8
Manufacture of wearing apparel; dressing and dyeing of fur	8.6	0.4	-5.3	-4.9
Publishing, printing and reproduction of recorded media	3.9	-15.5	-40.3	-22.5
Manufacture of coke, refined petroleum products and nuclear fuel	3.0	20.4	81.4	32.6
Manufacture of chemicals and chemical products	5.9	-22.4	-23.7	-5.9
Manufacture of rubber and plastic products	2.6	40.9	-33.1	-25.5
Manufacture of other non-metallic mineral products	8.1	66.4	30.2	43.7
Manufacture of basic metals	6.0	14.1	-10.0	-17.4
Manufacture of fabricated metal products, except machinery and equipment	3.8	18.3	10.6	-8.7
Manufacture of electrical machinery and apparatus n.e.c.	3.2	27.1	46.2	42.4
Electricity, gas and water supply	18.8	7.3	-1.8	-0.8

Source: State Statistical Office of the Republic of Macedonia

Table 5

Trade turnover

	Amounts				Monthly changes			Annual changes			Average changes
	I.2006	II.2006	III.2006	I-III.2006	I.2006	II.2006	III.2006	I.2006	II.2006	III.2006	I-III.2006
	in Denar million				XII.2005	I.2006	II.2006	I.2005	II.2005	III.2005	I-III.2005
						in %			in %		in %
Trade turnover - total*	13,790	14,210	16,773	44,773	-13.9	3.0	18.0	25.6	17.9	29.4	24.4
Retail sales*	5,310	5,119	5,881	16,309	-9.5	-3.6	14.9	24.1	21.1	17.7	20.8
Whole sales*	8,481	9,091	10,891	28,464	-16.5	7.2	19.8	26.5	16.2	36.9	26.6

* Estimated

Source: State Statistical Office of the Republic of Macedonia



Table 6
Contracted and completed construction works

	Amounts				Monthly changes			Annual changes			Average changes
	I.2006	II.2006	III.2006	I-III.2006	I.2006 XII.2005	II.2006 I.2006	III.2006 II.2006	I.2006 I.2005	II.2006 II.2005	III.2006 III.2005	I-III.2006 I-III.2005
	in Denar million				in %			in %			in %
Value of contracted construction works	3666	260	588	4,513	7,1 pati	-92.9	2,3 pati	-7.0	98.4	77.0	2.5
Value of completed construction works	238	244	508	989	-76.2	2.4	2,1 pati	-9.6	-13.7	14.3	0.0

Source: State Statistical Office of the Republic of Macedonia

3. Wages and employment

Table 7
Employees by activities

	Number of employed			
	I.2006	II.2006	III.2006	I-III.2006
Total	253,931	241,705	242,781	242,781
Agriculture	10,247	9,725	9,740	9,740
Agriculture, hunting and forestry	10,081	9,576	9,589	9,589
Fishing	166	149	151	151
Industry	118,164	111,124	112,536	112,536
Minerals and stone mining	2,374	2,189	2,198	2,198
Manufacturing	82,295	77,373	78,503	78,503
Electricity, gas and water supply	14,126	13,995	14,132	14,132
Construction	19,369	17,567	17,703	17,703
Services	125,520	120,856	120,505	120,505
Wholesales and retail sales, mending of motor vehicles, motorbikes and personal consumption items	12,202	12,286	12,249	12,249
Hotels and restaurants	4,199	3,892	3,902	3,902
Transport, storage and communications	16,128	14,911	14,986	14,986
Financial intermediation	5,615	5,563	5,523	5,523
Real estate and business activities	6,321	6,599	6,568	6,568
Public authorities and defense, compulsory social welfare	14,520	15,581	15,362	15,362
Education	29,506	29,888	29,809	29,809
Health and social work	28,130	23,706	23,627	23,627
Other public utility services, general and personal services	8,899	8,430	8,478	8,478



Table 8
Average net wages

	III.2006	I kv. 2006	<u>III.2006</u> <u>II.2006</u>	<u>III.2006</u> <u>III.2005</u>	<u>I kv. 2006</u> <u>I kv. 2005</u>
	in denars		in %		
Nominal average net wage per worker	13,255	13,206	1.7	6.8	6.6
Costs of living			0.1	2.8	2.7
Real average net wage per worker			1.6	3.9	3.8
Nominal average net wage by sectors					
Agriculture	11,585	11,473	3.4	1.1	3.1
Industry	13,636	13,598	3.6	6.6	8.5
Services	14,767	14,758	0.7	3.0	3.6

Source: State Statistical Office of the Republic of Macedonia

4. Monetary policy

Table 9
Reserve money
(in Denar million)

	31.12.2005	Monthly changes			Total	31.03.2006
		January	February	March		
Reserve money	20,439	-2,489	1,855	-613	-1,247	19,192
Currency in circulation	14,439	-1,339	535	65	-739	13,700
Banks liquidity	6,000	-1,150	1,320	-678	-508	5,492

Source: National Bank of the Republic of Macedonia

5. Banking sector

Table 10
Money supply M1 and its components
(in Denar million)

	31.12.2005	Monthly changes			Total	31.03.2006
		January	February	March		
Money supply M1	29,663	-1,964	897	-634	-1,701	27,962
Currency in circulation	14,439	-1,339	535	65	-739	13,700
Demand deposits	15,224	-625	362	-699	-962	14,262
- Demand deposits of households	3,172	-335	210	27	-98	3,074
- Demand deposits of enterprises	10,143	-428	268	-757	-917	9,226

Source: National Bank of the Republic of Macedonia



Table 11

Broader monetary aggregates and their components
(in Denar million)

	31.12.2005	Monthly changes			Total	31.03.2006
		January	February	March		
Money supply M1	29,663	-1,964	897	-634	-1,701	27,962
Denar short - term deposits	24,364	1,250	623	1,652	3,525	27,889
<i>Monetary aggregate M2 - denar component</i>	54,027	-714	1,520	1,018	1,824	55,851
Foreign currency short - term deposits	49,107	823	49	777	1,649	50,756
<i>Monetary aggregate M2</i>	103,134	109	1,569	1,795	3,473	106,607
Non - monetary deposits	5,040	37	110	118	265	5,305
- In Denar	3,057	54	25	-13	66	3,123
- In foreign currency	1,983	-17	85	131	199	2,182
<i>Monetary aggregate M4</i>	108,174	146	1,679	1,913	3,738	111,912

Source: National Bank of the Republic of Macedonia

Table 12

Total deposits of the non-government sector
(in Denar million)

	31.12.2005	Monthly changes			Total	31.03.2006
		January	February	March		
Total deposits	78,511	2,110	782	2,547	5,439	83,950
1. According to maturity						
- short-term	73,471	2,073	672	2,429	5,174	78,645
- long-term	5,040	37	110	118	265	5,305
2. According to currency of denomination						
- In denar	27,421	1,304	648	1,639	3,591	31,012
- In foreign currency	51,090	806	134	908	1,848	52,938

Source: National Bank of the Republic of Macedonia



Table 13
Households and enterprises deposits
(in Denar million)

	31.12.2005	Monthly changes				31.03.2006
		January	February	March	Total	
Total households deposits	54,082	1,318	1,141	958	3,417	57,499
1. According to maturity						
- short-term	51,315	1,259	1,073	859	3,191	54,506
- long-term	2,767	59	68	99	226	2,993
2. According to currency of denomination						
- In denar	14,777	604	695	589	1,888	16,665
- In foreign currency	39,305	714	446	369	1,529	40,834
Total enterprises deposits	22,559	819	-318	1,720	2,221	24,780
1. According to maturity						
- short-term	21,255	833	-359	1,662	2,136	23,391
- long-term	1,304	-14	41	58	85	1,389
2. According to currency of denomination						
- In denar	11,037	694	-18	1,160	1,836	12,873
- In foreign currency	11,522	125	-300	560	385	11,907

Source: National Bank of the Republic of Macedonia

Table 14
Banks' placements and overdue claims
(in Denar million)

	31.12.2005	Monthly changes				31.03.2006
		January	February	March	Total	
Total banks' placements	68,777	749	1,377	2,114	4,240	73,017
<i>Denar placements</i>	51,672	583	894	1,324	2,801	54,473
<i>Foreign currency placements</i>	17,105	166	483	790	1,439	18,544

Source: National Bank of the Republic of Macedonia

Table 15
Structure of total placements
(in Denar million)

	31.12.2005	Monthly changes				31.03.2006
		January	February	March	Total	
Maturity structure						
- short-term	30,915	713	561	753	2,027	32,942
- long-term	37,862	36	816	1,361	2,213	40,075
Structure of currency of denomination						
- Denar	51,672	583	894	1,324	2,801	54,473
- Foreign currency	17,105	166	483	790	1,439	18,544
Structure by sectors						
- enterprises	46,987	526	1,022	1,307	2,855	49,842
- households	21,625	287	350	817	1,454	23,079
- other	165	-64	5	-10	-69	96

Source: National Bank of the Republic of Macedonia



Table 16

Maturity and sector structure of Denar and foreign currency placements

	31.03.2006 (in %)	Quarterly change (in percentage points)	Annual change
Denar placements			
maturity structure			
- short-term	51.0	-0.1	-3.9
- long-term	49.0	0.1	3.9
structure by sectors			
- enterprises	59.3	0.0	-6.6
- households	40.6	0.1	6.6
- other	0.2	-0.1	0.0
Foreign currency placements			
maturity structure			
- short-term	27.8	1.5	-10.8
- long-term	72.2	-1.5	10.8
structure by sectors			
- enterprises	94.6	-1.0	-1.1
- households	5.3	1.0	1.7
- other	0.0	0.0	-0.6

Source: National Bank of the Republic of Macedonia

6. Financial markets

Table 17

Stock exchange indicators

	October-December 2005	January-March 2006	change in %
Turnover (denars)			
Trading in BEST	2,209,008,726	2,023,818,762	-8.38
Shares	1,578,281,507	1,309,475,629	-17.03
Bonds	630,727,219	714,343,133	13.26
Average daily turnover (denars)	44,532,868	31,889,692	-28.39
Average daily number of transactions	187	137	-26.92
Block transactions	433,221,443	10,946,347,046	2,426.73
Government segment	13,432,860	24,123,831	79.59
Shares	13,432,860	24,123,831	79.59
Stakes	-	-	-
Other securities			
Total	2,655,663,029	12,994,289,639	389.30
Market capitalization (denars)^{/1}			
Market capitalization of shares - quoted companies	33,171,015,553	37,458,507,489	12.93
Market capitalization of bonds	23,972,382,237	26,180,952,284	9.21
Mbi/mbi-10^{/1}	2,292	2,593	13.11
Number of quoted companies^{/1}	57	50	-12.28

Source: Macedonian Stock Exchange

Table 18

Turnover structure

Market segment	Turnover (denars)	Turnover (euros)	%	Number of transactions
Official market	1,762,818,808	28,788,576	13.57	7,252
Unofficial market	260,999,954	4,257,890	2.01	1,433
Government segment	24,123,831	394,353	0.19	6
Block transactions	10,946,347,046	178,906,886	84.24	22
Total	12,994,289,639	212,347,705	100.00	8,713



7. Balance of payments

Table 19

Balance of payments of the Republic of Macedonia
(in EURO million)

	2005					2006			2005
	Q.1	Q.2	Q.3	Q.4	2005	I	II	III	Q.1
I. Current Account	-15.9	-86.8	64.8	-24.0	-61.8	-7.2	7.8	-15.4	-14.8
GOODS, net	-145.5	-272.0	-188.4	-247.4	-853.4	-61.9	-48.1	-88.9	-198.9
Exports, f.o.b.	367.4	406.6	416.0	452.2	1642.2	101.0	123.5	149.5	374.0
Imports, f.o.b. /2	-512.9	-678.6	-604.5	-699.6	-2495.6	-162.9	-171.6	-238.4	-572.9
SERVICES, net	-2.9	-13.1	9.4	-20.7	-27.2	0.5	-2.6	-4.1	-6.3
INCOME, net	0.5	-16.3	-36.8	8.2	-44.4	-1.3	2.4	4.1	5.2
o/w: Interest, net	-7.6	-3.7	-8.7	-0.7	-20.7	-5.0	-1.5	-1.0	-7.6
CURRENT TRANSFERS, net	131.9	214.6	280.7	236.0	863.2	55.5	56.2	73.5	185.2
Official	9.0	12.7	16.7	14.1	52.5	1.5	3.7	8.8	14.0
Private	123.0	201.9	264.0	221.8	810.7	54.0	52.4	64.7	171.1
II. Capital & Financial Account	19.5	83.9	-61.8	30.4	71.9	5.1	-10.8	16.9	11.2
CAPITAL ACCOUNT, net	0.0	-0.2	0.2	-1.8	-1.7	-0.1	0.2	0.3	0.4
Capital transfers , net	0.0	-0.2	0.2	-1.8	-1.7	-0.1	0.2	0.3	0.4
Official	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	-0.2	0.2	-1.8	-1.7	-0.1	0.2	0.3	0.4
Acquisition/disposal of non-produced, non-finan. assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCIAL ACCOUNT, net	19.5	84.0	-62.0	32.1	73.7	5.3	-10.9	16.5	10.9
Direct investment, net	27.7	26.6	14.1	8.7	77.1	6.4	2.9	230.0	239.4
Portfolio investment, net	12.5	3.8	14.4	167.3	198.0	3.2	2.7	5.9	11.8
Other investment, net	-10.1	77.5	1.8	77.3	146.5	-162.0	-12.6	-37.2	-211.7
Trade credits, net	-45.7	66.4	-32.1	32.5	21.1	-7.0	-33.3	23.2	-17.1
Loans, net	14.3	64.8	4.7	41.2	125.0	-151.4	22.2	-4.1	-133.3
Currency and deposits, net	17.9	-57.9	24.4	-5.2	-20.7	-5.1	-2.4	-59.6	-67.1
o/w: Monetary Authorities, net	0.0	-0.3	0.3	0.0	0.0	0.0	0.0	-56.7	-56.7
o/w: Commercial Banks, net	16.3	-49.0	40.8	14.2	22.4	-3.5	4.4	6.6	7.5
o/w: Individuals, net	1.6	-8.6	-16.7	-19.4	-43.1	-1.6	-6.8	-9.4	-17.9
Other, net	3.4	4.2	4.7	8.8	21.1	1.6	1.0	3.3	5.8
Gross official reserve assets, (- = increase) /3	-10.6	-23.8	-92.3	-221.2	-347.9	157.6	-4.0	-182.2	-28.6
III. Errors & Omissions	-3.6	2.9	-3.0	-6.4	-10.1	2.1	3.0	-1.5	3.6

1/ Previous data.

2/ Imports data are on fob basis in accordance with IMF V Balance of Payments Manual.

Calculation of cif / fob factor as % of imports cif is 4.06%.

3/ Excluding monetary gold and exchange rate differences.

Source: National Bank of the Republic of Macedonia



Table 20

Foreign trade of the Republic of Macedonia
(in EURO million)

	Q.1 2005	Q.1 2006	Q.1 2006	
			Q.1 2005	
	Amount		Amount	%
Foreign trade	902.5	1,114.4	134.0	12.8
Exports	367.6	406.6	36.3	8.7
Imports	534.9	707.8	97.7	15.5
Balance	-167.3	-301.3	-61.3	28.7

Source: State Statistical Office of the Republic of Macedonia

Table 21

Ten most important trading partners of the Republic of Macedonia, I-III, 2006

	Foreign trade	Share	Exports	Share	Imports	Share	export coverage ratio
	Amount	(in %)	Amount	(in %)	Amount	(in %)	(in %)
Republic of MACEDONIA	967.0	100.0	368.8	100.0	598.2	100.0	61.7
<i>out of which:</i>							
Germany	133.9	13.9	72.7	19.7	61.2	10.2	118.8
Russia	119.4	12.3	5.0	1.4	114.4	19.1	4.4
Serbia and Montenegro	112.6	11.6	73.4	19.9	39.1	6.5	187.6
Greece	101.4	10.5	50.0	13.6	51.4	8.6	97.2
Italy	77.8	8.0	43.9	11.9	33.9	5.7	129.5
Bulgaria	56.7	5.9	16.4	4.5	40.3	6.7	40.8
Slovenia	28.2	2.9	6.6	1.8	21.6	3.6	30.3
Croatia	33.6	3.5	22.4	6.1	11.2	1.9	199.8
Turkey	31.0	3.2	11.8	3.2	19.2	3.2	61.7
China	23.5	2.4	0.1	0.0	23.4	3.9	0.4
Total (10 largest trading partners)	718.2	74.3	302.4	82.0	415.8	69.5	72.7

Source: State Statistical Office of the Republic of Macedonia

Table 22

Foreign trade of the Republic of Macedonia by the economic use of the products

	Q.1 2006			
	Export		Import	
	in millions of euros	structure	in millions of euros	structure
Total	374.9	100.0	598.2	100.0
Production goods	200.8	53.6	387.5	64.8
Means of production	7.2	1.9	64.8	10.8
Consumption goods	166.8	44.5	145.0	24.2
Unallocated	0.1	0.0	0.9	0.2



Table 23

Long-term external debt of the Republic of Macedonia, used credits and paid liabilities
(in EURO million)

	Debt outstanding			Used credits			Paid liabilities		
	31.01.2006	28.02.2006	31.03.2006	I-2006	II-2006	III-2006	I-2006	II-2006	III-2006
Official creditors	1,045.4	1,055.7	1,045.5	0.9	5.8	1.5	16.0	4.3	5.1
out of which:									
Multilateral	882.3	891.7	882.9	0.1	5.4	1.2	4.0	3.0	5.1
MMF	52.0	52.7	51.8	0.0	0.0	0.0	0.0	0.4	0.0
IBRD	207.0	207.6	205.8	0.0	0.4	0.1	1.8	0.9	1.2
IFC	5.0	5.1	4.7	0.0	0.0	0.0	0.0	0.0	0.5
IDA	303.2	307.2	302.4	0.1	0.4	0.2	0.5	0.4	0.0
EIB	118.3	122.4	120.9	0.0	4.0	0.0	0.0	0.0	2.2
EUROFIMA	6.1	6.1	6.1	0.0	0.0	0.0	0.0	0.0	0.0
Council of EDB	16.8	16.8	16.8	0.0	0.0	0.0	0.0	0.0	0.1
EBRD	73.0	73.0	73.3	0.0	0.6	0.7	1.4	1.2	0.9
EU	90.0	90.0	90.0	0.0	0.0	0.0	0.2	0.2	0.3
IFAD	10.8	11.0	11.0	0.0	0.0	0.2	0.0	0.0	0.0
European Agency for Reconstruction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	163.1	164.0	162.6	0.8	0.4	0.3	12.0	1.3	0.0
Paris club (rescheduled 1995)	91.8	92.7	91.6	0.0	0.0	0.0	11.2	0.0	0.0
Non-rescheduled debt	6.6	6.6	6.6	0.0	0.0	0.0	0.0	0.0	0.0
Paris club (rescheduled 2000)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New credits	64.7	64.6	64.4	0.8	0.4	0.3	0.8	1.3	0.0
Private creditors	588.8	618.6	613.3	4.3	28.2	0.6	198.6	2.7	4.3
out of which:									
London Club of Creditors	0.0	0.0	0.0	0.0	0.0	0.0	188.6	0.0	0.0
Other private creditors	150.0	150.0	150.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	438.8	468.6	463.3	4.3	28.2	0.6	10.0	2.7	4.3
Banks and financial institutions	218.1	220.7	216.2	1.1	1.4	0.4	7.3	1.5	3.8
Non-financial private sector	220.6	248.0	247.2	3.2	26.8	0.1	2.7	1.3	0.5
TOTAL	1,634.2	1,674.4	1,658.8	5.3	34.0	2.1	214.6	7.0	9.4

Source: State Statistical Office of the Republic of Macedonia



8. Public finances

Table 24
Central Government Budget

	I.2006	II.2006	III.2006	Amount	Structure in %	Q.1 2006/ Q.1 2005 (in %)
Total budget revenues	7,365	6,756	8,976	23,097	100.0	6.3
Revenues based on taxes and contributions	5,957	5,933	7,958	19,848	85.9	4.6
<i>Tax revenues (SRA):</i>	19	21	39	79	0.3	16.2
<i>Tax revenues:</i>	4,014	3,382	5,262	12,658	54.8	2.8
- personal income tax	511	662	760	1,933	8.4	5.4
- profit tax	180	383	1,162	1,725	7.5	59.7
- value added tax	1,760	1,284	2,184	5,228	22.6	-9.0
- excises	1,191	653	698	2,542	11.0	3.3
- custom duties	280	327	386	993	4.3	-3.2
- other	92	73	72	237	1.0	41.1
<i>Contributions</i>	1,924	2,530	2,657	7,112	30.8	7.9
<i>Non-tax revenues:</i>	684	704	918	2,305	10.0	-7.6
- non-tax revenues (SRA)	303	372	559	1,234	5.3	-12.7
- inflows from state property dividends	83	13	7	103	0.4	24.1
- administrative taxes and fees	107	131	157	395	1.7	2.1
- revenues based on participation	28	27	25	79	0.3	-37.8
- other administrative taxes	20	20	25	65	0.3	12.1
- other non-tax revenues	47	38	24	109	0.5	25.3
- road toll	97	103	121	320	1.4	-5.9
<i>Capital revenues</i>	52	49	42	143	0.6	27.7
<i>Donations (from abroad)</i>	641	69	45	755	3.3	5 times
Total budget expenditures	6,903	8,206	8,429	23,538	100.0	3.4
<i>Current expenditures</i>	6,687	7,679	8,109	22,475	95.5	3.8
- wages and salaries	1,869	1,933	1,948	5,750	24.4	2.0
- goods and services	702	933	1,221	2,856	12.1	-10.7
- transfers	3,624	4,740	4,716	13,079	55.6	6.7
- interest	492	73	225	790	3.4	38.8
<i>Capital expenditures</i>	216	527	320	1,063	4.5	-4.1
Budget balance	462	-1,450	547	-441		
Financing	-462	1,450	-547	441		
External financing, net	-8,905	11	-112	-9,007		
Financing from domestic sources, net	8,443	1,419	-10,858	-994		
Revenues based on privatization	0	21	10,421	10,442		

Source: Ministry of Finance

**Table 26**NBRM Balance sheet on December 31, 2005
(in million Denars)

Assets	Amount	Liabilities	Amount
Foreign assets	77,213	Reserve money	20,595
Claims on Government	3,604	NBRM instruments	8,784
Claims on banks and other financial institutions	1,358	Restricted deposits	240
Other assets	4,285	Foreign liabilities	3,068
		Government deposits	31,417
		Capital accounts	11,798
		Other liabilities	10,558
Total	86,460	Total	86,460

Source: National Bank of the Republic of Macedonia