

National Bank of the Republic of Macedonia
Research Department



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

*I*n the first half of 2006, the inflation in the Macedonian economy continued to increase at a faster pace relative to the first quarter of 2006, primarily as a consequence of the influence of non-monetary factors. Economic activity indicators give different indications of the dynamics of the economy in the second quarter. Thus, the volume of industrial output continued to increase at a moderate pace, yet gradually intensifying, trade turnover registered an increase, while the value of conducted construction works dropped. In the second quarter of 2006, external imbalance was reduced, which in an environment of broadening of the trade deficit, was to a large extent due to the further increase in the foreign exchange inflows on the basis of private transfers. As for the banking sector, banks' deposit base, as the primary source of financing, continued to expand, which contributed to an extremely high quarterly increase in the credits extended to the private sector.

In the first six months of 2006, the volume of industrial output registered an average growth rate of 1.1%, which indicates faster growth relative to the preceding quarter. Such a growth was mainly a result of the increased ore production, due to the reactivating of one mine. At the same time, movements in the manufacturing (dominant sector in the industry), were also a positive signal, where in June cumulative growth was registered for the first time since the beginning of the year.

Inflation performances in the first half of the year, were primarily under the influence of supply side factors, such as the increase in the excises and the additional duties which mirror in the end prices of cigarettes, the increase in the world oil prices, the lower supply of agricultural products (as a combined effect from the late crop of early-maturing garden plants and increased placement on the foreign markets), as well as the increase in the prices of sugar on the world market. Thus, in the first six months of 2006, an average rate of inflation of 3.1% was accomplished, with the increase in the consumption prices of tobacco and beverages being dominant. If the effect from the increase in the prices of food, energy, and cigarettes is excluded, in the first six months of 2006, the average rate of inflation dropped and equaled 1%.

Within the external sector, imports of goods registered faster growth relative to the exports of goods (11.8% vs. 8.6%, p.a.), which resulted in broadening of the trade deficit. However, from the viewpoint of the balance of payments current account, such shifts in the foreign trade were to a large extent offset with the further growth in the foreign currency inflows on the basis of private transfers. The pressures for appreciation of the nominal exchange rate caused by the excess supply of foreign exchange were eliminated by NBRM interventions with purchasing of foreign exchange. The liquidity created through the foreign exchange transactions of the NBRM was sterilized through the monetary instruments, and at the same time, a significant portion was withdrawn through the government deposits with the NBRM (accumulation of funds on the government's account on the basis of privatization). Despite the need for sterilization of the excess liquidity, the high demand for CB bills enabled further decline of interest rates. Thus, in June, the interest rate on CB bills was lower by 1 percentage point compared with end March, with the interest rates on the Money Market and the Short-Term Government Securities Market also moving in this direction.

In the second quarter of 2006, deposits in the banking system, as the main source for establishing the financial potential of the banks in the Republic of Macedonia, were growing at a significantly slower pace (quarterly increment of 3.1%), relative to the previous quarter (quarterly increment of 6.9%). In this quarter, the privatization of state capital had a dominant effect on the banks' deposit base, which resulted in a significant outflow of corporate deposits from the banking system. However, the additional income of households on the basis of the bonds for old foreign currency savings in April, as well as the further increment in the new households' saving in the banking system, significantly offset the fall in the enterprises' deposits.

In the second quarter of 2006, the total banks' placements to the private sector registered an extremely high quarterly rise of 9%, where just as it was the case in the first quarter of 2006, most of this change was a result of the intensive lending to the corporate sector. Accelerated activity of the banks on the credit market in the second quarter was accompanied by further improvement of their credit portfolio quality (reduced share of bad placements in the total credit exposure from 10.2% at the end of March to 9.9% at the end of June), which points to more adequate credit risk management by the banks, as well as to the strengthened financial discipline of clients.



1.

Prices

In the first half of 2006, an average inflation rate of 3.1% was registered

The increase in the prices of agricultural products and the further increase in the oil prices in the second quarter of 2006 had an inflationary effect and caused further acceleration of the inflation in the Republic of Macedonia. Consequently, the average inflation rate in the first half of 2006 reached 3.1%¹. The largest portion, or 90.3% of the inflation in this period was a result of the increase in the prices of consumer goods, which registered more intensive increase relative to that in the prices of services, which contributed with only 9.7%.

Except for the prices in the category "clothing and footwear", which registered minimum increase, all other categories within the inflation index registered an average increase in the prices and contributed to a rise in inflation. Namely, 39% of the average inflation in this period was due to the higher prices of cigarettes, as a result of the higher excise and additional duties² (if their effect is excluded, the average inflation rate in the first half of 2006 would equal 2%). Significant portion, or 23%, was a result of the increase in the prices of food products, due to the higher prices of vegetables and meat, partially offset by the lower prices of cereals.

The rise in the domestic prices of fuels resulting from the movements on international oil markets caused 19% of the average inflation. These prices have a relatively small share in the calculation of the inflation index, so that in spite of the high growth rates, their direct effect on inflation was contained. A smaller portion, around 13% of the overall inflation was caused by the higher prices of particular products and services for education.³ The upsurge in the price of central heating (of 2.03%) from February 2006⁴ had an insignificant contribution to the overall inflation in the observed period of 0.4%.

Attachment 1**Developments on the international oil markets in the second quarter of 2006**

The geopolitical tensions and the military turmoil worldwide, as well as the increased demand for fuels at the beginning of the summer season and the storm season in the Mexican Gulf, caused further increment in the price of crude oil on the world markets. The average price of crude oil in the second quarter of 2006 reached 69.5 US Dollar per barrel, which is a significant growth relative to the average prices in the previous quarter and in the same quarter of 2005, when it was 61.8 and 51.8 US Dollar per barrel, respectively. The highest average daily price of crude oil of 74.3 US Dollar per barrel was reached on May 02, 2006.

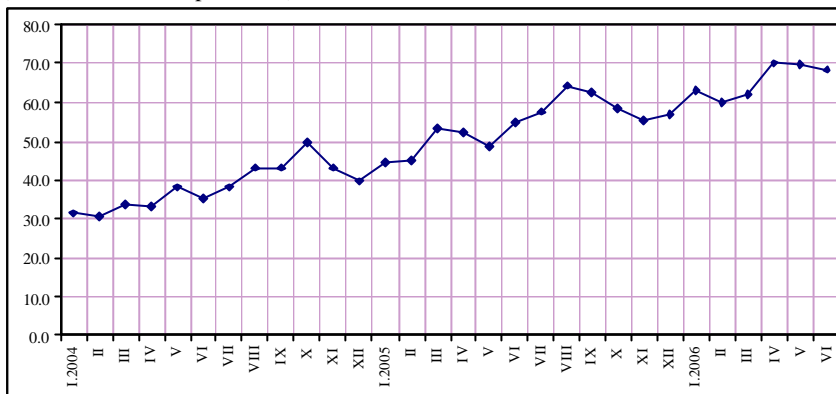
¹ The inflation in the Republic of Macedonia is measured according to the consumer price index, which pertains to the prices of the goods and services intended for personal consumption of the households.

² According to the Law on Amendments to the Health Care Law ("Official Gazette of RM" No. 111/2005) and the Decision on determining the products for which compensation for trade, import/export is paid ("Official Gazette of RM" No. 75/2005) arising from the Law on Environment, and since April 1, 2006 also from the Law on Tobacco ("Official Gazette of RM" No. 24/2006, compensation for production or import of tobacco products is calculated and paid since January 01, 2006.

³ This is an effect transferred from the previous year. The prices of certain products and services for education increased in the second half of 2005.

⁴ On January 23, the Regulatory Energy Committee adopted a decision on increasing the price of heating energy. The implementation of the decision commenced on February 01, 2006 (Official Gazette of RM no. 9/2006).

Figure 1
Average prices of oil on the international markets
("brent" US Dollars per barrel)



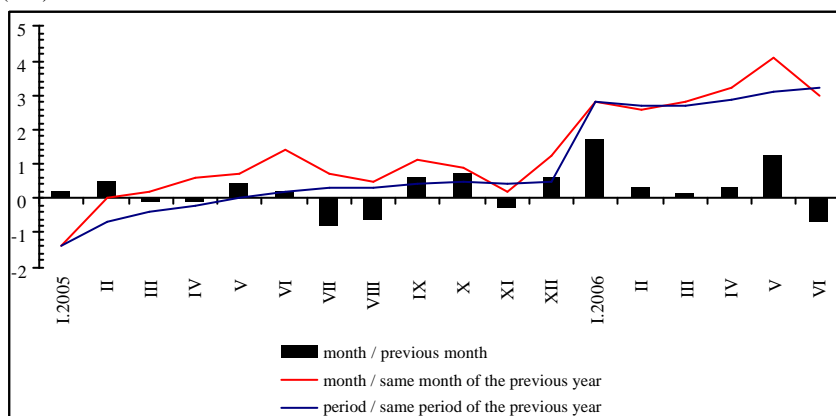
Source: The Energy Information Administration (EIA) - statistical agency of the US Department of Energy

The increase in the oil price caused an increase in the prices of precious metals on the world markets, primarily of gold, as an alternative for investment in expectation of inflationary pressures from the higher prices of energy products. If such movements continue, there is a latent danger of deceleration of economic growth, globally.

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

Having in mind the current developments, as well as the expectations for increase in the prices of electricity and heating in the forthcoming quarter, and the possible further increment in the world oil prices, it is very likely that the inflation rate registered in 2006 will exceed the projected one of 2.9%.

Figure 2
Consumer prices
(in%)



Source: State Statistical Office of the Republic of Macedonia

The core inflation rate⁵ excludes the effect from the change in the prices of food and energy as most volatile categories. If the core inflation rate for the first half of 2006 is calculated on the basis of an inflation rate which excludes the effect from the increase in the price of cigarettes, the corrected inflation rate equaled 1%.

⁵ Calculations of the core inflation rate were made according to a methodology of the NBRM.



Attachment 2

Inflation in the Euro-zone in the second quarter of 2006

In the second quarter of 2006, the average inflation rate in the Euro-zone, measured by the Harmonized Index of Consumer Prices (HICP), reached 2.5%, with faster growth being registered in the prices of goods, which cause two thirds of the inflation in the Euro-zone. The prices of energy contributed the most to the acceleration of the inflation in this period, which given the continuous increase in the oil price on the world markets, registered an average increase of 11.6%, thus causing about 45% of the total inflation.

Table 1

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

	Share in %	2005	Q.1 2006 / Q.1 2005	IV.2006	V.2006	VI.2006	Q.2 2006 / Q.2 2005
Harmonized consumer price index (HICP)	100.0	2.2	2.3	2.4	2.5	2.5	2.5
Goods (total)	59.2	2.1	2.6	2.6	2.9	2.7	2.7
Energy	9.2	10.1	12.2	11.0	12.9	11.0	11.6
Unprocessed food	7.4	0.8	1.4	1.2	1.5	2.1	1.6
Processed food	11.8	2.0	2.0	2.2	2.2	2.2	2.2
Industrial products other than energy	30.7	0.3	0.3	0.6	0.6	0.7	0.6
Services (total)	40.8	2.3	1.9	2.2	1.8	2.0	2.0

Source: Eurostat and the European Central Bank

The core inflation rate in the Euro-zone, which excludes the movements in the prices of energy and non-processed food moderately increased in the second quarter of 2006, and averaged 1.5% (1.4% in the first quarter). The main reason for this was the increase in the prices of industrial products (excluding energy), which confirms the fact that the indirect effect from the higher prices of goods, primarily oil, gradually becomes evident in the consumer prices.

On the basis of the identified potential risks of increase in the inflation in the Euro-zone in a medium run, and in order to maintain stable inflation expectations in a long run and stable inflation supporting the economic growth and the growth in employment in the Euro-zone, on June 8, 2006, the ECB Council passed a decision on increasing the reference interest rates of ECB by 0.25 percentage points, starting from June 15, 2006. After the change, the minimum interest rate on repo transactions equaled 2.75%, the interest rate on the overnight lending facility was 3.75%, and the interest rate on the overnight deposit facility was 1.75%.

Source: Eurostat and European Central Bank: calculations and analyses of the NBRM.

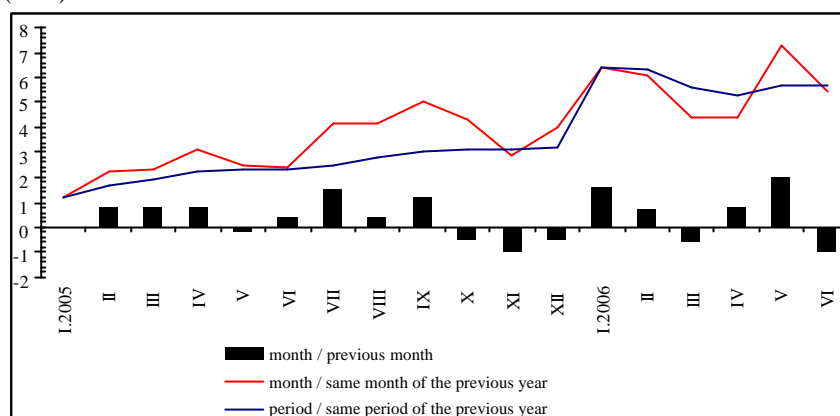
Significant indicator of the inflationary pressures is the production price index, which shows the movement of the prices of finished products of domestic producers. These prices have an indirect effect on inflation, by influencing its domestic component, depending on its size. Theoretically, the increase in the production prices is an indicator of future increase in the inflation.

In the first half of 2006, the prices of the producers of industrial products in the Republic of Macedonia were higher by 5.7%. Approximately 97% of the increase was a result of the higher production prices in the manufacturing, and much smaller portion was a result of the increased prices in the mining sector. The contribution of the prices of the producers in the sector "electricity, gas, and water supply" was negative, i.e. in the observed period they registered a decline. The increase in the prices was primarily a result of the higher prices of the producers of oil derivatives with a share of around 77% (caused by the increase in the oil price on the world markets) and of the producers of tobacco products with a share of around 19% (due to the higher excise and new duties). However, in 8 out of 23 branches included in the index, a

Prices of the producers of industrial products went up by 5.7% in the first half of 2006

decline in the prices of their products was registered. Among them, prices of the producers of basic metals had a more significant negative effect (2.4%). The increase in the inflation in the first half of the year corresponds with the movement of the production prices in the same period.

Figure 3
Prices of the producers of industrial products
(in %)



Source: State Statistical Office

1.1. Domestic consumption and inflation

In the absence of detailed and comprehensive data on domestic consumption⁶ in the Republic of Macedonia, the analysis of its influence on inflation is based on qualitative and intuitive estimations in accordance with the movement of the components of the domestic consumption for which data are available, and with the movement of the indicative variables.

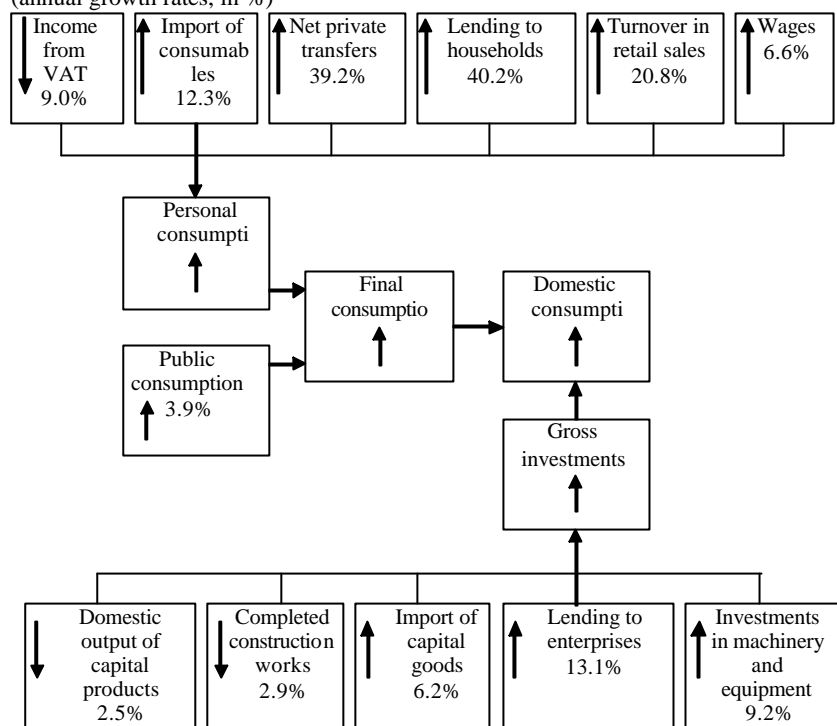
Registered increase in *public consumption* in the first quarter of 2006⁷, as well as the assumed increase in the *personal consumption*, on the basis of the increase in wages, lending to households, retail trade turnover, higher inflows of households from abroad (private transfers) and higher import of consumption goods, imply an increase in the *final consumption* in the first quarter of 2006 (relative to the same period of 2005).

Increased investments in *machinery and equipment* in the first quarter (which comprise one third of the gross-investments), increased scope of lending to enterprises and the higher import of capital goods (means of production) indicate increased investment activity in the first quarter of 2006 and point to an increase in *gross investments*, although completed construction works and domestic production of capital products registered a decline.

⁶ 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 great precaution.

⁷ Last available data of the SSO.

Figure 4
Movements of the domestic consumption in the first quarter of 2006
(annual growth rates, in %)



Source: National Bank of the Republic of Macedonia (on the basis of data of the SSO and of the Ministry of Finance).

On the basis of the estimations for growth in the final consumption (which covers around 80% of the domestic consumption) and in gross-investments, increased *domestic consumption* in the first quarter of 2006 is assumed (relative to the same period of 2005).

Movements in the indicative categories explaining the movement in the *personal consumption*, indicate increased households' spending in the second quarter of 2006. Such expectations are based on the further increase in the lending to households (annual increase of 37.5%), increase in wages (of 7.7% p.a.), increased volume of retail trade (by 6.2%), and increase in the import of consumption goods (of 12.8%). Also, current budget expenditures in the second quarter of 2006 register an annual increase (8.8%), which indicates increased *public consumption*. Thus, in line with the aforementioned changes, final consumption is expected to increase in the second quarter of the year. On the other hand, investment activity indicators are characterized by divergent changes and therefore they do not give a clear picture of the movement of gross-investments. Thus, the accelerated import of the means of production (increase of 27.2% p.a.), further financial support for the enterprises provided by the banking sector (annual increase in the credits extended to enterprises of 17.8%) and increased production of capital products (by 17% on annual basis) imply an increase in the investment activity, while the decline in the value of the conducted construction activities (of 8.8% p.a.) implies negative changes. In an environment of insufficient coverage of the domestic consumption with domestic production, in the second quarter of 2006 net-import of products was registered, with the growth in the exports being faster (by 14.5% p.a.) relative to the growth in the imports (by 10.9% p.a.).

Movements in the real, monetary, and foreign trade sectors in the first two quarters of 2006 point to an increased final, and to a certain extent, investment consumption, thus pointing to a potential inflationary influence on the domestic consumption in the forthcoming period. It is difficult to quantify the



effect of the import prices on the inflation rate, but it is possible to expect pressure from the higher prices of oil and oil derivatives on the world markets.

Attachment 3

Survey on the inflationary expectations in the Republic of Macedonia

In accordance with the contemporary trends, in March 2006, the National Bank of the Republic of Macedonia (NBRM) started to conduct a Survey on the inflationary expectations of the entities in the Republic of Macedonia. The survey is aimed at further improvement of the quality of the inflation projections, as they will incorporate also the inflationary expectations of the economic entities. This will improve the activities related to the maintaining of price stability, as the main and legal obligation of the NBRM.

The survey covers three groups of respondents: enterprises, banks, and well-regarded economic analysts in the Republic of Macedonia. The selection of respondents was made on the basis of adequate criteria for a representative sample. The survey is conducted with a quarterly dynamics (at the beginning of each quarter), while the communication with the respondents goes via e-mail. Participation of respondents in the survey is voluntary.

In accordance with the Survey on the inflationary expectations for the first quarter of 2006, 44% of the respondents created expectations for increase in the inflation rate, as many (44%) were of an opinion that the inflation will remain unchanged, while the remaining portion of the respondents expected that the inflation rate will drop (9.4%), or that is difficult to predict the movement of inflation (3.1%). In the first quarter of 2006, an average rate of inflation of 2.7% was registered.

On the other hand, according to the survey conducted in the second quarter of 2006, 66.7% of the economic agents expected an increase in inflation in the first half of 2006, which corresponds with the accomplished inflation rate of 3.1%. From the individual groups of respondents, around 78% in the group "enterprises" were of an opinion that in the first six months of 2006 inflation will increase, which was also the opinion of 50% of the respondents in the group "economic analysts", and 40% of the respondents in the group "banks".

Economic agents created similar expectations about the inflation rate by the end of 2006, i.e. 65.4% of the total number of respondents expect an increase in the inflation rate. Analyzed by groups, most of the respondents in the group "enterprises" (72%) are of an opinion that inflation will go up, while in the other two groups, a smaller part (around 50%) of the respondents expect an increase in inflation. The remaining portion of the respondents in these groups mainly expect that by the end of the year the inflation will not change (50% of the respondents in the group "economic analysts" and 25% of the banks participating in the survey), while 25% of the respondents in the group "banks" expect it to drop.

Created expectations are mainly caused by external factors (increase in the price of oil on the world markets), as well as by domestic factors (increased price of tobacco products, heating, raw materials, expected increase in the price of electricity, as well as the expected increase in the public consumption in the pre-election period).

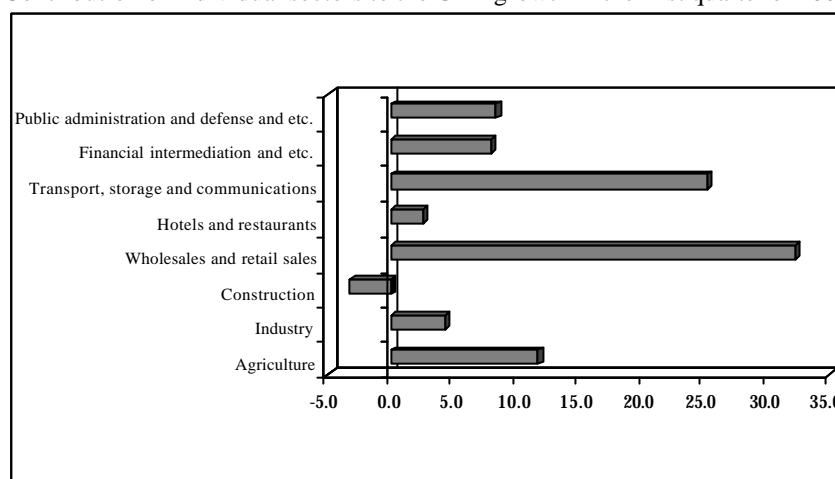


In the first quarter of 2006, positive annual rate of economic growth of 2.6% was registered

In the first quarter of 2006, real GDP growth of 2.6%⁸ was registered. Increase in the activity was registered in all sectors of the economy, except for the "construction" sector, which contrary to the expectations for intensification of the construction works, had a negative contribution to the economic growth. Registered GDP growth was mainly (73.7%) a result of the increased activity in the services sectors in the economy, i.e. of the following sectors: wholesale and retail trade, transport, storage and communication, financial intermediation and the sector incorporating public administration and defense, social security, education and health sector, which altogether comprise half of the GDP. The agricultural sector significantly contributes to the creation of GDP, while industry, comprising approximately one fourth of GDP had a moderate contribution of only 4.3%. The economic growth accomplished in the first quarter of 2006 was faster than expected, i.e. it exceeded the projected growth rate of 2.3%.

Figure 5

Contribution of individual sectors to the GDP growth in the first quarter of 2006



Source: State Statistical Office

The movements in the second quarter of 2006 indicate moderate real GDP growth relative to the same period of 2005, having in mind the mild increase in the industrial output and in the trade turnover, which was partially contained with the reduced value of completed construction works and reduced purchase in agriculture. In line with the projections for 2006, in the second quarter of 2006, real GDP growth of 3.8% is expected. The prospects for acceleration of the economic activity are supported also by the increase in the transactions in the payment operations in the second quarter relative to the same period of the preceding year, which led to increased velocity of money in the second quarter (7.4 as opposed to 6.5 in the same period of the preceding year).

Cumulative rate of growth in the industrial output of 1.1% in the first half of 2006

Accelerated economic activity in the second quarter of the year, with annual growth rate of 1.7% (0.5% in the first quarter) contributed to the increase in the cumulative growth of the industrial output in the first half of 2006, i.e. the growth rate reached 1.1% relative to the same period of 2005.

The cumulative growth in industry was mainly a result of the increased production in the "mining and quarrying" sector, which registered high increase of 63.7%⁹. In June, the activity in the manufacturing registered positive cumulative contribution for the overall industrial production, for the first time

⁸ Last available data of the SSO.

⁹ The high growth rate in this sector is due to the low comparison basis from the preceding year, due to the restart of one mine in May 2005.

since the beginning of the year, with a growth rate of 0.4%. Improved performances of this dominant industrial sector reflect the increased production in ten out of twenty manufacturing branches (with a share of 44% in the total industrial output). Among them, most significant is the share of products from other non-metal minerals¹⁰, food products and beverages, textiles and oil derivatives. Favorable movements were registered in the production of tobacco products, which in June went out of the zone of negative cumulative movements registered since the beginning of the year¹¹. Improvements were registered also in the production of basic metals and metal products, which have registered continuous downward trend in the cumulative decline since the beginning of the year. However, the export of iron and steel in the first half was lower than in the previous year, with slight rise being registered in the prices of iron ore and flat-rolled products of steel.

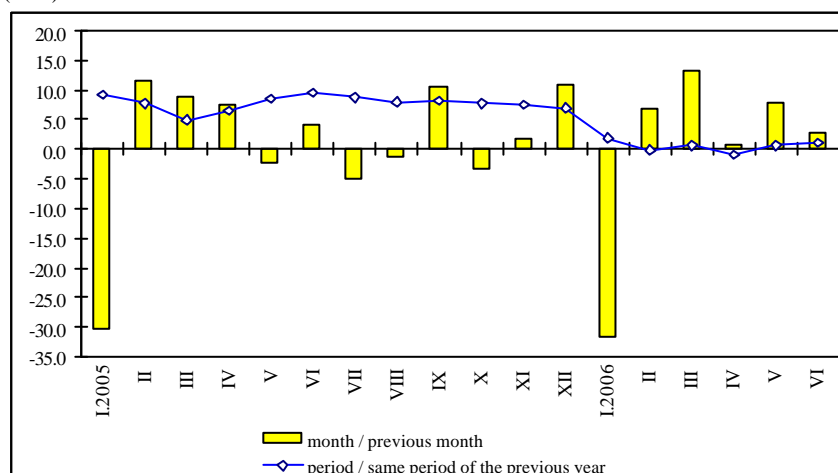
Table 2
Prices of metals on the international markets

	Jan.-Dec. 2005	Jan.-June 2005	Jan.-June 2006	April 2006	May 2006	June 2006
<i>US Dollars per ounce</i>						
Gold	444.8	427.2	590.7	610.7	675.4	596.1
<i>US Dollars per ounce</i>						
Silver	7.3	7.1	11.0	12.6	13.4	10.8
<i>US Dollar per dry metric tone unit</i>						
Iron ore	0.7	0.7	0.8	0.8	0.8	0.8
<i>US Dollar per unit kilogram</i>						
Sheet steel	7.4	8.0	8.1	8.8	8.8	7.9
<i>US Dollar per metric tone</i>						
Nickel	14,744.0	15,879.7	17,367.5	17,942.2	21,077.1	20,754.5

Source: World Bank

Unlike the favorable developments in the mining sector and in the manufacturing, which altogether contribute with 1.4 percentage points to the total growth of the industrial output, the sector "electricity, gas, steam, and hot water supply" registered a decline on cumulative basis, thus reducing the contribution of the other two sectors by 0.3 percentage points.

Figure 6
Dynamics of the industrial output
(in %)



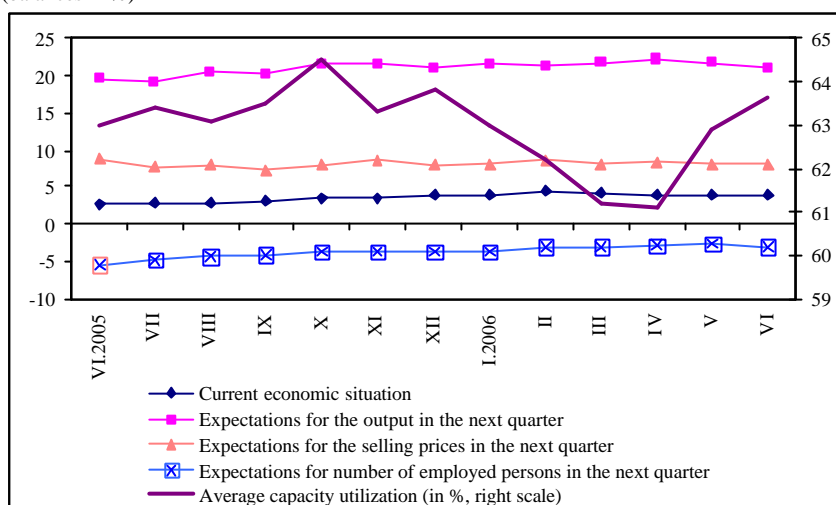
Source: State Statistical Office

¹⁰ The production of ceramic and floor tiles contributed to the increased activity in this branch, due to the new plant opened in October 2005.

¹¹ Reduced production of tobacco products in the first five months of 2006 was mainly a result of the reduction of the domestic consumption of cigarettes due to higher prices, reduction of the legal and increase in the illegal trade in the country, sale of the stocks from the production of cigarettes in the previous year, as well spending of the speculatively cumulated stocks in the trade in expectation of the new prices. In June 2006, the situation in the domestic market was partially stabilized and stocks were mainly exhausted, which contributes to the high monthly increase in the production in the tobacco products of 20%.

In June 2006¹², the assessment of the current economic condition of enterprises was positive, although it was less favorable compared with the end of the previous quarter (March 2006). The average utilization of the capacity in June 2006 equaled 63.6%, which represents an increase relative to March, when it equaled 61.2%. According to the economic agents, the main restrictive factor for the increase in the volume of production is still the insufficient domestic demand. Insufficient foreign demand, financial problems, and uncertain economic environment are also emphasized as major restrictive factors. With respect to the estimations for the following quarter, economic agents are optimistic about the volume of production and selling prices, and they also have more favorable expectations about the number of employees.

Figure 7
Business tendencies in the manufacturing
(balances in %)



Source: State Statistical Office

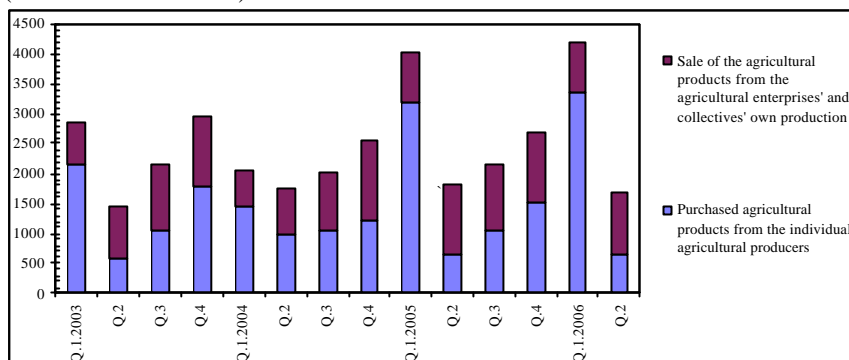
Quarterly decline in the purchase from individual agricultural producers...

In an environment of a significant reduction of the purchase of agricultural products from individual producers (by 80.4%) in the second quarter of 2006 the value of total purchase¹³ registered a quarterly decline of 60% and was reduced to Denar 1,684 million (in the first quarter it stood at Denar 4,210 million). At the same time, it should be emphasized that such a quarterly dynamics is typical also for the past years and it mostly reflects the high comparison basis from the first quarter when tobacco is commonly purchased. In the second quarter of 2006, most of the purchase (60.8%), pertains to the sale of agricultural products from own production of the agricultural enterprises and cooperatives, where quarterly increase was registered (20.3%).

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

¹³ The value of the total purchase of agricultural products pertains to the value of the purchase from the individual agricultural producers and to the value of the sale from own production of agricultural enterprises and cooperatives.

Figure 8
Sale and purchase of agricultural products
(in millions of Denars)

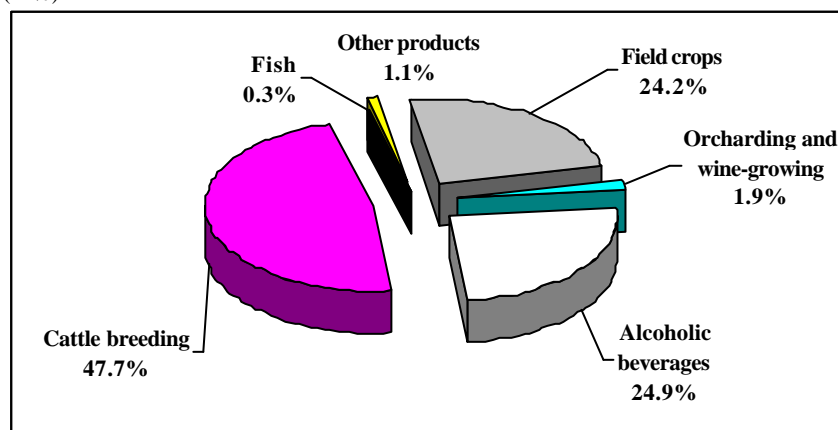


Source: State Statistical Office

The analysis from the viewpoint of groups of agricultural products in the second quarter of 2006 indicates a quarterly increase in the purchase with all groups, except for the purchase in the group field crops (reduced purchase of cereals and industrial plants) and in the group of alcoholic beverages. Among the other groups, it is important to highlight the quarterly increase in the purchase registered in the livestock breeding, with an increase being registered in the purchase of cattle (partially related also to the placement on the international markets) and milk.

On annual basis, the total value of the purchase of agricultural products dropped by 6.5%, which was primarily a result of the more intensive decline in the purchase of the agricultural products from the own production of the agricultural enterprises and cooperatives (of 11.4%), with an increase being registered in the purchase from the individual producers (of 2.1%). Reduced purchase of cereals had the largest contribution to the annual fall, while the increase in the purchase of milk contributed to the mitigation of the annual decline in the total purchase.

Figure 9
Share of the purchase by individual branch in the total purchase of agricultural products in the second quarter of 2006
(in %)



Source: State Statistical Office

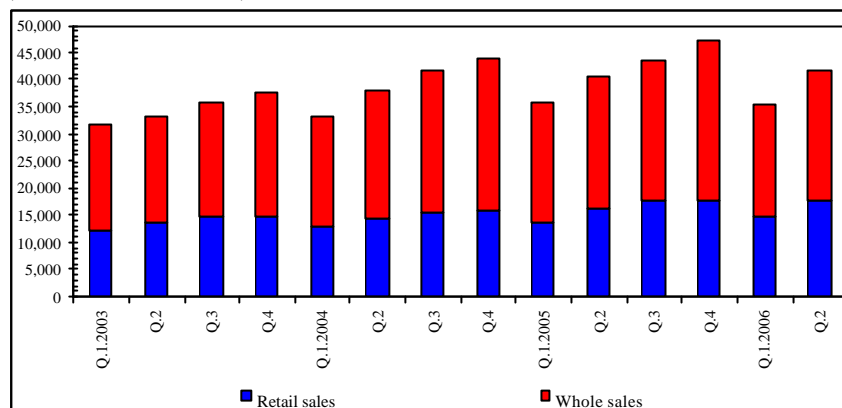
...and increased trade turnover

The increase in the turnover in the retail trade and wholesale in the second quarter of 2006 resulted in an accelerated trade activity compared with the preceding quarter. Thus, the total trade turnover registered an increase of 17.6% on a quarterly basis, which was mostly generated by the increase in the wholesale trade turnover (57%). Analyzed on annual basis (second quarter of



2006 / second quarter of 2005), the total trade turnover went up by 2.4%, with an increase being registered in the retail trade turnover and insignificant decline being registered in the wholesale trade turnover. In accordance with the quarterly dynamics (registered decline in the trade turnover in the first quarter of 2006 and intensive increase in the second quarter of the year), in the first half of 2006 the total trade turnover registered a minimum increase of 0.4%. The increase was entirely a result of the annual increase in the retail trade (of 7.8%), with a decline in the wholesales of 4.3% being registered.

Figure 10
Trade turnover
(in millions of Denars)



Source: State Statistical Office

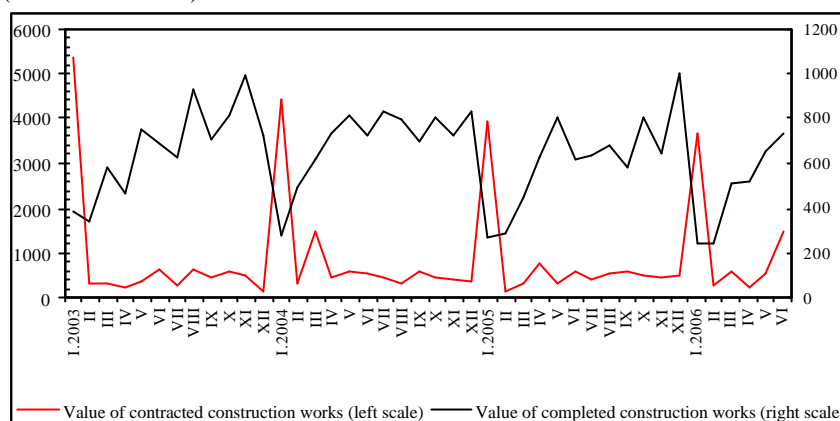
Qualitative assessments of the factors that are of dominant importance for the business condition of the enterprises in retail trade are evident in the Survey on Business Tendencies in Retail Trade¹⁴. According to the Survey for the second quarter of 2006, the insufficient demand, increased supply on the market and the increased competition, are the main restrictive factors for improvement of the current business condition of retailers. Economic entities assessed that the selling prices in the second quarter of the year were lower relative to the previous quarter, while the expectations for the forthcoming months also indicate further decline in the retail prices.

Compared with the previous year, the negative dynamics in the construction activity continued

During the second quarter of 2006, in line with the common quarterly dynamics, construction activity accelerated. The total value of completed construction works in the second quarter of the year amounted to Denar 1,899 million, which is almost twice the amount registered in the first quarter of 2006. However, relative to the same period of the previous year, the value of the completed construction works in the second quarter of 2006 was lower by 8.8%. Given the registered annual decline in the value of completed construction works in the first two quarters of the year, the construction activity in the first half of 2006 slowed down relative to the first half of the previous year (a decline of 6.8%).

¹⁴ The Survey on Business Tendencies in Retail Trade has been conducted by the SSO starting from 2002.

Figure 11
Contracted and completed construction works
(in millions of Denars)



Source: State Statistical Office

The main problems and reasons behind the negative performances in the construction sector could be seen from the Survey on Business Tendencies in Construction¹⁵. Thus, according to the Survey for the first quarter of 2006¹⁶, economic agents emphasize the following factors as being most restrictive in the realization of the construction works: insufficient demand, increased costs for materials and for financing (interest), as well as the unfavorable weather conditions. Here, economic agents negatively assess the current situation with the orders (domestic and foreign), as well as the current number and quality of the mechanization and equipment they have at their disposal. However, construction enterprises are optimistic about the orders in the forthcoming period.

3.

Employment and wages

The average number of employees in the second quarter of 2006 was 264,229 persons

The average number of employees in the second quarter of 2006 was 264,229 persons¹⁷. Relative to the same quarter of 2005¹⁸, the average number of employees dropped by 3.4%, which is a result of the reduced number of employees in all three sectors of the economy. The largest fall in the number of employees was registered in the industrial sector (4.4% p.a.), with a decline in the employment being registered in all industrial branches. In the manufacturing industry, as the most important industrial branch, the number of employed persons dropped by 4.3%. On annual basis, the number of employed persons in the agricultural sector and in the services sector fell by 3.4% and 2.4%, respectively.

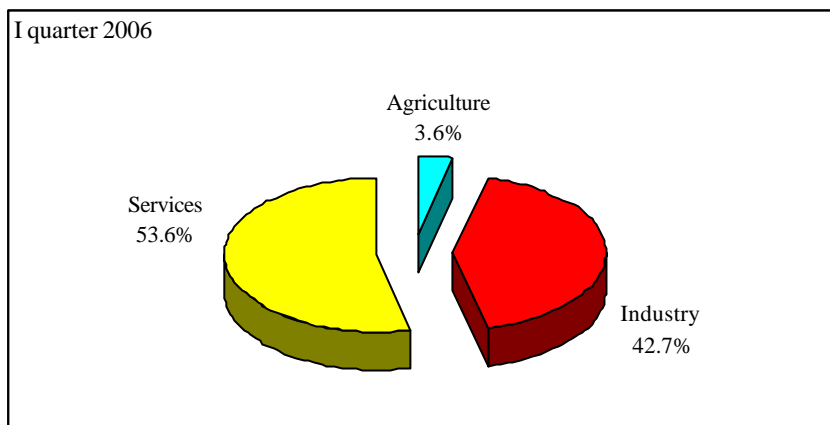
¹⁵ The Survey on Business Tendencies in Construction has been conducted by the SSO starting from April 2002.

¹⁶ Last available data of the SSO.

¹⁷ Source: State Statistical Office. Since January 2006, the number of employees in the activity "public administration and defense" for the first time includes the data about the Ministry of Internal Affairs and Ministry of Defense. Because of the changes in the sample, it is impossible to compare adequately the number of employees in 2006 and in other years. In order to obtain comparable data and for the purpose of calculating the changes compared to 2005, the NBRM made adjustments in the data on the activity "public administration and defense", the services sector, and the total number of employees.

¹⁸ Adjusted calculations.

Figure 12
Structure of employed persons by sector
(in %)



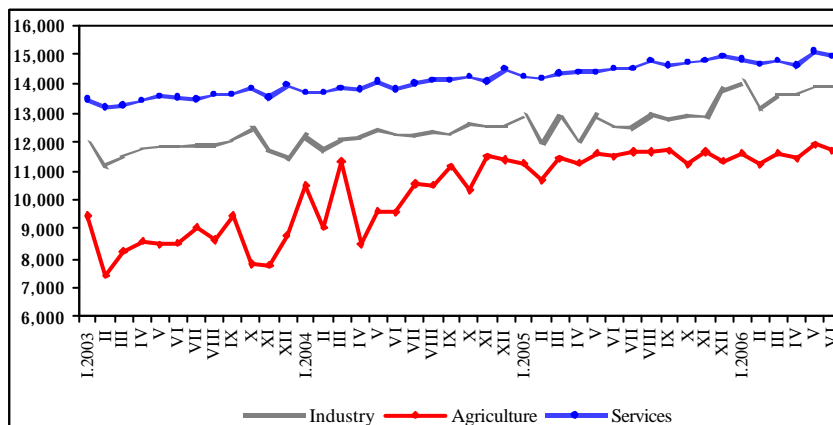
Source: State Statistical Office

However, compared with the previous quarter, the average number of employed persons went up by 0.6%, with an increase being registered in the number of employed persons in industry (by 1.1%), and in the services sector (by 0.2%), while the number of employed persons in the agricultural sector dropped (by 0.3%).

*Increase in the nominal
average net-paid wage per
worker in the second quarter
of 2006*

In the second quarter of 2006, the average net-paid wage per worker amounted to Denar 13.427, which was a nominal increase of 7.7% relative to the second quarter of the previous year. Analyzed by sector, in the second quarter of 2006, the fastest nominal annual increase in the wages (of 10.6%) was registered in the industrial sector, mainly generated by the increased wages in the "electricity, gas and water supply" (by 23.2%). Significant annual increase was registered in the average nominal wage in "mining and quarrying" (of 8.4%), while in the manufacturing the average nominal wage moderately increased (by 4.3%).

Figure 13
Average net-paid wage per worker by sector
(in denars)



Source: State Statistical Office

In the other main sectors of the economy, in the services sector and in the agriculture, the annual nominal increase in wages in the second quarter of 2006 was more moderate and amounted to 3.2% and 2%, respectively. Within the services sector, wages were higher in real terms in almost all service activities, with more significant rates of increase in the wages in the "public administration and defense" (of 7.4%), which is in accordance with the gradual

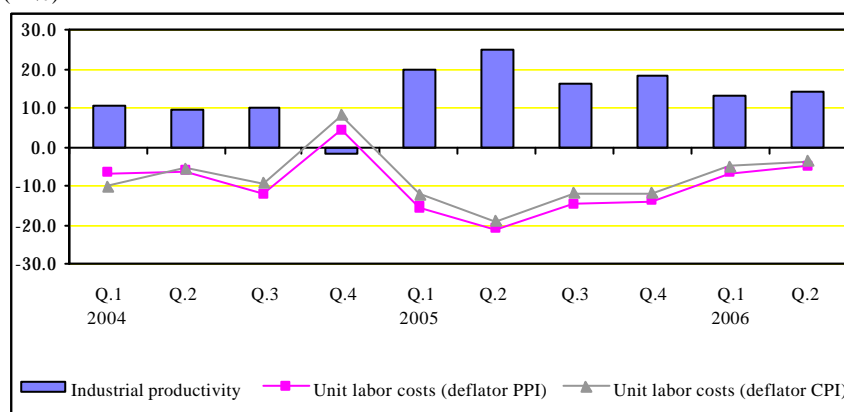
process of decompression of the wages of civil servants (and due to the changes in the statistical coverage of data in this sector¹⁹), then in "transport, storage and communication" (of 5.4%) and in "hotels and restaurants" (of 5.4%).

On a quarterly basis (second quarter of 2006 / first quarter of 2006), the average net paid wage registered nominal increase of 1.7%, given the moderate increase in the wages in the three sectors of the economy. The highest growth rate was realized in the service activity "health and social work" (4.6%) and in construction (4.5%). In the second quarter of 2006, the percentage of employees who did not receive wages remained on the level of the previous quarter (13.6% on average).

The average net-paid wage per worker in the first half of 2006 stood at Denar 13,316 and relative to the same period of the preceding year it registered an increase in nominal and in real terms of 7.2% and 4%, respectively. In the first half of 2006, the highest average net-paid wage of Denar 26,349 was paid in the "financial intermediation" sector. The average gross-wage per employee²⁰ amounted to Denar 22,740 and registered an increase in nominal and in real terms of 8.1% and 4.8%, respectively.

In the second quarter of 2006, the rate of increase of productivity in industry²¹ equaled 14.3%, relative to the same quarter of 2005, which is a result primarily of the increased volume of industrial output. Namely, 69.3% of the total productivity increase is a result of the intensified industrial activity in the second quarter of 2006 (especially in the sector "mining and quarrying"), in an environment of a reduced number of employed persons in industry. Such developments indicate increased efficiency of the industrial sector, and considering the fact that industry comprises around one fourth of GDP, one may expect increased efficiency of the economy as a whole.

Figure 14
Rate of increase in productivity and unit labor costs in industry
(in %)



Source: State Statistical Office, calculations and analyses

The increase in productivity had an adequate positive influence also on the reduction of the unit labor costs. In the second quarter of 2006, the more intensive increase in the productivity in industry relative to the increase in gross-wage in real terms (deflated with the index of producers of industrial products

¹⁹ Source: State Statistical Office. In January 2006, the number of employees in this sector for the first time encompassed the data from the Ministry of Internal Affairs and the Ministry of Defense.

²⁰ Source: State Statistical Office. The total paid gross-wages encompass: net-paid wages for the reporting month, paid personal income tax and paid contributions (for pension and disability insurance, for health insurance, for employment, for professional illness and for water supply).

²¹ The productivity index and the unit labor costs index in industry were calculated with the year 2000 as a cut off base, with the number of employees and the real gross-wage pertaining to the industrial sector except construction.

and with the consumer price index) resulted in a decline in the unit labor costs of 5.1% and 3.8%, respectively.

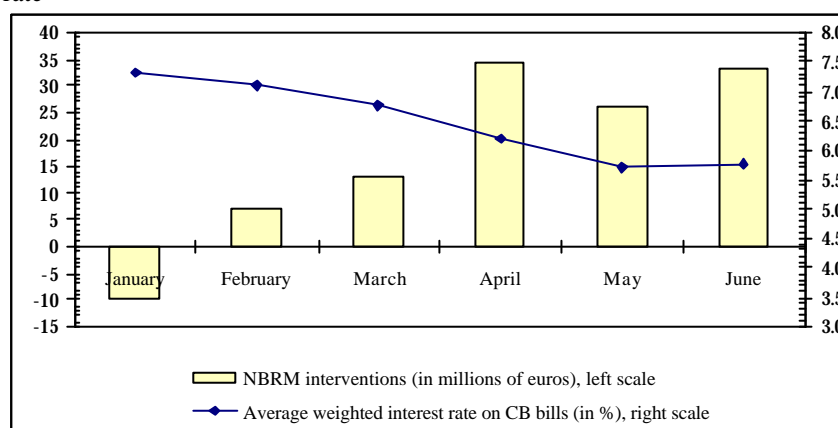
4.

Monetary policy

The environment of conducting the monetary policy in the second quarter of 2006 was characterized by the further directing of the foreign currency inflows from the banking system to the foreign exchange market, in which the NBRM also made a net purchase of foreign currency in the second quarter. Thus the supply of and the demand for foreign currency was balanced on the foreign exchange market (as an essential segment of the financial markets in environment of fixed exchange rate regime), and the exchange rate registered no changes. On the other hand, this period witnessed a considerable withdrawal of Denar liquidity from the banking system through the government transactions on the basis of privatization of state capital. Hence, most of the liquidity created through the foreign currency transactions was withdrawn through the government deposits, and only a small portion through the monetary instruments (through the treasury bills for monetary purposes, whereas the CB bills acted towards creating liquidity). The developments on the foreign exchange market and the prudential fiscal policy in the second quarter contributed to further reducing in the CB bills interest rate, which is by 1.2 percentage points lower in the second quarter compared to the previous quarter.

Figure 15

Net-interventions on foreign exchange market and CB bills interest rate



Source: National Bank of the Republic of Macedonia.

Within the autonomous factors that affect the liquidity of the banking sector, the NBRM foreign exchange transactions were the only that acted towards creating liquidity in the second quarter. Thus, having relatively high foreign currency inflows on the basis of net purchase through the currency exchange operations, with simultaneous active participation of the banks on the supply side of foreign currency on the banks-enterprises segment, the NBRM was continuously making a net purchase of foreign currency on the foreign exchange market. The liquidity created on this basis was mostly withdrawn through the fast increase in the Denar government deposits with the NBRM, as a result of the non-tax inflows in the budget on the basis of sale of government securities in the banking and the corporate sector²². The currency in circulation also contributed towards withdrawing liquidity.

²² Sale of government residual shares in the health sector (pharmacies), telecommunications and shares in ownership of PIOM.



Table 3
Liquidity creation and withdrawal*
(in millions of denars)

	31.03.2006	Monthly changes				Total	30.06.2006
		April	May	June			
Liquidity of the banks	5,492	543	1,817	-1,165		1,195	6,687
Liquidity creation						5,349	
1. Net foreign assets	71,907	2,238	1,309	1,802		5,349	77,256
Liquidity withdrawal						-4,154	
1. Net domestic assets	-52,715	-835	-152	-2,287		-3,274	-55,989
of which:							
CB bills	-8,903	119	1,239	811		2,169	-6,734
Government Denar deposits with NBRM	-8,807	-334	-1,963	-3,313		-5,610	-14,417
of which: Treasury bills for monetary policy purposes	-1,377	-1,574	0	324		-1,250	-2,627
Government foreign currency deposits with NBRM	-20,245	246	387	199		832	-19,413
Other items, net	-18,373	-559	185	20		-354	-18,727
2. Currency in circulation	13,700	-860	660	-680		-880	14,580

*Liquidity includes banks' account with NBRM and cash in the vaults of the banks.

Source: National Bank of the Republic of Macedonia.

*Creation of liquidity
through monetary
instruments*

In the second quarter of 2006, cumulatively, the monetary instruments (CB bills and treasury bills for monetary purposes²³) acted towards creating liquidity, registering divergent movements in their structure. The CB bills auctions acted towards creating liquidity in the banking system, with the liquidity being simultaneously withdrawn through the treasury bills for monetary purposes, which reflects the effort to sterilize liquidity on a longer run, and for further development and deepening of the financial markets. Moreover, the relative restraint of the banks from investing in CB bills in the second quarter could also be accounted for the considerable withdrawal of liquidity through government transactions, creating a need of more prudential liquidity management. At the CB bills auctions held in the second quarter, the average demand slightly exceeded the supply of CB bills, with the average interest rate on CB bills equaling 5.9% on average (7.1% in the preceding quarter).

The reduction in CB bills interest rate resulted in broader spread between this interest rate and the interest rate on the Lombard credits. Therefore, in May 2006, the NBRM Council adopted a decision on decreasing the interest rate on the Lombard credit from 11% (level set in February 2006) to 9.5%. No Lombard credits were approved in the second quarter.

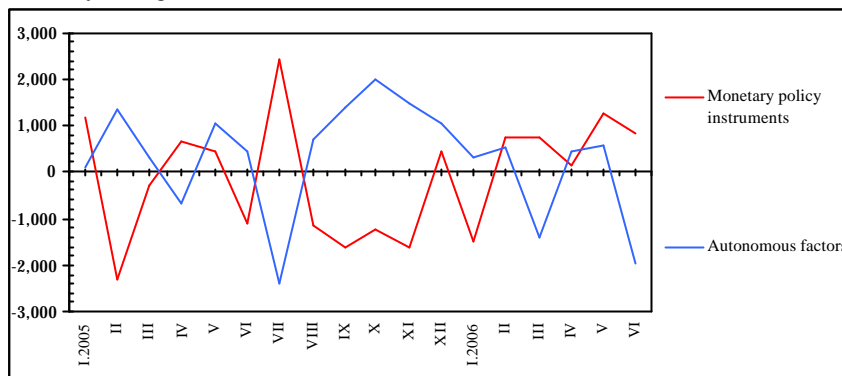
²³ On March 7, 2006, the NBRM in cooperation with the Ministry of Finance started issuing three-month treasury bills for monetary purposes.



Figure 16

Monetary policy instruments and autonomous factors of liquidity creation and withdrawal *

(monthly changes in millions of denars)



*Positive change - liquidity creation; negative change - liquidity withdrawal.

Source: National Bank of the Republic of Macedonia.

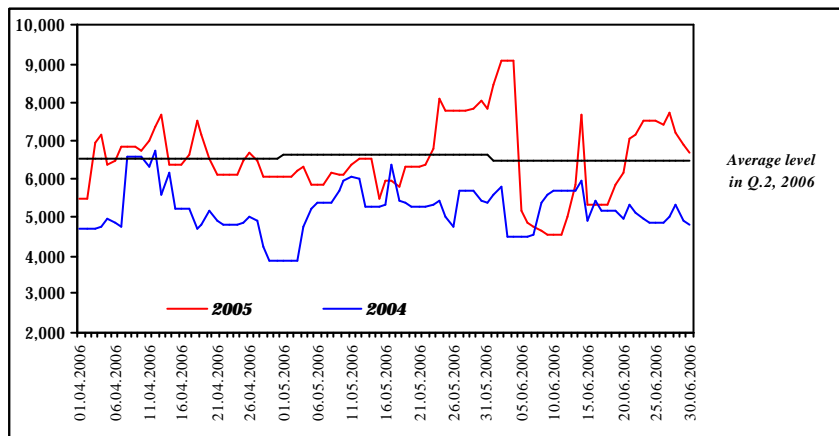
*Higher average daily
liquidity of the banks in the
second quarter of 2006*

The average daily liquidity of the banking system²⁴ in the second quarter of 2006 totaled Denar 6,519.4 million, which is a quarterly increase of Denar 554 million, or 9.3%. The NBRM foreign exchange transactions and CB bills were directed towards increasing the average daily liquidity, with most of the created liquidity being offset by some autonomous factors (higher average level of Denar government deposits and currency in circulation) and by the treasury bills for monetary purposes.

Figure 17

Daily dynamics of the banks' liquidity*

(in millions of denars)



* Liquidity includes banks' account with NBRM and cash in the vaults of the banks.

Source: National Bank of the Republic of Macedonia.

The higher liquidity level in the second quarter corresponds with the higher amount of allocated liquid funds over the reserve requirement (in Denars)²⁵. Thus, in the second quarter of 2006, the banks allocated 10.1% over the reserve requirement, on average (8.9% in the preceding quarter). The highest amount of allocated liquid funds over the reserve requirement was registered in May 2006 (12.5%), which corresponds with the need of cumulating liquid funds

²⁴ The liquidity includes account of the banks with the NBRM and cash in the vaults of the banks.

²⁵ The period for maintaining (fulfilling) the banks' reserve requirement covers the period from the 11th in the current month to the 10th in the following month.

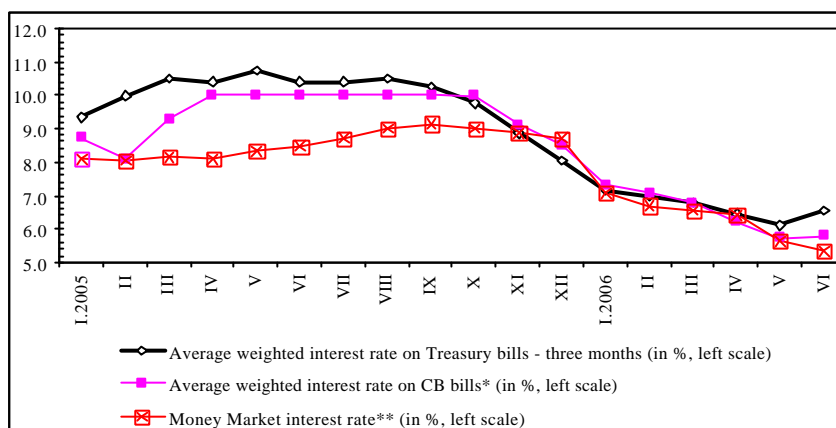


prior to the expected outflows from the banking system in June on the basis of privatization of state capital.

In the second quarter of 2006, no transactions were executed on the official money market; hence, a decision was made in mid-May on cessation of this market²⁶. As a result, the short-term interbank borrowing in the future will be made only through direct bilateral interbank trade. In order to be modernized, on May 8, 2006, it was supplemented by introducing an electronic system for interbank trade in deposits and securities (TEN FORE). In the second quarter, the average monthly turnover, within the bilateral interbank trade, amounted to Denar 1,083.3 million, which is by 2.2 times more compared to the previous quarter. The average weighted interest rate on the interbank money market in the second quarter equaled 5.8%, on average (quarterly reduction by 1 percentage point), consistent with the changes in the CB bills interest rate, and with the higher average liquidity in the banking system.

Accelerated interbank borrowings

Figure 18
Short-term interest rates



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

**Average weighted interest rate on the interbank money market (institutionalized and non-institutionalized market).

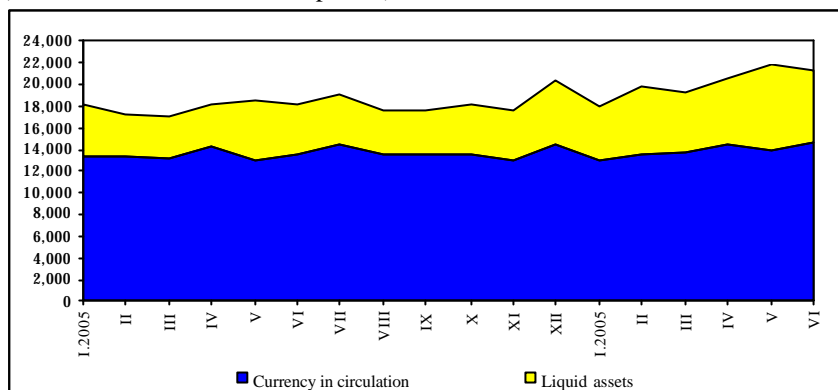
Source: NBRM, Money and Short-term Securities Market and Ministry of Finance.

Higher reserve money relative to the preceding quarter

The higher liquidity of the banking system and the faster demand for currency in circulation in the second quarter of 2006 brought about a quarterly increase in the reserve money of 10.8%. On annual basis (June 2006 / June 2005) the reserve money surged by 17.6%.

²⁶ Taking into account the low volume of activities on this market over a longer period, on May 15, 2006, the General Meeting of Shareholders adopted a Decision on cessation of the Money and Short-Term Securities Market

Figure 19
Reserve money
(in millions of denars, end of period)



*The banks' liquidity includes banks' account with NBRM and cash in the vaults of the banks.

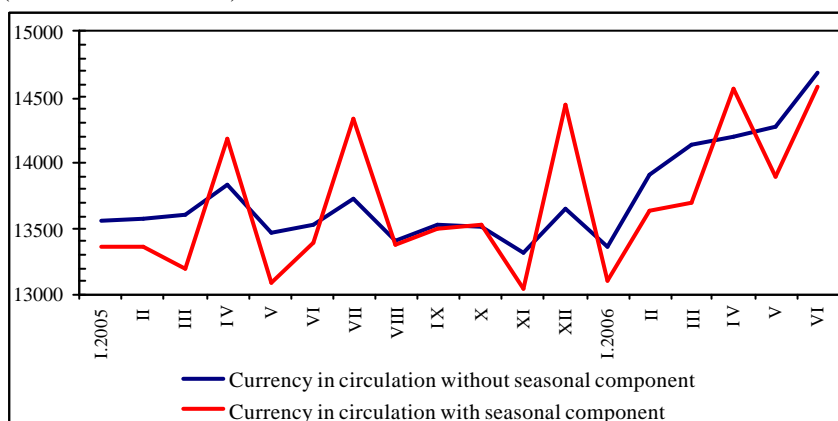
Source: National Bank of the Republic of Macedonia.

5.

Money supply²⁷

In the second quarter of 2006, the dynamics of the demand for currency in circulation was determined by the common seasonal factors. Only in June the currency in circulation increased in a faster monthly pace than usual, which partially reflects the pre-election period. Consequently, at the end of June compared to the end of the preceding quarter, the level of currency in circulation surged by 6.4%.

Figure 20
Currency in circulation with and without seasonal component
(in millions of denars)



Source: National Bank of the Republic of Macedonia.

Intensified demand for currency of circulation

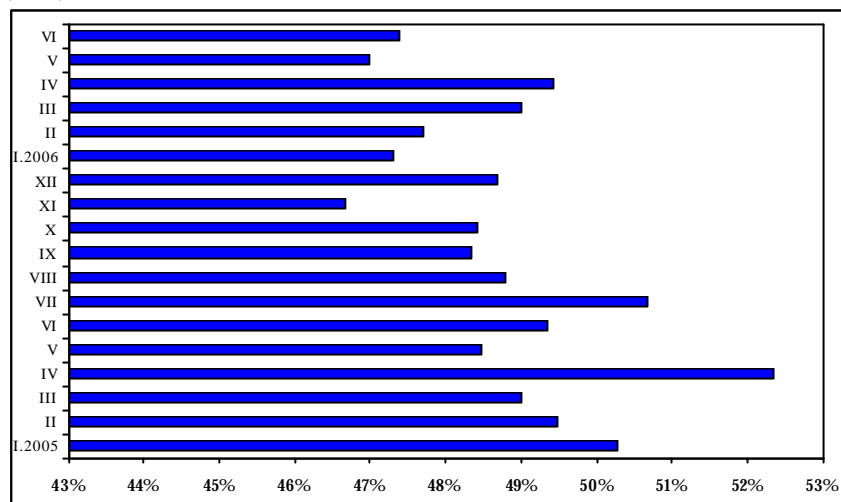
The currency in circulation analysis without seasonal component shows an upward trend of the currency in circulation in the first half of 2006. In absence of other more significant changes in the factors that influence the decisions of the economic entities on holding a certain amount of cash, the acceleration of currency in circulation in 2006 may be explained by the higher transaction incentive to hold cash in environment of increase in the prices of goods which are largely paid in cash (food products, cigarettes). Notwithstanding the higher level of currency in circulation, however, the structure of monetary aggregate

²⁷ Since May 2005, the data on the deposits and the loans of the banks exclude "Radobank" a.d. Skopje, the founding and operating license of which was revoked by the NBRM on May 27, 2005.



M1 registers positive developments evident through the lower share of currency in circulation in the monetary aggregate M1 (48% on average for the January - June 2006 period, compared to 49.8% in the same period of the preceding year).

Figure 21
Share of currency in circulation in the money supply M1
(in %)

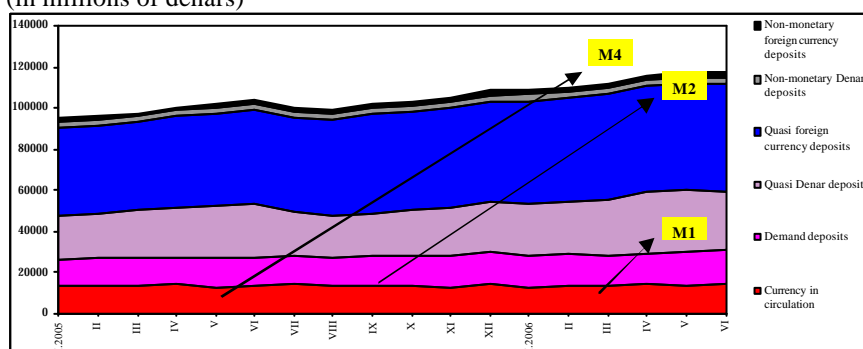


Source: National Bank of the Republic of Macedonia.

*Higher level of broader
monetary aggregates on
quarterly basis*

The faster demand for currency in circulation, higher level of transaction deposits and the increase in the savings in the banking system resulted in quarterly growth in all monetary aggregates. Thus the broadest money supply M4 went up 4.8% on quarterly basis. Observing the structure, the monetary aggregate M1, as the most liquid component, has the highest contribution of 51.8% to the increase in the broadest money supply M4. The analysis of the determinants of the money supply in the second quarter indicates dominant influence of the reserve money aimed at increasing the money supply M1, unlike the money multiplier that registers quarterly decrease. The money multiplier of the money supply M1 equals 1.41 on average, in the second quarter (1.48 in the previous quarter), with slower multiplication being registered in the money multipliers of the money supply M2 and money supply M4.

Figure 22
Components of the monetary aggregates
(in millions of denars)



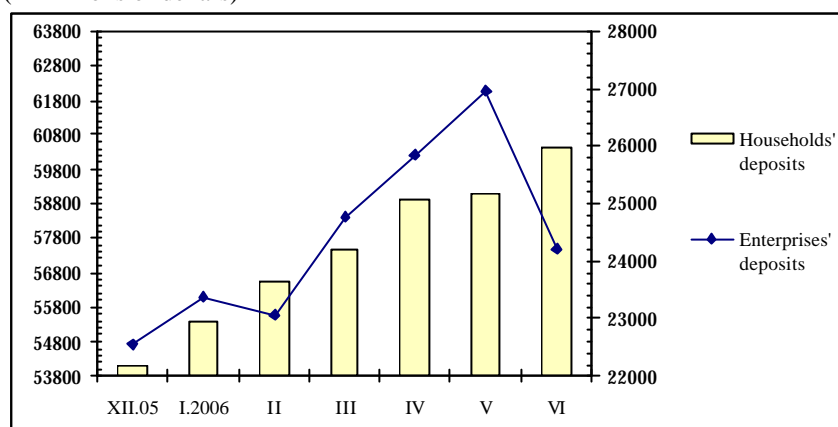
Source: National Bank of the Republic of Macedonia.

5.1. Deposits with banks

Slower growth pace of the deposit potential in the second quarter of 2006

The deposits in the banking system, as a major source of forming the financial potential of the banks in the Republic of Macedonia registered substantially slower growth pace in the second quarter of 2006 (quarterly increase of 3.1%) compared to the previous quarter (quarterly increase of 6.9%). In this quarter, the banks' deposit base was under the predominant influence of the privatization of state capital, resulting in considerable outflow of deposits of the corporate sector from the banking system. However, the additional income of the households from the bonds for the old foreign currency savings in April and the further rise in the level of savings of the households in the banking system largely offset the fall in the enterprise deposits.

Figure 23
Household and enterprise deposits
(in millions of denars)

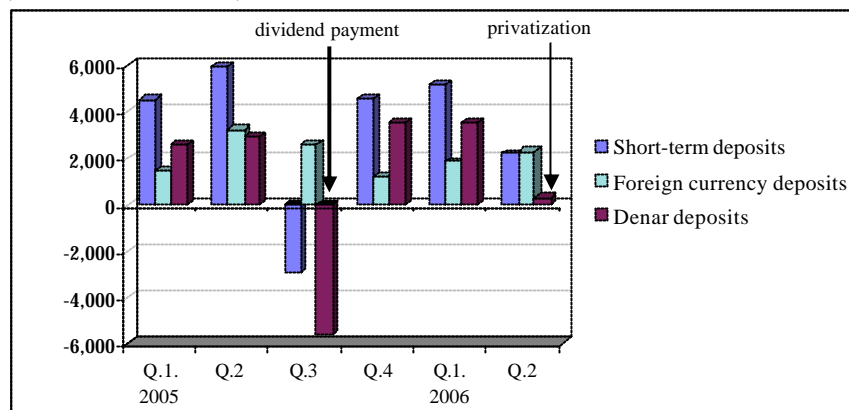


Source: National Bank of the Republic of Macedonia.

Quarterly increase in the total deposits of 3.1%

The analysis of the quarterly dynamics of the deposits shows dominant influence of the short-term and foreign currency deposits on the expansion of the banks' deposit base, the quarterly change of which accounts for 85.4%, i.e. 88.3% of the increase in the total deposits. The analysis of the maturity and currency of denomination structure of the quarterly changes in certain components of the deposits in the preceding and current year shows that they remain in the growth zone (except for certain periods, when certain large-value transactions such as payment of dividend to the government and foreign shareholders and privatization resulted in substantial narrowing of the deposit base). Also, typical for most of this period is the identical and faster growth pace of the Denar relative to the foreign currency savings, which is an indicator for stable expectations relative to the exchange rate and the inflation.

Figure 24
Quarterly changes in certain components of the total deposits
(in millions of denars)

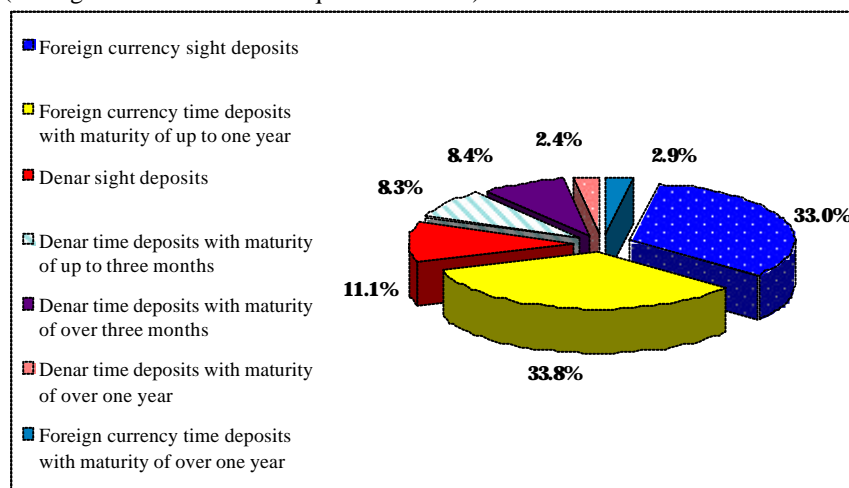


Source: National Bank of the Republic of Macedonia.

The household savings keeps on growing...

In the second quarter of 2006, the total deposits of the households registered a quarterly growth of 5.1% (annual growth of 21.2%). In this quarter, the household deposits registered more significant changes in April, the month of payment of the regular installment of the bonds for the old foreign currency savings. Most of these funds were deposited as Denar sight deposits. Faster growth in the total household deposits was registered in June, mainly owing to the higher level of sight deposits in foreign currency (monthly growth of 4%). The increase in the household deposits corresponds with the nominal growth in wages (7% in the first five months of 2006), the further growth in credits extended to the households (transfer of approved funds to household accounts), and partially with the faster growth in the private transfers in this period. The channels of transferring these funds may be direct (transfer of remittances from abroad to bank accounts) and indirect (conversion of the foreign currency savings outside the banks in Denars and depositing on bank accounts).

Figure 25
Household deposit structure
(average share in the second quarter of 2006)

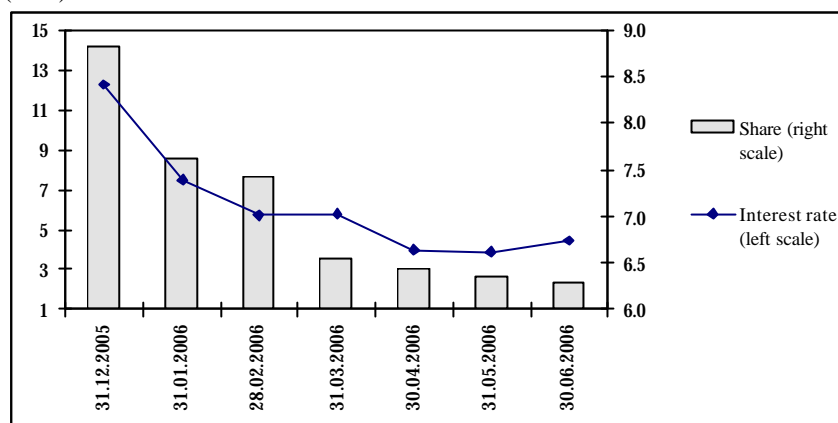


Source: National Bank of the Republic of Macedonia.

The responsiveness of the household savings to the interest income may be regarded as relatively poor. In the second quarter, the household deposits increased (excluding the effect of the payment of bonds), whereas the interest rates remained virtually unchanged over the year. On the other hand, the investments of this sector in government securities in the second quarter

dropped, and compared to the end of the preceding year, the drop was considerably faster. Such behavior of the households at this market segment could be largely explained with the reduction in the interest rates on government securities, showing much larger sensitivity of the household sector to the changes in the securities yield relative to the changes in the deposit yield (which is expected, taking into account the role of the deposits as a basic form of investing the household funds, and the setting of the treasury bill interest rate at auctions, vis-a-vis the deposit yield set in advance).

Figure 26
Household share on the treasury bill market and interest rate on treasury bills*
(in %)



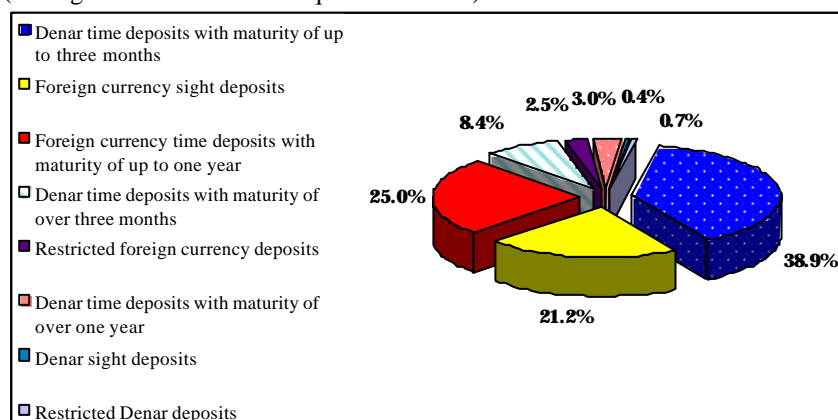
*Average of interest rates on three- and six-month treasury bills.

Source: National Bank of the Republic of Macedonia.

...whereas the corporate deposits dropped

The quarterly dynamics of the corporate deposits in the second quarter of 2006 (quarterly decrease of 2.3%) was caused by the short-term deposit potential. Thus, the short-term corporate deposits fell by 3.1% on quarterly basis, reflecting the substantial outflows of funds from the corporate Denar accounts for purchasing state capital in some companies (Telecom, banks, pharmacies, PIOM). On the other hand, the companies in this quarter cumulated funds on their foreign exchange accounts (8.3% higher corporate foreign currency deposits), which corresponds with the quarterly increase in the export of goods of 24.1%.

Figure 27
Corporate deposit structure
(average share in the second quarter of 2006)

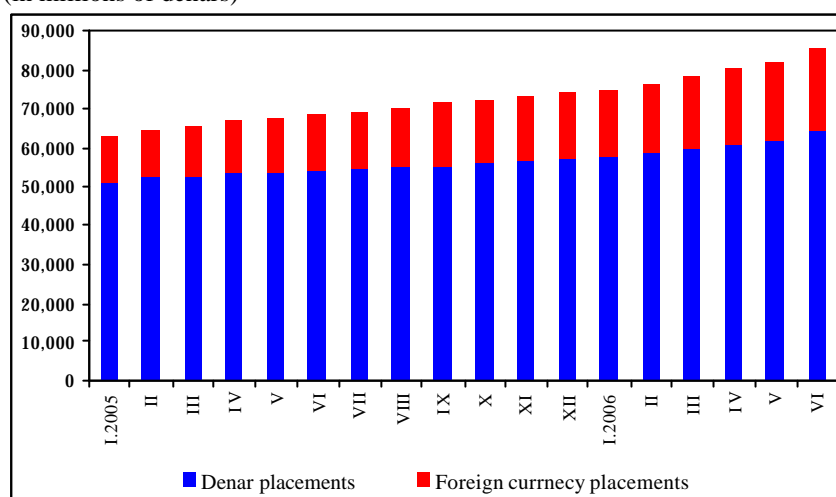


Source: National Bank of the Republic of Macedonia.

Accelerated lending activity of the banks

In the second quarter of 2006, the bank lending activity registered considerable acceleration resulting in significant quarterly increase of 9% of the banks' total placements to the private sector (6.2% in the preceding quarter and 4.5% in the second quarter of 2005). Typical for the credit market over the last three year is the accelerated credit activity, largely representing the initially low level of financial intermediation. The credit expansion is typical for almost all transitional countries, as a natural tendency of deepening the degree of financial intermediation. In the Republic of Macedonia, compared to the more advanced countries in transition, the credits are still at relatively low level and grow in slower pace, partially due to the relatively slow adjustment of the bank credit market. Hence, the possible further acceleration of the credit growth is expected to produce motivating effects on the overall economic activity in the country, having no adverse macroeconomic implications. The annual growth in the placements to the private sector equals 26.3%.

Figure 28
Bank placements by currency
(in millions of denars)



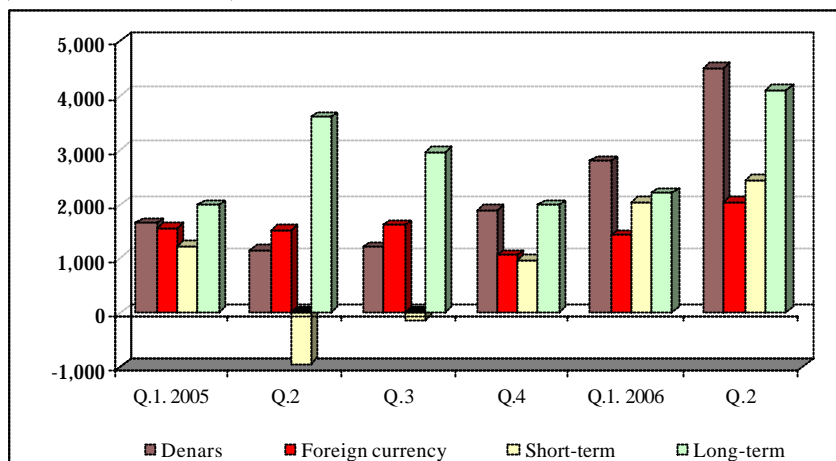
Source: National Bank of the Republic of Macedonia.

The accelerated bank lending activity in the second quarter might be explained with the influence of several factors: a) higher deposits as a basis of the lending activity; b) more active exploitation of the available deposit potential by the banks; c) active borrowing from abroad, intended for financial support of the private sector; d) partially relaxed lending terms, in environment of better liquidity position of the banks, higher degree of competition and positive perceptions for the overall economic activity²⁸; e) higher demand for credits by enterprises and households.²⁹

²⁸ According to the results from the Bank Credit Activity Survey for June 2006.

²⁹ According to the results from the Bank Credit Activity Survey for June 2006.

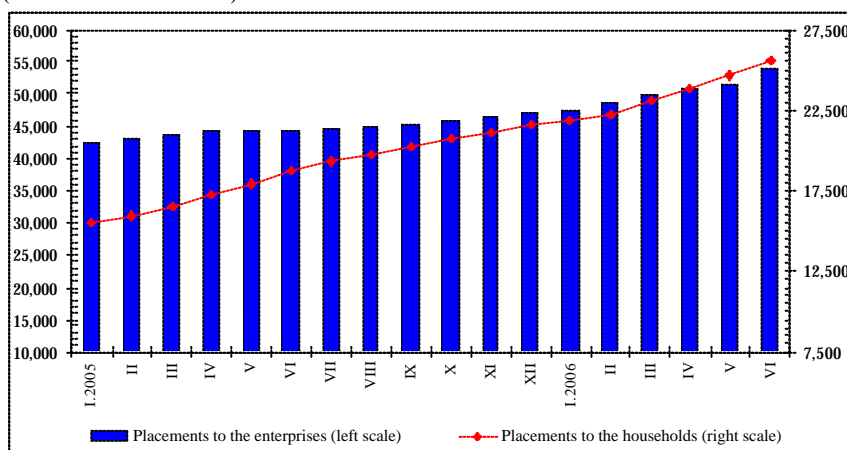
Figure 29
Quarterly changes in each component of the total credits
(in millions of denars)



Source: National Bank of the Republic of Macedonia.

Typical for the second quarter of 2006 was the further acceleration of the demand for Denar credits, with stronger preference of the private sector to borrow on a long run. Consequently, the Denar³⁰ and long-term credits had a dominant effect on the increase in the total credits, contributing with 69% and 62.8%, respectively, to the quarterly change in the total credits. The analysis of the quarterly changes within the maturity and currency of denomination structure of the total placements in the previous and current year shows remarkably faster growth in the Denar placements in the first two quarters of 2006. Such developments mainly reflect the higher demand for Denar credits by the enterprises, indicating the preferences of the corporate sector to borrow in domestic currency (this refers to borrowings on the basis of foreign currency indexed or foreign currency non-indexed loans).

Figure 30
Bank placements by sector
(in millions of denars)



Source: National Bank of the Republic of Macedonia.

Higher lending to households and enterprises

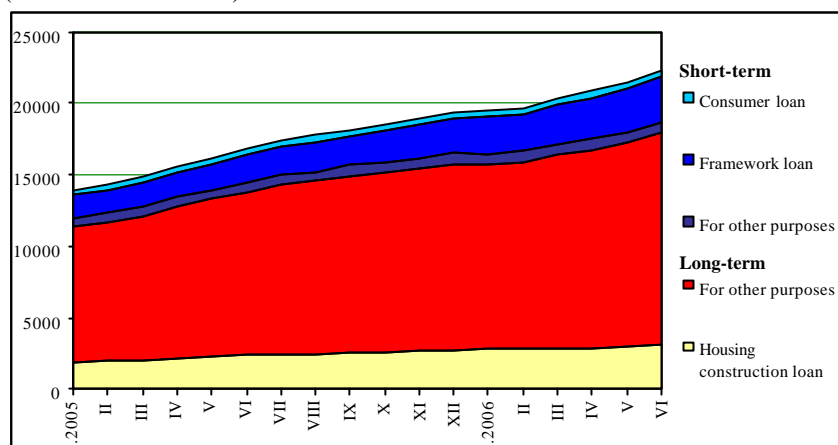
In the second quarter of 2006, the banks continued replenishing the financial potential of the households by approving credit commitments³¹, housing credits and credits for other purposes. Thus, at the end of June 2006 compared to the end of the preceding quarter, the total placements to the

³⁰ Includes foreign currency indexed placements.

³¹ Current account overdrafts.

households surged by 10.9%. This quarter witnessed the fastest long-term lending to the households in domestic currency, which is an additional incentive, encouraging the demand, and indirectly, the investment activity in the country. The increase in the short-term lending to the households is mostly generated from the higher level of credit commitments (contributing with 79.7% to the increase in the total short-term lending to the households), predominantly owing to the simple administrative borrowing procedure. On annual basis (June 2006 / June 2005) the total placements to the households went up by 37.1%.

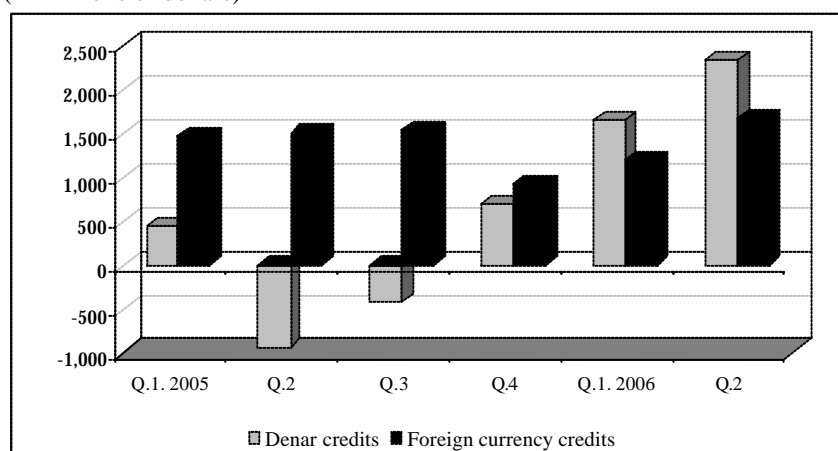
Figure 31
Distribution of Denar credits to the households by type of credit
(in millions of denars)



Source: National Bank of the Republic of Macedonia.

The analysis of the quarterly dynamics of the credits to the households indicates relatively high inelasticity of the credit demand by the households to the changes in the interest rates. Notwithstanding the high interest rates (registering a downtrend in 2006), the credit exposure of the banks to the households permanently enhanced. The poor responsiveness of the household credits to the interest rates could be explained, in part, with the dominant relevance of the amount of monthly installment of credit repayment to the decision of the households to borrow, and the significance of the bank credits as a crucial additional source of financing the personal consumption of the households.

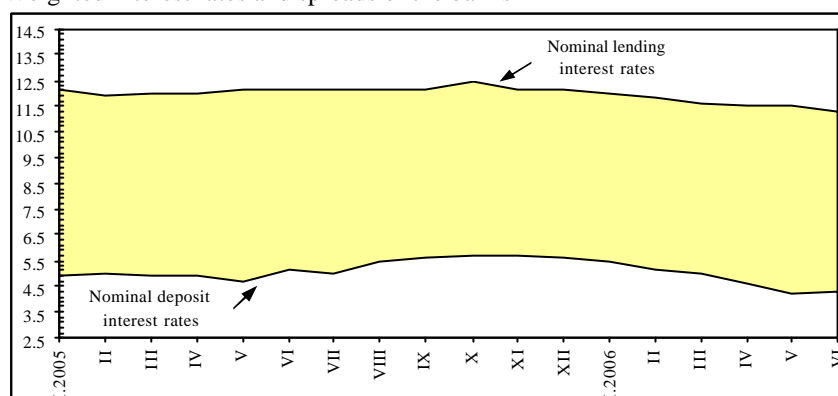
Figure 32
Quarterly change in Denar and foreign currency credits of the enterprises
(in millions of denars)



Source: National Bank of the Republic of Macedonia.

In environment of underdeveloped and shallow financial market, the bank credits constitute important source of additional financing of the enterprises. Consequently, the total placements to the enterprises also grew quarterly by 8.1% in the second quarter of 2006, contributing with 61.5% to the increase in the total placements. Analyzing the currency of denomination structure, the Denar placements, after the rapid increase in the previous quarter, kept on growing in fast pace in the second quarter of 2006, contributing with 58.5% to the quarterly change in the total placements to the enterprises. Thus, the accelerating trend of the demand for Denar credits by the enterprises, that started in early 2006 carried on. The growing importance of the Denar lending to the enterprises is also confirmed by its share in the growth in the total Denar credits. Thus, 54.8% of the growth in the total Denar credits in the first half of 2006 is credits placed to the corporate sector, unlike 2005, when the Denar placements to the enterprises had adverse effect on the annual growth in the total Denar placements. The analysis of the maturity structure shows faster increase in the long-term placements, compared to the increase in the short-term placements, causing positive movements in the maturity structure of the total placements to the enterprises evident through the higher share of the long-term placements. The annual growth rate of the total placements to the enterprises equals 21.9%.

Figure 33
Weighted interest rates and spreads of the banks*



* Pertain to Denar loans and deposits in any maturity and sector, including the foreign currency indexed loans and deposits.

Source: National Bank of the Republic of Macedonia.

Moderate reduction in the banks' interest rates in the second quarter

In the second quarter of 2006, the banks' interest rate policy registered positive changes directed towards moderate decreasing of the banks' Denar interest rates. Thus the average weighted lending interest rate on Denar credits in any maturity and sector in June 2006 equaled 11.3%, compared to 11.6% in March 2006. Analyzing the lending interest rates on Denar credits, significant reduction was registered in the interest rate on short-term non-indexed credits to the households (from 18.4% in March 2006 to 17.7% in June 2006). The average weighted Denar deposit interest rate in any maturity and sector equaled 4.3% in June 2006, which is a quarterly drop of 0.7 percentage points. The faster decrease in the deposit relative to the decrease in the lending interest rate resulted in broadening of the interest spread, equaling 7.1 percentage points on average in the second quarter (6.6 percentage points in the preceding quarter). The average weighted interest rates on foreign currency credits and deposits in any maturity, sector and currency surged quarterly by 0.1 percentage point, equaling 8% and 1.5%, respectively, in June 2006.

**Attachment 4****Summary of the results from the Credit Activity Survey as of June 2006³²**

Almost half of the banks find *the terms for lending to the corporate sector* unchanged in the second quarter of 2006, whereas the other half of the banks subject to the survey find them partially relaxed. More than half of the banks indicate the liquidity position of the bank, the competition of other banks, and the positive perceptions for the overall economic activity and the perspectives of the branch the enterprise belongs to *as factors that partially contributed to the relaxing the lending terms*. As to certain *specific terms*, 53.3% and 20% of the banks show partial, i.e. considerable reduction in the interest rates. The banks' answers regarding the *effects of the monetary policy*, primarily refer to partial or inconsiderable effect of the monetary policy on the banks' interest rate policy.

Analyzing the assessment of the clients' creditworthiness, as exceptionally relevant factors in the assessment of the creditworthiness of the enterprises, most banks indicate that they learn about the client through the business relation, the estimated financial reliability of the client, the quality of the investment project and the quality of the company management. Half of the banks indicate the loyalty to the bank, the capital power of the client and their revenues as important factors.

On the credit demand side of the corporate sector in the second quarter of 2006, except for the demand for credits by large enterprises, which is considered unchanged by 64.3% of the banks, the answers regarding other types of credits almost identically range between unchanged and partially increased demand. Most banks indicate the needs for financing in fixed assets and working capital as factors that partially contribute to the increase in the credit demand.

The banks for the third quarter of 2006 expect that the lending terms will remain unchanged, and 66.7% of the banks expect partial increase in the credit demand.

In the second quarter of 2006, most of the banks see *the changes in terms for lending to the household sector* as directed towards higher degree of relaxation. This is particularly evident in the consumer credit segment, where 66.7% of the banks partially relaxed the lending terms. The competition of other banks is considered to be *a factor that partially, i.e. considerably contributes to the relaxation of the lending terms for consumption purposes* (66.7% and 20% of the banks, respectively). *Observing the specific requirements for approving consumer credits*, 40%, i.e. 26.7% of the banks indicate to the partial, i.e. considerable reduction in the interest rate. Same as to the segment of lending to the corporate sector, the answers of the banks regarding this segment of the lending market as to the *effects of the monetary policy*, mostly refer to partial or inconsiderable effect of the monetary policy changes to the banks' interest rate policy.

In the second quarter of 2006, most banks point to the partial *increase in the demand for housing credits and consumer credits*, considering that the perspectives on the housing construction market, the confidence of the consumers and the needs for financing the consumption of durable goods are factors that acted towards this direction.

Analyzing the expectations for the third quarter, approximately half of the banks expect no changes in the lending terms, and almost two thirds of the banks

³² Credit activity survey was conducted in July 2006 for the first time and refers to the performances in the second quarter and the expectations for the third quarter of 2006. The survey will be conducted on a regular quarterly basis. The first Survey covered 16 banks, and answers were obtained by 15 banks.

expect partial increase in the demand for credits in the third quarter of 2006, with such expectations referring to all segments of the household lending market.

7.

Financial markets

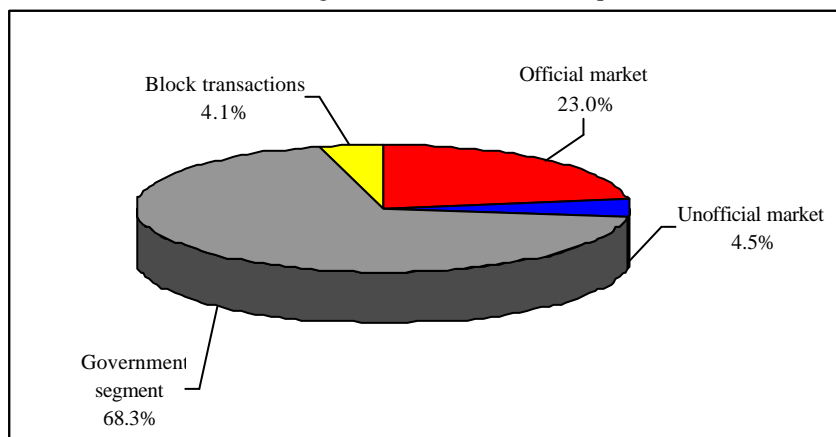
7.1. Stock Exchange

Fall in the total Stock Exchange turnover in the second quarter of 2006...

The total Stock Exchange turnover (including block-transactions and government segment) in the second quarter of 2006 dropped by 30% relative to the preceding quarter. The fall is due to the high comparison base, i.e. the exceptionally high Stock Exchange activity in the first quarter due to the executed block-transactions on the official and unofficial market segment of the Stock Exchange used for selling the government shares in AD „ESM - Distribucija“ to foreign investor. Thus in the second quarter of 2006, the turnover from the classical stock trade (without block-transactions) increased by 23.7% relative to the first quarter of the year, with 25.2% higher average daily Stock Exchange turnover and 153 transactions executed daily, on average. The quarterly increase in the trade on the Stock Exchange is primarily a result of the turnover on the government segment by public Stock Exchange auctions, predominantly due to the sale of one package of shares (of 9.9%) of Macedonian Telecommunications AD Skopje, the sale of stakes of JZU "Gradska apteka" Skopje, the sale of packages of shares held by PIOM, and due to the public Stock Exchange auctions in shares of several banks held on the government trade segment.

The sale of a part of the government shares in Macedonian Telecommunications contributed the most to the higher turnover on the government segment. On May 13, 2006, the Ministry of Economy announced the sale of 45.125% of common shares of Macedonian Telecommunications AD Skopje in state ownership, offered at public auctions of the Macedonian Stock Exchange from June 5 to 9, 2006. Of the four offered packages of shares (making up 9.9% each, of the offered shares), only one package of shares was sold in the amount of Denar 3.6 billion (Euro 60.3 million, with the same company being the purchaser). Of the remaining 5.525% shares offered for free sale, 0.9% were sold, valued at Denar 153.8 million.

Figure 34
Structure of the Stock Exchange turnover in the second quarter of 2006



Source: Macedonian Stock Exchange AD Skopje.



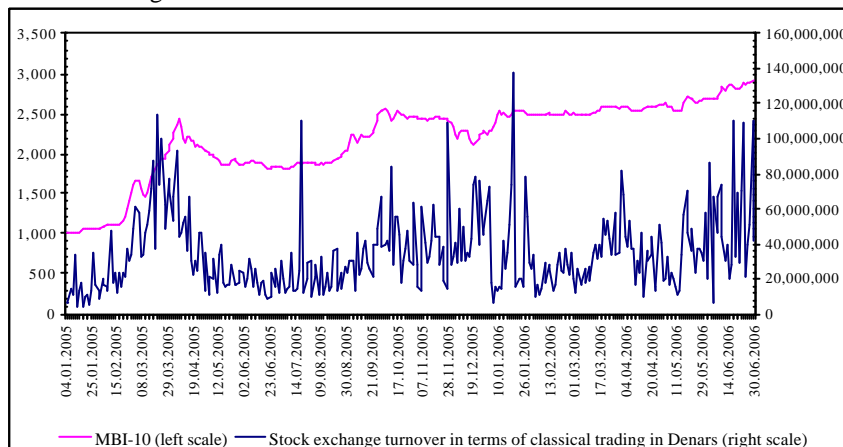
Considerable increase in the turnover realized through classical stock trade...

Also, the trade in shares of the companies listed at the Stock Exchange and in government bonds was considerably larger. The sale of shares, particularly the listed banks in April and May were one of the driving forces of the rapid increase in the turnover in the observed period. The trade in the denationalization bond of the fifth issue significantly contributed to the higher trade in government bonds, sold at relatively high market price relative to the nominal value. The investment decisions of the buyers and sellers of shares at the Stock Exchange was under the influence of the general political and economic environment in the country, the announcements for taking over the companies by strategic investors, and the Stock Exchange trends of the shares of similar companies in the region.

In June 2006, the share of foreign investors in the total turnover on the Stock Exchange equaled 7.60% as purchasers and 1.54% as sellers³³. At the end of June 2006, compared to the end of March 2006, the share of foreign investors in the total capital of all companies listed at the official Stock Exchange market and the total nominal value of the listed bonds slightly increased³⁴ (14.90% in June, compared to 14.32% at the end of March 2006), 12.56% of which are within ownership of foreign legal entities, and the remaining 2.34% are owned by foreign natural persons. At the end of June 2006, the foreign legal entities and natural persons made up 16.81% and 1.06%, respectively of the total capital of the listed companies, while the share in the nominal value of the listed bonds equals 6.17% and 4.27%, for foreign legal entities and natural persons, respectively.

At the end of June 2006, fifty joint stock companies were listed on the official market segment of the Stock Exchange, which is the same as of March 2006.

Figure 35
Macedonian Stock Exchange Index (MBI-10) and Stock Exchange turnover realized through classical stock trade



Source: Macedonian Stock Exchange AD Skopje.

...and new record values of the Stock Exchange Index

In April and May, the Macedonian Stock Exchange Index MBI-10³⁵, in general, registered an uptrend, also registering some periods of stagnation and decrease. On the other hand, June witnessed rapid increase in the index, with short-term falls in the value being registered only in the period after the excessive increase in the index. On June 30, 2006, the value of the Stock Exchange index equaled 2,911.68, and on June 29, 2006, it registered a record value since the beginning of 2005, reaching 2,912.49. The value of the index at

³³ According to data from the Central Securities Depository.

³⁴ According to data from the Central Securities Depository.

³⁵ Price index weighted by market capitalization, constructed on the basis of common shares of ten companies listed on the official market.

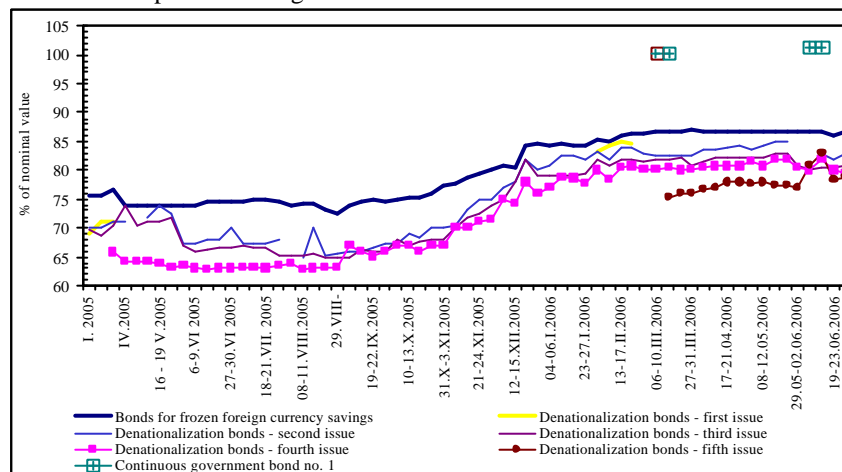
the end of the second quarter of 2006, compared to the end of the preceding quarter indicates to average increase of 12.31% in the prices of shares of the ten companies that constitute the index. In line with such trend, the market capitalization of the ten most liquid companies listed at the official market segment in the second quarter of 2006 amounts to Denar 28,416.6 million, compared to Denar 25,637.2 million at the end of the preceding quarter.

7.2. Government securities market

In the second quarter of 2006, *government bonds* valued at Denar 789.8 million were traded at the official market of the Stock Exchange, which is by 13.3% more relative to the traded amount in the preceding quarter. The increase is primarily due to the transactions in denationalization bonds of the fifth issue, accounting for the largest part of the turnover, and the investments of the private pension funds.

In this quarter, the price of the government bonds ranged from 76.7% (Denationalization bond of the fifth issue) to 101.6%³⁶ of the nominal value (Continuous bond no.1).

Figure 36
Movement of prices of the government bonds



Source: Macedonian Stock Exchange AD Skopje.

At the session held on June 26, 2006, the Board of Directors of the Macedonian Stock Exchange made decisions on listing the Continuous government bond no.1³⁷ in 2006, Bonds for rehabilitation of Stopanska banka AD Skopje³⁸ and Bonds for compensating the selective credits of the NBRM³⁹,

³⁶ The interval has been set in accordance with the latest average weekly price of trade in the bonds within the quarter under observation.

³⁷ The Continuous government bond no.1 was issued on May 3, 2006 in the total amount of Denar 250.01 million, listed on the Stock Exchange on June 28, 2006, and on July 1, 2006 it started being traded on the over the counter market. The nominal value of one bond is Denar 10,000, with a coupon interest rate of 9% p.a., and the nominal value will be paid in a period of two years after the issuance of the bond, and the interest will be paid once a year within a period of two years.

³⁸ The bonds for rehabilitation of Stopanska banka AD Skopje were issued on March 16, 1995 in a total value of Denar 1,302.6 million. On June 1, 2006, they were registered in the Central Securities Depository for their dematerialization, and started being listed on the Stock Exchange on June 28, 2006, and on July 1, 2006 they started being traded on the over the counter market. The nominal value of one bond is one denar, with an interest in the amount of the NBRM discount rate, with the principal being paid in equal annual installments (in April) to 2010 inclusive, and the interest will be paid once a month.

³⁹ The bonds for compensating selective credits of the NBRM were issued on March 16, 1995 in a total value of Denar 1,039.3 million. On June 1, 2006, they were registered in the Central Securities Depository for their dematerialization, and started being listed on the Stock Exchange on June 28, 2006, and on July 1, 2006 they started being traded on the over the counter market. The nominal



issued by the Republic of Macedonia. Also, on June 30, 2006, the Stock Exchange started calculating and disclosing the Bond Index on the Macedonian Stock Exchange AD Skopje (OMB).⁴⁰

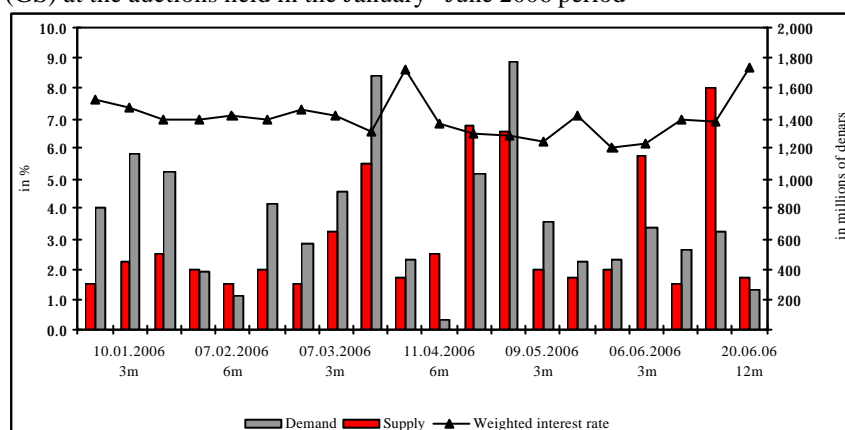
In the second quarter, the demand exceeded the supply of three-month treasury bills

In the second quarter of 2006, in line with the previously determined calendar for issuance of government securities⁴¹, six auctions of three-month treasury bills were held on the primary government securities market. The total offered amount of three-month treasury bills⁴² equaled Denar 6,219.8 million, Denar 5,286.9 million were demanded, and the total realization equaled Denar 4,469.7 million. The average weighted interest rate on three-month treasury bills at the auctions held in the second quarter equaled 6.41%, compared to 6.92% in the first quarter of 2006.

In this quarter, the realized amount ranges from 68.5% in May to 100% of the demanded amount of three-month government securities in June. Unlike in April and May, when the demand exceeded the supply, in June the offered amount exceeds the demand by more than twice, with the supply of three-month government securities not being fully absorbed by the end investors at the two auctions held in June.

Figure 37

Supply, demand and average weighted interest rate on government securities (GS) at the auctions held in the January - June 2006 period



Source: Ministry of Finance of the Republic of Macedonia.

In the second quarter, the supply and the demand for six-month treasury bills are relatively balanced

Three auctions of six-month treasury bills were held in this quarter. The total supply was valued at Denar 1,150.0 million, and the demand equaled Denar 1,042.7 million. Analyzing by month, except for April when the supply exceeded the demand by 7.5 times, May and June witnessed higher demand by the investors, so that the demanded amount exceeded the one offered. The average weighted interest rate on six-month treasury bills at the auctions held in this quarter equals 7.02%, compared to 7.34% in the first quarter of 2006.

One auction of twelve-month treasury bills was held in the second quarter of 2006. At this auction, the realization was in the amount of the demand, with higher amount being supplied relative to the one demanded. The average weighted interest rate on the auction equaled 8.66% (8.62% on the one-year treasury bills auction in the first quarter of 2006).

value of one bond is one denar, interest-free, and the nominal value will be paid out right on April 1, 2020.

⁴⁰ The OMB index is composed of bonds for old foreign exchange savings and denationalization bonds of the 1st, 2nd, 3rd, 4th and 5th issue, and the initial value of the OMB is 100. The OMB is a price index weighted by the turnover, with a restriction according to which the share of none of the bonds within the index structure is not allowed to exceed 30%.

⁴¹ The calendar of auctions of government securities is made public in advance for a period of six months, and the precise amount for each auction is made public four days prior to the auction.

⁴² Including government securities for monetary purposes.

Attachment 5

Analysis of the spread between the maximum and minimum interest rate on the auctions of short-term government securities

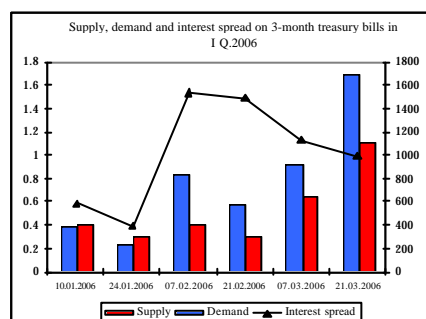
The spread between the maximum and the minimum interest rate on the auctions of short-term government securities is primarily determined by the relation between the supply and the demand, and by the efficiency of the commercial banks when informing the clients. The presented analysis refers to auctions of three- and six-month treasury bills, with the twelve-month treasury bills being excluded from the analysis, considering the low number of held auctions.

In general, if the demand is much lower than the supply at the auctions, a supply might be realized with high interest rate, thus increasing the spread. Inversely, when the demand is much higher than the supply, it is less likely that the supply would be realized at extremely high interest rate, so the interest spread is expected to be lower. If there is permanently higher supply than demand, these interest rates are likely to increase, therefore it is hardly to predict what would happen with the spread. But yet, it is more likely the spread to widen, rather than to narrow, considering that the maximum interest rate would have a tendency of faster increase than the minimum one. Conversely, if the demand is continuously higher than the supply of short-term government securities, in spite of the expectations for narrowing the spread, it is much likely the minimum, maximum and the average weighted interest rate to reduce.

Figure 38

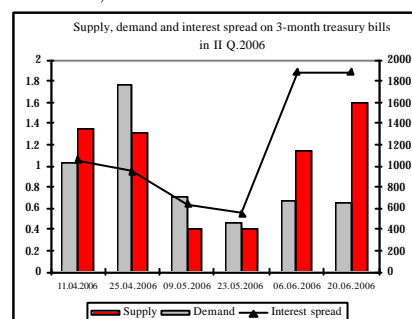
Supply, demand and interest spread at each three-month government securities auctions held in the first and the second quarter of 2006

Average supply < average demand
Denar 525 million < Denar 767 million



Average interest spread 1.02 p.p.

average supply > average demand
Denar 1,034 million > Denar 881 million



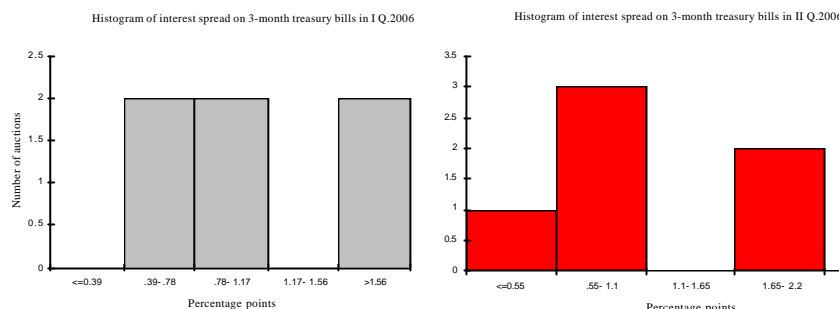
Average interest spread 1.16 p.p.

Source: Ministry of Finance of the Republic of Macedonia.

At the auctions held in the second quarter of 2006, the average supply of three-month government securities exceeded the demand, thus broadening the average interest spread. The narrower average interest spread in the first quarter indicates larger demand than supply of three-month government securities.

Figure 39

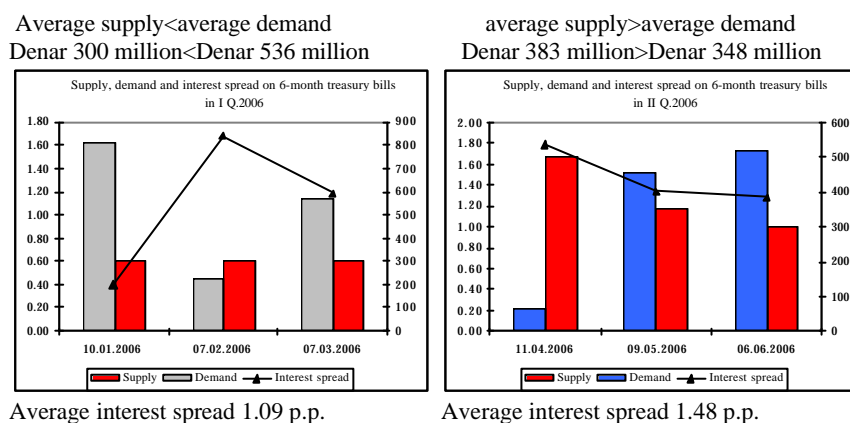
Histogram for the movement of the spread between the maximum and the minimum interest rate at the three-month government securities auctions held in the first and the second quarter of 2006



As to the spread variability, the histograms indicate that the interest spread at the auctions of three-month government securities held in the first and the second quarter of 2006 exceed 1.2 percentage points at only one third of the held auctions.

Figure 40

Supply, demand and interest spread at each six-month government securities auctions held in the first and the second quarter of 2006

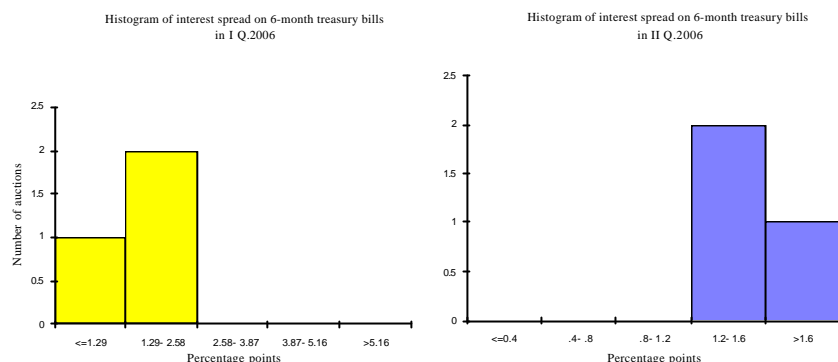


Source: Ministry of Finance of the Republic of Macedonia.

At the auctions held in the second quarter of 2006, the average supply of six-month government securities exceeded the demand, thus broadening the average interest spread. On the other hand, the narrower average interest spread in the first quarter indicates considerably larger demand than supply of six-month government securities.

Figure 41

Histogram for the movement of the spread between the maximum and the minimum interest rate at the six-month treasury bills auctions held in the first and the second quarter of 2006

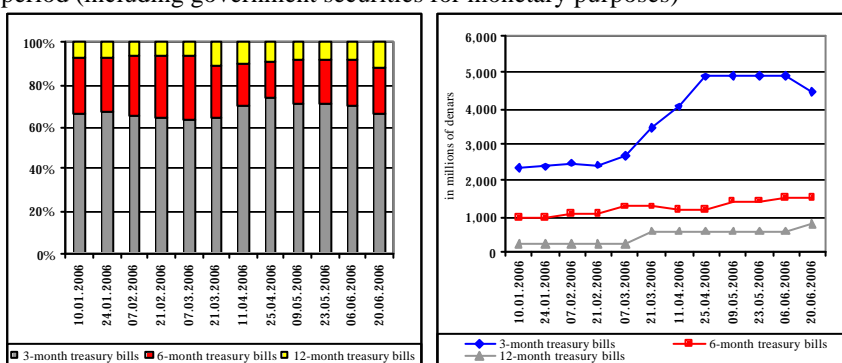


The histograms indicate that the spread between the maximum and the minimum interest rate at all auctions of six-month treasury bills held in the second quarter exceed 1.2 percentage points, while at two thirds of the held auctions of six-month bills in the first quarter, the interest spread was maintained over the level of 1.2 percentage points. This means that the interest spreads of six-months bills in the second compared to the first quarter of 2006 are more concentrated in the zone of higher interest spreads (that is higher than 1.2 percentage points). Comparing to the spreads of three-month government securities, generally it could be ascertained that the interest spreads of six-month treasury bills are maintained at higher level, primarily reflecting less stable demand for higher-maturity government securities.

On June 30, 2006, the total amount of issued, undue three-month, six-month and twelve-month government securities amounts to Denar 6,824.3 million, including the three-month treasury bills for monetary purposes⁴³. The three-month bills dominate making up 65.5%, 59.7% (Denar 2,669.7 million) of which are issued, undue three-month treasury bills for monetary purposes.

Figure 42

Structure and amount of undue government securities in the January - June 2006 period (including government securities for monetary purposes)



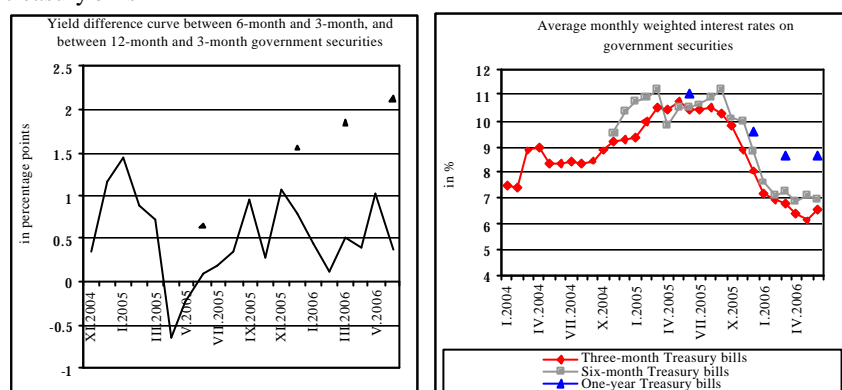
Source: Ministry of Finance of the Republic of Macedonia.

⁴³ Note: the amount of three-month treasury bills also includes the amount of three-month government securities for monetary purposes. The most important difference between these two types of securities is that according to the Law on Public Debt, the government securities for monetary purposes are not considered a part of the public debt since they are issued for the purposes of the monetary policy. In addition, the government is not entitled to hold the funds withdrawn through the issue of treasury bills for monetary purposes, which is a major reason for treating the securities as a form a quasi-monetary operation.

The rate of return of the treasury bills represents a basic or minimum interest rate, considering that it is a risk-free investment, with the government playing the role of issuer. The interest rates on treasury bills in different maturity act, in general, in a same direction, with a possibility of exceptions. The treasury bills with longer maturity bear higher return, proportionately to the larger risk premium, considering the longer maturity period. The yield curve of the short-term treasury bills in the second quarter registers an uptrend, therefore considered to be a normal yield curve. Such shape of the yield curve, in the case of progressive growth in the interest rates along with the length of the maturity period, indicates that the investors expect the economy to grow without significant shocks in a perspective of one year (considering the short run of the treasury bills, i.e. of the twelve-month investment horizon).

Figure 43

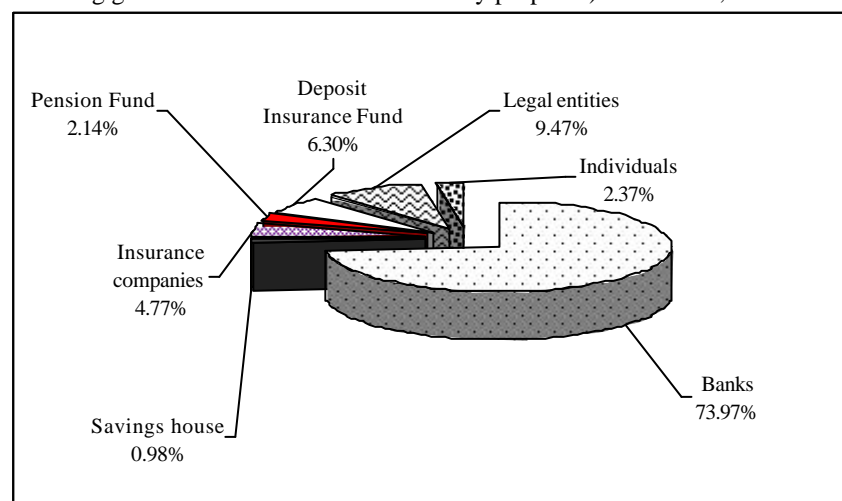
Curve of yield differences between the three-month and six-month treasury bills and movement of the average monthly weighted interest rates on short-term treasury bills



Analyzing the ownership structure the total amount of short-term government securities, the banks dominate constituting 74%, followed by non-financial legal entities that make up 9.5% and the Deposit Insurance Fund accounting for 6.3%. The two private pension funds make up, jointly, 2.14% of the investments in short-term government securities.

Figure 44

Ownership structure of treasury bills (3-m, 6-m and 12-m, government securities including government securities for monetary purposes) on June 30, 2006



Source: Ministry of Finance of the Republic of Macedonia



In the second quarter of 2006, purchase and sale transactions in short-term treasury bills were concluded on the over the counter market⁴⁴ in the amount of Denar 12.4 million, Denar 9.6 million of which are bills with residual maturity of one to three months, and Denar 2.8 million are from the trade in bills with residual maturity of up to one month.

8.

Balance of payments

Favourable movements evidenced through the decrease in the deficit on the balance of payments' current account were registered in the external sector in the second quarter of 2006 in comparison with the same period of the previous year, primarily as a result of the continuous increase in the foreign exchange inflows from private transfers. The decrease in the current account deficit was contributed also by the favourable movements in the trade of services and income. Simultaneously, the higher deficit in the trade of goods is accompanied with higher diversification of the exported products, as well as with the higher import of equipment and raw materials. From the aspect of financing, further increase in the inflows based on portfolio investments in the capital and the financial account in the second quarter of 2006 was recorded, while within the debt financing, more intensive debiting of the private sector resulted in increase in both long-term and short-term external debt. The favourable movements in the total transactions on account of the economic relations with abroad in the second quarter of 2006 resulted in increase in the gross foreign reserves.

8.1. Current account

Annual drop in the current account deficit of 43.5% in the second quarter of 2006 was registered

In the second quarter of 2006, 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 lower deficit in the trade of services and income. Thus in the second quarter of 2006, deficit in the amount of Euro 49 million was registered, which is lower by Euro 37.8 million and Euro 95.5 million compared to the same period of 2005 and 2004, respectively.

Table 4
Balance of payments' current account / I
(in millions of Euros)

	2005				2006		2006-2005		2006-2005	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.1	Q.2	Q.1	Q.2
							difference		changes in (%)	
Goods, net (f.o.b.)	-145.5	-272.0	-188.4	-247.4	-204.8	-287.6	-59.4	-15.6	40.8	5.7
Services, net	-2.9	-13.1	9.4	-20.7	-5.1	-4.2	-2.2	8.8	77.5	-67.5
Income, net	0.5	-16.3	-36.8	8.2	5.3	-4.2	4.7	12.1	912.0	-73.9
Current transfers, net	131.9	214.6	280.7	236.0	185.3	247.1	53.3	32.5	40.4	15.1
Current account	-15.9	-86.8	64.8	-24.0	-19.4	-49.0	-3.5	37.8	22.2	-43.5

1/ Preliminary data.

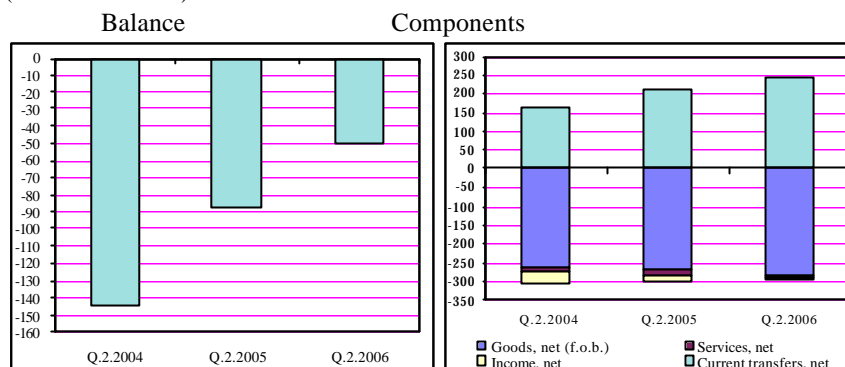
Source: National Bank of the Republic of Macedonia.

Observed from the aspect of the current account components, the highest contribution to the decrease in the current account deficit in the second quarter of 2006 accounts for the higher net inflows originating from private transfers (by Euro 29.5 million). Among other components, the reduced negative balances in both income and services balance (by Euro 12.1 million and Euro 8.8 million) acted in the same direction. Simultaneously, in terms of larger increase

⁴⁴ The over-the-counter market was officially commissioned on April 25, 2005, and the first transaction was concluded on May 18, 2005. The over the counter market serves for concluding purchase and sale transaction in securities outside the Stock Exchange and the Money and Short-term Securities Market. Till June 30, 2006, all short-term securities issued by the Republic of Macedonia were traded on the Market, and since July 1, 2006, in line with the amendments to Rule for the manner and procedure for trade in and settlement of securities transaction ("Official Gazette of the Republic of Macedonia" no.71/2006), the NBRM extended the regulations governing the trade in government securities on the over the counter markets and on long-term government securities (other than bonds for the old foreign currency savings and denationalization bonds).

(in the absolute amount) in the import than in the export of goods, higher deficit in the balance of goods is registered (by Euro 15.6 million, annually).

Figure 45
Balance and current account components
(in millions of Euros)



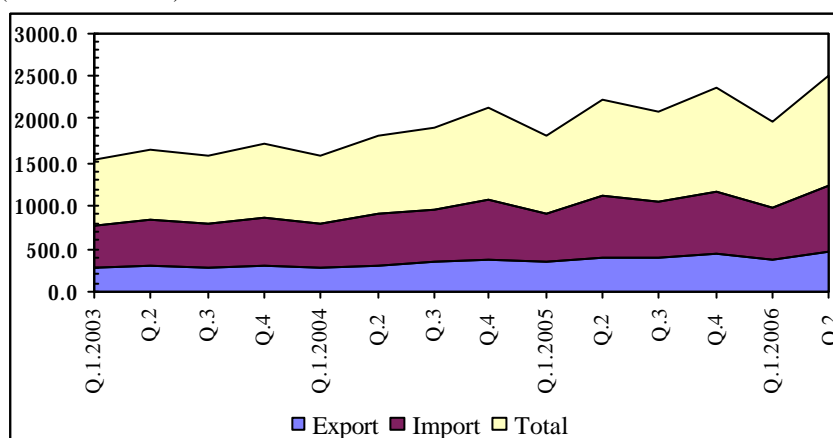
Source: National Bank of the Republic of Macedonia

a) Foreign trade

Annual increase in the total foreign trade of goods of 12.2% in the second quarter of 2006 was registered

The total foreign trade of goods of the Republic of Macedonia in the April - June 2006 period equals Euro 1,250.5 million⁴⁵, which is the highest quarterly amount realized since the independence. On annual basis, the foreign trade augmented by 12.2%, which is due to the increase in both its components (the export and the import of goods).

Figure 46
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

Annual increase in the export of goods of 14.5%...

In the second quarter of 2006, the export of goods went up by 14.5% and it equals Euro 465.6 million, which is the highest export realized on a quarterly basis since the independence. The second quarter is characteristic for the registered growth in the export with all export groups of products of higher importance.

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.

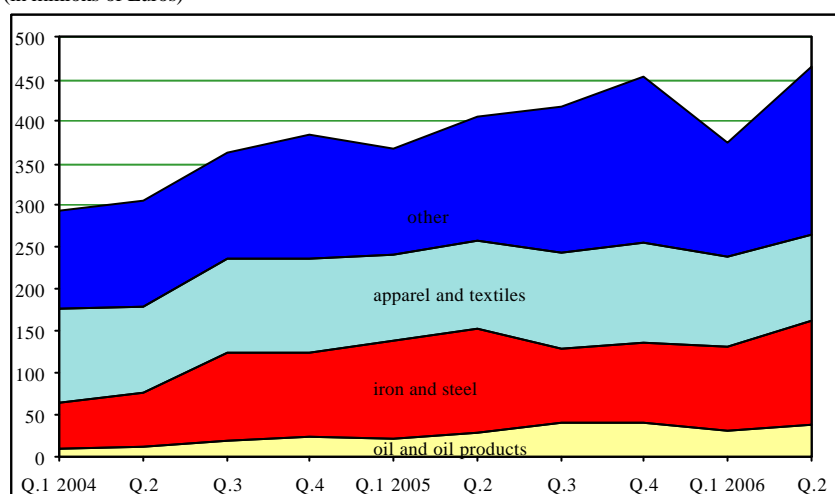
Table 5
Export by groups of products according to the SITC/⁴⁶

groups of products	Q.2 2006-Q.2 2005				Contribution to the increase in	
	Q.2 2005	Q.2 2006	2005	2006	Q.2 2005	Q.2 2006
	amount	amount	change in absolute amount	rates of change in (%)	structure in %	(%)
Total export of goods	406.6	465.6	59.0	14.5		
Fruits and vegetables	19.1	23.9	4.8	25.1	4.7	8.1
Beverages	13.7	19.7	6.0	43.4	3.4	10.1
Tobacco and products thereof	9.8	19.8	10.0	102.4	2.4	17.0
Metal ore and waste	4.2	16.0	11.7	277.4	1.0	19.9
Clothing and textile	104.1	104.3	0.3	0.2	25.6	0.4
Iron and steel	123.2	125.4	2.3	1.8	30.3	3.8
Oil and oil products	29.6	36.4	6.9	23.2	7.3	11.6

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

Observed from the aspect of the group of products of higher importance, it can be determined that the largest portion of the increase in the export in the second quarter (19.9% of the total increase) accounts for the higher export of metal ore (copper ore and concentrates), as a result of the continuing manufacturing and export activity of one mining facility of higher significance after it was re-started in May 2005. The contribution of the augmented export of tobacco and products thereof (completely due to the higher exported quantities) comprise 17% of the increase in the total export, while the incremented export of oil derivatives (in terms of reduced quantities is completely due to the higher prices) equaled 11.6%.

Figure 47
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 10.9%

In terms of intensified production and export economic activity, which is highly dependent on the import, as well as due to the reduced customs duties from the beginning of the year⁴⁷, in the second quarter of 2006, the import of goods went up by 10.9%, on annual basis, and it equals Euro 784.9 million.

⁴⁶ Standard International Trade Classification

⁴⁷ 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 being decreased 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 by 0.23 percentage points and in 2006 it equals 7.45%.



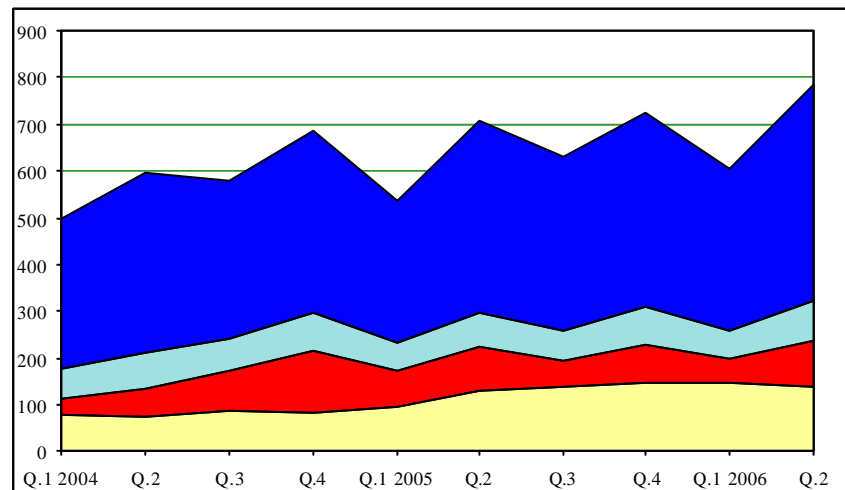
Table 6
Import by groups of products according to the SITC

groups of products	Q.2 2005	Q.2 2006	Q.2 2006/Q.2 2005		Q.2 2005	Q.2 2006	Contribution to the increase in Q.2 2006
	amount	amount	change in absolute amount	rates of change in (%)	structure in %	structure in %	(%)
Total import of goods	707.9	784.9	77.0	10.9			
Import of mineral fuels, lubricants, etc.	126.8	137.6	10.7	8.5	17.9	17.5	14.0
oil and oil products	93.8	95.8	1.9	2.1	13.3	12.2	2.5
gas - natural or industrial	4.5	7.4	2.9	64.2	0.6	0.9	3.8
electricity	21.6	27.7	6.0	27.9	3.1	3.5	7.8
Products sorted by material	218.8	245.7	26.9	12.3	30.9	31.3	34.9
Iron and steel	74.2	80.8	6.6	8.9	10.5	10.3	8.5
Textile yarn, etc.	69.1	76.3	7.2	10.4	9.8	9.7	9.3
Non-ferrous metals	8.7	14.0	5.4	61.8	1.2	1.8	7.0
Machinery and transport equipment	125.9	157.1	31.2	24.7	17.8	20.0	40.4
Special machinery for the industry	13.2	19.9	6.6	50.2	1.9	2.5	8.6
Electrical machinery, parts - n.e.c.	17.2	20.6	3.4	19.7	2.4	2.6	4.4
Road vehicles	39.0	45.5	6.6	16.8	5.5	5.8	8.5
Other transport equipment	9.0	20.8	11.8	130.9	1.3	2.7	15.3

Source: State Statistical Office; the NBRM calculations in Euros

Analyzed from the aspect of more important groups of products, the largest contribution to the increase in the import accounts for the higher import of machines and transport equipment (of 40.4%). Within this group of products, the largest contribution to the intensification of the total import accounts for the import of other transport equipment⁴⁸, road vehicles, special machines for industry and electrical machines. Within the group of products classified by materials, the largest participation in the increase in the import accounts for textile and yarn (for the purpose of the tolling manufacturing), iron and steel and non-ferrous metals, the share of which equals 9.3%, 8.5% and 7%, respectively. The higher import of mineral fuels in the second quarter comprises 14% of the increase in the total import. Within individual types of energy sources, the largest increment was recorded in the import of electricity, as a combined effect of the augmented imported quantities and higher price, while the increase in the import and oil products is completely caused by the increase in the price on the international stock exchanges, in terms of a drop in the imported quantities.

Figure 48
Import timeframes by groups of products
(in millions of Euros)



Source: State Statistical Office; the NBRM calculations in Euros

Higher trade deficit on annual basis of 6%

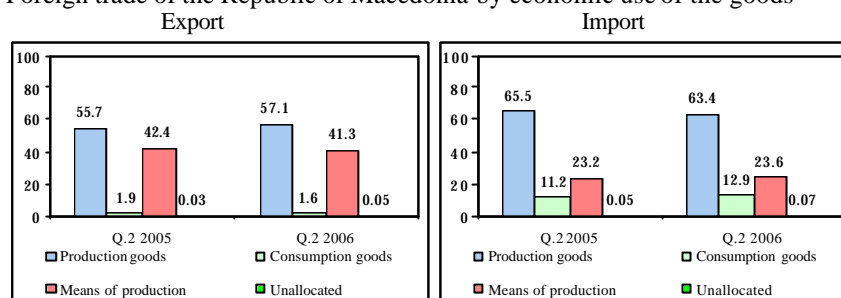
In terms of intensified absolute annual increase in the import relative to the export, high trade deficit of 6% is registered and it equals Euro 319.2 million. Simultaneously, the export - import coverage ratio equals 59.3%.

⁴⁸ In April 2006, one-time import of passenger airplane was realized.

Dominant share of the production materials

The analysis of the foreign trade from the aspect of the economic use of products points to the largest share of the production materials⁴⁹, the share of which in the export and import structure equals 57.1% and 63.4%, respectively, while a significant part accounts for the consumer goods with a share of 41.3% and 23.6% on the side of the export and the import, respectively. The analysis from the aspect of the dynamics indicates that on annual basis, changes towards higher presence of the production materials (in terms of intensified activity in both mining sector and metallurgy) by 1.4 percentage points was registered in the second quarter of 2006. On the side of the import, increase in the means of operations of 1.7 percentage points annually was recorded (as a positive signal for the enhanced economic activity in the following period).

Figure 49
Foreign trade of the Republic of Macedonia by economic use of the goods



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

The European Union - dominant trade partner

Analyzed from the aspect of the geographic distribution of the foreign trade by the economic groups of countries, the dominant share of 49% accounts for the European Union. This economic group also dominates in the total export and import of goods (54.4% and 45.8%, respectively). A significant share of the total trade of goods is also realized with the former SFRY republics (21.4%) and with the countries of Central and Eastern Europe (18.4%). The analysis according to the dynamics shows structural changes towards higher orientation to the European Union markets (by 1.7 percentage points).

During the analyzed period, the most significant trading partners of the Republic of Macedonia are Serbia and Montenegro, Greece and Germany, the share of which in the total foreign trade equals 37.3%. The highest surplus (Euro 55.8 million) and the highest export - import coverage ratio (198.1%) are registered with Serbia and Montenegro, which is mainly due to the higher import of oil derivatives. On the other hand, the largest deficit in the total trade in the amount of Euro 73.5 million is registered with Russia. Within the ten the most important trading partners, the lowest export - import coverage ratio is realized in the trade with China (of 3.5%), due to the continuous increase in the import of goods from this country.

b) Other components of the current account

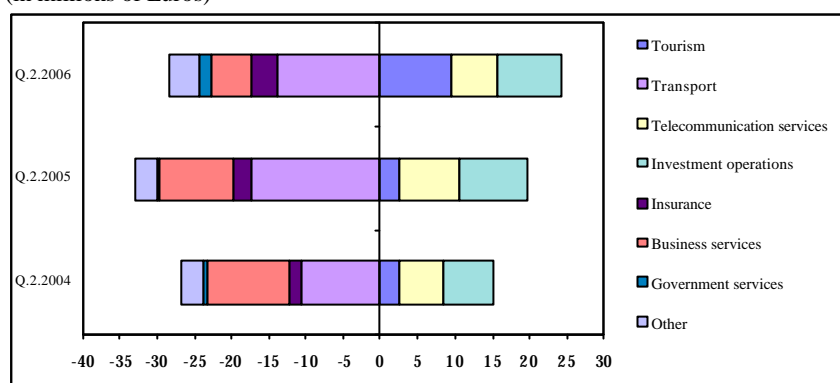
Lower services deficit...

In the second quarter of 2006 decrease in the deficit in the trade of services was registered, which is a result of the faster increase in the inflows compared to the increase in the outflows of services (of Euro 18 million and Euro 9.1 million, respectively). The main reason for the increase in the total inflows based on services accounts for the higher inflows from realized traveling of non-residents to the country (from personal or business objectives) and realized transport of goods to abroad by domestic transporters (a share of 45.8% and 42.2% in the increase of the total inflows originating from services). In the

⁴⁹ Production materials include raw materials and intermediary products, machine fuel and finished production materials

second quarter of 2006, the inflows based on traveling (tourism) surged by Euro 8.2 million, compared to the second quarter of 2005, and it reached Euro 23.7 million. This is the highest quarterly amount since 2003, which points to the enhanced attractiveness of the country as traveling and business destination (including higher inflows based on games of chance and turnover based on payment cards). Simultaneously, the increased inflows from the realized transport services (by Euro 7.6 million in comparison with the same quarter of 2005) are caused by the intensified export activity in the country. Analyzed on net basis, i.e. having in mind also the outflows for traveling of the Macedonian citizens abroad, the registered surplus with the category "tourism" surged on an annual basis (by Euro 6.9 million). Contemporaneously, the net deficit with the transport plunged by Euro 3.5 million.

Figure 50
Balance of certain service categories
(in millions of Euros)



Source: National Bank of the Republic of Macedonia.

...also in the income sub-balance

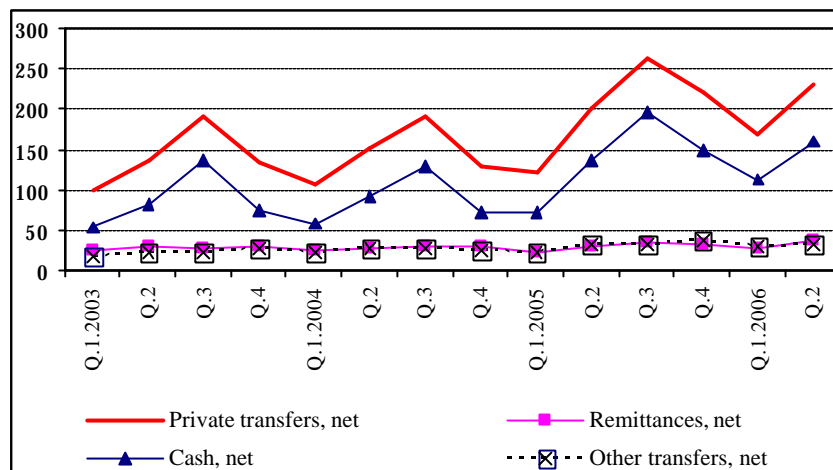
In the second quarter of 2006, the *income* sub-balance registered a lower annual deficit of Euro 12.1 million. In environment of increase in the inflows based on wages and other compensations for employed residents (of Euro 2.3 million), which is neutralized by the augmented payments of interest in identical amount, with the lower amount of paid dividend to foreign investors of direct investments in the country (by Euro 11.6 million) being the main cause for the smaller payments in the second quarter of 2006.

Higher net-inflows from current transfers

The net-inflows from *current transfers (official and private)* in the second quarter of 2006 reached Euro 247.1 million, which is an increase of Euro 32.5 million compared to the same period of 2005. Having in mind small increase in the net-inflows based on official transfers (of Euro 3 million), the largest importance for the increase in the net current transfers accounts for the augmented net inflows of private transfers (a share of 90.6%). Thus the net inflows based on private transfers reached Euro 231.4 million (higher by Euro 29.5 million compared to the same period of 2005, or increase of 14.6%). In environment in slight growth in the inflows from remittances through the banking channels (of Euro 6 million) and insignificant changes with the remaining types of private transfers (pensions, rents, disability allowances, etc.) the increase in the net private transfers is mainly a result of the incremented net inflows based on currency exchange operations (cash), which went up by Euro 23.3 million compared to the second quarter of 2005. Consequently, their structural share in the total net inflows of private transfers surged by 1.5 percentage point and in the second quarter of 2006 it equaled 69%.



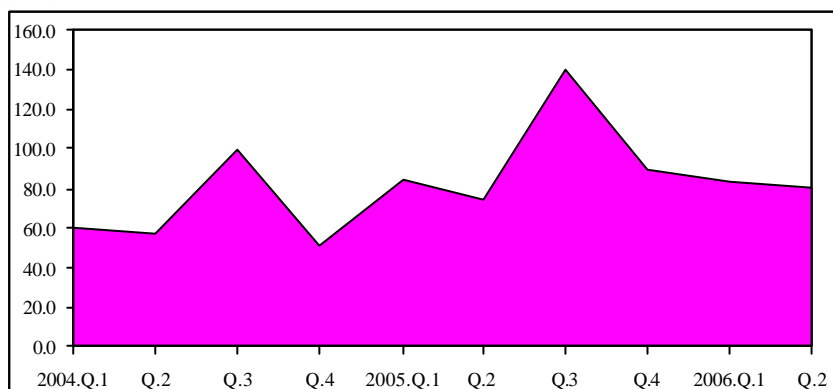
Figure 51
Current transfers timeframes by components, net
(in millions of Euros)



Source: National Bank of the Republic of Macedonia.

Given more intensive increase in the net inflows of private transfers than the increase in the trade deficit, the coverage ratio of the trade deficit with the net private transfers increased, and in the second quarter of 2006 it reached 80.4% (compared to 74.2% and 57.1% in the second quarter of 2005 and 2004, respectively).

Figure 52
Coverage of trade deficit with private transfers
(in %)



Source: National Bank of the Republic of Macedonia.

8.2. Capital and financial account

Higher foreign exchange inflows in the capital and the financial account

Higher positive balance by Euro 36.5 million in the second quarter of 2006 compared to the second quarter of the previous year was realized in the capital and financial account of the balance of payments.



Table 7
Capital and financial account of the balance of payments /1
(in millions of Euros)

	2005				2006		2006-2005		2006/2005	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.1	Q.2	Q.1	Q.2
							difference		rates of change in (%)	
Capital account, net	0.0	-0.2	0.2	-1.8	0.4	-0.4	0.4	-0.3	7532.3	195.0
Financial account, net	30.1	107.8	30.3	253.3	46.9	144.7	16.8	36.8	55.8	34.2
Direct investments, net	27.7	26.6	14.1	8.7	239.4	17.2	211.7	-9.4	764.9	-35.5
Portfolio investments, net*	12.5	3.8	14.4	167.3	11.8	24.8	-0.7	21.0	-5.8	559.0
Trade credits, net	-45.7	66.4	-32.1	32.5	-7.7	37.5	38.1	-28.9	-83.2	-43.6
Loans, net	14.3	64.8	4.7	41.2	-133.3	37.3	-147.6	-27.5	-1033.4	-42.4
Currencies and deposits, net**	17.9	-57.9	24.4	-5.2	-68.5	-5.3	-86.4	52.6	-482.3	-90.8
Other, net***	3.4	4.2	4.7	8.8	5.3	33.2	1.8	29.0	52.7	692.4
Capital and financial account	30.1	107.7	30.5	251.6	47.3	144.2	17.2	36.5	57.0	33.9

1/ Preliminary data.

* in Q.4 2005 with Eurobonds.

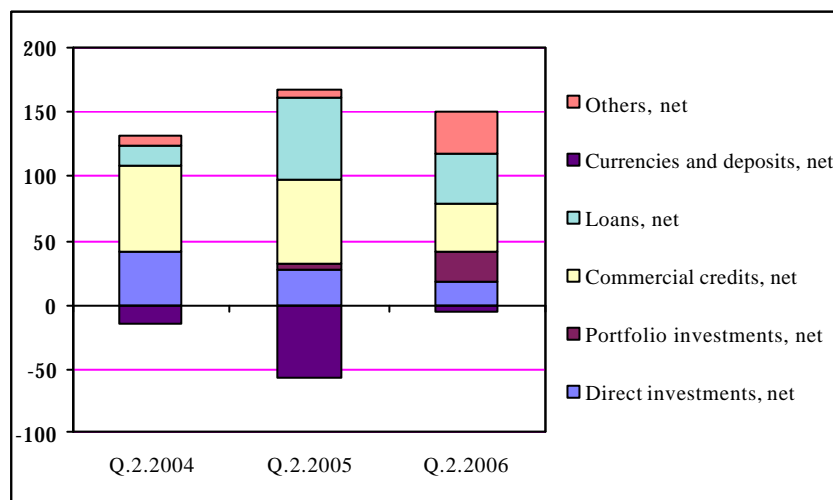
*(-) denotes reduction.

** overdue liabilities

Source: National Bank of the Republic of Macedonia.

Analyzed from the aspect of the individual components, higher inflows based on foreign direct investments and portfolio investments (by Euro 11.6 million) in the amount of Euro 42 million were realized in the second quarter of 2006. Net decrease in the financing through utilization of commercial credits and debiting on the bases of use of long-term and short-term loans and credits (of Euro 28.9 million and Euro 27.5 million, respectively) was registered.

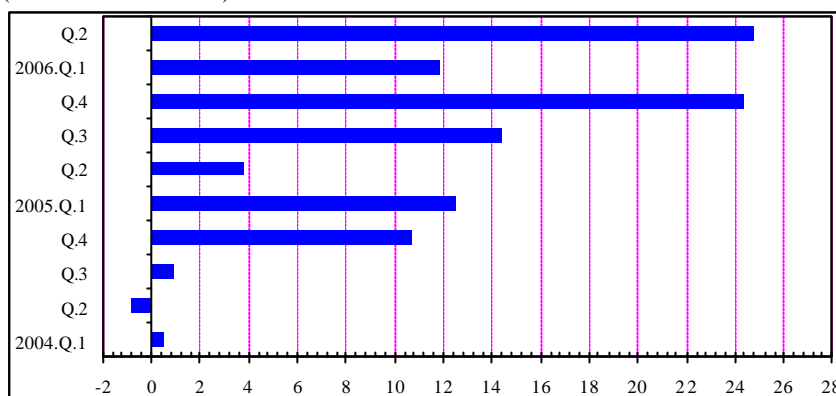
Figure 53
Financial account components
(in millions of Euros)



Source: National Bank of the Republic of Macedonia.

The process of higher inflows in form of portfolio investments which commenced at the end of 2004, continued with enhanced intensity in the second quarter of 2006, when amount of Euro 24.8 million was realized (growth of Euro 21 million compared to the same period of the previous year). Analyzed from structural aspect, the largest share of the inflows of portfolio investments (96.5%) was realized on the basis of sale of ownership securities by domestic companies to non-residents, while the remaining share was realized on the basis of sale of debt securities (3.5%).

Figure 54
Dynamics of portfolio investments in the Republic of Macedonia/*
(in millions of Euros)

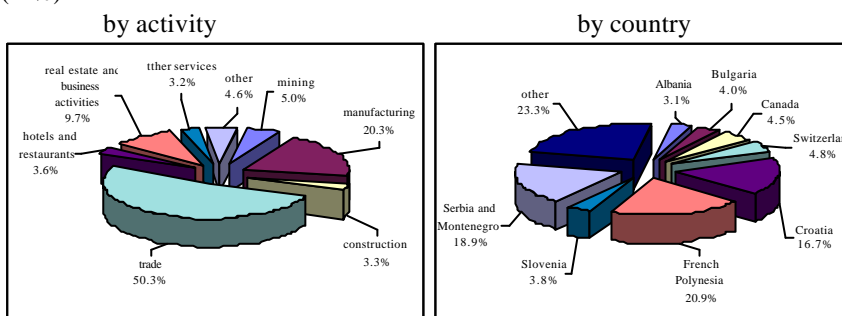


*in Q.4 2005 without inflows based on Eurobonds.

Source: National Bank of the Republic of Macedonia

In the second quarter of 2006, funds in the amount of Euro 18 million originating from foreign investors were received, the largest portion of which (Euro 16.8 million) are in form of funds. The analysis by activities shows higher level of dispersion of the foreign direct investments, with the largest part being directed to the trade and the manufacturing sector (Euro 9 million and Euro 3.7 million, respectively). The dominant portion of the investments in the manufacturing is located in food industry (89.3%), while within the trade, 96.1% are located in the wholesale trade. The remaining share of the foreign investors' capital is directed to companies engaged in intermediation for real estate and business activities (Euro 1.7 million), in mining (Euro 0.9 million) and in hotels and restaurants (Euro 0.7 million). During the observed period of 2006, most of the investments originate from French Polynesia, Serbia and Montenegro and Croatia (Euro 3.7 million, Euro 3.4 million and Euro 3 million, respectively).

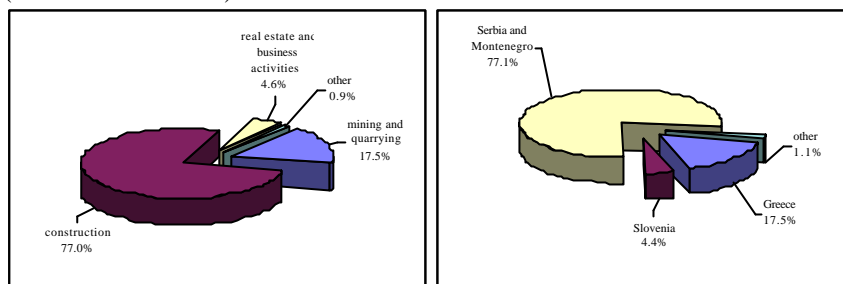
Figure 55
Foreign direct investments in the Republic of Macedonia in the second quarter of 2006
(in %)



Source: National Bank of the Republic of Macedonia.

In the second quarter of 2006, the Republic of Macedonia made direct investments abroad worth Euro 0.9 million, which is an increase of 5.2 times compared to the same period of the previous year. The investments were completely in funds. The most attractive activity for investing the funds of the domestic investors abroad in the observed period of 2006 is the construction (77%), and the main destinations of the Macedonian investors were Serbia and Montenegro, Greece and Slovenia.

Figure 56
Direct investments of the Republic of Macedonia abroad
(in millions of Euros)

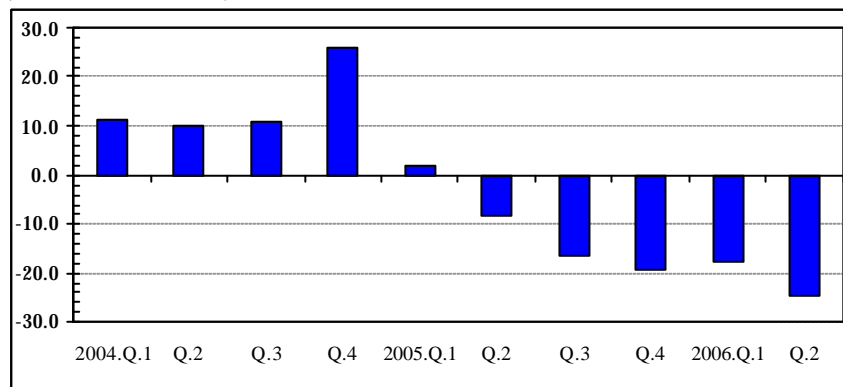


Source: National Bank of the Republic of Macedonia

In the second quarter of 2006, reduced financing on the basis of commercial credits was evidenced, which equal Euro 37.5 million on a net basis (Euro 66.4 million in the same period of the previous year).

During the analyzed period of 2006, the currencies and deposits registered slight growth of Euro 5.3 million (relative to the increase of Euro 57.9 million in the second quarter of 2005). However, within the individual sectors, the currencies and the deposits with the commercial banks plunged by Euro 19.4 million in the second quarter of 2006 (they went up by Euro 49 million in the same period of the previous year). Simultaneously, in the remaining sectors within which "households" is the dominant sector, higher outflows of cash foreign currency outside the banking sector in the amount of Euro 24.6 million were recorded. Consequently, the increased withdrawals of cash foreign currency by the households reached the highest quarterly amount so far, which is due mainly to the larger amount of withdrawn cash from foreign exchange accounts in the banks by the citizens.

Figure 57
Dynamics of the households' net foreign assets
(in millions of Euros)



Source: The National Bank of the Republic of Macedonia

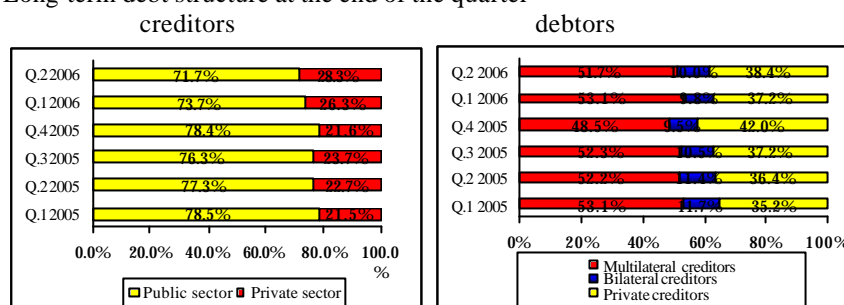
Quarterly increase in the external long-term debt of 2.2%...

The total external debt of the Republic of Macedonia as of June 30, 2006 stands at Euro 1,789.4 million. On a quarterly basis, the total external debt went up by Euro 54.1 million, in terms of increase in both its components (the long-term and the short-term debt).

On June 30, 2006, the external long-term debt totals Euro 1,701.2 million and surged by Euro 37.1 million on a quarterly basis, which is due to the higher debt with the private creditors, such as banks (Euro 17.7 million) and the non-bank financial institutions (Euro 16.1 million), as well as the cross-currency changes.



Figure 58
Long-term debt structure at the end of the quarter



*Preliminary data

**Preliminary data

Source: National Bank of the Republic of Macedonia.

The structural analysis of the long-term debt from *the aspect of the debtors* indicates that more than two thirds account for the public sector, where the largest portion (61%) is the debt of the Central Government. Within the private sector, the largest share takes the debt of the non-banking sector (22.3% of the total long-term external debt). *From the aspect of the creditors*, the dominant share accounts for the official creditors (61.6%), within which only 16.1% account for the bilateral ones. Regarding the private creditors, the credits extended by the non-financial private sector dominate with the total long-term debt with a share of 15.8%.

...and quarterly growth in the short-term debt of 23.9% was registered

Funds in the amount of Euro 71.2 million on the basis of long-term credits and loans were withdrawn...

At the end of the second quarter, compared to the end of the first quarter of 2006, the short-term debt totals Euro 88.2 million, which is an increment of Euro 17 million (or 23.9%).

In the second quarter of 2006, the *inflows* based on lending to residents by foreign creditors on the basis of *long-term loans and credits* augmented by 56.5% and they equaled Euro 71.2 million.⁵⁰

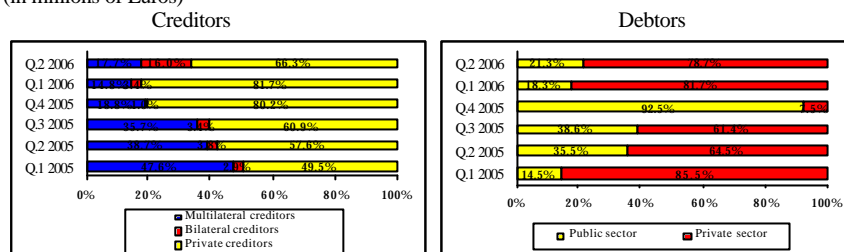
The analysis *from the aspect of the creditors* shows increase in the amount of withdrawn funds, especially from the private and bilateral creditors. The structural analysis indicates that 66.3% are funds withdrawn from private creditors, given equal distribution of funds withdrawn from banks and non-financial private sector. The remaining share of the withdrawn funds in the second quarter of 2006 pertains to the official creditors, with the share withdrawn from the multilateral and the bilateral creditors being equal to 17.7% and 16%, respectively. Among the multilateral creditors, funds from the International Bank for Reconstruction and Development (IBRD), International Development Agency (IDA) and the European Bank for Reconstruction and Development (EBRD) were used.

Observed from *the aspect of debtors*, the increase relative to the previous quarter is mainly a result of the larger amount of used funds by the private sector (78.7% out of the total used funds were withdrawn by the private sector, while dominant share was used by the non-bank financial sector). The remaining 21.3% almost completely account for the funds withdrawn by the Central Government.

⁵⁰ Preliminary data of the NBRM.



Figure 59

Structure of used credits based on long-term debt
(in millions of Euros)

* Preliminary data.

** Preliminary data.

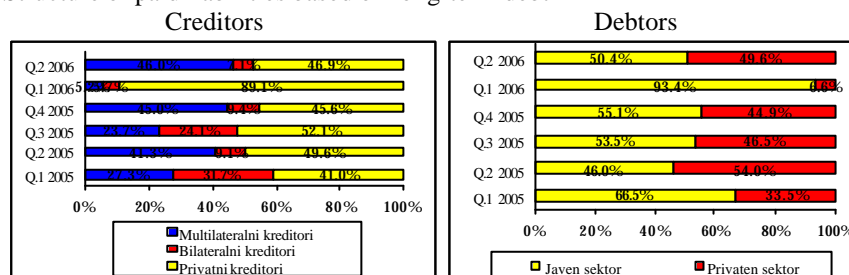
Source: State Statistical Office of the Republic of Macedonia

...while the paid liabilities
equaled Euro 33.2 million

In the April - June 2006 period, the total amount of *paid liabilities* to foreign creditors *on the basis of used long-term loans and credits* equal Euro 33.2 million (Euro 22.8 million of which are principal and Euro 10.3 million are interest), which is quarterly decrease of 85.8%. The lower level of paid liabilities on a quarterly basis is caused by the full repayment of the debt to the London Club of Creditors in the previous quarter, with the paid liabilities in the second quarter compared to the previous quarter being lower by 26.9% if this effect is not taken into consideration. From the *aspect of creditors*, almost equal percentage share of the total liabilities were paid to the private and multilateral liabilities (46.9% and 46%, respectively) while the remaining 7.1% account for the paid liabilities based on credits on a bilateral basis. From the *aspect of the debtors*, both the public and the private sector serviced their liabilities in almost identical amount in the second quarter. Within the public sector, dominant amount was paid by the Central Government (30.5% of the total paid liabilities), while regarding the private sector, the largest amount for debt servicing accounts for the non-bank financial sector and it equals 37.5%. The largest amount of Euro 15 million (or 45.1% of the total liabilities) was paid in April.

Figure 60

Structure of paid liabilities based on long-term debt



* Preliminary data.

** Preliminary data.

Source: National Bank of the Republic of Macedonia

In the April - June 2006 period, credits in the amount of Euro 116.1 million were concluded, 55.4% of which refer to the public sector, primarily to the public enterprises, while largest portion of the new debts with the private sector accounts for the non-bank sector.

Used short-term credits in the
amount of Euro 21.5 million
and paid liabilities in the
amount of Euro 5.7 million

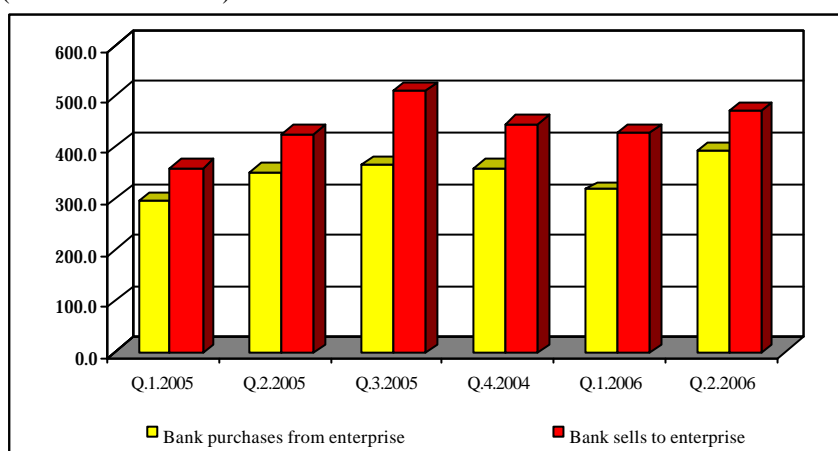
The used funds on the basis of extended short-term credits equaled Euro 21.5 million in the second quarter of 2006 totaled Euro 21.5 million. This quarter is characteristic for the incident short-term indebtedness of the private sector in the amount of Euro 4.4 million (in June 2006). In the second quarter of 2006, the paid liabilities based on short-term credits amounted to Euro 5.7 million, and they were completely realized by the private sector.



*Annual increase in the turnover
on the foreign exchange market
of 23%*

In the second quarter of 2006, the turnover on the *foreign exchange market* totaled Euro 1,067 million, which is an annual increment of 23%. In terms of slight discrepancy between the trade deficit recorded in the second quarter compared to the same quarter of the previous year, the discrepancy between the supply of and demand for foreign currency by the enterprises remained almost unchanged on the banks - enterprises segment (higher demand for than supply of foreign exchange by Euro 78.2 million, compared to Euro 73.6 million in the same quarter of 2005). In conformity with intensified growth rate of the export than the import of goods in the second quarter of the previous year, the supply of foreign currency by the enterprises registered more intensive increase relative to the demand (annual increase of 11.5% and 10.6%, respectively).

Figure 61
Banks - enterprises transactions
(in millions of Euros)



Source: National Bank of the Republic of Macedonia

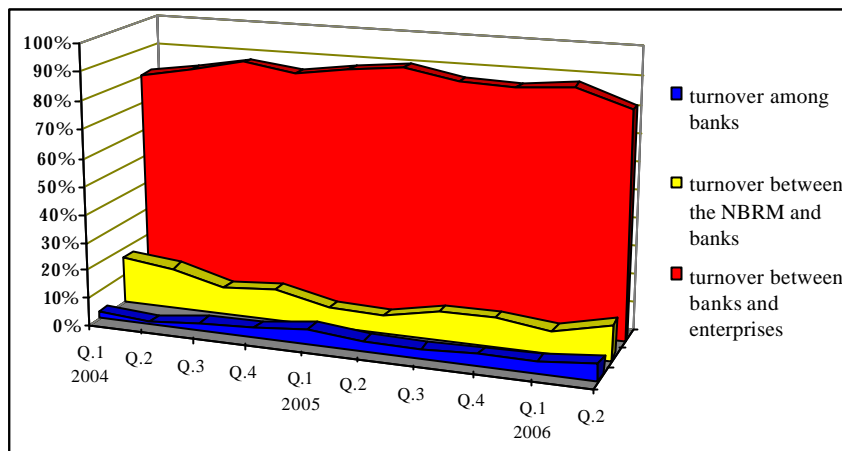
Despite the net outflow of foreign exchange on the basis of transactions with enterprises, the net foreign currency inflows in the banking sector effectuated through the currency exchange operations, as well as the active use of the banks' foreign assets contributed to further net purchase of foreign exchange by the NBRM during the second quarter of 2006.

Contrary to the higher banks - enterprises turnover, the analysis of the shares of the individual market segments of the turnover on the foreign exchange market shows its structural (although yet dominant) structural share in the total turnover. On the other hand, the structural share of the turnover realized between the banks and the NBRM rose in comparison with the second quarter of 2005 (by 6.5 percentage points) and reached 12.6%, while the turnover realized among the banks recorded its highest share since 2004 and it equaled 6.2% (or annual increase of 22 percentage points), which is mostly a result of the enhanced activity of the market support banks, in line with the new trade concept on the foreign exchange market introduced in August last year.



Figure 62

Share of individual segments in the total turnover on the foreign exchange market
(in %)



Source: National Bank of the Republic of Macedonia

Minimal appreciation of the Denar against the Euro of 0.1% on the foreign exchange market...

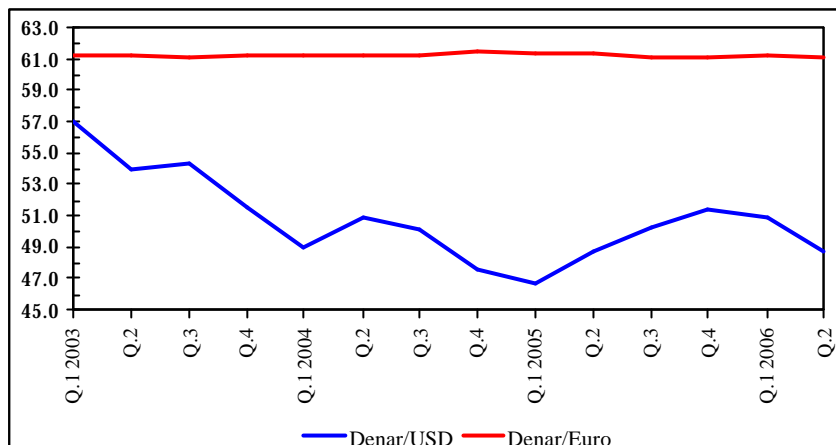
..and appreciation of the Denar against the US Dollar of 4.3%

In the second quarter of 2006, pressures for appreciation of the domestic currency on the foreign exchange market was registered, in terms of further inflow of foreign exchange (especially apparent through the upward trend of the private transfers, as well as through the inflows based on portfolio investments) and the active policy of the banks in the domain of utilization of foreign assets. In environment of application of fixed foreign exchange rate strategy, such pressures were neutralized through the foreign exchange transactions of the NBRM. Thus the Denar exchange rate against the Euro in the second quarter of 2006 equaled Denar 61.17 per one Euro, on average, which is minimal appreciation of 0.1% compared to the previous quarter. 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. Namely, the market expectations regarding the monetary policy of the ECB and the FED, the re-actualization of the problem about the high deficit in the budget and current account of the USA, compared to the improved economic indicators in the Euro zone, contributed to further strengthening of the value of the Euro in the second quarter of 2006. Such movements on the international markets had suitable effect also on the Denar - US Dollar correlations. Namely, the value of the Denar relative to the US Dollar appreciated by 4.3% compared to the first quarter of 2006 (Denar 48.76 per one US Dollar, on average, were traded in the second quarter of 2006, whereas Denar 50.93 per one US Dollar in the preceding quarter).



Figure 63

Average exchange rate of the Denar against the Euro and the US Dollar on the foreign exchange market
(Denars per foreign currency unit)



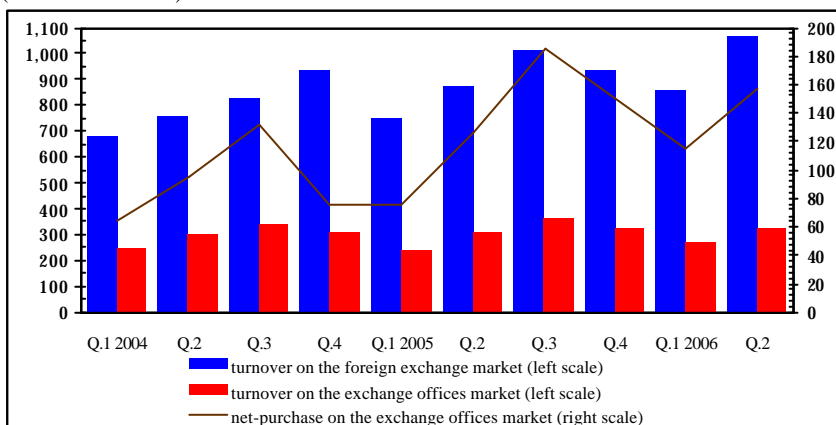
Source: National Bank of the Republic of Macedonia

Annual increase in the net purchase of 24.3% on the currency exchange market

In the second quarter of 2006, the turnover realized on the currency exchange market equaled Euro 322.7 million, i.e. it went up by 3.7% relative to the same quarter of 2005. In environment of higher supply (of 9.7%) and fall in the demand for foreign currency (of 10.4%), higher net purchase of foreign currency on the currency exchange market by 24.3% in the second quarter of 2006, compared to the second quarter of 2005 was recorded, and it totaled Euro 157.6 million.

Figure 64

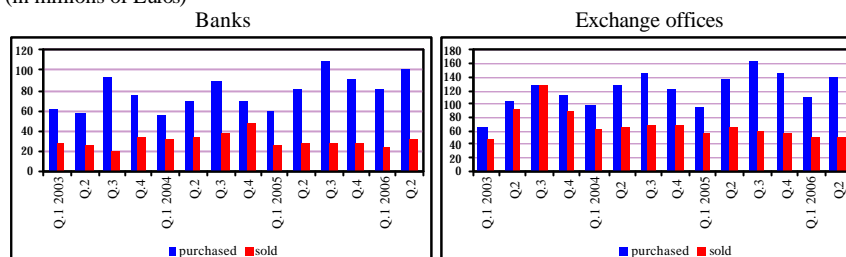
Movement of the total turnover on the foreign exchange and currency exchange market
(in millions of Euros)



Source: National Bank of the Republic of Macedonia

The structure analysis in the second quarter of 2006 indicates risen structural share of the turnover realized through the commercial banks (by 5.8 percentage points compared to the same period of 2005), which is 41% of the total turnover on the currency exchange market, while the exchange offices participated with 59%.

Figure 65
Movement of the turnover on the currency exchange market
(in millions of Euros)

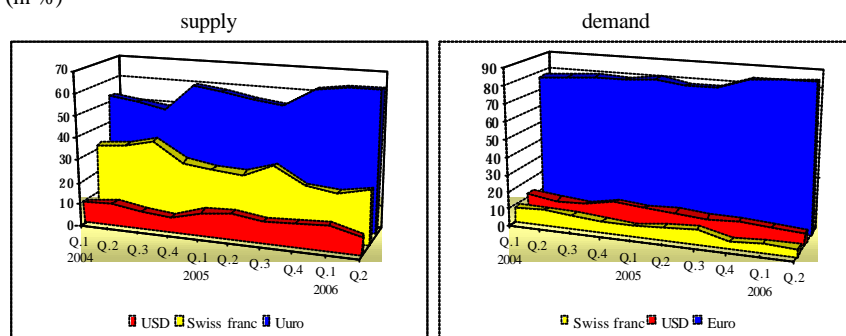


Source: National Bank of the Republic of Macedonia.

Higher structural share of the Euro in the turnover on the currency exchange market

Observed from the currency of denomination structure of the turnover on the currency exchange market, in the second quarter of 2006 the dominant currency on the side of both, supply and demand, is the Euro, the share of which rose on an annual basis (by 8.1 percentage points and 7 percentage points, respectively), and equals 64.1% and 85.7%, respectively. On the other hand, the Swiss Franc and the US Dollar, as the second most common currencies, reduced their share in both segments of the trade. Namely, in the second quarter of 2006, the share of the Swiss Franc and the US Dollar on the side of the supply equaled 24.2% and 7.6%, respectively (annual drop of 1.5 percentage points and 4.1 percentage points, respectively), while on the side of the demand, their share equaled 4.9% and 6.8%, respectively (annual fall of 2.6 percentage points and 3.8 percentage points, respectively).

Figure 66
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 those on the foreign exchange market. Namely, in the second quarter of 2006, the average exchange rate of the Denar against the Euro on the currency exchange market equaled Denar 61.42 per one Euro and it remained almost unchanged compared to the previous quarter. The US Dollar was traded for Denar 48.83, on average, and compared to the same quarter of the preceding year, the Denar appreciated by 4.1%.

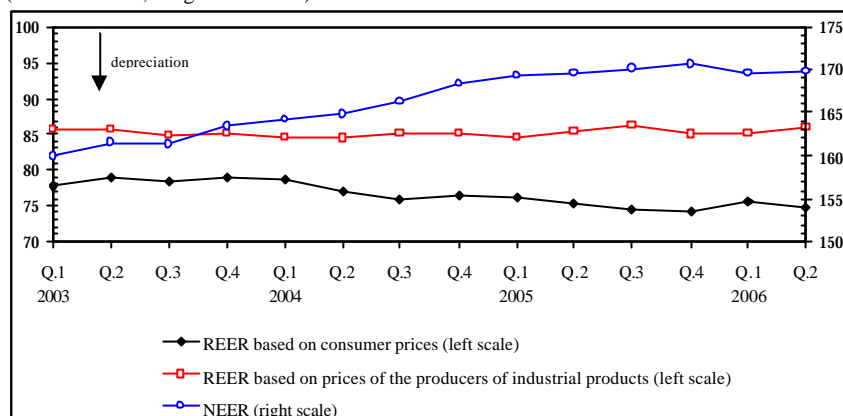
Appreciation of the Denar real effective exchange rate

In the second quarter of 2006, the index of Denar real effective exchange rate (REER) calculated by both consumer price index and the index of the prices of the producers of industrial products registered appreciation compared to the same quarter of 2005. Namely, the average Denar REER in the second quarter of 2006 calculated by consumer price index slightly appreciated by 0.2% relative to the same quarter in 2005. Such a change of the REER of the Denar is due to more intensive appreciation of the Denar nominal effective exchange rate (NEER) of 1.5%, relative to the increase in the relative prices



(more intensive growth of the foreign compared to the domestic consumer prices⁵¹ of 4.9% and 3.5%, respectively). The average Denar REER calculated by the index of prices of the producers of industrial products in the second quarter of 2006 appreciated by 0.8% relative to the same quarter of the preceding year, which is fully due to the appreciation of the Denar NEER index, given slight annual increase in the relative prices of 0.7%.

Figure 67
Denar REER* and NEER Index
(base 1995=100, weights FT=2003)

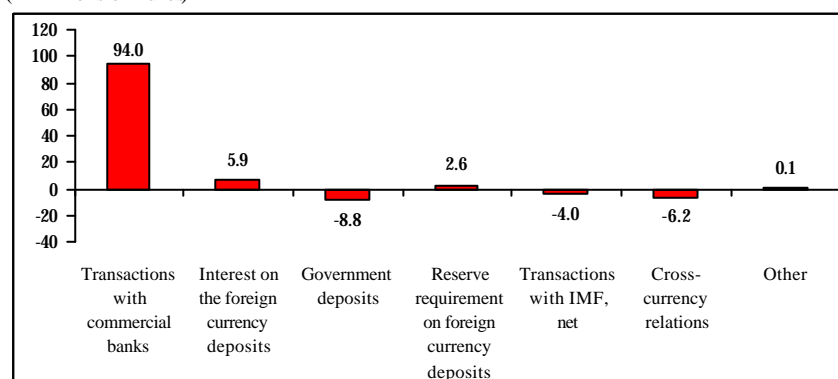


*Index below 100 denotes higher export competitiveness.
Source: National Bank of the Republic of Macedonia

Augmented gross foreign reserves by 83.6 million compared to the previous quarter

At the end of June 2006, the gross foreign reserves reached their historically highest level of Euro 1,241.3 million, which is a rise of Euro 83.6 million compared to the end of the previous year. The positive change of the gross foreign reserves is primarily a result of the realized net purchase by the NBRM on the foreign exchange market. In comparison with the balance registered at the end of 2005 (without the effect of the sale of the Eurobond), the gross foreign reserves went up by Euro 267.6 million.

Figure 68
Factors of change of the gross foreign reserves in the second quarter of 2006
(in millions of Euros)



Source: National Bank of the Republic of Macedonia

Attachment 6 Creditworthiness rating of the country according to the Institutional Investor

The creditworthiness rating of the countries by specialized agencies is an attempt for estimating the possibility for a country to become incapable to repay its

⁵¹ Refers to the change in the current quarter versus preceding quarter, with a base average 1995.



external debt. These commercial credit ratings are of key significance for the volume of extended credits, as well as the level of the interest rates on syndicated loans extended by the large commercial banks to the developing countries.

The credit rating of the country is an extremely important concept, having in mind that many institutional investors from the highly developed industrialized economies invest only in instruments satisfying, or exceeding minimum standards with regard to the credit rating of the country. Accordingly, the credit ratings determine not only the creditworthiness of the country (i.e. whether the country may be indebted under reasonable terms and conditions), but whether it is able to attract also other forms of capital, except credits.

Generally, the credit ratings are based on evaluation of numerous macroeconomic, financial and political variables, including the following: the growth rate of the country, the balance on the current account relative to the GDP, the savings - investments correlation, the share of the external debt in the GDP, debt servicing relative to the GDP, interest payments relative to the GDP, etc. Besides that, the exposure of the country to external shocks is also of great significance, which among other things, can be estimated through the export concentration level. On the other side, the capability of the country to service its financial liabilities is measured through variables, such as overdue claims, debt rescheduling, access of the country to the international bond markets, expenses relative to different types of commercial credits, political conditions in the country (which usually include the policies to foreign creditors), the capacity of the governments to implement stabilization policies, the probability and the potential effects of political instability of the country, etc.

The credit ratings of the countries, prepared and published by the Institutional Investor Agency are based on information obtained from analysts in 75-100 globally leading banks. Each country is ranged at the scale from zero to 100, where 100 denotes a country with the lowest risk of inability for debt servicing. Also, for rating purposes, the risk analysts were requested to make a rating of ten political, economic and financial indicators for each of the countries according to the level of importance. The individual responses are weighted according to the formula that gives the largest significance to the banks' responses with the highest global credit exposure. The names of the analysts are kept in strict confidence. The country rating is conducted twice a year.

The key domestic factors which influence on the rating analysts of the Institutional Investor to the largest extent are the level of gross foreign reserves of the country and the balance on the current account of the rated country. In addition, the Institutional Investor finds the increase in the real growth rate of GDP, as well as the growth rate of the export as a very significant positive influence on the rating issued by this commercial rating agency. Simultaneously, according to them, the increase in the inflation in the countries that have not been ranged in the group of countries with high inflation is severely sanctioned, as well as the increase in the share of the external debt of the GDP for the countries that export products with higher level of finalization. Although the rating criteria of the Institutional Investor are mainly based on domestic economic variables, the terms and the conditions on the international financial markets (for example, the changes of the interest rate on the US Federal Reserves) also have significant influence on the ratings of the developing countries, regardless of the quality of their domestic policies and economic performances.

According to the Institutional Investor's rating published in March 2006, the Republic of Macedonia, from 93th position in September 2005, climbed to 85th position, which is the fifth country with the largest improvement of the rating in a six-month period. In March 2006, the credit rating of the Republic of Macedonia equals 37.2 out of the maximum of 100 points. Among the factors contributing to the increase in the rating of the Republic of Macedonia are the



improved balance of the current account, the continuous increase in the GDP and the successful placement of the Eurobond on the international financial markets.

10.

Public finance⁵²

Higher public revenues of 6.7% annually in the second quarter of 2006 were registered...

In the second quarter of 2006, the successful coordination of the fiscal and the monetary policy continued. Thus, the largest portion of the created Denar liquidity through the foreign exchange transactions in the second quarter of 2006 is sterilized through the government Denar deposits and partially through the monetary policy instruments. However, the significant accumulation of the government Denar funds on the account with the NBRM is due to the increased inflows in the Government budget on the basis of the state-owned capital privatization. Namely, in the second quarter of 2006, net sale of part of the Government shares in Makedonski Telekomunikacii AD Skopje, government stakes in JZU Gradska Apteka, Skopje, set of government shares from several domestic banks was realized, thus registering total inflow in the Government budget of Denar 6,279 million.

In the second quarter of 2006 more relaxed fiscal policy was conducted. Thus in terms of higher annual realization of the total public revenues (by 6.7%, the budget consumption is significantly higher in the second quarter of 2006 compared to the same quarter of 2005.

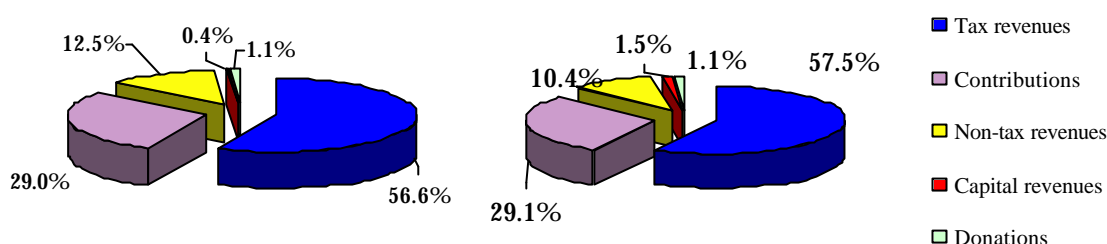
From the aspect of the components of the Government budget, in the second quarter of 2006 the total public revenues stood at Denar 26,266 million, being higher by 67% annually. The main reason for the increase in the total public revenues is the higher realization of tax revenues (by 70.4%), which are dominant income category in the public revenues structure. Almost one half of the annual increase in the tax revenues is generated from the enlarged revenues based on value added tax. An additional high contribution to the annual increase in the tax revenues (of 27.2%) accounts for the intensive increase in the profit tax (of 52.3%, annually), pointing to improved economic activity of the enterprises, strengthen financial results from their operating, as well as improved collection of this tax. Within the tax revenues, a significant annual increase was recorded in the revenues originating from other taxes (by 2.8 times), which is a result of the introduction of additional health care duties, as well as those for environment protection and stimulation of the activities of the primary tobacco production, which is in conformity with the amendments to the legal framework in January 2006⁵³. However, the realized revenues based on other taxes (additional duties) exceed the projected value for the second quarter by 2.6 times. In the second quarter of 2006, moderate annual increase was registered in the revenues based on contributions, personal income tax and customs duties, while the revenues based on excise evidenced an annual drop (of 3.3%), which corresponds with the reduced import of tobacco.

⁵² 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).

⁵³ Pursuant to the Law on Amendments to the Health Care Law ("Official Gazette of RM", No. 111/2005) and the Decision on determining the products for which compensation for turnover, import/export is paid ("Official Gazette of RM", No. 75/2005) resulting from the Law on Environment, since January 01, 2006 compensation for production or import of tobacco products. For the purpose of financing of the activities in the primary tobacco production, for additional financing of the activities in the primary agriculture production and for export promotion, according to the Law on Tobacco ("Official Gazette of RM" No. 24/2006), compensation for production and import of tobacco products in the amount of Denar 0.15 per piece for each produced or imported cigarette containing tobacco (i.e. Denar 3 per a pack of cigarettes) is paid. This Decision enters into force on April 1, 2006.

In the second quarter of 2006, additional inflows in the Government budget on the basis of sale of state-owned land were registered. Thus, the capital revenues generated a significant part of the increase in the public revenues (of 17.3%) and registered a significant annual increase (of 3.6 times). Also since the beginning of 2006, significant inflows based on foreign donations in the Government Budget were registered, which went up by 15.4% annually in the second quarter of 2006. On the other hand, in the first quarter of 2006 only the non-tax revenues plunged on annual basis (by 11.9%), given decrease in the balances on the accounts for special revenues and drop in the revenues based on participation for health services.

Figure 69
Share of individual income categories in the total public revenues
Q2 2005 Q2 2006

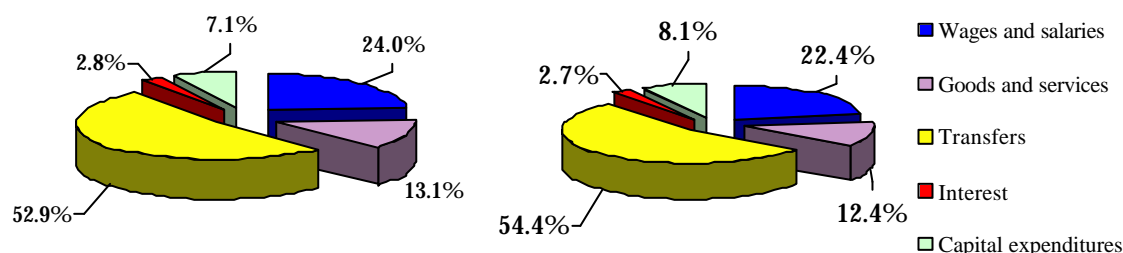


Source: Ministry of Finance of the Republic of Macedonia

...given the simultaneous
annual increase in the total
public expenditures of 9.9%

In the second quarter of 2006, the total public expenditures stood at 26,245 million, which is by 9.9% more relative to the same quarter of the preceding year. The largest share of the annual increase is generated from the higher current expenses (a share of 82.1%), which are dominant category in the total expenditure structure. The largest portion of the annual increase in the current expenditures is caused by the enhanced transfers (a share of 83.9%), which incremented by 12.9%, annually, while the contribution of the remaining categories of current expenditures to the annual increase in the current expenditures was almost identical and it recorded a moderate annual increase. Only the repayments of the interests (especially on the foreign debt basis) registered more intensive growth (of 7.7%, annually). On the other hand, the capital expenditures of the Government intensified in the second quarter of 2006, i.e. they augmented on an annual basis by 25.1%.

Figure 70
Structural share of the individual expenditures categories in the total public expenditures
Q2 2005 Q2 2006



Source: Ministry of Finance of the Republic of Macedonia

From the aspect of the quarterly dynamics, in the second quarter of 2006, in terms of higher quarterly realization with all main income categories, the total public revenues augmented by 13.7% compared to the first quarter of the year. The largest portion of the increase is generated from the higher level of tax revenues (a share of 77%), the increase of which is generated from the risen revenues based on value added tax, and customs duties, while the lower revenues from the profit tax acted in opposite direction. Additional contribution to the



quarterly increase in the total public revenues in the second quarter of 2006 accounted for the revenues based on contributions, non-tax revenues and those based on capital revenues, while the inflows based on foreign donations fell on a quarterly basis.

On other hand, in the second quarter of the year, the total public expenditures evidenced more moderate quarterly increase of 11.5% in comparison with the public revenues. The current expenses generated larger portion of the increase in the total public expenditures (a share of 61%), within which transfers and the expenses for goods and services were significantly increased (a contribution to the rise in the current expenses of 71.9% and 24.7%, respectively). However, the intensive increase in the capital expenditures of the Government in the second quarter of 2006 (of 99.4%) was the reason for the large part of the increment in the total expenditures (a share of 39%).

In the second quarter of 2006, besides the inflow based on privatization of government capital, additional net inflows as a result of higher realization of government securities from the repayment of the due liabilities on the same basis were registered (in the amount of Denar 422 million). Net inflows in the government budget in the amount of Denar 194 million also on the basis of higher amount of foreign loans were realized, given lower payment of principal based on foreign credits. On the other hand, total amount of Denar 699 million for the repayment of principal of the domestic debt in the second quarter of the year was used.



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

- ❖ *On April 1, the implementation of the Decision on allocating three to maximum six Denars per pack of cigarettes, aimed at tobacco sector support according to the Law on Tobacco and Products Thereof commenced;*
- ❖ *On April 3, payment of the ninth instalment based on old foreign currency savings bond was made.*
- ❖ *On April 4, a Macedonian - Czech business forum was held in Prague, organized by the Economic Chamber of Macedonia and of Czech Industrials Confederation. The objective of this Forum is improvement of the economic cooperation between the Republic of Macedonia and the Czech Republic.*
- ❖ *On April 6, the public company "Kumanovo gas" was established by the local government, which will distribute and exploit gas in the municipality.*
- ❖ *On April 7, Declaration of CEFTA Enlargement was signed in Bucharest by the Prime Ministers of Macedonia, Serbia and Montenegro, Croatia, Bosnia and Herzegovina, Romania, Albania, Moldavia and UNMIK (Kosovo).*
- ❖ *On April 14, workshop on the topic "High level of currency in circulation in the Republic of Macedonia" organized by the National Bank of the Republic of Macedonia was held. The objective of the workshop was to determine the areas of possible improvements in direction of currency in circulation reduction. Representative of other relevant institutions and association in the country also participated in the workshop.*
- ❖ *On April 19, a loan to the state-owned energy system MEPSO, Skopje in the amount of US Dollar 25 million was approved by the World Bank, intended for improvement of safety and development of energetic network in Macedonia.*
- ❖ *On April 20, the Board of Directors of IMF completed the first revision on the Stand-By arrangement concluded between the Republic of Macedonia and the IMF.*
- ❖ *On April 27, according to the Securities Issue Calendar for 2006, the Ministry of Finance issued a two-year Treasury bill. The issuance of the Treasury bill represents widening of the Government's debt portfolio and its maturity. The face value of the Treasury bill equals Denar 10,000, the realized amount is Denar 250 million, while the coupon interest rate equals 9%.*
- ❖ *On April 27, Business and Investments Summit was held in the Republic of Macedonia, at which the Macedonian business climate, the trade, the export, the regional and the cooperation of our country with other European countries, as well as the development of the financial sector and the direct foreign investment in Macedonia were discussed.*
- ❖ *On May 5 the ministries of transports of Southeastern Europe signed an Agreement on establishing a railway network with high performances.*
- ❖ *On May 5, the International Financial Corporation (IFC) started implementing the corporate management project in Macedonia, Albania, Bosnia and Herzegovina and Serbia and Montenegro. The purpose of this three-year project is to help the companies in the region to introduce international experience in the corporate governance, thus making them more attractive for both domestic and foreign investors.*
- ❖ *On May 8, the credit agency Standard&Poor's reaffirmed the BB+ credit rating it assigned to the Republic of Macedonia with a stable prospects for foreign currency and BBB- with stable prospects for foreign currency and BBB- with stable prospects for domestic currency underpinned by the improvement of the political stability, continuity in reform implementation, economic growth, prudent fiscal policy and reduction of the public debt.*



- ❖ *On May 10, Kavadarci witnessed the beginning of the reconstruction of the second technological line of „FENI industry“, in which Euro 25 million will be invested, which is likely to increase to output from 8 to 15 thousands of tons.*
- ❖ *On May 10, an Employment Intermediation Office - Dekra employment d.o.o.e.l. from Germany was opened in Skopje, which will offer its services (employment intermediation, temporary employment and human resource management consulting) to companies, institutions and small and medium enterprise.*
- ❖ *On May 11, as specified by the memorandum from September 17, 2003 concluded between Macedonia, Bosnia and Herzegovina, Serbia and Montenegro, Slovenia and Croatia for settlement of the mutual financial claims of USSR and SFRY, Russia made a decision on writing off the US Dollar 60.6 million debt of Macedonia by 2010.*
- ❖ *On May 11, the Government of the Republic of Macedonia and the US company Johnsons Control signed a Memorandum for Understanding and investing in the construction of internal electronic facility in the Republic of Macedonia The construction of internal automobile electronic facility is expected to start in early September 2006, thus providing new job opportunities.*
- ❖ *On May 16, a workshop was held for the foreign trade and foreign direct investments in the EU member states and EU membership-candidate states: Hungary, Slovenia and Macedonia, organized by the Secretariat of European Issues of the Macedonian Government and Friedrich Evert Foundation in cooperation with the World Economy Institute at the Hungarian Academy of Sciences.*
- ❖ *On May 22, a Macedonian - Croatian Business Club started operating within the Macedonian Chamber of Commerce, aimed at deepening the economic cooperation between the two countries.*
- ❖ *From May 24 to June 5, Skopje hosted the International Monetary Fund (IMF) mission within the negotiations based on Article IV of the IMF Statute.*
- ❖ *On May 25, the farmer association of Macedonia, Serbia, Bosnia and Herzegovina and Albania signed a Declaration of Understanding and Cooperation including exchange of knowledge and experience, rising initiatives, suggestions and support of projects and mutual solidarity.*
- ❖ *On June 1, the Free Trade Agreement signed with Serbia and Montenegro became effective, the main objective of which is to expand the trade between the two countries, create fair competition conditions, eliminate the obstacles in the mutual trade, incur investments and promote the trade with third countries.*
- ❖ *On June 1, the Macedonian Economic Chamber promoted the new way of organizing and cooperation among small-size and medium-size enterprises in the country, by establishing so-called groups for exchanging experience which may comprise of up to 20 members - from the interested companies, local consultants and government representatives.*
- ❖ *On June 1, the Ministry of Finance started the payment of the regular instalments of the individual issues of denationalization bonds.*
- ❖ *On June 2, the shares of Gradski Apteki, Skopje, as well as shares in shareholding companies owned by the Pension and Disability Insurance Fund of Macedonia, in the amount of Euro 12.9 million and Euro 14.4 million, respectively, were sold on the Macedonian Stock Exchange, by way of auction. The new owners of Gradski Apteki are the pharmaceutical companies: Zegin, Alkaloid and Farmakop, which will act as a consortium.*
- ❖ *On June 3, the metal plant Iskra-engineering and the factory for processing and storing of fresh fruit and vegetables DS Foods (former ZIK Kumanovo), owned by a Greek investor, were restarted.*
- ❖ *In the period 5 - 9 June, 2006, 45.1% of common shares of Macedonian Telecommunications AD Skopje owned by the Republic of Macedonia were offered on the Macedonian Stock Exchange by way of auction. Only one package of shares of 9.9% was sold in the amount of Denar 3.6 billion (Euro 60.3 million), while from the remaining portion of 5.5% of the shares offered for sale, 0.9% of the total amount of offered government shares in the amount of Denar 153.8 million were sold.*



- ❖ On June 14, the Decision of the National Bank of the Republic of Macedonia Council on reducing the Lombard interest rate by 1.5 percentage points from 11% to 9.5%, became effective. ("Official Gazette of RM" No. 70/2006).
- ❖ On June 8, an Agreement on investments in energy on the Balkan Peninsula and for cooperation in the field of energy in the region was signed in Luxembourg between the European Union (EU) and the Balkan countries (Macedonia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Albania, Romania, Bulgaria and the United Nations on behalf of Kosovo). As a result of the Agreement, infrastructure will be built for transport of natural gas from the Middle East and the Caspian Region for the EU, which will improve the supply of energy for Western Europe.
- ❖ On June 11, a multilateral Agreement of tax administrations was signed in Skopje by Macedonia, Bosnia and Herzegovina, Serbia, Montenegro and Bulgaria for more efficient fight against tax evasion. On June 12, after a four-year standstill, the lead and zinc mine Sasa in Makedonska Kamenica, owned by the Russian company Romtrade was restarted.
- ❖ On June 12, after a four-year standstill, the lead and zinc mine Sasa in Makedonska Kamenica, owned by the Russian company Romtrade was restarted.
- ❖ On June 13, the General Collective Agreement for the economy was signed by the Association of Macedonian Labor Unions and the Organization of Employers of the Republic of Macedonia.
- ❖ On June 13, the Fitch rating agency upgraded the credit rating for the Republic of Macedonia from current BB with positive outlook to BB+ with stable outlook for foreign and domestic currency. With the new rating, Fitch moved Macedonia by two levels on the rating scale.
- ❖ On June 14, the Agreement for cooperation and assistance for customs-related issues was signed in Helsinki between the Customs Administrations of Macedonia and Finland in order to deepen the cooperation in this field and improve the bilateral relations between the two countries.
- ❖ On June 15, the Loan Agreement for the Project on Implementation of the Reforms in the Legal and Judiciary System and Institutional Support in the amount of Euro 10 million, was signed between the World Bank and the Government of the Republic of Macedonia.
- ❖ On June 16, a two-day regional conference of banks and export-credit agencies was held in Struga, organized by the Macedonian Bank for Development Promotion, attended by representatives of banks and institutions from 14 countries in the region.
- ❖ On June 16, Macedonia and Greece signed a Protocol for cross-border cooperation along the paneuropean Corridor 10, in order to facilitate the flow of people and goods along the Corridor and to strengthen the cooperation between the signing countries.
- ❖ On June 21, Macedonian Bank for Development Promotion introduced the new credit line approved by the Council of the European Development Bank (CEDB), in the amount of Euro 10 million, aimed at financing small-size and medium-size enterprises in Macedonia, in order to reduce unemployment in the Republic of Macedonia.
- ❖ On June 23, Invest Banka launched the credit line aimed at small-size and medium-size enterprises worth Euro 4 million, by the EBRD. These loans are with maturity of four years and an interest rate of 8% to 9%.
- ❖ On June 26, by including KIBS a.d. Skopje in the single registry of certificate issuers, the Law on electronic data and electronic signature officially went into effect.
- ❖ On June 27, the Eurointegrations Sector of the Government of the Republic of Macedonia presented the new funds for pre-accession assistance of the European Union, the Instrument for pre-accession assistance (IPA), the Program for economic cooperation with the developing markets of the Dutch Government and the New Partnership Program with the Austrian Development Agency, in front of the businessmen, gathered in the Economic Chamber in Skopje.



- ❖ During the second quarter of 2006, the Regulatory Energy Committee adopted the following decisions on determining the highest prices of individual oil derivatives, determined pursuant to the Methodology:
 - on April 3, Decision on increasing the retail and refinery prices of oil derivatives on average by 1.66% and 2.64%, respectively ("Official Gazette of RM" No. 42/2006);
 - on April 17, 2006, Decision on increasing the retail and refinery prices of oil derivatives on average by 3.94% and 6.05%, respectively ("Official Gazette of RM", No. 50/2006);
 - on May 3, Decision on increasing the retail and refinery prices of oil derivatives by 3.10% and 4.56%, respectively, on average ("Official Gazette of the Republic of Macedonia" no. 55/2006);
 - on May 15, Decision on decreasing the retail and refinery prices of oil derivatives by 2.49% and 3.76%, respectively, on average ("Official Gazette of the Republic of Macedonia" no. 60/2006);
 - on May 29, the Decision on decreasing the retail and refinery prices of oil derivatives by 3.69% and 5.52%, respectively, on average ("Official Gazette of the Republic of Macedonia" no. 66/2006);
 - on June 12, Decision on increasing the refinery prices of oil derivatives increased by 0.56% on average, while the retail prices of oil derivatives dropped by 0.13% on average, ("Official Gazette of RM" No. 72/2006);
 - on June 26, Decision on increasing the retail and refinery prices of oil derivatives by 0.05% and 0.07%, respectively, on average ("Official Gazette of RM" No. 77/2006).
- ❖ New regulations:
 - Law on Ratification of the Free Trade Agreement between the Republic of Macedonia and Serbia and Montenegro ("Official Gazette of RM" No. 48/2006);
 - Law on Cessation of the Enforcement of the Law on Micro-financing Banks ("Official Gazette of RM" No. 50/2006);
 - Law on ratifying the Agreement on Accession of the Republic of Macedonia to the Central European Free Trade Agreement (CEFTA) ("Official Gazette of the Republic of Macedonia" no. 59/2006);
 - Law on ratifying the Agreement on Establishing Energy Community ("Official Gazette of the Republic of Macedonia" no. 59/2006);
 - Law on Energy ("Official Gazette of the Republic of Macedonia" no. 63/2006);
 - Law on Indebtedness of the Republic of Macedonia by a loan at the International Bank for Reconstruction and Development under a Loan Agreement for the Project on Implementation of the Reforms in the Legal and Judiciary System and Institutional Support ("Official Gazette of the Republic of Macedonia" no. 65/2006);
 - Law on ratifying the amendments and consolidations to the free trade agreement between the Republic of Macedonia and Bosnia and Herzegovina adopted by the mixed committee on implementation of this agreement ("Official Gazette of RM". No. 69/2006);
 - Law on amending and consolidating the Law on Registration of cash payments ("Official Gazette of RM. No. 70/2006);
 - Law on amending and consolidating the Law on Protecting Competition ("Official Gazette of RM. No. 70/2006);
 - Law on amending and consolidating the Law on Pension and Disability Insurance ("Official Gazette of RM. No. 70/2006);
 - Law on Personal Income Tax ("Official Gazette of RM" No. 74/2006).



Statistical appendix

1. Prices

Table 1

Costs of living and retail prices

	VI.2006	VI.2006	I-VI.2006
	V.2006	VI.2005	I-VI.2005
	in %		
Costs of living	-0.7	3.0	3.1
Food	-1.6	0.9	1.9
Tobacco and beverages	0.1	17.6	17.6
Clothing and footwear	0.0	0.2	-0.1
Housing	-0.4	0.9	1.0
Flat (rent, water, services)	0.0	0.2	0.0
Fuel and lighting	-0.5	1.6	1.8
Hygiene	-0.5	1.7	1.1
Culture and entertainment	0.6	7.2	6.4
Transport, communications, services	-0.4	4.5	3.2
<i>Goods</i>	<i>-0.9</i>	<i>3.1</i>	<i>3.5</i>
<i>Services</i>	<i>0.0</i>	<i>2.6</i>	<i>1.4</i>
Retail prices	1.3	5.3	4.3
Agricultural products	4.8	7.3	6.2
Non-food industrial products	1.4	7.4	6.3
Processed food products	0.3	1.0	0.3
Beverages	0.1	-0.6	-0.6
<i>Goods</i>	<i>1.4</i>	<i>5.2</i>	<i>4.0</i>
<i>Services</i>	<i>1.3</i>	<i>5.4</i>	<i>4.4</i>

Source: State Statistical Office of the Republic of Macedonia



Table 2

Prices of producers of industrial products

	VI.2006 V.2006	VI.2006 VI.2005	I-VI.2006 I-VI.2005
	in %		
Prices of producers of industrial products	-1.0	5.5	5.7
Energy	-4.2	12.4	17.9
Intermediary goods (except Energy)	1.9	0.5	-2.2
Capital goods	0.0	5.2	4.2
Durable consumer goods	-0.2	1.6	5.0
Non durable consumer goods	-0.9	5.3	4.9
<i>Mining and quarrying</i>	<i>0.0</i>	<i>3.3</i>	<i>4.0</i>
<i>Manufacturing industry</i>	<i>-1.4</i>	<i>6.2</i>	<i>6.5</i>
Manufacture of food products and beverages	-0.6	0.7	0.4
Manufacture of tobacco products	0.1	23.2	20.1
Manufacture of textiles	0.0	0.3	0.6
Manufacture of wearing apparel; dressing and dyeing of fur	-0.1	-2.7	-2.7
Publishing, printing and reproduction of recorded media	-0.4	1.7	2.2
Manufacture of coke, refined petroleum products and nuclear fuel	-8.3	22.3	34.5
Manufacture of chemicals and chemical products	1.2	3.3	-0.7
Manufacture of rubber and plastic products	3.1	4.4	0.1
Manufacture of other non-metallic mineral products	0.9	3.5	2.3
Manufacture of basic metals	2.4	-2.0	-7.0
Manufacture of fabricated metal products, except machinery and equipment	0.0	9.5	7.2
Manufacture of electrical machinery and apparatus n.e.c.	0.0	11.1	6.4
<i>Electricity, gas and water supply</i>	<i>2.5</i>	<i>0.4</i>	<i>-0.3</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	IV.2006	V.2006	VI.2006
	in Denar					
Total	10,287	10,335	10,346	10,412	10,622	10,395
Bread and cereals	1,789	1,782	1,776	1,768	1,760	1,753
Meat	2,251	2,255	2,251	2,259	2,277	2,275
Fish	218	221	222	223	223	223
Milk and dairy products and eggs	1,753	1,761	1,774	1,773	1,775	1,757
Oils and fats	452	450	449	450	450	447
Fruit	421	416	424	430	438	454
Vegetables	1,473	1,516	1,479	1,539	1,719	1,501
Sugar, chocolate and confectionery	406	407	444	443	451	452
Other food products	306	309	310	314	315	316
Coffee, tea	317	316	315	314	317	320
Non-alcoholic beverages	439	440	439	436	433	433
Alcoholic beverages	462	462	463	463	464	464

* 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

Table 4

Expenditure aggregates of GDP
(nominal growth rates)

	I Q.2006* / I Q.2005
Public consumption	3.9
Investments in machinery and equipment	9.2
Export of goods and services	5.5
Import of goods and services	13.7

* Preliminary data of the State Statistical Office.



2. Economic activity

Table 5

Production side of GDP

	I Q. 2006/ I Q. 2005	2006	2005	I Q. 2006/ I Q. 2005
	(real growth rates, in %)	(share in GDP, in %)		(contribution, in %)
Gross Domestic Product	26			
<i>Agriculture, hunting, forestry and fishing</i>	3.0	10.2	10.1	11.7
<i>Mining and quarrying; Manufacturing and electricity, gas and water supply</i>	0.5	22.5	23.0	4.3
<i>Construction</i>	-2.4	3.5	3.7	-3.2
<i>Wholesales and retail sales, repair of motor vehicles, motorcycles and personal and household items</i>	6.2	13.5	13.0	32.2
<i>Hotels and restaurants</i>	4.1	1.6	1.6	2.6
<i>Transport, storage and communications</i>	8.3	7.9	7.5	25.1
<i>Financial intermediation; Real estate activities, renting and business activities</i>	1.5	13.9	14.1	8.0
<i>Public administration and defense, obligatory social security, Education, Health and social work and Exteriorial organizations and bodies</i>	1.5	14.6	14.8	8.4

Source: State Statistical Office. Preliminary data.



Table 6
Industrial output

	Structure in %	VI.2006 V.2006	VI.2006 VI.2005	I-VI.2006 I-VI.2005
			in %	
Total	100.0	2.8	41	1.1
Energy	21.9	-6.3	-4.5	-0.2
Intermediary goods (except Energy)	33.8	3.9	8.2	5.3
Capital goods	4.8	6.9	13.6	6.1
Durable consumer goods	1.4	11.2	13.8	-2.7
Non durable consumer goods	38.1	5.3	2.4	-2.8
Mining and quarrying	1.8	4.0	11.6	63.7
Manufacturing industry	79.4	4.7	4.9	0.4
Manufacture of food products and beverages	20.0	-2.3	0.6	2.4
Manufacture of tobacco products	3.9	20.2	11.4	2.0
Manufacture of textiles	2.5	-29.5	15.4	12.4
Manufacture of wearing apparel; dressing and dyeing of fur	8.6	19.6	4.7	-6.8
Publishing, printing and reproduction of recorded media	3.9	9.8	-21.6	-22.8
Manufacture of coke, refined petroleum products and nuclear fuel	3.0	3.0	-10.8	8.8
Manufacture of chemicals and chemical products	5.9	14.3	-10.3	-3.2
Manufacture of rubber and plastic products	2.6	2.5	4.3	-10.6
Manufacture of other non-metallic mineral products	8.2	-1.0	34.8	26.8
Manufacture of basic metals	6.0	11.5	23.6	-8.4
Manufacture of fabricated metal products, except machinery and equipment	3.8	5.8	6.4	-1.7
Manufacture of electrical machinery and apparatus n.e.c.	3.2	-34.5	-39.8	7.4
Electricity, gas and water supply	18.8	-8.5	-2.6	-1.7

* Previous data

Source: State Statistical Office of the Republic of Macedonia



Table 7

Industrial output - cumulative growth rates

	Structure	I.2006 I.2005	I-II.2006 I-II.2005	I-III.2006 I-III.2005	I-IV.2006 I-IV.2005	I-V.2006 I-V.2005	I-VI.2006 I-VI.2005
		cumulative changes in %					
Total	100.0	1.8	-0.3	0.5	-0.9	0.5	1.1
Energy	21.9	9.0	1.7	3.0	-1.4	0.5	-0.2
Intermediary goods (except Energy)	33.8	4.8	6.2	5.6	3.7	4.6	5.3
Capital goods	4.8	-4.0	-19.3	-5.6	4.0	4.4	6.1
Durable consumer goods	1.4	-23.1	5.8	10.8	8.4	-6.2	-2.7
Non durable consumer goods	38.1	-6.2	-5.8	-6.1	-5.9	-4.1	-2.8
Mining and quarrying	1.8	2,4 times	2,3 times	2 times	2 times	85.4	63.7
Manufacturing industry	79.4	-1.4	-2.2	-0.8	-2.1	-0.6	0.4
Manufacture of food products and beverages	20.0	-5.0	-0.8	-1.1	0.5	2.8	2.4
Manufacture of tobacco products	3.9	-27.2	-23.4	-14.6	-1.0	-1.6	2.0
Manufacture of textiles	2.5	7.8	-9.1	2.8	4.3	11.8	12.4
Manufacture of wearing apparel; dressing and dyeing of fur	8.6	-11.8	-4.6	-4.9	-8.4	-9.1	-6.8
Publishing, printing and reproduction of recorded media	3.9	12.1	-11.6	-22.5	-24.6	-23.1	-22.8
Manufacture of coke, refined petroleum products and nuclear fuel	3.0	39.3	15.8	32.6	9.6	14.5	8.8
Manufacture of chemicals and chemical products	5.9	9.1	4.5	-5.9	-3.5	-1.5	-3.2
Manufacture of rubber and plastic products	2.6	-19.0	-18.9	-25.5	-19.1	-14.1	-10.6
Manufacture of other non-metallic mineral products	8.1	53.0	58.5	43.7	27.3	24.7	26.8
Manufacture of basic metals	6.0	-21.8	-21.1	-17.4	-16.8	-14.4	-8.4
Manufacture of fabricated metal products, except machinery and equipment	3.8	-21.8	-19.5	-8.7	-6.5	-3.5	-1.7
Manufacture of electrical machinery and apparatus n.e.c.	3.2	118.5	39.6	42.4	25.2	20.8	7.4
Electricity, gas and water supply	18.8	5.2	-0.3	-0.8	-3.0	-1.5	-1.7

Source: Preliminary data of the State Statistical Office of the Republic of Macedonia



Table 8

Purchase of agricultural products

	IV.2006	V.2006	VI.2006	Q. II 2006		<u>Q. II 2006</u> Q. I 2006	<u>Q. II 2006</u> Q. II 2005
	in 000 Denars			amount	share	change in %	
Total	621,228	578,906	483,759	1,683,893	100	-60.0	-6.5
Purchase from individual agricultural producers	251,793	198,275	209,231	659,299	39.2	-80.4	2.1
Sale from own production	369,435	380,631	274,528	1,024,594	60.8	20.3	-11.4
Agriculture	126,691	179,483	101,053	407,227	24.2	-86.6	-26.3
Corn	35,352	44,297	38,149	117,798	7.0	-42.7	-55.6
Industrial plants	782	1,308	1,105	3,195	0.2	-99.9	-60.8
Garden plants	90,173	132,865	58,358	281,396	16.7	540.5	4.2
Fodder crops	384	1,013	3,441	4,838	0.3	63.3	-44.5
Orcharding and wine-growing	6,927	8,596	17,119	32,642	1.9	258.8	54.7
Fruits	2,855	8,596	17,119	28,570	1.7	140.4	44.6
Grapes	4,072	-	-	4,072	0.2	460.1	204.3
Alcoholic products	126,475	154,703	137,934	419,112	24.9	-17.1	-17.3
Cattle breeding	359,621	231,076	211,759	802,456	47.7	26.1	16.0
Livestock	58,133	43,709	38,954	140,796	8.4	95.2	-1.7
Poultry and eggs	45,189	12,478	14,038	71,705	4.3	137.5	31.5
Milk	249,483	169,115	152,986	571,584	33.9	10.5	22.6
Dairy products	6,813	5,674	5,778	18,265	1.1	9.4	-33.3
Leather and wool	3	100	3	106	0.0	-61.5	-34.6
Fish	1,100	1,715	1,406	4,221	0.3	58.6	-47.8
Other products	414	3,333	14,488	18,235	1.1	37.0	-14.1
check	621,228	578,906	483,759	1,683,893	100		

Source: State Statistical Office of the Republic of Macedonia

Table 9

Trade turnover

	Amounts				Changes		
	IV.2006	V.2006	VI.2006	Q.2.2006	<u>Q.2.2006</u> Q.1.2006	<u>Q.2.2006</u> Q.2.2006	<u>I-VI.2006</u> I-VI.2005
	in Denar million				in %		
Trade turnover - total*	13,626	13,479	14,491	41,596	17.6	2.4	0.4
Retail sales*	5,717	5,934	5,875	17,525	18.2	6.2	7.8
Whole sales*	7,909	7,545	8,617	24,071	17.2	-0.2	-4.3

* Estimated

Source: State Statistical Office of the Republic of Macedonia



Table 10

Contracted and completed construction works

	Amounts				Changes		
	IV.2006	V.2006	VI.2006	Q.2.2006	<u>Q.2.2006</u>	<u>Q.2.2006</u>	<u>I-VI.2006</u>
					<u>Q.1.2006</u>	<u>Q.2.2006</u>	<u>I-VI.2005</u>
					in Denar million		
Value of contracted construction works	229	519	1,492	2,240	-50.4	34.9	9.7
Value of completed construction works	516	651	733	1,899	92.0	-8.8	-6.8

Source: State Statistical Office of the Republic of Macedonia

3. Wages and employment

Table 11

Employees by activities

	Number of employed			
	IV.2006	V.2006	VI.2006	Q.II. 2006
Total	264,528	264,004	264,155	264,229
Agriculture	9,512	9,501	9,666	9,560
Agriculture, hunting and forestry	9,353	9,331	9,496	9,393
Fishing	159	170	170	166
Industry	113,303	112,789	112,657	112,916
Minerals and stone mining	2,170	2,177	2,156	2,168
Manufacturing	80,058	79,570	79,131	79,586
Electricity, gas and water supply	14,042	14,053	14,056	14,050
Construction	17,033	16,989	17,314	17,112
Services	141,713	141,714	141,832	141,753
Wholesales and retail sales, mending of motor vehicles, motorbikes and personal consumption items	12,341	12,221	12,256	12,273
Hotels and restaurants	3,826	3,791	3,782	3,800
Transport, storage and communications	13,948	13,857	13,830	13,878
Financial intermediation	5,600	5,635	5,625	5,620
Real estate and business activities	6,656	6,682	6,727	6,688
Public authorities and defense, compulsory social welfare	36,304	36,428	36,613	36,448
Education	30,190	30,221	30,148	30,186
Health and social work	24,353	24,368	24,305	24,342
Other public utility services, general and personal services	8,495	8,511	8,546	8,517



Table 12

Average net wages

	Amounts				Changes		
	IV.2006	V.2006	VI.2006	IV-VI.2006	<u>Q.2.2006</u>	<u>Q.2.2006</u>	<u>I-VI.2006</u>
					Q.1.2006	Q.2.2006	I-VI.2005
	in Denar million				in %		
Nominal average net wage per worker	13,182	13,544	13,557	13,427	1.7	7.7	7.1
Costs of living	0.3	1.2	-0.7				
Real average net wage per worker	-0.8	1.5	0.8				
Nominal average net wage by sectors							
Agriculture	11,430	11,910	11,703	11,688	1.9	2.0	2.5
Industry	13,617	13,927	13,917	13,825	1.6	10.6	9.5
Services	14,644	15,139	14,949	14,907	1.0	3.2	3.4

Source: State Statistical Office of the Republic of Macedonia

4. Monetary policy

Table 13

Reserve money
(in Denar million)

	31.03.2006	Monthly changes			Total	30.06.2006
		April	May	June		
Reserve money	19,192	1,403	1,157	-485	2,075	21,267
Currency in circulation	13,700	860	-660	680	880	14,580
Banks liquidity	5,492	543	1,817	-1,165	1,195	6,687

Source: National Bank of the Republic of Macedonia

5. Banking sector

Table 14

Money supply M1 and its components
(in Denar million)

	31.03.2006	Monthly changes			Total	30.06.2006
		April	May	June		
Money supply M1	27,962	1,497	125	1,184	2,806	30,768
Currency in circulation	13,700	860	-660	680	880	14,580
Demand deposits	14,262	637	785	504	1,926	16,188
- Demand deposits of households	3,074	269	-80	165	354	3,428
- Demand deposits of enterprises	9,226	67	821	401	1,289	10,515

Source: National Bank of the Republic of Macedonia



Table 15

Broader monetary aggregates and their components
(in Denar million)

	31.03.2006	Monthly changes			Total	30.06.2006
		April	May	June		
Money supply M1	27,962	1,497	125	1,184	2,806	30,768
Denar short - term deposits	27,889	1,674	1,301	-2,802	173	28,062
<i>Monetary aggregate M2 - denar component</i>	55,851	3,171	1,426	-1,618	2,979	58,830
Foreign currency short - term deposits	50,756	566	159	1,334	2,059	52,815
Monetary aggregate M2	106,607	3,737	1,585	-284	5,038	111,645
Non - monetary deposits	5,305	400	-228	211	383	5,688
- In Denar	3,123	134	16	-18	132	3,255
- In foreign currency	2,182	266	-244	229	251	2,433
Monetary aggregate M4	111,912	4,137	1,357	-73	5,421	117,333

Source: National Bank of the Republic of Macedonia

Table 16

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

	31.03.2006	Monthly changes			Total	30.06.2006
		April	May	June		
Total deposits	83,950	2,640	1,232	-1,257	2,615	86,565
1. According to maturity						
- short-term	78,645	2,240	1,460	-1,468	2,232	80,877
- long-term	5,305	400	-228	211	383	5,688
2. According to currency of denomination						
- In denar	31,012	1,808	1,317	-2,820	305	31,317
- In foreign currency	52,938	832	-85	1,563	2,310	55,248

Source: National Bank of the Republic of Macedonia



Table 17

Households and enterprises deposits
(in Denar million)

	31.03.2006	Monthly changes				30.06.2006
		April	May	June	Total	
Total households deposits	57,499	1,443	143	1,351	2,937	60,436
1. According to maturity						
- short-term	54,506	1,375	70	1,336	2,781	57,287
- long-term	2,993	68	73	15	156	3,149
2. According to currency of denomination						
- In denar	16,665	1,137	101	388	1,626	18,291
- In foreign currency	40,834	306	42	963	1,311	42,145
Total enterprises deposits	24,780	1,056	1,128	-2,743	-559	24,221
1. According to maturity						
- short-term	23,391	755	1,451	-2,933	-727	22,664
- long-term	1,389	301	-323	190	168	1,557
2. According to currency of denomination						
- In denar	12,873	575	1,252	-3,372	-1,545	11,328
- In foreign currency	11,907	481	-124	629	986	12,893

Source: National Bank of the Republic of Macedonia

Table 18

Banks' placements and overdue claims
(in Denar million)

	31.03.2006	Monthly changes				30.06.2006
		April	May	June	Total	
Total banks' placements	73,017	1,823	1,530	3,193	6,546	79,563
<i>Denar placements</i>	54,473	1,079	1,069	2,372	4,520	58,993
<i>Foreign currency placements</i>	18,544	744	461	821	2,026	20,570

Source: National Bank of the Republic of Macedonia

Table 19

Structure of total placements
(in Denar million)

	31.03.2006	Monthly changes				30.06.2006
		April	May	June	Total	
Maturity structure						
- short-term	32,942	838	235	1,361	2,434	35,376
- long-term	40,075	985	1,295	1,832	4,112	44,187
Structure of currency of denomination						
- Denar	54,473	1,079	1,069	2,372	4,520	58,993
- Foreign currency	18,544	744	461	821	2,026	20,570
Structure by sectors						
- enterprises	49,842	1,131	609	2,289	4,029	53,871
- households	23,079	677	930	918	2,525	25,604
- other	96	15	-9	-14	-8	88

Source: National Bank of the Republic of Macedonia



Table 20

Maturity and sector structure of Denar and foreign currency placements

	30.06.2006	Quarterly change	Annual change
	(in %)	(in percentage points)	
Denar placements			
maturity structure			
- short-term	50.2	-0.8	-1.3
- long-term	49.8	0.8	1.3
structure by sectors			
- enterprises	58.7	-0.5	-3.7
- households	41.1	0.6	3.8
- other	0.1	0.0	-0.1
Foreign currency placements			
maturity structure			
- short-term	28.0	0.2	-7.3
- long-term	72.0	-0.2	7.3
structure by sectors			
- enterprises	93.4	-1.2	-2.7
- households	6.5	1.2	2.8
- other	0.0	0.0	-0.1

Source: National Bank of the Republic of Macedonia

6. Financial markets

Table 21

Stock exchange indicators

	January-March 2006	April-June 2006	change in %
Turnover (denars)			
Trading in BEST	2,023,818,762	2,504,013,410	23.73
Shares	1,309,475,629	1,714,185,051	30.91
Bonds	714,343,133	789,828,359	10.57
Average daily turnover (denars)	31,889,692	39,918,920	25.18
Average daily number of transactions	137	153	11.71
Block transactions	10,946,347,046	377,363,400	-96.55
Government segment	24,123,831	6,212,801,376	25,653.79
Shares	24,123,831	5,417,759,821	22,358.12
Stakes	-	795,041,555	
Other securities			
Total	12,994,289,639	9,094,178,186	-30.01
Market capitalization (denars)^{1/}			
Market capitalization of shares - quoted companies	37,458,507,489	39,146,091,368	4.51
Market capitalization of bonds	26,180,952,284	24,051,577,086	-8.13
Mbi/mbi-10^{1/}	2,593	2,912	12.31
Number of quoted companies^{1/}	50	50	0.00

1/ End of period

Source: Macedonian Stock Exchange



Table 22

Turnover structure

Market segment	Turnover (denars)	Turnover (euros)	%	Number of transactions
Official market	2,091,148,736	34,186,944	22.99	8,374
Unofficial market	412,864,674	6,749,495	4.54	1,090
Government segment	6,212,801,376	101,580,960	68.32	392
Block transactions	377,363,400	6,169,098	4.15	35
Total	9,094,178,186	148,686,497	100.00	9,891

Table 23

Supply, demand and interest rate of Treasury bills*

Supply, demand and interest rate of Treasury bills

Three-month Treasury bills	Supply	Demand	Realization	Average weighted interest rate
	(in Denars)			
IV.2006	2,669,830,000	2,798,630,000	2,350,000,000	6.44
V.2006	800,000,000	1,168,550,000	800,000,000	6.11
VI.2006	2,750,000,000	1,319,710,000	1,319,710,000	6.53
Total for the quarter:	6,219,830,000	5,286,890,000	4,469,710,000	6.41

Six-month Treasury bills	Supply	Demand	Realization	Average weighted interest rate
	(in Denars)			
IV.2006	500,000,000	66,430,000	66,430,000	6.84
V.2006	350,000,000	452,520,000	350,000,000	7.13
VI.2006	300,000,000	523,730,000	300,000,000	6.92
Total for the quarter:	1,150,000,000	1,042,680,000	716,430,000	7.02

One-year Treasury bills	Supply	Demand	Realization	Average weighted interest rate
	(in Denars)			
VI.2006	350,000,000	261,670,000	261,670,000	8.66
Total for the quarter:	350,000,000	261,670,000	261,670,000	8.66

Source: Ministry of Finance of the Republic of Macedonia



7. Balance of payments

Table 24

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

	2005				2005	2006						Q.1 2006	Q.2 2006	2006 I-VI
	Q.1	Q.2	Q.3	Q.4		I	II	III	IV	V	VI			
I. Current Account	-15,9	-86,8	64,8	-24,0	-61,8	-8,1	4,8	-16,1	-32,2	-7,6	-9,1	-19,4	-49,0	-68,4
GOODS, net	-145,5	-272,0	-188,4	-247,4	-853,4	-63,4	-51,1	-90,4	-106,8	-85,9	-94,9	-204,8	-287,6	-492,5
Exports, f.o.b.	367,4	406,6	416,0	452,2	1.642,2	101,3	123,5	149,5	144,0	159,3	161,8	374,4	465,1	839,4
Imports, f.o.b. /2	-512,9	-678,6	-604,5	-699,6	-2.495,6	-164,7	-174,6	-239,9	-250,8	-245,2	-256,7	-579,2	-752,7	-1.331,9
SERVICES, net	-2,9	-13,1	9,4	-20,7	-27,2	1,0	-2,8	-3,3	-1,6	-1,9	-0,7	-5,1	-4,2	-9,3
INCOME, net	0,5	-16,3	-36,8	8,2	-44,4	-1,3	2,5	4,1	0,1	-5,4	1,0	5,3	-4,2	1,0
o/w: Interest, net	-7,6	-3,7	-8,7	-0,7	-20,7	-5,0	-1,4	-1,1	-2,1	-2,7	-1,1	-7,5	-5,9	-13,4
CURRENT TRANSFERS, net	131,9	214,6	280,7	236,0	863,2	55,5	56,2	73,6	76,1	85,6	85,5	185,3	247,1	432,4
Official	9,0	12,7	16,7	14,1	52,5	1,5	3,7	8,8	7,1	4,2	4,4	14,1	15,8	29,8
Private	123,0	201,9	264,0	221,8	810,7	54,0	52,4	64,7	69,0	81,4	81,1	171,2	231,4	402,6
II. Capital & Financial Account	19,5	83,9	-61,8	30,4	71,9	5,4	-4,7	18,0	34,2	12,3	7,9	18,7	54,4	73,1
CAPITAL ACCOUNT, net	0,0	-0,2	0,2	-1,8	-1,7	-0,1	0,2	0,3	-0,2	-0,3	0,0	0,4	-0,4	-0,1
Capital transfers . net	0,0	-0,2	0,2	-1,8	-1,7	-0,1	0,2	0,3	-0,2	-0,3	0,0	0,4	-0,4	-0,1
Official	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other	0,0	-0,2	0,2	-1,8	-1,7	-0,1	0,2	0,3	-0,2	-0,3	0,0	0,4	-0,4	-0,1
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	0,0	0,0	0,0	0,0	0,0
FINANCIAL ACCOUNT, net	19,5	84,0	-62,0	32,1	73,7	5,5	-4,8	17,6	34,4	12,5	7,9	18,3	54,8	73,2
Direct investment, net	27,7	26,6	14,1	8,7	77,1	6,4	2,9	230,0	5,4	3,7	8,1	239,4	17,2	256,5
Portfolio investment, net	12,5	3,8	14,4	167,3	198,0	3,2	2,7	5,9	4,5	14,1	6,2	11,8	24,8	36,6
Other investment, net	-10,1	77,5	1,8	77,3	146,5	-161,7	-6,5	-36,1	59,7	17,6	25,4	-204,3	102,7	-101,5
Trade credits, net	-45,7	66,4	-32,1	32,5	21,1	-6,6	-27,4	26,3	21,9	9,9	5,7	-7,7	37,5	29,8
Loans, net	14,3	64,8	4,7	41,2	125,0	-151,4	22,2	-4,1	41,9	-10,2	5,7	-133,3	37,3	-96,0
Currency and deposits, net	17,9	-57,9	24,4	-5,2	-20,7	-5,2	-2,3	-61,0	-6,5	-4,6	5,8	-68,5	-5,3	-73,8
o/w: Monetary Authorities, net	0,0	-0,3	0,3	0,0	0,0	0,0	0,0	-56,7	0,0	0,0	0,0	-56,7	0,0	-56,8
o/w: Commercial Banks, net	16,3	-49,0	40,8	14,2	22,4	-3,6	4,4	5,3	-0,9	7,5	12,8	6,1	19,4	25,5
o/w: Individuals, net	1,6	-8,6	-16,7	-19,4	-43,1	-1,6	-6,8	-9,5	-5,6	-12,1	-7,0	-17,9	-24,6	-42,5
Other, net	3,4	4,2	4,7	8,8	21,1	1,5	1,0	2,7	2,4	22,6	8,3	5,3	33,2	38,5
Gross official reserve assets, (- = increase) /3	-10,6	-23,8	-92,3	-221,2	-347,9	157,6	-4,0	-182,2	-35,2	-22,9	-31,8	-28,6	-89,9	-118,4
III. Errors & Omissions	-3,6	2,9	-3,0	-6,4	-10,1	2,7	-0,1	-1,9	-2,0	-4,6	1,2	0,7	-5,4	-4,7

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 25

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

	Q.2 2005	Q.2 2006	Q.2 2006	
			Q.2 2005	
			Amount	%
Foreign trade	1,114.4	1,250.5	136.1	12.2
Exports	406.6	465.6	59.0	14.5
Imports	707.8	784.9	77.0	10.9
Balance	-301.3	-319.2	-18.0	6.0

Source: State Statistical Office of the Republic of Macedonia


Table 26

Geographic distribution of the foreign trade of the Republic of Macedonia

	Q.2.2005					Q.2.2006				
	Export	Import	Total trade	Trade balance	Export - import coverage	Export	Import	Total trade	Trade balance	Export - import coverage
	in millions of Euros					in millions of Euros				
European Union	197.3	325.1	522.5	-127.8	60.7	253.4	359.4	612.8	-105.9	70.5
Germany	64.0	72.1	136.1	-8.0	88.8	70.2	77.7	148.0	-7.5	90.4
Greece	64.0	62.7	126.7	1.3	102.0	77.4	71.6	149.0	5.7	108.0
Italy	31.7	44.6	76.3	-12.9	71.0	44.7	48.9	93.5	-4.2	91.4
Other	37.6	145.7	183.3	-108.1	25.8	61.2	161.2	222.4	-99.9	38.0
Central and Eastern European countries and former countries of USSR	25.1	173.7	198.9	-148.6	14.5	39.3	190.3	229.6	-151.0	20.6
Russia	4.0	79.6	83.6	-75.5	5.1	5.1	78.6	83.7	-73.5	6.5
Bulgaria	14.3	54.4	68.7	-40.1	26.3	24.7	58.5	83.2	-33.9	42.1
Romania	0.7	12.1	12.8	-11.3	6.2	2.2	16.6	18.7	-14.4	13.0
Other	6.0	27.7	33.7	-21.6	21.8	7.4	36.6	44.0	-29.2	20.2
Former countries of SFRY	132.5	104.9	237.4	27.7	126.4	161.0	106.5	267.4	54.5	151.2
Serbia and Montenegro	97.8	56.4	154.3	41.4	173.3	112.8	56.9	169.7	55.8	198.1
Other	34.7	48.4	83.1	-13.7	71.6	48.2	49.5	97.8	-1.3	97.3
Other countries	51.6	104.1	155.7	-52.5	49.6	11.9	128.7	140.6	-116.8	9.3
China	2.8	26.0	28.8	-23.2	10.8	1.0	27.3	28.2	-26.3	3.5
Other	48.8	78.1	126.9	-29.3	62.5	11.0	101.5	112.4	-90.5	10.8
TOTAL	406.6	707.9	1,114.4	-301.3	57.4	465.6	784.9	1,250.5	-319.2	59.3

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

Table 27

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

	Foreign trade		Exports		Imports		export coverage ratio
	Amount	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	
Republic of MACEDONIA	1,250.5	100.0	465.6	100.0	784.9	100.0	59.3
<i>out of which:</i>							
Serbia and Montenegro	169.7	13.6	112.8	24.2	56.9	7.3	198.1
Greece	149.0	11.9	77.4	16.6	71.6	9.1	108.0
Germany	148.0	11.8	70.2	15.1	77.7	9.9	90.4
Italy	93.5	7.5	44.7	9.6	48.9	6.2	91.4
Russia	83.7	6.7	5.1	1.1	78.6	10.0	6.5
Bulgaria	83.2	6.7	24.7	5.3	58.5	7.5	42.1
Croatia	44.0	3.5	27.6	5.9	16.4	2.1	168.8
Turkey	36.0	2.9	10.2	2.2	25.8	3.3	39.6
Slovenia	35.9	2.9	8.1	1.7	27.8	3.5	29.1
China	28.2	2.3	1.0	0.2	27.3	3.5	3.5
Total (10 largest trading partners)	871.2	69.7	381.6	82.0	489.6	62.4	78.0

Source: State Statistical Office of the Republic of Macedonia

Table 28

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

	Export		Import		Export		Import	
	Q.2 2005	Q.2 2006	Q.2 2005	Q.2 2006	Q.2 2005	Q.2 2006	Q.2 2005	Q.2 2006
	in millions of euros				structure in %			
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Production goods	55.4	55.9	53.6	64.3	65.5	65.1	65.5	65.1
Means of production	1.3	1.9	1.9	11.6	11.3	9.8	11.3	9.8
Consumption goods	43.2	42.2	44.5	24.1	23.2	25.0	23.2	25.0
Unallocated	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1



Table 29

Stock of the external long-term debt.

As of:				Changes		
30.06.2005	31.03.2006	30.06.2006	Quarterly	Annual	Share in the total debt	
in millions of euros			%			
From the aspect of the debtors:						
Public sector	1,247.2	1,226.8	1,219.7	-0.6	-2.2	71.7
Private sector	365.7	437.3	481.5	10.1	31.7	28.3
From the aspect of the creditors:						
Multilateral creditors	841.6	882.8	879.4	-0.4	4.5	51.7
Bilateral creditors	184.2	162.6	169.4	4.1	-8.0	10.0
Private creditors	587.2	618.6	652.4	5.5	11.1	38.4
Total:	1,612.9	1,664.1	1,701.2	2.2	5.5	100.0

*December 31, 2005 is the cut-off date of the 2005 base.

**July 31, 2006 is the cut-off date of the 2006 base.

Source: National Bank of the Republic of Macedonia

Table 30

Used funds and paid liabilities based on long-term debt.

	Used funds		Changes		Principal	Interest	Paid liabilities	Changes	
	Q.2 2006	Quarterly	Annual	Q.2 2006	Q.2 2006	Q.2 2006	Q.2 2006	Quarterly	Annual
	in millions of euros								
From the aspect of the debtors:									
Public sector	15.2	6.9	-12.1	10.9	5.8	16.7	-201.8	1.2	
Private sector	56.1	18.9	6.4	11.9	4.5	16.5	1.0	-1.8	
From the aspect of the creditors:									
Multilateral creditors	12.6	5.9	-17.1	9.7	5.5	15.2	3.0	1.3	
Bilateral creditors	11.4	9.8	8.5	2.0	0.3	2.3	-10.9	-0.7	
Private creditors	47.2	10.0	3.0	11.1	4.5	15.6	-192.9	-1.2	
Total:	71.2	25.7	-5.7	22.8	10.3	33.2	-200.8	-0.6	

*December 31, 2005 is the cut-off date of the 2005 base.

**July 31, 2006 is the cut-off date of the 2006 base.

Source: National Bank of the Republic of Macedonia



Table 31

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

	Debt outstanding			Used credits			Paid liabilities		
	30.04.2006	31.05.2006	30.06.2006	IV-2006	V-2006	VI-2006	IV-2006	V-2006	VI-2006
Official creditors	1,039.0	1,038.3	1,048.8	8.7	9.0	6.2	6.9	3.7	7.0
out of which:									
Multilateral	874.1	869.9	879.4	3.4	3.8	5.3	6.4	3.6	5.3
MMF	50.2	48.4	47.8	0.0	0.0	0.0	1.1	1.6	1.3
IBRD	203.5	201.6	203.7	0.7	0.7	1.5	0.2	1.5	2.6
IFC	4.1	4.1	4.2	0.0	0.1	0.0	0.6	0.0	0.0
IDA	298.7	295.5	300.9	0.6	0.4	1.1	1.3	0.1	0.2
EIB	118.6	118.6	118.5	0.0	0.0	0.0	3.2	0.4	0.1
EUROFIMA	6.1	6.1	6.1	0.0	0.0	0.0	0.0	0.0	0.0
Council of EDB	18.5	18.5	18.5	1.7	0.0	0.0	0.0	0.1	0.0
EBRD	73.7	75.8	78.2	0.4	2.1	2.7	0.0	0.0	0.5
EU	90.0	90.0	90.0	0.0	0.0	0.0	0.0	0.0	0.4
IFAD	10.9	11.2	11.4	0.0	0.5	0.0	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	164.9	168.4	169.4	5.3	5.2	0.9	0.5	0.0	1.8
Paris club (rescheduled 1995)	89.8	88.7	89.9	0.0	0.0	0.0	0.1	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	68.5	73.1	72.9	5.3	5.2	0.9	0.4	0.0	1.8
Private creditors	639.2	641.4	652.4	33.2	4.3	9.8	8.1	2.8	4.7
out of which:									
London Club of Creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other private creditors	150.0	150.0	150.0						
Other	489.2	491.4	502.4	33.2	4.3	9.8	8.1	2.8	4.7
Banks and financial institutions	230.6	229.5	234.0	19.4	1.9	3.9	1.7	1.7	3.0
Non-financial private sector	258.5	261.9	268.5	13.8	2.3	5.9	6.4	1.0	1.7
TOTAL	1,678.2	1,679.6	1,701.2	41.9	13.3	16.0	15.0	6.4	11.8

Source: State Statistical Office of the Republic of Macedonia



8. Public finances

Table 32

Central Government Budget

	Q.1 2006	Q.1 2006/ Q.1 2005 (in %)	Q.2 2006	Q.2 2006/ Q.2 2005 (in %)	I-VI.2006	I-VI.2006/ I-VI.2005 (in %)
Total budget revenues	23,097	6.3	26,266	6.7	49,363	6.5
Revenues based on taxes and contributions	19,848	4.6	22,782	7.6	42,631	6.2
<i>Tax revenues (SRA):</i>	79	16.2	50	-33.3	129	-9.8
<i>Tax revenues:</i>	12,658	2.8	15,098	8.3	27,755	5.7
- personal income tax	1,933	5.4	2,098	2.2	4,031	3.7
- profit tax	1,725	59.7	914	52.3	2,639	57.1
- value added tax	5,228	-9.0	7,342	8.5	12,570	0.5
- excises	2,542	3.3	2,840	-3.3	5,381	-0.3
- custom duties	993	-3.2	1,494	3.7	2,487	0.8
- other	237	41.1	410	2.8 times	647	2 times
<i>Contributions</i>	7,112	7.9	7,635	6.7	14,746	7.3
<i>Non-tax revenues:</i>	2,305	-7.6	2,721	-11.9	5,026	-10.0
- non-tax revenues (SRA)	1,234	-12.7	1,117	-33.6	2,351	-24.1
- inflows from state property dividends	103	24.1	406	56.2	510	48.7
- administrative taxes and fees	395	2.1	426	-7.2	821	-3.0
- revenues based on participation	79	-37.8	75	-38.5	154	-38.2
- other administrative taxes	65	12.1	70	1.4	135	6.3
- other non-tax revenues	109	25.3	175	3.3 times	284	102.9
- road toll	320	-5.9	451	2.0	771	-1.4
<i>Capital revenues</i>	143	27.7	390	3.6 times	533	2.4 times
<i>Donations (from abroad)</i>	755	5 times	299	15.4	1,054	2.5 times
Total budget expenditures	23,538	3.4	26,245	9.9	49,783	6.7
<i>Current expenditures</i>	22,475	3.8	24,125	8.8	46,600	6.3
- wages and salaries	5,750	2.0	5,878	2.5	11,628	2.2
- goods and services	2,856	-10.7	3,264	4.0	6,120	-3.4
- transfers	13,079	6.7	14,266	12.9	27,345	9.9
- interest	790	38.8	717	7.7	1,507	22.0
<i>Capital expenditures</i>	1,063	-4.1	2,120	25.1	3,184	13.6
Budget balance	-441		21		-421	
Financing	441		-21		421	
External financing, net	-9,000		194		-8,806	
Financing from domestic sources, net	-4,458		-4,061		-8,519	
- sfunds from the Government account with the NBRM	508		2,855		3,363	
- Treasury bills	-4,835		-4,198		-9,033	
Revenues based on privatization	13,899		3,846		17,745	

Source: Ministry of Finance

Table 33

NBRM Balance sheet on June 30, 2006

(in million Denars)

Assets	Amount	Liabilities	Amount
Foreign assets	80,181	Reserve money	21,267
Claims on Government	3,604	NBRM instruments	6,734
Claims on banks and other financial institutions	1,354	Restricted deposits	399
Other assets	4,545	Foreign liabilities	2,925
		Government deposits	36,006
		Capital accounts	11,523
		Other liabilities	10,830
Total	89,684	Total	89,684

Source: National Bank of the Republic of Macedonia