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Research Department



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

*I*nflation performances of the Macedonian economy in the third quarter of 2006, were dominated by the same factors on the supply side, which caused movements in the general price level from the beginning of 2006. Thus, the average inflation rate in the first nine months of 2006 equaled 3.3% and it was mainly a result of the influence of non-monetary factors. If the variable categories, prices of food and energy and the additional correction for the effect from the increased excise on cigarettes in the beginning of the year, are excluded from the index, the average inflation rate equaled 1.2%. By the end of the year, no significant changes in the inflation are expected, with the average inflation rate in 2006 being expected to equal 3.3%.

In the January - September 2006 period, the actual volume of the industrial output registered an average increment of 2.2%, as a reflection of the positive contribution of the manufacturing (increased production of products from other non-metal minerals, basic metals, oil derivatives, tobacco products and textiles), and the mining sector. From the viewpoint of the economic dynamics, the registered increase in the industrial output, the increased trade turnover and the accelerated activity in the agriculture signaled further economic growth, which by the end of 2006 is expected to reach 4%. p.a.

In the January - September 2006 period, positive movements were registered in the foreign trade, expressed through a relatively faster growth of the export relative to the growth of the import of goods (of 16.7% and 14.8%, respectively). In circumstances of high net inflows on the basis of private transfers, surplus in the current account and rise in gross foreign reserves was registered, primarily by net-purchasing of foreign exchange on the foreign exchange market by the NBRM. Liquidity created through the foreign exchange transactions of the NBRM was mopped up through the government deposits and monetary instruments, retaining the downward trend in the market interest rates. Thus, in September 2006, the interest rate on CB bills equaled 5.36% and it was lower by 0.4 percentage point compared with the end of the previous quarter, with the interest rates on the Money Market and the Short-Term Government Securities Market also moving in this direction.

Economic activity in the third quarter was supported by an adequate volume of money supply and active credit support of the private sector provided by the banks. The total banks' deposit potential in the third quarter of 2006 continued to grow at a fast pace, and it was higher by 6% on a quarterly basis. From the viewpoint of the currency of denomination structure, faster growth rate was registered in the denar saving relative to the saving in foreign currency, with denar and foreign currency deposits having an almost identical contribution to the increase in total deposits (of 49.2% and 50.8%, respectively).

In the third quarter of 2006, the growth of total placements slowed down, which was mostly a result of the decline in the non-performing loans. Thus, the quarterly growth rate of total placements in September 2006 equaled 3.2% (9% in the previous quarter). Analyzed from the viewpoint of the different sectors, 80.1% of the rise in the total credits in the third quarter pertain to credits placed with the households sector, primarily in the form of long-term denar credits. In accordance with the Survey on Banks' Credit Activity, banks' lending to enterprises in the third quarter was aimed at financing the investments in fixed assets, which is in line with the increased demand for long-term credits by the corporate sector.

1.

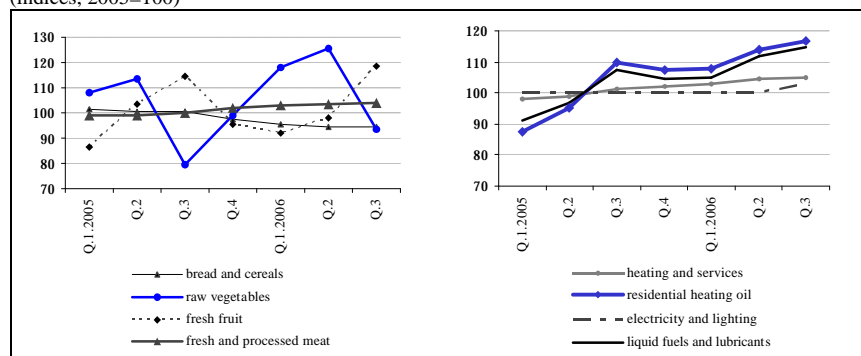
Prices

Decline in the price level in the third quarter of 2006 compared with the preceding quarter...

The level of consumer prices in the third quarter of 2006 dropped by 0.6% relative to the preceding quarter¹. Seasonal oscillations in the prices of vegetables had a dominant contribution to the decline in the general price level (of 1 percentage point), while the prices of PTT services, which were reduced by 6.1% in September, had an additional deflationary effect. On the other hand, the prices of fresh fruits (positive contribution of 0.4 percentage points) and regulated prices, i.e. the price of electricity for households (increase of 9% in September) and prices of oil derivatives (positive contribution of 0.2 and 0.1 percentage points, respectively), had an inflationary effect. In the analyzed quarter, faster growth was registered in the prices of textbooks and books (14.1% in September) and in the price of compulsory motor vehicle insurance (15% in August), but due to their small share in the total inflation index, the growth did not have a significant effect on the general price level. Other categories did not register more significant oscillations in prices, i.e. they retained the level registered in the second quarter.

Figure 1

Consumer prices
of food products
(indices, 2005=100)



...with registered annual growth of 3.6%

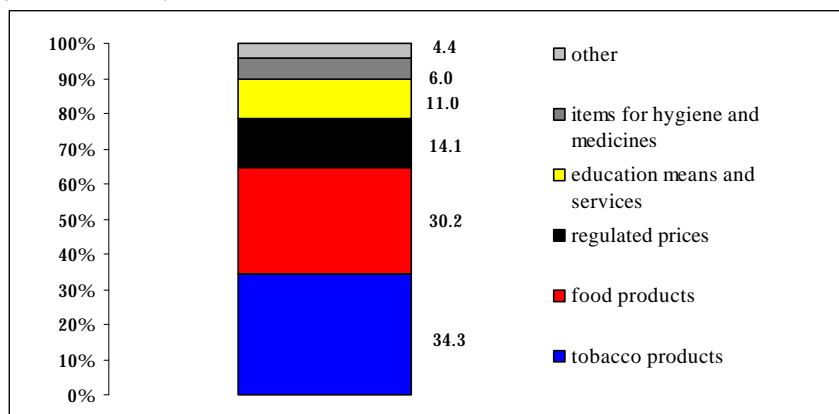
Analyzed on annual basis, the level of consumer prices in the third quarter of 2006 was by 3.6% higher relative to the same quarter of the preceding year. The largest portion, or about 34% of the growth was a result of the administrative change in the price of cigarettes², while 30% were due to the higher prices of food products (mainly owing to the higher prices of fresh vegetables, of fresh and processed meat). Smaller part of the annual inflation (around 14%) was caused by the increase in regulated prices, i.e. by the higher price of oil derivatives, electricity, central heating³ (contribution of 6.5%, 5.1% and 2.5%, respectively). The increase in the prices of education means and services and of the prices of the items for hygiene and of the medicines caused 11% and 6%, respectively of the annual inflation.

¹ The calculations of the inflation rate in the third quarter of 2006 were made in the Research Department on the basis of data provided by the State Statistical Office.

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 The price of central heating services went up by 2% in February 2006.

Figure 2
Determinants of the annual inflation rate (third quarter of 2006 / third quarter of 2005)
(contributions in %)



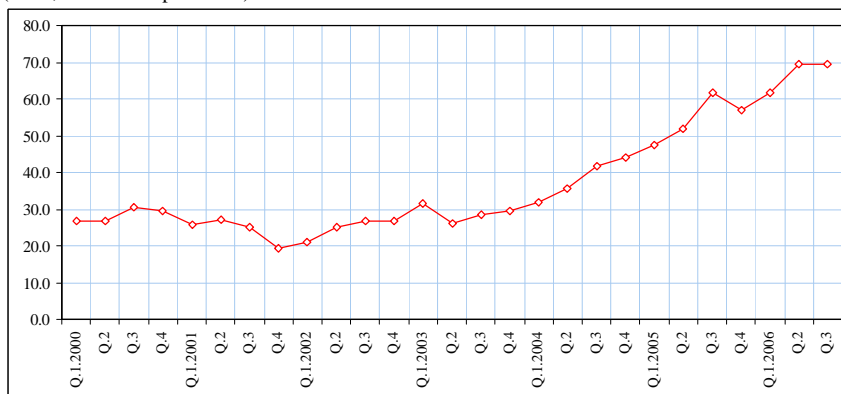
The average inflation rate in the January - September period, compared with the same period of 2005, equaled 3.3%, while the **core** inflation rate which excludes the effect from the changes in the most variable categories, food and energy, corrected by the effect from the increase in the price of tobacco was lower and equaled 1.2%.

Attachment 1

Developments on the international oil markets in the third quarter of 2006

The average price of crude oil on the international markets in the third quarter of 2006 was almost unchanged relative to the preceding quarter and amounted to 69.6 US Dollars per barrel. In July and August, the price of crude oil reached historically highest levels of 73.8 and 73.4 US Dollars per barrel, respectively, while in September it fell dramatically to 61.6 US Dollars per barrel. The rise in the oil price in the first couple of months of the quarter was a result of the geopolitical tensions caused by the Israeli attacks on Lebanon and the dispute of Iran with the international community. The following factors had an additional effect on the increase in the oil price: reduced production of oil due to the attacks on the oil fields in Nigeria, increased global demand for fuels in the summer season and potential danger of reducing the oil production due to the hurricane season in the Mexican Gulf. However, the psychological pressure for deterioration of the situation with the supply of oil in international terms was contained in September, with the ceasing of the Israeli military action against Lebanon, lack of UN sanctions against Iran, stabilized demand for oil and announcements for increased stocks of oil in global terms, as well as the fact that the storm season passed without damages caused to the oil plants in the Mexican Gulf.

Figure 3
Price of crude oil
(brent, US Dollars per barrel)



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

Thus, in the third quarter of 2006 the price of crude oil registered an increase of 13% relative to the third quarter of 2005, which is a significant slowdown in the annual quarterly dynamics (in the previous quarter, the annual growth equaled 34%).

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.

In line with the announced increase in the price of heating energy in the last quarter of the year and the possible offsetting of this effect with the fall in the prices of oil derivatives (which corresponds with the movement in the price of crude oil on the international markets), by the end of 2006 it is expected the inflation rate to remain on the level of 3.3%.

Attachment 2

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

Within the Euro-zone, during the third quarter of 2006, slowdown in the annual quarterly dynamics of the inflation was registered. The average rate of inflation (measured by the Harmonized Index of Consumer Prices - HICP) in the third quarter of the year equaled 2.1% (2.5% in the previous quarter), and it was primarily a result of the annual increase in the price of energy (which registered slower growth dynamics) and in the price of unprocessed food, which registered significant annual growth in the third quarter.

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

	Share in %	2005	Q.1 2006 / Q.1 2005	Q.2 2006 / Q.2 2005	VII.2006	VIII.2006	IX.2006	Q.3 2006 / Q.3 2005
Harmonized consumer price index (HICP)	100.0	2.2	2.3	2.5	2.4	2.3	1.7	2.1
Goods (total)	59.2	2.1	2.6	2.8	2.7	2.5	1.6	2.3
Energy	9.2	10.1	12.2	11.6	9.5	8.1	1.5	6.3
Unprocessed food	7.4	0.8	1.4	1.6	3.2	3.9	4.6	3.9
Processed food	11.8	2.0	2.0	2.2	2.3	2.2	1.8	2.1
Industrial products other than energy	30.7	0.3	0.3	0.7	0.6	0.6	0.8	0.7
Services (total)	40.8	2.3	1.9	2.0	2.1	1.9	2.0	2.0

In the third quarter of the year, the core inflation rate in the Euro-zone, which excludes the movements in the prices of energy and non-processed food retained the level from the previous quarter (1.5%).

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 August 9, 2006, the ECB Council increased the reference interest rates by 0.25 percentage points. After the change, the minimum interest rate on repo transactions equaled 3%, the interest rate on the Lombard credit was 4%, and the interest rate on the deposit auctions was 2%.

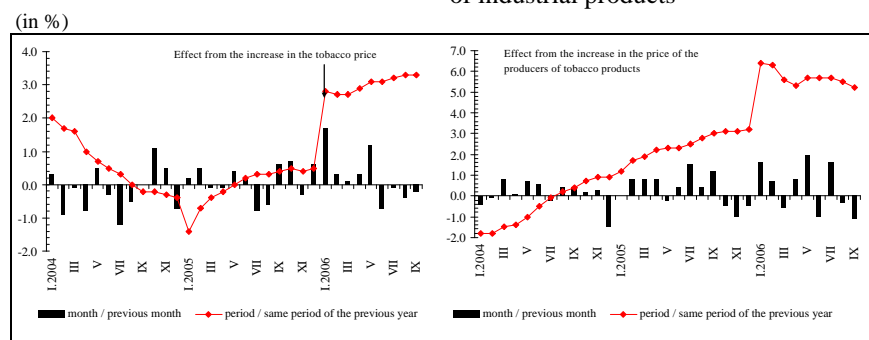
Source: Eurostat and the European Central Bank.

Average increase in the prices of the producers of industrial products of 5.2% in the first three quarters of the year

Inflation trends can also be observed through the production prices index, which is a significant indicator of the level of the prices of finished products from domestic production. Thus, the average rise in the prices of the producer of industrial products in the January - September 2006 period relative to January - September 2005 was 5.2%, and it was positively correlated with the average inflation rate.

Figure 4
Consumer prices

Prices of the producers
of industrial products



Source: State Statistical Office

Here, 99.4% of the realized increase in the production prices was a result of the increase in the prices in the manufacturing, while the increase in the prices in the mining sector caused only 1.1% of the total growth. 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. Analyzed by branches, the largest portion of the increase was generated from the higher prices of the producers of oil derivatives (contribution of around 63%), determined in accordance with the movement of the crude oil on the international markets. The rise in the price of the producers of tobacco products, caused by the increased excise and new duties on these products had an additional contribution (of approximately 23%). Higher prices of the producers of products of other non-metal minerals and food products and beverages also had a positive contribution to the level of production prices (of around 7% and 5%, respectively).

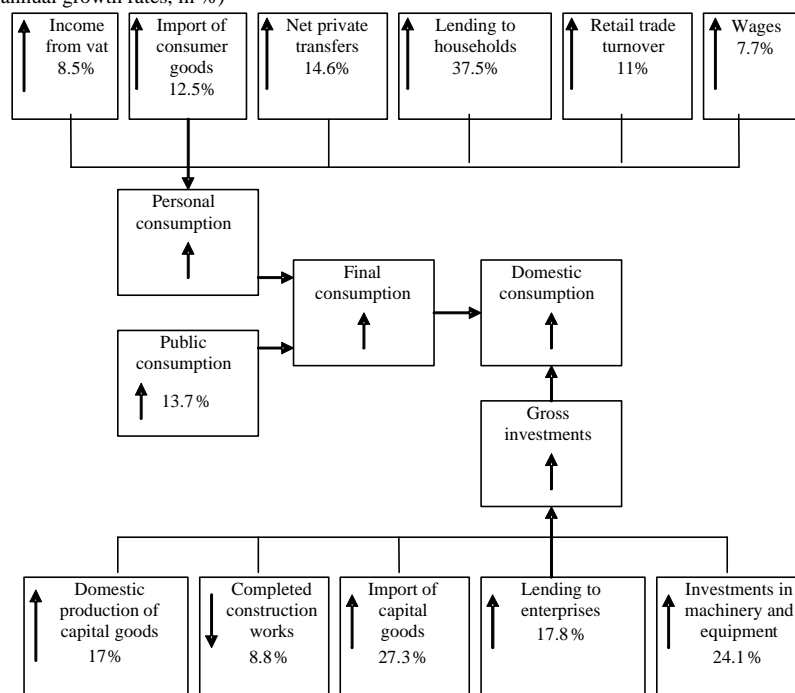
1.1. Domestic consumption and inflation

Due to the lack of detailed data on the expenditure components of GDP, the analysis of the influence of the domestic consumption⁴ on the inflation performances is based on the movement of the components on which there are data available and on the changes in certain indicative variables on the basis of which qualitative assessments may be made.

⁴ Includes final consumption and gross investments. The SSO does not publish complete data on the expenditure side of GDP on a 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 precaution.

In the second quarter of 2006, having an intensified *public consumption*⁵ and estimated growth of the *personal consumption* on the basis of indicative categories, *final consumption* is expected to be higher on annual basis. Also, increase in *gross investments* is expected, caused by the accelerated *investments in machines and equipment*⁶ and the increase in individual important indicative variables. 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 second quarter of 2006 is assumed (relative to the same period of 2005).

Figure 5
Movements of the domestic consumption in the second quarter of 2006
(annual growth rates, in %)

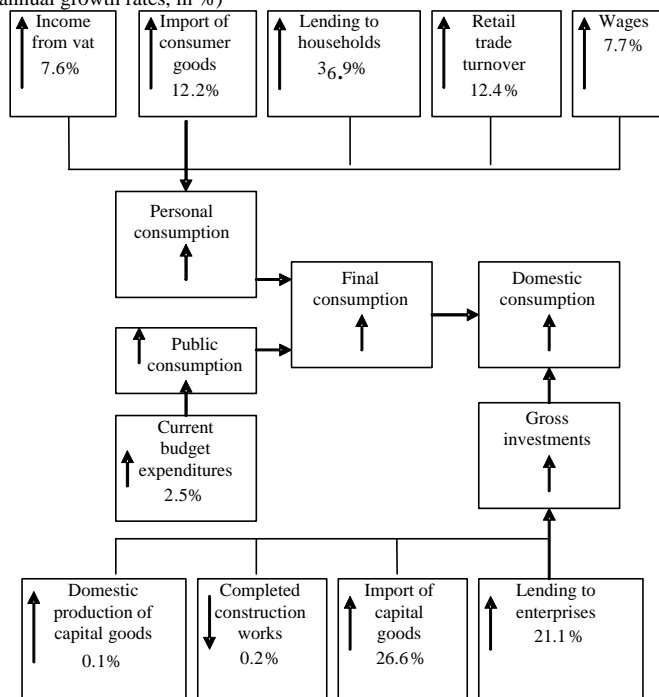


Also in the third quarter of 2006, indicative categories which explain the movement of *personal consumption* and *public consumption* point to increased spending of the households and the government. Investment activity indicators also send positive signals.

⁵ Last available data of the SSO.

⁶ Last available data of the SSO.

Figure 6
Movements of the domestic consumption in the third quarter of 2006
(annual growth rates, in %)

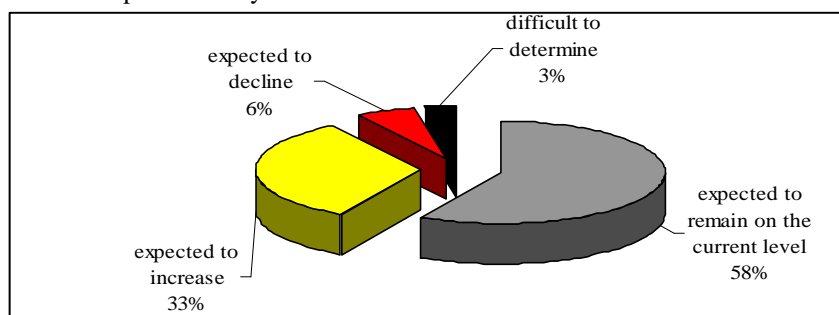


Movements in the real, monetary and foreign trade sectors in the first three quarters of the year point to an increased final consumption, and to a certain extent, investments, thus pointing to a potential inflationary influence on the domestic consumption in the forthcoming period. It is difficult to quantify the effect of the import prices on the inflation rate, but it is possible to expect the lower prices of oil and oil derivatives on the world markets to influence the domestic prices of oil and oil derivatives.

Attachment 3 Survey on the inflationary expectations in the Republic of Macedonia

The Survey on the inflationary expectations, which NBRM carries out on a quarterly basis, gives grounds for qualitative assessments of the inflationary trends. The Survey carried out in the fourth quarter of the year was characterized with a significant response (73% of the total number of participating entities), with the response of the group "banks" being the highest (100%). The analysis of obtained responses indicates stable inflation expectations *by the end of 2006*, i.e. most of the respondents expect the inflation rate to retain the level of 3.3% (as it was in October 2006).

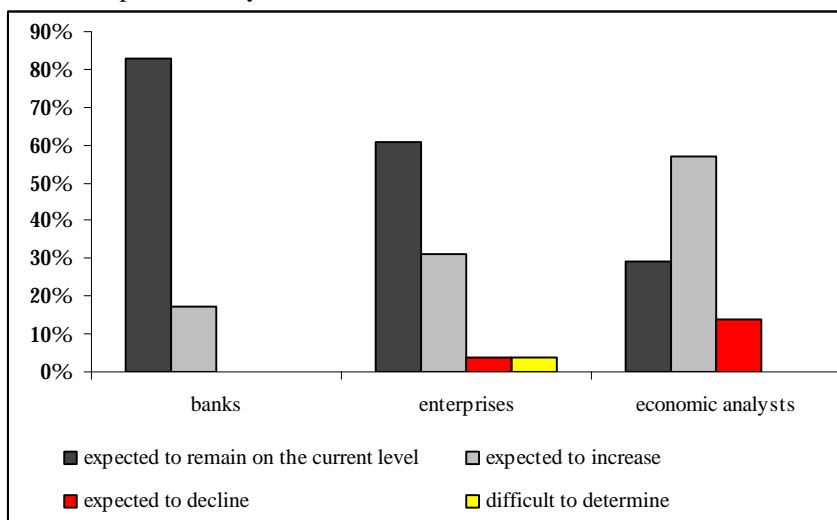
Figure 7
Inflation expectations by end 2006



Analyzed by groups of respondents, stable inflation expectations prevail with banks and enterprises, unlike economic analysts among whom positive inflation expectations dominate.

Figure 8

Distribution of responses by group of respondents as to inflation expectations by end 2006



Established expectations for 2006 are caused by the stabilization of the oil price on the world market, as an external factor, but also by domestic factors, such as the increased price of electricity, heating, and increased prices of food which are considered to have an inflationary influence.

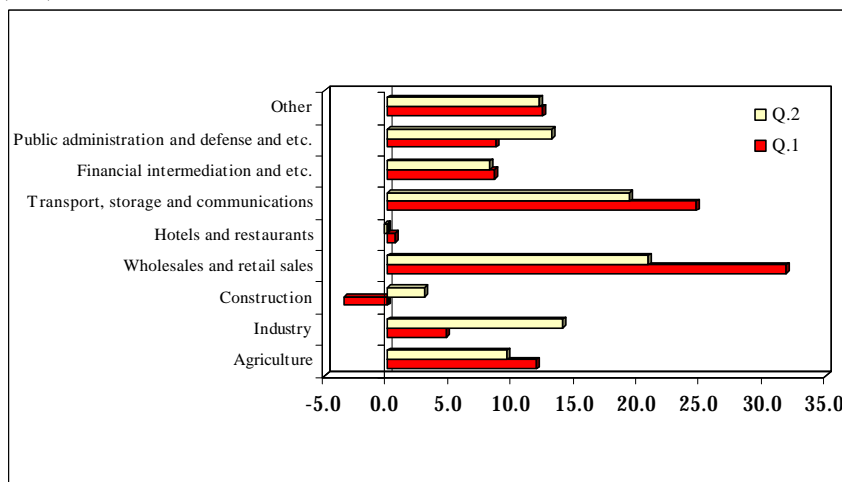
2.

Economic activity

In the second quarter of 2006, annual growth rate of 2.8% was registered

In circumstances of increased activities in almost all sectors of the economy, in the second quarter of 2006 real annual GDP growth of 2.8% was registered. The largest portion of the increase (about 62%) was caused by the service sectors in the economy: wholesale and retail trade, transport, storage and communication, financial intermediation and the sector incorporating public administration and defense, social security, education and health care, which altogether comprise half of GDP. The faster increase in the industrial output in the second quarter of the year caused an increased contribution of the industrial sector in the GDP growth of 13.7% (4.7% in the preceding quarter), while the agricultural sector caused 9.5% of the increase. The positive contribution of the construction sector (of 2.9%) is a confirmation of the gradual abolishment of the negative tendencies in this sector registered since the beginning of 2005. In the analyzed quarter, exception is the sector "hotels and restaurants" where minimum decline in the activity relative to the same period of the previous year was registered.

Figure 9
Contribution of individual sectors to the annual GDP growth in the second quarter of 2006
(in %)



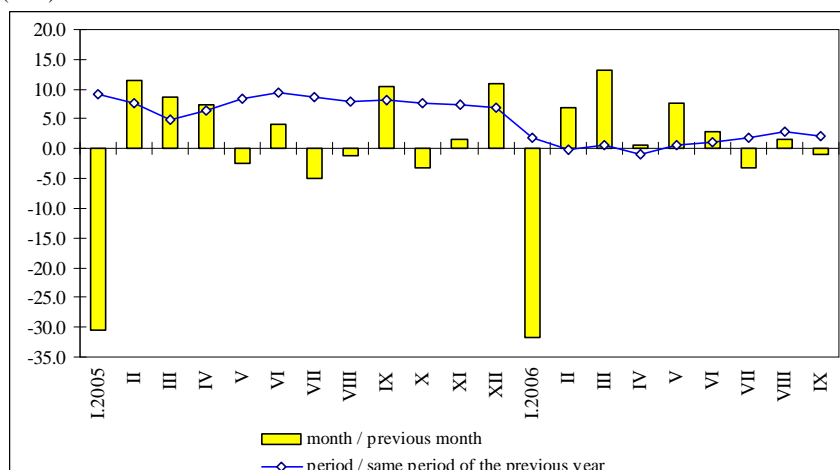
Movements in the real sector in the third quarter of the year indicate more intensive real annual GDP growth relative to the growth in the previous two quarters. Accelerated industrial activity and domestic trade, improved sale of the agricultural products and gradual normalization of the activity in the construction indicate improved economic activity in the third quarter. In line with the projections for 2006, in the third quarter of 2006, real annual GDP growth of 4.8% is expected. The increase in the transactions in payment operations also indicates an accelerated economic activity. In circumstances of faster annual growth of the money supply relative to the increase in the volume of transactions in the payment operations, in the third quarter of the year the velocity of money was lower (6.8 as opposed to 7.5 in the same period of the preceding year).

Acceleration of the cumulative growth of the industrial output in the first nine months of 2006

Under the influence of the accelerated activity in the manufacturing, especially of the production of basic metals and tobacco products, in the third quarter of the year the volume of industrial output registered a significant annual rise of 4.3% (0.5% and 1.7%, respectively in the first and second quarters of the year). Thus, the cumulative growth of industrial output accelerated and for the nine months of the year it reached 2.2% (1.1% in the first half of the year). The increase was mainly a result of the positive contribution of the manufacturing and mining sectors (2.5 percentage points) reduced by the negative contribution of the energy sector (0.3 percentage points). The increased production in the dominant manufacturing sector (by 2%) mirrors the increased production in eleven out of twenty manufacturing branches (with a share of 50.5% in the total industrial output), of which the largest is the contribution of other non-metal minerals⁷, basic metals, production of tobacco products (which has been registering positive growth rate since June, reaching 7.6% in September), oil derivatives and textiles. Improvement was registered also in the production of electrical machinery and apparatus, which, after the decline in July, registered a trend of positive cumulative movements. Unlike the positive performances of the manufacturing and mining sectors, the sector "electricity, gas and water supply" has been registering negative movements since the beginning of the year (cumulative decline of 1.6%).

⁷ The production of the plant "Keramika nova" (part of former "Porcelanka" from Veles), specialized in production of ceramic and floor tiles, opened in October 2005, contributed to the increased activity in this branch.

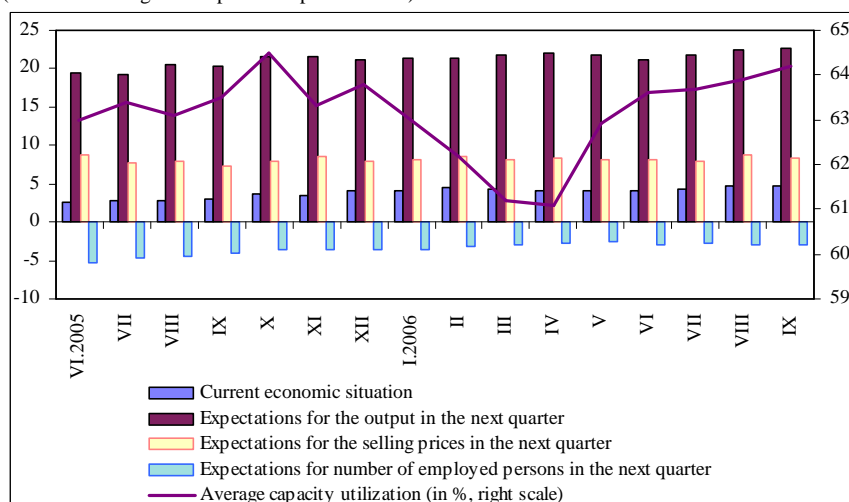
Figure 10
Dynamics of the industrial output
(in %)



Source: State Statistical Office

Qualitative data on the performances of the manufacturing industry and the expectations for the forthcoming period could be obtained from the Business Tendency Survey in the manufacturing industry, which is conducted on a monthly basis. According to the Survey from September 2006⁸, it was enterprises' assessment that their current economic condition was positive and more favorable relative to September 2005, which is in line with the positive assessment for the volume of the industrial output in the past few months and the increased level of utilization of the production capacities (64.2%, as opposed to 63.5% in September 2005). According to the economic agents, main restrictive factors for the increase in the output are still the insufficient domestic and foreign demand, financial problems, uncertain economic environment and competition from the imported products. On the basis of the estimations for the following quarter, economic agents expect an increase in the volume of production, unchanged purchasing prices, decline in the selling prices and a decline in the number of employees.

Figure 11
Business tendencies in the manufacturing
(balances of weighted responses expressed in %)

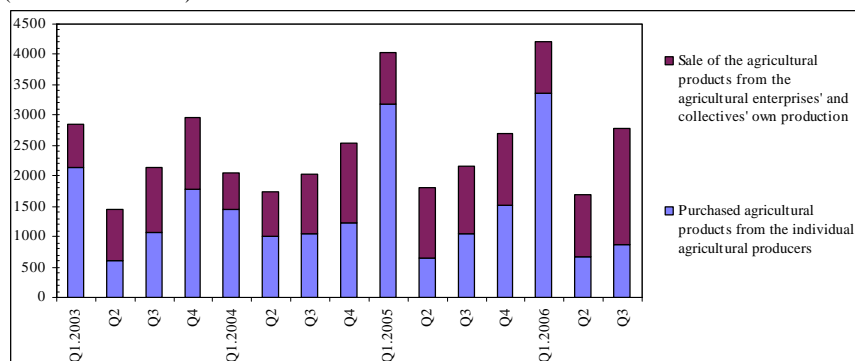


Source: State Statistical Office

⁸ Source: Business Tendency Survey in the manufacturing industry. State Statistical Office.

In accordance with the common quarterly dynamics of the purchase of agricultural products⁹, in the third quarter of 2006 the value of the total agricultural production was higher by 54.4% relative to the preceding quarter, and reached Denar 2,599 million. The largest portion, or 86% of the increase was generated from the increased production of the agricultural enterprises and cooperatives, while the remaining portion is a result of the increase in the production of individual agricultural producers.

Figure 12
Purchase of agricultural products
(in millions of denars)

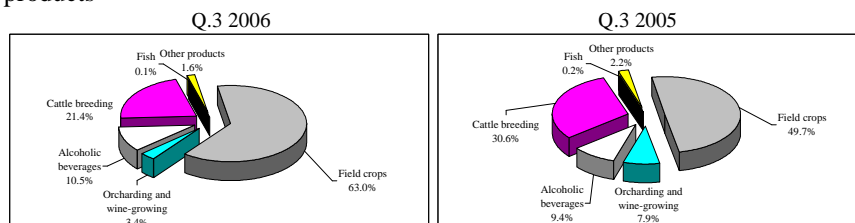


Source: State Statistical Office

Annual increase in the value of the total agricultural production...

On annual level (third quarter of 2006 / third quarter of 2005), the value of the total agricultural production was higher by 20.5%. The increase was completely a result of the own production of the agricultural enterprises and cooperatives, with a decline being registered in the purchase from individual producers. From the viewpoint of the groups of agricultural products, the increase was mostly generated by the increased sale of garden plants (rise of 5.8 times on annual basis) and a smaller part from the sale of alcoholic beverages (increase of 34% on annual basis). However, this increment was to a large extent offset by the decline in the purchase of cereals, grapes and milk.

Figure 13
Share of the purchase by individual product in the total purchase of agricultural products



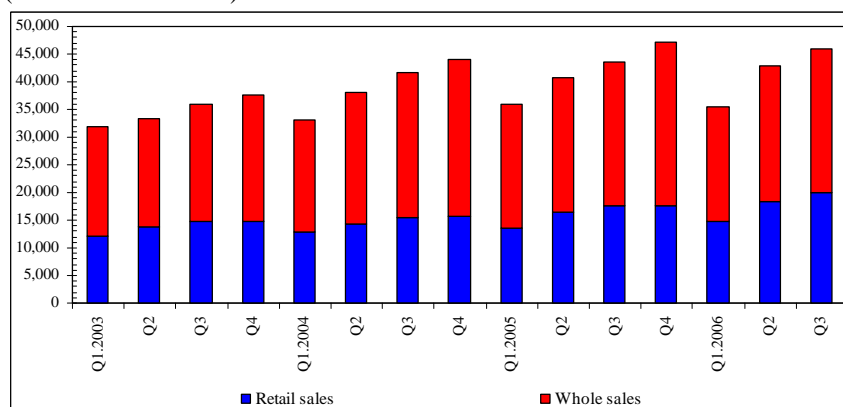
Source: State Statistical Office

...and increased domestic trade turnover

In the third quarter of the year, domestic trade registered positive performances, with the total turnover reaching Denar 46,058 million, which is by 7.7% more relative to the preceding quarter. The largest portion of the turnover was realized in the wholesales (57% of the total turnover). Analyzed on annual basis (third quarter of 2006 / third quarter of 2005) the total trade turnover increased by 5.9%, with faster increase in the retail trade turnover (of 12.4%) and moderate increase in the wholesale trade turnover (of 1.4%) being registered.

⁹ 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.

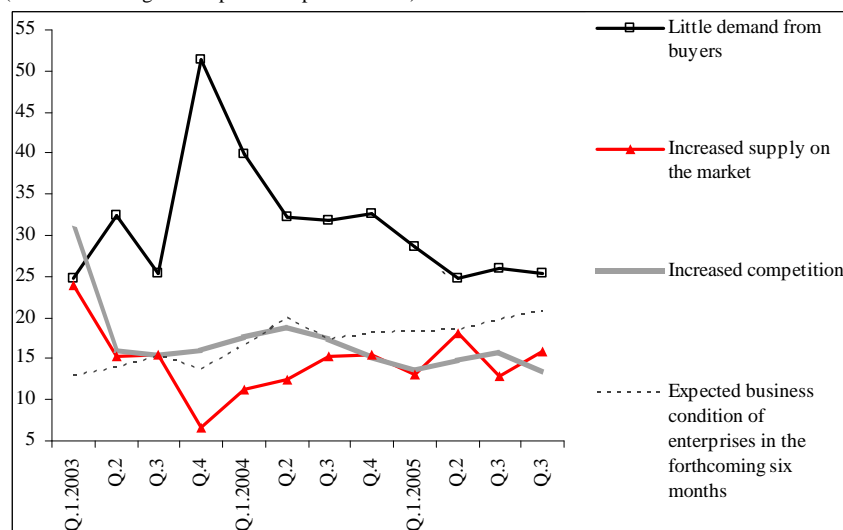
Figure 14
Trade turnover
(in millions of denars)



Source: State Statistical Office

The Survey on Business Tendencies in Retail Trade¹⁰ is a useful source of data for identifying the restrictive factors of the business activity of retailers, as well as their expectations for the forthcoming period. According to the Survey for the third 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. However, compared with the same quarter of the preceding year, economic agents estimated that the influence of the competition as a restrictive factor is gradually declining. Their assessments point to improved financial condition and higher level of selling prices on annual level. Also, the expected business condition and the number of employees in the forthcoming period are more optimistic relative to the third quarter of 2005.

Figure 15
Business tendencies in retail trade
(balances of weighted responses expressed in %)



Source: State Statistical Office

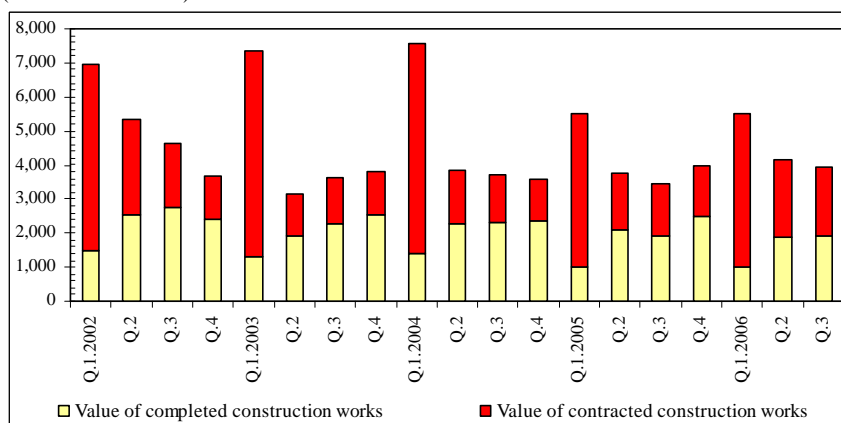
Gradual recovery of the construction activity

The moderate increase in the construction activity in 2006 continued also in the third quarter of the year. The total value of the completed construction works in the third quarter of the year stood at Denar 1,938 million, which is an increase of 2.1% relative to the preceding quarter. However, relative to the same

¹⁰ The Survey on Business Tendencies in Retail Trade has been conducted by the SSO starting from 2002.

period of the previous year, the value of the completed construction works in the third quarter of 2006 was lower by insignificant 0.2%. On the other hand, the value of the construction works contracted in the third quarter of the year was Denar 1,976 million, which is by 11.8% less, relative to the preceding quarter, while relative to the third quarter of 2005 it registered a significant increment of 30.3%.

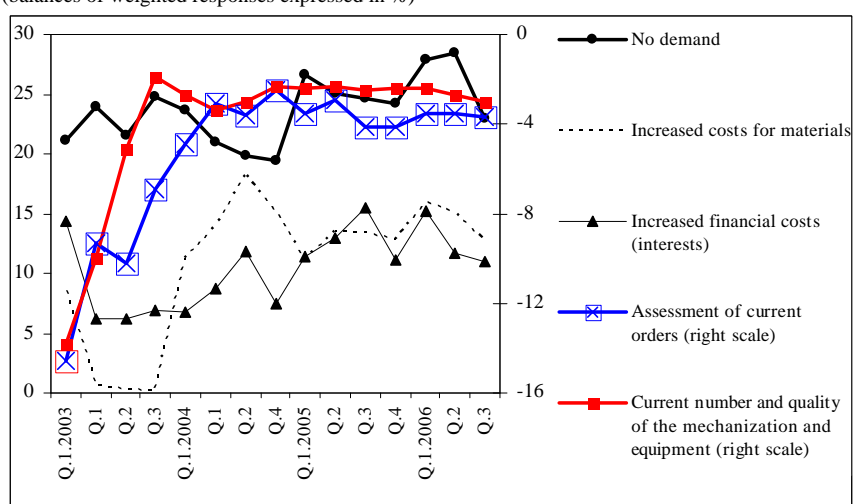
Figure 16
Contracted and completed construction works
(in millions of denars)



Source: State Statistical Office

According to the Survey on Business Tendencies in Construction¹¹ for the third quarter of 2006, economic agents emphasize the following factors as being most restrictive in the realization of the construction works: insufficient demand, costs for materials and price of financing (interest), although their influence is smaller relative to the same quarter of 2005. 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, and they are pessimistic about the contracts in the forthcoming period compared with the third quarter of 2005.

Figure 17
Business tendencies in construction
(balances of weighted responses expressed in %)



Source: State Statistical Office

¹¹ The Survey on Business Tendencies in Construction has been conducted by the SSO starting from April 2002.

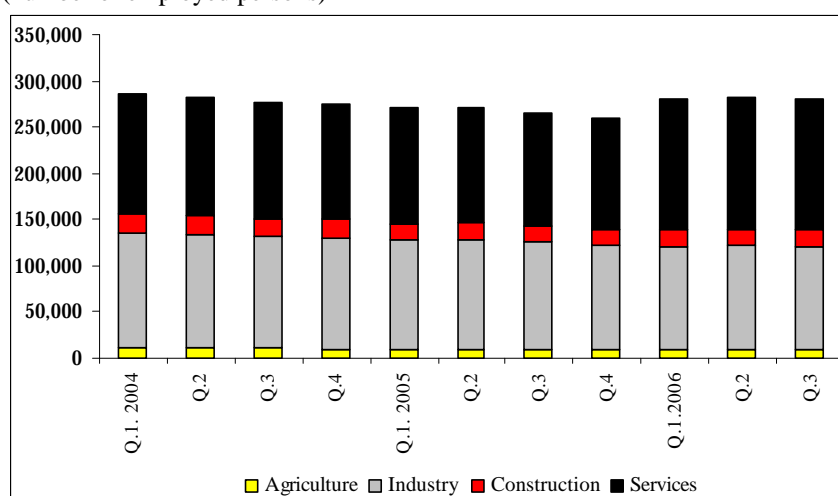
3.

Employment and wages

Fall in the number of employees on quarterly and annual basis

The average number of employed persons in the third quarter of 2006 was 263,256, which is a decline of 0.4% relative to the preceding quarter, caused by the decline in the number of employees in industry. Analyzed on annual basis (third quarter of 2006 / third quarter of 2005) the number of employees was lower by 1.2%¹², with a decline in employment being registered in industry, agriculture and construction (of 3.4%, 1.9% and 4.5%, respectively on annual basis). On the other hand, the number of employees in the services sector registered an increase (of 0.8% on annual basis). Most of the decline in the employment in the industrial sector is a result of the reduced number of employees in the manufacturing, as the most important industrial branch (by 3.7% on annual basis).

Figure 18
Employment by sector
(number of employed persons)



Source: State Statistical Office

Increase in the nominal average gross and net-paid wage per employee in the third quarter of 2006

The average gross¹³ and net-paid wage per worker in the Republic of Macedonia in the third quarter of the year stood at Denar 23,214 and Denar 13,583, respectively, and they registered a nominal increase of 1.3% and 1.2%, respectively, relative to the preceding quarter. On annual basis, the gross and net-paid wage per employee were higher by 8.7% and 7.7%, respectively, in nominal terms. In circumstances of a higher annual rate of inflation (3.6% in the third quarter of the year), the real growth of the net-paid wage was slower and it equaled 4.1%. The fastest nominal annual increase in the net-paid wage was registered in the industrial sector (11.4%), mainly due to the increased wages in the "electricity, gas and water supply" and "mining and quarrying" (by 21.9% and 10.8%, respectively). In the other sectors of the economy, services sector, construction and agriculture, the annual nominal increase in the wages was more moderate (3.2%, 3% and 0.8%, respectively). Within the services sector, increase in the wages was registered in almost all service activities, with more significant growth rates being registered in the public sector, i.e. in "education" and "health and social work" (of 6.2% and 4.8% on annual basis), which is in line with the gradual process of decompression of wages of civil servants (and due to the

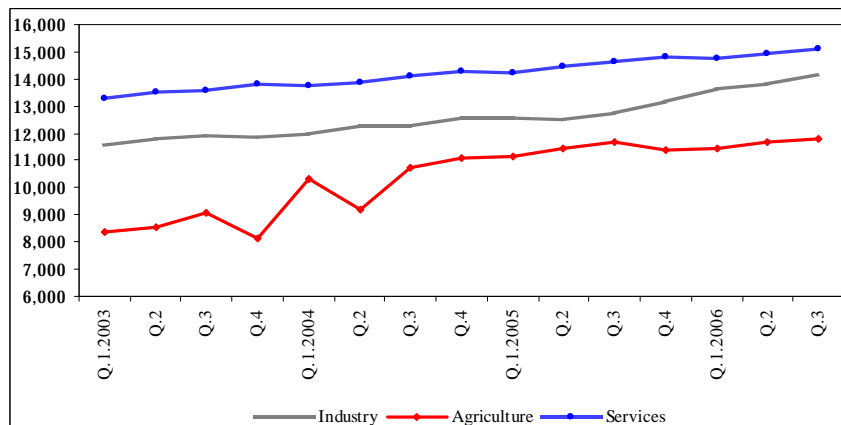
¹² The calculation was made on the basis of adjustments in the data on the activity "public administration and defense", the services sector and the total number of employees, in order to obtain comparable data with respect to 2005. Due to changes in the sample it was impossible to make an adequate comparison of the number of employed persons in 2006 with the preceding years.

¹³ 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).

statistical scope of the data in this sector¹⁴). More significant increment in the wages was registered in "transport, storage and communication" (of 5.4% on annual basis).

Figure 19

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



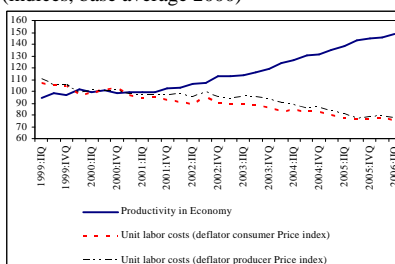
Source: State Statistical Office

The percentage of employed persons who did not receive wages in the third quarter of 2006 averaged 14.6% and relative to the same quarter of the preceding year it was lower by 2.4 percentage points.

In the second quarter of 2006¹⁵, productivity in the Macedonian economy¹⁶ registered an increase relative to the same period of 2005 of 7.4%, caused by the increased newly-established value in conditions of a reduced number of employees. The increased efficiency of the economy, in conditions of more moderate increase of the real gross-wage in the economy, contributed to the reduction of the unit labor costs by 3.6%, i.e. 2.3% (depending on whether gross-wage is deflated with the producer price index or the consumer price index, respectively).

Figure 20

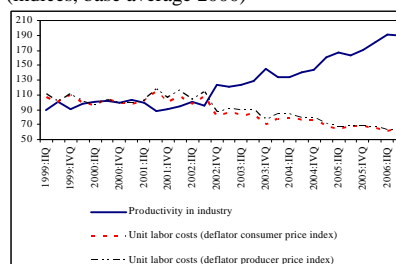
Productivity and unit labor costs in the Macedonian economy
(indices, base average 2000)



Source: State Statistical Office of the Republic of Macedonia, NBRM calculations.

Figure 21

Productivity and unit labor costs in industry
(indices, base average 2000)



Source: State Statistical Office of the Republic of Macedonia, NBRM calculations.

The assessment of the efficiency of the economy in the third quarter of 2006 could be made on the basis of the achieved productivity in industry, as a sector which comprises approximately one fourth of the GDP. In the third

¹⁴ 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.

¹⁵ Last available data.

¹⁶ The productivity index and the unit labor costs index for the whole economy were calculated on the basis of data on GDP, total number of employees and real gross-wage. Indices are with the base of the average for the year 2000.

quarter of 2006, productivity in industry¹⁷ registered high growth rate of 16.1% relative to the same quarter of 2005. Increased productivity is mostly (around 75%) a result of the increased volume of the industrial output in the third quarter, with a simultaneous decline in the number of employed persons in industry. In line with such movements in the industrial sector, increased efficiency of the economy as a whole in the third quarter may be expected. Besides the increase in productivity, drop in the unit labor costs in industry was registered in the third quarter. The faster increase in productivity relative to the real growth in the gross-wage in industry (deflated with the producer price index and the consumer price index) contributed to the decline in the unit labor costs by 5.2% and 5.4%, respectively.

Attachment 4

Long-term component of unemployment in the Republic of Macedonia

The high and inert unemployment is one of the key problems of the Macedonian economy, having multidimensional economic and social implications. The origin of this problem is a combination of two elements: 1. inherited unemployment, i.e. high unemployment before the beginning of the transition process and 2. acquired unemployment, i.e. additional acceleration of the unemployment rate during the transition. The second element of unemployment is always treated as an inevitable social cost from the process of transition toward market-oriented economy. However, the continuous high unemployment rate maintained over a longer period of time indicates its correlation with the relatively low rate and poor quality of economic growth, which does not have a sufficient capacity for creating new jobs and absorbing part of the unemployment.

The size and significance of the unemployment problem is not evident only from the level of the unemployment rate, which has been continuously maintained at the level exceeding 30%. Extremely important is the structure of unemployment *from the viewpoint of its time dimension, i.e. the duration of unemployment of one person*. In this context, in the literature related to the labor market, usually a distinction is made between short-term unemployment (persons unemployed for a period shorter than one year) and long-term unemployment (persons unemployed for a period longer than one year).¹⁸ The dominance of the long-term component in the structure of unemployment additionally deteriorates the problems on the labor market, i.e. *reduces the possibility for shifting the entities from unemployed to employed, i.e. for a relatively quick and more significant mitigation of the problem of high unemployment*. The analysis of unemployment in the OECD in the past two decades indicates significant disparities among individual countries (Llaudes, 2005). Thus, in the non-European countries, the unemployment rate is maintained at a relatively low and stable level, while in most of the European countries, unemployment is high and relatively unstable, and it goes back to mid seventies when the oil shock implied the conduct of disinflation policies. The analysis of the factors contributing to the high unemployment shows that the long-term component has a significant contribution. Its high share opens the possibility for the emergence of the so-called unemployment hysteresis, i.e. for increasing the inertness of the unemployment, significant deviation from its balanced position, and even shifting of the unemployment balance.

The problem of unemployment in the Macedonian economy becomes even worse, after the identification of the long-term unemployment. The analysis of the duration of the unemployment from 1996 to 2005 indicates average share

¹⁷ 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.

¹⁸ Classification according to the OECD. At the same time, the research uses unemployment exceeding four years, as an alternative for long-term unemployment.

of the persons unemployed for over one year and of those unemployed for over four years in the total unemployment of 84.3% and 58.4%, respectively.¹⁹

Figure 22
Share of the persons unemployed
for over one year and over
four years in
the total unemployment
(in %)

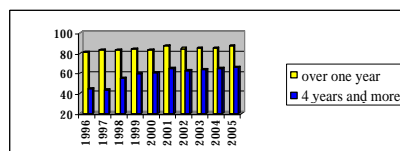
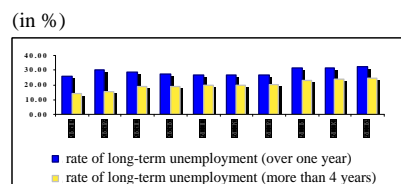


Figure 23
Rate of long-term
unemployment



Source: Labor Force Survey, SSO.

Such a feature of the unemployment could be partially explained with the process of transition, which generated additional number of unemployed persons (in many instances massive lay-offs) whose characteristics (primarily from the viewpoint of the age and the education level) reduce the possibility for their return to the zone of employment. Still, cross data on the labor market regarding the duration of the unemployment and the age of the unemployed show that in 2005, 62.8% of the persons unemployed for over one year and 48.5% of the persons unemployed for over four years were aged 20 - 44, which points to the poor absorption capacity of the Macedonian labor market. This problem is probably turning into a self-generating one, which in accordance with the research in this area could be simplified by explaining two concepts: 1. extending the unemployment duration means losing part of the human capital of the unemployed persons, which reduces the possibility for their employment. At the same time, long-term seeking for a job often discourages the people and reduces the job seeking intensity, which reduces the probability of their employment; 2. the second concept is focused on the part of the employer, who is more interested in employing persons looking for a job for a shorter period of time (probably the duration of the job seeking period is a signal of the individual productivity on which the employment decision is based).

*The dominance of the long-term component in the unemployment structure does not affect only the labor market and the possibilities for solving the unemployment problem, but also the monetary policy conduct. High long-term unemployment in its essence means reduction of the **effective** labor force supply, i.e. it reduces the efficiency of some of the macroeconomic adjustment mechanisms such as pressures towards change in the wages and inflation in an environment of changed unemployment rate. Actually, one may say that the phenomenon of long-term unemployment does not give an adequate picture of the real pressures of the demand on prices and wages, as the entities that are unemployed for a longer period of time play a marginal role in the process of establishing the wages (determining the presence of this phenomenon in the Macedonian economy requires deeper analysis of the labor market). Such an ascertainment was confirmed also with the relatively new research in this field (Llaudes, 2005), which constructed a modified Phillips curve for 19 OECD countries, i.e. a function which includes weighted unemployment rate, in which different weight is given to the individual time dimensions of unemployment. Accordingly, the central banks using the Phillips curve (and the adequate NAIRU) in order to estimate the potential inflationary pressures and project inflation, must have in mind also the time dimension of unemployment.*

¹⁹ Source: Labor Force Survey, SSO. For comparison, the OECD report (2002) indicates that in 2000, over 50% of the unemployed persons in Italy, Greece, Belgium, Ireland and Germany were unemployed for over one year.

Having in mind the current situation in the Macedonian labor market, where around 80% of the unemployed are unemployed for more than one year, it is clear that the analyses of the labor market and their implications on the monetary policy conduct will have to be adjusted to these specific features, and with the purpose of obtaining more effective and clearer information, relevant for the inflationary movements.

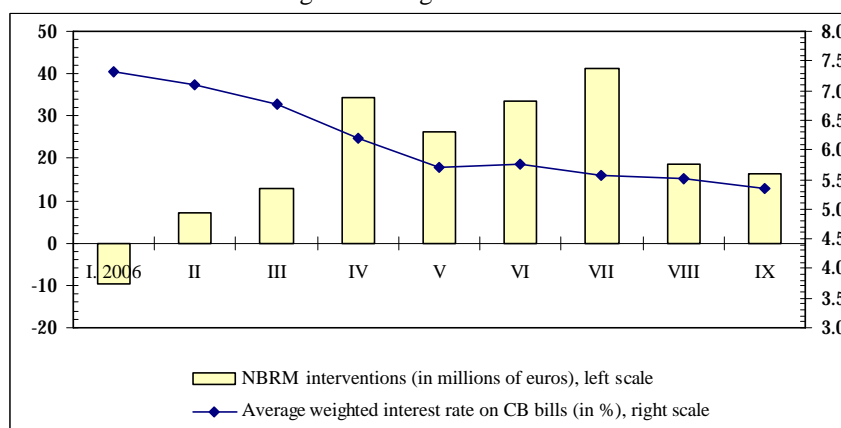
4.

Monetary policy

In the third quarter of 2006, the monetary policy was conducted in environment of seasonally high supply of foreign currency on the currency exchange market, thus ensuring considerable net purchase of foreign currency on the foreign exchange market by the NBRM. The monetary effects of the NBRM foreign currency transactions, expressed through creating additional Denar liquidity in the banking system, were fully offset through the government deposits and monetary instruments, thus keeping the downtrend of the market interest rates. Such monetary policy design contributed to successful maintenance of stability of the exchange rate of the Denar against the Euro, aimed at achieving the ultimate monetary objective - price stability. The inflation, that intensified in the third quarter (the average inflation rate in the January-September 2006 period equals 3.3%), is mostly due to the influence of non-monetary factors on the supply side.

Figure 24

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



Source: National Bank of the Republic of Macedonia

On a net basis, the autonomous factors were directed towards liquidity creation

The usual seasonal growth in the supply of foreign currency on the foreign exchange market, typical for the third quarter of the year and the active usage of foreign currency by the banks for meeting the demand on the banks-enterprises segment, ensured considerable net-purchase of foreign currency on the foreign exchange market by the NBRM. Thus the NBRM foreign currency transactions in the third quarter of 2006 were the major source of creating liquidity in the banking system, partially withdrawn through accumulation of funds on the Denar government account with the NBRM and through the higher demand for cash. Accordingly, the net effect of the influence of autonomous factors in the third quarter was aimed at creating additional liquidity in the banking system.



Table 2
Liquidity creation and withdrawal*
(in millions of denars)

	30.06.2006	Monthly changes			Total	30.09.2006
		July	August	September		
Liquidity of the banks	6,687	-99	-9	-31	-139	6,548
Liquidity creation					4,808	
1. Net foreign assets	77,256	2,129	1,150	1,529	4,808	82,064
Liquidity withdrawal					-4,947	
1. Net domestic assets	-55,989	-1,489	-1,656	-1,572	-4,717	-60,706
of which:						
CB bills	-6,734	-293	-367	-28	-688	-7,422
Government Denar deposits with NBRM	-14,417	-1,693	-1,418	-1,200	-4,311	-18,728
of which: Treasury bills for monetary policy purposes	-2,627	-1,258	-985	214	-2,029	-4,656
Government foreign currency deposits with NBRM	-19,413	1,144	-208	68	1,004	-18,409
Other items, net	-18,727	-647	337	-412	-722	-19,449
2. Currency in circulation	14,580	-739	497	12	-230	14,810

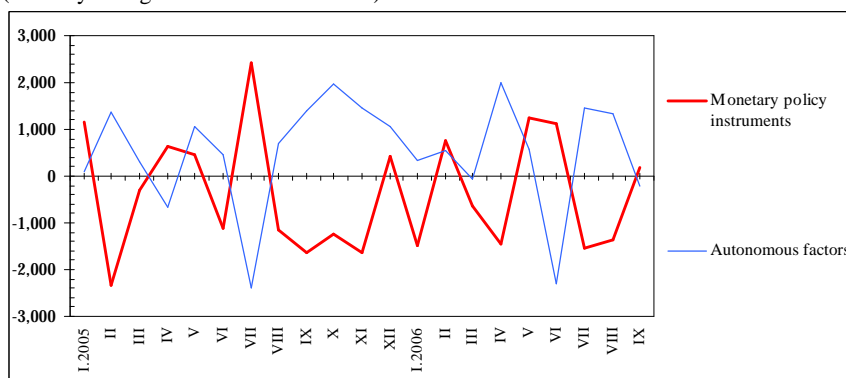
*Liquidity includes banks' account with NBRM and cash in the vaults of the banks.

Source: National Bank of the Republic of Macedonia

*Liquidity withdrawal
through monetary
instruments*

The monetary instruments (CB bills and treasury bills for monetary purposes²⁰) in the third quarter of 2006 acted towards sterilizing liquidity from the banks, so that NBRM fully offset the effects of the autonomous factors. Analyzing the structure, in the third quarter, the treasury bills for monetary purposes were dominant contributor to liquidity withdrawal (except for September, when the level of treasury bills for monetary purposes dropped on a monthly basis), accounting for 41% of the total withdrawn liquidity. Liquidity was also withdrawn through CB bills, but yet in lower volume (13.9% of the total withdrawn liquidity), that corresponds with the determination of the NBRM to sterilize the structural excess liquidity on a longer run through treasury bills for monetary purposes. At the CB bills auctions held in the third quarter, in environment of almost balanced average demand and supply, the average interest rate reached 5.5% (5.9% in the preceding quarter). The interest rate on treasury bills for monetary purposes followed the pace of the NBRM reference interest rate²¹, thus decreasing by identical 0.4 percentage points on quarterly basis (6% on average, in the third quarter).

Figure 25
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.

²⁰ On March 7, 2006, the NBRM in cooperation with the Ministry of Finance started issuing three-month treasury bills for monetary purposes.

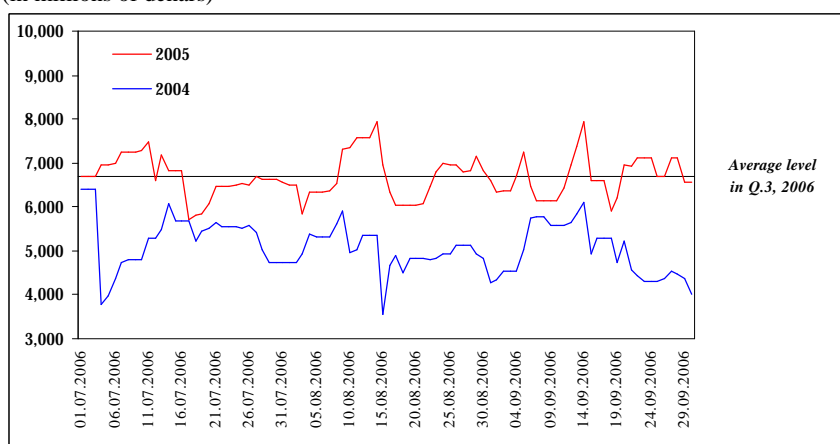
²¹ Based on empirical analysis, the interest rate on 28-day CB bills was set to be a reference interest rate.



Higher average daily liquidity of the banks in the third quarter of 2006

The average daily liquidity of the banking system²² in the third quarter of 2006 amounts to Denar 6,696.1 million, which is by 2.7% higher on quarterly basis. The positive quarterly dynamics of the average daily liquidity reflects the effect of liquidity creation through the NBRM foreign currency transactions and the lower average amount of CB bills. Observing the daily dynamics, in this quarter the banks' liquidity was relatively stable, shifting around the average, under the influence of the common factors.

Figure 26
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 third quarter of 2006 registered positive developments in the liquidity management by the banks, evident through reduction of the average allocated excess liquidity over the reserve requirement (in Denars)²³. Thus, in the third quarter, the banks allocated 7.1%, on average, over the reserve requirement, which is by 3 percentage points less compared to the average of the preceding quarter. Higher level of excess liquidity than the average was registered only in August (8.1% over the requirement), whereas in July and September, the excess liquidity was below the average, equaling 6.7% and 6.4%, respectively.

Having an adequate liquidity level in the banking system, in the third quarter of 2006, the activity on the interbank money market decelerated²⁴. In the observed period, the average monthly turnover stands at Denar 905.7 million, which is a quarterly decline of 1.2 times. The average weighted interest rate on the interbank money market kept its downtrend, by faster pace relative to the NBRM reference interest rate, and in the third quarter it equaled 4.9%, on average (5.8% in the previous quarter).

Lower activity on the interbank money market

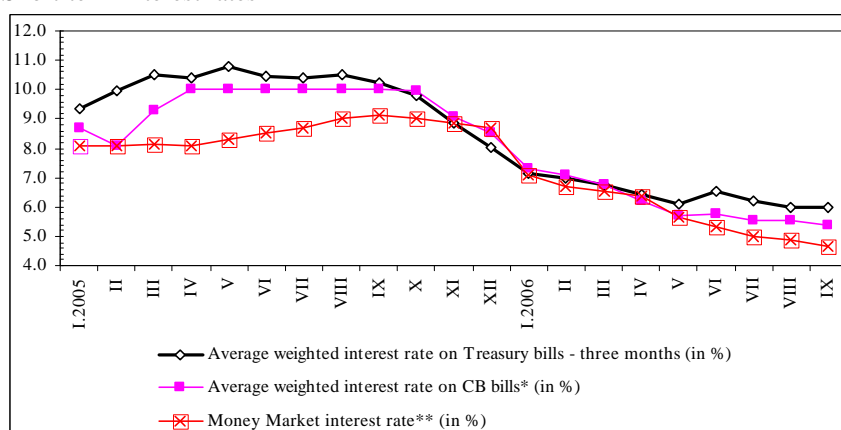
²² The liquidity includes account of the banks with the NBRM and cash in the vaults of the banks.

²³ 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. The excess refers to the excess allocated funds on the banks' accounts with the NBRM over the reserve requirement.

²⁴ On May 15, 2006, the General Meeting of Shareholders adopted a Decision on cessation of the Money and Short-Term Securities Market ("Official Gazette of the Republic of Macedonia" no.74/2006). On May 8, 2006, the electronic system for interbank trade in deposits and securities (TENFORE) was put in operation.



Figure 27
Short-term interest rates



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

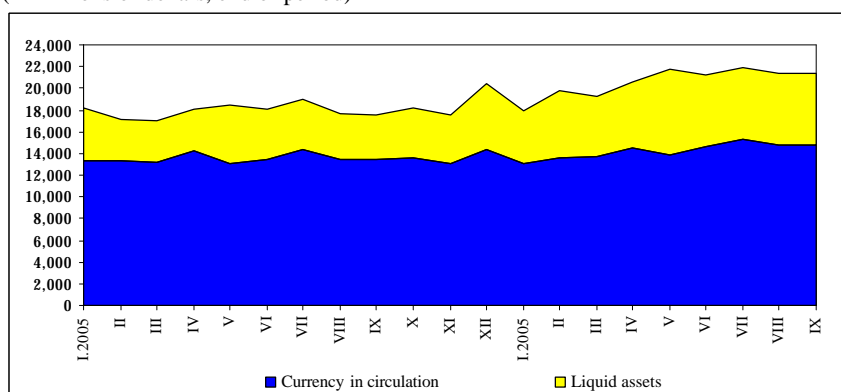
**Average weighted interest rate on the interbank money market.

Source: NBRM and Ministry of Finance.

*Reserve money higher
relative to the preceding
quarter*

At the end of the third quarter of 2006, the reserve money registered marginal quarterly change (increase of 0.4%), as a combined effect of the higher demand for cash and lower level of bank liquidity. On annual basis (September 2006 / September 2005) the reserve money went up by 22.2%.

Figure 28
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.

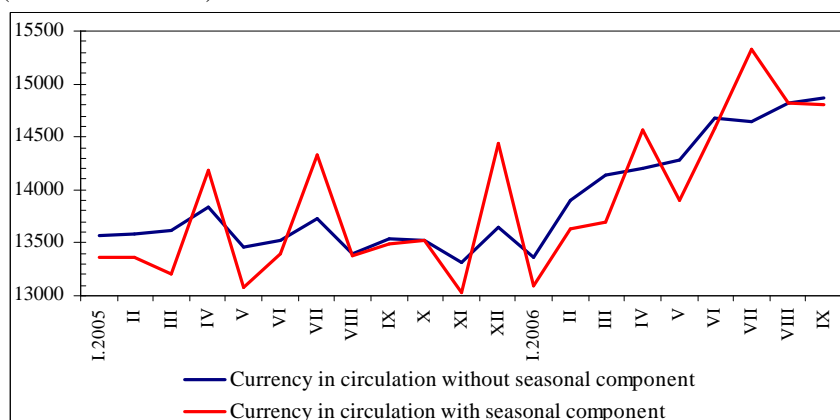
Source: National Bank of the Republic of Macedonia.

5.

Money supply

In the third quarter of 2006, the monetary growth was under the influence of the increase in the savings in the banking system, the faster seasonal increase in foreign currency inflows from private transfers and strengthened money multiplication process. Consequently, the total supply of cash in the economy surged quarterly, creating conditions for supporting the economic growth.

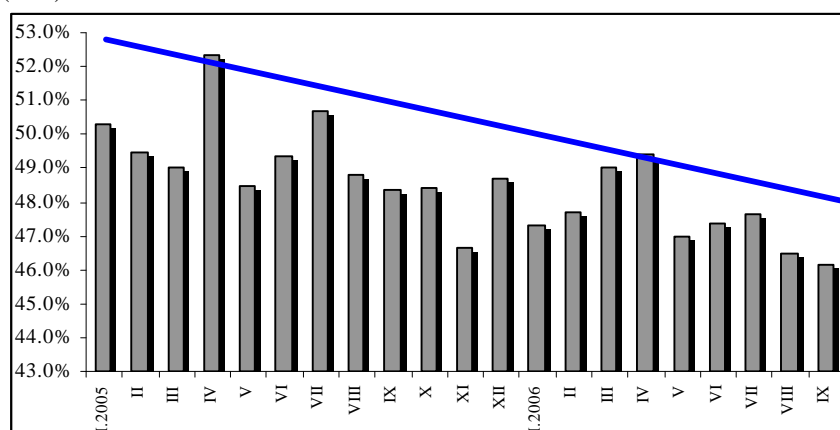
Figure 29
Currency in circulation with and without seasonal component
(in millions of denars)



Source: National Bank of the Republic of Macedonia

The currency in circulation rose by 1.6% on quarterly basis. This quarter registered usual seasonal developments, i.e. higher demand for cash in the period prior to the summer vacations and Ilinden holiday and stabilization of the currency in circulation in September, accordingly. Thus, notwithstanding the quarterly rise in the level of currency in circulation, their structural share in the monetary aggregate M1 is lower relative to the previous quarter (46.8% on average, in the third quarter of 2006, compared to 47.9% in the preceding quarter). Such developments, along with the dominant contribution of the transaction deposits (of 82.6%) to the quarterly increase in the money supply M1, indicate gradual decline in the relative importance of the cash transactions at the expense of the usage of non-cash payment instruments.

Figure 30
Share of currency in circulation in the money supply M1 and trend line
(in %)

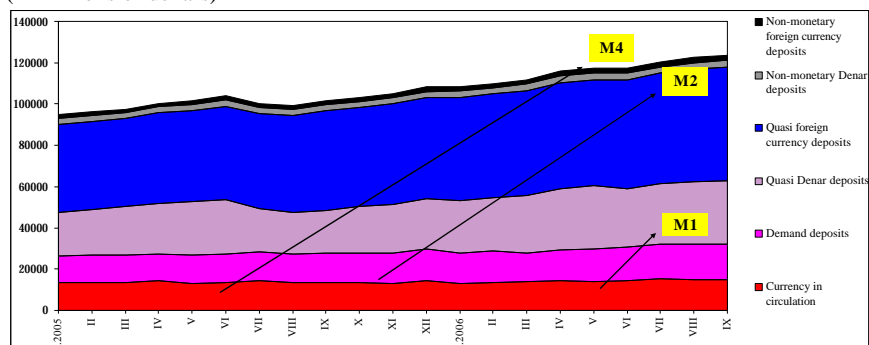


Source: National Bank of the Republic of Macedonia

At the end of September 2006 compared to the end of the preceding quarter, the broadest money supply M4 surged by 5.6%. Identical growth rate was also registered in the narrower monetary aggregate M2, illustrating the significant role of the short-term deposits in the creation of the overall supply of cash in the economy. The short-term deposits, as a dominant category of the monetary aggregate M2, make up 76.3% of the increase in the money supply M4. The remaining 20.2% of the newly formed broadest money supply stem from the increase in its most liquid component (monetary aggregate M1), with the share and the contribution of the long-term deposits still being marginal. Analyzing the determinants of the money supply, the increase in the overall

money supply in the third quarter results from the strengthened money multiplication (the average money multiplier of the money supply M4 in the third quarter equals 5.68, compared to 5.52 in the preceding quarter), in environment of inconsiderable quarterly growth in the reserve money. On annual basis (September 2006 / September 2005), the broader monetary aggregates M2 and M4 surged by identical 21.9%.

Figure 31
Components of monetary aggregates
(in millions of denars)



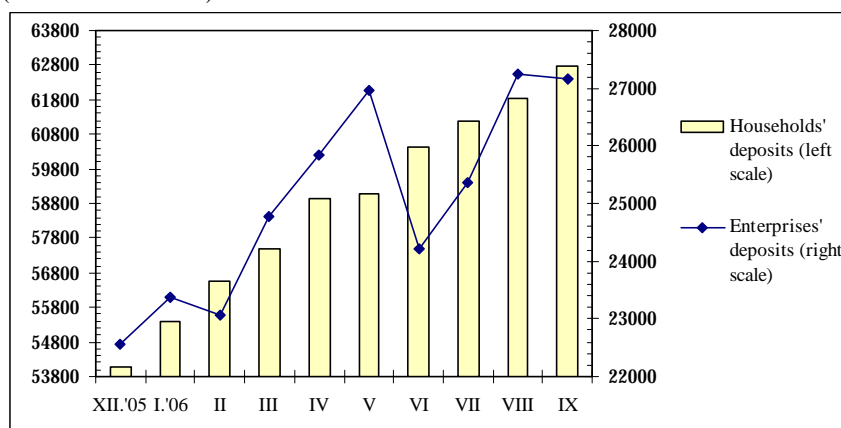
Source: National Bank of the Republic of Macedonia

5.1. Bank deposits

Faster growth pace of the total deposits...

In the third quarter of 2006, the banks' deposit potential kept on growing in fast pace. Thus, at the end of September 2006 relative to the end of the preceding quarter, the total bank deposits went up by 6%, whereas the previous quarter registered an upsurge of 3.1%. The growing propensity of the private sector to save in the banks enabled fast return of the deposits back in the zone of high growth, thus fully compensating the outflows from the privatization of the state capital in the preceding quarter. Taking into account the substantial role of the private savings as a source of investments and development, such developments represent an essential impulse for stimulating the economic growth. On annual basis (September 2006 / September 2005), the total bank deposits rose by 24.5%.

Figure 32
Household and enterprise deposits
(in millions of denars)

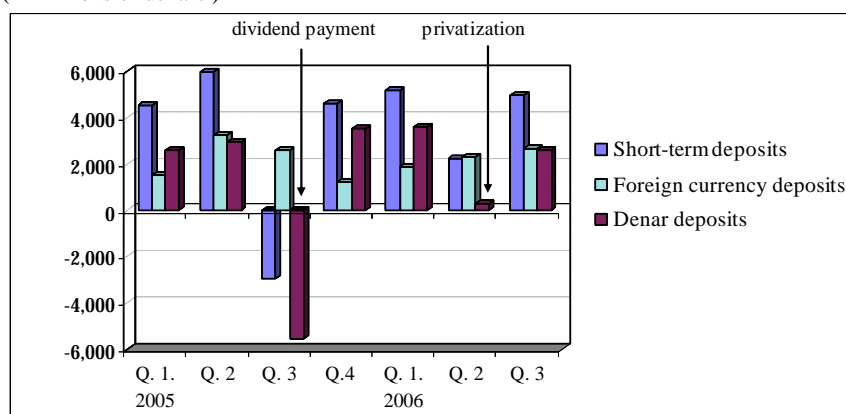


Source: National Bank of the Republic of Macedonia

...with almost identical contribution of both Denar and foreign currency deposits and further domination of short-term deposits

The analysis of the currency structure of the total deposits shows almost identical contribution of the Denar and the foreign currency deposits (of 49.2% and 50.8%, respectively) to the creation of the growth in the total deposit base in the third quarter. Faster growth rate was registered in the Denar relative to the foreign currency savings, registering further moderate increase in the share of Denar deposits in the total deposit potential of the banks. Such developments partially reflect the lower comparison base of the preceding quarter, which witnessed considerable outflow of Denar deposits of the enterprises used for purchasing state capital²⁵. Analyzing the maturity, no considerable developments were recorded in the third quarter. The economic agents still demonstrate dominant propensity to invest in more liquid financial instruments, proved by the substantial contribution of the short-term deposits (of 95.6%) to the increase in the total deposit potential.

Figure 33
Quarterly changes in certain components of the total deposits
(in millions of denars)



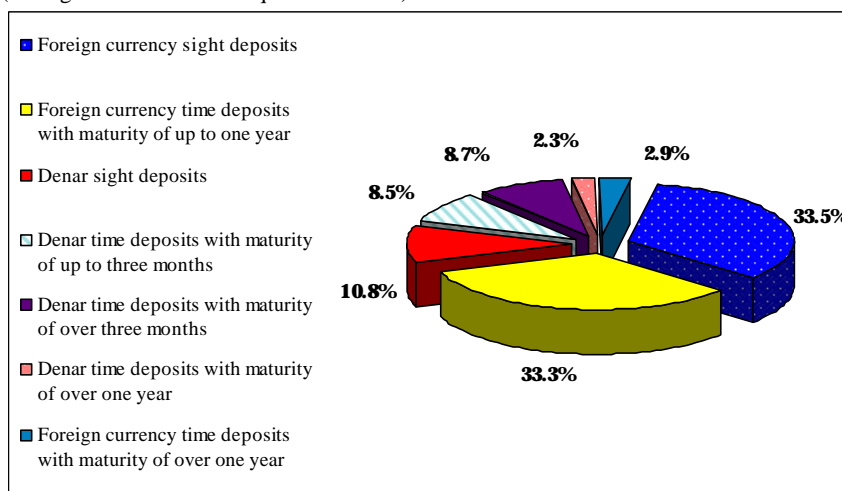
Source: National Bank of the Republic of Macedonia

Further increase in the household savings...

The total household deposits in the third quarter steadily grew, and at the end of September 2006, compared to the end of June, they went up by 3.9%. The analysis of the maturity structure of the total household deposits shows high concentration of the household deposit portfolio in the form of short-term deposits (the short-term deposits make up 94.6% of the total household deposits in the third quarter). Furthermore, 85.1% of the increase in the total household deposits results from the higher level of short-term foreign currency deposits, Denar deposits with maturity of up to three months and Denar deposits with maturity of up to one year. Observing the currency of denomination structure, in the third quarter, foreign currency were predominantly deposited on the households' bank accounts (contributing with 70.5% to the increase in the total household deposits), corresponding with the fast increase in the private transfers in this period. Also, positive quarterly change was registered in the household Denar deposits, constituting 29.5% of the increase in the total household deposits. The annual growth rate of the total household deposits in September 2006 equals 23.7%.

²⁵ Privatization of Telecom, banks, city pharmacies, PIOM.

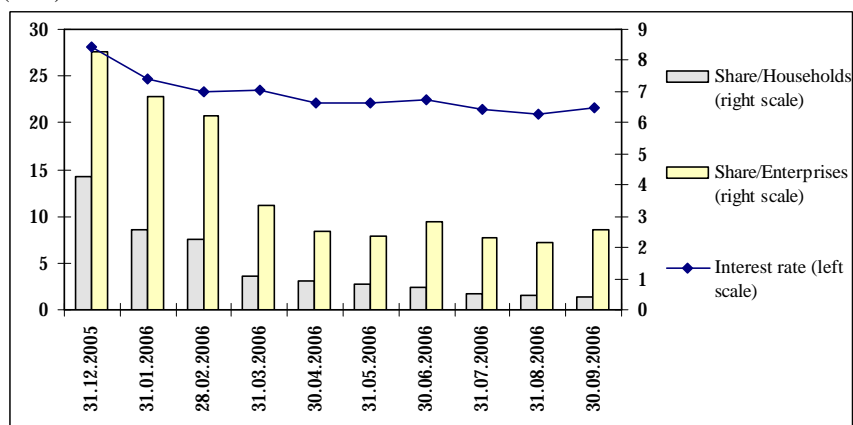
Figure 34
Household deposit structure
(average share in the third quarter of 2006)



Source: National Bank of the Republic of Macedonia

The analysis of the alternative forms of household investments shows marginal presence of the households on the government securities market, relative to the banking market. Since early 2006, along with the cut in the market interest rates, the households' investments in government securities register permanent decline, indicating the relatively higher responsiveness of the households to the changes in the securities yield compared to the responsiveness of the enterprises.

Figure 35
Share of households and enterprises on treasury bill market and interest rates on treasury bills*
(in %)



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

Source: National Bank of the Republic of Macedonia.

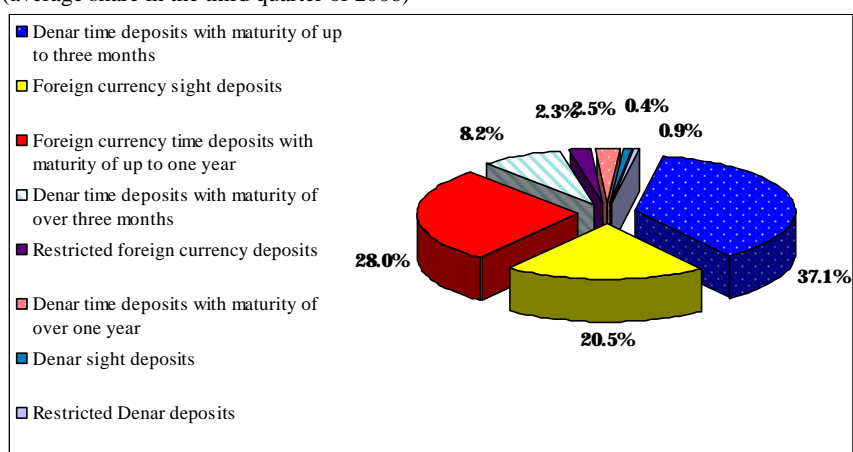
...and simultaneous increase in corporate deposits

Corporate deposits surged by 12.1% quarterly, contributing with 56.4% to the increase in the total deposits in the third quarter. Consequently, the bank deposits further remain dominant form of investing the available funds of the corporate sector, since there is an underdeveloped financial market and limited choice of financial instruments.

The intensive quarterly growth rate of the total corporate deposits partially reflect the lower comparison base of the preceding quarter, when, as a result of the considerable outflow from the bank Denar accounts of the enterprises for purchasing state capital, the total deposits of the corporate sector

registered quarterly fall. The analysis of maturity and currency of denomination structure shows strong preferences of the corporate sector to save in domestic currency and on a short run. Thus the Denar deposits with maturity of up to three months and the short-term foreign currency deposits make up 66.3% and 37.5%, respectively of the quarterly change in the total corporate deposits, and simultaneous reduction in the long-term deposits. On annual basis (September 2006 / September 2005) the total corporate deposits surged by 29.5%.

Figure 36
Corporate deposit structure
(average share in the third quarter of 2006)



Source: National Bank of the Republic of Macedonia

6.

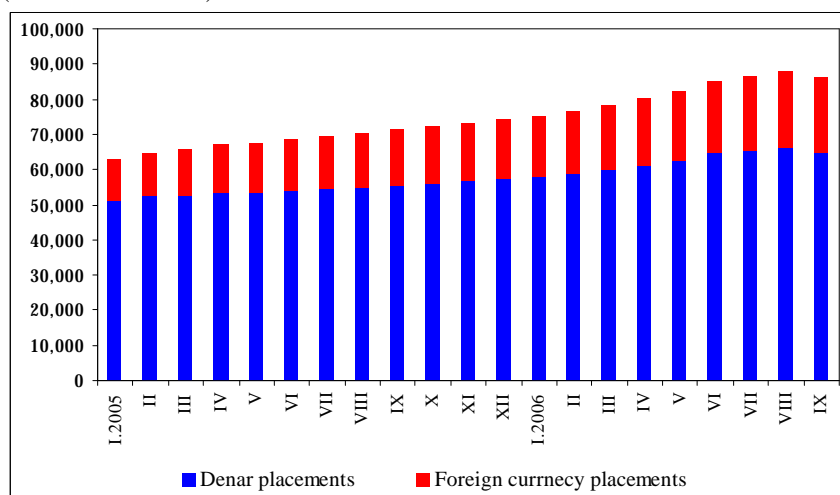
Banks' placements and interest rates

Slower growth pace of the total credits, due to the writing off of non-performing placements

In the third quarter of 2006, the registered changes on the banks' credit market were directed towards further strengthening of the financial intermediation, by accelerated lending to the private sector. Thus the total bank placements to the private sector at the end of September 2006 compared to the preceding quarter went up by 3.2%. Such change implies a slowdown relative to the dynamics of the preceding quarter, primarily due to the reduction in the non-performing credits²⁶, as well as to the lower amount of newly placed credits. By isolating the effect of the reduction in the non-performing credits, the growth rate of the total placements in the third quarter equals 4.3% (9% in the preceding quarter). Annually observed (September 2006 / September 2005), the total bank placements to the private sector rose by 24.7%.

²⁶ Contested and disputed claims based on Denar placements and other claims on non-financial legal entities worth Denar 944 million were definitely written off in September 2006.

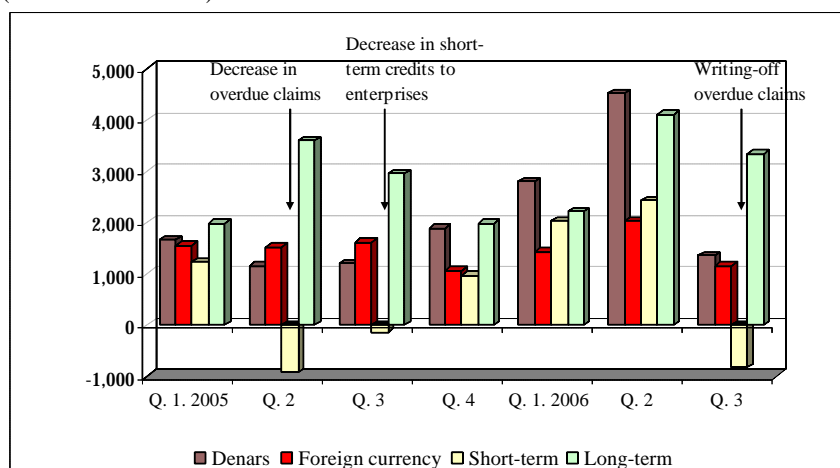
Figure 37
Bank placements by currency
(in millions of denars)



Source: National Bank of the Republic of Macedonia

The accelerated credit activity of the banks in the third quarter of 2006 corresponds with the acceleration of the overall economic activity in the country, illustrated by the growth in the industrial output. Main determinant of the enhanced credit activity of the banks is the permanent extension of their deposit base, and partially the more frequent usage of external sources of financing. Additional contribution to the credit growth was also made by the changes in the banks' credit policy aimed at partial loosening of the lending terms, initiated by the increased competitiveness in the banking sector, the positive expectations for the overall economic activity, and the improved liquidity position of the banks²⁷.

Figure 38
Quarterly changes in each component of the total credits
(in millions of denars)



Source: National Bank of the Republic of Macedonia

*Higher long-term credits
and lower short-term
credits*

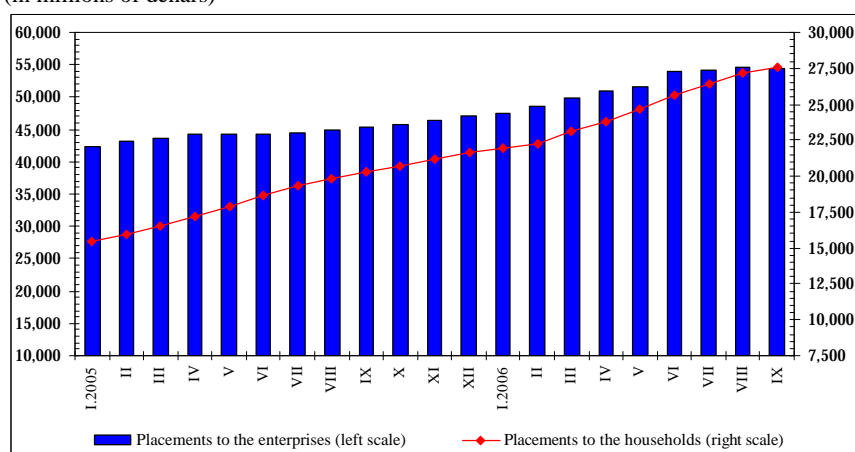
After the substantial acceleration of the banks' credit activity in the preceding quarter, in the third quarter of 2006, both Denar²⁸ and foreign exchange credits grew in slower pace (quarterly growth of 2.3% and 5.7%, respectively, compared to 8.3% and 10.9%, respectively, in the second quarter). The slower growth in the Denar credits is a combined effect of the writing off contested and disputed claims and the fall in the short-term Denar credits to

²⁷ According to the results from the Bank Credit Activity Survey for October 2006

²⁸ Includes foreign currency indexed placements.

enterprises. However, the Denar credits contribute with 53.8% to the growth in the total credits, solely due to the higher demand for Denar credits by the enterprises. The higher volume of foreign currency placements in the third quarter results from the higher lending to the corporate sector (foreign currency credits to enterprises account for 84.8% of the growth in the total foreign currency credits). Observing the maturity, the third quarter registered evident preferences for lending on a long run, resulting in quarterly growth in the long-term credits of 7.6%, with simultaneous decrease being registered in the short-term credits (of 2.3%). One of the sources of long-term lending by the banks is their borrowing based on long-term credits from abroad (quarterly growth in the long-term credits from foreign banks of 4.5%).

Figure 39
Bank placements by sector
(in millions of denars)



Source: National Bank of the Republic of Macedonia

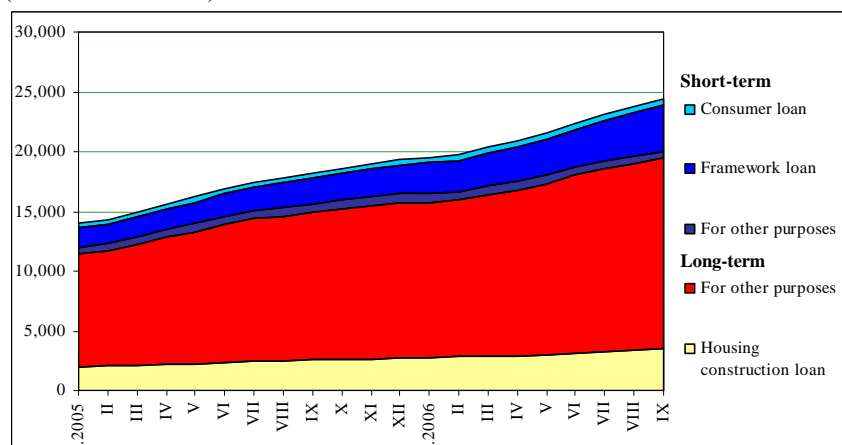
Faster growth in credits to households compared to the corporate sector

The sector-by-sector analysis shows that in the third quarter of 2006, the banks were predominantly directed towards lending to the households. Thus at the end of September relative to the end of the preceding quarter, the placements to the households surged by 7.9%, contributing with 80.1% to the increase in the total placements. The analysis of the currency of denomination and maturity structure of the total placements to the households indicate a domination of the long-term lending to the households in local currency, thus confirming contribution of the long-term Denar credits (of 71%) to the increase in the total credits to the households. Major growth components of the long-term credits to the households are the credits for other purposes²⁹, contributing with 54.8% to the increase in the total credits to the households. On the other hand, the quarterly growth in short-term credits to households is primarily due to the fast quarterly increase in credit commitments³⁰ (of 22.2%). On annual basis (September 2006 / September 2005), the total placements to the households went up by 36.2%.

²⁹ Credits for other purposes include consumption credits, housing credits, automobile credits, schooling credits and other purposes.

³⁰ Current account overdrafts.

Figure 40
Distribution of Denar credits to households by type of credit
(in millions of denars)



Source: National Bank of the Republic of Macedonia

*Moderate growth rate of
credits to enterprises*

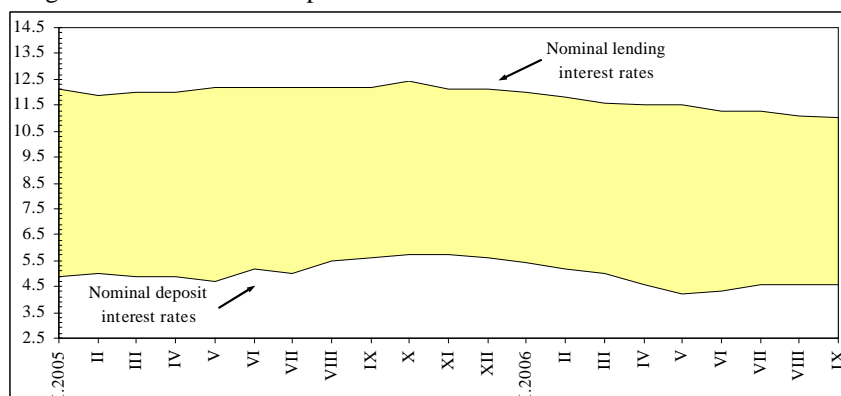
The total placements to the enterprises at the end of September 2006 relative to the preceding quarter moderately grew by 0.9%, given the reduction in contested and disputed claims based on Denar credits (of 7.2%) and the short-term Denar credits to enterprises (of 4.2%). Consequently, the lending to the corporate sector by the banks in the third quarter of 2006 was made by long-term Denar and foreign currency credits, showing the orientation of the enterprise to borrow on a long run, for the purposes of financing the investments in fixed assets³¹. The annual growth rate of the total placements to the enterprises equals 19.9%.

*Moderate downtrend of the
banks' interest rates*

Analyzing the banks' interest rate policy, the trend of moderate reduction in the banks' Denar interest rates carried on in the third quarter of 2006. Thus in September 2006, the average weighted lending interest rate on Denar credits in all maturities and sectors equal 11%, which is a cut of 0.3 percentage points relative to June 2006. Within the Denar credits allocated to households, faster decrease was registered in the non-foreign currency indexed short-term credits (from 17.7% in June 2006 to 17.2% in September 2006). Observing the Denar credits to enterprises, the fastest reduction in the interest rate of 0.6 percentage points was registered in the long-term non-foreign currency indexed loans, thus equaling 8.6% in September 2006. The average weighted interest rate on Denar deposits in all maturities and sectors equalled 4.6% in September 2006, which is an increase of 0.3 percentage points on quarterly basis. Such divergent developments between the lending and deposit interest rate resulted in narrowing of the interest spread, thus equaling 6/5 percentage points in the third quarter of 2006, compared to 7.1 percentage points in the preceding quarter. The average weighted lending and deposit interest rates on foreign currency credits and deposits in all maturities, sectors and currency of denomination equalled 8.2% and 1.6%, respectively in September 2006, going up quarterly by 0.2 and 0.1 percentage points, respectively.

³¹ According to the results from the Bank Credit Activity Survey for October 2006.

Figure 41
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

Attachment 5

Summary of the results of the Credit Activity Survey from June 2006³²

a) Lending to enterprises

The Credit Activity Survey in the third quarter of 2006 indicates partial loosening of the lending terms to the corporate sector, which is a continuation of the trend in the preceding quarter. It should be noted that 91% of the banks subject to the survey in the third quarter considers that the lending terms to small- and medium-size enterprises are partially loosened, which is a significant support to the development of this sector of the economy. With respect to certain specific lending terms, more than half of the banks indicate that they are loose, with 81.7% indicating to the interest rate as a term that is partially, or significantly looser. Furthermore, only 25.1% of the banks find the monetary policy a factor that influence the banks' interest rate policy, compared to 84.1% in the preceding quarter. Such developments may be accounted for the relatively marginal changes in the monetary policy in the third quarter, compared to the second quarter of 2006³³. Analyzing the demand for credits by the corporate sector, most banks under the survey find that the demand for credits in the third quarter remained basically unchanged, and two thirds of the banks expect the demand for credits to increase in the next quarter.

b) Lending to households

On the market segment of lending to households, the change in the lending terms to the consumer credits of most banks are directed towards higher loosening. As to the specific terms, in the third quarter of 2006, about half of the banks indicate partial loosening of the interest rate on consumer credits (with around two thirds indicate no considerable influence by the monetary policy) and loan maturity. Observing the factors that contribute the most to the increase in the demand for credits are the perspectives of the housing construction market, spending for durables and the confidence of the consumers. Relative to the expectations for the last quarter of the year, more than half of the banks expect no change in the lending terms to households. On the other hand, over one third

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.

³³ Also, taking into account that the Credit Activity Survey conducted in July was the first survey, the responses from the second quarter might refer to the effects of the monetary policy over a longer (entire previous) time period.

of the banks expect partial loosening of the terms, particularly regarding the consumer credits. The expectations for the development of the demand for credits by the households in the fourth quarter of 2006 are directed towards its partial increase, and compared to the preceding quarter, fastest changes were registered in the expectations for demand for consumer credits.

7.

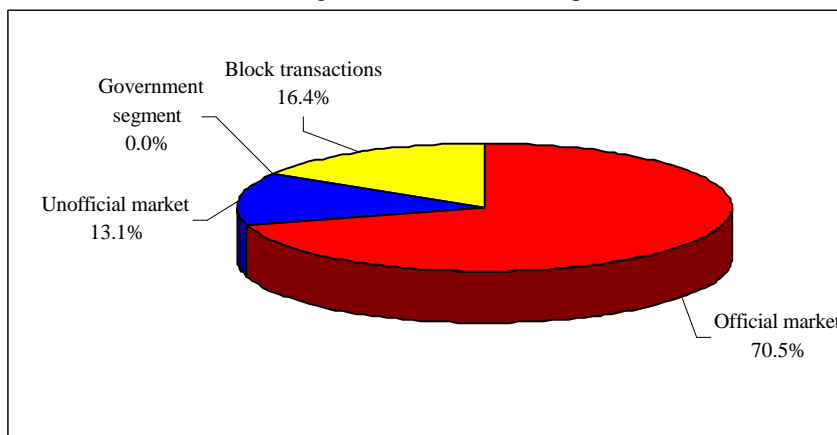
Financial markets

7.1. Stock Exchange

The total Stock Exchange turnover dropped in the third quarter of 2006 owing to the high comparison base

The total Stock Exchange turnover (including block-transactions and government segment) in the third quarter of 2006 amounts to Denar 3,519.8 million which is by 61,3% less relative to the preceding quarter, primarily owing to the high comparison base of the preceding quarter. Unlike the third quarter, when no trading was registered on the Stock Exchange government segment, in the second quarter, considerable Stock Exchange activities were performed on the Stock Exchange government segment (68.3% of the total Stock Exchange turnover), through public Stock Exchange auctions for privatizing state capital³⁴.

Figure 42
Structure of the Stock Exchange turnover in the third quarter of 2006



Source: Macedonian Stock Exchange AD Skopje.

Considerable growth in the turnover by classical stock trade

In the third quarter, however, the classical stock trade (without block-transactions) reached Denar 2,942.5 million, increasing by 17.5% compared to the preceding quarter, thus the average daily Stock Exchange turnover totaled Denar 46.4 million, with 255 transactions being executed daily, on average. In this quarter, the Securities and Exchange Committee of the Republic of Macedonia adopted several decisions related to the Stock Exchange activity of the banks listed on the Stock Exchange, primarily directed towards extending new issues of securities, i.e. market recapitalization³⁵. The new issues of securities of some banks listed on the Stock Exchange reflect a positive perception of the investors for the economic environment and the business potential of the banking sector in the Republic of Macedonia. Thus, the higher turnover on the official segment on the Stock Exchange in the third quarter of

³⁴ 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.

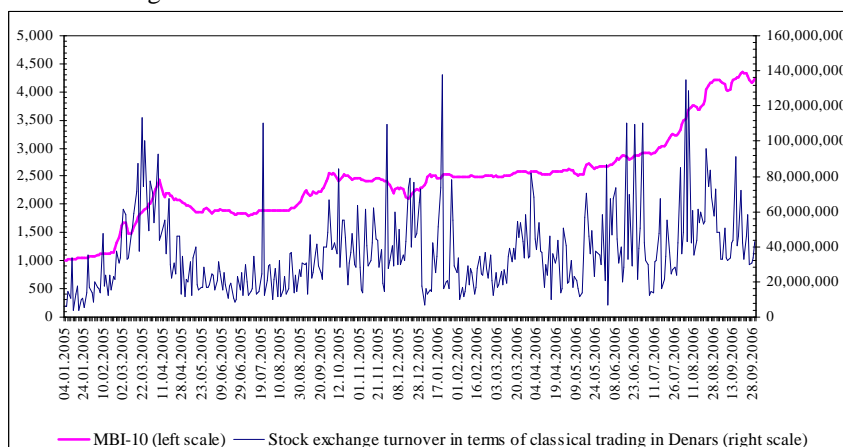
³⁵ At the session held on July 4, 2006, the Securities and Exchange Committee approved Ohridska Banka AD Ohrid to sell equity shares intended for known buyer. The number of equity shares subject to sale equals 1.63% of the total issued common shares of the Bank. At the session held on September 4, 2006, the Securities and Exchange Committee approved Ohridska Banka AD Ohrid the tenth issue of shares which will be made by public bid. These are 34.000 common shares in the total nominal amount of Denar 90.1 million.

2006 mainly results from the larger demand of the investors for banks' shares, after the announcements for investments of renowned foreign banks in some domestic banks.

At the session held on July 21, 2006, the Macedonian Stock Exchange made a decision on listing the shares of TTK Banka AD Skopje³⁶, that originates from the merger of Tetovska Banka AD Tetovo and Teteks-Kreditna Banka AD Skopje. The shares issued by TTK Banka AD Skopje have been traded in on the official market segment of Stock Exchange since July 26, 2006, when the shares of the two merged banks ceased being listed. At the end of September 2006, 46 joint stock companies were listed on the official market segment of Stock Exchange, which is by 4 less compared to the end of June 2006. In addition, at the session held on July 21, 2006, The Board of Directors of the Macedonian Stock Exchange, on request of the issuer, adopted a decision on excluding the shares issued by Sileks Banka AD Skopje from listing, the trade of which started on July 26, 2006 on the unofficial market segment of the Stock Exchange.

At the end of September 2006, compared to end of June 2006, the share of foreign investors in the total capital of the listed companies and in the total nominal value of the listed shares went up³⁷ (16.30% in September, and 14.90% at the end of June 2006). Of them, 13.99% are owned by foreign legal entities, and the remaining 2.31% are owned by foreign natural persons. Also, the average share³⁸ of foreign investors in the total turnover on the Stock Exchange in the third quarter equals 35.07% on the purchase side and 11.37% on the sale side.

Figure 43
Macedonian Stock Exchange Index (MBI-10) and Stock Exchange turnover realized through classical stock trade



Source: Macedonian Stock Exchange AD Skopje.

Record level of the Stock Exchange Index MBI-10

In the third quarter of 2006, the Macedonian Stock Exchange Index MBI-10³⁹, notwithstanding the short-term periods of stagnation and falls, registers an uptrend, in general. Thus, on September 20, 2006, the index reached record value (4,351.10) since its introduction in 2005. The index value at the end of the third quarter of 4,231.17 index points shows 45.3% average rise in the share prices of the ten companies that constitute the index, compared to June 30, 2006. Additionally, the market capitalization of the ten most liquid companies listed on the official market segment in the third quarter of 2006 totals Denar

³⁶ 680.916 common shares were issued, with the nominal value of each share equaling Denar 1,000.

³⁷ According to data from the Central Securities Depository.

³⁸ Average was derived from the stocks in the last day of the months constituting the quarter, and pertains to the share of foreign investors in the total turnover on the Stock Exchange.

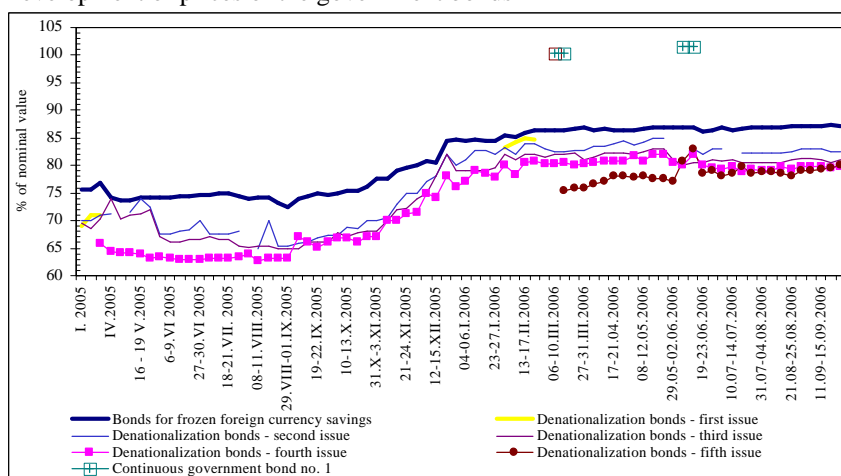
³⁹ Price index weighted by market capitalization, constructed on the basis of common shares of ten companies listed on the official market.

42,322.2 million, compared to Denar 28,416.6 million at the end of the preceding quarter.

7.2. Government securities market

In the third quarter of 2006, *government bonds* in the amount of Denar 372.2 million were traded in on the official market of the Stock Exchange, which is by 52.9% less compared to the traded amount in the previous quarter. In this quarter, the government securities were traded in at a price from 78.2% (Denationalization bond of the fifth issue) to 87.3% of the nominal value⁴⁰ (Bond for the old foreign currency savings). There were no purchase and sale transactions in the Continuous bond no.2 in 2005, in the Continuous bond no.1 in 2006, and the older government bonds⁴¹ (that started being traded in on June 28, 2006 on the Stock Exchange).

Figure 44
Development of prices of the government bonds



Source: Macedonian Stock Exchange AD Skopje.

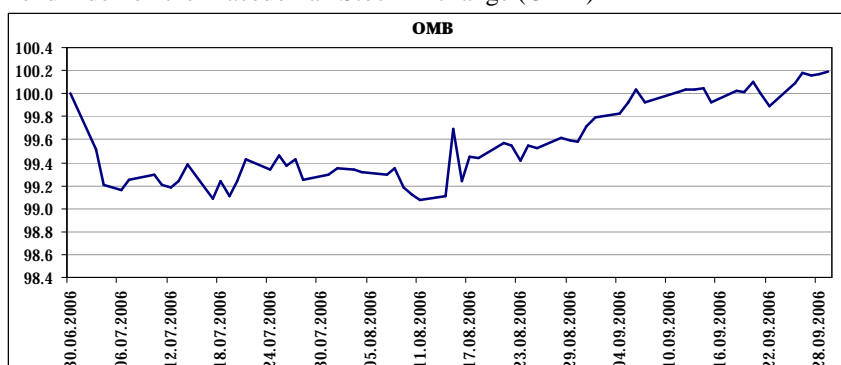
On June 30, 2006, the Stock Exchange started calculating and publishing the Bond Index of the Macedonian Stock Exchange AD Skopje (OMB).⁴² Since its introduction to September 5, 2006, the OMB value has been permanently maintained below its initial value, i.e. below 100 index points. On September 29, 2006, the Index value equaled 100.19 index points.

⁴⁰ The interval has been set in accordance with the latest average weekly price of trade in the bonds within the quarter under observation.

⁴¹ The bonds for rehabilitation of Stopanska Banka AD Skopje and the Bonds for compensating selective credits of the NBRM were issued by the Republic of Macedonia in 1995.

⁴² 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%. The Bond Index of the Macedonian Stock Exchange includes the listed bonds of the Macedonian Stock Exchange subject to trade of at least 30 trading days prior to be included in the index and that fall due within at least one year. The choice of bonds included in the OMB composition is made by the Stock Exchange Index Committee, taking into account the following factors: interest rate; bond maturity and other factors. The share of a single bond in the index is determined such that the amount of trade in such bond in the period between two index revisions is divided by the total trade in bonds in that period. If the share of a single bond exceeds 30%, the value of the respective bond shall be adjusted downward to 30%, and the shares of other bonds included in the index will be adjusted by a special formula. The index is regularly revised once a quarter, and under extraordinary circumstances, the Stock Exchange Index Committee may revise the index extraordinarily. In order to provide index continuity, every time, before the index is calculated with a new composition, a corrective factor is determined, which is to provide time comparability of the index, notwithstanding the possible changes in the index composition.

Figure 45
Bond index on the Macedonian Stock Exchange (OMB)



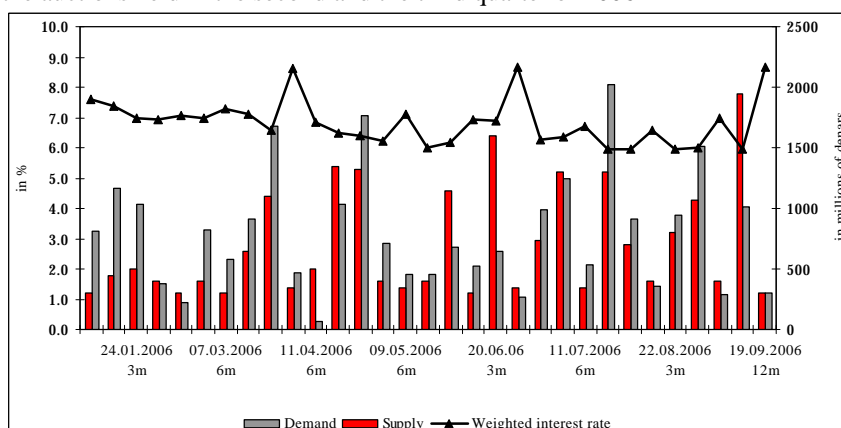
Source: Macedonian Stock Exchange AD Skopje.

The third quarter witnessed larger demand for three-month treasury bills compared to their supply

In the third quarter of 2006, seven auctions of three-month treasury bills were held on the primary securities market. Besides the announced six auctions scheduled in the previously set calendar⁴³, an already held auction was reopened on July 4, 2006, and the three-month treasury bills placed at this auction were fully intended for monetary purposes (Denar 730 million). At the auctions held in this quarter, the total bid amount of three-month treasury bills⁴⁴ was Denar 7,850 million, Denar 8,617.8 million were demanded, and the total realization amounted to Denar 6,857.7 million. At the auctions held in the third quarter, the average weighted interest rate on three-month treasury bills equaled 6.07%, compared with 6.41% in the second quarter of 2006.

In this quarter, the realized amount ranges from 77.1% in July to 82.6% of the demanded amount of three-month treasury bills in September. Unlike July and August, when the demand exceeded the supply, in September, the bid amount exceeded the demand, where only one of the two auctions held in September, the bid amount of three-month treasury bills was not fully absorbed by the end investors.

Figure 46
Supply, demand and average weighted interest rate on government securities at the auctions held in the second and the third quarter of 2006



Source: Ministry of Finance of the Republic of Macedonia.

⁴³ 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.

⁴⁴ Including government securities for monetary purposes.



In the third quarter, the supplied six-month treasury bills remained the same as in the second quarter

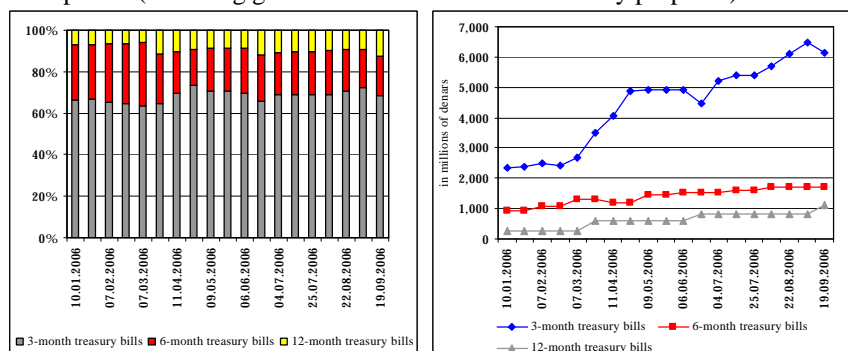
Three auctions of six-month treasury bills were held in the third quarter. The total bid remained at the level of the second quarter and was valued at Denar 1,150 million, having relatively equal demanded amount of Denar 1,176.7 million, with Denar 989.3 million being realized. Analyzing by month, other than in July, when the demanded amount exceeded the bid by 53.5%, August and September registered lower demand by the investors, due to which all submitted applications for investment in six-month treasury bills at the both auctions were fully realized. Also, the average weighted interest rate on six-month treasury bills at the auctions held in the second quarter equaled 6.74%, compared to 7.02% in the second quarter of 2006.

In the third quarter of 2006, only one auction was held with 12-month treasury bills. At the auction, the realization was in the amount of the bid (Denar 300 million), with slightly larger amount being demanded than the bid. The average weighted interest rate on the auction equaled 8.66%, the level of which is unchanged relative to the auction of 1-year treasury bills held in the second quarter of 2006.

The total stock of issued, outstanding three-month, six-month and 12-month treasury bills on September 19, 2006 (date of the last held auction within the quarter) amounts to Denar 8,945.01 million, including three-month treasury bills for monetary purposes⁴⁵. The three-month treasury bills dominate accounting for 68.5%. The treasury bills for monetary purposes make up 77.2% of the total three-month treasury bills.

Figure 47

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



Source: Ministry of Finance of the Republic of Macedonia.

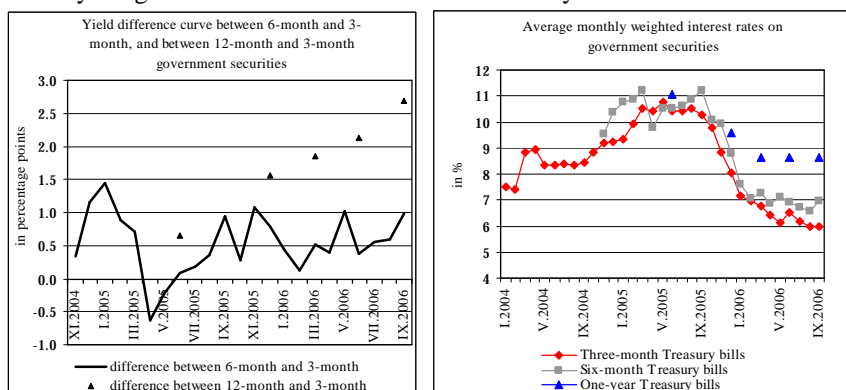
The rate of return on treasury bills is basic or minimum interest rates, considering that it is non-risk bearing investments, with the government being an issuer. The interest rates on treasury bills with different maturities generally move towards the same directions, with possible exceptions. The treasury bills with longer maturity bears higher return, corresponding to the larger risk premium, taking into account the longer maturity. The yield curve on short-term treasury bills in the third quarter moves upward, therefore considered a "normal yield curve"⁴⁶, thus indicating that the interest rates rise progressively to the maturity period.

⁴⁵ According to the Public Debt Law, the government securities for monetary purposes are not considered a part of the public debt, since issued for the purposes of the monetary policy. Also, the government shall not be entitled to hold the withdrawn money by issuing treasury bills for monetary purposes.

⁴⁶ The interest rates progressively rise along the duration of the maturity period.

Figure 48

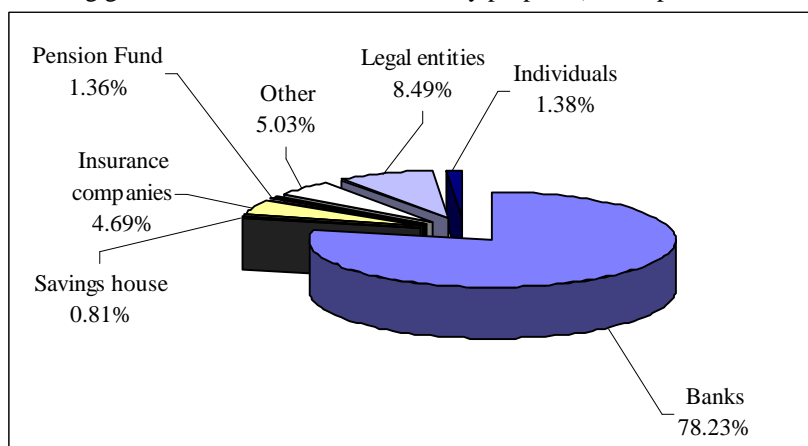
Curve of yield differences between the three-month and six-month and between twelve-month and three-month treasury bills and development of the average monthly weighted interest rates on short-term treasury bills



Observing the ownership structure, the total stock of three-, six- and 12-month treasury bills is dominated by the banks with 78.2%, followed by non-financial legal entities with 8.5% and the Deposit Insurance Fund with a share of 5%.

Figure 49

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



Source: Ministry of Finance of the Republic of Macedonia

In the third quarter of 2006, purchase and sale transactions in treasury bills were concluded on the over the counter market⁴⁷ (only in residual maturity from six to twelve months) worth Denar 40 million. The adoption of the Rule on the manner and procedure for trade in and settlement of transaction in securities, also created a secondary market for long-term government securities. Thus, before the maturity date, long-term government securities were traded, other than on the Macedonian Stock Exchange, on the over the counter market. In the third quarter, the total turnover in long-term government securities (with the residual maturity of up to two years) amounted to Denar 115.2 million.

⁴⁷ 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).



8.

Balance of payments

Surplus balance on the balance of payments' current account was registered in the third quarter of 2006, which is a result of the favourable movements with all components. The movements in the external sector in this period are basically similar to the changes evidenced in the same period of the previous year. Thus the largest contribution to the net positive balance accounted for the further increase in the foreign currency inflows from private transfers, the significant trade deficit reduction, as well as the positive balance in the trade of services (which are common seasonal developments). Also, in this quarter the current account partially reflects the non-payment of dividend to a larger foreign shareholder, thus contributing to significant improvement in the income category balance. From the aspect of the financing, in the third quarter of 2006 the capital and the financial account registered a drop in the inflows based on direct and portfolio investments, while within the debt financing, more intensive lending to the private sector resulted in growth in both long-term and short-term external debt. The favourable movements in the external sector resulted in an increase in the gross foreign reserves in the third quarter of 2006.

8.1. Current account

*Record high positive balance
on the current account of Euro
127.9 million*

In the third quarter of 2006, record positive balance on the balance of payments' current account in environment of favourable movements with all its components of Euro 127.9 million was registered. The surplus registered in the third quarter compared to the same period of 2005 and 2004 is higher by Euro 63 million, i.e. Euro 131.6 million, respectively..

Table 3
Balance of payments' current account /1
(in millions of Euros)

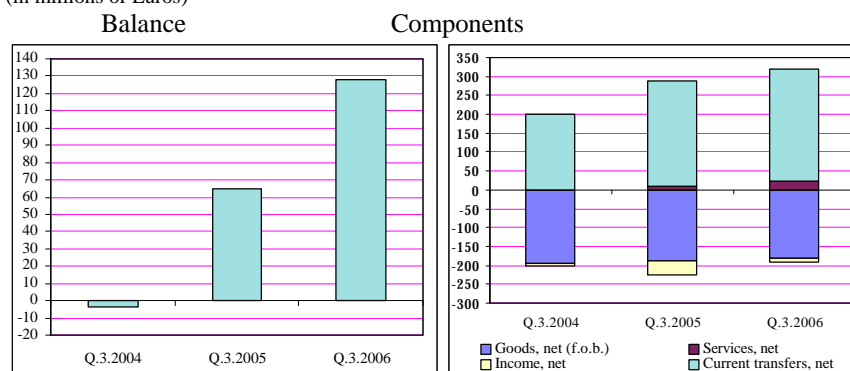
	2005				2006			2006-2005			2006-2005		
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.1	Q.2	Q.3	Q.1	Q.2	Q.3
								difference			changes in (%)		
Goods, net (f.o.b.)	-145.5	-272.0	-188.4	-247.4	-205.7	-287.8	-181.6	-60.2	-15.8	6.9	41.4	5.8	-3.7
Services, net	-2.9	-13.1	9.4	-20.7	-5.1	-4.4	23.6	-2.2	8.6	14.2	78.0	-66.2	151.6
Income, net	0.5	-16.3	-36.8	8.2	5.4	-5.1	-10.1	4.9	11.2	26.7	10.4	-68.7	-72.6
Current transfers, net	131.9	214.6	280.7	236.0	185.3	247.1	295.9	53.3	32.5	15.2	40.4	15.1	5.4
Current account	-15.9	-86.8	64.8	-24.0	-20.2	-50.2	127.9	-4.3	36.6	63.0	27.1	-42.2	97.2

1/ Preliminary data.

Source: National Bank of the Republic of Macedonia.

In the third quarter of 2006, all current account components contributed for its significant improvement. Thus the net inflows originating from the current transfers and services went up annually by Euro 15.2 million and Euro 14.7 million, respectively. Also a decrease in the negative balances on both income and trade balance (of Euro 26.7 million, i.e. Euro 6.9 million, respectively) was registered.

Figure 50
Balance and current account components
(in millions of Euros)



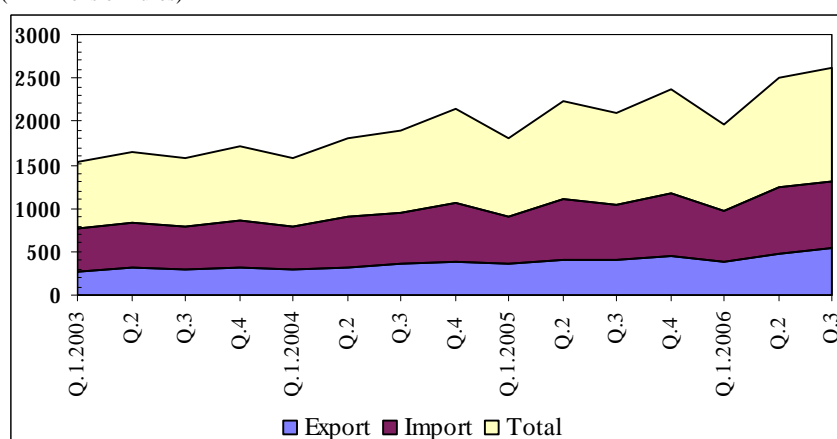
Source: National Bank of the Republic of Macedonia

a) Foreign trade

Annual increase in the total foreign trade of goods of 25% in the third quarter of 2006 was registered

The total foreign trade of goods of the Republic of Macedonia in the third quarter of 2006 reached Euro 1,308.2 million⁴⁸, which is the highest quarterly amount realized since the independence, and simultaneously, an annual increase of 25%.

Figure 51
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 31.7%...

In the July - September 2006 period, the export of goods amounts to Euro 548.7 million, which is the highest export realized on a quarterly basis since the independence. Namely, as a result of the increase in all export groups of products of higher importance, except to the export of clothing and textile, the export augmented by 31.7% compared to the same period of 2005.

⁴⁸ 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.

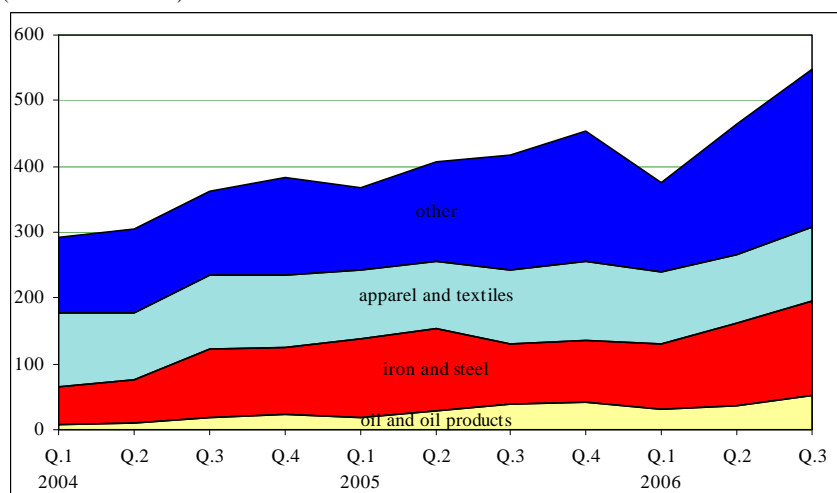
Table 4
Export by groups of products according to the SITC/⁴⁹

groups of products	Q.3 2005	Q.3 2006	Q.3 2006- Q.3 2005 change in absolute amount	Q.3 2006/ Q.3 2005 rates of change in (%)	Q.3 2005	Q.3 2006	Contribution to the increase in Q.3 2006
	amount	amount			structure in %		(%)
Total export of goods	416.5	548.7	132.2	31.7			
Fruits and vegetables	20.6	24.9	4.3	20.7	4.9	4.5	3.2
Beverages	10.6	16.7	6.1	57.3	2.5	3.0	4.6
Tobacco and products thereof	20.7	33.7	13.0	62.6	5.0	6.1	9.8
Metal ore and waste	9.1	15.9	6.8	74.1	2.2	2.9	5.1
Clothing and textile	114.2	112.0	-2.2	-1.9	27.4	20.4	-1.7
Iron and steel	91.3	143.1	51.7	56.6	21.9	26.1	39.1
Oil and oil products	37.9	53.1	15.2	40.2	9.1	9.7	11.5

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

The analysis of the group of products of higher significance shows that the enhanced export of goods in the third quarter of 2006 is mostly (39.1% of the total increase) due to the higher export of iron and steel and products thereof, as a result of the intensified product activity in this sector. A significant part (11.5% of the total increase) refers to the augmented export of oil derivatives, which in environment of unchanged price is completely due to the larger exported quantities. A significant contribution (9.8% in the total increase) accounts for the enhanced export of tobacco and products thereof, which registered an increase, primarily due to the larger exported quantities.

Figure 52
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 annual increase in
the import of goods of
20.9%

The Macedonian economy is highly dependent on the import, and hence, by intensifying the export activity process, the import of goods in the country also enhances. Thus in the third quarter of 2006⁵⁰, the import of goods went up by 20.5% on annual basis, and it equals Euro 759.5 million.

⁴⁹ Standard International Trade Classification

⁵⁰ 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%.



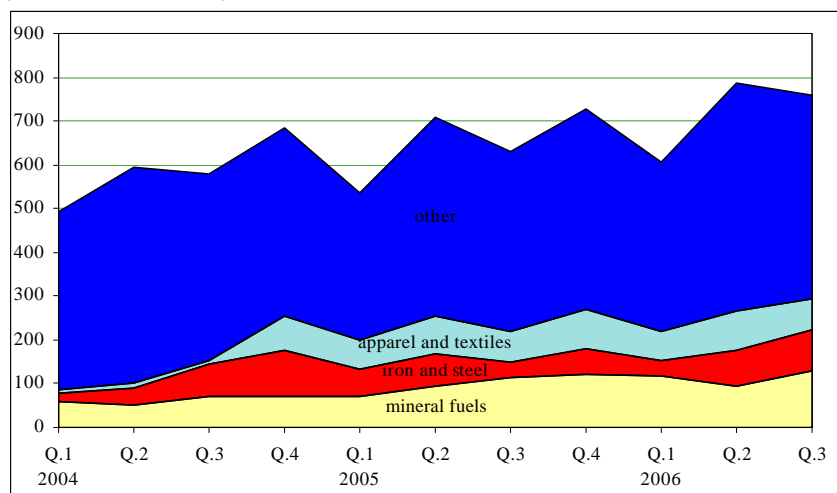
Table 5
Import by groups of products according to the SITC

groups of products	Q.3 2005	Q.3 2006	Q.3 2006/Q.3 2005		Q.3 2005	Q.3 2006	Contribution to the increase in Q.3 2006 (%)
	amount	amount	change in absolute amount	rates of change in (%)	structure in %	structure in %	
Total import of goods	630.3	759.5	129.2	20.5			
Import of mineral fuels, lubricants, etc.	136.1	142.0	5.9	4.3	21.6	18.7	4.6
oil and oil products	113.7	129.3	15.5	13.7	18.0	17.0	12.0
gas - natural or industrial	4.6	7.5	2.9	62.6	0.7	1.0	2.2
electricity	12.4	1.3	-11.1	-89.8	2.0	0.2	-8.6
Products sorted by material	168.0	245.0	77.0	45.9	26.6	32.3	59.6
Iron and steel	33.6	94.6	60.9	181.0	5.3	12.5	47.1
Textile yarn, etc.	58.2	61.1	2.9	5.0	9.2	8.0	2.3
Non-ferrous metals	8.9	14.4	5.5	61.9	1.4	1.9	4.3
Machinery and transport equipment	105.9	132.0	26.1	24.7	16.8	17.4	20.2
Special machinery for the industry	11.1	17.9	6.9	62.1	1.8	2.4	5.3
Industrial machines for general purposes	16.3	21.1	4.8	29.7	2.6	2.8	3.7
Electrical machinery, parts - n.e.c.	19.8	22.6	2.8	14.1	3.1	3.0	2.2
Road vehicles	31.6	41.2	9.7	30.6	5.0	5.4	7.5
Other transport equipment	0.7	0.5	-0.2	-26.8	0.1	0.1	-0.1

Source: State Statistical Office; the NBRM calculations in Euros

Analyzed from the aspect of more important groups of products, the largest contribution (47.1%) to the increase in the import accounts for the higher import of iron and steel. Within the group of machines and transport equipment, the main role for the intensification of the total import has the import of road vehicles and special machines for industry, the share of which equals 7.5% and 5.3%, respectively. The import of mineral fuels in the July - September 2006 period represents 4.6% of the increase in the total import. Divergent movements in the import of individual types of energy sources were recorded, i.e. increase in the import of oil and oil products, caused by the increase in the price on the international stock exchanges and the increase in the imported quantities, while the import of electricity dropped.

Figure 53
Import timeframes by groups of products
(in millions of Euros)



Source: State Statistical Office; the NBRM calculations in Euros

Lower trade deficit on annual basis by 1.4%

In the third quarter of 2006, trade deficit in the amount of Euro 210.8 million, which is lower by 1.4%, was recorded, originating from the intensified annual increase in the export compared to the import. Simultaneously, the export - import coverage ratio rose by 6.2 percentage points and it equals 72.2%.

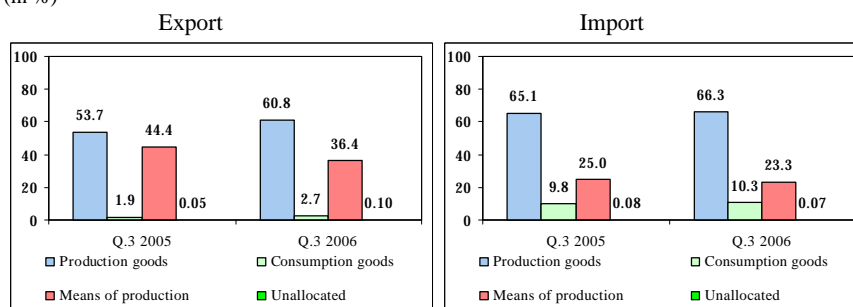
The analysis of the economic use of products indicates the dominance of the production materials⁵¹, the share of which in the export and import structure equals 60.8% and 66.3%, respectively, while a significant part accounts

⁵¹ Production materials include raw materials and intermediary products, machine fuel and finished production materials

Dominance of the production materials on both export and import side

for the consumer goods with a share of 36.4% and 23.3% on the side of the export and the import, respectively. The analysis from the aspect of the dynamics on the export side indicates higher annual presence of the production materials (by 7.1 percentage points) for the expense of the lower presence of the consumer products (by 7.9 percentage points). The import side registers the same tendency as the export, although with a smaller intensity, i.e. increase in the share of the production materials (of 1.2 percentage points), given reduced share of the consumer products (by 1.7 percentage points). Such changes reflect the enhanced movements in activities dealing with further processed goods.

Figure 54
Foreign trade of the Republic of Macedonia by economic use of the goods
(in %)



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

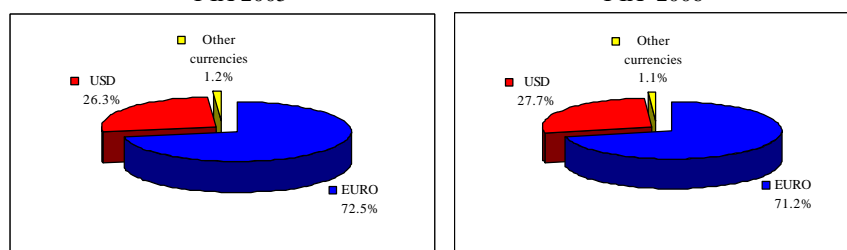
The European Union - dominant trade partner

The export of goods from the Republic of Macedonia is mainly oriented towards two groups, i.e. the European Union (having a dominant share of 54.2%) and the former SFRY republics (34.1% of the total export). Simultaneously, the largest portion of the goods (43.1%) is imported from our main trade partner - the European Union and the countries of Central and Eastern Europe (29.8% of the total import).

The largest foreign trade volume in the third quarter (38.1%), the Republic of Macedonia registered with Serbia and Montenegro, Greece and Germany. The highest level of export - import coverage ratio of 237.6% was evidenced in the trade with Serbia and Montenegro, due to the higher export of oil derivatives. Simultaneously, the lowest level of export - import coverage ratio of 5.5% was registered in the trade with Russia, due to higher import of oil and oil derivatives.

The foreign trade currency structure in the January - September period shows that the share of the Euro plunged by 1.3 percentage points, annually, whereas the increase in the share of the US Dollar. Despite this slight change, the Euro remains to dominate on the side of both export and import of goods (74.7% and 68.9%, respectively).

Figure 55
Currency structure of the foreign trade of the Republic of Macedonia
I-IX 2005 I-IX 2006



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

Attachment 6**Features of the export specialization of the Republic of Macedonia**

The performances in the foreign trade are conditioned, to a great extent, by the type of the products exported and the tendencies in the demand worldwide, i.e. from the so-called export specialization of the country. Good export specialization denotes a specialization of a country to export products for which the demand worldwide registers the highest growth rates. For example, the export made by the OECD countries is based on the so-called industries of the "future", not the "past". The "future" industries are those incorporating utilization of highly developed technology in their production processes, having created high percentage of value added in the final products, and the most important thing is that the industries of the "future" have high share of research and development costs in the products value. Consequently, the features of the export specialization of a country are necessary, and maybe the only sufficient condition for the economic growth of the country.

In order to determine the export specification features of the Republic of Macedonia, the ***Revealed (structural) comparative advantage - RCA*** was established. This index was initially proposed by Balassa in 1965, with the definition being modified for several times, because of which there are now a lot of measures for structural comparative advantage. Some of the indicators restrict the analysis on a bilateral level, another regionally, or sub-globally, while in our case, the analysis of the structural comparative advantage is applied on a global level, i.e. by utilization of the world trade flows.

$$RCA_{ij} = \frac{(X_{ij} / X_j)}{(X_{iw} / X_w)}$$

RCA_{ij} -structural comparative advantage of the sector (industry) i , in the country j ;

X_{ij} -export of the sector i of the country j ;

X_j -total export of the country j ;

X_{iw} -export of the sector i at world (global) level;

X_w -total world export.

According to the common interpretation, the RCA index identifies binary demarcation of the industries based on comparative advantage, i.e. comparative weakness. The RCA value exceeding 1 denotes comparative advantage of the country, i.e. it shows that the country is specialized in that industry. The reverse interpretation is valid for the value of the index lower than 1. Also, the index enables rating of the industries according to the level of their comparative advantage.

Tabel 1
Index for the structural comparative advantage for the Republic of Macedonia

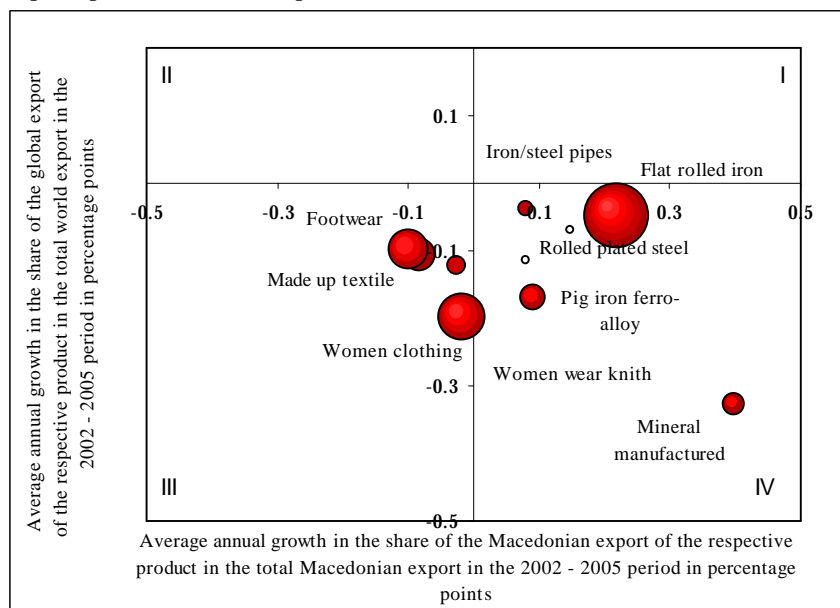
RCA	2002	2003	2004	2005
Meat and meat products	0.78	1.12	1.84	2.41
Grains	0.03	0.05	0.07	0.43
Beverages	3.89	5.15	6.40	9.32
Tobacco and tobacco products	12.25	17.21	20.72	46.08
Mineral fuels and distillates thereof	0.19	0.68	0.82	2.11
Pharmaceutical products	0.58	0.72	1.09	1.35
Plastic and plastic products	0.24	0.37	0.55	0.70
Wood and wood products	0.19	0.31	0.46	0.59
Knitted or crocheted products	1.00	1.24	0.74	0.85
Garments and clothing accessories, knitted or crocheted	2.18	2.97	5.11	6.52
Garments and clothing accessories	9.45	13.25	20.38	29.37
Textile for further processing	2.37	2.57	5.28	6.94
Footwear	2.53	3.58	5.73	8.13
Iron and steel	3.78	6.54	9.50	15.38
Iron and steel products	1.18	1.76	3.48	4.87
Copper and copper products	0.22	0.20	0.32	0.74
Nickel and nickel products	0.00	0.01	0.00	0.02
Aluminum and aluminum products	0.67	0.96	0.66	0.93
Zinc and zinc products	25.26	15.55	0.72	0.93
Tin and tin products	0.04	0.00	0.00	0.07

Source: United Nations Database.

The analysis pertaining to the Republic of Macedonia shows that eleven out of twenty analyzed industries register clear trend of increase in the structural comparative advantage - the larger share of them labour intensive industries (such as the production of clothing and footwear). However, larger number of raw material and capital intensive industries (such as metal manufacturing industries - production of copper, nickel, aluminium, zinc, tin and products thereof from one side, and the production of plastic, i.e. wood, from the other one), register comparative weakness.

If analyzing the specialization degree of the most significant Macedonian export products, presented on the following figure, it can be assumed that the Macedonian export is based on the low value added products, the market share of which on the world level is downward. Namely, the share of the Macedonian export of the products, concentrated in the fourth quadrant (IV) of the figure registers an upward trend in the total Macedonian export, whereas the world export of those products, the share of which evidences a downward trend in the global export. Simultaneously, the share of the Macedonian export of goods concentrated in the third quadrant (III) of the figure registers a decrease in the total Macedonian export, with the world export of those products also registering lower share in the global export. Accordingly, the specialization of the Macedonian export sector may be called "residual" specialization, with regard to specialization "common" for the developing countries, because it is mostly based on the labour intensive and raw material intensive industries.

Figure 56
Export specialization at the product level



Source: United Nations Database.

Such a specialization has clear negative consequences on the convergence process towards developed economies. Namely, in the 2002 - 2005 period the higher specialization was registered in the production of: women wear knit, mineral manufactured, pig iron ferroalloy, crude iron and iron alloy, flat rolled iron, iron/steel pipes and production of rolled plated steel. On the other hand, the decrease in the specialization degree is registered with the made up textile, footwear, women clothing, as well as in the production of lime and cement. All these products register downward market share at the world level and low value added, thus implying need of structural reforms in the economy, directed towards development and support of competitive and world-wide leading industrial branches.

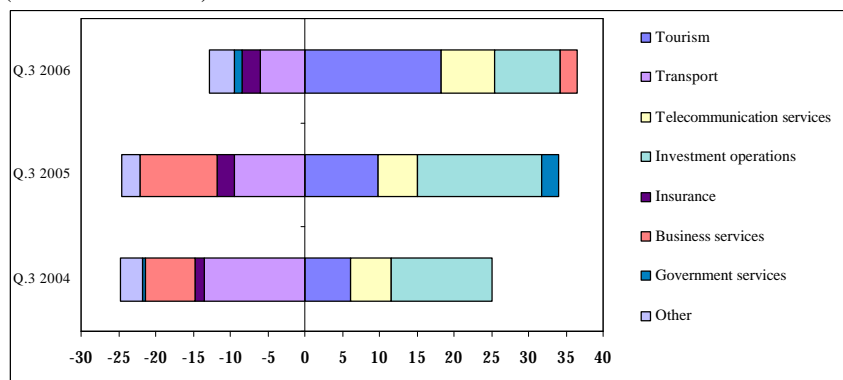
b) Other components of the current account

Positive balance on the balance of services was registered...

In the third quarter of 2006, surplus⁵² in the amount of Euro 23.6 million was registered, which is an increase of Euro 14.2 million on annual basis. Such favourable movements are result of the transactions related to the foreign trade of goods and the higher net inflows with certain categories of services influenced by seasonal factors. Namely, all three larger groups of services register increase in the total inflows based on services, although the dominant share (60%) accounts for the higher inflows based on realized trips of non-residents to the country (for personal or business reasons), while the lower outflows based on realized transport of goods abroad by domestic transporters and the increased inflows based on other services participate with 24.7%, i.e. 15.3%, respectively. Thus the inflows based on traveling (tourism) augmented by Euro 8.5 million, annually, which points to the enhanced attractiveness of the country as traveling and business destination. Simultaneously, the reduced outflows for realized transport services (by Euro 3.5 million in comparison with the same quarter of 2005) are caused by the intensified export of goods, and consequently, higher inflows based on transport of goods.

⁵² The highest registered quarterly amount of surplus in the trade since the independence.

Figure 57
Balance of certain service categories
(in millions of Euros)



Source: National Bank of the Republic of Macedonia.

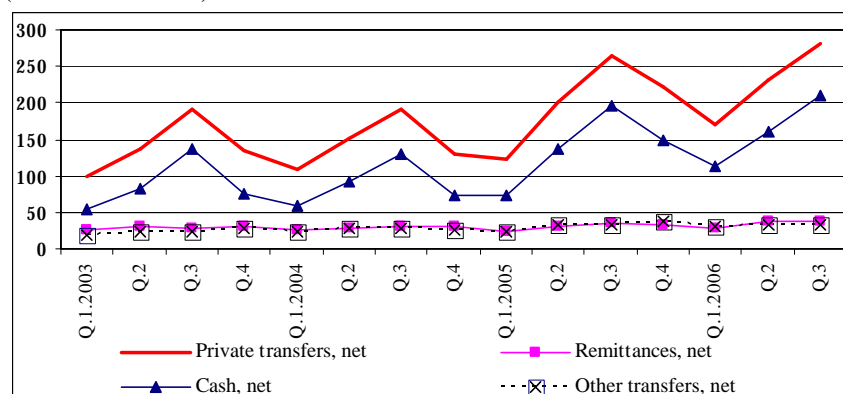
...and decrease in the negative gap in the income sub-balance

In the January - September 2006 period, a significant decrease in the negative gap in the income sub-balance of Euro 26.7 million compared to the third quarter of 2006 was registered. The reduced negative balance compared to the same period of the previous year primarily originates from the unpaid dividend to the foreign investors of direct investments in the country by a large company, with the deficit of the net income based on investments registering a drop in the amount of Euro 27.8 million. Simultaneously, the inflows based on received wages and other compensations for employed residents went down by Euro 1.1 million, minimally and in the third quarter of 2006 they equaled Euro 11.7 million.

Higher net-inflows based on current transfers

In the third quarter of 2006, the net-inflows based on current transfers (official and private) reached a record quarterly increase of Euro 295.9 million, which is an annual increase of Euro 15.2 million. In environment of reduced inflows from official transfers (by Euro 2.6 million), the total increase in the net inflows is completely due to the higher inflows based on private transfers (Euro 17.8 million). The rise in the private transfers originates from the increase in almost all constituent components (except to other transfers which registered slight decrease of Euro 0.4 million). However, the main generator of the growth (a share of 81.8%) is the inflows based on currency exchange operations (cash), which amount to Euro 209.6 million in the third quarter. The inflows based on remittances went up annually by Euro 3.7 million and they amounted to Euro 38.7 million in the third quarter.

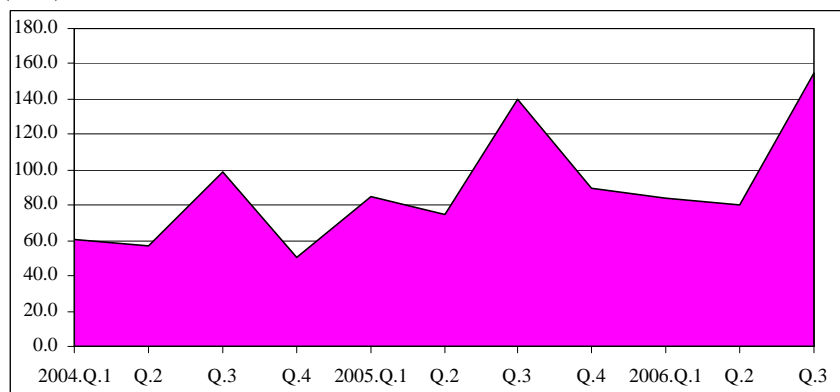
Figure 58
Current transfers timeframes by components, net
(in millions of Euros)



Source: National Bank of the Republic of Macedonia.

The intensified increase in the net inflows of private transfers led to the increase in the coverage ratio of the trade deficit with the net private transfers, which in the third quarter of 2006 reached 1.6 times (increase of 15.1 percentage points and 56 percentage points compared to the third quarter of 2005 and 2004, respectively).

Figure 59
Coverage of trade deficit with private transfers
(in %)



Source: National Bank of the Republic of Macedonia.

8.2. Capital and financial account

Lower foreign exchange inflows in both capital and financial account

Lower foreign financial inflows in the capital and the financial account of the balance of payment by Euro 24.8 million were registered in the third quarter of 2006 compared to the third quarter of the previous year.

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.3	Q.1	Q.2	Q.3	Q.1	Q.2	Q.3
											rates of change in (%)		
								difference					
Capital account, net	0.0	-0.2	0.2	-1.8	0.4	-0.4	-0.2	0.4	-0.3	-0.4	7532.3	181.8	-199.0
Financial account, net	30.1	107.8	30.3	253.3	47.6	145.6	5.9	17.5	37.7	-24.4	58.2	35.0	-80.5
Direct investments, net	27.7	26.6	14.1	8.7	239.4	17.3	9.4	211.7	-9.3	-4.7	764.9	-35.0	-33.3
Portfolio investments, net*	12.5	3.8	14.4	167.3	11.8	24.8	7.0	-0.7	21.0	-7.4	-5.8	559.0	-51.2
Trade credits, net	-45.7	66.4	-32.1	32.5	-7.0	39.2	-60.5	38.7	-27.2	-28.4	-84.7	-40.9	88.4
Loans, net	14.3	64.8	4.7	41.2	-133.0	38.1	22.0	-147.3	-26.7	17.3	-9.3 times	-41.2	4.7 times
Currencies and deposits, net**	17.9	-57.9	24.4	-5.2	-68.5	-5.3	19.5	-86.4	52.6	-5.0	-3.8 times	-90.8	-20.4
Other, net***	3.4	4.2	4.7	8.8	5.0	31.4	8.4	1.5	27.2	3.7	44.2	649.9	78.4
Capital and financial account	30.1	107.7	30.5	251.6	48.0	145.2	5.7	17.9	37.5	-24.8	59.4	34.8	-81.3

1/ Preliminary data.

* in Q.4 2005 with Eurobonds.

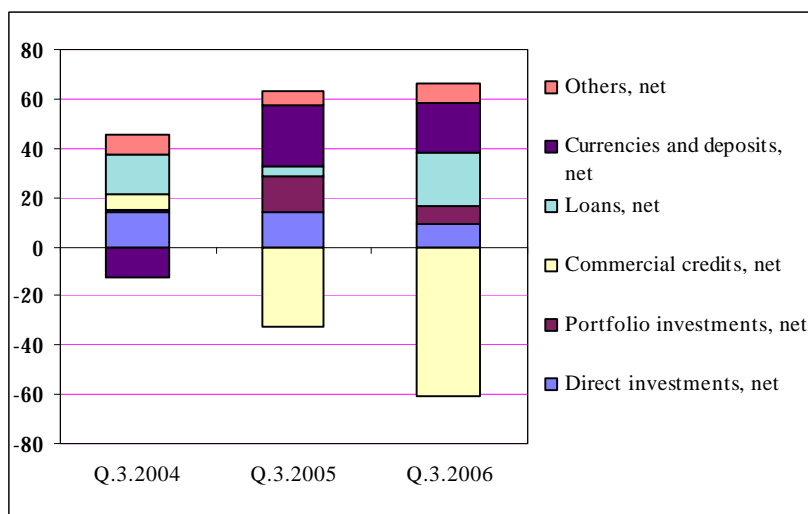
**(-) denotes reduction.

** overdue liabilities

Source: National Bank of the Republic of Macedonia.

Analyzed from the aspect of the individual components, in the third quarter of 2006 foreign currency inflows in the amount of Euro 16.4 million on the basis of non-debt financing flows were realized (a decrease of 42.3%, annually), while higher negative balance in the commercial credits compared to the third quarter of 2005 was realized (by Euro 28.4 million). On the other hand, higher inflows from abroad were recorded on the basis of utilization of long-term and short-term loans and credits on a net basis (by Euro 17.3 million, compared to the third quarter of 2005).

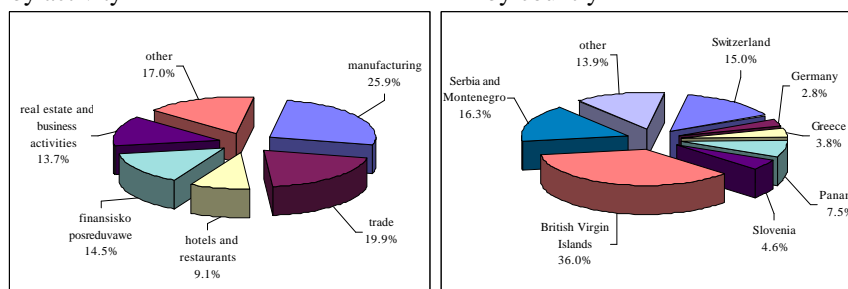
Figure 60
Financial account components
(in millions of Euros)



Source: National Bank of the Republic of Macedonia.

Reduced investment activity of the foreign investors in the country in the third quarter of 2006 was registered. Namely, the invested foreign direct investments in the Republic of Macedonia dropped by Euro 4.5 million, annually, and they equaled Euro 13.6 million. The analysis by activities shows that the most attractive activities for investment are manufacturing and trade (Euro 3.5 million and Euro 2.7 million, respectively). Within the production, almost half of the investments are directed to the metal industry, while 76.5% of the investments are made in wholesale trade. The larger share of the other foreign investments is directed to the financial intermediation area (Euro 2 million), real estate and business activities mediation (Euro 1.9 million) and hotels and restaurants (Euro 1.2 million). The analysis from the aspect of the countries the direct foreign investments originate from shows that in the third quarter of 2006, the largest investors in the country are the British Virgin Islands, Serbia na Montenegro and Switzerland (Euro 4.9 million, Euro 2.2 million and Euro 2 million, respectively).

Figure 61
Foreign direct investments in the Republic of Macedonia in the third quarter of 2006
(in %)
by activity

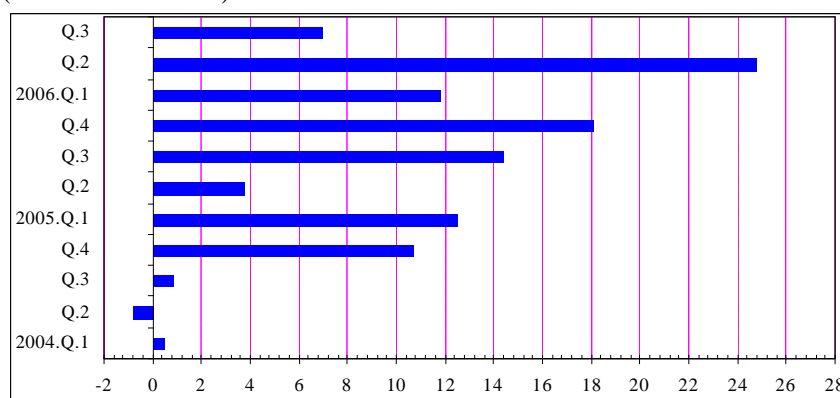


Source: National Bank of the Republic of Macedonia

In the third quarter of 2006, the invested direct investments of the domestic investors abroad went down (annual decrease of 32.3%) and they equal Euro 0.7 million. The largest portion of the investments is directed to the production, and most of the investments are made in Serbia and Montenegro.

In the third quarter of 2006, the portfolio investments dropped and they equaled Euro 7 million (compared to Euro 24.8 million in the previous quarter and Euro 14.4 million in the third quarter of 2005). The realized inflows based on portfolio investments completely originate from sale of ownership securities by domestic companies of non-residents, insignificantly reduced by the outflow of foreign currency based on purchase of domestic debt securities in the ownership of non-residents by the domestic entities.

Figure 62
Dynamics of portfolio investments in the Republic of Macedonia/*
(in millions of Euros)



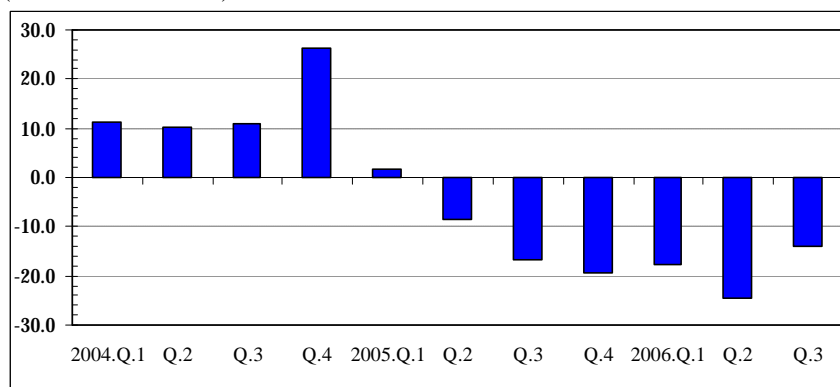
*in Q.4 2005 without inflows based on Eurobonds.

Source: National Bank of the Republic of Macedonia

In the third quarter of 2006, negative balance in the amount of Euro 60.5 million in the commercial credits was registered, which is an increase of Euro 28.4 million compared to the same quarter of the previous year.

During the third quarter of 2006, the currencies and deposits category registered a decrease of Euro 19.5 million. The decrease is due exclusively to the changes in the monetary authority's assets in the amount of Euro 51.1 million, which were transferred from the foreign reserves and which were previously kept on a special account with the central bank. Besides that, the currencies and the deposits with the commercial banks and the remaining sectors registered an increase. Namely, in the third quarter of 2006, the currencies and the deposits with the commercial banks went up by Euro 17.6 million (in the same period of the previous year they declined by Euro 40.8 million). Simultaneously, augmented outflows of cash foreign currency outside the banking system in the amount of Euro 14 million were registered, Euro 13.8 million of which refer to the households, which is mainly due to the larger amount of withdrawn cash based on fast money transfer.

Figure 63
Dynamics of the households' net foreign assets
(in millions of Euros)



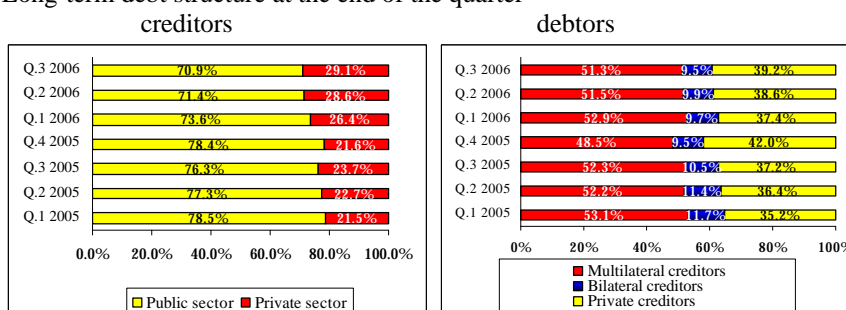
Source: The National Bank of the Republic of Macedonia

The total external debt of the Republic of Macedonia as of September 30, 2006 stands at Euro 1,806.8 million, which is an increase of Euro 13.5 million on a quarterly basis, while compared to the end of 2005, it plunged by Euro 121.5 million (as a reflection of the repayment of the debt to the London Club of creditors with the funds originating from the Eurobond).

Quarterly increase in the external long-term debt of 0.7%

On September 30, 2006, the external long-term debt totals Euro 1,721.3 million and surged by 0.7% compared to the end of the previous year. The quarterly increase in the long-term debt results from the changes in the cross-currency relations, as well as from the increase in the debt of the private sector, primarily the increase in the debt of the banks (share of 89.4% in the increase in the private sector).

Figure 64
Long-term debt structure at the end of the quarter



*Preliminary data

**Preliminary data

Source: National Bank of the Republic of Macedonia.

The structural changes from the aspect of both debtors and creditors are in conformity with the higher level of liberalization of the credit transactions. From the aspect of the debtors, the trend of continuous increase in the debt of the private sector continues, and in the third quarter it reached 29.1%. From the aspect of the creditors, the dominance of the multilateral creditors remains (51.3%), while the indebtedness of the private sector increments (39.2%).

On September 30, 2006, the amount of the short-term debt, which completely refers to the private sector, totals Euro 85.5 million, which is an increment of 1.4% compared to September 2005.



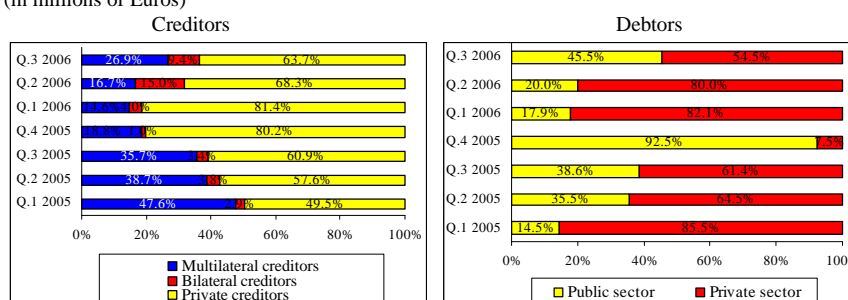
In the third quarter of 2006, Euro 64.9 million were used on the basis of long-term credits and loans

In the July - September 2006 period, the *inflows* based on lending to residents by foreign creditors on the basis of *long-term loans and credits* dropped 14.2% and they equaled Euro 64.9 million.⁵³

The analysis *from the aspect of the creditors* shows that the decrease in the amount of withdrawn funds from the foreign private creditors is primarily due to the decrease in the withdrawn funds from the private creditors (of 20%). However, the structural analysis still indicates dominance of the funds withdrawn from the private creditors (63.7% of the total withdrawn funds). The used funds on the basis of long-term debt from multilateral creditors comprise 26.9% of the total withdrawn funds (their share is reduced by 17.1 percentage points compared to the third quarter of 2005), while the participation of the bilateral creditors equal 9.4%.

Observed from *the aspect of debtors*, 54.5% of the total indebtedness account for the private sector (reduced structural share of 25.5 percentage points compared to the second quarter of 2006). In the third quarter, 45.5% of the used funds are withdrawn by the public sector, with the largest portion (57.5%) of the funds being withdrawn by the central Government (funds withdrawn from the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) dominate), while the remaining share (42.5%) is indebtedness of the public enterprises (mostly from the International Bank for Reconstruction and Development (IBRD)).

Figure 65
Structure of used credits based on long-term debt
(in millions of Euros)



* Preliminary data.

** Preliminary data.

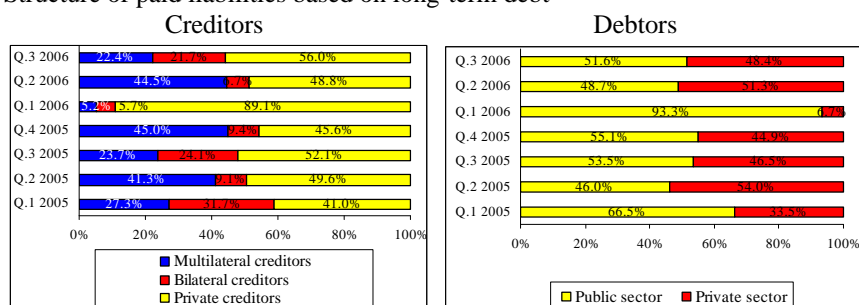
Source: State Statistical Office of the Republic of Macedonia

...while the paid liabilities equaled Euro 60.9 million

In the third quarter of 2006, the total amount of *paid liabilities* to foreign creditors *on the basis of used long-term loans and credits* equal Euro 60.9 million (Euro 45.8 million of which are principal and Euro 15 million are interest), which is quarterly increase of 72.9%. The lower level of paid liabilities on a quarterly basis is a result of the repayment of part of the liabilities to the Paris Club of Creditors (rescheduled debt from 1995), as well as the higher number of paid liabilities to the private creditors (banks and non-bank sector). The analysis from the *aspect of creditors* shows that 56% of the total liabilities are paid to the private creditors, while almost equal share of liabilities was paid to the private and multilateral creditors (22.4% and 21.7%, respectively). From the *aspect of the debtors*, larger share of the liabilities (51.6%) are serviced by the public sector, within which the largest portion is paid by the central Government. The private sector participates with 48.4% in the total repaid liabilities, where the largest contribution accounts for the non-bank private sector.

⁵³ Preliminary data of the NBRM

Figure 66
Structure of paid liabilities based on long-term debt



* Preliminary data.

** Preliminary data.

Source: National Bank of the Republic of Macedonia

In the third quarter of 2006, credits in the amount of Euro 33.7 million were concluded, and all refer to the public sector. The largest portion of the debts (84%) accounts for the non-bank sector (concluded credits with the private creditors), while the remaining 16% account for the private banks.

Used short-term credits in the amount of Euro 14 million and paid liabilities in the amount of Euro 12.4 million

The used funds on the basis of extended short-term credits equaled Euro 14 million in the third quarter of 2006, which completely represent debiting of the non-bank private sector. In the third quarter of 2006, liabilities based on short-term credits in the amount of Euro 12.4 million were paid, Euro 7.9 million of which were realized by the private sector (completely to the non-bank private sector) and Euro 4.4 million by the public sector.

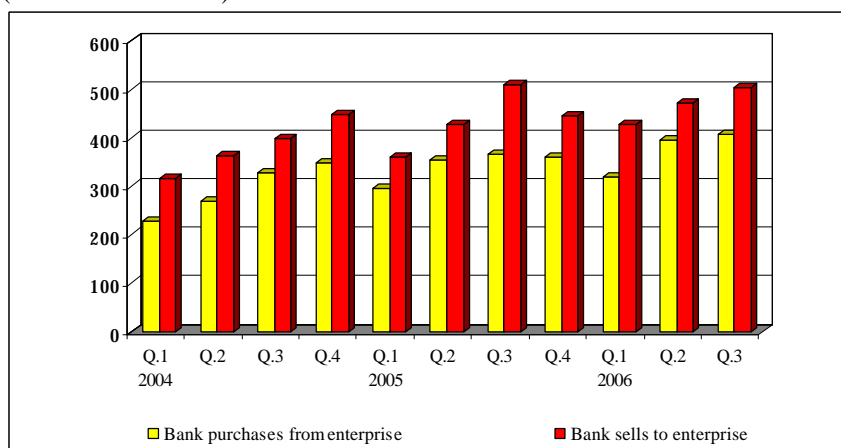
9.

Foreign exchange developments

Annual increase in the turnover on the foreign exchange market of 7.5%

In the third quarter of 2006, the turnover on the *foreign exchange market* totaled Euro 1,088 million, which is an annual increment of 7.5%. The discrepancy between the demand for and supply of foreign currency by the enterprises significantly declined (by Euro 46.7 million, annually), primarily as a result of the paid dividend to the foreign shareholders by a larger enterprise in the third quarter of the previous year, and that was not paid this year. However, such an effect was partially neutralized by higher annual import, resulting in slight decrease in the demand for foreign currency by the enterprises (of 1.2%, annually). On the other hand, the incremented export of goods and inflow from services in the third quarter of 2006 compared to the same period of the previous year enabled higher supply of foreign currency by the enterprises (of 11.1% on an annual basis). In terms of higher demand for than supply of foreign assets of enterprises, the commercial banks realized net sale of foreign currency in the third quarter of 2006, which is lower by 32.5% on annual basis.

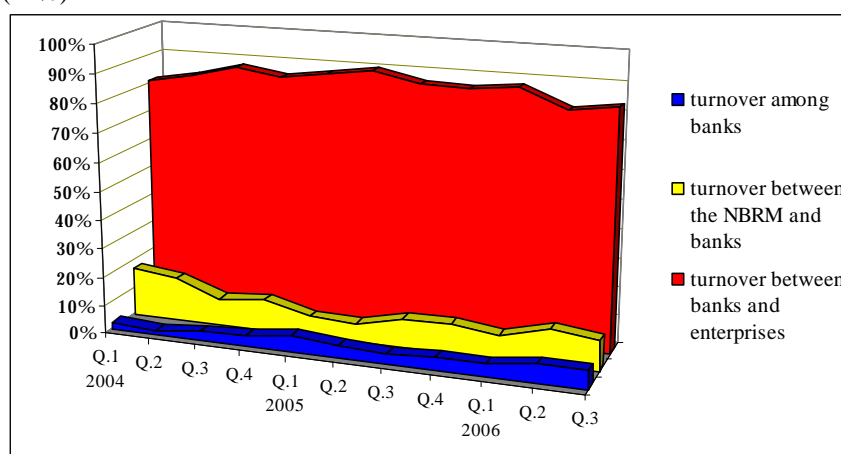
Figure 67
Banks - enterprises transactions
(in millions of Euros)



Source: National Bank of the Republic of Macedonia

The analysis of the shares of the turnover of individual market segments in the turnover on the foreign exchange market shows further increase in the share of the turnover among banks. The structural share of the turnover among banks in the third quarter of 2006 reached the highest quarterly share since 2004 and it equals 6.3% in the total turnover on the foreign exchange market (compared to 3.6% in the third quarter of 2005). On the other hand, the structural share of the turnover on the banks - enterprises segment reduced by 2.9 percentage points, annually, although it remained dominant in the total turnover, and it equals 83.5% in the third quarter 2006. The structural share of the turnover between the NBRM and the banks equals 10.2% in the total turnover on the foreign exchange market, which remained almost unchanged relative to the same quarter of 2005.

Figure 68
Share of individual segments in the total turnover on the foreign exchange market
(in %)



Source: National Bank of the Republic of Macedonia

Stable foreign exchange rate of the Denar against the Euro of on the foreign exchange market...

In the third quarter of 2006, the foreign exchange inflows in the domestic economy, mainly on the basis of the private transfers and the active participation of the banks on the side of the supply of foreign exchange, determined pressures for Denar appreciation on the foreign exchange market, which were especially apparent in July. In line with the applied Denar - Euro targeting strategy, such pressures were neutralized through the NBRM



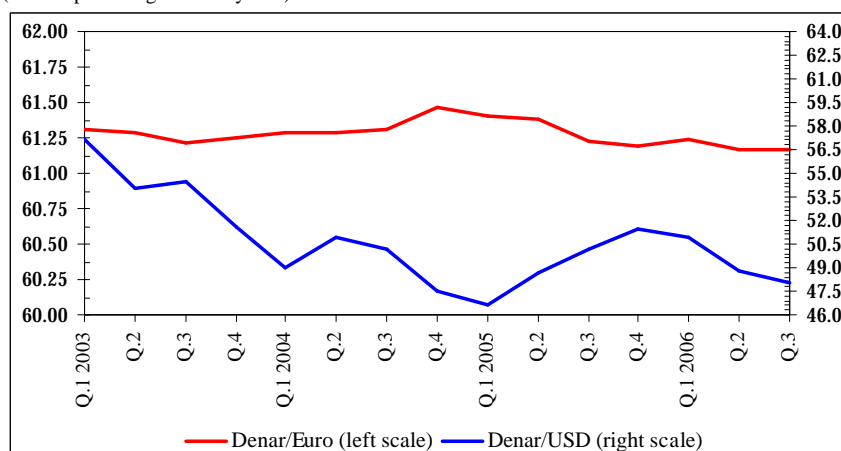
transactions towards net purchase of foreign exchange in the amount of Euro 76.3 million. Consequently, the Denar exchange rate relative to the Euro remained stable in the third quarter of 2006, and it equaled Denar 61.17, per one Euro, on average.

..and appreciation of the Denar against the US Dollar of 1.5%

The foreign exchange rate of the Denar against the US Dollar was determined by the cross-currency relations of the US Dollar against the Euro on the international foreign exchange markets, the largest share of which during the quarter were developing in conformity with the interest rate differential of the two-year government bonds in the USA and the Eurozone.⁵⁴ Namely, the interest rate differential declined in July and August due to the improved economic indicators within the Eurozone, compared to the lower performances of the US performances than expected (slowing down the real estate market, published lower estimated GDP growth for the second quarter of 2006 than expected), thus enabling the Euro to increase its value. On the other hand, despite the further decrease in the differential in September, however, the most significant drop in the price of oil, having positive influence on the US economy, acted towards the increase in the US Dollar in the largest part of September, with the appreciation of the Euro being partially neutralized. The appreciation of the Euro against the US Dollar on the international markets had appropriate reflection on the movement of the Denar exchange rate relative to the US Dollar, and the average value of the Denar appreciated by 1.5% compared to the previous quarter (in the third quarter of 2006, Denar 48.01 were traded per one US Dollar, on average, compared to Denar 48.76 per one US Dollar in the previous quarter).

Figure 69

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

Increased net purchase of 13/8% on the currency exchange market

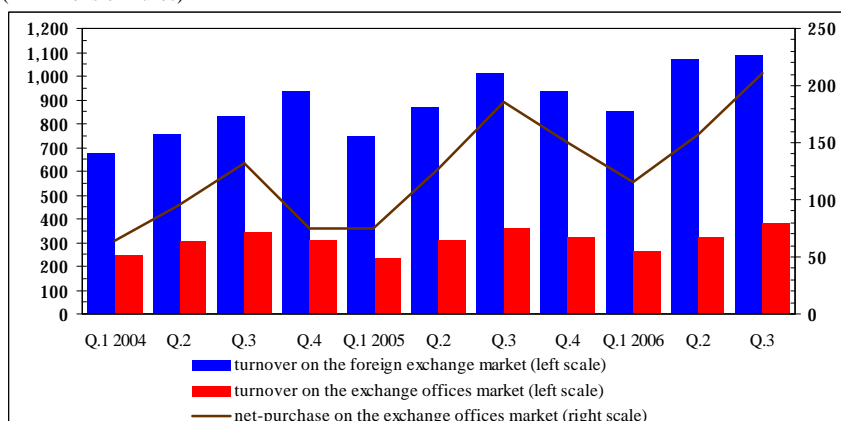
In the third quarter of 2006, the turnover realized on the currency exchange market was determined by seasonal factors characteristic for this period of the year, i.e. the summer vacations and the arrivals of the Macedonians emigrants during the summer period. The realized turnover on the currency exchange market equaled Euro 380.5 million, i.e. it went up by 5.6% relative to the same quarter of 2005. In environment of higher supply (of 8.4%) and fall in the demand for foreign currency (of 3.1%), higher net purchase of foreign currency on the currency exchange market by 13.8% annually in the third quarter of 2006, compared to the second quarter of 2005 was recorded, and it reached Euro 211.2 million, which is the second highest quarterly net purchase registered since 1999.

⁵⁴ Source: ECB Monthly Bulletin: July 2006, August 2006, September 2006 and October 2006.

Figure 70

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

(in millions of Euros)



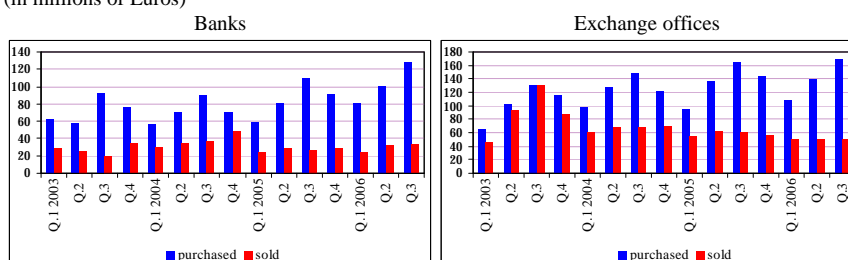
Source: National Bank of the Republic of Macedonia

The structure analysis shows that in the third quarter of 2006 the share of the turnover registered by the exchange offices plunged (annual drop of 4.5 percentage points) and it equals 57.6% of the total turnover. On the other hand, the structural share of the banks reached 42.4% and it registers continuing increase, which is a result of the higher realized turnover in the third quarter of 2006 compared to the same quarter of the previous year (of 18.2%).

Figure 71

Movement of the turnover on the currency exchange market

(in millions of Euros)



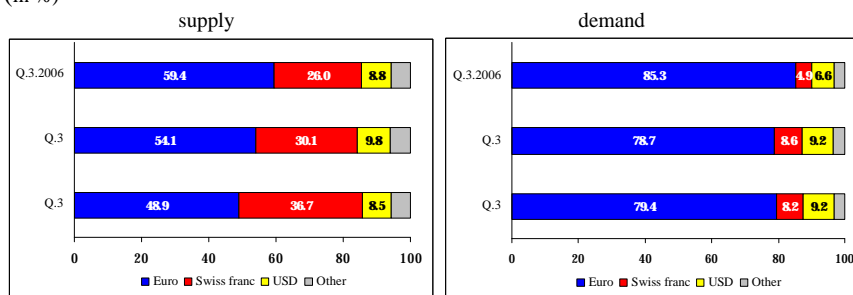
Source: National Bank of the Republic of Macedonia.

The analysis of the currency of denomination structure of the turnover on the currency exchange market shows that also in the third quarter of 2006 the dominant currency on both trade sides, supply and demand, is the Euro, thus continuing the upward trend of the structural share relative to the same period of the previous year. Thus the share of the Euro on the side of both supply and demand equals 59.4% and 85.3%, respectively (annual increase of 5.4 percentage points and 6.6 percentage points, respectively). Contrary to the movements registered with the Euro, the Swiss Franck and the US Dollar reduced their share in both segments of the trade compared to the third quarter of 2005.

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

Figure 72

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 third quarter of 2006, the average exchange rate of the Denar against the Euro on the currency exchange market was stable and it equaled Denar 61.41 per one Euro, while the US Dollar was traded for Denar 48.02, on average, which is an appreciation of the Denar of 1.7% compared to the preceding quarter.

Appreciation of the Denar real effective exchnage rate calculated according to the consumer price index...

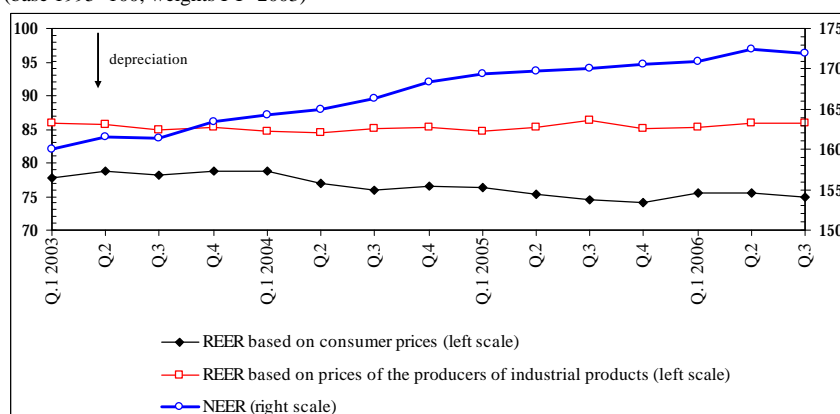
In the third quarter of 2006, *the index of Denar real effective exchange rate* (REER) calculated by consumer price index registered appreciation of 0.5% compared to the third quarter of 2005, which is due to the intensified annual appreciation of the nominal effective exchange rate (NEER) of 1% (primarily due to the Denar appreciation of the Denar relative to the new Turkish Lira and the US Dollar) compared to the increase in the relative prices (more intensive growth of the foreign compared to the domestic consumer prices⁵⁵ of 4.3% and 3.7%, respectively). The average Denar REER calculated by the index of prices of the producers of industrial products in the third quarter of 2006 depreciated by 0.5% relative to the same quarter of the preceding year, which is a result of intensified annual increase in the relative prices of 1.6% (more intensive increase in the foreign compared to domestic prices of the producers of industrial prices of 5.1% and 3.5%⁵⁶, respectively).

...and depreciation of the Denar real effective exchnage rate calculated according to the index of prices of the producers of the industrial products...

Figure 73

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

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

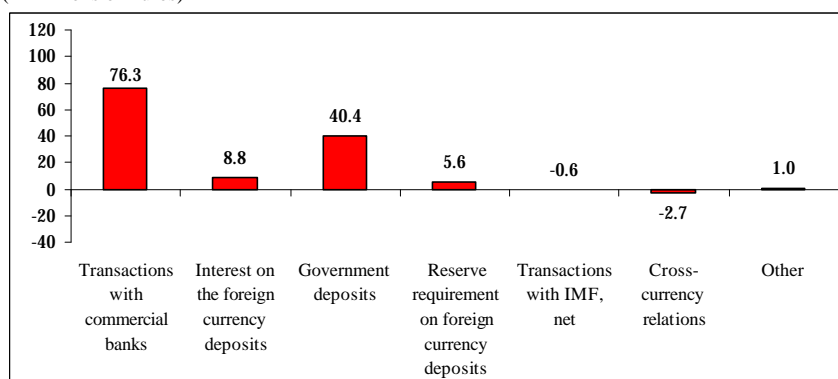
⁵⁶ Refers to the change in the current quarter versus preceding quarter, with a base average 1995



Augmented gross foreign reserves by Euro 128.7 million compared to the previous quarter

On September 30, 2006, the gross foreign reserves reached their historically highest level of Euro 1,370.1 million, which is a rise of Euro 128.7 million compared to June 30, 2006. The largest portion, or 90.6% of the total changes in the gross foreign reserves is a result of the realized net purchase by the NBRM on the foreign exchange market and the net foreign inflows of government deposits⁵⁷. If comparison with the end of 2005 is made (not including the funds from the sale of Eurobonds), the gross foreign reserves went up by Euro 396.3 million.

Figure 74
Factors of change of the gross foreign reserves in the third quarter of 2006
(in millions of Euros)



Source: National Bank of the Republic of Macedonia

The level of the gross foreign reserves registered at the end of September 2006 enables 4.4-month coverage of the import of goods (f.o.b.) and outflow of services from the following year.⁵⁸

10.

Public finance⁵²

The coordination of the fiscal and the monetary policy, as a basis of the macroeconomic stability in the Republic of Macedonia continued also in the third quarter of 2006. Thus the Denar government deposits remained to be dominant autonomous factor for liquidity sterilization created through the foreign exchange transactions of the NBRM. Also the monetary instruments acted in the same direction, given gradual increase in the share of the Treasury bills for monetary purposes. In the third quarter of 2006, additional net inflows based on domestic borrowing through issuance of new Treasury bills for fiscal purposes were registered in the Government budget (in the amount of Denar 43 million). On the other hand, net outflows based on external financing (in the amount of Denar 368 million) were realized, as a reflection of the higher payment of principal of foreign debt compared to the lower amount of external indebtedness.

Prudent fiscal policy conduct

From the aspect of the public finance management, prudent fiscal policy was conducted in the third quarter of 2006. Namely, besides the significant annual decrease in the total public revenues, given moderate increase in the public expenditures, positive budget balance was registered. Thus the total public

⁵⁷ On August 8, 2006, funds in the amount of Euro 49.75 million extended by EBOR and aimed at privatization of ESM Distribution were transferred to the government account, after they were previously kept on a special account.

⁵⁸ According to the balance of payments projection prepared during the last IMF mission in November 2006.

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).

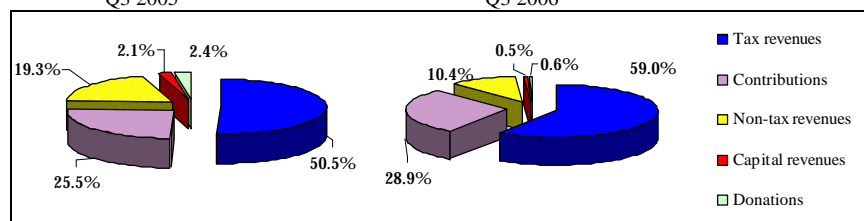
revenues reached Denar 26,211 million in the third quarter of 2006 (annual drop of 6.1%), while the public expenditures amounted to Denar 25.085 million, thus registering moderate annual increase (of 2.5%).

Annual decrease in the public revenues of 6.1%...

The analysis from the aspect of the public revenues structure indicates that the main causes for the annual decrease in the public revenues are the lower amount of non-tax and capital revenues, as well as the reduced inflow from foreign donations, while the realization of both tax and revenues from contributions improved. The annual decline in the non-tax revenues is primarily due to the lower inflow based on profit from public and financial institutions, i.e. the high comparison base from the previous year, when the highest dividend by a state-own company was paid (in July 2005). However, within the non-tax revenues, this effect is partially neutralized by the increase in the remaining non-tax revenues (of 3.7 times annually). The capital revenues have additional negative contribution to the annual change of the total public revenues (decrease of 4.1 times), also resulting from the comparison base registered in the previous year, when high inflows in the Government budget on the basis of sale of state-owned land was registered. Inflows originating from foreign donations also recorded an annual decrease (of 7 times).

On the other hand, the tax revenues, as dominant component in total public revenues structure (a share of 59%) augmented annually by 9.6%. An increase was registered in almost all tax categories, except to the revenues based on excises, where an insignificant decline was evidenced (of 0.4% corresponding to the reduced import of tobacco by 12.8%). The largest contribution to the increase in the tax revenues accounts for the value added tax (of 37.2%), correlating with the increase in the average net paid wage and the increase in the trade turnover. The profit tax also contributed significantly to the rise in the tax revenues (of 24.2%), which can be explained by the augmented industrial output, enhanced economic activity of the enterprises and the improved profit performances, as well as due to the improved collection of this tax. Additional contribution for the annual increase in the tax revenues (of 23.7%) accounts also for the other taxes, that registered intensive growth (by three times), due to the amendments to the regulations⁶⁰, enabling introduction of additional duties for the production of cigarettes. Relative contribution of 10.3% to the increase in the tax revenues accounts for the revenues based on customs duties (corresponding to the enlarged import of goods and services in the third quarter of 2006 of 20.5%, annually) and the revenues from personal income tax with a share of 5.5%. The revenues based on contributions also acted towards rise in the level of public revenues, which went up by 6.7%, annually, determined by the higher contributions for pension and health insurance and unemployment insurance.

Figure 75
Share of individual income categories in the total public revenues
Q3 2005 Q3 2006



Source: Ministry of Finance of the Republic of Macedonia

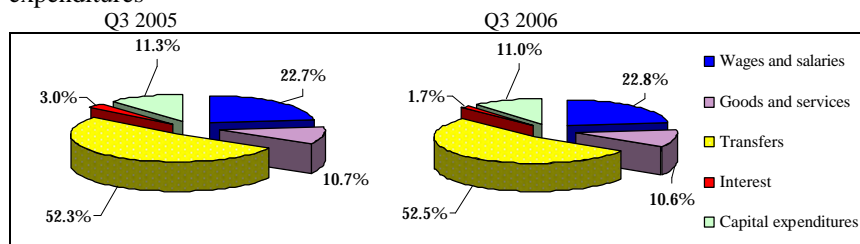
⁶⁰ Since January 01, 2006, compensation for production, or import of tobacco products is calculated and paid, in conformity with the Law on Amendment to the Health Protection Law (Official Gazette of RM, No. 111/2005) and the Decision on determining the products for which compensation for turnover, import/export is paid (Official Gazette of RM, No. 75/2005), originating from the Environment Law and in conformity with the Law on Tobacco (Official Gazette of RM, No. 24/2006) since April 01, 2006.

...given annual increase in the total public expenditures of 2.5%

On the other hand, in the third quarter of 2006, the total public expenditures evidenced moderate annual increase (of 2.5%), which is fully due to the higher current Government expenditures (by 2.9%), in terms of lower capital spending (by 0.9%). The increase in the current expenditures (comprising 89% of the total expenditures) is mainly caused by the risen transfers (a share of 61.7%) and the increase in the wage and lease expenses (a contribution of 23.4%). The expenditures based on interest payment acted in opposite direction (annual decrease of 42.5%), which is mostly due to the lower interest expenditures for foreign debt.

Figure 76

Structural share of the individual expenditures categories in the total public expenditures



Source: Ministry of Finance of the Republic of Macedonia

Analysed from the aspect of the quarterly dynamics, in the third quarter of 2006, compared to the second quarter of the year, the total public revenues went down by 0.4% as a result of the lower level of revenues in almost all main categories, except to the improved realization of the tax revenues. Thus the most intensive decrease (of 2.7 times) was registered by the capital revenues, which basically originates from the high comparison base in the second quarter (when high inflows based on sale of state-own property were realized), while the quarterly decrease in the non-tax revenues (of 3.8%) is mainly due to the lower inflows on the basis of profit from public and financial institutions. On the other hand, the tax revenues increased quarterly (by 2.4%), given the divergent movements registered in the revenues from individual taxes. Thus the increase in the revenues based on excises, the remaining taxes and the profit tax is partially neutralized with the drop in the revenues from personal income tax, the value added tax and the customs duties.

In the third quarter of the year, the total public expenditures evidenced more intensive quarterly drop in comparison with the public revenues (of 4.5%). The fall is completely caused by the lower level of current expenditures (of 7.5%), within which all cost categories registered a decrease, while the capital expenditures registered a growth (of 29.9%), as a result of the enhanced investments in fixed assets and increased transfers in the Road Fund.

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

- ❖ *On July 1, started the application of the Rules for the manner and procedure for trade and settlement of transactions in securities over the counter, regulating the trade in short-term securities over the counter (except for CB bills) and government bonds (except for bonds issued for payment of the deposited foreign currency savings of the households and for denationalization) issued by the Republic of Macedonia.*
- ❖ *On July 1, the Customs Administration of the Republic of Macedonia abolished the duty of Euro 100 charged to the importers for distribution of the customs quotas.*
- ❖ *On July 3, , the Twinning Project for Support of the Statistics, financed by the European Union and under the management of the European Reconstruction Agency was launched in Skopje. The purpose of the Project is to improve the decision making process, and to support the democratic processes in the country by developing a comprehensive, sustainable and reliable statistical system.*
- ❖ *On July 13, an Agreement on Avoiding the Double Taxation was signed in Skopje between Macedonia and Germany. The agreement regulates the avoiding of double taxation of residents by the signatory countries, on income taxes (personal income tax and gain tax) and property taxes.*
- ❖ *On August 1, the price of the obligatory self-liability insurance during registration of vehicles went up by 15%, on average.*
- ❖ *From August 7 to 11, the USAID Macedonia Competitiveness Activity held the first training for media and promotion of public relations for the representatives of the Macedonian Wine Industry. The training for promoting the public relations has been a part of the efforts of the USAID to help the small- and medium-size wine cellars in Macedonia improve the quality and the renown of their products.*
- ❖ *On August 24, the Agreement signed by Macedonia on accession to CEFTA - Central European Free Trade Agreement entered into force. Hence, the bilateral agreements Macedonian signed with Croatia, Bulgaria and Romania ceases being valid.*
- ❖ *On September 1, the Law on free access to public information became effective, which should ensure transparency in the operations of information holders, and enable natural persons and legal entities exercise their right to free access to information.*
- ❖ *On September 1, the Croatian group M SAN acquired the Macedonian computer company PAKOM. This foreign investment should lead to development of the domestic IT market, to its approximation to the IT developments in the world and to an increased competition in the sector.*
- ❖ *Starting from September 1, the prices of electricity for the households went up by 9.14% (the price of one kwh. of high electricity tariff will be 2.62 Denars instead of 2,4 Denars, while one kwh. of low electricity tariff will cost 1.31 Denars instead of 1,2 Denars.*
- ❖ *On September 13, in Brussels, the third round of negotiations for concluding an agreement among the countries - parties to the Central European Free Trade Agreement (CEFTA). Representatives of Macedonia, Croatia, Bosnia and Herzegovina, Albania, Bulgaria, Moldavia, Montenegro, Serbia and the United Nations Mission in Kosovo (UNMIK) reviewed the text which should replace 31 bilateral free trade agreements among the CEFTA member states.*
- ❖ *On September 15, a Memorandum of understanding between the Ministry of Transport and the USAID was signed, the purpose of which is a transparent process in issuing CEMT licenses, which will eliminate the human factor in their allocation.*
- ❖ *From September 18 - 19 a meeting of the Stabilization and Association Committee was held between Macedonia and the European Commission, which is the first of the kind after the Republic of Macedonia was granted the status of a candidate country in December last year.*



- ❖ On September 20, in Skopje a meeting was held between the Sector for European Issues and the EU General Enlargement Directorate, which announced the beginning of the implementation of the last KARDS action program for 2006, whose value is Euro 30.5 million, with a possibility to extend another Euro 14 million intended for regional programs which will be mandated directly from Brussels.
- ❖ On September 20, in Kumanovo, the Center for Shoe-Making Technology "ModEur" in Macedonia was promoted, as a joint venture between "Korimpex" and the "E-biz" project financed by the USAID.
- ❖ On September 26, a Memorandum of Cooperation was signed between the Macedonian Stock Exchange and the Vienna Stock Exchange, whose objective is broadening of the cooperation, exchange of experience and information, as well as joint presentation on the European market.
- ❖ On September 26, Macedonian textile company "Macedonia jeans" was sold to the Turkish company "Yaya Mezler", which according to the presented business plan intends to employ 1,150 employees, new investment, including construction of a mini shopping centre.
- ❖ On September 29, the city of Skopje and the Public Transport Enterprise - Skopje, signed a mandate letter for development of the city transport with the European Bank for Reconstruction and Development, which will provide credit in the amount of Euro 12 million for financing the "Urban Transport" project.
- ❖ On September 30, the textile factory "Arlen Makedonija" was launched in Delcevo, which is Macedonian - Polish investment worth Euro 1.2 million, and it employs 110 employees. The products produced in this factory are aimed at European markets.
- ❖ During the third 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 July 10, the Regulatory Energy Committee made a decision to increase the retail and refinery prices of oil derivatives by 4.73% and 7.01%, respectively, on average ("Official Gazette of the Republic of Macedonia" No. 81/2006);
 - on July 24, 2006, the Regulatory Energy Committee made a decision on increasing the retail and refinery prices of oil derivatives by 0.87% and 1.62%, respectively, on average ("Official Gazette of the Republic of Macedonia" No. 85/2006);
 - on August 7, the Regulatory Energy Committee made a decision on increasing the retail and refinery prices of oil derivatives by 0.78% and 1.08%, respectively, on average ("Official Gazette of the Republic of Macedonia" No. 88/2006);
 - on August 21, 2006, the Regulatory Energy Committee made a decision on decreasing the retail and refinery prices of oil derivatives by 0.76% and 1.20%, respectively, on average ("Official Gazette of the Republic of Macedonia" No. 91/2006);
 - on September 4, according to a decision of the Regulatory Energy Committee, retail and refinery prices of oil derivatives dropped by 4.38% and 7.72% %, respectively ("Official Gazette of RM" No. 94/2006);
 - on September 18, 2006, the Regulatory Energy Committee adopted a decision on reducing the retail and refinery prices of oil derivatives by 5.12% and 7.6%, respectively, on average ("Official Gazette of RM" No. 99/2006).
- ❖ New regulations:
 - Law on Amendments to the Law on Value Added Tax ("Official Gazette of RM", No. 101/2006). According to this Law, the seeds and planting material for production of agricultural crops, the fertilizers, materials for plant protection, foils made of plastic mass for usage in the agriculture and the agricultural machines will be subject to preferential VAT tax rate (5%) since October 5, 2006.



Statistical appendix

1. Prices

Table 1

Costs of living and retail prices

	IX.2006 VIII.2006	IX.2006 IX.2005	I-IX.2006 I-IX.2005
	in %		
Costs of living	-0.2	3.1	3.3
Food	-0.8	2.3	2.2
Tobacco and beverages	0.1	17.9	17.7
Clothing and footwear	-0.3	0.7	0.1
Housing	3.1	3.4	1.2
Flat (rent, water, services)	-2.4	-2.3	-0.2
Fuel and lighting	5.9	6.8	2.3
Hygiene	0.5	3.0	1.6
Culture and entertainment	1.8	7.2	6.6
Transport, communications, services	-3.1	-1.2	2.9
<i>Goods</i>	<i>0.2</i>	<i>3.9</i>	<i>3.7</i>
<i>Services</i>	<i>-2.1</i>	<i>-0.2</i>	<i>1.6</i>
Retail prices	-0.1	2.9	4.2
Agricultural products	-4.2	6.8	5.5
Non-food industrial products	1.0	4.7	5.9
Processed food products	-0.1	0.6	0.6
Beverages	0.1	-0.4	-0.4
<i>Goods</i>	<i>0.4</i>	<i>3.6</i>	<i>4.2</i>
<i>Services</i>	<i>-0.9</i>	<i>1.9</i>	<i>4.2</i>

Source: State Statistical Office



Table 2
Prices of producers of industrial products

	IX.2006 VIII.2006	IX.2006 IX.2005	I-IX.2006 I-IX.2005
	in %		
Prices of producers of industrial products	-1.1	2.4	5.2
Energy	-3.3	-0.5	13.4
Intermediary goods (except Energy)	-0.9	2.0	-1.0
Capital goods	0.0	5.4	4.6
Durable consumer goods	0.0	0.6	3.5
Non durable consumer goods	0.0	4.4	5.0
<i>Mining and quarrying</i>	<i>-0.5</i>	<i>2.5</i>	<i>3.5</i>
<i>Manufacturing industry</i>	<i>-1.5</i>	<i>2.8</i>	<i>5.9</i>
Manufacture of food products and beverages	-0.3	1.6	0.8
Manufacture of tobacco products	0.0	23.1	21.1
Manufacture of textiles	0.0	-0.3	0.4
Manufacture of wearing apparel; dressing and dyeing of fur	0.1	-2.5	-2.6
Publishing, printing and reproduction of recorded media	0.0	-2.0	1.2
Manufacture of coke, refined petroleum products and nuclear fuel	-6.9	-0.1	25.0
Manufacture of chemicals and chemical products	0.0	0.3	-0.3
Manufacture of rubber and plastic products	-4.3	-0.7	0.8
Manufacture of other non-metallic mineral products	-0.5	4.1	2.9
Manufacture of basic metals	-0.8	2.5	-3.8
Manufacture of fabricated metal products, except machinery and equipment	0.0	10.0	8.1
Manufacture of electrical machinery and apparatus n.e.c.	0.0	8.7	7.2
<i>Electricity, gas and water supply</i>	<i>2.7</i>	<i>-1.1</i>	<i>-0.5</i>

Source: Preliminary data of the State Statistical Office



Table 3
Consumers' basket for food and beverages*

	VII.2006	VIII.2006	IX.2006
	in Denar		
Total	10,180	10,074	9,989
Bread and cereals	1,755	1,756	1,756
Meat	2,274	2,283	2,281
Fish	224	224	228
Milk and dairy products and eggs	1,754	1,755	1,759
Oils and fats	446	442	442
Fruit	564	552	468
Vegetables	1,180	1,083	1,077
Sugar, chocolate and confectionery	449	453	453
Other food products	317	314	314
Coffee, tea	320	317	315
Non-alcoholic beverages	433	432	431
Alcoholic beverages	464	463	465

* 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

Table 4
Expenditure aggregates of GDP
(nominal growth rates)

	2005				2006		nominal changes 2006/2005 in %	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.1/Q.1	Q.2/Q.2
Public consumption	14,127	14,252	14,142	16,402	14,682	16,202	3.9	13.7
Investments in machinery and equipment	3,983	5,341	3,975	4,902	4,350	6,626	9.2	24.1
Export of goods and services	27,071	30,624	32,674	33,577	29,006	35,252	7.1	15.1
<i>goods (F.O.B.)</i>	22,546	24,964	25,447	27,676	22,931	28,492	1.7	14.1
<i>services</i>	4,525	5,660	7,227	5,901	6,075	6,760	34.3	19.4
Import of goods and services	36,168	48,149	43,643	49,957	41,881	53,087	15.8	10.3
<i>goods (F.O.B.)</i>	31,469	41,662	36,987	42,793	35,492	46,065	12.8	10.6
<i>services</i>	4,699	6,487	6,656	7,164	6,389	7,022	36.0	8.2

Source: Preliminary data of the State Statistical Office



2. Economic activity

Table 5

Production side of GDP

at current prices, in Denars since 1997	2006 in millions of Denars		Real changes 2006/2005 in %		Contribution to the change in %	
	Q.1	Q.2	Q.1/Q.1	Q.2/Q.2	Q.1	Q.2
Total	52,712	58,141	2.5	2.8	100	100
<i>Agriculture, hunting, forestry and fishing</i>	5,366	5,553	3.0	2.8	11.9	9.5
<i>Mining and quarrying; Manufacturing and electricity, gas and water supply</i>	11,874	13,958	0.5	1.6	4.7	14.0
<i>Construction</i>	1,842	3,188	-2.4	1.5	-3.4	2.9
<i>Wholesales and retail sales, repair of motor vehicles, motorcycles and personal and household items</i>	7,112	7,879	6.2	4.3	31.8	20.8
<i>Hotels and restaurants</i>	832	948	1.0	-0.4	0.7	-0.3
<i>Transport, storage and communications</i>	4,153	4,477	8.3	7.3	24.7	19.4
<i>Financial intermediation; Real estate activities, renting and business activities</i>	7,346	7,403	1.5	1.8	8.6	8.2
<i>Public administration and defense, obligatory social security, Education, Health and social work and Exteritorial organizations and bodies</i>	7,712	7,802	1.5	2.7	8.6	13.1

Source: Preliminary data of the State Statistical Office



Table 6
Industrial output

	Structure in %	<u>IX.2006</u> <u>VIII.2006</u>	<u>IX.2006</u> <u>IX.2005</u>	<u>I-IX.2006</u> <u>I-IX.2005</u>
			in %	
Total	100.0	-0.9	-2.2	2.2
Energy	21.9	-25.3	-22.8	-0.2
Intermediary goods (except Energy)	33.8	8.0	10.3	7.6
Capital goods	4.8	15.4	15.5	3.4
Durable consumer goods	1.4	21.8	-6.8	-1.6
Non durable consumer goods	38.1	0.3	-6.1	-2.1
Mining and quarrying	1.8	15.0	27.9	39.9
Manufacturing industry	79.4	3.6	1.3	2.0
Manufacture of food products and beverages	20.0	4.8	-9.9	0.1
Manufacture of tobacco products	3.9	-23.0	26.0	7.6
Manufacture of textiles	2.5	43.8	-6.6	7.3
Manufacture of wearing apparel; dressing and dyeing of fur	8.6	-3.2	-7.5	-3.2
Publishing, printing and reproduction of recorded media	3.9	3.1	-11.3	-21.6
Manufacture of coke, refined petroleum products and nuclear fuel	3.0	-15.8	-5.9	7.0
Manufacture of chemicals and chemical products	5.9	33.3	19.7	-0.5
Manufacture of rubber and plastic products	2.6	15.7	-20.7	-14.3
Manufacture of other non-metallic mineral products	8.2	1.8	1.9	21.8
Manufacture of basic metals	6.0	10.4	50.9	7.8
Manufacture of fabricated metal products, except machinery and equipment	3.8	34.2	21.7	-2.5
Manufacture of electrical machinery and apparatus n.e.c.	3.2	-22.7	-4.6	3.1
Electricity, gas and water supply	18.8	-27.7	-26.8	-1.6

Source: Preliminary data of the State Statistical Office



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	I-VII.2006 I-VII.2005	I-VIII.2006 I-VIII.2005	I-IX.2006 I-IX.2005
		cumulative changes in %								
Total	100.0	1.8	-0.3	0.5	-0.9	0.5	1.1	1.9	2.8	2.2
Energy	21.9	9.0	1.7	3.0	-1.4	0.5	-0.2	0.7	2.5	-0.2
Intermediary goods (except Energy)	33.8	4.8	6.2	5.6	3.7	4.6	5.3	6.6	7.3	7.6
Capital goods	4.8	-4.0	-19.3	-5.6	4.0	4.4	6.1	2.1	2.0	3.4
Durable consumer goods	1.4	-23.1	5.8	10.8	8.4	-6.2	-2.7	0.7	-0.6	-1.6
Non durable consumer goods	38.1	-6.2	-5.8	-6.1	-5.9	-4.1	-2.8	-2.2	-1.5	-2.1
Mining and quarrying	1.8	2.4 times	2.3 times	2 times	2 times	85.4	63.7	49.1	42.3	39.9
Manufacturing industry	79.4	-1.4	-2.2	-0.8	-2.1	-0.6	0.4	1.4	2.1	2.0
Manufacture of food products and beverages	20.0	-5.0	-0.8	-1.1	0.5	2.8	2.4	2.3	1.7	0.1
Manufacture of tobacco products	3.9	-27.2	-23.4	-14.6	-1.0	-1.6	2.0	1.6	5.4	7.6
Manufacture of textiles	2.5	7.8	-9.1	2.8	4.3	11.8	12.4	12.1	9.2	7.3
Manufacture of wearing apparel; dressing and dyeing of fur	8.6	-11.8	-4.6	-4.9	-8.4	-9.1	-6.8	-4.9	-2.6	-3.2
Publishing, printing and reproduction of recorded media	3.9	12.1	-11.6	-22.5	-24.6	-23.1	-22.8	-23.2	-22.8	-21.6
Manufacture of coke, refined petroleum products and nuclear fuel	3.0	39.3	15.8	32.6	9.6	14.5	8.8	9.1	8.8	7.0
Manufacture of chemicals and chemical products	5.9	9.1	4.5	-5.9	-3.5	-1.5	-3.2	-1.8	-2.7	-0.5
Manufacture of rubber and plastic products	2.6	-19.0	-18.9	-25.5	-19.1	-14.1	-10.6	-12.6	-13.1	-14.3
Manufacture of other non-metallic mineral products	8.1	53.0	58.5	43.7	27.3	24.7	26.8	26.9	25.5	21.8
Manufacture of basic metals	6.0	-21.8	-21.1	-17.4	-16.8	-14.4	-8.4	-1.2	3.1	7.8
Manufacture of fabricated metal products, except machinery and equipment	3.8	-21.8	-19.5	-8.7	-6.5	-3.5	-1.7	-4.7	-5.4	-2.5
Manufacture of electrical machinery and apparatus n.e.c.	3.2	118.5	39.6	42.4	25.2	20.8	7.4	-0.2	4	3.1
Electricity, gas and water supply	18.8	5.2	-0.3	-0.8	-3.0	-1.5	-1.7	-0.8	1.4	-1.6

Source: Preliminary data of the State Statistical Office

Table 8
Purchase of agricultural products

	VII.2006	VIII.2006	IX.2006	Kv. III 2006		Q. II 2006 Q. I 2006	Q. II 2006 Q. I 2005	Q. III 2006 Q. II 2006	Q. III 2006 Q. III 2005
	in 000 Denars			amount	share	change in %		change in %	
Total	1,271,319	786,100	541,817	2,599,236	100	-60.0	-6.5	54.4	20.5
Purchase from individual agricultural producers	243,776	339,420	200,304	783,500	30.1	-80.4	2.1	18.8	-25.8
Sale from own production	1,027,543	446,680	341,513	1,815,736	69.9	20.3	-11.4	77.2	64.9
Agriculture	982,169	409,104	245,144	1,636,417	63.0	-86.6	-26.3	301.8	52.6
Corn	239,907	294,903	149,124	683,934	26.3	-42.7	-55.6	480.6	-17.2
Industrial plants	1,042	574	34,060	35,676	1.4	-99.9	-60.8	1016.6	-57.5
Garden plants	740,171	110,165	55,639	905,975	34.9	540.5	4.2	222.0	580.8
Fodder crops	1,049	3,462	6,321	10,832	0.4	63.3	-44.5	123.9	81.5
Orcharding and wine-growing	16,379	18,291	54,614	89,284	3.4	258.8	54.7	273.5	-47.3
Fruits	16,379	4,535	2,921	23,835	0.9	140.4	44.6	-16.6	-8.7
Grapes	0	13,756	51,693	65,449	2.5	460.1	204.3	1507.3	-54.4
Alcoholic products	132,260	70,861	69,704	272,825	10.5	-17.1	-17.3	-34.9	34.0
Cattle breeding	103,021	281,236	170,876	555,133	21.4	26.1	16.0	-30.8	-15.9
Livestock	45,875	38,863	26,655	111,393	4.3	95.2	-1.7	-20.9	-25.6
Poultry and eggs	6,790	19,034	13,051	38,875	1.5	137.5	31.5	-45.8	0.4
Milk	48,809	216,235	124,618	389,662	15.0	10.5	22.6	-31.8	-13.3
Dairy products	1,544	7,087	6,547	15,178	0.6	9.4	-33.3	-16.9	-30.4
Leather and wool	3	17	5	25	0.0	-61.5	-34.6	-76.4	-91.6
Fish	1,396	1,086	1,369	3,851	0.1	58.6	-47.8	-8.8	-11.0
Other products	36,094	5,522	110	41,726	1.6	37.0	-14.1	128.8	-12.2

Source: State Statistical Office



Table 9

Trade turnover

	Amounts				Changes		
	VII.2006	VIII.2006	IX.2006	Q.3.2006	<u>Q.3.2006</u> <u>Q.2.2006</u>	<u>Q.3.2006</u> <u>Q.3.2005</u>	<u>I-IX.2006</u> <u>I-IX.2005</u>
	in Denar million				in %		
Trade turnover - total*	16,794	15,695	13,569	46,058	7.7	5.9	3.4
Retail sales*	6,861	6,964	6,086	19,910	8.6	12.4	11.2
Whole sales*	9,934	8,732	7,483	26,148	7.1	1.4	-1.8

* Estimated

Source: State Statistical Office

Table 10

Contracted and completed construction works

	Amounts				Changes		
	VII.2006	VIII.2006	IX.2006	Q.3.2006	<u>Q.3.2006</u> <u>Q.2.2006</u>	<u>Q.3.2006</u> <u>Q.3.2005</u>	<u>I-IX.2006</u> <u>I-IX.2005</u>
	in Denar million				in %		
Value of contracted construction works	873	531	572	1,976	-11.8	30.3	13.7
Value of completed construction works	711	652	575	1,938	2.1	-0.2	-4.3

Source: State Statistical Office



3. Wages and employment

Table 11
Employees by activities

	Number of employed				Changes in %	
	VII.2006	VIII.2006	IX.2006	Q.III. 2006	III Q. 2006 II Q. 2006	III Q. 2006 III Q. 2005
Total	263,590	263,317	262,861	263,256	-0.4	-1.2
Agriculture	9,817	9,830	9,767	9,805	2.6	-1.9
Agriculture, hunting and forestry	9,647	9,653	9,608	9,636	2.6	-2.0
Fishing	170	177	159	169	1.4	3.7
Industry	111,605	111,609	111,364	111,526	-1.2	-3.6
Minerals and stone mining	2,148	2,136	2,118	2,134	-1.6	-4.6
Manufacturing	78,101	78,122	77,938	78,054	-1.9	-3.7
Electricity, gas and water supply	14,036	14,114	14,110	14,087	0.3	-1.9
Construction	17,320	17,237	17,198	17,252	0.8	-4.5
Services	142,168	141,878	141,730	141,925	0.1	0.8
Wholesales and retail sales, mending of motor vehicles, motorbikes and personal consumption items	12,336	12,329	12,123	12,263	-0.1	0.2
Hotels and restaurants	3,815	3,859	3,832	3,835	0.9	-4.0
Transport, storage and communications	14,045	13,967	13,917	13,976	0.7	-7.9
Financial intermediation	5,769	5,791	5,806	5,789	3.0	5.0
Real estate and business activities	6,716	6,695	6,676	6,696	0.1	-0.3
Public authorities and defense, compulsory social welfare	36,765	36,859	36,799	36,808	1.0	4.7
Education	29,930	29,860	30,221	30,004	-0.6	2.3
Health and social work	24,239	24,065	23,935	24,080	-1.1	0.0
Other public utility services, general and personal services	8,553	8,453	8,421	8,476	-0.5	-1.5

Source: State Statistical Office

Table 12
Average net wages

	Amounts				Changes		
	VII.2006	VIII.2006	IX.2006	Q.3.2006	Q.3.2006 Q.2.2006	Q.3.2006 Q.3.2005	I-IX.2006 I-IX.2005
	in Denar million				in %		
Nominal average net wage per worker	13,430	13,718	13,603	13,584	1.2	7.7	7.3
Costs of living	-0.1	-0.4	-0.2				
Real average net wage per worker	-0.8	2.5	-0.6				
Nominal average net wage by sectors							
Agriculture	11,697	11,813	11,828	11,779	0.8	0.8	1.9
Industry	13,887	14,393	14,271	14,184	2.6	11.4	10.1
Services	15,072	15,211	15,091	15,125	1.5	3.2	3.3

Source: State Statistical Office



4. Monetary policy

Table 13

Reserve money
(in Denar million)

	30.06.2006	Monthly changes			Total	30.09.2006
		July	August	September		
Reserve money	21,267	640	-506	-43	91	21,358
Currency in circulation	14,580	739	-497	-12	230	14,810
Banks liquidity	6,687	-99	-9	-31	-139	6,548

Source: National Bank of the Republic of Macedonia

5. Banking sector

Table 14

Money supply M1 and its components
(in Denar million)

	30.06.2006	Monthly changes			Total	30.09.2006
		July	August	September		
Money supply M1	30,768	1,383	-246	185	1,322	32,090
Currency in circulation	14,580	739	-497	-12	230	14,810
Demand deposits	16,188	644	251	197	1,092	17,280
- Demand deposits of households	3,428	24	-198	64	-110	3,318
- Demand deposits of enterprises	10,515	736	530	-231	1,035	11,550

Source: National Bank of the Republic of Macedonia

Table 15

Broader monetary aggregates and their components
(in Denar million)

	30.06.2006	Monthly changes			Total	30.09.2006
		July	August	September		
Money supply M1	30,768	1,383	-246	185	1,322	32,090
Denar short - term deposits	28,062	997	1,246	333	2,576	30,638
Monetary aggregate M2 - denar component	58,830	2,380	1,000	518	3,898	62,728
Foreign currency short - term deposits	52,815	881	916	612	2,409	55,224
Monetary aggregate M2	111,645	3,261	1,916	1,130	6,307	117,952
Non - monetary deposits	5,688	-133	342	20	229	5,917
- In Denar	3,255	1	22	-35	-12	3,243
- In foreign currency	2,433	-134	320	55	241	2,674
Monetary aggregate M4	117,333	3,128	2,258	1,150	6,536	123,869

Source: National Bank of the Republic of Macedonia



Table 16

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

	30.06.2006	Monthly changes			Total	30.09.2006
		July	August	September		
Total deposits	86,565	1,745	2,504	965	5,214	91,779
1. According to maturity						
- short-term	80,877	1,878	2,162	945	4,985	85,862
- long-term	5,688	-133	342	20	229	5,917
2. According to currency of denomination						
- In denar	31,317	998	1,268	298	2,564	33,881
- In foreign currency	55,248	747	1,236	667	2,650	57,898

Source: National Bank of the Republic of Macedonia

Table 17

Households and enterprises deposits
(in Denar million)

	30.06.2006	Monthly changes			Total	30.09.2006
		July	August	September		
Total households deposits	60,436	756	635	940	2,331	62,767
1. According to maturity						
- short-term	57,287	677	503	766	1,946	59,233
- long-term	3,149	79	132	174	385	3,534
2. According to currency of denomination						
- In denar	18,291	233	-13	467	687	18,978
- In foreign currency	42,145	523	648	473	1,644	43,789
Total enterprises deposits	24,221	1,135	1,891	-86	2,940	27,161
1. According to maturity						
- short-term	22,664	1,352	1,662	104	3,118	25,782
- long-term	1,557	-217	229	-190	-178	1,379
2. According to currency of denomination						
- In denar	11,328	960	1,311	-219	2,052	13,380
- In foreign currency	12,893	175	580	133	888	13,781

Source: National Bank of the Republic of Macedonia

Table 18

Banks' placements and overdue claims
(in Denar million)

	30.06.2006	Monthly changes			Total	30.09.2006
		July	August	September		
Total banks' placements	79,563	1,177	1,161	183	2,521	82,084
<i>Denar placements</i>	<i>58,993</i>	<i>773</i>	<i>747</i>	<i>-164</i>	<i>1,356</i>	<i>60,349</i>
<i>Foreign currency placements</i>	<i>20,570</i>	<i>404</i>	<i>414</i>	<i>347</i>	<i>1,165</i>	<i>21,735</i>

Source: National Bank of the Republic of Macedonia



Table 19

Structure of total placements
(in Denar million)

	30.06.2006	Monthly changes			Total	30.09.2006
		July	August	September		
Maturity structure						
- short-term	35,376	-152	168	-840	-824	34,552
- long-term	44,187	1,329	993	1,023	3,345	47,532
Structure of currency of denomination						
- Denar	58,993	773	747	-164	1,356	60,349
- Foreign currency	20,570	404	414	347	1,165	21,735
Structure by sectors						
- enterprises	53,871	373	343	-207	509	54,380
- households	25,604	808	820	391	2,019	27,623
- other	88	-4	-2	-1	-7	81

Source: National Bank of the Republic of Macedonia

Table 20

Maturity and sector structure of Denar and foreign currency placements

	30.09.2006	Quarterly change		Annual change
	(in %)	(in percentage points)		
Denar placements				
maturity structure				
- short-term	47.7	-2.5		-3.2
- long-term	52.3	2.5		3.2
structure by sectors				
- enterprises	56.6	-2.1		-3.5
- households	43.2	2.1		3.7
- other	0.1	0.0		-0.3
Foreign currency placements				
maturity structure				
- short-term	26.6	-1.4		-2.2
- long-term	73.4	1.4		2.2
structure by sectors				
- enterprises	93.0	-0.4		-3.1
- households	7.0	0.5		3.2
- other	0.0	0.0		-0.1

Source: National Bank of the Republic of Macedonia



6. Financial markets

Table 21

Stock exchange indicators

	April-June 2006	July-September 2006	change in %
Turnover (denars)			
Trading in BEST	2,504,013,410	2,942,499,861	17.51
Shares	1,714,185,051	2,570,336,537	49.95
Bonds	789,828,359	372,163,325	-52.88
Average daily turnover (denars)	39,918,920	46,383,978	16.20
Average daily number of transactions	153	255	67.03
Block transactions	377,363,400	577,314,543	52.99
Government segment	6,212,801,376	-	
Shares	5,417,759,821	-	
Stakes	795,041,555	-	
Other securities			
Total	9,094,178,186	3,519,814,404	-61.30
Market capitalization (denars)^{1/}			
Market capitalization of shares - quoted companies	39,146,091,368	56,797,160,083	45.09
Market capitalization of bonds	24,051,577,086	24,194,747,949	0.60
Mbi/mbi-10^{1/}	2,912	4,231	45.32
Number of quoted companies^{1/}	50	46	-8.00

^{1/} End of period

Source: Macedonian Stock Exchange

Table 22

Turnover structure

Market segment	Turnover (denars)	Turnover (euros)	%	Number of transactions
Official market	2,480,339,596	40,547,901	70.47	13,609
Unofficial market	462,160,266	7,555,313	13.13	2,502
Government segment	0	0	0.00	0
Block transactions	577,314,543	9,437,519	16.40	62
Total	3,519,814,405	57,540,732	100.00	16,173



Table 23

Supply, demand and interest rate of Treasury bills

Three-month Treasury bills	Supply	Demand	Realization	Average weighted interest rate
	(in Denars)			
VII.2006	3,330,000,000	4,259,290,000	3,275,030,000	6.18
VIII.2006	1,500,000,000	1,851,580,000	1,500,000,000	5.96
IX.2006	3,020,000,000	2,520,270,000	2,082,650,000	5.98
Total for the quarter:	7,850,000,000	8,631,140,000	6,857,680,000	6.07

Six-month Treasury bills	Supply	Demand	Realization	Average weighted interest rate
	(in Denars)			
VII.2006	350,000,000	537,370,000	350,000,000	6.73
VIII.2006	400,000,000	351,790,000	351,790,000	6.56
IX.2006	400,000,000	287,520,000	287,520,000	6.97
Total for the quarter:	1,150,000,000	1,176,680,000	989,310,000	6.74

One-year Treasury bills	Supply	Demand	Realization	Average weighted interest rate
	(in Denars)			
IX.2006	300,000,000	300,840,000	300,000,000	8.66
Total for the quarter:	300,000,000	300,840,000	300,000,000	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				2006										Q.1	Q.2	Q.3	2006
	Q.1	Q.2	Q.3	Q.4	2005	I	II	III	IV	V	VI	VII	VIII	IX	2006	2006	2006	I-IX
I. Current Account	-15.9	-86.8	64.8	-24.0	-61.8	-7.8	3.2	-15.6	-33.1	-7.8	-9.3	27.3	38.1	62.5	-20.2	-50.2	127.9	57.5
GOODS, net	-145.5	-272.0	-188.4	-247.4	-853.4	-63.1	-52.6	-90.0	-106.7	-86.0	-95.1	-77.5	-70.0	-34.1	-205.7	-287.8	-181.6	-675.1
Exports, f.o.b.	367.4	406.6	416.0	452.2	1642.2	101.3	123.5	149.5	144.0	159.3	161.5	181.9	166.9	198.7	374.3	464.8	547.4	1386.5
Imports, f.o.b. /2	-512.9	-678.6	-604.5	-699.6	-2495.6	-164.4	-176.1	-239.5	-250.7	-245.3	-256.6	-259.3	-236.9	-232.7	-580.0	-752.6	-729.0	-2061.6
SERVICES, net	-2.9	-13.1	9.4	-20.7	-27.2	1.0	-2.8	-3.3	-1.6	-2.0	-0.8	10.8	4.3	8.5	-5.1	-4.4	23.6	14.1
INCOME, net	0.5	-16.3	-36.8	8.2	-44.4	-1.3	2.4	4.2	-0.8	-5.4	1.2	-2.4	2.2	-9.9	5.4	-5.1	-10.1	-9.8
o/w: Interest, net	-7.6	-3.7	-8.7	-0.7	-20.7	-5.0	-1.4	-0.9	-3.0	-2.7	-0.9	-4.7	-1.4	0.1	-7.4	-6.6	-6.0	-19.9
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	96.4	101.6	97.9	185.3	247.1	295.9	728.3
Official	9.0	12.7	16.7	14.1	52.5	1.5	3.7	8.8	7.1	4.2	4.4	3.3	3.7	7.0	14.1	15.8	14.0	43.8
Private	123.0	201.9	264.0	221.8	810.7	54.0	52.4	64.7	69.0	81.4	81.1	93.0	97.9	90.9	171.2	231.4	281.9	684.5
II. Capital & Financial Account	19.5	83.9	-61.8	30.4	71.9	5.0	-3.0	17.4	35.0	12.2	8.1	-30.0	-36.9	-58.5	19.4	55.3	-125.4	-50.6
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	0.7	-0.8	-0.1	0.4	-0.4	-0.2	-0.2
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	0.7	-0.8	-0.1	0.4	-0.4	-0.2	-0.2
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	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	0.7	-0.8	-0.1	0.4	-0.4	-0.2	-0.2
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	0.0	0.0	0.0	0.0
FINANCIAL ACCOUNT, net	19.5	84.0	-62.0	32.1	73.7	5.2	-3.2	17.1	35.1	12.5	8.1	-30.7	-36.1	-58.4	19.1	55.7	-125.2	-50.4
Direct investment, net	27.7	26.6	14.1	8.7	77.1	6.4	2.9	230.0	5.4	3.9	8.1	1.9	1.6	6.0	239.4	17.3	9.4	266.1
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	1.5	3.3	2.2	11.8	24.8	7.0	43.6
Other investment, net	-10.1	77.5	1.8	77.3	146.5	-162.1	-4.8	-36.6	60.4	17.5	25.6	-2.9	34.2	-41.8	-203.5	103.5	-10.6	-110.6
Trade credits, net	-45.7	66.4	-32.1	32.5	21.1	-6.9	-25.9	25.7	23.8	9.5	5.9	-10.9	-3.8	-45.8	-7.0	39.2	-60.5	-28.2
Loans, net	14.3	64.8	4.7	41.2	125.0	-151.5	22.4	-3.9	40.9	-10.1	7.4	23.0	-2.8	1.9	-133.0	38.1	22.0	-72.8
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	-17.8	38.4	-1.1	-68.5	-5.3	19.5	-54.4
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	0.0	51.1	0.0	-56.7	0.0	51.1	-5.7
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	-12.7	-12.2	7.3	6.1	19.4	-17.6	7.9
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	-5.1	-0.4	-8.5	-17.9	-24.7	-14.0	-56.5
Other, net	3.4	4.2	4.7	8.8	21.1	1.5	0.9	2.5	2.2	22.7	6.6	2.9	2.3	3.2	5.0	31.4	8.4	44.8
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	-31.2	-75.2	-24.7	-28.6	-89.9	-131.1	-249.5
III. Errors & Omissions	-3.6	2.9	-3.0	-6.4	-10.1	2.8	-0.2	-1.8	-1.9	-4.4	1.2	2.8	-1.2	-4.0	0.7	-5.1	-2.5	-6.9

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)

in EUR million				
	Q.3 2005	Q.3 2006	Q.3 2006	
			Q.3 2005	
	Amount		Amount	%
Foreign trade	1,046.8	1,308.2	261.4	25.0
Exports	416.5	548.7	132.2	31.7
Imports	630.3	759.5	129.2	20.5
Balance	-213.8	-210.8	3.0	-1.4

Source: State Statistical Office of the Republic of Macedonia



Table 26

Geographic distribution of the foreign trade of the Republic of Macedonia

	Export		Total	Trade	Export -	Export	Import		Total	Trade	Export -
			trade	balance	import				trade	balance	import
					coverage						coverage
	Q.3.2005						Q.3.2006				
	in millions of Euros						in millions of Euros				
	in %						in %				
European Union	215.2	280.7	495.9	-65.6	76.7		297.3	327.2	624.5	-29.9	90.9
Germany	69.6	64.9	134.5	4.7	107.2		78.7	71.4	150.0	7.3	110.2
Greece	66.7	59.2	125.9	7.5	112.7		92.8	58.5	151.3	34.3	158.7
Italy	37.6	39.6	77.2	-2.0	94.9		49.2	45.1	94.3	4.2	109.3
Other	41.3	117.1	158.4	-75.7	35.3		76.6	152.3	228.9	-75.7	50.3
Central and Eastern European countries and former countries of USSR	28.4	165.3	193.8	-136.9	17.2		49.5	226.3	275.8	-176.8	21.9
Russia	4.4	97.3	101.7	-92.9	4.5		6.5	118.0	124.5	-111.5	5.5
Bulgaria	16.3	44.9	61.2	-28.6	36.2		29.2	47.6	76.8	-18.4	61.4
Romania	0.9	8.9	9.8	-8.1	9.7		2.8	27.0	29.9	-24.2	10.5
Other	6.9	14.2	21.1	-7.3	48.5		10.9	33.6	44.6	-22.7	32.5
Former countries of SFRY	138.7	102.8	241.4	35.9	134.9		186.9	107.4	294.3	79.5	174.0
Serbia and Montenegro	105.7	54.7	160.4	50.9	193.1		139.0	58.5	197.5	80.5	237.6
Other	33.0	48.0	81.0	-15.1	68.6		47.8	48.9	96.7	-1.0	97.9
Other countries	34.2	81.4	115.7	-47.2	42.0		15.1	98.6	113.6	-83.5	15.3
China	0.1	26.0	26.1	-25.9	0.4		0.1	28.9	29.0	-28.8	0.3
Other	34.1	55.4	89.5	-21.3	61.5		15.0	69.7	84.7	-54.7	21.5
TOTAL	416.5	630.3	1,046.8	-213.8	66.1		548.7	759.5	1,308.2	-210.8	72.2

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, VII-IX, 2006

	Foreign trade		Share	Exports	Share	Imports	Share	export coverage ratio
			(in %)	Amount	(in %)	Amount	(in %)	(in %)
	Amount							
Republic of MACEDONIA	1,308.2	100.0		548.7	100.0	759.5	100.0	72.2
<i>out of which:</i>								
Serbia and Montenegro	197.5	15.1		139.0	25.3	58.5	7.7	237.6
Greece	151.3	11.6		92.8	16.9	58.5	7.7	158.7
Germany	150.0	11.5		78.7	14.3	71.4	9.4	110.2
Russia	124.5	9.5		6.5	1.2	118.0	15.5	5.5
Italy	94.3	7.2		49.2	9.0	45.1	5.9	109.3
Bulgaria	76.8	5.9		29.2	5.3	47.6	6.3	61.4
Croatia	40.9	3.1		23.9	4.4	16.9	2.2	141.6
Slovenia	36.4	2.8		10.0	1.8	26.4	3.5	38.0
Turkey	34.0	2.6		10.4	1.9	23.6	3.1	43.9
Romania	29.9	2.3		2.8	0.5	27.0	3.6	10.5
Total (10 largest trading partners)	935.7	71.5		442.6	80.7	493.0	64.9	89.8

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.3 2005	Q.3 2006	Q.3 2005	Q.3 2006	Q.3 2005	Q.3 2006	Q.3 2005	Q.3 2006
	in millions of euros				structure in %			
Total	416.5	548.7	630.3	759.5	100.0	100.0	100.0	100.0
Production goods	223.7	333.5	410.2	503.6	53.7	60.8	65.1	66.3
Means of production	7.8	14.9	62.1	78.6	1.9	2.7	9.8	10.3
Consumption goods	184.7	199.8	157.5	176.7	44.4	36.4	25.0	23.3
Unallocated	0.2	0.5	0.5	0.6	0.1	0.1	0.1	0.1



Table 29

Stock of the external long-term debt.

	As of:			Changes		Share in the total debt
	30.09.2005	30.06.2006	30.09.2006	Quarterly	Annual	
	in millions of euros			%		
<i>From the aspect of the debtors:</i>						
Public sector	1,252.5	1,220.2	1,219.8	0.0	-2.6	70.9
Private sector	388.8	488.8	501.5	2.6	29.0	29.1
<i>From the aspect of the creditors:</i>						
Multilateral creditors	858.0	879.8	883.7	0.4	3.0	51.3
Bilateral creditors	172.5	168.7	163.3	-3.2	-5.3	9.5
Private creditors	610.7	660.5	674.2	2.1	10.4	39.2
Total:	1,641.2	1,709.0	1,721.3	0.7	4.9	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 and paid liabilities based on long term debt.							
	Used funds	Changes		Principal	Interest	Paid liabilities	Changes	
	Q.3. 2006	Quarterly	Annual	Q.3. 2006	Q.3. 2006	Q.3. 2006	Quarterly	Annual
	vo m i l i o n i e v r a							
From the aspect of the debtors:								
Public sector	29.6	14.4	-3.3	21.9	9.5	31.4	14.3	-6.4
Private sector	35.4	-25.2	-16.8	23.9	5.6	29.4	11.4	-3.4
From the aspect of the creditors:								
Multilateral creditors	17.5	4.8	-12.9	7.9	5.7	13.6	-2.1	-3.2
Bilateral creditors	6.1	-5.3	3.2	10.5	2.7	13.2	10.8	-3.9
Private creditors	41.4	-10.3	-10.4	27.4	6.7	34.1	16.9	-2.8
Total:	64.9	-10.8	-20.1	45.8	15.0	60.9	25.7	-9.8

*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		
	31.07.2006	31.08.2006	30.09.2006	VII-2006	VIII-2006	IX-2006	VII-2006	VIII-2006	IX-2006
Official creditors	1,043.6	1,041.8	1,047.1	12.5	6.5	4.6	15.3	6.4	5.1
out of which:									
Multilateral	881.2	880.0	883.7	8.5	5.1	3.8	4.1	4.6	4.9
MMF	47.5	47.0	47.3	0.0	0.0	0.0	0.0	0.5	0.0
IBRD	202.9	201.2	203.6	1.4	0.8	1.5	1.7	2.2	0.0
IFC	4.2	4.2	3.8	0.0	0.0	0.0	0.0	0.0	0.5
IDA	298.6	296.2	298.0	0.4	0.3	0.3	0.5	0.4	0.0
EIB	123.5	123.5	122.0	5.0	0.0	0.0	0.0	0.0	2.3
EUROFIMA	6.1	6.1	6.1	0.0	0.0	0.0	0.0	0.1	0.0
Council of EDB	18.5	18.5	18.4	0.0	0.0	0.0	0.0	0.1	0.2
EBRD	78.0	81.0	82.2	1.0	3.6	2.0	1.6	1.3	1.5
EU	90.0	90.0	90.0	0.0	0.0	0.0	0.3	0.2	0.4
IFAD	12.0	12.3	12.4	0.7	0.4	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	162.3	161.8	163.3	4.0	1.4	0.7	11.2	1.8	0.2
Paris club (rescheduled 1995)	80.4	79.8	80.3	0.0	0.0	0.0	10.9	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	75.3	75.3	76.4	4.0	1.4	0.7	0.2	1.8	0.2
Private creditors	671.3	669.0	674.2	28.7	5.1	7.6	21.6	7.5	5.0
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	521.3	519.0	524.2	28.7	5.1	7.6	21.6	7.5	5.0
Banks and financial institutions	249.3	245.4	248.9	20.3	1.0	5.7	8.9	5.2	3.2
Non-financial private sector	272.0	273.5	275.4	8.4	4.1	1.8	12.6	2.3	1.8
TOTAL	1,714.9	1,710.7	1,721.3	41.1	11.6	12.1	36.9	13.9	10.1

Source: State Statistical Office



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 %)	Q.1 2006	Q.3 2006/ Q.3 2005 (in %)	Q.3 2006/ Q.2 2006 (in %)
Total budget revenues	23,069	6.2	26,306	6.8	26,211	-6.1	-0.4
Revenues based on taxes and contributions	19,848	4.6	22,782	7.6	23,080	8.4	1.3
<i>Tax revenues (SRA):</i>	<i>79</i>	<i>16.2</i>	<i>50</i>	<i>-33.3</i>	<i>35</i>	<i>-50.0</i>	<i>-30.0</i>
<i>Tax revenues:</i>	<i>12,658</i>	<i>2.8</i>	<i>15,098</i>	<i>8.3</i>	<i>15,459</i>	<i>9.6</i>	<i>2.4</i>
- personal income tax	1,933	5.4	2,098	2.2	2,025	3.8	-3.5
- profit tax	1,725	59.7	914	52.3	950	52.5	3.9
- value added tax	5,228	-9.0	7,342	8.5	7,155	7.6	-2.5
- excises	2,542	3.3	2,840	-3.3	3,373	-0.4	18.8
- custom duties	993	-3.2	1,494	3.7	1,474	10.4	-1.3
- other	237	41.1	410	2.8 times	482	3 times	17.6
<i>Contributions</i>	<i>7,112</i>	<i>7.9</i>	<i>7,635</i>	<i>6.7</i>	<i>7,586</i>	<i>6.7</i>	<i>-0.6</i>
<i>Non-tax revenues:</i>	<i>2,350</i>	<i>-5.8</i>	<i>2,835</i>	<i>-8.2</i>	<i>2,726</i>	<i>-49.4</i>	<i>-3.8</i>
- non-tax revenues (SRA)	1,279	-9.5	1,231	-26.9	1,605	3.6	30.4
- inflows from state property dividends	103	24.1	406	56.2	56	-98.0	-86.2
- administrative taxes and fees	395	2.1	426	-7.2	308	-14.0	-27.7
- revenues based on participation	79	-37.8	75	-38.5	65	-5.8	-13.3
- other administrative taxes	65	12.1	70	1.4	59	7.3	-15.7
- other non-tax revenues	109	25.3	175	3.3 times	199	275.5	13.7
- road toll	320	-5.9	451	2.0	434	-6.3	-3.8
<i>Capital revenues</i>	<i>143</i>	<i>27.7</i>	<i>390</i>	<i>3.6 times</i>	<i>143</i>	<i>-75.6</i>	<i>-63.3</i>
<i>Donations (from abroad)</i>	<i>727</i>	<i>4.8 times</i>	<i>299</i>	<i>15.4</i>	<i>166</i>	<i>-75.3</i>	<i>-44.5</i>
Total budget expenditures	23,538	3.4	26,264	10.0	25,085	2.5	-4.5
<i>Current expenditures</i>	<i>22,475</i>	<i>3.8</i>	<i>24,144</i>	<i>8.9</i>	<i>22,334</i>	<i>2.9</i>	<i>-7.5</i>
- wages and salaries	5,750	2.0	5,878	2.5	5,707	2.5	-2.9
- goods and services	2,856	-10.7	3,264	4.0	2,655	1.3	-18.7
- transfers	13,079	6.7	14,266	12.9	13,167	2.9	-7.7
- interest	790	38.8	736	10.5	418	-42.5	-43.2
<i>Capital expenditures</i>	<i>1,063</i>	<i>-4.1</i>	<i>2,120</i>	<i>25.1</i>	<i>2,751</i>	<i>-0.9</i>	<i>29.8</i>
Budget balance	-469	2.8	42	-3.2	1,126	-67.3	2581.0
Financing	469		-42		-1,126		
External financing, net	-9,000		114		-368		
Financing from domestic sources, net	353		-2,296		43		
- sfunds from the Government account with the NBRM	484		422		43		
- Treasury bills	24		2,433		2		
Revenues based on privatization	13,928		3,846		0		

Source: Ministry of Finance

Table 33
NBRM Balance sheet on September 30, 2006
(in million Denars)

Assets	Amount	Liabilities	Amount
Foreign assets	84,956	Reserve money	21,358
Claims on Government	3,604	NBRM instruments	7,422
Claims on banks and other financial institutions	1,354	Restricted deposits	299
Other assets	4,673	Foreign liabilities	2,892
		Government deposits	39,221
		Capital accounts	11,653
		Other liabilities	11,742
Total	94,587	Total	94,587

Source: National Bank of the Republic of Macedonia