

MINISTRY OF FINANCE
REPUBLIC OF MACEDONIA



BULLETIN

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Skopje, may/june 2005

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HONOURABLE,



We are at the middle of 2005 and it is the right time to give a summary of the economic trends in our country. General assessment is that the economy moves within the projections, and in certain spheres, the performance is even above the projected one. In addition, some of the traditionally weak points of the Macedonian economy remain to be very sensitive.

Following the growth of the economy in the first quarter by 2.7%, in the second quarter we expect for the growth to increase and to exceed the limit of 4.5%, which will be a result of the growth in many sectors of the economy led by the growth in the industry, which in the period January-June reached the growth level of 8.6%. Only underperformance was experienced in the civil engineering sector, but it will not affect the attainment of the projected growth of 3.8% annually. Our expectations are that the annual growth can be above the projected one. The only signal which, for now, can partially undermine the projected growth of the Macedonian economy is the too high oil prices on the world market. Price movements of this most important raw material and energizer are still upward and it is hard to assume that it will be stopped soon.

Inflation trends are still at exceptionally low level, and measured by the CPI index for the first half of this year is hardly reaching half a percentage point. Taking into account the overall movements and increase of prices of energizers, it could be expected that inflation will be realized within the projected 1.2%.

Continuous growth of the economy in the past two and a half years (although still insufficient) also caused a process of gradual, but sure reduction of the number of

unemployed persons in Macedonia in the first seven months of this year. Their number, following the increase to above 395 thousand at the beginning of the last year, is now reduced to below 370 thousand, with a tendency for the number of unemployed to further decrease by the end of the year. Although the number of unemployed persons is still extremely high, the existing tendencies are to encourage use, especially due to the fact that the slight and continuous GDP growth is followed by appropriate reduction of the number of unemployed.

As a result of the above-mentioned and as a result of the consistent macroeconomic policy Macedonia has implemented last and this year, central government deficits are practically eliminated and it would not be surprising if the projected low central government deficit of 0.6% of GDP by the end of the year becomes "zero" deficit or insignificant surplus, due to better collection of the public revenues than the projected ones. Key weakness remains to be the exceptional rigidity and inflexibility of most of the public expenditures. It is a situation to which the Government needs to pay major attention, so as for the expenditure structure to be flexible and adjustable to numerous reform needs of the Government and the state.

Particularly interesting are the movements in the external sector. Following exceptionally high trade deficit and current account deficit of the state in 2004, in the first half of 2005 the situation has started to change significantly. In fact, high trade deficit (which is a structural problem of the Macedonian economy) started to slightly decline, and the results have significantly improved with respect to services, income and transfers. Thus the cur-

rent account deficit in the first five months was reduced to US\$ 106.5 million, being twice less than the first five months in 2004, when it amounted to US\$ 211.5 million. Such trends, if they continue by the end of the year, they can lead to reduction of the current account deficit of the state to around 5% of GDP. It would be a significant progress and would lead to less restrictive fiscal and monetary policy of the state.

Traditional problem remains to be the FDI level in the country, which, despite the increase, is still very low in absolute terms. Such trend continues in the second half of this year as well.

The Government being wary towards new net borrowings abroad and in the country has led to a situation in which the public debt of the Republic of Macedonia was reduced to below 50% of GDP in the course of 2004 and 2005, with a tendency to drop to around 40% of GDP by 2008.

Finally, as a result of such trends in the economy, Republic of Macedonia has upgraded the credit rating in 2005, whereby "Standard&Poor's" credit agency, at its

last assessment, raised the long-term foreign currency sovereign credit rating from "BB" to "BB+", and the local currency sovereign credit rating from "BB+" to "BBB-". Short-term foreign currency sovereign credit rating was affirmed, while the local currency sovereign credit rating raised to "A-3". In both cases, the perspectives are stable. By receiving upgrade to "BBB-" for local currency sovereign credit rating, Macedonia has obtained the much desired investment rating. "Standard&Poor's" also stated the following in their announcement: "Maintained and significant progress in adoption and implementation of the structural reforms, led by the perspectives for EU membership, the current macroeconomic and fiscal stability and further normalization of the inter-ethnic relations could lead to upgrade of the credit rating of Macedonia in foreign currency to investment rating". By the end of this year, Macedonia will obtain the second rating from FITCH Agency.

All this points out to the fact that the Macedonian economy shows signs of recovery and that successful perspectives are attainable.

Yours sincerely,
Nikola Popovski MA
Minister of Finance

BASIC MACROECONOMIC INDICATORS

Annual data for Republic of Macedonia

		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003*	2004*
Real GDP	%	-1.8	-1.1	1.2	1.4	3.4	4.3	4.5	-4.5	0.9	2.8	2.9
GDP	USD mil.	3,386	3,351	3,390	3,458	3,581	3,674	3,588	3,437	3,769	4,642	5,407
Inflation (average)	%	128	15.7	2.3	2.6	-0.1	-0.7	5.8	5.5	1.8	1.2	-0.4
Inflation (end of period)	%	55.4	8.8	-0.7	2.7	-2.4	2.4	6.1	3.7	1.1	2.6	-1.9
GDP deflator	%	151.9	17.1	2.9	3.4	1.4	2.7	8.2	3.6	3.4	0.3	3.0
Budget balance												
(Central budget and funds)	% GDP	-2.9	-1.2	-0.5	-0.4	-1.7	0.0	1.8	-7.2	-5.7	-1.1	0.0
Exchange rate, average	DEN/1USD	43.2	38.0	40.0	49.8	54.5	56.9	65.9	68.1	64.7	54.3	49.4
Exchange rate, average	DEN/1USD	-	-	50.1	56.2	61.1	60.6	60.7	60.9	61.0	61.3	61.3
Exchange rate, end of period	DEN/1USD	40.6	38.0	41.4	55.4	51.8	60.3	65.3	69.2	58.6	49.9	45.9
Exchange rate, end of period	DEN/1EUR	-	-	51.3	61.2	60.9	60.6	60.8	61.0	61.1	61.3	61.4
Export (f.o.b.)	USD mil.	1,086	1,204	1,147	1,237	1,291	1,190	1,321	1,153	1,112	1,359	1,672
Import (f.o.b.)	USD mil.	1,271	1,427	1,462	1,623	1,807	1,686	2,011	1,677	1,916	2,211	2,792
Trade balance	USD mil.	-185	-223	-315	-386	-516	-496	-690	-524	-804	-852	-1,120
Current account balance	USD mil.	-263	-299	-340	-286	-269	-32	-75	-235	-358	-152	-415
as % of GDP	%	-7.8	-8.9	-10.0	-8.3	-7.5	-0.9	-2.1	-6.8	-9.5	-3.3	-7.7
Foreign exchange reserves	USD bill.	0.16	0.28	0.28	0.26	0.33	0.45	0.71	0.78	0.73	0.90	0.99
Import coverage	months	1.6	2.3	2.2	1.9	2.2	3.2	3.7	4.7	4.0	3.9	3.3
External debt ¹⁾	USD mil.	1,260	1,440	1,118	1,139	1,437	1,490	1,489	1,506	1,635	1,813	2,029
as % of GDP	%	35.8	42.4	33.1	33.5	41.4	41.5	39.9	41.0	43.1	44.9	44.1
Foreign direct investments	USD mil.	24.0	9.5	11.2	30.0	127.7	32.4	175.1	440.7	77.7	94.3	150.1
as % of GDP	%	0.7	0.3	0.3	0.9	3.6	0.9	4.9	12.8	2.1	2.0	2.8

1) Since 1998, according to the new methodology suggested by the World Bank, total external debt comprises short, medium and long-term credits.

* Estimation or preliminary data

Source: State Statistical Office, Ministry of Finance of the Republic of Macedonia and the National Bank of the Republic of Macedonia

BASIC MACROECONOMIC INDICATORS IN THE SELECTED TRANSITIONAL ECONOMIES

	Real GDP				Consumer prices ¹⁾				Current account balance ²⁾			
	2003	2004	2005	2006	2003	2004	2005	2006	2003	2004	2005	2006
Emerging markets - Total	4.6	6.2	4.5	4.5	9.5	6.7	5.4	4.1	-4.3	-4.9	-4.7	-4.3
Bulgaria	4.3	5.7	5.5	5.5	2.3	6.1	4.0	3.5	-9.3	-7.4	-7.6	-6.9
Czech Republic	3.7	4.0	4.0	3.9	0.1	2.8	2.5	2.7	-6.2	-5.2	-4.8	-4.4
Estonia	5.1	6.2	6.0	5.5	1.3	3.0	3.7	2.7	-13.2	-13.8	-11.0	-9.7
Hungary	3.0	4.0	3.7	3.8	4.7	6.8	4.0	3.8	-9.0	-9.0	-8.6	-8.1
Latvia	7.5	8.0	7.3	6.2	2.9	6.3	5.7	5.3	-8.2	-12.3	-10.9	-9.8
Lithuania	9.7	6.6	7.0	6.8	-1.2	1.2	2.9	3.0	-7.0	-8.6	-9.5	-9.3
Poland	3.8	5.3	3.5	3.7	0.8	3.5	3.1	2.5	-1.9	-1.5	-2.1	-2.5
Romania	5.2	8.3	5.5	5.0	15.3	11.9	8.2	5.7	-6.8	-7.5	-6.9	-6.3
Slovak Republic	4.5	5.5	4.8	4.9	8.5	7.5	3.6	2.8	-0.9	-3.4	-6.0	-4.6
Slovenia	2.5	4.4	4.0	4.0	5.6	3.6	2.3	2.0	0.1	-0.6	-1.4	-2.2
Cyprus	1.9	3.7	3.8	4.0	4.1	2.3	2.5	2.5	-3.4	-4.1	-3.4	-2.7
Turkey	5.9	8.0	5.0	5.0	25.3	10.6	9.0	6.1	-3.4	-5.2	-4.5	-3.7

1) Annual average

2) Percent of GDP

Source: World Economic Outlook, IMF, Washington D.C., April 2005

GROSS DOMESTIC PRODUCT
(real growth rates, year on year, 2000-2004)

		Agriculture, hunting, forestry and fishing	Mining and quarrying, manufacturing, electricity and gas	Construction	Wholesale and retail trade;	Hotels and restaurants	Transport and communica- tion	Financial intermediation and real estate, renting	Public administration and defense	Imputed banking services	Value added	Net taxes on pro- duction	GDP
		A + B	C + D + E	\	F	G	H	I + J + K	L + M + N + O				
2000	I	2.4	16.3	4.1	37.7	-7.1	13.4	2.4	1.0	0.5	11.4	15.1	12.0
	II	3.6	17.1	-9.9	4.6	-14.8	11.1	2.5	1.3	0.8	5.6	9.0	6.1
	III	1.2	1.8	5.3	-8.7	-9.6	10.1	2.7	-0.8	1.9	0.6	3.9	1.0
	IV	-3.1	4.5	12.5	-12.7	-13.1	0.7	3.2	-1.1	3.7	-0.3	3.0	0.2
	00/99	1.0	9.4	2.6	3.0	-11.3	8.5	2.7	0.1	1.7	4.1	7.5	4.5
2001	I	-6.9	-2.8	0.7	-18.9	6.7	-4.8	3.0	-8.7	-6.9	-6.2	-6.9	-6.3
	II	-12.5	-4.7	-4.9	4.5	-7.1	-7.2	2.6	-5.1	-8.5	-3.8	-4.4	-3.9
	III	-13.3	-10.6	-22.9	4.4	-14.7	-11.1	1.4	0.8	-13.1	-6.2	-6.9	-6.4
	IV	-10.3	-0.5	-22.8	9.7	-0.1	-9.9	1.3	3.7	-13.5	-1.5	-2.2	-1.6
	01/00	-10.8	-4.6	-14.4	-0.8	-4.5	-8.3	2.1	-2.3	-10.5	-4.4	-5.1	-4.5
2002	I	-5.6	-10.1	-7.0	6.0	-1.0	-3.4	-2.8	10.0	-2.5	-1.8	1.1	-1.3
	II	-2.5	-3.5	0.7	4.6	16.1	-6.7	-4.1	4.7	1.7	-0.9	2.0	-0.4
	III	-1.6	-1.3	5.3	4.2	32.2	-0.5	-4.1	0.8	6.2	0.3	3.2	0.8
	IV	1.8	10.2	1.4	6.8	18.8	3.5	-3.7	-0.8	2.2	3.6	6.6	4.1
	02/01	-2.0	-0.8	0.6	5.4	16.7	-1.8	-3.7	3.5	1.8	0.4	3.3	0.9
2003 *	I	3.2	3.9	8.8	1.8	14.2	-2.7	-4.4	5.7	4.4	2.3	-0.5	1.8
	II	3.5	4.0	8.1	2.2	6.7	5.2	-3.7	6.5	-3.2	3.5	0.7	3.0
	III	6.5	15.0	13.8	1.1	11.1	0.5	-3.0	4.9	-4.3	5.9	3.1	5.4
	IV	6.2	-0.7	21.6	2.0	7.0	-0.9	-3.3	2.7	-1.6	1.7	-1.0	1.2
	03/02	4.8	5.0	13.3	1.8	9.6	0.4	-3.6	4.9	-1.2	3.3	0.6	2.8
2004*	I	3.5	-0.6	4.0	5.1	5.4	2.2	2.2	2.4	-0.7	2.4	2.4	2.4
	II	4.6	-0.7	11.4	6.7	8.7	5.0	3.0	2.1	1.9	3.6	3.6	3.6
	III	4.6	-0.1	7.9	8.2	1.8	5.3	2.6	1.1	2.3	3.4	3.4	3.4
	IV	4.9	-6.3	10.0	9.2	5.9	8.1	2.0	1.6	1.2	2.2	2.2	2.2
	04/03	4.4	-2.1	8.7	7.4	5.3	5.2	2.5	1.8	1.1	2.9	2.9	2.9
2005*	I	2.5	4.7	-9.6	6.4	2.5	5.6	0.2	0.5	-0.9	2.7	2.7	2.7

* Preliminary data

Source: State Statistical Office

GROSS DOMESTIC PRODUCT (PRODUCTION APPROACH)

in millions of denars

at current prices

NACE section	Description	1999	2000	2001	2002	2003 ¹	Index 2003/2002
A	Agriculture, hunting and forestry	23,094	23,756	22,933	24,509	28,672	17.0
B	Fishing	29	14	24	48	27	-43.8
C	Minerals and stone mining	1,620	1,856	1,312	960	989	3.0
D	Manufacturing	36,764	40,926	39,587	37,925	39,651	4.6
E	Electricity, gas and water supply	9,203	10,381	10,041	9,146	11,778	28.8
F	Construction	10,880	13,361	11,801	11,893	13,537	13.8
G	Wholesale and retail trade;	22,383	25,402	26,076	27,348	28,282	3.4
H	Hotels and restaurants	3,984	3,463	3,410	4,088	4,653	13.8
I	Transport, storage and communication	17,233	21,261	21,694	20,610	21,062	2.2
J	Financial intermediation	6,977	7,342	7,420	7,427	6,110	-17.7
K	Real estate, renting and business activities	5,890	7,466	8,304	8,168	8,453	3.5
L	Public administration and defence; compulsory social security	14,351	14,333	14,445	16,145	16,984	5.2
M	Education	8,769	8,266	8,048	8,688	9,436	8.6
N	Health and social work	8,592	8,987	8,690	9,361	9,897	5.7
O	Other community, social and personal service activities	4,967	5,217	5,548	5,553	5,503	-0.9
P	Imputed rents	9,597	10,465	10,631	10,792	13,732	27.2
	Minus: Imputed banking services	5,017	5,153	4,738	4,160	3,797	-8.7
A.	Value added	179,316	197,344	195,230	198,592	214,969	8.2
B.	Net taxes on production	29,694	39,045	38,611	45,378	36,516	-19.5
A + B	GROSS DOMESTIC PRODUCT	209,010	236,389	233,841	243,970	251,485	3.1

1) Preliminary data.

GROSS DOMESTIC PRODUCT (EXPENDITURE APPROACH)

	In millions of denars					In %				
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
GROSS DOMESTIC PRODUCT	209.010	236.389	233.841	243.971	251.486	100.0	100.0	100.0	100.0	100.0
(current prices)										
Final consumption	188.702	218.986	221.771	242.795	243.853	90.3	92.6	94.8	99.5	97.0
Household consumption	145.693	175.965	163.788	188.179	191.873	69.7	74.4	70.0	77.1	76.3
Government consumption	43.009	43.021	57.983	54.616	51.980	20.6	18.2	24.8	22.4	20.7
Gross capital formation	41.171	50.683	42.759	48.058	50.261	19.7	21.4	18.3	19.7	20.0
Gross fixed capital formation	34.710	38.332	34.716	40.448	42.110	16.6	16.2	14.8	16.6	16.7
Change in stocks	6.461	12.351	8.043	7.610	8.151	3.1	5.2	3.4	3.1	3.2
Export of goods and services	88.143	114.209	99.091	92.674	95.254	42.2	48.3	42.4	38.0	37.9
Export of goods (FOB)	67.988	87.161	78.625	71.887	73.800	32.5	36.9	33.6	29.5	29.3
Export of services	14.367	19.971	15.894	16.388	17.705	6.9	8.4	6.8	6.7	7.0
Purchases of non-residents	5.788	7.077	4.572	4.399	3.749	2.8	3.0	2.0	1.8	1.5
Import of goods and services	109.007	147.489	129.780	139.556	137.882	52.2	62.4	55.5	57.2	54.8
Import of goods (FOB)	90.554	123.910	107.166	121.574	120.038	43.3	52.4	45.8	49.8	47.7
Import of services	18.543	23.579	22.614	17.982	17.844	8.8	10.0	9.7	7.4	7.1

Source: State Statistical Office

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

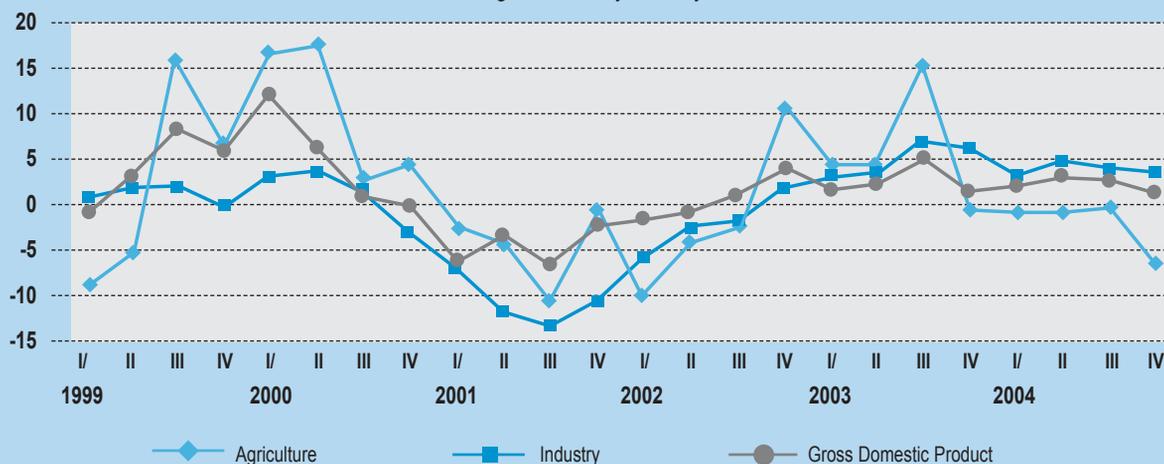
	2000	2001	2002	2003	2004	2004				2005			
						Q - 1	Q - 2	Q - 3	Q - 4	Q - 1	March	April	May
REAL SECTOR													
Production real rates of change													
Gross domestic product	4.6	-4.5	0.9	2.8	2.9	2.4	3.7	3.4	2.1	2.7			
Industrial production	3.5	-3.1	-0.8	6.6	-2.1	-0.6	-0.7	-0.1	-6.3	4.8	0.3	10.5	15.8
nominal rates of change													
Investment in machines and equipment	20.8	-16.9	16.4	-7.7	4.9	11.0	7.2	8.1	-4.2	5.7			
Prices													
Consumer Price Index	5.8	5.5	1.8	1.2	-0.4	1.6	-0.5	-1.6	-1.3	-0.4	0.2	0.6	0.7
Industrial producer prices	8.9	2.0	-0.9	-0.3	0.9	-1.5	0.5	2.2	2.6	1.9	2.3	3.1	2.5
Competition of the industry													
Productivity	6.0	0.5	3.0	13.1	3.9	-28.0	-20.8	-16.7	-3.1	39.2	6.4	15.6	20.2
Unit labour cost	-4.7	-0.7	0.2	-10.3	0.7	45.1	29.8	20.7	13.6	-35.1	-3.8	-12.2	-16.4
Real unit labour cost	-12.5	-2.7	1.1	-10.1	-0.4	50.6	28.2	16.8	9.2	-34.8	-6.0	-14.8	-18.5
Commodity prices of the major Macedonian export and import products Prices in US \$													
Crude oil Brent	28.3	24.4	25.0	28.9	38.3	32.0	35.5	41.6	44.2	47.6	53.1	51.9	48.67
Lamb	261.9	291.2	330.3	388.4	461.4	458.6	453.8	452.8	472.7	478.1	479.7	472.0	453.8
Nickel	8,638.0	5,944.7	6,772.0	9,629.0	13,823.4	14,729.0	12,500.0	13,991.0	14,073.0	15,348.0	16,191.0	16,142.0	16,932.0
Copper	1,813.0	1,578.3	1,559.0	1,779.0	2,866.0	2,731.0	2,790.0	2,850.0	3,093.0	3,268.0	3,379.0	3,394.0	3,249.0
Lead	45.4	47.6	45.3	51.5	88.7	84.4	81.1	93.2	95.9	97.8	100.4	98.6	98.8
Zink	112.8	88.6	77.9	82.8	104.8	107.0	102.2	97.5	111.4	131.5	137.2	130.0	124.4
Steel cold rolled coilsreat	385.8	299.2	328.3	444.6	607.1	520.0	608.3	650.0	650.0	683.3	712.5	750.0	750
Steel hot rolled coilsreat	295.8	216.5	246.7	320.2	502.5	401.7	508.3	550.0	550.0	583.3	612.5	650.0	650
EXTERNAL SECTOR													
nominal rates of change in dollar amount													
Export of goods (FOB)	11.0	-12.7	-3.7	22.2	22.4	22.1	11.5	31.0	32.3	30.6	31.8	36.0	51.3
Import of goods (CIF)	17.9	-19.4	16.3	15.3	25.9	13.8	18.6	28.4	35.8	12.8	8.7	29.0	27.1
Trade balance (in millions of US \$)	-771	-533	-849	-937	-1,230	-246.0	-339.6	-264.0	-368.4	-216.9	-87.7	-137.0	-105.8
Current account balance (in millions of US \$)	-236	-38	-324	-277	-415	-107.4	-172.9	-5.8	-129.7	-21.4	-14.3	-62.4	-24.1
*Foreign exchange reserves (in millions of US \$) "-" means decrease	235.6	62.0	-40.5	168.8	82.3	-12.2	38.0	72.0	83.0	62.0	62.0	112.0	72.0
Medium and long-term external debt (end of period, in millions of US \$)	1,438.0	1,444.0	1,571.0	1,771.0	1,957.0	1,766.0	1,766.4	1,821.0	1,957.6	1,927.3	1,927.3	1,950.0	1908.1
Foreign exchange rates													
Denar / EURO	60.73	60.91	60.98	61.26	61.34	61.29	61.28	61.31	61.46	61.40	61.42	61.39	61.42
Denar / USA \$	65.89	68.04	64.73	54.30	49.41	49.94	50.87	50.20	47.53	46.82	46.57	47.45	48.34

	2000	2001	2002	2003	2004	2004				2005			
						Q - 1	Q - 2	Q - 3	Q - 4	Q - 1	March	Aprile	May
GOVERNMENT FINANCE													
nominal rates of change													
Revenues	22.5	-10.3	10.1	-7.4	5.8	10.3	1.5	2.9	8.6	-9.0	-15.9	14.0	11.6
Tax revenues	22.1	-6.9	14.0	-9.6	6.8	5.7	5.0	6.7	9.9	-3.1	-3.8	14.0	-4.1
VAT	75.2	-1.8	19.8	3.2	21.6	25.3	16.8	18.7	25.8	-5.9	-2.5	15.7	-11.8
Expenditures	12.7	27.0	-0.1	-13.8	0.3	5.2	3.0	-4.4	-1.7	5.6	-1.4	3.2	7.2
Current expenditures	1.8	31.9	17.2	-1.2	1.4	5.7	1.2	-2.8	1.9	3.6	3.2	0.0	5.4
Capital expenditures	94.5	28.3	11.8	-447.0	-3.4	-34.3	-38.4	-15.9	-22.8	42.2	46.7	32.9	30.8
Central budget balance (in millions of denars)	6,285	-12,490	7,343	-2,551	371	1,002.0	-364.0	616.0	-882.0	-1,005	-18.0	389	334
General government balance (in million of denars)	5,905	-13,171	-13,019	-2,596	7	655.0	-635.0	654.0	-667.0	-1,269	-266	642	306
MONETARY SECTOR													
nominal rates of change (end of the period)													
Net foreign assets	73.8	57.6	-19.1	5.3	4.7	10.3	4.9	3.0	4.7	4.0	4.0	6.3	1.9
Credit to private sector	17.2	7.3	12.7	15.8	18.7	18.9	25.9	24.4	18.7	16.9	16.9	14.5	-0.1
Cash in circulation	16.6	48.5	0.0	0.3	-0.1	9.2	4.7	2.0	-0.1	9.6	9.6	3.7	-7.7
M1	22.6	5.6	4.6	1.1	-1.1	9.1	8.6	2.3	-1.1	3.9	3.9	1.5	-0.5
M2	29.4	61.9	-7.0	15.9	15.1	18.1	20.1	18.3	15.1	22.3	22.3	21.5	0.8
M4	25.6	56.7		13.2	15.3	15.4	18.9	16.7	15.3	20.2	20.2	19.5	1.2
Foreign exchange reserves / M4 (denars)	165.0	188.2	150.5	150.7	162.0	161.7	166.9	153.3	162.0	167.6	167.6	168.2	171
SOCIAL SECTOR													
Labour market													
Unemployment rate (Labor Force Survey)	32.2	30.5	31.9	36.7	36.7	37.1	35.8	37.7	38.0	38.6			
Number of new employed	101,996	90,308	110,401	79,921	112,013	25,648	51,190	80,235	112,013	11,707	11,707	11,711	11,463
Number of new employed on full time	63,987	63,346	74,341	49,661	63,538	16,153	31,870	47,135	63,538	7,268	7,268	6,022	6,317
Wages													
Nominal net wages	5.5	3.5	6.9	4.8	4.0	4.0	4.4	3.4	4.0	3.0	2.2	1.0	0.4
Real net wages	-0.3	-1.9	5.0	3.6	4.4	2.4	4.9	5.0	5.4	3.4	2.0	0.4	0.3
Consumer basket	2.5	5.2	2.7	-0.7	-2.7	0.7	-2.8	-5.0	-3.9	-4.0	-3.3		
Social protection													
Number of pensioners	241,221	247,200	249,421	254,267	260,075	254,333	256,917	258,360	260,075	260,879	260,879	261,447	259,985
"Number of households that receivesocial protection"	77,309	80,160	82,673	64,453		64,584	64,594	65,960	66,940	69,667	69,667	63,442	66,604
"Number of persons that receiveunemployment benefits"	35,046	41,375	46,772	47,324	45,867	53,273	51,221	48,189	45,867	44,230	44,230	44,267	43,968

Source: State statistical office, National bank of the Republic of Macedonia, Ministry of labour and social policy
Employment Agency, World Development Prospects (Pink Sheets), Ministry of Finance

GROSS DOMESTIC PRODUCT

real growth rate, year-on-year



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 ²⁾
Gross Domestic Product¹⁾	3,450	3,389	3,351	3,390	3,458	3,575	3,730	3,899	3,723	3,755	4,546
In million USD dollars											
Gross Domestic Product (per capita)¹⁾	1,785	1,742	1,705	1,709	1,732	1,781	1,848	1,924	1,830	1,859	2,243
in USD dollars											

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

2) Previous data

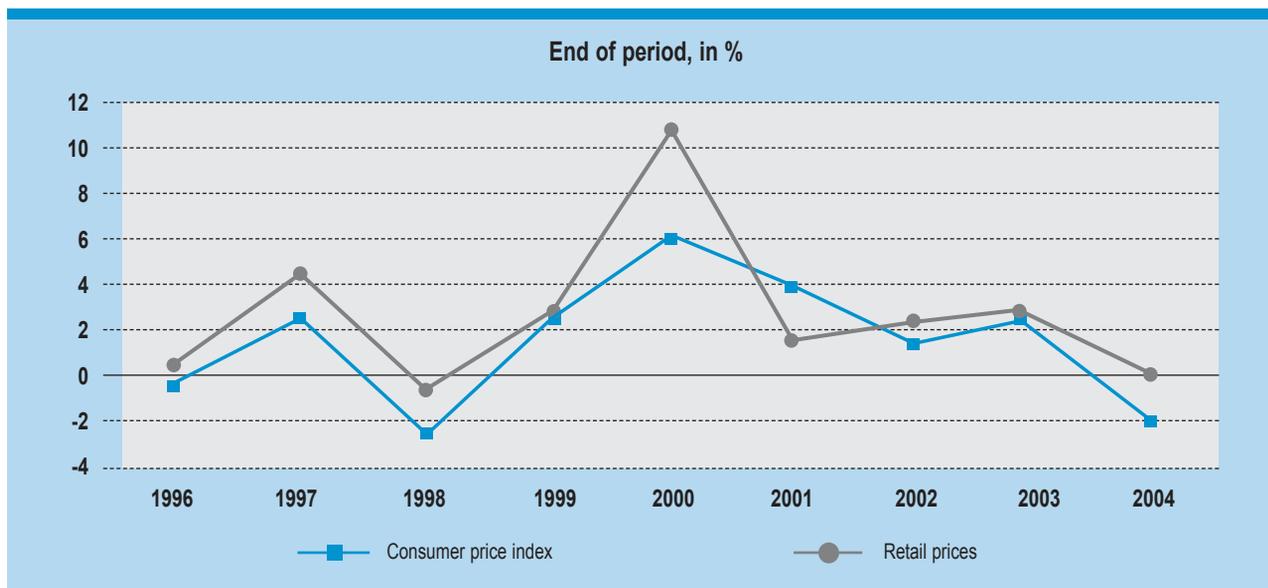
INFLATION

End of period, in %



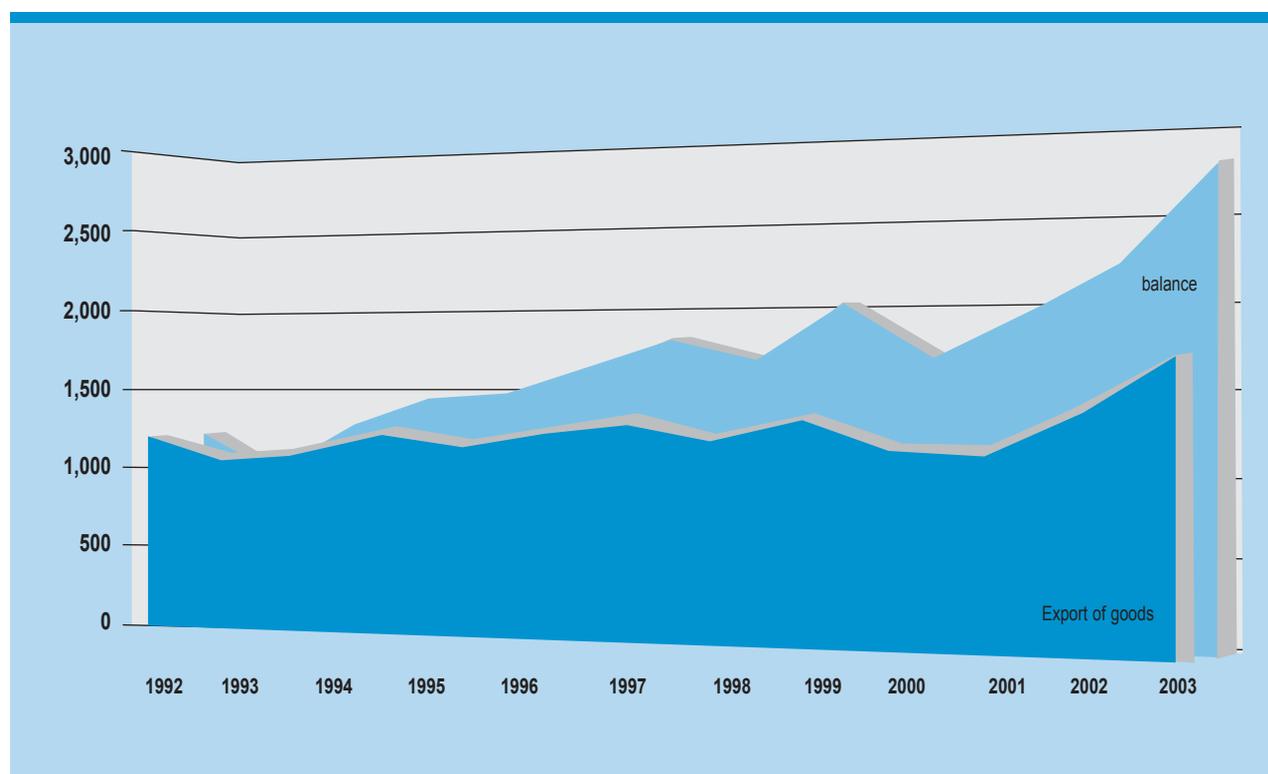
	Average rates, in %									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	
Consumer price index	2.3	2.6	-0.1	-0.7	5.8	5.5	1.8	1.2	-0.4	
Retail prices	3.0	4.4	0.8	-1.1	10.6	5.2	1.4	2.4	0.9	

	End of period, in %									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	
Consumer price index	-0.7	2.7	-2.4	2.4	6.1	3.7	1.1	2.6	-1.9	
Retail prices	0.2	4.5	-1.0	2.3	10.8	1.2	2.2	2.9	-0.1	



FOREIGN TRADE

	in million of US \$												
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Export of goods	1,199	1,055	1,086	1,204	1,147	1,237	1,292	1,190	1,321	1,153	1,112	1,359	1,674
Import of goods	1,206	1,013	1,271	1,427	1,462	1,623	1,807	1,686	2,011	1,677	1,917	2,211	2,793
Trade balance	-7	42	-185	-223	-315	-386	-515	-496	-690	-524	-805	-852	-1,119



FOREIGN TRADE OF THE REPUBLIC OF MACEDONIA

		Total			Germany			Serbia and Monte Negro		
		Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
1998		1,310.7	1,914.7	-604.0	286.0	255.2	30.8	240.0	245.6	-5.6
1999		1,191.3	1,776.2	-584.9	254.3	245.8	8.5	254.5	183.9	70.6
2000		1,322.6	2,093.8	-771.2	257.5	253.3	4.2	335.2	190.4	144.8
2001		1,155.0	1,687.6	-532.6	237.5	213.3	24.2	266.8	157.2	109.6
2002		1,115.5	1,995.2	-879.7	234.0	284.7	-50.7	246.4	185.2	61.2
2003		1,363.2	2,299.9	-936.7	278.3	303.8	-25.5	273.8	212.6	61.2
2004		1,673.6	2,903.4	-1,229.8	318.2	362.3	-44.1	348.8	244.8	104.0
2000	Q1	331.1	606.8	-275.7	66.1	80.9	-14.8	78.8	47.8	31.0
	Q2	317.7	481.0	-163.3	56.9	52.7	4.2	76.3	47.3	29.0
	Q3	345.1	470.6	-125.5	70.8	55.0	15.8	82.8	47.3	35.5
	Q4	328.7	535.4	-206.7	63.7	64.7	-1.0	97.3	48.0	49.3
2001	Q1	291.5	400.4	-108.9	69.0	52.8	16.2	62.3	34.9	27.4
	Q2	285.3	416.6	-131.3	52.9	59.0	-6.1	74.1	39.2	34.9
	Q3	295.7	378.9	-83.2	61.9	42.8	19.1	62.9	33.4	29.5
	Q4	282.5	491.7	-209.2	53.7	58.7	-5.0	67.5	49.7	17.8
2002	Q1	244.0	444.2	-200.2	60.9	56.4	4.5	47.2	38.2	9.0
	Q2	264.4	461.7	-197.3	54.0	70.5	-2.7	53.6	47.9	5.7
	Q3	289.1	497.1	-208.0	60.3	77.1	-10.4	55.8	47.9	7.9
	Q4	301.8	597.6	-295.8	57.0	89.2	-32.2	66.4	55.1	11.3
2003	Q1	293.7	531.7	-238.0	66.6	69.2	-2.6	47.2	50.4	-3.2
	Q2	355.8	580.9	-225.1	68.0	74.2	-6.2	76.4	54.8	21.6
	Q3	337.8	550.2	-212.4	72.0	71.0	1.0	74.7	53.5	21.2
	Q4	375.9	637.1	-261.2	71.7	89.4	-17.7	75.5	53.9	21.6
2004	Q1	366.0	616.1	-250.1	82.1	84.0	-1.9	57.9	48.2	9.7
	Q2	367.7	715.1	-347.4	63.1	90.0	-26.9	84.4	63.7	20.7
	Q3	442.7	706.7	-264.0	80.8	89.2	-8.4	98.7	63.2	35.5
	Q4	497.2	865.5	-368.3	92.2	99.1	-6.9	107.8	69.7	38.1
2005	Q1	482.0	700.1	-218.1	112.0	73.6	38.4	75.0	58.5	16.5
2003	I	78.6	159.0	-80.4	18.7	22.6	-3.9	11.3	15.0	-3.7
	II	94.7	152.2	-57.5	21.9	21.7	0.2	15.5	15.4	0.1
	III	120.4	220.5	-100.1	26.0	24.9	1.1	20.4	20.0	0.4
	IV	117.3	190.3	-73.0	22.2	21.2	1.0	22.4	15.4	7.0
	V	119.9	208.4	-88.5	23.6	26.5	-2.9	27.3	23.2	4.1
	VI	118.6	182.2	-63.6	22.2	26.5	-4.3	26.7	16.2	10.5
	VII	124.3	194.8	-70.5	25.2	27.8	-2.6	27.2	18.0	9.2
	VIII	96.1	173.1	-77.0	22.2	20.5	1.7	23.1	18.3	4.8
	IX	117.4	182.3	-64.9	24.6	22.7	1.9	24.4	17.2	7.2
	X	124.7	214.0	-89.3	22.8	26.7	-3.9	28.9	18.8	10.1
	XI	122.7	198.8	-76.1	24.7	29.4	-4.7	22.6	15.7	6.9
	XII	128.5	224.3	-95.8	24.2	33.3	-9.1	24.0	19.4	4.6
2004	I	102.4	176.5	-74.1	27.3	21.8	5.5	14.5	11.2	3.3
	II	132.0	199.3	-67.3	28.0	32.6	-4.6	20.0	17.0	3.0
	III	131.6	240.3	-108.7	26.8	29.6	-2.8	23.4	20.0	3.4
	IV	125.2	238.2	-113.0	22.3	27.4	-5.1	26.4	22.5	3.9
	V	117.9	223.7	-105.8	19.5	29.2	-9.7	27.9	22.6	5.3
	VI	124.6	253.2	-128.6	21.3	33.4	-12.1	30.1	18.6	11.5
	VII	155.6	253.0	-97.4	31.5	32.3	-0.8	31.2	20.1	11.1
	VIII	137.5	223.0	-85.5	24.9	25.4	-0.5	34.1	21.4	12.7
	IX	149.6	230.7	-81.1	24.4	31.5	-7.1	33.4	21.7	11.7
	X	158.0	256.0	-98.0	24.4	31.5	-7.1	33.4	21.7	11.7
	XI	154.0	294.7	-140.7	26.8	24.9	1.9	33.0	21.4	11.6
	XII	185.2	314.8	-129.6	41.0	42.7	-1.7	41.4	26.6	14.8
2005	I	147.9	209.9	-62.0	43.3	21.7	21.6	19.0	15.8	3.2
	II	156.6	223.9	-67.3	35.5	25.7	9.8	22.4	16.7	5.7
	III	177.5	266.3	-88.8	33.2	26.2	7.0	33.6	26.0	7.6
	IV	174.6	312.4	-137.8	29.4	25.7	3.7	38.8	30.2	8.6
	V	178.5	284.3	-105.8	23.1	31.2	-8.1	42.8	19.0	23.8

BULLETIN / MINISTRY OF FINANCE

in million US \$

USA			Italy			Greece			Russia		
Export	Import	Balance									
174.0	101.6	72.4	91.9	109.1	-17.2	83.1	112.9	-29.8	26.1	90.9	-64.8
136.1	54.7	81.4	77.6	92.7	-15.1	85.9	164.5	-78.6	15.1	91.2	-76.1
165.6	83.0	82.6	90.8	111.1	-20.3	84.1	201.5	-117.4	10.3	191.8	-181.5
99.7	51.5	48.2	88.7	107.7	-19.0	101.4	184.0	-82.6	13.9	139.4	-125.5
77.4	58.7	18.7	81.9	118.6	-36.7	116.9	237.9	-121.0	14.4	125.4	-111.0
72.8	56.2	16.6	95.4	122.5	-27.1	179.8	300.2	-120.4	13.7	177.8	-164.1
70.3	46.8	23.5	134.9	170.2	-35.3	228.8	280.7	-51.9	19.7	255.7	-236.0
49.6	16.3	33.3	25.4	29.4	-4.0	19.7	43.1	-23.4	2.6	60.8	-58.2
48.6	16.5	32.1	27.4	29.3	-1.9	18.4	42.3	-23.9	2.7	38.6	-35.9
37.5	23.4	14.1	18.1	25.4	-7.3	23.5	55.3	-31.8	2.1	33.2	-31.1
29.9	26.8	3.1	19.9	27.0	-7.1	22.5	60.8	-38.3	2.9	59.2	-56.3
28.4	13.4	15.0	24.0	19.2	4.8	21.2	40.2	-19.0	2.8	53.4	-50.6
23.4	15.6	7.8	21.4	23.3	-1.9	24.3	38.7	-14.4	3.7	31.7	-28.0
26.9	11.7	15.2	24.3	29.5	-5.2	30.6	51.1	-20.5	3.3	26.9	-23.6
21.0	10.8	10.2	19.0	35.7	-16.7	25.3	54.0	-28.7	4.1	27.4	-23.3
18.0	18.2	-0.2	26.7	24.6	2.1	19.2	46.0	-26.8	3.4	49.4	-46.0
18.9	15.6	3.3	25.1	26.2	-1.1	27.6	49.4	-21.8	3.6	22.3	-18.7
16.5	10.7	5.8	21.2	29.4	-8.2	30.3	52.2	-21.9	3.5	13.3	-9.8
24.6	13.9	10.7	18.7	32.2	-13.5	35.6	56.3	-20.7	3.0	61.1	-58.1
16.7	13.8	2.9	26.9	21.6	5.3	35.1	98.4	-63.3	2.5	25.1	-22.6
13.8	19.1	-5.3	26.5	34.3	-7.8	52.1	76.4	-24.3	3.6	34.6	-31.0
16.0	11.1	4.9	21.6	29.3	-7.7	43.7	56.7	-13.0	3.4	53.5	-50.1
26.3	12.2	14.1	20.4	37.3	-16.9	48.9	68.7	-19.8	4.2	64.6	-60.4
14.8	13.4	1.4	24.6	31.7	-7.1	52.7	64.1	-11.4	3.9	68.7	-64.8
14.1	11.6	2.5	29.1	45.1	-16.0	55.1	73.0	-17.9	4.7	47.9	-43.2
21.8	10.2	11.6	38.9	44.9	-6.0	54.6	69.2	-14.6	5.5	78.7	-73.2
19.6	11.6	8.0	42.3	48.5	-6.2	66.4	74.4	-8.0	5.6	60.4	-54.8
7.5	13.7	-6.2	43.6	37.2	6.4	74.1	66.3	7.8	5.2	70.5	-65.3
6.7	5.2	1.5	8.9	7.3	1.6	8.2	43.9	-35.7	0.5	1.8	-1.3
5.1	3.9	1.2	7.5	6.0	1.5	11.7	22.9	-11.2	0.5	2.1	-1.6
4.9	4.7	0.2	10.5	8.3	2.2	15.2	31.6	-16.4	1.5	21.2	-19.7
3.5	4.5	-1.0	8.9	10.4	-1.5	17.4	31.2	-13.8	1.0	9.6	-8.6
3.4	6.1	-2.7	7.9	11.8	-3.9	18.5	25.6	-7.1	1.1	17.1	-16.0
6.9	8.5	-1.6	9.7	12.1	-2.4	16.2	19.6	-3.4	1.5	7.9	-6.4
7.2	3.9	3.3	7.4	11.8	-4.4	16.9	22.4	-5.5	1.3	9.8	-8.5
4.5	3.1	1.4	6.4	9.0	-2.6	10.9	15.4	-4.5	1.1	23.2	-22.1
4.3	4.1	0.2	7.8	8.5	-0.7	15.9	18.9	-3.0	1.0	20.5	-19.5
5.7	4.4	1.3	5.5	11.3	-5.8	18.2	22.8	-4.6	2.3	24.6	-22.3
6.8	2.8	4.0	7.2	11.8	-4.6	15.9	21.0	-5.1	1.2	19.6	-18.4
13.8	5.0	8.8	7.7	14.2	-6.5	14.8	24.9	-10.1	0.7	20.4	-19.7
6.4	5.3	1.1	5.8	7.6	-1.8	12.5	17.7	-5.2	1.4	27.4	-26.0
4.6	3.8	0.8	8.0	10.0	-2.0	17.8	21.0	-3.2	1.2	17.3	-16.1
3.8	4.3	-0.5	10.8	14.1	-3.3	22.4	25.4	-3.0	1.3	24.0	-22.7
3.6	4.6	-1.0	12.0	13.8	-1.8	19.9	23.0	-3.1	1.7	27.3	-25.6
4.5	3.6	0.9	7.8	14.4	-6.6	17.1	24.7	-7.6	1.7	2.2	-0.5
6.0	3.4	2.6	9.3	16.9	-7.6	18.1	25.3	-7.2	1.3	18.4	-17.1
7.9	3.2	4.7	13.3	19.5	-6.2	21.2	29.2	-8.0	1.8	22.7	-20.9
5.9	3.5	2.4	13.1	11.0	2.1	13.7	17.3	-3.6	1.9	29.6	-27.7
8.0	3.5	4.5	12.5	14.4	-1.9	19.7	22.7	-3.0	1.8	26.4	-24.6
8.0	3.5	4.5	12.4	14.4	-2.0	21.6	23.2	-1.6	1.8	26.4	-24.6
4.4	4.6	-0.2	12.9	15.1	-2.2	23.7	24.9	-1.2	2.2	25.5	-23.3
7.2	3.5	3.7	17.0	19.0	-2.0	21.1	26.3	-5.2	1.6	8.5	-6.9
3.1	4.5	-1.4	12.3	9.6	2.7	20.2	18.6	1.6	1.0	25.9	-24.9
1.8	5.7	-3.9	13.8	10.2	3.6	26.8	21.0	5.8	1.7	23.4	-21.7
2.6	3.5	-0.9	17.5	17.4	0.1	27.1	26.7	0.4	2.5	21.2	-18.7
3.5	4.2	-0.7	10.3	16.4	-6.1	31.8	29.7	0.4	1.5	33.3	-31.8
4.4	3.7	0.7	16.9	20.2	-3.3	23.9	25.1	2.1	1.9	22.4	-20.5

SHORT-TERM ECONOMIC TRENDS

MAY 2005

SUMMARY OF THE MOST IMPORTANT SHORT-TERM ECONOMIC DEVELOPMENTS IN MAY 2005

- In Q1 of 2005, the Macedonian economy grew by 2.7% in real terms;
- The industrial production grew by 15.8% annual basis, thus contributing to a cumulative growth in the first five months by 8.3%;
- Costs of living grew by 0.4% on monthly basis, thus the average inflation in the first five months reached 0%;
- Rise of stock market price of the nickel at the highest level ever (US\$ 18,000 per metric ton);
- Cumulative growth of export of goods by 37.1% on annual basis, simultaneously with growth of export of goods by 20.3%.
- Foreign trade deficit in the first five months in the amount of US\$ 461.7 million (slight decline in relation to the same period in 2004);
- Decline in external debt by US\$ 42 million on monthly basis (negative exchange rate differences), whereby it reached a level of US\$ 1.908 million;
- Central government budget deficit in the first five months of 2005 in the amount of Denar 245 million;
- Gross foreign exchange reserves of the NBRM grew on monthly basis by US\$ 18 million, determined by the positive trends on the foreign exchange market;
- Continuation of the declining trend in the number of registered unemployed persons, this time by 1.9% on monthly basis (378,145 unemployed persons).

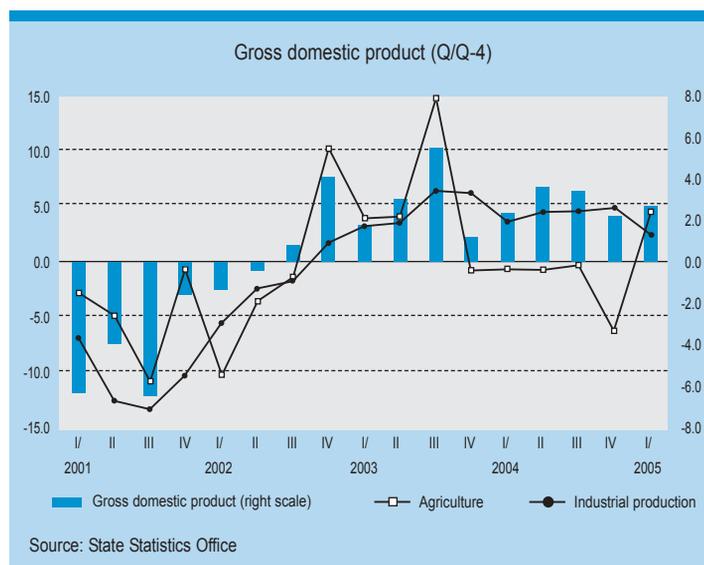
1. REAL SECTOR

1.1. Gross domestic product

In the first quarter of 2005, on annual basis, the Macedonian economy grew by 2.7%, being a 0.3 percentage point deviation in relation to projected 3%.

Unlike last year, when the industrial production was negative in all four quarter, this time it was the industry that was the main driver of growth, growing by 4.7%. Restarting part of the major facilities in the steel industry, the positive results in the textile industry, chemical industry, construction material industry and electricity, as well as the improvement of the overall business climate contributed to the growth in the overall industrial activity.

Besides industry, significant influence in the first quarter of the year over the overall economic growth had wholesale and retail trade as well as the transport, warehousing and communications. Regarding wholesale and retail trade, the growth in the first quarter reached 6.4% confirming the major importance of consumption for the GDP structure. At the same time, transport and communications grew by 5.6%, resulting from the greater transport (positively correlated to industrial activity growth), as well as communications, especially in mobile network.



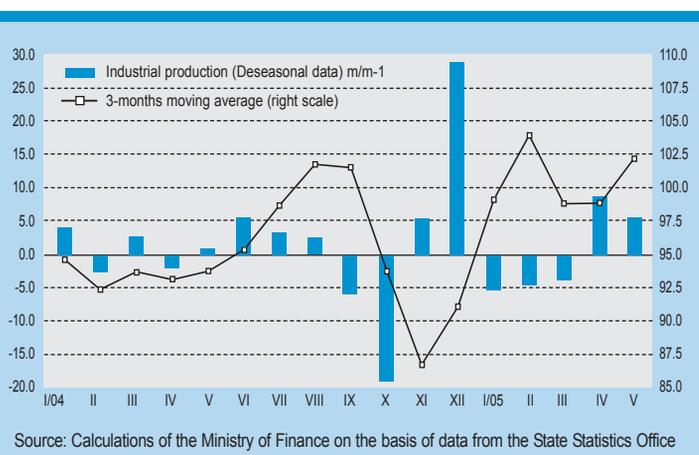
Besides these, agriculture grew more notably (2.5%), as well as hotel and catering activities, i.e. tourism (2.5%). Activities declined in the first part of the year only in construction, by -9.6%, resulting from the declined scope of construction operations in the country. Still, in this period, investments in machines and equipment grew by 5.7%.

By the end of the year, the remaining three quarters are expected to note higher growth rates, thus contributing to the annual 3.8% economic growth.

1.2. Industrial production

After 3-month continuous growth of industrial production, in May 2005 the growth rate slowed down, whereby the industry declined by 2.4% on monthly basis. These are seasonal variations in production, occurring regularly in this period of the year. Thereby, one of the reasons for such development is the declined consumption of electricity usually present in Q2.

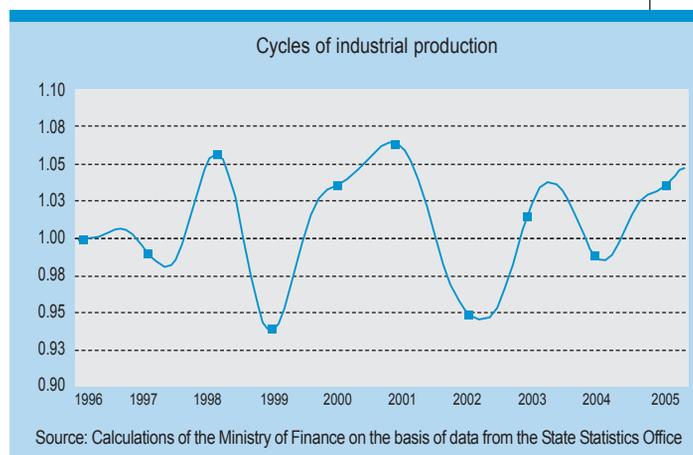
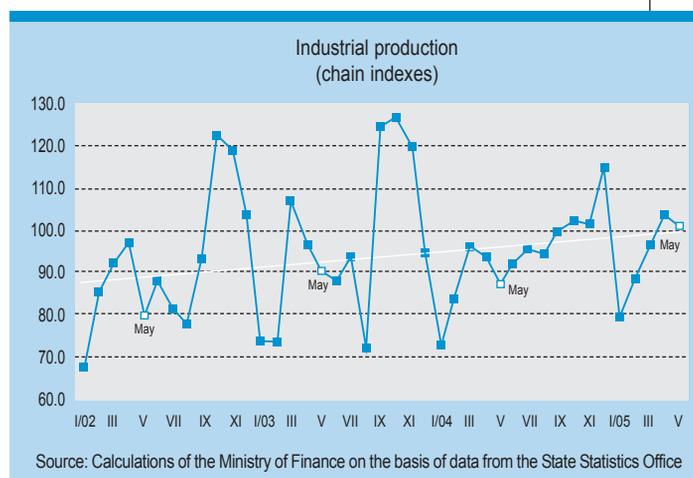
A confirmation of the good results in industry in May, i.e. the negative effects of the seasonal factor is the index of de-seasoned industrial production (obtained when the industrial production index is "cleared" of the effects of various seasonal factors present during the year), growing for the second subsequent month, this time by 5.6%.



On annual basis, in May 2005, the industrial production grew by even 15.8%. It is especially positive that this time production growth is a result of the intensified activities in several sectors, i.e. in 17 out of total 24 sectors of industry. The main driver of growth on annual basis (having in mind the dominant share in the structure of the total index) is the food industry, grow-

ing by 13.6%, i.e. the base metals industry where growth on annual basis reached 110.3%¹. Moreover, positive results were noted in the tobacco industry (29.2%), textile industry, production of oil derivatives, production of construction materials (23.2%) and production of metal products, machines and appliances.

The very high growth rates in industry annual basis raised the overall cumulative index of industrial production which in the period January-May 2005 (compared to the same period last year) grew by 8.3%. As with the annual index, the growth is dispersed in 15 out of 24 industrial sectors. It is especially encouraging that the food industry gradually catches up, and in this period it finally reached last-year's level, and tak-



ing into account the seasonal influences in this sector, this area is expected to continue the production growth in the upcoming months as well. Still, as in the past several months, the industry growth is again lead by the steel industry, i.e. the metal producing industry, the share of which in the overall growth is around 60%.

1) This index is very high since in May 2004, part of the facilities in the steel industry did not operate at all.

Regular monthly surveys of business trends in the processing industry confirm the positive results in the industry, as well as the improvement of the overall business climate. According to May survey, the optimistic expectations among managers of the largest companies regarding the production volume in the upcoming 3-4 months are the highest ever. This is followed by the highest level of average utilization of facilities in the past 18 months (63.9%).

1.3. Prices

After the last-month decline, in May 2005 the CPI rose again, this time by 0.4% on monthly basis, while on annual basis, the price level rose by 0.7%. Such developments resulted in exit of the average inflation from the deflation zone, reaching 0%.

On monthly basis, the growth of costs of living was basically determined by the higher prices of fruit and vegetables (0.4% and 11.4% respectively). The prices of other products remained almost unchanged, excluding the prices of oil derivatives, where the retail price declined initiated by the drop of oil price on the world stock markets. Within the CPI the prices of goods grew by 0.6%, while the prices of services declined by 0.5%.

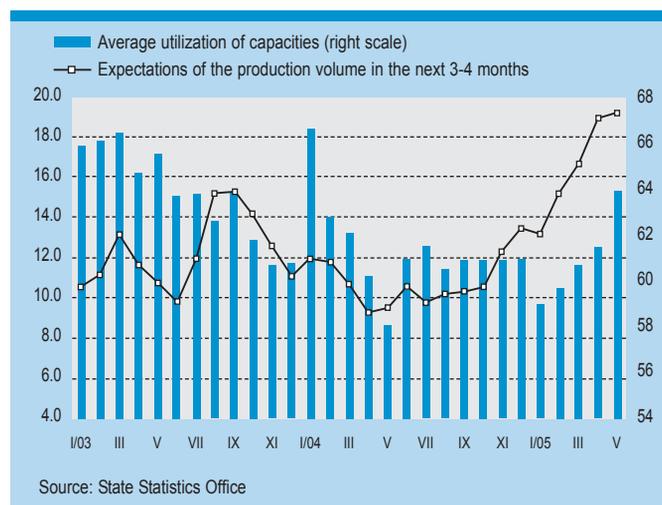
At the same time, the retail price index declined by 0.8% on monthly basis. Decline in retail prices occurred at all product groups, excluding the group Agricultural Products, which grew by 5%. On annual basis, the retail price index is by 2.1% higher, while on cumulative basis (January-May 2005 in relation to January-May 2004) the retail price index grew by 1.6%.

The industrial producers' prices declined by 0.2% in May 2005 in relation to the previous month resulting from the drop in energy price by 0.2%. Annual Industrial producers' prices are by 2.5% higher in May. This is a result of the price of oil derivatives which grew exceptionally high. Regarding other industrial groups, on annual level, intermediate materials, excluding energy, grew by 0.2%, the consumer durables by 3% and consumer non-durables by 0.8%.

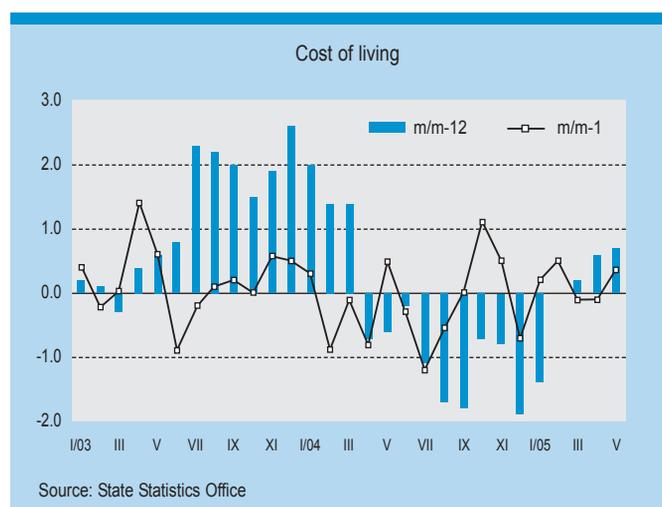
1.3.1. Stock Market Prices

In May, the trends on the world stock markets were rather stable, without major turmoil, especially regarding products being in our interest. Thereby, the prices of the most significant products declined very little, i.e. kept the same price level.

The biggest decline on monthly level was in crude oil which stock market price dropped by 6.2% com-

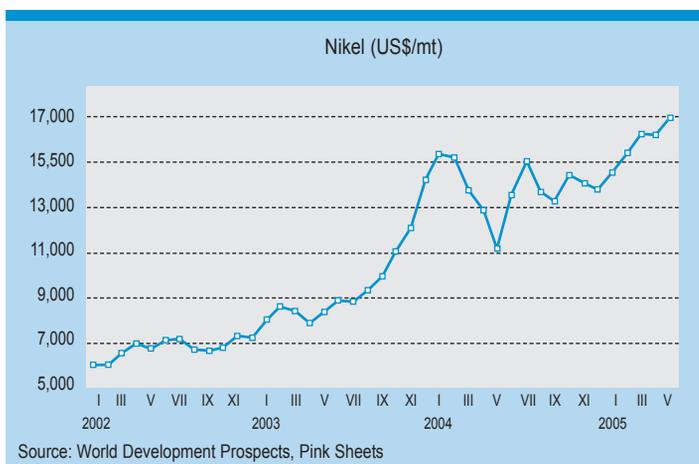


pared to April 2005. Despite such decline (not unusual in this period of the year when the demand is generally weaker), the stock market price of this product grew at the end of the month. The OPEC meeting in mid-June, as well as at the beginning of the summer in the USA anticipated part of this price growth. Taking into account the political instabilities at some of the more significant oil producers, the price of this strategic good is expected to further grow by end-year. On annual basis, the crude oil price grew by 28%.



In addition, the stock market prices of other products declined as well (for second subsequent month), above all, gold, lamb, copper and zinc.

Unlike other metals the stock market price of nickel grew again, reaching average price of US\$ 16.932 per metric ton, meaning almost 5% rise on monthly basis. Actually, in mid-May the price of nickel grew to amazing US\$ 18.000 per ton, meaning triple rise of price within 3-year period resulting from the increasing demand for this metal. Although the demand in Europe and Japan shows signs of decline, the growth of the Chinese economy still keeps the price of this metal on high level. Taking into account the speculations on exhaustion of supplies at the largest nickel producer in the world, no dramatic decline is expected in the price of this metal by the end of the year.



The prices of sugar, steel and steel sheets remained at the same level as the previous month.

2. EXTERNAL SECTOR

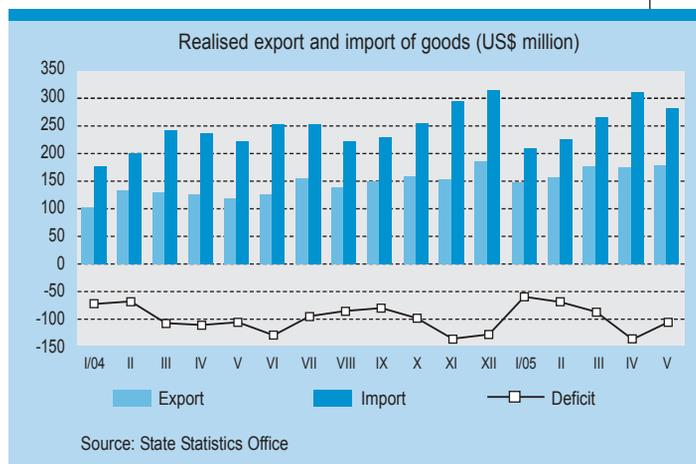
2.1. Foreign Trade

In May 2005, foreign trade of the Republic of Macedonia, expressed in US dollars grew by 35.4% compared to May 2004. At the same time, on monthly basis, the foreign trade declined by 5% as a result of the lower import by 9%, while the export grew again by 2.2%. The trade deficit in May reached US\$ 105.8 million which is monthly decline by US\$ 32 million.

Cumulatively, in the first five months of 2005 the export grew significantly by 37.1% compared to the same period of the previous year, resulting from the restarting of certain facilities, as well as the more

intensive economic activity of business entities. In the same period, import grew by 20.3%, which lead to lower deficit in foreign trade in the first five months compared to the same period last year, amounting to US\$ 461.7 million. Such trends lead to improvement of the degree of coverage of import with export (64.4%).

By group of products according to SITC, on monthly basis, export of meat and processed meat in May 2005 declined by around US\$ 3.7 million (83%), the export of clothes by US\$ 7 million (around 16%), and at the same time, export of fruit and vegetables grew by US\$ 2.3 million (36.6%), export of tobacco by US\$ 1.3 million (39.6%), export of medical and pharmaceutical supplies by US\$ 1.6 million (94.1%) and the export of iron and steel by US\$ 11 million (21.4%).



Cumulatively, in the first five months of the year, export of iron and steel grew by US\$ 155.4 million or 132.2% in relation to the same period last year², export of oil and oil products by US\$ 34.8 million or 200.3%, followed by fruit and vegetable by US\$ 8.8 million or 52%, tobacco and processed tobacco by US\$ 7.3 million or 22.3%, footwear around US\$ 3 million or 16.7% and beverages by US\$ 2.9 million or 12.3%.

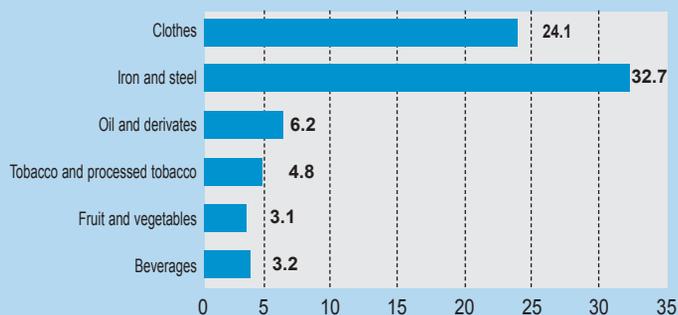
Main drivers of export in the period January-May 2005 are the following: iron and steel, clothes, oil and oil products, tobacco and tobacco processed goods, beverages, as well as fruit and vegetables. These six groups of products comprise 74% of the total export of goods.

In the first five months of 2005 56% of the total exported goods were placed on the European Union market, while 45.4% of the total goods imported in the

² In the first half of 2004, the biggest industrial facility for production of steel and steel sheets did not work at all.

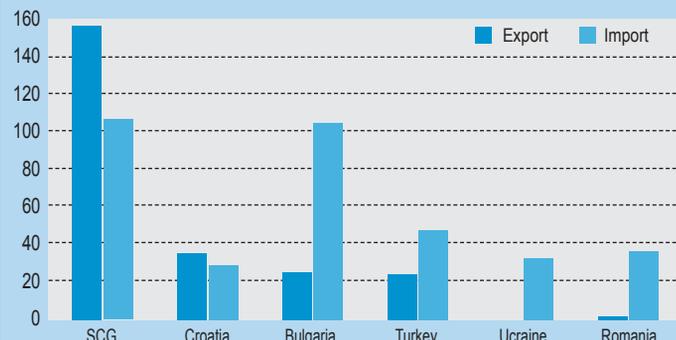
SHORT-TERM ECONOMIC TRENDS

Export of more significant groups accor. SITC
(january-may 2005, structure in %)



Source: State Statistics Office

Foreign trade with countries with which Free trade agreements are concluded



Source: State Statistics Office

Republic of Macedonia originate from the Union. Export to the European Union was higher by 30.1%, and the import by 6.1%. Germany, Serbia and Montenegro, Greece, Italy, Croatia and for the first time, British Virgin Islands are our biggest partners, the share of which in the export is around 70.6%.

period in 2004. Import of equipment grew by 30.6%, and of consumer products by 16%. The structural share of consumer products in the import declined by 1.2 percentage point. Main import goods (according to SITC) in the period January-May 2005 continue to be the oil and oil products, iron and steel, textile, road vehicles and industrial machines.

FOREIGN TRADE of the Republic of Macedonia
(by currency)

Export	I - V 2004					I - V 2005					absolute change in currency value	relative change in currency value (in %)
	currency	000 t	Export in currency	average Denar exch. rate in relation to currencies	Export in Denar	structure in %	000 t	Export in currency	average Denar exch. rate in relation to currencies	Export in Denar		
EUR	519	370,055,599	61.2850	22,678,857,413	74.6	723	484,132,826	61.4031	29,727,256,355	75.6	114,077,227	30.8
USD	194	145,280,672	49.8441	7,241,384,320	23.8	294	195,551,636	47.2330	9,236,490,403	23.5	50,270,964	34.6
EUR+USD	713			29,920,241,734	98.5	1,017			38,963,746,758	99.1		
Total	716			30,383,203,522	100.0	1020			39,335,831,001	100.0		29.5

Source: State Statistics Office

Analysis of the import according to the economic purpose in the first five months of 2005 shows upward tendency in the import of raw materials and intermediate materials, reaching 22.8% in relation to the same

The import is significantly bigger than the export with those countries with which we have free trade agreements, such as Bulgaria, Turkey, Romania and Ukraine. Deficit in the foreign trade with these four

FOREIGN TRADE of the Republic of Macedonia
(by currency)

trade balance	I - V 2004					I - V 2005					absolute change in currency value	relative change in currency value (in %)
	currency	000 t	amount of balance in currency	average Denar exch. rate in relation to currencies	balance in Denar	structure in %	000 t	amount of balance in currency	average Denar exch. rate in relation to currencies	balance in Denar		
EUR	-268	-280,218,410	61.2850	-17,173,185,232	73.3	-210	-240,551,432	61.4031	-14,770,603,624	67.8	39,666,978	-14.2
USD	-599	-119,449,731	49.8441	-5,953,864,346	25.4	-474	-146,361,712	47.2330	-6,913,102,747	31.7	-26,911,981	22.5
EUR+USD	-867			-23,127,049,577	98.8	-684			-21,683,706,372	99.5		
Deficit	-869			-23,417,629,786	100.0	-686			-21,796,895,778	100.0		-6.9

Source: State Statistics Office

countries only is US\$ 170 million, around 37% of the trade deficit in the country in the period January-May 2005.

2. The analysis of the foreign trade currency structure of the Republic Of Macedonia in the first five months of 2005 shows great rise in exports in Euros by over EUR 114 million, i.e. 30.8%, while the import grew by EUR 74.4 million, i.e. 11.4%.

At the same time, the trade in US dollars notes significant rise both on the export side, by around US\$ 50.3 million or 34.6%, and on the import side, by US\$ 77,2 million or 29.2%, initiated by the still low US dollar.

In the analyzed period, the export of goods in the Republic of Macedonia expressed in denar equivalent grew by 29.5%. If the US dollar share of the export for the first five months of 2005 is reduced to the average US dollar exchange rate realized during the same period of 2004, loss in export could be observed by around US\$ 10.2 million (calculated according to the same foreign exchange rate).

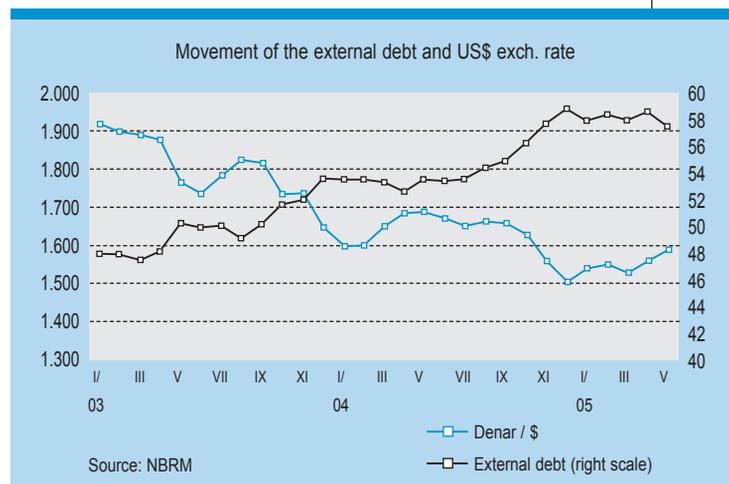
The total import of goods in denar equivalent in the analyzed period grew by 13.6%.

The balance of the foreign trade is lower than the one in 2004. Thus, part of the deficit in euros declined by around EUR 40 million (or by 14.2%), and the US\$ part of the deficit by around US\$ 27 million (or by 22.5%).

Respectively, the total denar amount of trade deficit declined by Denar 1.6 billion, i.e. 6.9%.

2.2. External Debt

At end-May 2005, the external debt of the Republic of Macedonia reached US\$ 1.908 million, and compared to the previous month declined by US\$ 42 million. The monthly decline the external debt was affected mostly by the positive exchange rate differences resulting from the higher value of the US\$ on the world stock markets.



From the aspect of the currency structure of debt (refers only to the principal of the debt), the euro remains the most used currency with a share of 43.4%, followed by the US\$ with 31.4%, and the SDRs with 23.3%. Other currencies have almost insignificant share in the structure of the principal of the external debt.

In May 2005, resources used by residents on the basis of approved credits were US\$ 7.7 million and in relation to the previous month, when they were US\$ 28 million, have dramatically declined. Out of these US\$ 3.5 million are from multilateral creditors, those being EBRD, IDA and IFAD. US\$ 3.6 million were disbursed from private creditors, mostly private banks and financial institutions.

In the same month new credits were concluded in the amount of US\$ 0.8 million, all with private creditors, being the lowest amount since beginning of the year. Servicing of the liabilities towards abroad are regular and timely, whereby in May this year US\$ 7.1 million were repaid (US\$ 5.5 million principal). US\$ 3.9 million were paid to multilateral creditors and US\$ 1.2 million to private creditors.

The non-timely submission of data on the payments from the persons authorized to report on credit operations from the private sector was one of the main reasons for the due unpaid liabilities which in May 2005 amounted to US\$ 1.3 million.

According to the repayment schedule of the National Bank of the Republic of Macedonia in the period July - December 2005, liabilities towards abroad in

the amount of US\$ 138.4 million fall due, US\$ 104.4 million out of which as principal.

Regarding short-term external debt, at end-May it was US\$ 76.1 million. In May this year short-term credits were used in the amount of US\$ 4.4 million, and liabilities towards abroad in the amount of US\$ 6.7 million were repaid.

3. FISCAL SECTOR

In the first five months of 2005, the total Central government budget revenues reached an amount of Denar 22.942 million, being 2.7% decline in relation to the same period last year. Tax revenues in the period January-May 2005 are almost identical as in the previous year (tax revenues grew by 0.2%), meaning that lower total revenues are result of the decline in non-tax revenues, i.e. revenues from profits of public financial institutions and administrative fees.

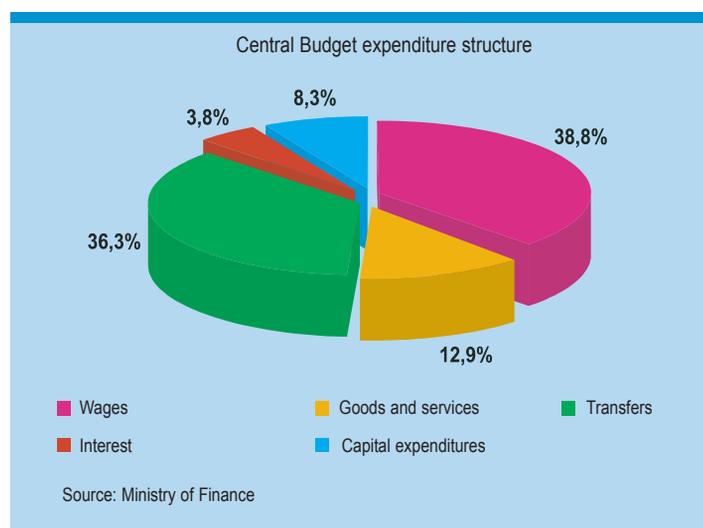
The share of VAT in total taxes in the first five months of 2005 was 48.6%, i.e. the share of VAT and excises reached 67.9%. On the basis of value added tax Denar 10.492 million were collected as revenues, which is decline by 2.3% (Denar 243 million) in relation to the same period in 2004. Revenues grew in the second category of indirect taxes, i.e. excise, where in the first five months of the year Denar 179 million more were collected, or 4.5% (excise revenues reached Denar 4.169 million.)

In the period January-May there was a decline of revenues on the basis of customs by 11.7%, mainly as a result of the reduction of the customs tariffs pursuant

to the WTO Accession Agreement, as well as the free trade agreements. Revenues from import fees in this period were Denar 1.945 million.

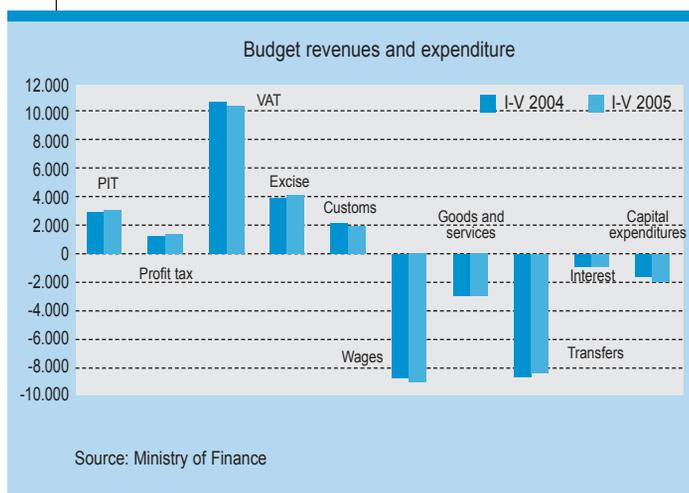
There is an upward trend on annual level also in direct taxes, i.e. revenues from personal income tax and profit tax compared to 2004. Thus, personal income tax revenues reached the amount of Denar 3.182 million, i.e. by Denar 148 million or 2.8% more in relation to the same period last year. At the same time, revenues from profit tax in the first five months were Denar 1.497 million, which, compared to revenues in the same period in 2004 is growth by 16.1%.

On the expenditure side, in the first five months of 2005, the total central government budget expenditures amounted to Denar 23.187 million, which is by 2.7% higher in relation to the same period last year,



i.e. the total central budget expenditures are by Denar 608 million higher. Thereby, expenditures for goods and services were executed in the amount of Denar 2.983 million being almost equal as in the same period in 2004.

With respect to the total expenditures in the central government budget, expenditures related to wages and salaries and allowances in this period account for 38.8%. Resources for wages and salaries and allowances were increased by 4% in relation to the same period last year. This increase is a result of the increase of the salary expenditures as a result of the continuation with the application of the so-called civil service salary decompression.



With regard to transfers (share of 36,3% in the total central budget expenditures) in this period Denar 8.416 million was spent, 1.7% less than in 2004. Transfers to the Pension and Disability Insurance Fund were Denar 3.370 million or by Denar 54 million higher in relation to the same period last year.

A specific of this period is the timely and regular execution of projected capital expenditures, which in this period reached Denar 1.918 million (capital expenditures in the budget were Denar 5.739 million). Compared to the same period last year, this is by 27.9%, i.e. by Denar 418 million higher.

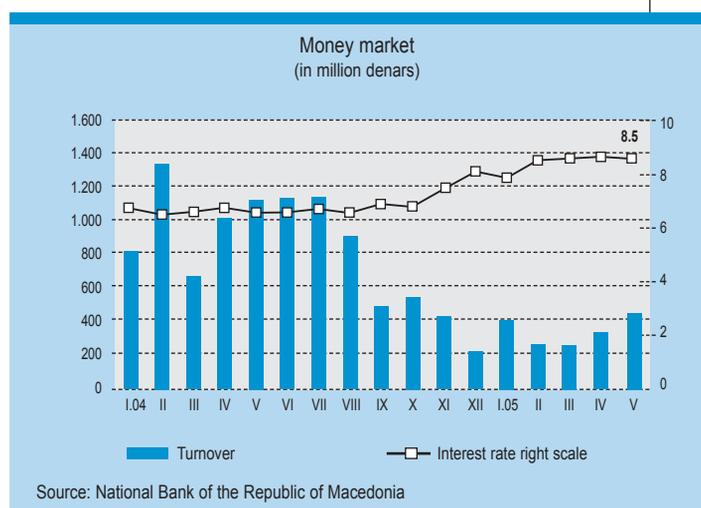
Such trends in the fiscal area in the first five months of the year resulted in Central government budget deficit of Denar 245 million. In the same period last year, the central budget balance showed surplus of Denar 1.003 million.

4. MONETARY SECTOR

In May 2005, the monetary policy was conducted in an environment of higher banking sector liquidity, lower interest among banks for investment in central bank bills due to favorable trends on the foreign exchange market, as well as lower budget expenditures.

Daily liquidity of banking system at end-May was Denar 10,160 million, meaning 18% monthly rise. The liquidity growth is due to the favorable trends on the foreign exchange market (in direction of net redemption of foreign currency), as well as the reduced interest for underwriting central bank bills, whereby the two components of liquidity declined: cash in hand and on the NBRM accounts.

In May 2005, autonomous factors (excluding government deposits) created liquidity in the banking system. Liquidity was created on the basis of the net redemption of foreign currency on the foreign exchange market by NBRM, as well as on the basis of decline of cash in circulation in May by 7.8% in relation to April. Liquidity was also created via the auctions of central bank bills the monthly level of which was by 8.3% lower and amounted Denar 4,937 million at end-May. Net domestic assets contributed to reduction of liquidity, contrary to the central bank bills.



On the institutional money market in May 2005 the activities were more intensive in relation to previous month. The total turnover grew by 35% and reached Denar 452 million. Since the money demand was higher than the supply by Denar 44 million, the interest rate reached was 8.51%, which is insignificant decline in relation to the previous month.

At end-May 2005, in relation to the previous month, primary money were by 2% higher, above all, resulting from the growth on the bank accounts with the NBRM by 19.5%, and the decline of cash in circulation by 7.8%. Despite the significant growth of deposit money, ?1 monetary aggregate declined by 0.5% determined by the lower demand for cash in circulation. Broader monetary aggregates ?2 and ?4 grew monthly almost identically by 1% and 1.4% respectively, mainly determined by the higher level of short-term time deposits.

Total deposit potential of banks on monthly basis grew by 2.1%, and on annual basis by 26% and amounted to Denar 74,815 million. Thereby the growth of the deposit potential was more intensive in Denar deposits, which was by 3.8%, while foreign currency deposits grew by 1%. At the same time, short-

monthly change in million of denars)	I.05	II.05	III.05	IV.05	V.05
Withdrawal of primary money	0	-1624	-497	0	-533
Net foreign assets					
Net domestic assets		704	-200		-533
CB bills		-2328	-297		
Creation of primary money	1555	834	396	1021	977
Net foreign assets	85	834	396	408	528
Net domestic assets	327			-35	
CB bills	1143			648	449
Net effect	1555	-790	-101	1021	444

Source: National Bank of the Republic of Macedonia

SHORT-TERM ECONOMIC TRENDS

Monetary aggregate and their components	I.05	II.05	III.05	IV.05	V.05
Currency in circulation	13364	13362	13207	14191	13086
Deposit money	13220	13644	13741	12920	13907
M1	26584	27006	26948	27111	26993
Short-term deposits-denar	20968	21948	23336	24517	25593
M2-denars	90063	91613	92779	95813	96768
Short-term deposits - foreign currency	42490	42659	42495	44185	44182
M2	90063	91613	92779	95813	96768
Non-monetary deposit	4792	4598	4644	4604	5040
Denars	3031	3074	3111	3107	3075
Foreign currency	1761	1524	1533	1497	1965
M4	94855	96211	97423	100417	101808

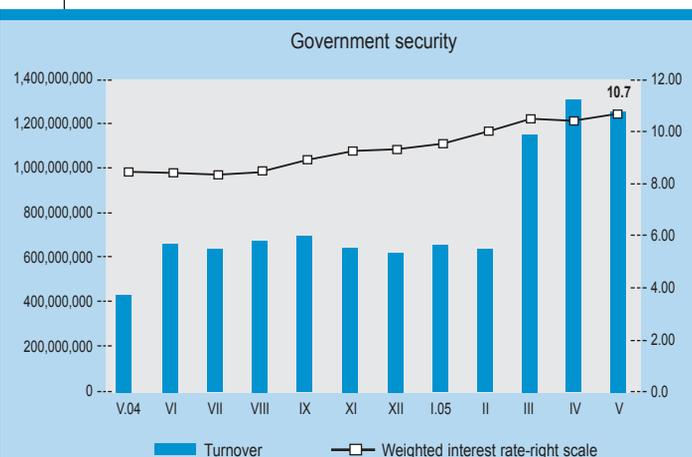
Source: National Bank of the Republic of Macedonia

Deposit potential and credit to private sector	in million denars	monthly	annual
		changes	changes
Deposit potential	74815	2.1	26.3
Denars	28668	3.8	39.4
Foreign currency	46147	1.0	19.3
Credit to private sektor	62213	0.7	24.2
Denars	48163	-0.2	13.8
Foreign currency	14050	4.2	81.2

Source: National Bank of the Republic of Macedonia

term deposits grew by 1.6%, while long-term deposits by 9.5%, being the largest growth in four years.

In May 2005 3 auctions of T-bills were held, whereby, two for three-month T-bills and one for six-month T-bills. The total offered amount was Denar 1,295 million, total demand was Denar 1,336 million, while the average weighted interest rate in May was 10.75%.



Source: National Bank of the Republic of Macedonia



Source: National Bank of the Republic of Macedonia

Gross foreign exchange reserves of the National Bank of the Republic of Macedonia in May grew by Denar 18 million or 2%. Foreign exchange reserve growth was mainly determined by positive trends on the foreign exchange market.

In the first five months of 2005, the Employment Agency registered 51,019 employments, 57% out of which are full time. Total number of new employed persons in the period January-May 2005 grew by 18% in relation to the same period last year, and in May 2005 only 37% more persons were employed compared to May 2004.

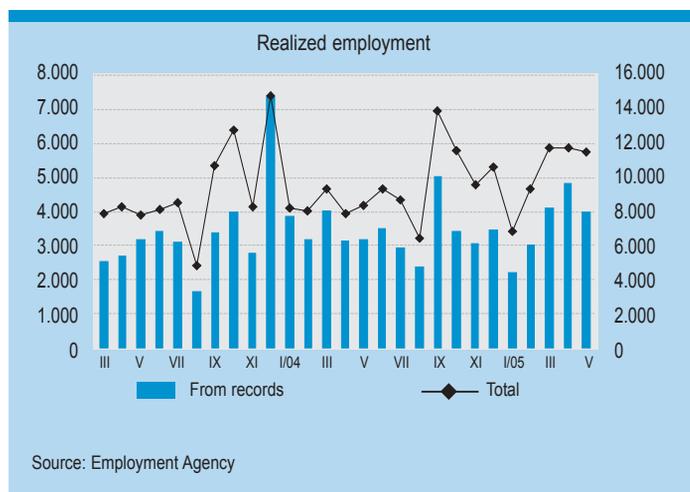
Out of the total number of employments in May 2005, 36% are from the records of the Employment Agency, i.e. they are registered unemployed persons, while the remaining are directly from the previously inactive population defined as population that has not previously sought job via the Agency.³

Positive trend from the aspect of more equal regional development is the smaller share of employments in the city of Skopje in the total number of employments by 3 percentage points, followed by absolute and relative growth of employment in the towns throughout the country. In addition to Skopje, Bitola, Ohrid, Strumica, Gevgelija, Tetovo, Stip and Prilep have significant share in the total number of employments.

3) This definition differs from the definition of the International Labour Organisation, where a person is considered inactive if he/she does not seek job via any method. In addition to the Employment Agency other job-seeking methods are direct contacts with employers, reading job advertisements, informal methods (cousins or friends), posting advertisements etc. ILO-definition is fully applied in the Labour Force Survey (LFS), conducted quarterly.

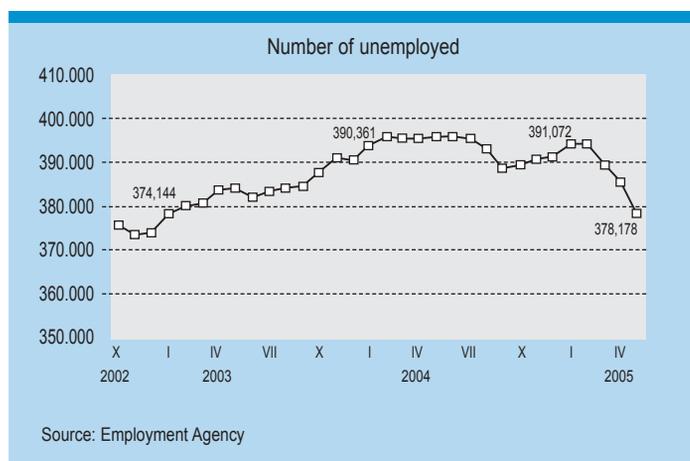
5.2. Unemployment

The number of registered unemployed persons in May 2005 was 378.145 persons, meaning continuation of the declining trend of the registered unemploy-



ment. On annual basis the number of unemployed declined by 17.515 persons or 4,4%, while in relation to April, the decline is by 1.9%.

The decline in the registered unemployment in May is a result of the lower inflow of unemployed persons, and higher outflow from the Agency register. Regarding the inflow, the number of persons reported as unemployed for the first time in May 2005 declined by

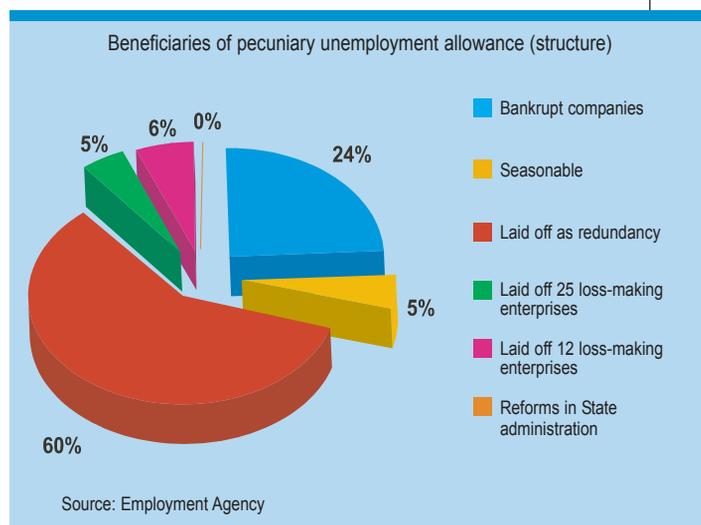


31% in relation to April, while the number of laid-off persons declined by 12%. Around 40% of the outflow of unemployed persons refers to persons who failed to register at the Employment Agency within the set deadline, 32% found job, and around 7% are registered unemployed that established their own enterprise.

5.3. Beneficiaries of unemployment benefit and right to health insurance

Number of beneficiaries of pecuniary unemployment allowance in May 2005 was 43.968 persons, i.e. 11,6% of the registered unemployed persons. In relation to the previous month, the number of beneficiaries of pecuniary allowance declined by 0.7%, and in relation to May 2004 it declined by 14.6%. Most of the beneficiaries are redundant persons (60%), persons from bankrupt enterprises (24%) and redundant persons from loss-making companies (11%).

Out of the total number of registered unemployed persons, around 67% used free health insurance from the Employment Agency in May 2005 and is at the same level as in the previous month. Despite the unchanged share in the total unemployment, the number of beneficiaries of this benefit declined in absolute



terms in accordance with the declined unemployment in this month. Thereby the number of health insurance beneficiaries declined by 1.9% in relation to the previous month, and on annual basis it grew by 1.8%.

5.4. Beneficiaries of Pensions and Welfare

According to the last available data from the PDF, in May 259.985 pensioners were registered, meaning monthly decline by 1.462 persons, i.e. 1% less than the previous month. This decline is due the fact that documents were not submitted by the pension beneficiaries. Compared to May 2004, this number is higher by 6.304 persons, i.e. 1.4%.

Total number of pensioners (by months)



Source: Pension and Disability Insurance Fund of Macedonia

Regarding the level of the average pension, no greater changes were registered in the last months, whereby in May 2005 the average pension was Denar 7,439, i.e. at the level of the previous month, and on annual level, there are no major changes as well. This month, Denar 1,880 million were spent for payment of pensions. Thereby, the ratio between the average pension in May⁴ and the average net paid salary in April 2004 was 60.1%.

The last data from the Ministry of Labour and Social Policy show that in April 2005, Denar 134.4 million were paid as welfare to 63.442 households. On monthly basis, the number of registered welfare ben-

Total number of welfare beneficiaries



Source: Ministry of Labour and Social Policy

eficiaries declined by 6.225 persons, or 9%, while on annual basis, their number declined by 1.1%. This decline is due to the existing need to restore the documentation necessary to exercise this right, as well as due to the greater survey in every household several times in the year.

No greater deviations in the number of beneficiaries of permanent pecuniary allowance on monthly basis were registered, i.e. their number declined by 353 persons, while with respect to the beneficiaries of social welfare on the basis of third-person care, the number of applicants for this right continuously grows and it is 20.758 persons. To the end of proper classification of the beneficiaries in need of this right, regular controls were introduced by professional persons in social work centers.

5.5. Average Net Salary

Average net salary per employee in the Republic of Macedonia in April 2005³, was Denar 12.238 and in relation to the previous month declined in nominal and real terms by 1.4%, i.e. 1.3% respectively. Analyzed by sectors, monthly decline in salaries was registered in the agriculture and industry, while slight decline by only 0.4% was registered in services. The highest monthly increase of the average paid net salary was registered in the activity named "Growing and usage of forests" (34.1%).

On annual level, the nominal and real average salary grew by 1, i.e. 0.4 percentage points respectively.

Average Net Salary (annual changes, %)



Source: State Statistics Office

In April 2005, 17.7% of the employees in the Republic of Macedonia did not receive salary for the respective month, which in relation to the previous month is a decline by 0.7 percentage points of the number non-paid employees.

4) Comparison is made with the average salary from the previous month since the data on salaries are published with one-month lag.

EXTERNAL DEBT OF THE REPUBLIC OF MACEDONIA

At end-May 2005, the external debt of the Republic of Macedonia reached US\$ 1.908 million, and compared to the previous month declined by US\$ 42 million. The monthly decline the external debt was affected mostly by the negative exchange rate differences resulting from the higher value of the US\$ on the world stock markets. In euros, the external debt of the Republic of Macedonia as of 31.05.2005 reached EUR 1.530 million, being monthly increase of EUR 27 million.

The structure of the external debt continues to be unchanged, whereby more than half of the debt (53.1%) is towards multilateral creditors. Private creditors comprise 35%, while the bilateral creditors comprise 11,8%. Largest individual creditors are IDA with US\$ 370,4 million and the London Club of Creditors with US\$ 227,6 million.

From the aspect of the currency structure of debt (refers only to the principal of the debt), the euro remains the most used currency with a share of 43,4%, followed by the US\$ with 31%, and the SDRs with 23,6%. Other currencies have almost insignificant share in the structure of the principal of the external debt.

On the basis of approved credits in May, residents used US\$ 7.7 million, which compared to the previous month when US\$ 28 million were used, is a sharp decline. Out of

these US\$ 3.5 million are from multilateral creditors, those being EBRD, IDA and IFAD. US\$ 3.6 million were disbursed from private creditors, mostly private banks and financial institutions.

Servicing of the liabilities towards abroad are regular and timely, whereby in May this year US\$ 7.1 million were repaid (US\$ 5.5 million principal). US\$ 3.9 million were paid to multilateral creditors and US\$ 1.2 million to private creditors.

The non-timely submission of data on the payments from the persons authorized to report on credit operations from the private sector was one of the main reasons for the due unpaid liabilities which in May 2005 amounted to US\$ 1.3 million.

In the fifth month new credits were concluded in the amount of US\$ 0.8 million, all with private creditors, being the lowest amount since beginning of the year.

By the end of the year, (June-December 2005), according to the NBRM repayment schedule liabilities towards foreign creditors in the amount of US\$ 138.4 million fall due, US\$ 104.4 million out of which as principal.

Regarding short-term external debt, at end-May it was US\$ 76.1 million. In May this year short-term credits were used in the amount of US\$ 4,4 million, and liabilities towards abroad in the amount of US\$ 6,7 million were repaid.

EXTERNAL DEBT OF THE REPUBLIC OF MACEDONIA ¹

(In million of US dollars)

	12/31/2000	12/31/2001	12/31/2002	12/31/2003	12/31/2004	1/31/2005	2/28/2005	3/31/2005	4/30/2005	5/31/2005
Official creditors	1,033	980	1,048	1,198	1,313	1,269	1,286	1,270	1,274	1,239
Multilateral creditors	716	688	756	926	1,062	1,034	1,050	1,041	1,043	1,013
IMF	82	71	67	68	62	61	62	61	59	55
IBRD	123	124	145	181	224	216	216	215	215	210
IFC	57	33	18	20	9	9	9	8	7	7
IDA	250	255	295	358	388	381	384	378	379	370
EIB	67	75	102	116	148	142	143	143	140	135
EUROFIMA	17	14	12	8	8	8	8	8	8	8
CEDB	7	6	14	17	23	22	22	22	22	21
EBRD	72	61	32	36	65	67	75	78	84	82
EU	37	44	65	112	122	117	118	116	117	112
IFAD	3	4	5	7	10	11	11	11	11	12
EAR	1	1	0	2	1	1	1	1	0	0
Bilateral creditors	316	292	292	272	252	235	236	230	231	226
Commercial creditors	405	464	501	572	644	655	654	657	676	669
London club	253	262	254	234	233	228	228	228	228	228
Others	152	202	247	328	412	427	427	429	449	441
Banks and financial institutions	32	143	181	211	250	253	251	253	253	250
Enterprises	120	59	66	117	162	175	176	176	196	192
TOTAL	1,438	1,444	1,549	1,770	1,957	1,925	1,940	1,927	1,950	1,908

Source: State Statistics Office

1) Long - term and medium debt

TOTAL EXTERNAL DEBT PER DEBTORS *

in million US dollars

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total external debt	1,118	1,139	1,437	1,490	1,489	1,506	1,635	1,813	2,029
Public sector	1,012	1,007	1,222	1,305	1,330	1,222	1,321	1,487	1,603
Government	774	775	890	975	1,066	1,052	1,135	1,257	1,350
Government (Government liabilities)	766	767	864	932	1,018	1,010	1,095	1,215	1,308
Road fund			18	33	48	42	40	41	42
Health fund	1	1	1	3	0	0	0	0	0
Others	7	7	7	7	0	0	0	0	0
NBM	80	99	114	113	96	71	67	68	63
Public enterprises	158	133	218	217	168	99	119	162	190
Private sector	106	132	215	185	159	284	314	325	427
Banks	84	92	110	93	66	97	110	86	74
Enterprises	22	40	105	92	93	187	204	240	353

Source: State Statistics Office

* Short, medium and long - term debt

EXTERNAL DEBT - PER CREDITORS

in million US dollars

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total (Medium and long-term debt)	1,062	1,123	1,141	1,380	1,438	1,436	1,444	1,549	1,770	1,957
Multilateral creditors	399	468	490	687	714	715	688	756	926	1,061
IMF	69	80	103	114	113	82	71	67	68	62
IBRD / IDA	178	206	237	296	339	373	379	441	539	612
IFC	5	2	0	56	57	57	33	18	20	9
EIB	82	76	37	54	68	67	75	102	116	148
EBRD	15	69	83	90	72	72	62	32	37	65
EUROFIMA	40	29	25	23	17	17	14	12	8	8
Council of Europ. Develop. Bank	10	6	5	5	5	7	6	14	17	23
EU				48	41	37	44	65	112	122
IFAD				1	2	3	4	5	7	10
Bilateral creditors	412	402	377	289	317	316	292	292	272	252
Private creditors	251	253	274	404	407	405	464	501	572	644
Commercial banks	229	229	241	243	250	253	262	254	243	232
Others	22	24	33	161	157	152	202	247	329	412
Total (without IMF)	993	1,043	1,038	1,266	1,325	1,335	1,373	1,482	1,702	1,895
Short-term debt				60	55	52	63	64	42	71

Source: National Bank of the Republic of Macedonia

REPAYMENT OF DEBT PER CREDITORS

(January - May 2005)

(in million USD dollars)	Total	Principal	Interest
Total (principal and interest)	85,4	63,8	21,6
Official creditors	53,2	40,6	12,6
Multilateral creditors	31,0	22,1	8,9
IMF	5,1	4,6	0,5
IBRD	6,0	4,0	2,0
IFC	1,9	1,7	0,2
IDA	1,7	0,6	1,1
EIB	7,3	4,7	2,6
EUROFIMA	0,0	0,0	0,0
CEDB	0,2	0,0	0,2
EBRD	7,5	6,2	1,3
EU	0,9	0,0	0,9
IFAD	0,0	0,0	0,0
EAR	0,3	0,3	0,0
Bilateral creditors	22,2	18,5	3,7
Reschedule 1995	14,2	11,5	2,7
Unrescheduled debt	/	/	/
Reschedule 2000	4,8	4,6	0,2
New credits	3,2	2,4	0,8
Private creditors	32,2	23,2	9,0
London club	8,4	5,2	3,2
Others	23,9	18,0	5,9
Banks and financial institutions	14,6	10,6	4,0
Enterprises	9,3	7,4	1,9

Source: National Bank of the Republic of Macedonia

EXTERNAL DEBT BY FOREIGN EXCHANGE STRUCTURE

(principal only)

Currency	12/31/2004	1/31/2005	2/28/2005	3/31/2005	4/30/2005	5/31/2005
DKK	6,264,755	5,783,201	5,783,201	5,783,201	5,783,201	5,783,201
in USD	1,145,800	1,012,968	1,023,085	1,004,818	1,006,351	777,030
%	0,06	0,05	0,05	0,05	0,05	0,05
JPY	297,582,450	289,148,252	289,148,252	261,980,284	262,601,308	302,227,634
in USD	2,870,533	2,798,311.00	2,743,724	2,437,148	2,497,447	2,244,045
%	0,15	0,15	0,14	0,13	0,13	0,15
SEK	5,308,682	5,037,906	5,037,906	4,144,892	4,144,892	4,144,892
in USD	801,058	722,631	731,053	587,433	584,994	451,671
%	0,04	0,04	0,04	0,03	0,03	0,03
CNF	38,124,204	38,753,310	38,753,310	38,244,435	38,166,945	38,166,945
in USD	33,590,802	32,672,495	33,073,240	31,908,550	32,166,583	24,708,322
%	1,74	1,74	1,73	1,68	1,69	1,64
GBR	1,050,618	987,382	985,754	968,879	965,284	963,616
in USD	2,016,452	1,858,425	1,881,338	1,822,933	1,846,079	1,406,841
%	0,10	0,10	0,10	0,10	0,10	0,09
USD	607,905,524	594,860,852	598,704,521	593,314,602	588,808,133	590,568,882
in USD	607,905,524	594,860,852	598,704,521	593,314,602	588,808,133	473,515,529
%	31,47	31,61	31,38	31,23	30,95	31,42
EUR	604,626,427	610,598,810	317,754,239	632,129,170	637,362,416	653,366,319
in USD	822,534,287	795,914,810	813,274,241	818,164,146	825,830,369	653,366,319
%	42,58	42,29	42,63	43,07	43,42	43,36
SDR	296,835,757	297,963,905	297,740,170	298,001,253	297,334,872	296,253,429
in USD	460,988,020	451,963,905	456,134,580	450,227,952	449,303,796	350,350,757
%	23,86	24,02	23,91	23,70	23,62	23,25
AUD	131,685	131,685	131,685	131,685	131,685	131,685
in USD	102,141	101,889	103,046	101,513	103,003	80,365
%	0,01	0,01	0,01	0,01	0,01	0,01
Total	1,931,954,617	1,881,906,288	1,907,668,829	1,899,569,095	1,902,146,755	1,506,900,879

SERVICING OF THE LIABILITIES (principal and interest)

(In million of US dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
PER CREDITORS										
PRINCIPAL	33	47	53	86	103	111	144	184	186	196
MULTILATERAL CREDITORS	29	29	27	29	43	49	66	82	53	55
IMF	1	1	0	2	17	19	8	9	22	20
IBRD / IDA	19	15	6	6	0	6	4	6	8	12
IFC	8	3	1	0	3	3	27	20	3	5
EIB	0	2	8	2	3	3	3	3	6	9
EBRD	0	1	8	14	15	15	19	38	9	8
EUROFIMA	0	7	2	5	4	1	4	4	5	0
COUNCIL OF EUROP. DEVELOP. BANK	0	0	1	1	1	1	1	1	0	0
EU	0	0	0	0	1	0	0	0	0	0
IFAD	0	0	0	0	0	0	0	0	0	0
BILATERAL CREDITORS	0	13	18	30	13	15	44	35	43	47
PARIS CLUB	0	0	17	26	11	11	28	29	36	/
TAIWAN	0	0	0	0	0	0	10	0	0	/
OTHERS	0	0	1	4	3	3	6	6	7	/
COMMERCIAL CREDITORS	4	5	9	27	46	48	34	66	85	95
LONDON CLUB	0	0	0	0	0	0	0	8	10	10
OTHERS	4	5	9	27	46	48	34	59	75	84
INTEREST	13	32	72	57	52	54	60	51	50	45
MULTILATERAL CREDITORS	12	18	43	0	26	27	27	23	21	21
IMF	2	3	3	3	3	3	2	1	1	1
IBRD / IDA	8	7	6	5	8	9	10	9	9	9
IFC	1	1	0	0	5	5	4	2	1	1
EIB	0	4	28	3	4	3	4	4	5	5
EBRD	0	2	4	5	4	5	5	4	2	2
EUROFIMA	0	1	1	1	1	1	1	1	1	0
COUNCIL OF EUROP. DEVELOP. BANK	0	0	0	0	0	0	0	0	1	1
EU	0	0	0	2	1	1	2	2	2	2
IFAD	0	0	0	0	0	0	0	0	0	0
BILATERALN CREDITORS	0	13	28	21	8	8	17	13	13	0
PARIS CLUB	0	0	27	20	8	7	15	11	11	/
TAIWAN	0	0	0	0	0	1	1	1	0	/
OTHERS	0	0	1	1	1	1	2	1	2	/
COMMERCIAL CREDITORS	1	1	1	16	17	18	16	15	16	16
LONDON CLUB	0	0	0	10	9	9	10	10	6	5
OTHERS	1	1	1	6	9	9	6	5	10	11
TOTAL (PRINCIPAL AND INTEREST)	47	79	125	143	155	165	205	235	237	241
PER DEBTORS										
PRINCIPAL	0	47	53	86	103	111	142	181	186	
GOVERNMENT		8	8	19	18	17	50	50	67	
EXTRA BUDGETARY FUNDS		0	0	0	0	4	5	5	4	
OTHERS		40	45	68	85	90	87	126	116	
INTEREST	0	32	72	57	52	54	60	51	50	
GOVERNMENT		15	30	37	26	27	39	35	32	
EXTRA BUDGETARY FUNDS		0	0	0	0	4	4	3	3	
OTHERS		17	42	20	26	22	17	12	15	
TOTAL (PRINCIPAL AND INTEREST)	0	79	125	143	155	165	202	232	231	

Source: National Bank of the Republic of Macedonia

Total debt of the public sector in 2004 and the second quarter of 2005

INTRODUCTION

To the end of providing centralized approach, i.e. a concept of competences regarding public debt management at an institution, in March 2005 special unit was established in the Ministry of Finance - Public Debt Management Department. This institutional change means setting the function of public debt management at a respectively higher level, all this to the end of managing the public debt more efficiently and effectively to the end of optimizing the debt portfolio of the country.

Legal framework on the basis of which this function is to be carried out is the Law on Public Debt, adopted on 28th July 2005 (Official Gazette, no. 62/05). This law defines the following in more details: public debt management objectives, public debt bearers, public debt objectives, the procedure and the manners of borrowing, procedure of issuance, servicing and termination of sovereign guarantees, etc.

The basic objective of public debt management is undertaking measures and activities by the Ministry of Finance so as to ensure financing of the needs of the state with the lowest possible cost, on medium and long term at sustainable risk level. Additional objective of public debt management is development and maintenance of efficient domestic financial markets.

Pursuant to the Law on Public Debt, public debt comprises the government debt and all financial liabilities in the form of loan and securities created via borrowing by the municipalities and the city of Skopje, as well as borrowing by the public enterprises and companies being fully or predominantly owned by the state. Government debt comprises all financial liabilities in the form of loan or securities created via borrowing by the Republic of Macedonia.

The objective of this information is to summarize the data on the overall debt of the state, especially on the public sector debt and its analysis in the period 1999 - 2004 and the first and second quar-

ter of 2005, as well as clarification of the specificities of the municipal arrears.

Analysis of the data on the total public sector debt in this text will be carried out by applying the classification and the methodology set in the Government Financial Statistics Manual (GFS 2001 - IMF), and data will be presented for the first time pursuant to the Law on Public Debt.

According to the Government Financial Statistics Manual (GFS 2001), public sector of the state comprises two fundamental institutional sectors, incorporating many sub-sectors.

Fundamental sectors and their sub-sectors are the following:

- General Government comprising central government, state government and local governments; and
- Public Corporation, comprising the following sub-sectors:
 - Non-financial public corporations - all resident non - financial corporations controlled by the general government;
 - Financial public corporations, comprising:
 - Non-monetary financial corporations - all resident financial corporations, excluding the Central Bank and other public depositary companies, controlled by the general government;
 - Monetary financial corporations, excluding the Central Bank - all resident depositary corporations, except the Central Bank, controlled by the general government;
 - Central Bank - comprising the Central Bank, currency boards or independent currency authorities making issuance of national currency supported by the foreign exchange reserves, and other government agencies being special institutional units pursuing basic activities carried out by the Central Bank;

Hence, in accordance with the GFS methodology, public debt comprises the debt of the general government, i.e. debt of the central government,

public funds and municipalities, as well as the debt of the Central Bank and of the public enterprises.

Unlike the GFS methodology, public debt definition set out in the Law on Public Debt considers as public debt only the debt of the general government (central government, public funds and municipalities) and the debt of the public enterprises, while the debt of the Central Bank is not considered as public debt.

I. Total Debt of the Public Sector

Total public debt comprises liabilities on the basis of external and domestic borrowing of the public sector.

● *Total public debt calculated under the GFS methodology*

In the period 1999 - 2004, the overall amount of public sector debt moves inconsistently, with a progressive trend in 2000 and 2001, and showing a trend of continuous decline until 2003. The biggest increase of the overall public debt was experienced in 2000, when it grew by 62.8% in relation to 1999 and reached the level of EUR 2,234.09 million. Such rapid growth of public sector debt was due, above all, to increase of the domestic borrowing by the central government by issuance of two new structural bonds - Bond for old foreign exchange saving and Stopanska Banka privatization bond.

Total public sector debt as of December 31, 2004 was EUR 1,841.04 million, which meant insignificant increase by 0.47% in relation to 2003.

The share of public debt in the gross domestic product in 2004 was 43.76%, which, in relation to 2003, was a decline by 1.41 percentage point.

The share of the domestic and external debt in the total public debt in 2004 was 36.01% (EUR 662.95 million) and 63.99% (EUR 1,178.09 million) respectively. Compared to 2003, the share of domestic debt underwent a declining trend by 0.25%, while the share of the external debt increased by 0.25%.

The share of total public debt in the gross domestic product in the first quarter of 2005 was 44.65%, which, in relation to 2004, it increased by 0.89 percentage point.

The share of the domestic and external debt in the total public debt in the first quarter of 2005 was 36.82% (EUR 725.20 million) and 63.18% (EUR 1,244.27 million) respectively. Compared to 2004, share of the domestic debt registered an increase by 0.81 percentage point, while the external debt dropped by 0.81 percentage point.

● *Total public debt calculated according to the Law on Public Debt*

The total public debt calculated according to the Law on Public Debt underwent the same trend in the period 1999 - 2004 like the public debt calculated according to the GFS methodology. Since this calculation does not include the debt of the National Bank of the Republic of Macedonia, this points to the conclusion that central bank debt is not essential for the trend of the total public sector debt.

The share of the total public debt in the gross domestic product in 2004 was 40.91%, and in relation to 2003, it declined by 1.18 percentage points.

The share of the domestic and external public debt in 2004 was 34.22% and 65.78% respectively.

In the first quarter of 2005, total public debt mildly increased by EUR 100 million compared to December 2004, above all due to the greater amount of issued central bank bills and treasury bills. Total public debt in the second quarter, in relation to the first quarter, increased by EUR 28.32 million, and compared to December 2004, it increased by EUR 128.32 million, which was also due to the greater amount of issued central bank bills and treasury bills.

The following exchange rates were used in the calculation of the external and domestic debt:

- 1999 - 1EUR = 60.617; 1USD = 60.34;
- 2000 - 1EUR = 60.788; 1USD = 65.328;
- 2001 - 1EUR = 60.961; 1USD = 69.172;
- 2002 - 1EUR = 61.071; 1USD=58.598;
- 2003 - 1EUR = 61.293; 1USD = 49.05;
- 2004 - 1EUR = 61.441; 1USD = 45.94;
- 2005 - 1EUR=61.4229; 1USD=47.4565;

Total public sector debt according to the GFS methodology and the draft Public Debt Law

EUR million

	year								
	1999	2000	2001	2002	2003	2004	31.03.2005	31.05.2005	30.06.2005
EXTERNAL PUBLIC DEBT	1,289.59	1,443.01	1,394.95	1,267.64	1,178.90	1,178.09	1,189.35	1,207.58	1,244.27
General government debt	1,024.72	1,153.86	1,191.89	1,088.97	1,005.54	992.68	1,002.67	1,020.99	1,055.91
Central government debt	1,024.72	1,153.86	1,191.89	1,088.97	1,005.54	992.68	1,002.67	1,020.99	1,055.91
Central government	971.52	1,101.00	1,144.10	1,050.37	972.56	961.76	971.80	988.59	1,023.16
Public funds	53.20	52.86	47.79	38.60	32.98	30.92	30.87	32.40	32.75
Municipalities	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Central bank	101.24	102.94	80.32	64.66	54.70	45.97	47.01	44.03	43.89
Public enterprises	163.63	186.21	122.74	114.01	118.66	139.44	139.67	142.56	144.47
INTERNAL PUBLIC DEBT	113.62	791.08	733.31	675.66	670.78	662.95	751.80	716.54	725.20
General government debt	79.85	711.76	681.52	626.57	599.34	588.86	652.84	635.55	625.75
Central government debt	79.85	711.76	681.52	626.57	599.34	588.86	652.84	635.55	625.75
Structural bonds	79.85	711.76	681.52	626.57	599.34	557.74	613.60	580.77	569.72
Stopanska banka rehabilitation bond	58.73	53.57	48.08	42.66	37.19	31.80	31.80	26.52	26.52
Small bond	3.98	2.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Selective credit bond	17.14	17.09	17.04	17.01	16.95	16.91	16.91	16.91	16.91
Stopanska banka privatization bond	0.00	120.20	111.60	103.00	94.40	85.82	83.68	83.68	81.54
Old foreign exchange saving bond	0.00	518.90	504.80	462.40	409.90	357.69	357.69	332.14	332.14
Denationalization bonds (I, II, III and IV issue)	0.00	0.00	0.00	1.50	40.90	65.52	123.52	121.52	112.49
Continuous government securities	0.00	0.00	0.00	0.00	0.00	31.12	39.24	54.78	56.03
Municipalities	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Central bank	33.77	79.32	51.79	49.09	71.44	74.09	98.96	80.99	99.46
Public enterprises	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL PUBLIC DEBT*	1,403.2	12,234.09	2,128.26	1,943.30	1,849.68	1,841.04	1,941.15	1,924.12	1,969.47
Gross domestic product**	3,448.10	3,877.00	3,838.00	3,991.00	4,095.00	4,207.00	4,411.00	4,411.00	4,411.00
Average export	1,116.97	1,220.00	1,035.00	1,178.00	1,207.00	1,344.00	1,640.00	1,640.00	1,640.00
External public debt as % of the overall public debt	91.90	64.59	65.54	65.23	63.74	63.99	61.27	62.76	63.18
Internal public debt as % of the overall public debt	8.10	35.41	34.46	34.77	36.26	36.01	38.73	37.24	36.82
Total debt as % of average GDP	40.70	57.62	55.45	48.69	45.17	43.76	44.01	43.62	44.65
Total debt as % of average export	125.63	183.12	205.63	164.97	153.25	136.98	118.36	117.32	120.09
Total central government debt	1,104.57	1,865.62	1,873.41	1,715.54	1,604.88	1,581.54	1,655.51	1,656.54	1,681.66
Total external central budget debt as % of the total central budget debt	92.77	61.85	63.62	63.48	62.66	62.77	60.57	61.63	62.79
Total internal central budget debt as % of the total central budget debt	7.23	38.15	36.38	36.52	37.34	37.23	39.43	38.37	37.21
Total central budget debt as % of average GDP	32.03	48.12	48.81	42.99	39.19	37.59	37.53	37.55	38.12
Total central budget debt as % of average export	98.89	152.92	181.01	145.63	132.96	117.67	100.95	101.01	102.54
Total public debt calculated according to the draft Law on Public Debt	1,268.20	2,051.83	1,996.15	1,829.55	1,723.54	1,720.98	1,795.18	1,799.10	1,826.13
External public debt as % of the overall public debt	93.70	65.31	65.86	65.75	65.23	65.78	63.63	64.67	65.73
Internal public debt as % of the overall public debt	6.30	34.71	34.15	34.24	34.77	34.22	36.37	35.33	34.27
Total debt as % of average GDP	36.78	52.92	52.01	45.84	42.09	40.91	40.70	40.79	41.40
Total debt as % of average export	113.54	168.18	192.86	155.31	142.80	128.05	109.46	109.70	111.35

* When calculating the overall debt, middle exchange rate of the EUR and US\$ from the official exchange rate list of the NBRM at the end of the accounting period (end-year)

** When calculating GDP the middle exchange rate of EUR was used for the respective year

Source: Ministry of Finance and NBRM

II. Domestic public debt

Domestic public debt of the Republic of Macedonia according to the GFS methodology comprises:

1. Structural bonds
2. Continuous government securities;
3. Central bank bills;
4. Municipal debt and debt of public enterprises; and
5. Long-term credit of the National Bank which was paid by December 12, 2004 inclusive.

II.1. Structural bonds

The Republic of Macedonia by June 30, 2004 inclusive issued a total of six structural bonds:

- a) Bonds issued for carried out rehabilitation of Stopanska Banka a.d. Skopje (Big Bond);
- b) Selective credit bond;
- c) Bond for assumption of claims from Stopanska Banka a.d. Skopje for carried out privatization (New Bond);
- d) Old foreign exchange saving bonds;
- e) Denationalization bonds (I, II, III and IV issue); and
- f) Bond for assuming the remaining foreign exchange deposits (Small Bond).

Out of all these bonds, only the last one, the so-called Small Bond, is fully settled, while the others are still active.

a) Bonds issued for carried out rehabilitation of Stopanska Banka a.d. Skopje (Big Bond);

Pursuant to the Law on Rehabilitation and Restructuring of Part of the Banks in the Republic of Macedonia ("Official Gazette of RM", no. 14/95), the Asset Management Agency, on behalf of and for the account of the Republic of Macedonia, issued bonds for rehabilitation and restructuring of Stopanska Banka a.d. - Skopje in the total amount of Denar 6.000.000.000.

The repayment of the principal, pursuant to the Law, will be made within 15 years in equal annual installments, starting from April 1, 1996. The interest on the bonds is calculated at the level of the

discount rate of the National Bank and is paid monthly, starting from January 1, 1995. Repayment upon bonds is made with funds from the Budget of the Republic of Macedonia.

b) Selective credit bond

Pursuant to the Law on Rehabilitation and Restructuring of Part of the Banks in the Republic of Macedonia ("Official Gazette of RM", no. 14/95), the Asset Management Agency, on behalf of and for the account of the Republic of Macedonia, issued bonds for reimbursement of selective credits of the National Bank, cleared with the amount of the uncollectible claims at the Bank in the amount of up to Denar 1.039.000.000. No interest is calculated on the nominal bond amount. The repayment of the principal from Budget funds will be made on April 1, 2020.

c) Bond for assumption of claims of Stopanska Banka a.d. Skopje for carried out privatization (New Bond)

Liabilities under this bond are regulated by the Law on guaranteeing the investments of strategic investors and on assuming certain claims from the final beneficiaries by the Republic of Macedonia, in Stopanska Banka (Official Gazette of the RM, no. 81/99, 86/99, 25/00 and 108/00).

The reason for issuance of the bond was the privatization of Stopanska Banka a.d. Skopje, whereby this bond enabled assuming the claims from the group Makedonija Tabak AD Skopje, Jugohrim AD Jegunovce, Fenimak AD Skopje and KO-KO Godel AD Skopje, in the total amount of DM 235 million or in Denar equivalent, Denar 7.283 million (calculated according to the middle exchange rate list of the NBRM dated December 31, 1999).

Pursuant to the Law, the repayment of the nominal value and the interest coupons of the bonds will be made within 14 years in equal quarterly installments (i.e. 56 annuities), starting from March 31, 2001. Interest on the bonds is paid at the level of three-month EURIBOR + 1 percentage point.

d) Old foreign exchange saving bonds

These bonds were issued on the basis of the Law on the manner and the procedure of payment of the foreign exchange deposits of citizens guaranteed

by the Republic of Macedonia (Official Gazette of the RM, no. 32/00).

The nominal value of the bonds is repaid in 20 semi-annual installments, on April 1 and October 1. The first installment fell due on April 1, 2002 and the last payment falls due on October 1, 2011. Thus the total repayment period is 10 years. Interest in the amount of 2% p.a. is calculated on the nominal bond value, starting from May 1, 2000.

bonds, i.e. one during the year. The first issue was announced in 2002, and by 2005 inclusive, total of four issues were made, while in the next years, two additional issues of denationalization bonds are expected to be made. The nominal value of the bonds is repaid in ten annual installments and interest in the amount of 2% p.a. is calculated. They are registered and denominated in EUR currency.

Domestic debt - instruments and conditions of issue

EUR million

Price of issued bonds	Year of issue	Year of payment of the first installment	Year of payment of the last installment	Repayment period in years	Interest rate	Date of payment of principal	Date of payment of interest	Debt as of 31.12.2004 year	Debt as of 30.06.2005 year
Stopanska banka rehabilitation bonds	1996	1996	2010	15	at the level of the discount rate	1.IV	each month	31.80	26.52
Selective credit bond	1996	-	2020	25	interest-free	-	-	16.91	16.91
Old foreign exchange saving bonds	2000	1.IV 2002	1.X 2011	10	2% p.a.	1.IV i 1.X	1.IV and 1.X	357.69	332.14
Stopanska banka privatization bond	2001	31.III.2002	31.XII. 2004	14	Euribor + 1 percentage point	31.III, 30.VI 30.IX, and 31.XII	30.III, 30.VI 30.IX, and 31.XII	85.82	81.54
First issue of denationalization bonds	2002	1.VI 2003	1.VI 2012	10	2% p.a.	1.VI 2003	1.VI 2003	0.99	0.87
Second issue of denationalization bonds	2003	1.VI 2004	1.VI 2013	10	2% p.a.	1.VI 2004	1.VI 2004	27.80	25.01
Third issue of denationalization bonds	2004	1.VI 2005	1.VI 2014	10	2% p.a.	1.VI 2005	1.VI 2005	36.39	31.99
Fourth issue of denationalization bonds	2005	1.VI 2006	1.VI 2015	10	2% p.a.	1.VI 2006	1.VI 2006	0.00	54.74
TOTAL								557.4	569.72

1) The amounts until 31.12.2004 inclusive are calculated according to exchange rate EUR=61.441 denars

2) The amounts until 31.03.2005 inclusive are calculated according to exchange rate EUR=61.4229

Source: Ministry of Finance - Public Debt Management Department

e) Denationalization bonds

The Law on Issuance of Denationalization Bonds of the Republic of Macedonia ("Official Gazette of RM", no. 37/02) regulates the manner and the procedure for issuance of denationalization bonds. These bonds are issued as a compensation for the property seized for the benefit of the state in the period 1945 - 1990.

Pursuant to the Law, the Republic of Macedonia will make total of six issues of denationalization

Government debt on the basis of issued structural bonds by December 31, 2004 inclusive amounted to EUR 557.4 million, i.e. Denar 34,247.2 million.

In 2005, funds were envisaged to be paid for these bonds from the Budget of the Republic of Macedonia in the amount of Denar 5,182.79 million, Denar 4,400.00 million out of which on the basis of principal and Denar 782.79 million on the basis of interest.

In the first quarter of 2005, funds in the amount of Denar 203.9 million were paid for these bonds from

Total Debt

the Budget of the Republic of Macedonia on the basis of principal and interest. Majority of payments in this quarter referred to liabilities on the basis of interest and principal for the Stopanska Banka privatization bond (New Bond) for which funds in the total amount of Denar 173.51 million were paid, Denar 131.79 million out of which on the basis of

principal for the old foreign exchange saving bond in the amount of Denar 1,569.10 million, payment of principal for the Stopanska Banka rehabilitation bond in the amount of Denar 325.65 million and payment of principal for the bonds for carried out privatization of Stopanska Banka AD - Skopje in the amount of Denar 131.53 million.

Trading in structural bonds in 2004

Amounts are expressed in EUR

Structural bonds	2003			2004								
	As of 31.12.2002	traded value	liquidity ratio ³⁾	Q1		Q2		Q3		Q4		
				As of 31.12.2003	traded value	liquidity ratio	traded value	liquidity ratio	traded value	liquidity ratio	traded value	liquidity ratio
Old foreign exchange saving bonds	462,377,278.00	1,186,776.30	0.00	408,859,712.00	1,687,166.92	0.00	1,427,777.44	0.00	1,199,814.90	0.00	1,611,653.79	0.00
Denationalization bonds I issue	1,500,000.00	33,159.12	0.02	1,400,000.00	63,698.60	0.05	63,802.70	0.05	19,886.29	0.01	24,691.50	0.02
Denationalization bonds II issue	39,000,000.00	928,248.08	0.02	39,000,000.00	1,129,007.28	0.03	562,300.47	0.01	265,693.27	0.01	1,557,305.26	0.04
Denationalization bonds III issue	0.00	0.00	0.00	47,000,000.00	0.00	0.00	4,901,882.56	0.10	3,865,709.41	0.08	2,813,361.69	0.06

3) Relation between the condition and the traded value. Traded value is calculated according to exchange rate EUR=61.4 denars

Trading in structural bonds in 2005

Structural bonds	sostojba As of 31.12.2004	January/2005		February/2005		March/2005		April/2005		May/2005		June/2005	
		traded value	liquidity ratio										
Old foreign exchange saving bonds	357,685,138.00	200,937.44	0.00	293,443.34	0.00	432,912.58	0.00	434,195.84	0.00	279,073.51	0.00	389,211.45	0.00
Denationalization bonds I issue	990,000.00	692.58	0.00	10,679.26	0.01	11,311.90	0.01	-	-	-	-	5,136.97	0.01
Denationalization bonds II issue	28,000,000.00	132,265.55	0.01	159,246.91	0.01	97,377.35	0.00	318,248.24	0.01	30,955.89	0.00	70,140.35	0.00
Denationalization bonds III issue	36,390,000.00	626,377.72	0.02	751,782.61	0.02	794,389.58	0.02	490,863.98	0.01	166,636.91	0.00	189,239.20	0.01
Denationalization bonds IV issue	58,000,000.00	-	-	-	-	5,296,722.75	0.09	2,591,466.58	0.04	1,752,984.80	0.03	1,829,608.75	0.03

principal, and the remaining Denar 41.72 million on the basis of interest. The remaining payments in the total amount of Denar 30.39 million were repayments of liabilities on the basis of interest upon the Stopanska Banka rehabilitation bond.

In the second quarter, on the basis of principal and interest upon Stopanska Banka rehabilitation bond, old foreign exchange saving bond and bond for carried out privatization of Stopanska Banka AS - Skopje, funds in the amount of Denar 2,312.18 million were paid. Majority of payments in this quarter referred to liabilities on the basis of interest and

The remaining payments in the total amount of Denar 285.89 million were repayments of liabilities on the basis of interest upon the Stopanska Banka rehabilitation bond, old foreign exchange saving bond and bond for carried out privatization of Stopanska Banka AD - Skopje.

Liquidity of structural bonds

Structural bonds - bonds for old foreign exchange saving and denationalization bonds (I, II, III and IV issue) are listed on the Macedonian Securities Stock Exchange. Since these bonds have been

issued so as to settle certain liabilities of the state, their features do not match the needs of the potential investors, above all, due to the longer maturity periods, and also due to the decision of the owners not to sell them, therefore, these bonds are relatively non-liquid on the secondary securities market

The Table below shows movements of prices of bonds on the Macedonian Securities Stock Exchange in the period January - July 2005, whereby it can be concluded that the old foreign exchange saving bonds and the denationalization bond - II issue have the highest price that ranges

Traded price of structural bonds

	Jan-05		Feb-05		March-05		April-05		May-05		June-05		July-05	
	Max.	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.	Min.
Old foreign exchange saving bonds	76.00	75.00	76.10	75.60	77.00	74.50	76.80	73.10	74.20	73.50	75.00	74.10	75.10	74.50
Denationalization bonds I issue	69.00	75.00	71.50	70.00	71.00	70.00	-	-	-	-	69.00	68.50	-	-
Denationalization bonds II issue	70.10	69.00	71.00	69.00	71.00	68.00	75.00	71.00	74.00	71.60	70.00	67.50	68.20	67.50
Denationalization bonds III issue	69.60	68.50	70.00	68.50	71.00	67.20	74.00	69.40	74.00	70.20	68.00	66.00	67.00	65.00
Denationalization bonds IV issue						59.00	65.00	62.10	65.00	62.90	63.40	62.60	64.00	62.90

(Stock Exchange). One of the reasons for the small volume of trading in government securities on the Macedonian Securities Stock Exchange are the high transaction costs, i.e. broker fees, stock

around 70% of the nominal value, while the denationalization bond IV issue has the lowest price, ranging around 60% of the nominal value.

Ownership of structural bonds

Structural bonds	Banks		Other legal entities		Physical persons	
	amount in EUR	% of total issue	amount in EUR	% of total issue	amount in EUR	% of total issue
Denationalization bonds I issue	0	0.00	70,312.00	8.42	764,640.00	91.58
Denationalization bonds II issue	3,780,084.00	15.33	9,347,468.00	37.92	11,523,433.00	46.75
Denationalization bonds III issue	4,653,362.00	15.33	4,499,332.00	14.82	21,199,336.00	69.84
Denationalization bonds IV issue	3,582,629.00	6.99	7,718,502.00	15.07	39,922,435.00	77.94
Old foreign exchange saving bonds	13,967,507.91	4.65	2,079,068.54	0.70	284,192,512.62	94.65
Bond for carried out privatization of Stopanska banka	81,532,800.00	100	-	-	-	-
Stopanska Banka rehabilitation bond	26,560,201.79	100	-	-	-	-
Selective credit bond	16,948,461.34	100	-	-	-	-

exchange fees and the fee of the Central Securities Depository.

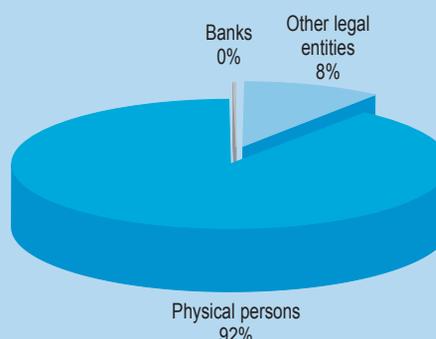
According to the liquidity ratio, the most liquid bond in 2004 was the denationalization bond - third issue, which compared to other bonds, had higher liquidity ratio.

Analyzing the situation in Q1 and Q2 of 2005, one can conclude that the most liquid bond was the denationalization bond, in particular the III and IV issue, which, compared to the other bonds, had higher liquidity ratio.

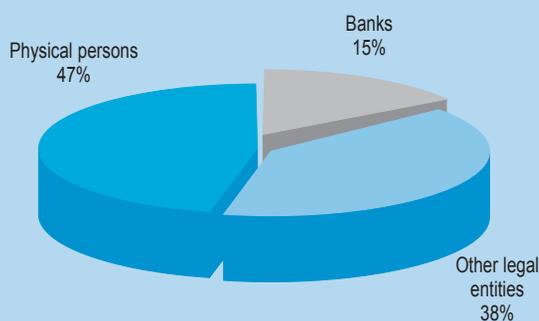
Ownership of structural bonds

Regarding the ownership of structural bonds, three of them - Stopanska Banka AD Skopje priva-

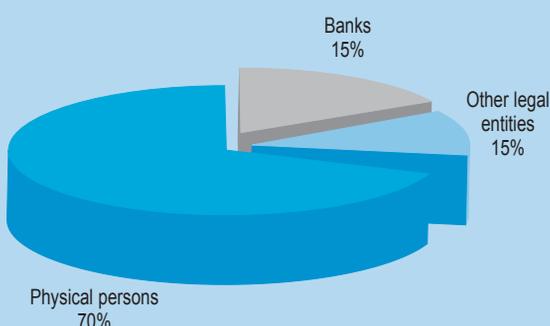
Denationalization Bonds - I issues



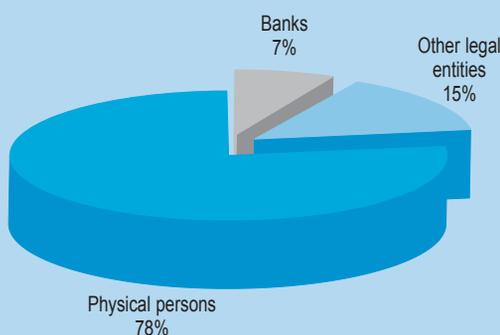
Denationalization Bonds - II issues



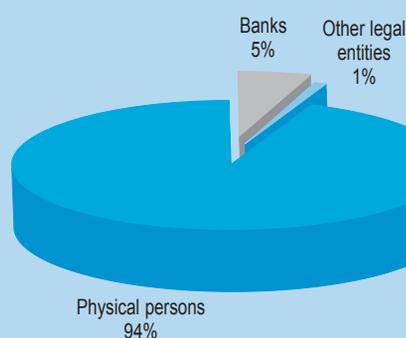
Denationalization Bonds - III issues



Denationalization Bonds - IV issues



Old foreign exchange saving bond



tization bond, selective credit bond and Stopanska Banka AD Skopje rehabilitation bond, 100% are owned by the banks, while with respect to the other bonds - the denationalization bond (I, II, III and IV issue), most of the owners of these bonds are physical persons and the percentage ranges from 50% to 90%, while the ownership of the banks and the other legal entities is smaller and ranges from 5% to 50%.

Ownership of bonds, i.e. the relation between the ownership of bonds among the banks, the other legal entities and the physical persons can be best seen in the charts below.

II.2. Continuous government securities - treasury bills

Issue of treasury bills started under the project for government securities market development. Regarding this project, in September 2003 already, the Government of the Republic of Macedonia adopted a Strategy for development of government securities market, and in January 2004, according to the Strategy and on the basis of a Decision by the Government on the issuance of treasury bills in 2004, it started issuing the first government securities. At the beginning, only 3-month treasury bills were issued, while in November the same year, 6-month treasury bills were introduced.

As a result of the success realized so far with respect to the issues of treasury bills, as well as the large interest of the investors to invest their free funds in government securities, Ministry of Finance, on behalf of and for the account of the Republic of Macedonia, and on the basis of a Decision for Issuance of Treasury Bills in 2005, continued to issue government securities. In fact, in 2005 as well, issuance of 3- and 6-month treasury bills continued, and from June this year, 12-month treasury bills were successfully introduced.

The intention is, by the end of 2005, to extend the maturity structure of the government securities portfolio by introducing 2-year government bonds, which is a legal precondition for the new two-pillar pension system to start functioning.

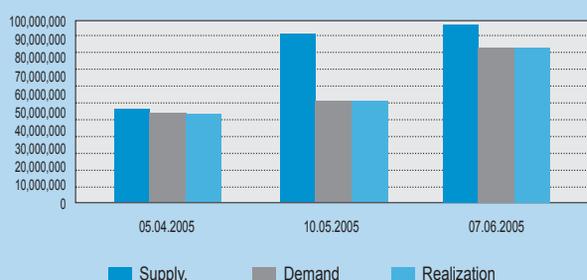
In the period April-June 2005, total of 7 auctions were held for 3-, 6- and 12-month treasury bills, for which total amount of Denar 4,195 million was offered. The total demand for 3-, 6- and 12-month treasury bills in the same period amounted to Denar 4,225.41 million, while the total realization was in the amount of Denar 3,799.86 million. Net issuance on the basis of 3-, 6- and 12-month treasury bills in Q2 in 2005 amounted to Denar 3,700.55 million, while the real interest cost for this period amounted to Denar 99.31 million.

Supply, demand and realization of 3-months treasury bills, April-June 2005



Analysis of the results from the auctions of treasury bills in Q2 in 2005 point out to the conclusion that demand for 3-month treasury bills from auction to auction increased in even 5 out of total of 7 auctions, and was higher than the supply. In the period April-June 2005, due to liquidity-related needs of the Budget, an extraordinary auction of treasury bills was held, with 84-day maturity, as well as one re-opening with 30-day maturity.

Supply, demand and realization of 6-months treasury bills, April-June 2005



Successful introduction of 12-month treasury bills is evaluated through almost three-times higher demand (Denar 133.91 million) compared to the offered amount (Denar 50 million).

Weighted interest rate for 3-month treasury bills



Interest rate of the treasury bills is continues to be market-set, depending on the supply and demand. Thus, the weighted interest rate at the auctions for 3-month treasury bills in the period April-June 2005 was uneven (alternate drop and increase) ranging 10.16%-10.84%, however, the level was estimated as satisfactory and acceptable for the Budget.

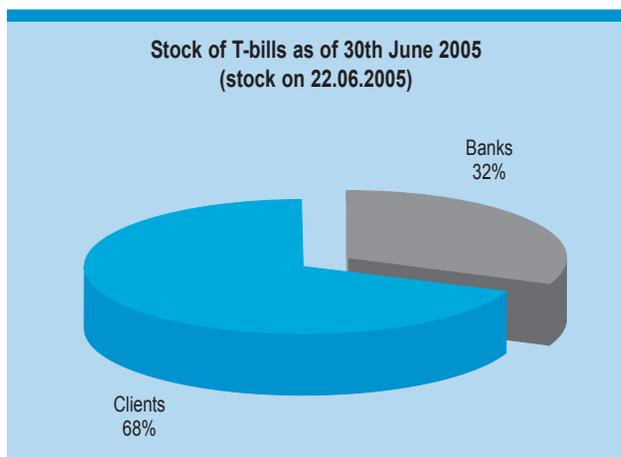
In the second quarter this year, total of 3 auctions for 6-month treasury bills were held, whereby at the first auction (or the fourth, at annual level) lowest weighted interest rate of 9.77% was noted. At the next auction already, the weighted interest rate significantly increased, reaching the level of 10.53%. This level was maintained on the third and the last auction of 6-month treasury bills for this period (10.52%).

The weighted interest rate reached at the first auction (the only auction in the period April-June 2005) of 12-month treasury bills was 11.80%.

During the last several auctions for treasury bills, the tender with maximum interest rate (minimum price) - American type - was applied. This practically means that marginal price below which (i.e. marginal interest rate above which) no offers will be accepted. Marginal interest rates for 3-, 6- and 12-month treasury bills was 11%, 11.5% and 12% respectively. Application of marginal price, i.e. marginal interest rate will last until the ratio between the supply and demand stabilizes, when stable trend of movement of the interest rate can be expected.

The structure of treasury bills in terms of ownership in the second quarter of 2005, like in the first quarter, is in favour of the clients, in aggregate

terms, i.e. for the 3-, 6- and 12-month treasury bills together.



Over-the-Counter Market. National Bank has prepared a Rulebook on the Manner and the Procedure for Trading and Settlement of Transactions with Treasury Bills on the OTC Market, published in the "Official Gazette of the Republic of Macedonia", no. 24/2005, which entered into force on 25th April 2005. Thus, OTC market for treasury bills officially started operating, as a very important novelty regarding government securities.

To the end of supporting and stimulating the secondary trading with government securities, agreement was signed with the Central Securities Depository and the National Bank of the Republic of Macedonia - no fee to be paid for the transactions concluded on the OTC market in the initial stage of its development. Thus, treasury bills have practically obtained one more positive attribute. In fact, in addition to the fact that treasury bills are interest-free instrument for investment (their payment after maturity is guaranteed by the state), attractive (from the point of view of the amount of yield they bear on the basis of interest), they have also become highly liquid instrument for very low transaction costs.

On National Bank web site the banks register their bids, i.e. buying and selling price, and in the period April-June 2005, 6 transactions have already been concluded.

For the purpose of further development of the government securities market, Ministry of Finance - Public Debt Management Department, in the

course of May and June 2005, carried out a marketing campaign for treasury bills. Within the campaign, presentation on government securities in the Republic of Macedonia was made at six meetings. The presentation itself was of promotional, educational and information character.

Hoping that they will make a significant contribution to the further development of the government securities market, total of 110 representatives from saving houses, insurance companies, audit firms, airlines and other larger companies in the Republic of Macedonia were invited at the presentations, and 90 participants took part. Representatives from the National Bank of the Republic of Macedonia also attended the presentations.

The presentation itself, in terms of the concept, covered many topics related to the institutional and legal framework for public debt in general and government securities in particular, primary issue of treasury bills, their features, sales techniques, achieved results at the treasury bills auctions in 2004 and 2005, secondary trading with treasury bills, etc.

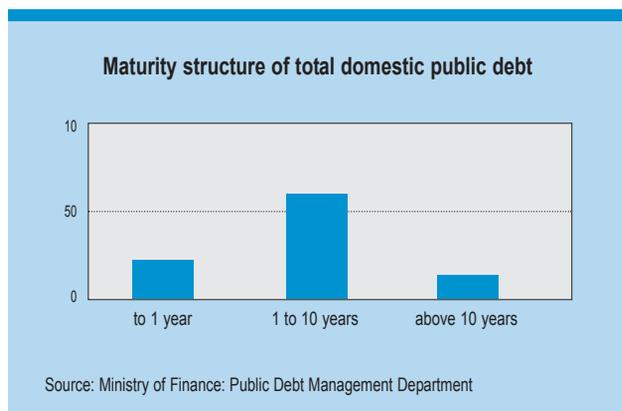
Results from the above-mentioned marketing campaign were noticed immediately after it was completed. In fact, at the coming auctions of treasury bills, significantly higher demand was noticed than the offered amount, which practically means greater interest in buying treasury bills, as well as expanding and diversifying the investor base. This has surely confirmed the success of the carried out marketing campaign and it is a stimulus for further continuous promotion of government securities, i.e. of their primary and secondary trading.

Central bank bills

Match to the treasury bills, as fiscal policy instrument, is the central bank bills, used for monetary purposes. Central bank bills are short-term securities issued by the National Bank of the Republic of Macedonia.

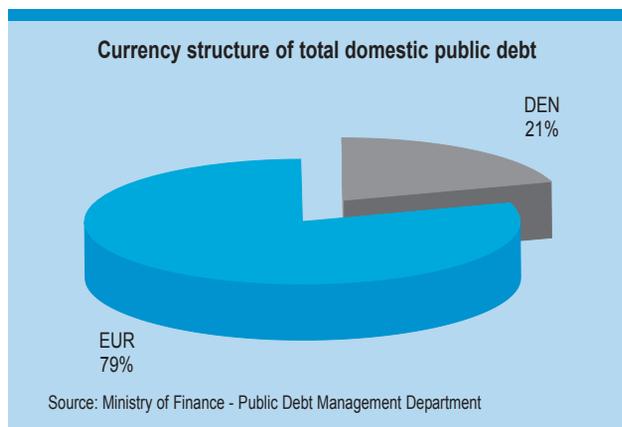
Portfolio of central bank bills of the National Bank at the moment comprises only central bank bills with 28 days maturity, unlike the first quarter of this

year, when the National Bank also issued 7-day central bank bills. Issue of 7-day central bank bills was cancelled on 9th March 2005. The reason for the cancellation was the stabilization of the liquidity in the economy and the simultaneous reduction of the pressure by the foreign exchange market on the demand, due to which it was estimated that there was no need for monetary interventions through instruments with such short maturity.



National Bank issues central bank bills through auctions held twice a week (on Wednesday and Friday), and at the moment, volume tender (unlimited amount) and fixed interest rate of 10% is applied.

The level of central bank bills as of 30th June 2005 (more precisely on 29th June 2005) was Denar 6,097.1 million.



II.3. Maturity structure of the domestic public debt

The analysis of the public sector domestic debt from the aspect of maturity structure shows that the debt with longer repayment period, i.e. up to 10-year repayment period prevails in the total domes-

tic public debt. The longest repayment period is the one of the selective credit bond, with 25-year maturity period. Short-term domestic public debt comprises issued T-bills with 3- and 6-month maturity period and the central bank bills, the share of which in the total domestic public sector debt is 15.87%.

II.4. Currency structure of the domestic public debt

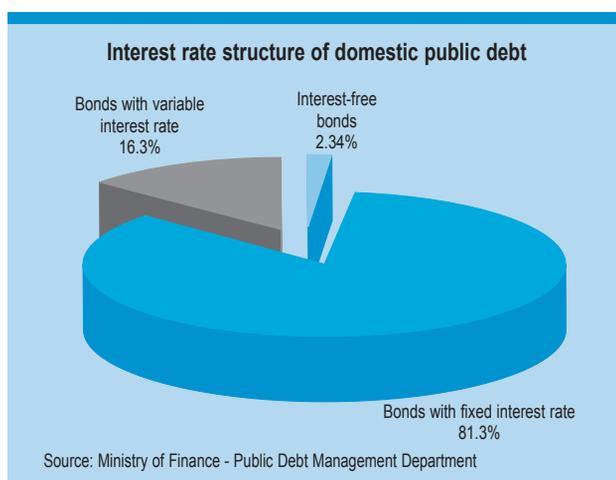
From the aspect of the currency structure of the domestic public debt of the Republic of Macedonia, one could say that the most part, i.e. 77% of the total domestic public debt is expressed in euros and the remaining 23% is expressed in Denars.

The following government securities are denominated in Denars:

1. Stopanska Banka rehabilitation bond;
2. Selective credit bond.
3. T-bills
4. Central bank bills

The following government securities are denominated in euros:

1. Bond for assumption of claims of Stopanska Banka
2. Old foreign exchange saving bonds;
3. Denationalization bonds.



II.5. Interest structure

From the aspect of the interest structure, major part of the bonds have fixed interest rate, excluding the Stopanska Banka rehabilitation bond, which

has variable interest rate at the level of the discount rate, as well as the Stopanska Banka privatization bond, the interest of which is as follows: Euribor+1 percentage point.

There are also interest-free bonds, i.e. they do not bear interest, such as the selective credit bond.

III. External Public Debt

The external debt of the Republic of Macedonia comprises liabilities of residents towards non-residents, created on the basis of used long-term and short-term loans and credits from multilateral, bilateral and private creditors. External public debt of the Republic of Macedonia, in accordance with the GFS methodology, is consolidated general government debt towards abroad (central government, funds and municipalities), public enterprises, and the Central Bank, while pursuant to the Law on Public Debt, it does not include the Central Bank in the total external debt of the public sector.

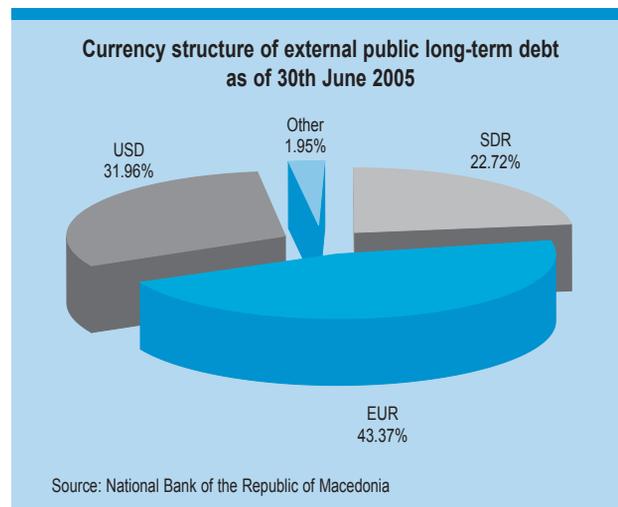
In the period 1999 - 2004, the total external public debt noted a trend of continuous decline, except in 2000 and 2004, when it grew in relation to 1999 and 2003 by 11.9% and 0.79% respectively.

- General government debt in the amount of EUR 1,055.91 million, which compared to 2004, was an increase by EUR 66.18 million
- Debt of the monetary authorities - EUR 43.89 million, which declined by EUR 2.08 million in relation to 2004
- Debt of the public enterprises, in the amount of EUR 144.47 million, which was by EUR 1.83 million higher in relation to 2004

The level of the total public debt of the Republic of Macedonia as of 30th June 2005, according to the GFS methodology, amounted to EUR 1,969.47 million, and compared to 2004, it increased by EUR 128.43 million. Out of this amount, total external public debt on 30th June 2005 amounted to EUR 1,244.27 million, and the total domestic public debt amounted to EUR 725.20 million, being an increase by EUR 66.18 million, i.e. EUR 62.25 million.

From the point of view of the structure of the total public debt as of 30th June 2005, it is evident that

the dominant share in the total public debt goes to the external debt with 63.17%, being a decline by 1.28%, while the domestic debt participates with 36.83%, being an increase by 2.22% in relation to 2004.



III.1. Currency structure of the external public debt

Since the borrowing abroad is made exclusively in foreign currency, the analysis of the currency structure of the external public debt shows that most frequent currency is the euro, the share of which is 43.37%, followed by the US\$ with a share of 31.96% and special drawing rights with 22.72%, while the share of other currencies in the debt currency structure is insignificant.

The analysis of the maturity structure of external public debt as of September 30, 2004 inclusive (the most recent data from the NBRM which keeps

Currency structure of the external public debt on 30th September 2004

US\$ million

Repayment period	amount	%
do 5 g.	41.80	2.78%
5-10 g.	60.18	4.00%
10-15 g.	505.51	33.60%
15-20 g.	484.16	32.19%
20-25 g.	34.09	2.27%
25-30 g.	0.00	0.00%
nad 30 g.	378.56	25.16%
TOTAL	1504.30	100.00%

Source: National Bank of the Republic of Macedonia

records on the external debt) shows that the long-term credits have prevalent share in the total external public debt, with 10 to 20 years of maturity periods and over 30-year repayment period, while the share of debt with up to 5-year maturity period and from 5 to 10 year maturity period is insignificant. The joint share of these two categories of credits is 90.95% of the total public long-term debt.

III.3. Servicing the external public debt

Servicing the liabilities on the basis of borrowing by the public sector from foreign creditors can be made from several sources, such as the foreign exchange account for repayment of external debt opened with the NBRM and managed by the Ministry of Finance, as well as the accounts of the other budget users, funds and agencies. Liabilities on the basis of external debt of public enterprises are serviced by the enterprises themselves, except in the case of called up issued guarantee.

Regarding the repayment of external debt, in the first quarter of 2005, from the account of the Ministry of Finance, funds in the amount of EUR 31.26 million were paid, i.e. Denar 1,916.8 million (EUR 22.15 million or Denar 1,358.4 million on the basis of principal and EUR 9.1 million, or Denar 558.4 million on the basis of interest). Regarding the repayment of liabilities on the basis of external debt, by end-2005, following the supplementary budget, additional funds will be appropriated in the amount of EUR 34.23 million, i.e. Denar 2,098.2 million, EUR 23.36 million or Denar 1,432.6 million out of which for repayment of principal and EUR 10.86 million, or Denar 665.6 million, for repayment of interest. Most part of the liabilities refer to the Paris Club of Creditors and the London Club of Creditors, and repayments will be made towards the International Bank for Reconstruction and Development as well, International Financial Association, European Commission, European Investment Bank, and other multilateral and bilateral creditors.

CENTRAL GOVERNMENT BUDGET OF THE REPUBLIC OF MACEDONIA

(millions denars)

	2001	2002	2003	Q - 1	Q - 2	Q - 3	Q - 4
TOTAL REVENUES	52,829	58,160	53,881	14,102	13,890	13,957	15,035
Tax Revenues	47,716	54,389	49,163	12,556	12,980	12,964	14,028
Personal Income Tax	7,248	7,513	7,502	1,738	1,923	1,930	2,116
Profit Tax	3,006	2,624	3,271	958	506	522	375
VAT	17,132	20,521	21,175	6,103	6,479	6,025	7,150
Excises	10,830	10,715	10,564	2,349	2,459	2,973	2,555
Import Duties	6,111	6,336	6,140	1,228	1,496	1,397	1,694
Other Taxes	275	340	476	180	114	114	143
Tax on Financial Transactions	3,111	6,336	31	0	3	0	-5
Utility Taxes	3	4	4	0	1	2	0
Non Tax Revenues	4,349	3,170	4,040	1,371	751	855	867
Profit of Public Financial Institutions	1,847	1,057	1,807	793	294	346	162
Administrative Taxes and Charges	1,061	1,092	1,369	358	375	337	393
Other Administrative Taxes	486	205	370	64	69	59	65
Other Non Tax Revenues	32	35	495	156	13	113	247
Capital Revenues	349	601	555	175	158	127	140
Foreign Donations	415	0	0	0	0	11	0
TOTAL EXPENDITURES	65,575	65,503	56,432	13,100	14,253	13,341	15,917
Current Expenditures	44,017	51,591	50,984	12,415	12,974	12,187	14,149
Wages and Allowances	16,407	18,338	20,234	5,135	5,349	5,097	5,363
Goods and Services	6,358	8,715	6,914	1,797	1,714	1,329	1,992
Transfers	16,950	20,576	21,105	4,924	5,432	5,171	6,313
Pension Fund	5,215	6,538	7,305	2,010	1,964	1,928	2,153
Employment Fund	3,548	4,111	4,360	1,300	1,403	1,378	1,357
Other Transfers	2,349	3,404	3,264	366	703	590	1,409
Refugees	582	391	259	44	44	44	140
Structural Reforms	239	1,387	1,659	197	248	175	111
Public Administration Reforms	944	442	528	108	109	130	170
Interest	4,212	3,401	2,443	531	479	560	482
Domestic	1,066	1,179	950	81	378	113	358
Foreign	3,146	2,222	1,493	450	101	448	124
Guaranties	90	561	288	28	1	30	-1
Capital Expenditures	7,723	8,636	5,037	685	1,279	1,154	1,768
Fixed Assets	3,589	2,718	1,737	313	445	437	992
Capital Transfers	2,211	2,476	2,796	364	694	682	633
Commodity Reserves	546	418	0	0	0	0	0
International Financial Institutions	35	22	18	0	15	0	3
Telecom Projects	1,342	3,002	486	8	130	35	140
Crisis Related Expenditures	13,835	5,276	412	0	0	0	0
BUDGET BALANCE	-12,746	-7,343	-2,551	1,002	-364	616	-882
FINANCING	12,746	7,343	2,551	-1,002	364	-616	882
Inflow	19,272	13,430	10,585	414	2,701	858	2,788
Privatisation Receipts	10,837	5,177	4,673	88	0	81	290
Foreign Donations	0	2,641	2,560	490	0	0	554
Capitalisation	604	0	0	0	0	0	0
Foreign Loans	763	1,548	3,773	1,020	1	507	553
Deposits	5,399	4,029	-422	-1,708	1,463	94	1,420
BIS	1169	0	0	524	1,238	177	-29
Outflow	6,526	6,087	8,034	1,416	2,337	1,474	1,906
Repayment of Principal	3,550	6,087	8,034	1,416	2,337	1,474	1,906
Foreign	3,543	3,602	3,682	1,280	103	1,342	206
Domestic	7	2,485	4,352	136	2,234	132	1,700
Purchase of Bonds	2,976	0	0	0	0	0	0

Source: Ministry of Finance

(millions denars)

Total 2004	Budget 2005	I	II	III	K-1	IV	V	Total 2005
56,982	56,502	4,746	3,422	4,658	12,826	5,443	4,673	22,942
52,526	52,321	4,535	3,238	4,397	12,170	5,160	4,265	21,595
7,707	7,931	526	648	660	1,834	762	586	3,182
2,361	2,571	145	302	633	1,080	220	197	1,497
25,757	25,623	2,460	1,320	1,965	5,745	2,779	1,968	10,492
10,335	10,965	1,044	605	668	2,317	843	1,009	4,169
5,815	4,731	289	315	422	1,026	499	459	1,984
548	500	71	48	49	168	57	46	271
0	0	0	0	0	0	0	0	0
4	0	0	0	0	0	0	0	0
3,844	3,561	162	157	225	544	238	373	1,155
1,595	1,661	40	0	42	82	43	205	330
1,463	1,390	103	128	156	387	159	143	689
257	300	17	17	24	58	22	23	103
529	210	2	12	3	17	14	2	33
600	620	49	27	36	112	45	35	192
11	0	0	0	0	0	0	0	0
56,611	59,206	4,693	4,462	4,676	13,831	5,054	4,302	23,187
51,726	53,467	4,195	4,215	4,447	12,857	4,403	4,009	21,269
20,944	21,757	1,777	1,791	1,805	5,373	1,783	1,839	8,995
6,832	7,352	515	647	741	1,903	632	448	2,983
21,840	21,859	1,549	1,710	1,767	5,026	1,748	1,642	8,416
8,054	7,705	675	668	688	2,031	670	669	3,370
5,438	5,494	469	448	472	1,389	469	570	2,428
3,056	3,496	51	208	228	487	188	179	854
272	100	0	10	14	24	23	11	58
732	634	29	23	18	70	23	11	104
527	657	44	47	40	131	43	36	210
2,052	2,499	354	67	134	555	240	80	875
930	1,069	26	25	65	116	212	62	390
1,123	1,430	328	42	69	439	28	18	485
58	0	0	0	0	0	0	0	0
4,886	5,739	498	247	229	974	651	293	1,918
2,187	3,428	498	128	128	754	416	97	1,267
2,368	1,919	0	119	101	220	222	123	565
0	0	0	0	0	0	8	58	66
18	42	0	0	0	0	5	15	20
313	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
371	-2,704	53	-1,040	-18	-1,005	389	371	-245
-371	2,704	-53	1,040	18	1,005	-389	-371	245
6,761	10,037	821	1,082	483	2,386	1,283	-148	3,521
459	1,041	65	200	0	265	95	0	360
1,044	816	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
2,081	2,636	0	0	0	0	1	0	1
1,268	3,044	832	828	-60	1,600	468	-271	1,797
1,909	2,500	-76	54	543	521	719	-271	969
7,132	7,333	874	42	465	1,381	1,672	223	3,276
7,132	7,333	874	42	465	1,381	1,672	223	3,276
2,932	2,919	874	42	333	1,249	0	0	1,249
4,201	4,414	0	0	132	132	1,672	223	2,027
0	0	0	0	0	0	0	0	0

CENTRAL BUDGET OF THE REPUBLIC OF MACEDONIA

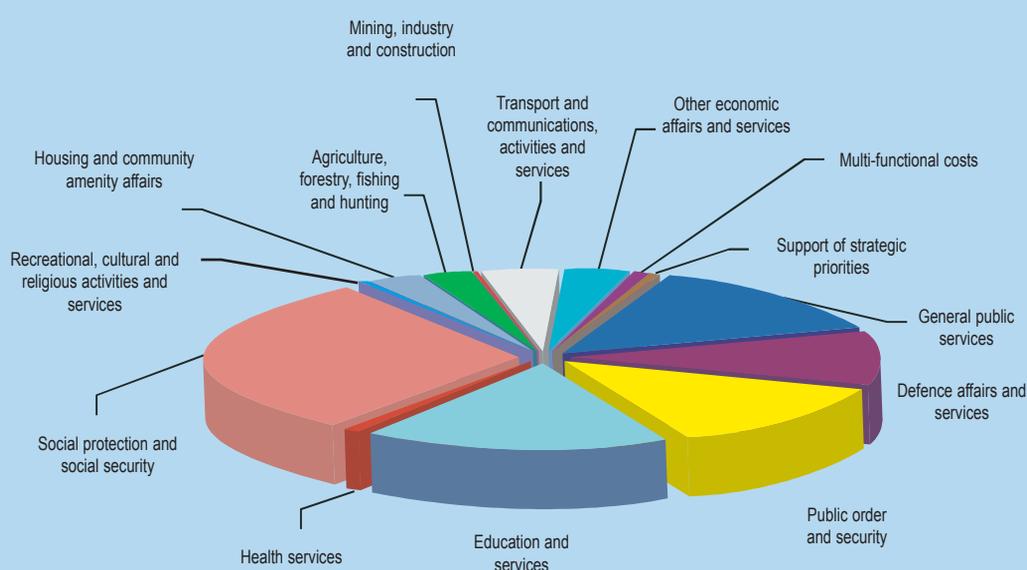
	2001	2002	2003	2004	2005
	Final statement	Final statement	Final statement	Supplem. Budget	Budget
TOTAL REVENUES					
CURRENT REVENUES (TAX AND NON-TAX)	69,688,034,455	71,981,222,938	68,406,577,974	65,708,297,000	77,127,000,000
TAX REVENUES	50,447,329,542	58,896,097,958	56,784,247,919	55,591,660,000	58,596,000,000
Taxes on income, profits and capital gains	47,716,085,795	54,389,136,894	49,166,396,854	51,616,660,000	53,318,000,000
Personal income tax	10,254,737,418	10,137,596,496	10,772,545,343	10,821,000,000	10,802,000,000
Profit tax	7,248,441,986	7,513,310,320	7,502,459,597	7,806,000,000	8,231,000,000
Other taxes on income, profit and capital gains	3,006,295,432	2,624,286,176	3,270,085,746	3,015,000,000	2,571,000,000
Domestic taxes on goods and services	27,961,655,103	31,235,879,140	31,741,066,910	34,914,660,000	37,082,000,000
Value Added Tax (since 1.4.2000)	17,131,677,006	20,521,036,109	21,175,919,119	24,383,000,000	26,325,000,000
Excises	10,829,978,097	10,714,843,031	10,565,147,791	10,531,660,000	10,757,000,000
Taxes on international trade and transactions	6,110,896,250	6,336,011,440	6,141,579,944	5,301,000,000	4,867,000,000
Custom duties	4,819,880,460	5,230,636,743	4,909,408,470	4,168,374,000	3,861,000,000
Other import taxes and duties	1,291,015,790	1,105,374,697	1,232,171,474	1,132,626,000	1,006,000,000
Other taxes	168,830	0	51,094	0	0
Taxes on specific services	2,619,857	3,359,937	3,894,080	3,440,000	0
Fees for usage and permissions for performing activities	274,734,772	340,562,742	475,513,109	576,560,000	567,000,000
Financial transactions tax	3,111,273,565	6,335,727,139	31,746,374	-	-
NON-TAX REVENUES	2,731,243,747	4,506,961,064	7,617,851,065	3,975,000,000	5,278,000,000
Entrepreneurial income and property income	1,151,786,582	931,379,088	1,963,471,700	1,813,000,000	3,388,000,000
Fees and charges	1,061,144,805	1,091,976,541	1,366,943,949	1,360,000,000	1,390,000,000
Other government services	486,087,458	205,764,069	370,052,922	280,000,000	300,000,000
Other non-tax revenues	32,224,902	2,277,841,366	3,917,382,494	522,000,000	200,000,000
CAPITAL REVENUES	10,660,015,021	7,193,569,639	4,081,105,548	3,940,438,000	1,120,000,000
Sales of capital assets	9,714,039,661	6,244,440,021	4,002,729,305	3,552,773,000	920,000,000
Sales of land and intangible assets	945,975,360	949,129,619	78,376,243	387,665,000	200,000,000
TRANSFERS AND DONATIONS	6,484,077,606	3,808,557,430	3,651,554,878	1,044,383,000	1,213,000,000
Transfers from other levels of government	5,407,618,545	1,167,411,039	1,136,220,479	2,335,000	397,000,000
Foreign donations	1,076,459,061	2,641,146,391	2,515,334,399	1,042,048,000	816,000,000
DOMESTIC LOANS	1,333,471,478	480,521,896		2,000,000,000	3,229,000,000
BORROWING FROM ABROAD	763,140,808	1,584,121,754	3,766,572,092	3,131,816,000	12,969,000,000
International development agencies	763,140,808	1,584,121,754	3,766,572,092	3,131,816,000	12,969,000,000
REVENUES FROM REPAYMENT OF LOANS	0	18,354,261	123,097,537	0	0
TOTAL EXPENDITURES	68,520,623,429	71,700,272,895	64,462,761,283	65,708,297,000	77,127,000,000
CURRENT EXPENDITURES	57,496,087,268	56,314,747,304	51,104,920,817	53,013,066,000	46,613,692,000
Wages, salaries and allowances	16,407,589,066	18,337,661,335	20,233,542,216	21,279,049,000	21,861,749,000
Goods and other services	19,985,061,676	13,991,420,289	7,325,808,770	7,344,275,000	7,499,520,000
Current transfers	17,494,812,744	20,586,832,339	21,101,506,628	22,209,422,000	14,104,523,000
Interest payments	3,608,623,782	3,398,833,341	2,444,063,205	2,180,320,000	2,335,000,000
SUBSIDIES AND TRANSFERS	-	-	-	-	2,890,867,000
SOCIAL TRANSFERS	-	-	-	-	4,057,716,000
CAPITAL EXPENDITURES	7,140,072,243	8,366,132,516	4,687,684,918	5,340,407,000	16,373,725,000
LENDING, EQUITY PARTICIPATION AND DEBT REPAYMENT	3,884,463,918	7,019,393,075	8,670,155,548	7,354,824,000	7,191,000,000
Lending and equity participation	334,943,165	931,369,212	637,002,773	148,000,000	0
Amortization (debt repayment)	3,549,520,753	6,088,023,863	8,033,152,776	7,206,824,000	7,191,000,000

FUNCTIONAL CLASSIFICATION OF THE CENTRAL BUDGET EXPENDITURES

	Final statement 2000	Final statement 2001	Final statement 2002	Budget 2003	Budget 2004	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
	In million of denars					structure					% of GDP				
TOTAL	57,689	68,521	71,700	67,490	66,666	100.0	100.0	100.0	100.0	100.0	24.4	29.3	29.4	26.9	24.8
General public services	12,985	7,767	15,434	8,735	8,057	22.5	11.3	21.5	12.9	12.1	5.5	3.3	6.3	3.5	3.2
Defence affairs and services	4,613	14,351	5,491	5,897	6,056	8.0	20.9	7.7	8.7	9.1	2.0	6.1	2.3	2.3	2.4
Public order and security	5,741	10,222	6,912	7,528	7,687	10.0	14.9	9.6	11.2	11.5	2.4	4.4	2.8	3.0	3.1
Education and services	8,055	7,767	8,909	9,043	8,956	14.0	11.3	12.4	13.4	13.4	3.4	3.3	3.7	3.6	3.6
Health services	314	338	365	334	379	0.5	0.5	0.5	0.5	0.6	0.1	0.1	0.1	0.1	0.2
Social protection and social security	14,410	14,295	16,628	17,005	17,630	25.0	20.9	23.2	25.2	26.4	6.1	6.1	6.8	6.8	7.0
Housing and community amenity affairs	303	301	709	430	426	0.5	0.4	1.0	0.6	0.6	0.1	0.1	0.3	0.2	0.2
Recreational, cultural and religious activities and services	1,346	1,320	1,506	1,432	1,475	2.3	1.9	2.1	2.1	2.2	0.6	0.6	0.6	0.6	0.6
Fuel and energy affairs and services	5	5	5	10	10	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Agriculture, forestry, fishing and hunting	743	826	938	902	1,539	1.3	1.2	1.3	1.3	2.3	0.3	0.4	0.4	0.4	0.6
Mining, industry and construction	264	65	37	41	63	0.5	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Transport and communications, activities and services	2,297	2,152	2,082	2,322	2,316	4.0	3.1	2.9	3.4	3.5	1.0	0.9	0.9	0.9	0.9
Other economic affairs and services	2,843	1,408	2,440	2,505	1,919	4.9	2.1	3.4	3.7	2.9	1.2	0.6	1.0	1.0	0.8
Multi-functional costs	593	578	758	354	400	1.0	0.8	1.1	0.5	0.6	0.3	0.2	0.3	0.1	0.2
Support of strategic priority	-	-	-	-	348	-	-	-	-	0.5	-	-	-	-	0.1
Transactions related to the public debt services that are not classified by major groups	3,177	7,127	9,487	10,952	9,407	5.5	10.4	13.2	16.2	14.1	1.3	3.0	3.9	4.4	3.7

Note: The functional classification of the Central Budget expenditures was prepared according to the international standards

FUNCTIONAL CLASSIFICATION OF EXPENDITURES 2004



REPUBLIC OF MACEDONIA - CONSOLIDATED BUDGET AND EXTRA-BUDGETARY FUNDS

	Total 2003	I	II	III	IV	V	VI	VII
TOTAL REVENUES	84,087	6,527	6,451	8,231	7,505	7,182	6,963	7,566
Taxes and Contributions	77,055	5,985	6,087	7,054	7,031	6,703	6,338	6,969
Taxes	49,840	4,178	3,911	4,619	4,576	4,528	4,035	4,411
Personal Income Tax	7,502	505	576	657	715	581	627	714
Profit Tax	3,271	140	300	518	178	153	175	195
VAT	21,175	2,161	1,926	2,016	2,401	2,231	1,847	2,004
Excises	11,241	945	676	880	767	984	867	982
Import Duties	6,140	349	380	499	477	541	478	479
Other Taxes	507	78	52	49	38	38	41	36
Contributions	27,215	1,807	2,176	2,436	2,455	2,175	2,304	2,557
Pension Insurance	17,574	1,161	1,410	1,561	1,575	1,400	1,470	1,655
Unemployment Contributions	1,224	81	101	108	113	98	104	117
Health Insurance	8,417	565	666	767	767	677	729	786
Non Tax Revenues	6,331	486	322	1,101	389	443	586	542
Profit of Public Financial Institutions	1,807	68	0	725	27	56	219	82
Administrative Taxes and Charges	1,369	98	123	137	109	131	135	116
Health co-payment	485	35	61	57	48	47	47	41
Other Administrative Taxes	370	20	20	24	21	19	29	22
Other Non Tax Revenues	693	162	15	23	19	41	11	128
Road Fund Fees	1,607	103	102	135	166	150	144	153
Capital Revenues	576	57	42	76	84	36	38	45
Foreign Donations	2	0	0	0	0	0	0	0
Revenues from repayment of loans	123	0	0	0	0	0	0	11
TOTAL EXPENDITURES	86,748	6,379	6,698	7,478	7,380	7,154	7,750	7,569
Current Expenditures	81,125	6,200	6,514	7,044	6,987	6,739	7,167	6,867
Wages and Allowances	20,881	1,735	1,698	1,803	1,828	1,773	1,875	1,814
Goods and Services	8,708	561	747	869	748	646	600	645
Transfers	48,518	3,600	3,948	4,230	4,094	4,244	4,489	4,043
Social Transfers	45,490	3,545	3,751	4,080	3,889	3,917	4,281	3,755
Pensions	24,008	1,973	2,104	2,146	2,094	2,021	2,145	2,064
Unemployment Benefits	2,438	234	263	272	309	282	319	280
Social Benefits	3,986	336	250	389	338	326	337	325
Structural Reforms	1,022	0	1	23	2	0	2	0
Public Administration Reform	8	0	0	0	0	0	0	0
Health Care	14,028	1,003	1,134	1,249	1,146	1,288	1,478	1,086
Other Transfers	2,769	41	180	138	190	313	193	274
Refugees	259	14	17	13	15	14	15	14
Interest	2,730	303	94	141	316	77	203	365
Domestic	950	12	12	57	221	57	99	26
Foreign	1,780	291	82	84	95	20	104	340
Guaranties	288	0	28	0	1	0	0	1
Capital Expenditures	5,623	179	183	434	393	415	583	702
BUDGET BALANCE	-2,661	148	-247	754	125	28	-787	-3
FINANCING	2,661	-148	247	-754	-125	-28	787	3
Inflow	10,923	525	564	-328	1,668	245	1,297	1,008
Privatisation Receipts	3,678	68	0	20	0	0	0	69
Foreign Donations	2,560	490	0	0	0	0	0	0
Foreign Loans	4,191	1,048	85	329	55	38	107	201
Deposits	473	-1,179	274	-898	1,020	-247	990	772
Denar Account	1,774	-1,179	274	-898	1,020	-247	990	772
External Account	-1,301	0	0	0	0	0	0	0
Domestic borrowing		98	205	221	586	453	199	-34
Sell of Shares	21	0	0	0	6	0	2	0
Outflow	8,262	673	317	425	1,793	273	510	1,005
Repayment of Principal	8,262	673	317	425	1,793	273	510	1,005
Foreign	3,910	669	317	294	136	0	169	1,005
Domestic	4,352	4	0	132	1,657	273	341	0

BULLETIN / MINISTRY OF FINANCE

VIII	IX	X	XI	XII	Total 2004	I	II	III	Q1	IV	V	Total 2005
6,836	7,424	7,520	7,206	8,765	88,176	6,806	6,013	7,275	20,094	8,302	7,065	35,461
6,412	6,811	6,954	6,811	8,105	81,259	6,441	5,670	6,792	18,904	7,821	6,446	33,171
4,278	4,463	4,672	4,455	5,063	53,188	4,594	3,284	4,436	12,314	5,210	4,323	21,848
572	644	603	614	899	7,707	526	648	660	1,834	762	586	3,182
175	152	146	129	100	2,361	145	302	633	1,080	220	197	1,497
1,892	2,129	2,377	2,180	2,593	25,757	2,460	1,320	1,965	5,745	2,779	4,747	13,271
1,178	1,001	984	943	790	10,996	1,103	651	707	2,461	893	1,067	4,422
422	496	522	536	636	5,815	289	315	422	1,026	499	459	1,984
39	41	40	53	45	552	71	48	49	168	57	46	271
2,134	2,347	2,282	2,357	3,042	28,072	1,848	2,386	2,356	6,590	2,611	2,123	11,324
1,367	1,498	1,468	1,508	1,968	18,040	1,188	1,538	1,504	4,230	1,669	1,346	7,244
95	105	103	107	137	1,270	84	118	110	312	119	95	526
671	744	710	742	938	8,762	576	730	742	2,048	823	682	3,553
380	576	527	353	601	6,306	315	316	446	1,078	436	584	2,098
54	220	88	0	77	1,616	40	0	43	83	44	211	338
95	126	121	130	142	1,463	103	128	156	387	159	143	689
37	42	42	48	56	562	34	45	48	127	45	40	212
17	20	21	19	25	257	17	17	24	58	22	23	103
27	24	114	18	154	737	21	23	40	84	24	13	121
149	144	141	137	148	1,672	101	103	136	340	142	153	635
45	37	39	42	59	600	49	27	36	112	45	35	192
0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	11	0	0	0	0	0	0	0
6,342	7,261	7,498	7,874	8,786	88,169	6,935	6,888	7,541	21,363	7,660	6,720	35,743
5,983	6,719	6,939	7,355	7,620	82,136	6,400	6,706	7,374	20,479	7,186	6,425	34,091
1,596	1,826	1,795	1,827	1,869	21,440	1,791	1,833	1,849	5,473	1,840	1,865	9,177
389	607	584	920	886	8,200	611	787	953	2,351	787	532	3,669
3,903	4,134	4,203	4,559	4,677	50,125	3,644	4,019	4,429	12,092	4,261	3,933	20,286
3,767	3,924	3,849	4,088	4,013	46,861	3,593	3,801	4,187	11,582	4,050	3,743	19,374
2,084	2,103	2,062	2,110	2,214	25,121	2,022	2,110	2,163	6,294	2,125	2,122	10,541
271	278	267	255	258	3,289	257	266	260	783	266	251	1,301
332	326	348	344	342	3,993	296	315	354	965	346	346	1,657
0	0	3	0	0	31	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0
1,080	1,217	1,169	1,380	1,199	14,428	1,018	1,110	1,411	3,539	1,313	1,100	5,952
121	195	239	456	654	2,992	51	208	228	487	188	179	853
15	15	115	15	10	272	0	10	14	24	23	11	58
67	151	357	49	188	2,312	354	67	143	564	299	95	959
24	63	267	24	67	930	26	25	65	116	212	62	390
43	88	90	25	121	1,383	328	42	78	448	87	33	569
28	1	0	0	-1	58	0	0	0	0	0	0	0
359	542	559	519	1,166	6,033	535	181	167	883	473	296	1,653
494	162	22	-668	-21	7	-129	-874	-266	-1,269	642	345	-282
-494	-162	-22	668	21	-7	129	874	266	1,269	-642	-345	282
-453	303	1,691	668	500	7,687	1,003	916	768	2,687	1,174	-122	3,740
0	12	50	150	90	459	65	200	0	265	95	0	360
0	0	0	554	0	1,044	0	0	0	0	0	0	0
519	68	213	19	935	3,618	14	0	12	26	14	46	86
-940	-28	1,377	-71	-464	606	999	662	213	1,874	346	-290	1,931
-940	-28	1,377	-71	-464	606	999	662	213	1,874	346	-290	1,931
0	0	0	0	0	0	0	0	0	0	0	0	0
-34	245	34	-2	-61	1,909	-76	54	543	521	719	123	1,363
2	5	17	19	0	51	1	0	0	1	0	0	1
41	466	1,713	0	479	7,694	874	42	503	1,419	1,816	223	3,458
41	466	1,713	0	479	7,694	874	42	503	1,419	1,816	223	3,458
41	296	145	0	272	3,344	874	42	333	1,249	144	0	1,393
0	169	1,568	0	207	4,351	0	0	170	170	1,672	223	2,065

BALANCE OF PAYMENT OF THE REPUBLIC OF MACEDONIA

(Annual data)¹

(In million of US dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	I - 2005	II - 2005	III - 2005	IV - 2005	V - 2005	I - V 2005
CURRENT ACCOUNT	-339.85	-286.14	-269.29	-32.46	-75.28	-235.43	-357.81	-152.28	-414.82	-8.31	2.56	-14.35	-62.31	-24.13	-106.54
Goods, net	-314.67	-386.13	-515.09	-495.81	-690.41	-523.23	-804.34	-851.48	-1112.08	-53.65	-58.18	-77.83	-124.82	-94.06	-408.54
Export, f.o.b.	1,147.44	1,236.81	1,291.52	1,189.98	1,320.73	1,153.33	1,112.15	1,359.04	1,672.43	147.85	156.46	177.41	174.63	178.52	834.87
Import, f.o.b. ²	-1,462.11	-1,622.94	-1,806.61	-1,685.79	-2,011.14	-1,676.56	-1,916.49	-2,210.52	-2,784.51	-201.50	-214.64	-255.24	-299.45	-272.58	-1,243.41
Services, net	-156.16	-137.74	-59.60	41.83	47.05	-15.79	-22.13	-2.56	-54.39	1.37	-0.97	-4.09	-8.64	-9.43	-21.76
Income, net	-51.35	-54.90	-44.82	-42.15	-45.44	-39.46	-29.78	-32.33	-39.23	-2.09	3.27	-0.77	-5.73	-9.07	-14.39
o/w : interest, net	-56.42	-54.88	-44.34	-41.41	-39.15	-33.59	-18.64	-31.88	-26.22	-5.05	-0.79	-4.38	-3.40	-0.12	-13.74
Current transfers, net	182.34	292.63	350.21	463.66	613.53	343.06	498.45	734.09	790.88	46.06	58.44	68.34	76.88	88.43	338.15
Official	51.58	7.46	37.39	72.69	132.30	48.65	100.50	103.36	70.07	1.47	7.38	2.88	3.07	4.18	18.98
Private	130.76	285.17	312.82	390.97	481.23	294.41	397.95	630.73	720.81	44.59	51.06	65.46	73.81	84.25	319.17
CAPITAL AND FINANCIAL ACCOUNT	318.23	327.15	281.84	-128.46	11.28	178.23	376.87	169.97	407.01	14.89	3.83	17.56	68.66	31.61	136.55
Capital account, net	0.00	0.00	-1.79	0.00	0.31	1.30	8.26	-6.69	-4.61	-0.04	0.09	-0.05	0.30	0.16	0.46
Capital transfers, net	0.00	0.00	0.00	0.00	0.31	3.64	9.92	-6.60	-4.61	-0.04	0.09	-0.05	0.30	0.16	0.46
Official	0.00	0.00	0.00	0.00	0.00	3.64	9.92	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.31	0.00	0.00	-6.60	-4.61	-0.04	0.09	-0.05	0.30	0.16	0.46
Acquisition/disposal of nonfinancial assets	0.00	0.00	-1.79	0.00	0.00	-2.34	-1.66	-0.09	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial account, net	318.23	327.15	283.63	-128.46	10.97	176.93	368.62	176.66	411.62	14.93	3.74	17.61	68.36	31.45	136.09
Direct investment, net	11.23	15.74	117.72	31.80	176.23	442.32	77.72	94.26	155.85	15.73	9.27	11.14	7.10	8.93	52.17
Portfolio investment, net	0.31	2.08	7.79	0.14	-0.09	0.36	0.35	3.39	14.82	1.52	3.31	11.65	2.80	1.10	20.38
Other investment, net	300.78	341.14	226.66	-32.01	85.05	-183.27	159.98	129.97	260.42	-11.19	8.75	-0.47	65.69	21.56	84.34
Trade credits, net	76.94	267.44	45.39	7.13	146.54	-125.08	83.1	82.95	170.05	-26.74	-25.16	-7.91	40.59	23.49	4.27
Loans, net	41.51	75.39	219.87	54.83	13.51	-107.31	8.19	23.47	59.82	3.53	4.76	5.85	27.92	12.59	54.65
Currency and deposits, net	113.77	-9.81	-40.62	-135.01	-122.53	27.09	44.69	2.85	-3.66	10.76	27.92	-1.70	-7.00	-16.03	13.95
o/w Monetary Authorities, net	0.00	0.00	0.00	-21.20	-0.19	-77.08	68.79	17.77	26.44	0	0.00	0.00	0.00	-0.41	-0.41
o/w Commercial Banks, net	61.37	-29.14	-28.77	-51.28	-93.26	-272.39	112.17	-54.59	-105.08	2.06	24.80	-5.20	-13.14	-17.37	-8.85
o/w individuals, net	52.40	19.33	-11.85	-62.52	-29.08	376.56	-136.27	39.68	74.97	8.70	3.12	3.50	6.14	1.75	23.21
Other, net	68.56	8.12	2.03	41.04	47.53	22.03	24.00	20.69	34.22	1.26	1.23	3.29	4.18	1.51	11.47
Gross official reserves ("-" = increase) ³	5.91	-31.81	-68.54	-128.39	-250.22	-82.48	130.57	-50.96	-19.47	8.87	-17.59	-4.71	-7.23	-0.14	-20.80
ERRORS AND OMISSIONS	21.62	-41.02	-12.55	160.92	64.00	57.19	-19.07	-17.70	7.81	-6.61	-6.52	-3.18	-6.34	-7.49	-30.14

1) Revised preliminary data

2) Imports data are on f.o.b. basis in accordance with IMF V Balance of Payments Manual. Calculation of c.i.f. - f.o.b. factor as percent of import c.i.f. is: 1993-20%, 1994-20%, 1995-20%, 1996-14%, 1997-10%, 1998-5.02%, 1999-4.86%, 2000-3.90%, 2001-4.20%, 2002-3.80%, 2003-4.06% and 2004-4.06%

3) Excluding monetary gold and exchange rate differences;

Pension and Disability Insurance Fund

Revenues earned by the PDF in the first five months of 2005 amount to Denar 11.769 million and are 1.2% in relation to the same period 2004. Most part of the revenues, i.e. 58,8% are revenues on the basis of salary contributions, marking a growth of 2.2%. Budget revenues account for 30.3% in the total revenues and are by 2.1%, while the revenues of the Employment Agency for insurance of unemployed beneficiaries of pecuniary allowance declined by 8.3% and their share in the total revenues accounts for 5.7%.

Expenditures of the PDF in the period January-May 2005 were Denar 11.991 million and are by 1.3% higher. Most part of the total expenditures, i.e. 87.9% was for payment of pensions, a level by 2% higher than the one in 2004. Thereby, 90.4% of the pensions were for regular pensions and their growth is 2.6%. Expenditures for health care contributions account for 10.2% in total expenditures of the PDF.

PDF **deficit** in the first five months of 2005 were Denar 222 million.

PENSION AND DISABILITY INSURANCE FUND								
(In million of denars)								
Types of revenues / expenditures	1998	1999	2000	2001	2002	2003	2004	2005
	Actual	Jan-May						
REVENUES	20,717	21,229	22,883	24,289	25,811	28,191	28,983	11,769
Contribution from salaries	13,373	14,316	15,722	15,671	15,784	16,882	17,204	6,925
Contribution from income	239	311	311	331	283	307	383	157
Revenues from the Government Budget	3,618	3,266	4,174	5,744	6,961	7,741	8,486	3,566
Revenues from the private sectors	400	439	404	377	409	394	412	148
Revenues from individual farmers	74	65	58	41	61	71	41	14
Revenues from excises	691	632	804	716	688	677	661	252
Contributions from the Employment Fund for unemployed	961	868	1,101	1,126	1,404	1,536	1,719	670
Other revenues	122	45	74	73	29	65	57	29
Revenues from dividends	619	245	68	209	192	42	21	8
Revenues from new employment	419	841	167	0	0	0	0	0
Transferred income from the previous year	201	201	0	0	0	476	0	0
EXPENDITURES	20,521	20,669	22,940	24,697	25,889	27,740	29,132	11,991
Pensions	17,730	17,756	19,774	21,278	22,255	24,008	25,121	10,541
Regular pensions	16,912	16,977	18,948	19,041	19,982	21,667	22,824	9,595
War veteran pensions	464	458	505	514	518	499	509	207
Agricultural pensions	354	321	321	297	262	234	217	80
Retroactive payment of 8%	0	0	0	1,167	1,136	1,131	1,027	420
Early retirement by the Law from year 2000	0	0	0	112	103	121	88	33
Early retirement by the Law from year 2001	0	0	0	148	254	262	247	101
Early retirement by the Law from year 2004								30
Compensation for body injury	63	69	72	72	83	80	82	34
Compensation for disability insurance	98	95	94	91	76	98	97	46
Employment and accommodations for disabled children	15	13	12	7	9	6	6	2
Health care contribution	2,321	2,450	2,672	2,805	2,934	3,184	3,349	1,225
Compensation for administration	133	132	141	153	165	172	170	56
Other expenditures	161	154	175	254	222	192	257	72
Capital expenditures	-	-	-	37	145	0	50	15
BALANCE								
Deficit / Surplus	196	560	-57	-408	-78	451	-149	-222

Source: Internal data of the Ministry of Finance

Health Insurance Fund

In the period January-May 2005, the HIF **revenues** amounted to Denar 5.927 million, meaning 0.9% increase in relation to the same period last year. The biggest share in the revenues structure is that of the health care insurance contributions (59.9%), a 3.3% growth. Contributions from the PDF account for 20.7% in total revenues and declined by 5.4% in relation to the first five months of 2004, while contributions paid by the Employment Agency for the unemployed persons account for 14.7% in the revenues and are by 6.4% higher.

Expenditures of the HIF in the period January-May 2005 were Denar 6.057 million and are by 2% higher in relation to the same period last year. Outpatient costs and hospital treatment costs account for the largest share in expenditures (87%).

In the first five months of 2005, HIF had **deficit** of Denar 130 million.

HEALTH INSURANCE FUND								
(In million of denars)								
Types of revenues / expenditures	1998	1999	2000	2001	2002	2003	2004	2005
	Actual	Jan-May						
REVENUES	11,087	12,068	12,790	12,295	13,656	14,698	14,886	5,927
Contributions	6,736	7,363	7,745	7,528	7,823	8,418	8,762	3,553
Contributions from the Pension Fund	2,309	2,417	2,649	2,616	3,075	3,184	3,349	1,226
Contributions from the Employment Fund	1,037	1,350	1,941	1,554	1,763	1,849	1,998	869
Contributions from the Ministry of Labour	45	0	0	48	54	64	41	26
Other revenues	851	938	455	70	734	1,064	676	41
Revenues on the basis of contracts for health insurance cards	109	0	0	0	0	0	0	1
Transfers from the Central Budget for mandatory health insurance	-	-	-	166	111	29	60	211
Transferred income from the previous year	0	0	0	313	96	91	1	0
EXPENDITURES	13,689	11,692	12,463	12,205	13,611	14,678	14,722	6,057
Outpatient expenditures	5,303	2,491	2,486	2,505	4,430	5,132	5,959	2,825
Hospital treatment	4,702	5,482	5,737	5,919	4,929	5,038	5,098	2,446
Costs for programs	214	125	105	306	123	21	0	0
Medicines	1,214	1,249	1,681	1,555	1,305	1,868	2,006	0
Dental care	638	667	687	522	521	630	0	0
Orthopedic expenses	208	154	143	111	134	150	280	70
Medical treatment abroad	290	161	70	90	144	221	117	46
Other treatment (contributions)	719	801	694	769	832	968	941	565
Administration	326	288	250	268	360	309	254	99
Equipment and maintenance	36	39	90	44	656	219	23	6
Other expenditures	41	234	200	48	23	32	27	0
Loans and interest payments	0	0	321	71	154	90	17	0
BALANCE								
Deficit/Surplus	-2,602	376	326	90	45	21	164	-130

Source: Internal data of the Ministry of Finance

Employment Agency

In the period January-May 2005, the Employment Agency had **revenues** of Denar 2.983 million, meaning 3% decline in relation to last year. Revenues from contributions are by 4.8%, and budget transfers were by 4.3% lower and account for 82.2% in total revenues. In the structure of budget transfer, 80.9% are for coverage of the Agency deficit.

In the first five months of 2005 the **expenditures** of the Employment Agency were Denar 2.977 million, meaning 2.7% decline in relation to the same period last year. Ex-

penditures for functions are Denar 2.887 million, or 97% of the total expenditures and were by 2.7% lower. Out of these, 36.5% are for payment of pecuniary allowance of the unemployed, and 9% are costs for active measures (employment encouragement and re-qualification allowance). Expenditures for the professional service account for 3% of the total expenditures and are by 3.2% lower in relation to the first five months of the last year.

In the first five months of 2005 the Employment Agency had **surplus** of Denar 6 million.

EMPLOYMENT AGENCY								
(In million of denars)								
Types of revenues / expenditures	1998	1999	2000	2001	2002	2003	2004	2005
	Actual	Jan-May						
REVENUES	4,260	4,129	5,119	4,827	5,918	6,241	7,456	2,983
Revenues from contributions	990	1,058	1,121	1,136	1,180	1,224	1,270	526
Contributions from wages	969	1,037	1,098	1,113	1,178	1,223	1,155	436
Contributions from self-employed	22	21	22	23	2	0	24	9
Contributions from the people who work abroad	0	0	0	0	0	1	4	2
Contributions from previous year	0	0	0	0	0	0	88	80
Revenues from the Government budget	3,261	3,066	3,990	3,677	4,726	5,002	6,163	2,453
For covering the deficit of the Employment Fund	2,737	2,575	3,470	3,170	3,742	3,958	4,522	1,984
For paying allowances to the employees of the loss-making enterprises	524	490	516	481	944	980	988	206
Public administration reform	-	-	-	26	19	3	61	12
Others	0	0	3	26	21	61	592	251
Other revenues	9	6	8	13	12	16	23	4
EXPENDITURES	4,264	4,135	5,110	4,749	5,868	6,214	7,325	2,977
Expenditures for the functions	4,084	3,970	4,913	4,571	5,658	6,005	7,102	2,887
Unemployment benefits	2,073	1,755	1,875	1,879	2,273	2,377	2,697	1,055
Contributions for health insurance	1,039	1,347	1,936	1,555	1,763	1,849	1,998	868
Contributions for pension and disability insurance	972	868	1,102	1,138	1,453	1,557	1,729	673
Transfers for employment of disabled persons	-	-	-	-	128	121	58	32
Payments according to the new Law	-	-	-	-	-	61	592	249
Compensation for training	-	-	-	-	41	40	29	10
Expenditures for the personnel	180	165	198	178	210	209	223	90
Wages and salaries	99	105	118	116	124	134	132	55
Allowances	14	17	19	18	22	20	20	7
Goods and other services	43	34	54	43	42	51	68	28
Current transfers	0	0	0	0	0	0	0	0
Interest payments	0	0	1	0	0	0	0	0
Capital expenditures	24	8	6	2	22	4	3	0
BALANCE								
Deficit / Surplus	-4	-6	9	78	50	27	132	6

Source: Internal data of the Ministry of Finance

Regional and National Road Fund

The Road Fund, in the period January-May 2005 collected **revenues** in the amount of Denar 1.149 million, meaning 18.1% decline compared to the same period last year. The budget revenues, having the largest share, account for 43.5% of total revenues, but are lower in relation to 2004 by 32.4%, while 30.5% were collected from the annual fee for light motor vehicles, a 2.5% decline.

Expenditures of the Road Fund in the period January-May 2005 were Denar 848 million. Most part of the ex-

penditures (62.3%) were for road maintenance. Only Denar 173 million were spent for investments, meaning a 71.7% decline in relation to the previous year. Expenditures for surveys, design, oversight, fees and material costs account for 7.57% in total revenues.

The Road Fund in the period January-May 2005 had **surplus** of Denar 301 million.

REGIONAL AND NATIONAL ROAD FUND								
(In million of denars)								
Types of revenues / expenditures	1998	1999	2000	2001	2002	2003	2004	2005
	Actual	Jan-May						
REVENUES	2,660	3,793	3,506	4,012	3,434	3,668	3,299	1,149
Revenues from Budget	668	924	1,590	1,655	1,305	1,603	1,610	500
Paytoll by foreign motor vehicles								
Annual fee for motor vehicles subject to registration	49	54	82	73	87	82	77	28
Paytoll for use of motorway								
Foreign credit	524	518	746	704	761	797	853	351
Other revenues	468	492	537	375	381	728	741	256
Grants	939	1,793	538	1,098	862	418	9	0
	12	13	14	21	2	39	9	14
EXPENDITURES	-	-	-	87	36	1	0	0
Investments	2,660	3,793	3,506	4,013	3,420	3,661	3,889	848
Expenditures for studies, projections, supervision, fees and material costs	1,203	1,985	1,662	1,756	1,250	1,107	1,753	173
Road maintenance	0	0	179	286	289	205	156	64
Repayment of loans	784	790	952	926	900	1,063	1,081	528
Funds for local roads	264	148	212	299	304	424	242	83
Other expenditures	321	386	502	596	528	666	611	0
Liabilities from the previous year	89	142	0	0	0	46	45	0
Liabilities towards the Bank Rehabilitation Agency	0	342	0	0	0	0	0	0
	0	0	0	150	149	150	0	0
BALANCE								
Deficit / Surplus	0	0	0	-1	14	7	-590	301

Source: Internal data of the Ministry of Finance

Macedonian Stock Exchange

Stock Exchange Indicators - May 2005

In May 2005 the trading, i.e. the traditional trading on the Macedonian Securities Stock Exchange was Denar 342,29 million and in relation to the previous month means 51.52% decline. The trading via block transactions on the SE in this month was Denar 190,32 million and in relation to previous month, is 581.71% growth. In May 2005 government securities were traded as well, whereby the trading reached Denar 122,78 million. The total traditional trading, block transactions and trading in government securities on the Macedonian Securities Stock Exchange in May 2005, was Denar 655,39 million and in relation to the previous month means 10.71% decline.

In May 2005 the average daily trading was Denar 21,39 million and in relation to April is 51.53% decline. Total number of transactions on the Macedonian SE in May 2005 was 2.307 in 16 days of trading and it is a 30.37% decline in relation to the previous month. Average daily number of transactions in the analyzed period is 144 and in relation to April is by 30.37% lower.

In the total traditional trading volume of the SE, which in May was Denar 342,29 million, the share trading accounts for Denar 205,38 million which in relation to the previous month is 56.38% decline. The trading in government bonds in the analyzed period is Denar 136,91 million and in relation to the previous month is a decline by 41.81%.

The analysis of the total trading in government bonds in May 2005 leads to conclusion that the trading in government bonds for old foreign exchange saving in May 2005 were Denar 17,13 million, whereby the unit price of these bonds was 74.11% of their nominal value and in relation to the previous month is higher by insignificant 0.01 percentage point. In the analyzed period, the trading in denationalization bonds from the first issue was Denar 694,81 thousand, and their average price is 71% of their nominal value and is unchanged in relation to the previous month.

Denationalization bonds from the second issue were sold at average price of 71.60% of their nominal

MACEDONIAN STOCK EXCHANGE - MAY 2005

	April	May	% Change
TURNOVER (denars)			
TRADING IN BEST	706,134,057	342,295,862	-51.5
Shares	470,823,080	205,382,353	-56.4
Bonds	235,310,977	136,913,509	-41.8
DAILY AVERAGE TURNOVER (denars)	44,133,378	21,393,491	-51.5
DAILY AVERAGE NUMBER OF TRANSACTIONS	207	144	-30.4
BLOCK TRANSACTIONS	27,918,000	190,321,113	581.7
GOVERNMENT AUCTIONS	0	122,781,564	-
Shares	0	0	-
Stakes	0	122,781,564	-
TOTAL	734,052,057	655,398,539	-10.7
VOLUME (in securities)			
SHARES	287,003	339,155	18.2
TRADING IN BEST	273,433	281,314	2.9
BLOCK TRANSACTIONS	13,570	57,841	326.2
GOVERNMENT AUCTIONS	0	0	-
BONDS (NV in EURO'S)	5,744,504	3,398,356	-40.8
NUMBER OF TRANSACTIONS			
TRADING IN BEST	3,311	2,296	-30.7
BLOCK TRANSACTIONS	2	6	200.0
GOVERNMENT AUCTIONS	0	5	-
TOTAL	3,313	2,307	-30.4
MARKET CAPITALIZATION (denars)			
MARKET CAPITALIZATION OF SHARES	43,791,030,133	42,423,121,942	-3.1
LISTED SHARES	27,968,986,252	27,054,590,458	-3.3
PUBLICLY HELD COMPANIES	15,822,043,881	15,368,531,484	-2.9
MARKET CAPITALIZATION OF BONDS	22,332,828,619	22,308,990,018	-0.1
TOTAL MARKET CAPITALIZATION	66,123,858,752	64,732,111,960	-2.1
MBI-10	2,026,35	1,851,08	-8.6
NUMBER OF LISTED SECURITIES	63	62	
NUMBER OF TRADING DAYS	16	16	15.8

value which in relation to April this year was by 0.30 percentage points higher, and their total trading in May was Denar 1.9 million. In May 2005, total trading in denationalization bonds from the third issue was Denar 10,23 million and their average price is 70.20% of their nominal value and in relation to the previous month is a decline by 3.68 percentage points.

Total trading in denationalization bonds from the fourth issue in May 2005 was Denar 107,64 million

and their average price is 62,90% of their nominal value and in relation to the previous month is a decline by 1,38 percentage points.

In May 2005 the official stock exchange index (MBI-10) as indicator of the share price trends was Denar 1.851,08 and in relation to the previous month is a decline of 8.65%.

Total trading on the official market on the Macedonian Securities Stock Exchange in May 2005 was Denar 314,02 million, meaning 47.91% of the total trading. Total trading on the unofficial market in the analyzed period was Denar 218,59 million, accounting for 33,35% of the total trading. The trading in government securities in May 2005 was Denar 122,78 million, being 18.73% of the total SE trading volume.

In May 2005, total trading in the 10 most liquid shareholding companies on the official market on the Macedonian Securities Stock Exchange was Denar 177,10 million, whereby the trading with shares of the following companies was the most significant: Komercijalna Banka - 25,53% of the trading, Alkaloid - 19,93% of the trading in the 10 most liquid shareholding companies on the official SE market.

The shares of the following company noted the biggest rise in the average price in May 2005 in relation to the previous month: Tehnometal Vardar Skopje, which average share prices grew by 36.45%, and the

average price per share was Denar 1.050,00. The share price of Investbanka Skopje in the analyzed period grew by 36.29%, and in May 2005 was Denar 1.499,17. Also the average share price of Ading Skopje grew by 24.50% in relation to the previous month and it was Denar 3.162,33 per share.

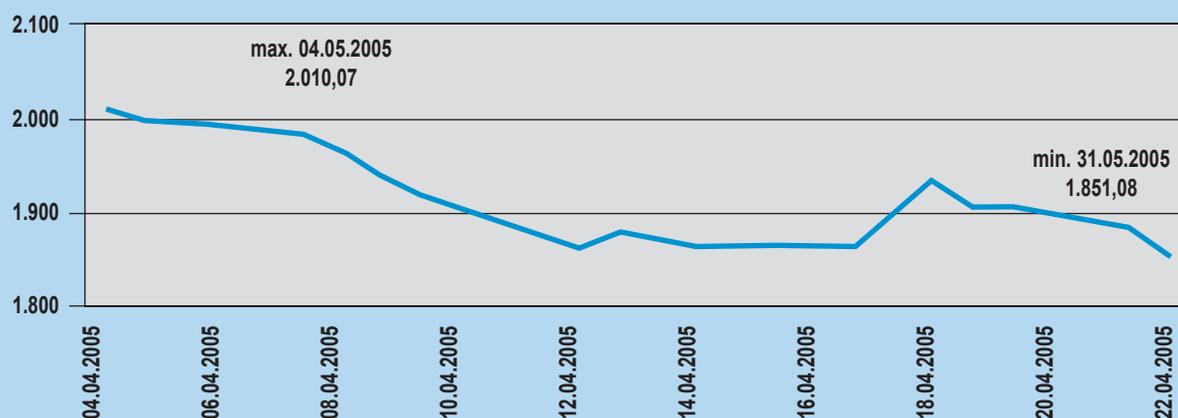
In May 2005, the analysis of the dividend of the 10 shareholding companies having the largest shares in the trading volume on the official market shows that the shares of Stopanska banka Bitola have highest dividend per share of 11.26%, followed by the shares of Ohridska banka Ohrid with 9,34% and by Toplifikacija Skopje with 6,12%.

The analysis of the ownership structure of capital of the shareholding companies shows that foreign investors are most present in the total capital of the following companies, being among the 10 most liquid companies on the Macedonian Securities Stock Exchange: Toplifikacija - 23,79% foreign capital, Komercijalna banka Skopje - 16,47% foreign capital and Alkaloid - 7,45% foreign capital.

In the total trading on the official market in May 2005, foreign investors accounted for 11.56% and in relation to April 2005 their share in the trading on the official market was by 1.94% higher. Foreign investors' share in the total SE trading volume in May 2005 was 4,36% and in relation to the previous month is by 4.86% decline.

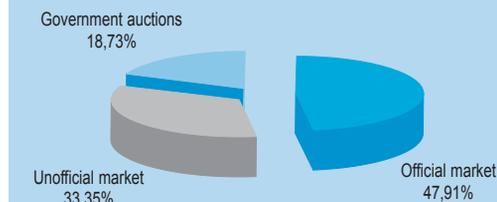
Macedonian Stock Exchange

MACEDONIAN STOCK EXCHANGE			
	APRIL 2005	MAY 2005	% CHANGE
TURNOVER (denars)			
TRADING IN BEST	706.134.057	342.295.862	▼51,52%
Shares	470.823.080	205.382.353	▼56,38%
Bonds	235.310.977	136.913.509	▼41,81%
DAILY AVERAGE TURNOVER (denars)	44.133.378	21.393.491	▼51,53%
DAILY AVERAGE NUMBER OF TRANSACTIONS	207	144	▼30,43%
BLOCK TRANSACTIONS			
GOVERNMENT AUCTIONS	0	122.781.564	-
Shares	0	0	-
Stakes	0	122.781.564	-
TOTAL	734.052.057	655.398.539	▼10,71%
VOLUME (in securities)			
SHARES			
TRADING IN BEST	287.003	339.155	▲18,17%
BLOCK TRANSACTIONS	273.433	281.314	▲2,88%
GOVERNMENT AUCTIONS	13.570	57.841	▲326,24%
BONDS (NV in EURO'S)	0	0	-
NUMBER OF TRANSACTIONS	5.744.504	3.398.356	▼40,84%
NUMBER OF TRANSACTIONS			
TRADING IN BEST	3.311	2.296	▼30,66%
BLOCK TRANSACTIONS	2	6	▲200,00%
GOVERNMENT AUCTIONS	0	5	-
TOTAL	3.313	2.307	▼30,37%
MARKET CAPITALIZATION (denars)			
MARKET CAPITALIZATION OF SHARES	43.791.030.133	42.423.121.942	▼3,12%
LISTED SHARES	27.968.986.252	27.054.590.458	▼3,27%
PUBLICLY HELD COMPANIES	15.822.043.881	15.368.531.484	▼2,87%
MARKET CAPITALIZATION OF BONDS	22.332.828.619	22.308.990.018	▼0,11%
TOTAL MARKET CAPITALIZATION	66.123.858.752	64.732.111.960	▼2,10%
MBI-10	2.026,35	1.851,08	▼8,65%
NUMBER OF LISTED SECURITIES	63	62	▼1,59%
NUMBER OF TRADING DAYS	16	16	-



TURNOVER STRUCTURE in May 2005

Market segment	Turnover (denars)	Turnover (EUR)	%	No. of trans.
OFFICIAL MARKET	314.023.328	5.112.593	47,91	2.122
UNOFFICIAL MARKET	218.593.647	3.559.692	33,35	180
GOVERNMENT AUCTIONS	122.781.564	1.999.449	18,73	5
TOTAL	655.398.539	10.671.734	100,00	2.307



10 MOST LIQUID SHARES (official market)

Name of the issuer	Max (denars)	Min (denars)	Average price (denars)	Volume	Turnover (denars)	Turnover (EUR)	%	Num. of trans.	Market capitalization (den.)
Komercijalna Banka Skopje	2.399	2.000	2.272	20.507	45.222.723	736.368	25,53	187	3.825.045.980
Alkaloid Skopje	4.999	3.800	4.179	8.536	35.300.267	574.671	19,93	159	5.271.282.730
Stopanska banka Bitola	4.650	3.802	4.217	3.473	14.139.364	230.245	7,98	34	1.377.343.876
Toplifikacija Skopje	2.900	2.600	2.754	5.040	13.772.625	224.164	7,78	58	1.282.500.000
Komercijalna banka Skopje prior.	2.350	2.100	2.200	5.497	12.192.910	198.503	6,88	91	365.512.206
Makedonija Turist Skopje	2.300	2.020	2.116	5.174	10.916.466	177.716	6,16	34	1.021.475.194
Granit Skopje	315	290	303	32.189	9.776.516	159.192	5,52	224	927.423.785
Tehnometal Vardar Skopje	1.200	886	1.050	5.372	6.351.046	103.442	3,59	140	86.600.880
Zito Vardar Veles	690	690	690	7.373	5.087.370	82.742	2,87	2	50.395.530
Pecatnica 11 Oktomvri Prilep	1.300	1.300	1.300	3.779	4.912.700	79.976	2,77	2	41.600.000
Others				51.418	19.437.832	316.457	10,98	326	12.805.410.277
TOTAL				148.358	177.109.819	2.883.474	100,00	1.257	27.054.590.458

TOP 3 GAINERS

Issuer	April 2004 Average price (denars)	May 2005 Average price (denars)	% change
Tehnometal Vardar Skopje	769,5	1.050,00	36,45%
Investbanka Skopje	1.100,00	1.499,17	36,29%
Ading Skopje	2.540,00	3.162,33	24,50%

TOP 3 LOSERS

Issuer	April 2004 Average price (denars)	May 2005 Average price (denars)	% change
Beton Skopje	3.944,12	2.476,99	-37,20%
Granit Skopje	396,95	303,36	-23,58%
Evropa Skopje	1.501,75	1.198,65	-20,18%

OVERVIEW OF THE TRADING WITH BONDS

	MAX (%)	MIN (%)	Last daily average price (%)	Last trading day	Volume (NV in EUR)	Turnover (denars)	Turnover (EUR)	Yield to maturity*
Government bonds F/X deposits (RM 01)	74,20	73,50	74,11	31.05.2005	376.800	17.136.732	278.984	11,52%
Government bonds Denationalization II issue (RMDEN01)	71,00	70,00	71,00	23.03.2005	16.058	694.810	11.314	10,13%
Government bonds Denationalization II issue (RMDEN02)	74,00	71,60	72,50	25.05.2005	42.840	1.900.871	30.952	8,84%
Government bonds Denationalization II issue (RMDEN03)	74,00	70,20	73,55	26.05.2005	229.850	10.232.472	166.575	7,92%
Government bonds Denationalization II issue (RMDEN04)	65,00	62,90	63,13	31.05.2005	2.748.866	107.643.434	1.752.609	9,89%

*The model for calculation of yield to maturity is adapted to the characteristics of the bonds. Calculation date is 31.01.2005, using the last average price of the bonds.

MBI-10 LISTED COMPANIES RATIOS

Issuer	P/E	Dividend	Foreign investors	Foreign investors	% Change
	ratio ¹⁾	yield ²⁾	participation in	participation in	
			March 2005	April 2005	
Alkaloid Skopje	19,79	1,74%	7,01%	7,45%	0,44%
Granit Skopje*	6,75	2,98%	2,09%	3,18%	1,09%
Evropa Skopje*	35,65	-	5,95%	5,95%	0,00%
Komercijalna banka Skopje	5,20	4,62%	15,88%	16,47%	0,59%
Makedonijaturist Skopje	10,17	3,63%	2,12%	2,18%	0,06%
Makpetrol Skopje	15,38	0,00%	1,77%	1,92%	0,15%
Ohridska banka Ohrid	7,90	9,34%	4,93%	5,03%	0,10%
Skopski pazar Skopje*	4,26	2,00%	0,00%	0,00%	0,00%
Stopanska banka Bitola	6,75	11,26%	6,35%	7,17%	0,82%
Toplifkacija Skopje	13,08	6,12%	23,56%	23,79%	0,23%

FOREIGN INVESTORS ON THE OFFICIAL MARKET ³⁾

	Foreign legal entities April 2005	Foreign private entities April 2005	Total foreign investors April 2005	Total foreign investors March 2005	% Change
Shares	12,40%	0,76%	13,16%	12,98%	0,18%
Bonds ⁴⁾	3,42%	5,25%	8,66%	5,62%	3,04%
Total official market	9,20%	2,36%	11,56%	9,62%	1,94%

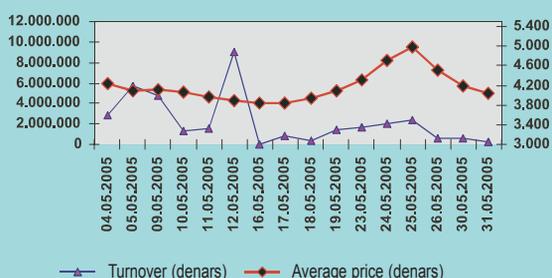
FOREIGN INVESTORS IN THE TOTAL TURNOVER ⁵⁾

	Buying	% of total	Selling	% of total	TOTAL
May 2005	119.698.976	18,27%	28.565.273	4,36%	148.264.249

TURNOVER PER MEMBERS

Issuer	code	Trading in Best System	Trading in Best System (%)	State	State %	Block	Block %	Total
Tutunskabroker AD	TN	98.895.161	14,45	0	0,00	368.095.426	96,70	466.990.587
Komercijalna banka AD	KB	252.500.823	36,88	0	0,00	0	0,00	252.500.823
MAK Broker AD	MK	41.273.549	6,03	92.851.205	75,62	0	0,00	134.124.754
Teteks-kreditna banka	TK	70.842.847	10,35	0	0,00	0	0,00	70.842.847
Sileks banka AD	SL	33.660.997	4,92	29.930.359	24,38	0	0,00	63.591.356
Fersped Broker AD	FR	47.877.805	6,99	0	0,00	12.546.800	3,30	60.424.605
Stopanska banka AD	SB	47.626.795	6,96	0	0,00	0	0,00	47.626.795
Investbroker	MI	27.916.946	4,08	0	0,00	0	0,00	27.916.946
Ohridska banka AD	OH	23.084.197	3,37	0	0,00	0	0,00	23.084.197
Bitola Broker AD	BB	20.264.835	2,96	0	0,00	0	0,00	20.264.835
Bro-dil AD	BD	11.897.275	1,74	0	0,00	0	0,00	11.897.275
UNI Banka AD	BL	4.969.436	0,73	0	0,00	0	0,00	4.969.436
Postel Broker AD	PT	3.781.060	0,55	0	0,00	0	0,00	3.781.060
Total		684.591.725	100	122.781.564	100,00	380.642.226	100,00	1.188.015.516

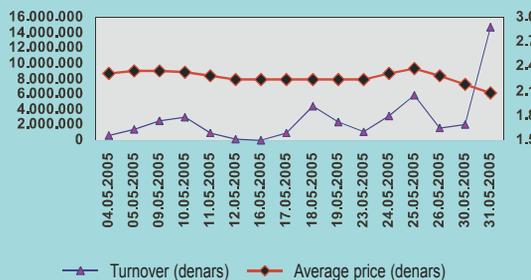
ALKALOID AD SKOPJE



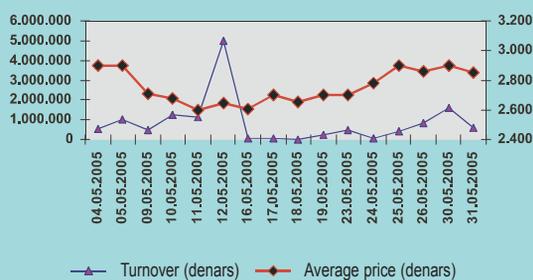
GRANIT AD SKOPJE



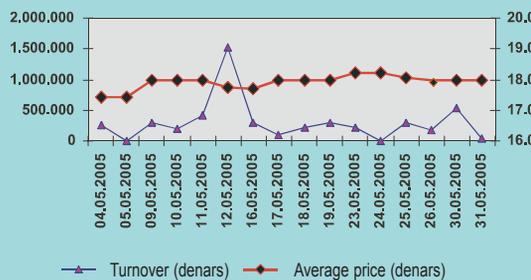
KOMERCIJALNA BANKA AD SKOPJE



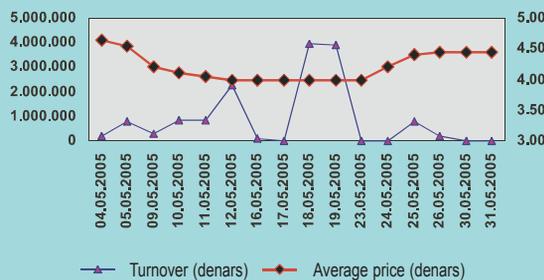
TOPLIFIKACIJA AD SKOPJE



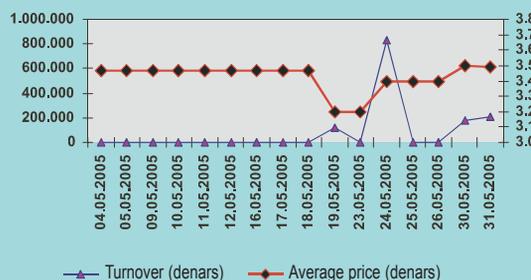
MAKPETROL AD SKOPJE



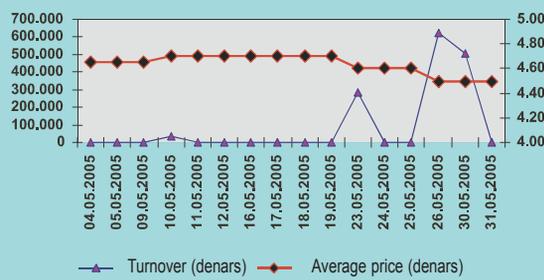
STOPANSKA BANKA AD BITOLA



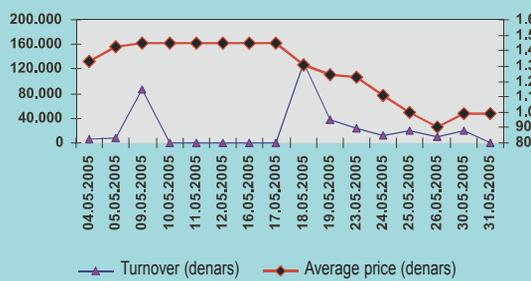
OHRIDSKA BANKA AD OHRID



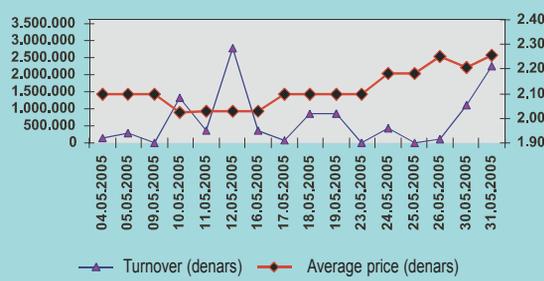
SKOPSKI PAZAR AD SKOPJE



EVROPA AD SKOPJE



MAKEDONIJA TURIST AD SKOPJE



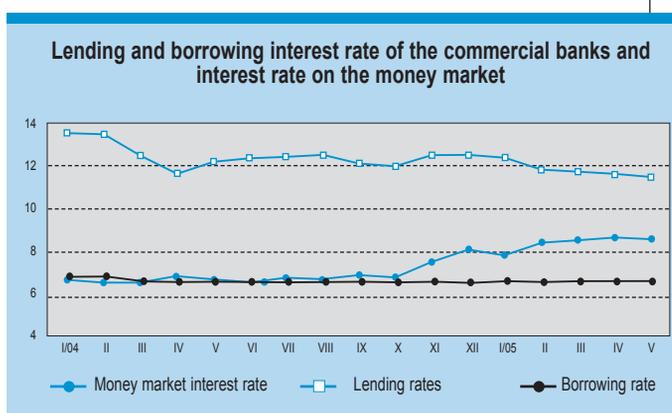
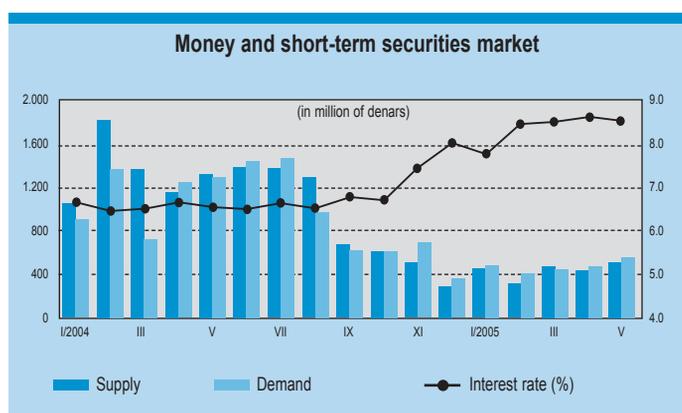
MONEY AND SHORT-TERM SECURITIES MARKET

In May 2005, trading on the money and short-term securities market in the Republic of Macedonia amounted to Denar 452.5 million, and compared to the previous month, it increased by 34.48%.

In the analyzed period, demand for liquid assets on the money market amounted Denar 555.5 million, and compared to the previous month, it increased by 16.83%.

In May 2005, demand for liquid assets on the money market also increased by 16.83% compared to the previous month, and it amounted to Denar 512.5 million.

Average weighted interest rate in the analyzed period amounted to 8.50%, and in relation to April, it declined by 0.11 percentage points.



MONEY AND SHORT-TERM SECURITIES MARKET (by months)

Year	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
2002												
Total turnover (In million of denars)	2,491	3,390	4,888	4,473	4,145	5,631	3,938	2,460	3,008	2,970	3,843	5,213
Interest rate (% , annual)	12.03	11.62	10.85	11.41	11.62	12.11	12.33	10.84	10.83	11.35	13.36	14.36
2003												
Total turnover (In million of denars)	3,224	2,330	1,493	1,350	979	1,371	1,204	476	837	659	560	894
Interest rate (% , annual)	15.20	14.44	12.19	10.59	9.36	9.16	9.34	8.52	7.41	7.87	7.25	5.82
2004												
Total turnover (In million of denars)	823	1,337	674	1,012	1,128	1,131	1,136	912	490	547	433	218
Interest rate (% , annual)	6.67	6.48	6.51	6.66	6.55	6.51	6.67	6.55	6.80	6.73	7.45	8.03
2005												
Total turnover (In million of denars)	413	258	257	337	453							
Interest rate (% , annual)	7.77	8.44	8.51	8.61	8.50							

Deposits of citizens and enterprises at the banks

Total bank deposits in May 2005 grew monthly by 2.1% as a result of the greater short-term and long-term saving (by 1.6% and 9.5% respectively). Short-term denar deposits grew monthly almost identically by 4.4%, while short-term foreign currency deposits remained almost unchanged. On the other hand, the positive dynamics of long-term deposits is fully determined by the greater foreign currency component (by 31% on monthly basis)

Deposits of the population

Deposits of the population grew by 1.2% on monthly basis, as both short- and long-term time deposits (by 1.2% and 2% respectively). From the aspect of the currency structure, slight decline by 0.2% was registered at denar deposits, while foreign currency deposits grew monthly by 1.7%.

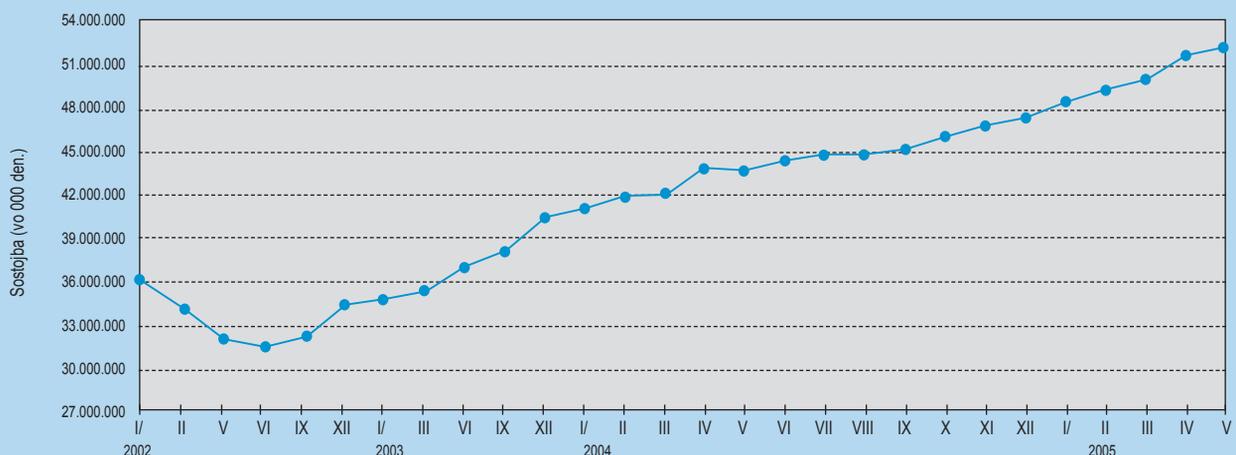
Deposits of enterprises

Enterprise deposits in May 2005 grew by almost 4.1% on monthly basis, mainly due to the growth in the time denar deposits of up to 3 months and the foreign currency time deposits. On annual level (May 2005 / May 2004) total deposits of the private sector are by 26.3% higher.

Deposit Insurance Fund

As of May 31, 2005, total resources of the Fund amount to 3.32% of the total deposits of physical persons in banks and savings houses. Out of the total reimbursement amount of Denar 109 281 million until May 31, the Fund reimbursed an amount of Denar 102 704 million or 93.98%.

Deposits of physical persons and saving houses



INTEREST RATES ON DENAR AND FOREIGN EXCHANGE DEPOSITS AT THE COMMERCIAL BANKS IN THE REPUBLIC OF MACEDONIA

Banks	Denar deposits							Foreign exchange deposits							
	Sight deposits	1 month	3 months	6 months	12 months	24 months	36 months	Foreign exch.	Sight deposits	1 month	3 months	6 months	12 months	24 mon.	36 mon.
Alfa banka AD Skopje Interest rates since June, 2004	1.0%	4.5%		5.0%	5.5%	6.0%		EUR	0.80%		1.40%	1.50%	1.70%		
								USD	0.50%				1.00%		
								CHF	0.10%				0.40%		
								GBP	0.20%						
Eurostandard banka AD Skopje Interest rates since February, 2004	1.0%	4.0%	5.0%	5.5%	6.5%	8.0%	10.0%	EUR	0.80%	1.40%	1.50%	1.70%	2.10%	2.50%	2.80%
								USD	0.50%	0.80%	0.90%	1.00%	1.10%	1.50%	1.60%
								GBP	0.50%	0.80%	0.90%	1.00%	1.10%	1.50%	1.60%
								CHF	0.10%	0.15%	0.17%	0.20%	0.25%	0.30%	0.35%
								Others	0.50%	0.80%	0.90%	1.00%	1.10%	1.50%	1.60%
Invest banka AD Skopje Interest rates since March, 2004	1.0%	4.0%	5.0%	5.5%	6.0%	6.5%	8.0%	EUR	0.80%	1.50%	1.70%	1.80%	2.20%	2.50%	2.80%
								USD	0.50%	0.90%	1.00%	1.10%	1.30%	1.60%	1.80%
								CHF	0.10%	0.20%	0.30%	0.40%	0.50%	0.60%	0.70%
								AUD	1.70%	2.50%	3.00%	3.40%	3.90%	4.00%	4.60%
								Others	1.20%	1.50%	1.70%	2.00%	2.30%	2.80%	3.20%
Izvozno kreditna banka AD Skopje Interest rates since August, 2004	1.5%		8.0%	8.0%	9.0%	9.5%	10.0%	EUR	0.80%		2.45%	2.45%	3.00%	3.50%	4.00%
								USD	0.60%		1.00%	1.10%	1.20%	1.50%	2.00%
								CHF	0.10%		0.30%	0.40%	0.60%	0.80%	1.00%
								Others	0.50%		1.00%	1.20%	1.50%	1.70%	2.00%
Komercijalna banka AD Skopje Interest rates since July, 2004	1.0%	5.5%	6.3-6.5%	6.8-7%	7.3-7.5%			EUR	0.80%	1.40%	1.4-1.5%	1.6-1.7%	2.0-2.1%		
								USD	0.50%	0.80%	0.8-0.9%	0.9-1%	1.0-1.1%		
								GBP	1.50%	2.40%	2.5-2.6%	2.7-2.8%	3.4-3.5%		
								CHF	0.10%	0.15%	0.15-0.17%	0.18-0.2%	0.23-0.25%		
KIB AD Kumanovo Interest rates since March, 2004	0.5%	6.5%	7.0%	7.8%	8,3% -9%	8,3% -9%	8,3% -9%	All foreign exchange	0.25%				0.85%	1.00%	1.30%
Makedonska banka AD Skopje Interest rates since April, 2004	1.3%-2.3%	6.3%	7.3%	7.8%	8.3%	8.8%	9.3%	EUR	1.10%	1.70%	1.80%	2.00%	2.40%	2.80%	3.10%
								CHF	0.40%	0.45%	0.47%	0.50%	0.53%	0.58%	0.60%
								GBP	1.80%	2.70%	2.90%	3.10%	3.50%	4.00%	4.50%
								CAD	1.30%	1.80%	2.00%	2.30%	2.70%	3.10%	3.20%
								USD	0.80%	1.10%	1.20%	1.30%	1.30%	1.50%	1.70%
								AUD	2.00%	3.20%	3.40%	3.70%	4.00%	5.00%	5.50%
								Others	0.60%	1.30%	1.40%	1.50%	1.90%	2.00%	2.30%

Ohridska banka AD Ohrid Interest rates since March, 2004	1.0%	6.0%	7.0%	7.5%	8.0%	8.5%	9.0%	EUR	0.50%				2.50%	2.60%	2.80%
								CHF	0.10%				1.00%	1.10%	1.20%
								GBP	0.50%				3.00%	3.20%	3.40%
								USD	0.20%				1.30%	1.50%	1.60%
								Others	0.50%				2.00%	2.50%	3.00%
Postenska banka AD Skopje	1.0%	6.0%	7.0%	7.5%	8.0%	8.5%	9.0%								
Prokredit banka AD Skopje Interest rates since December, 2004		6.5%	7.5%	8.5%	10.0%	10.5%	10.5%	EUR		1.50%	2.00%	2.50%	3.00%	3.75%	4.50%
								USD			1.00%	1.25%	1.50%	1.80%	2.25%
Radobank AD Skopje Interest rates since September, 2004	2.0%	7.0%	7.5%	8.0%	8.5%			EUR	1.00%	2.30%	2.35%	2.70%	3.35%	upp. agr.	upp. agr.
								USD	0.50%	0.85%	0.90%	1.10%	1.50%	upp. agr.	upp. agr.
								CHF	0.01%	0.05%	0.10%	0.15%	0.30%	upp. agr.	upp. agr.
								Others	upp. agr.						
Stopanska banka AD Skopje Interest rates since February, 2005	0.85%	5.25%	6.5%	7.0%	7.5%	8.0%	8.5%	EUR	0.550%	1.264%	1.394%	1.530%	2.079%	2.541%	2.772%
								USD	0.450%	1.546%	1.775%	2.058%	2.934%	3.586%	3.912%
								GBP	1.691%	2.899%	3.164%	3.431%	4.481%	4.481%	4.481%
								CAD	0.904%	1.550%	1.691%	1.841%	2.468%	2.468%	2.468%
								AUD	1.863%	3.193%	3.510%	3.829%	5.045%	5.045%	5.045%
								Other	0.200%	0.264%	0.394%	0.530%	1.079%	1.079%	1.079%
								CHF	0.001%	0.001%	0.001%	0.001%	0.001%	0.001%	0.001%
							Japan JEN	0.001%	0.001%	0.001%	0.001%	0.001%	0.001%	0.001%	
Stopanska banka AD Bitola	1.5%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%								
Sileks banka AD Skopje Interest rates since November, 2003	3.0%	8.0%	9.5%	10.0%	10.5%	11.0%	11.5%	EUR	2.00%		2.70%	3.10%	3.60%	4.10%	
								USD	1.50%		2.20%	2.50%	3.00%	3.50%	
								Other	0.80%		1.00%	1.30%	1.50%	1.70%	
"Teteks Kreditna banka AD Skopje" Interest rates since June, 2004	2.5%	7.0%	8.0%	8.5%	9.0%	9.5%		EUR	1.00%	2.00%	2.30%	3.50%	4.00%	4.50%	5.00%
								AUD	1.50%	2.40%	2.80%	4.00%	4.50%	5.00%	5.50%
								USD	0.50%	1.20%	1.70%	2.80%	3.20%	3.50%	4.00%
								GBP	1.40%	2.00%	2.40%	3.50%	4.00%	4.50%	5.00%
								CHF and others	0.60%	1.00%	1.50%	2.80%	3.20%	3.50%	4.00%
Tetovska banka AD Tetovo Interest rates since June, 2004	2.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	EUR	1.20%				2.00%	2.50%	3.00%
								USD	0.80%				1.50%	2.00%	2.50%
								CHF	0.40%				0.70%	1.00%	1.20%
								Others	0.40%				0.70%	1.00%	1.20%
Tutunska banka AD Skopje Interest rates since February, 2004	1.0%	6.0%	7.5%	7.8%	8.0%	8.5%	9.0%	EUR	0.80%	1.50%	1.75%	1.80%	2.20%		
								USD	0.60%	0.90%	1.00%	1.10%	1.20%		
								CHF	0.10%	0.20%	0.30%	0.40%	0.50%		
UNI banka AD Skopje Interest rates since December, 2003	2.5%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	Others	0.70%	1.00%	1.20%	1.40%	1.80%		
								EUR	1.00%	2.00%	2.50%	3.00%	3.50%	5.00%	6.00%
								USD	1.00%	1.50%	2.00%	2.50%	3.50%	5.00%	6.00%
								CHF	0.10%	0.30%	0.40%	0.50%	0.60%		
							AUD, GBD	2.00%	2.50%	3.00%	3.50%	4.00%	4.50%	5.00%	

The data are provided from the banks of the R M and they can be changed according their policy
Only the data from Postenska banka AD Skopje and Stopanska banka AD Bitola are not confirmed

CREDIT LINES FOR SMALL AND MEDIUM SIZE ENTERPRISES
secured and guaranteed by the Republic of Macedonia, as of October 2004
(the data are of informative nature, the detailed conditions are available in the commercial banks)

Credit line	Credit line for procurement of equipment produced in Italy Agent bank - MBDP	Program for crediting the development of SMEs by the German KfW - revolving fund Agent bank - MBDP	Micro-credit line for financial assistance by the EU to SMEs Implementing agency - MBDP
Amount	50.000 - 2.000.000 €	50.000 - 400.000 €	do 30.000 EVRA
Repayment period	7 years including grace period	Up to 4 years including grace period	up to 3, i.e. 5 years
Grace period	up to 1.5 years	up to 6 months	up to 6 months
Annual interest rate	Fixed at 7% annually	10% on annual level	up to 10%, i.e. 10.5%
Securing instrument	Mortgage, bank guarantee, deposits and securities	Mortgage, bills of exchange, collateral on movable assets, rights and securities or collateral on immovable assets	Blank bill of exchange with notarized statement, crossed cheque with notarized statement, bill and/or crossed cheque from other solvent guaranteeing legal entities - mortgage, minimum 130% of the credit amount, collateral on movable assets - minimum 130% of the credit amount, deposit of valuables and securities, bank guarantee.
Credit purpose	Resources are granted to profitable investment projects of private investors	Modernization and expansion of existing private SMEs and establishment of new ones. Minimum 40% of the credit is used for fixed assets; Maximum 60% of the credit can be used for working assets	Long-term financing of new projects via procurement of equipment or machines. Up to 20% of the total credit amount can be used as working capital.
Target groups	All SMEs excluding the following activities: G - commerce, L - public administration, mandatory health care, P - private households with employed persons, and Q - extraterritorial organizations and bodies.	SMEs being over 51% private-owned.	Legal entities with at least 51% private-owned, with less than 20 employees, being at the beginning of their business, or which started their business up to 5 years ago.
Extent of utilization of resources	Italy provided EUR 12.7 million, out of which EUR 4.4 million remain. 66% were used. The collected annuities will be pooled in a revolving fund for approval of credits under the following conditions: EUR 50.000-500.000, repayment period: 1-3 years, 7%-10% interest rate p.a. purpose: permanent working assets.	The German KfW provided EUR 15 million, 100% out of which have not been utilized. The collected annuities are pooled into a revolving fund.	EU provided EUR 7,9 million, out of which EUR 5,4 million remain.
Commercial banks offering the credit	Eurostandard banka AD Skopje, Izvozna i kreditna banka Skopje, Invest banka Skopje, Komercijalna banka Skopje, Makedonska banka Skopje, Ohridska banka Ohrid, Radobank Skopje, Sileks banka Skopje, Stopanska banka Skopje, Stopanska banka Bitola, Tetovska banka Tetovo, Teteks kreditna banka Skopje, Tutunska banka Skopje, UNI banka Skopje	Eurostandard AD Skopje, Izvozna i kreditna banka AD Skopje, Invest banka AD Skopje, Komercijalna banka AD Skopje, Makedonska banka AD Skopje, Ohridska banka AD Ohrid, Radobank AD Skopje, Sileks banka Skopje, Stopanska banka AD Skopje: Stopanska banka AD Bitola, Teteks kreditna banka Skopje, Tetovska banka AD Tetovo, Tutunska banka AD Skopje, UNI banka Skopje	Komercijalna banka AD Skopje, Ohridska banka AD Ohrid, Stopanska banka AD Skopje, Stopanska banka AD Bitola, Tutunska banka AD Skopje, Izvozna i kreditna banka AD Skopje, KIB AD Kumanovo
Note	1,2% one-off fee paid to the Procurator, should his/her services be used		The credits are used and repaid in denars.

Credit line	Crediting of small businesses (micro- and small credits) by the German KfW Agent bank - MBDP	Credit for export-oriented production from the MBDP resources	Credits from the EBRD for private sector development revolving fund
Amount	EUR 50 - 15.000 micro credits, up to EUR 50.000 small credits	30.000 up to EUR 2.000.000	no limit
Repayment period	up to 4 years	2-12 months (for export arrangements)	- up to 3 years for working assets; up to 5 years for investment projects for technological process modernization
Grace period	up to 1 year	No	According to the credit policy of commercial banks
Annual interest rate	from 11% to 18% on annual level	Depending on the repayment period: up to 2 months - 7,5% p.a.; up to 4 months - 8,0% p.a.; up to 6 months - 8,5% p.a.; up to 12 months - 9,0% p.a. The basic interest rate can be reduced to 0,5% p.a., should the final beneficiary insures the export via the MBDP	Ohridska banka from 5,27% to 10,00% Tutunska banka from 6,19% to 8,65% Radobank 7,50% Invest banka 10,00% Stopanska banka - Bitola 9,00%
Securing instrument	Blank bill of exchange with notarized statement with at least 2 endorsers; crossed cheque with notarized statement; bill of exchange and/or crossed cheque from other solvent guaranteeing legal entities; mortgage; collateral on movable assets and rights; deposit of valuables and securities; citizens' cheques; if necessary, other as well, acceptable for the bank. Special credit technique is applied for credit evaluation, focusing on the socio-economic situation of the entrepreneur and his/her business in relation to the collateral.	Mortgage; collateral on movable assets and rights; securities from solvent entities; Other usual securing instruments	According to the credit policy of bank-participants in the realization of the resources from the revolving fund: mortgage, collateral and other instruments acceptable for the banks.
Credit purpose	Financing of fixed assets (procurement of equipment, machines, tools, installations, construction land, restoration and modernization); Financing of working assets (raw materials, intermediate materials, trading commodities).	Financing of working assets for preparation of export-oriented production.	- Financing of working assets (procurement of raw materials, intermediate materials, additional equipment and spare parts to the end of increasing production volume and supporting export activities or import substitution), - Financing of investment projects concerning technological process modernization.
Target groups	Private companies, individuals, individual entrepreneurs, craftsmen, market sellers and self-employed.	Private companies not having export-oriented production.	Private-owned enterprises, as well as individual farmers.
Extent of utilization of resources	The first credit from the German KfW in the amount of EUR 6.5 million is 100% unutilized. Therefore, on October 15, 2004 new EUR 6.2 million were added. The collected annuities will be pooled into a revolving fund.	The Macedonian Bank for Development Promotion provided resources for this credit line. EUR 5,5 million have been extended so far.	The credit line for private sector development, approved by the MBDP is fully utilized. Resources from the revolving fund are available for further utilization.
Commercial banks offering the credit	Izvozna i kreditna banka AD Skopje, Tutunska banka AD Skopje, Prokredit banka AD Skopje and Moznosti DOO Skopje	Balkanska banka AD Skopje, Eurostandard banka AD Skopje, Izvozna i kreditna banka AD Skopje, Invest banka AD Skopje, Komercijalna banka AD Skopje, Makedonska banka AD Skopje, Ohridska banka AD Ohrid, Radobank AD Skopje, Stopanska banka AD Skopje, Stopanska banka AD Bitola, Tetovska banka AD Tetovo, Tutunska banka AD Skopje, Sileks Banka AD Skopje	The following banks participated in the so-far utilization of the resources from the revolving fund: Investbanka AD Skopje, Ohridska banka AD Ohrid, Radobank AD Skopje, Tutunska banka AD Skopje
Note		15% own share. 0,50% annual commitment fee.	The resources of the sub-loan can be used to finance up to 70% of the total credit amount of the sub-project. The final beneficiary will finance the remaining part of at least 30%.

Credit line	Credits from the credit line of the International Fund for Agriculture Development IFAD1: Small and large credits for individual farmers	Credits from the credit line of the International Fund for Agriculture Development IFAD1: Credits for small and medium size enterprises	Credits from the credit line of the International Fund for Agriculture Development IFAD2: Financial services in agriculture
Amount	US\$ 10.000 (small) US\$ 1.000-30.000 (large)	1.000-75.000 \$	US\$ 2000 micro credits, US\$ 25000 for primary agricultural production, US\$ 75000 for processing and trade in agricultural products
Repayment period	From 1 to 6 years, depending on the purpose	From 1 to 6 years, depending on the purpose	7 years, depending on the type of credit
Grace period	From 3 months to 3 years, depending on the purpose	From 3 months to 3 years, depending on the purpose	Up to 3 years, depending on the type of credit
Annual interest rate	6% annually	6% annual (7% for retail trade)	6-18% annual for micro, 6-16% for primary agricultural production, 7% annually for processing and trade in agricultural products
Securing instrument	Mortgage in 2:1 proportion, bank cheques, foreign currency, guarantee by liquid organization, bank guarantee, acceptance orders from liquid enterprise	Mortgage in 2:1 proportion, bank cheques, foreign currency, guarantee by liquid organization, bank guarantee, acceptance orders from liquid enterprise.	Mortgage of movable assets (tractors, vehicles, mechanization etc.) mortgage of immovable property and other securing instruments upon bank's request
Credit purpose	1. Development of cattle breeding; 2. Plant production	1. Development of small enterprises 2. Commerce	Farm production, Plant production, agriculture machines, equipment and working assets for processing and trade in agricultural products
Target groups	Individual farmers from certain areas in the east and south-east part of Macedonia	Small and medium size enterprises (on village level).	Unemployed persons from the agricultural underdeveloped areas, poor farm households, as well as small and medium size entrepreneurs.
Extent of utilization of resources	IFAD provided EUR 6.7 million, out of which EUR 2 million remain. 57% have been utilized. The collected annuities will be pooled in a revolving fund.	IFAD provided EUR 6.7 million, out of which EUR 2 million remain. 57% have been utilized. The collected annuities will be pooled in a revolving fund.	IFAD provided US\$ 7.5 million. The utilization of the resources began in October 2003. US\$ 2.6 million were extended so far. The repaid annuities are planned to be pooled into a revolving fund.
Commercial banks offering the credit	Investbanka AD Skopje	Investbanka AD Skopje	Invest banka AD Skopje, Komercijalna banka AD Skopje, Tutunska banka AD Skopje, KIB Kumanovo, Moznosti DOO Skopje and FULM
Note	Criteria: investment program for large credits; mandatory 30% participation in equipment, buildings and compulsory insurance of goods in an insurance company and vintilation of the policy in favor of the bank. The bank does not approve cash, however, it makes procurement for the account of the client by a supplier selected by the client.	Criteria: investment program for large credits; mandatory 30% participation in equipment, buildings and compulsory insurance of goods in an insurance company and restrictive endorsement of the policy in favor of the bank. The bank does not approve cash, however, it makes procurement for the account of the client by a supplier selected by the client.	20% own share in the investment amount.

Credit line	Promotion of the development of SMEs by the Dutch Government Implementing agency - Macedonian Enterprise Development Foundation	Project for private sector development of the International Cooperation and Development Fund from Taiwan revolving fund	Credit line for job creation in SMEs from the Council of Europe Development Bank (CEB) revolving fund
Amount	Loan type 1 up to EUR 10.000 Loan type 2 from to EUR 15,000 to EUR 75.000 Loan type 3 up to EUR 15.000	up to US\$ 400.000 for small and medium size enterprises up to US\$ 200.000 for agriculture	no limit
Repayment period	up to 5 years	up to 7 years for SMEs, up to 5 years for agriculture	from 5 to 10 years
Grace period	up to 1 year	up to 2 years	The grace period is set by the bank, depending on the sub-loan amount and the eventual turnover of resources in relation to time for its repayment
Annual interest rate	It is independently set by each financial institution	Ohridska banka 3,67-6,30%, Stopanska Banka Skopje 3,11-8,91%, Komercijalna banka 3,61-9,40% Tutunska banka 3,61-8,01%, Radobank 3,60-9,43% Makedonska banka 7,94-9,45% and Invest banka 3,67-9,00%	Stopanska Banka AD Skopje 9,73%, Komercijalna banka AD Skopje 6,42% to 9,29%, Ohridska banka AD Ohrid 6,56% to 7,10%
Securing instrument	According to the credit policy of the financial institution included in the implementation of the credit line	According to the credit policy of the participating banks: mortgage on immovable property, collateral of equipment and other instruments acceptable to the banks.	According to the credit policy of the participating banks: mortgage, collateral of equipment and other instruments acceptable to the banks.
Credit purpose	For investments in fixed assets and working capital	1. small and medium size enterprises - for fixed assets - for procurement of machines and equipment of any nature (except land acquisition), and - for working assets - for procurement of raw materials and spare parts. 2. credits in agriculture - procurement of agriculture machines, basic herd livestock, greenhouses, erecting plantations, equipment, procurement of raw materials, intermediate materials	Construction/purchase of property, procurement of machines and equipment, procurement of raw materials and spare parts, as well as educational training programs.
Target groups	Loan type 1: individual farmers, self-employed and entrepreneurs of micro enterprises; Loan type 2: small enterprises with 4 to 20 employees; Loan type 3: micro enterprises with up to 3 employees	SMEs and individual farmers, as well as enterprises engaged in production or marketing of agricultural products.	Small and medium size enterprises operating in labour-intensive industries: textile, leather, food industry etc., that would enable job creation, except primary agricultural production.
Extent of utilization of resources	The Dutch Government provided EUR 7.2 million, out of which EUR 1.2 million remain. 85% were used. The repaid principal is pooled into a revolving fund, invested under the same conditions.	The resources from the loan from the International Cooperation and Development Fund (ICDF) - Taiwan have been fully utilized. The resources from the revolving fund of this loan are in the participating banks that extend them to the final beneficiaries under the same conditions.	The CEB resources in the amount of EUR 5.112.800 have been fully utilized. The resources from the revolving fund of this loan are in the participating banks that extend them to the final beneficiaries under the same conditions.
Commercial banks offering the credit	Tutunska banka AD Skopje, IK banka AD Skopje, Moznosti DOO Skopje	Ohridska banka AD Ohrid, Stopanska banka AD Skopje, Komercijalna banka AD Skopje, Tutunska banka AD Skopje, Radobank AD Skopje, Makedonska banka AD Skopje and Invest banka AD Skopje	Stopanska banka AD Skopje, Komercijalna banka AD Skopje and Ohridska banka AD Ohrid.
Note		The resources of the sub-loan can be used to finance up to 85% of the total credit amount of the sub-project. The bank and the final beneficiary of the sub-loan will finance the remaining part of at least 15%.	The resources of the sub-loan can be used to finance up to 50% of the sub-project value. The remaining 50% shall be financed from the own resources of the final beneficiaries. The resources cannot be used for the following purposes: 1) agriculture projects, except for processing and finishing of agricultural products, 2) for working capital and services related to project operations (maintenance costs, salaries etc.).

Credit line	APECS global loan from the European Investment Bank	The amount is not defined, and up to 50% of the value of the specific project is financed.		Program for development and investments of SMEs from Taiwan agent - Development and Investment Agency
Amount	EUR 20.000 to EUR 12.500.000	Iznosot ne e definiran, a se finansira najmnogu do 50% od vrednosti na konkretniot proekt.		up to US\$ 2 million
Repayment period	from 4 to 12 years	short-term credits 9 months	long-term credits 5 years	up to 15 years
Grace period	up to 3 years	3 months	1 year	up to 5 years
Annual interest rate	Komercijalna banka 6,31-7,41% Tutunska banka 5,595-7,06%, Ohridska banka Ohrid 5,95%, and for projects realized via MBDP, the interest rate can be fixed or variable in the amount of 7%.	3%	3%	up to 7%
Securing instrument	According to the credit policy of the commercial banks participating in the credit realization	Bank guarantee	Mortgage the level 2:1 or bank guarantee	Mortgage on immovable assets, collateral on immovable assets
Credit purpose	- Procurement of tangible or intangible assets directly related to the project and - Increase of the existing project-related working capital	raw materials, intermediate, materials, equipment	investment projects	Realization of the Program for development and investments of SMEs
Target groups	Small and medium size enterprises in the area of industry (including agriculture), services sector and tourism and other sectors (commerce, financing of the health sector, education sector etc.) Subsidiaries being small and medium size enterprises of large enterprises.	Economic SMEs		Small and medium size enterprises
Extent of utilization of resources	EIB provided loan in the amount of EUR 20 million. Until October inclusive, EUR 9.049.870,00 (45% of the loan) and EUR 10.950.130,00 remain. The revolving fund, to be established after this loan should be extended to final beneficiaries under the same conditions.	Repaid resources from foreign assistance generating counterpart funds. Currently Denar 37.000.000 remain unallocated.		The International Commercial Bank from Taiwan provided US\$ 20 million for this credit line, 99% out of which is utilized. Commercial banks have pooled the repaid annuities into revolving funds.
Commercial banks offering the credit	Komercijalna banka Skopje, Stopanska banka Skopje, Tutunska banka Skopje Ohridska banka Ohrid and the Macedonian Bank for Development Promotion (MBDP) which participates as intermediary with commercial banks that cannot directly participate in the loan implementation. The MBDP signed agreements with Invest banka Skopje and Eurostandard banka Skopje.	The following institution is competent for implementation: Ministry of Finance, Capital Management Department, Foreign Assistance Unit		Stopanska banka AD Skopje, Radobank AD Skopje
Note	The loan proceeds can be used to finance costs incurred within up to 6 months from the project approval. - 50% out of the total sub-project value is financed with sub-loan resources, while other 50% could be financed by the final beneficiary or the commercial bank and/or co-financed by other financial institutions. - According to the Rulebook on Financing, established by the EIB, there are exceptions or limitations to the procurements, for which financing is not allowed, or is allowed under special approval by the EIB	The Counterpart Funds management Committee, established by the Government, selects the applied projects		

OTHER PROJECTS FOR SUPPORT TO THE SMEs, as of October 2004
(the data are of informative nature, the detailed conditions are available at the implementing agencies)

Guarantees	Guarantee fund - project of the Swedish International Development Cooperation Agency (SIDA)	Credit fund	Fund for crediting of SMEs - USAID
Conditions for approval of guarantee to final beneficiaries	Guarantees are extended for all credits from the credit lines distributed via the banks - signatories for cooperation with the GF (except consumer and housing credits)	Types of credits	Short-term innovative credits for working assets for the SMEs: credits for financing orders for known buyer, export-oriented production, factoring etc.
Types of guarantees	secured guarantees, i.e. guarantees secured with securing instruments the banks do not accept, non-secured guarantees, in certain cases, guarantees are issued not requiring security instrument.	Credit purpose	Financing of preparation of production and delivery of products on domestic and foreign markets, procurement of raw materials and intermediate materials, packaging costs, labour costs, testing costs, transport costs, customs, taxes etc.
Maximum amount	EUR 60.000 but up to 60% of the principal of the requested credit.	Amount	from US\$ 10.000 to US\$ 100.000
Credit repayment period	For short-term and long-term credits with maximum of 5-year repayment period including grace period	Repayment period	from 30 to 179 days
Guarantee fee	1% annual for secured guarantees, 2,5% annual for non-secured guarantees,	Annual interest rate	from 8% to 12%
Operating costs	1,5% one-off for secured guarantees, 1% one-off for non-secured guarantees,	Fees	US\$ 100 for submission of credit application, 0,5% for application processing and 2% for credit administration.
Purpose of the credit under guarantee	Creation of new jobs or sustaining the existing ones	Securing instrument	Irrevocable L/C, bank guarantees, export insurance policy, crossed cheque, collateral, bill of exchange, etc.
Target groups	potential SME founders existing SMEs mostly private-owned and with up to 50 employees farmers	Target groups	Private legal entities in the areas of production, trade and services showing positive financial results and have from 10 to 200 full-time employees Priority is given to exporters that enable new employments.
Implementing agency	SMEs development center - Skopje	Implementing agency	SMEs Fund - Skopje
Commercial banks offering the credit	Tutunska banka AD Skopje, IK banka AD Skopje, Moznosti DOO Skopje	Founder of the Fund	The SMEs Fund is established and managed by the Crimson Capotal Corp., USA with US\$ 1,5 million credit fund
Note	Swedish International Development Cooperation Agency (SIDA) approved EUR 1.580.000 to the end of establishing the first guarantee fund in Macedonia serving before the banks as a securing facility for loans in the cases when the SMEs cannot provide collateral. Simultaneously, the guarantee fund contributes for reducing the risk of the banks financing the small businesses.	Note	The SMEs Fund aims to facilitate the Macedonian SMEs the access to financial resources. It develops and offers credits and other financial products acceptable to the SMEs, being financial instruments for their development.

IN BRIEF

VISIT BY IMF EXECUTIVE DIRECTOR

Macedonian Prime Minister Vlado Buckovski met the Executive Director of the International Monetary Fund for the Republic of Macedonia, Mr. Jeroen Kremers, who arrived in Skopje to closely get acquainted with the course of the reform process in the country. At the meeting, Prime Minister Buckovski express his assurance that the Government would not step back, but would rather even increase the dynamics in implementation of the key reforms, especially in the judiciary and business climate improvement. To that end, new Labour Law was adopted, on which the IMF insisted, while on the period to come, accent would be put on the reforms in the judiciary and the health sector.



Kremers stated that the basis was set, but a lot remained to be done in the reform sphere, which, as he said, are aimed in the right direction. The program set with the IMF will be realized in the next three years, added Kremers.

As IMF Executive Director in charge of the Republic of Macedonia, on 31st August Jeroen Kremers will personally present to the Board of Directors the three-year arrangement Macedonia agreed with the IMF mission.

"LUKOIL" STARTED OIL BUSINESS IN MACEDONIA

Prime Minister Vlado Buckovski declared the central warehouse of Russian oil giant "Lukoil" as opened at the ceremony, thus commencing the liberalization of

the oil market in the Republic of Macedonia. "Although the announcement by "Lukoil" for investments in Macedonia three months ago seemed not serious, today the honest intentions of the Russian leader in the oil business were confirmed. Today's opening is a proof that through good management large projects can be successfully, fast and efficiently realized in Macedonia. This investment will also lead to a new moment, which is the competition as the basic logic of the market economy that will result in better quality and lower prices", said Prime Minister Buckovski.

"Lukoil" announced opening of 40 and so gas stations throughout the country, entailing at least 600 new employments. During construction of the facilities and the gas stations in the country, local production resources, labour force and materials will be engaged and used, thus putting an additional impulse to the Macedonian economy. Entire investment project of "Lukoil" in Macedonia is estimated at over EUR 50 million.



In addition to the good friendly relations between the two countries, Russia, through the entrance of "Lukoil" in Macedonia, wishes to also give impetus to the other Russian companies to invest on the Macedonian market. Scope of operations of "Lukoil Macedonia" DOO Skopje covers the trade in oil derivatives and offer of other services to be realized through delivery of different types of oil derivatives on the Macedonian market. Sale of oil products will be retail and wholesale.

OVER EUR 12 MILLION INVESTED IN MICRO BUSINESS THROUGH GERMAN-MACEDONIAN FUND

Credits are intended for private firms that do not employ more than 100 persons, for individual entrepreneurs in the production, agriculture, service and trade sector. Macedonian Bank for Development Promotion, in cooperation with the German KfW Bank, through three Macedonian banks and one saving house, has so far invested EUR 12.58 million in the development of small and medium-sized enterprises, provided by the German Ministry of Economic Cooperation and Development for this purpose. Funds were disbursed in Macedonia through two credit lines in the amount of EUR 6.6 million, i.e. EUR 6.2 million and are fully utilized.

"Full utilization of the funds from both tranches of this credit line have shown that we have managed to cover the segment of micro enterprises, which for a longer period now did not have access to the sources of financing", said MBDP General Director. These credits will remain to be available to small and medium-sized enterprises, since it is a matter of revolving funds, and the firm will be able to receive the money via "Export-Import Bank" - Skopje, "Tutunska Banka" and "ProCredit Bank", as well as via the "Moznosti" saving house. Maximum amount of the credit is EUR 50,000, with a repayment period up to four years and one-year grace period. Interest rate range from 11% to 17% on annual level. According to the so-far statistics, the average amount of funds requested by the small and medium-sized enterprises amounted to EUR 3,900. Largest beneficiaries are in the trade and service field, for financing of machines and equipment.

"This is one of the bigger credit lines in Macedonia, which is realized through the German-Macedonian Fund. With this credit line, around 4,000 credit were aimed at small and medium-sized enterprises by the end of last year", said Christian Litke, first man in KfW for Macedonia.

The German Government, by the end of last year, approved total of EUR 95 million for many investment projects in Macedonia. Funds were mainly aimed at waste-water treatment and environment protection, water supply treatment, as well as at small and medium-sized enterprises.

FRESH EUR 34.5 MILLION FOR ADMINISTRATION IMPROVEMENT

Vice Prime Minister Radmila Sekerinska and the Head of European Commission Delegation in the Republic of Macedonia, Donato Chiarini, signed the financial assistance in the amount of EUR 34.5 million which the Commission distributed in Macedonia through 2005 CARDS Program. According to the announcements made by Sekerinska, these irreversible funds will be used for financing projects in the priority areas, democratic stabilization, good governance and institutional improvement and economic and social sector.

"With respect to democratic stabilization, support to the implementation of the Framework Agreement con-



tinues, regarding the good governance and institution development, large part of the funds are aimed at support to the public prosecution, as well as support to the fight against money laundering and organized crime", pointed out the Vice Prime Minister. According to her, in 2005, priority in the financing will be the support to the decentralization in the amount of EUR 6.7 million.

RECIPROCITY FOR VAT REFUND WITH ISRAEL ESTABLISHED

Tax authorities of Israel and Republic of Macedonia established reciprocity for VAT refund, as their common interest confirmed during the recent political and economic dialogue held in Jerusalem. This provides for the Macedonian companies to be refunded the paid VAT on the territory of Israel for the carried out business transactions, and the Macedonian tax authorities will do the same with respect to the firms from Israel.

Ministry of Finance of the Republic of Macedonia continuously puts efforts to establish such agreements with as many countries as possible, so as to facilitate

the competitive access of the Macedonian firms on the world markets. According to the information of this Ministry, our companies abroad pay around EUR 2 million annually, the refund of which will be of most benefit to the firms themselves.

NETHERLANDS DISBURSED THE MACEDONIAN GOVERNMENT A GRANT OF EUR 6.3 MILLION

Government of the Kingdom of the Netherlands disbursed the Macedonian Government a grant in the amount of EUR 6.3 million, said representatives of the Embassy of the Netherlands.

Dutch grant was disbursed in parallel with the second tranche of the World Bank PSALM (Public Sector Adjustment Management Loan).

The grant worth EUR 6.3 million is part of the overall macro-economic assistance by the Netherlands, related to the PSALM, in the amount of EUR 15.3 million for Macedonia. The first tranche in the amount of EUR 9 million was disbursed in November last year. The Dutch Government, in close cooperation with the World Bank, will continue to support the reforms undertaken by the Macedonian Government, which will contribute to the improvement of the living standard of all citizens in Macedonia.

ENERGY COMPANIES WILL HAVE TO HAVE WORKING LICENCES

Macedonian companies for energy generation, transmission and distribution, if they want to continue with their work, in the next four months will have to



apply for working licence. The request should be submitted to the Energy Regulatory Committee, whose task is to consider the documentation within 60 days, and should the requirements be met, it is obliged to issue a licence. Licencing of the energy companies is a novelty in Macedonia, which followed the opening of the energy market, which led to changes in the Energy Law, that will come into force in October this year.

This Committee is fully responsible not only of the issuance of licences, but also for their cancellation, as well as temporary suspension. Energy Regulatory Committee also has the right to control the energy companies. Licences can be issued only to those companies registered for operations in this sector and for those that acquired adequate concessions from the state for exploitation of waters and other resources necessary for their industry.

The licences are valid from 10 to 35 years, depending on the industry, concession validity period and the capital investments, as well as on the applicants. Companies already operating more than one energy-related activity are obliged to provide licences for each separate activity.

DUTCH ASSISTANCE FOR PRIVATE SECTOR STRENGTHENING

From 1st July 2005, Program of the Dutch Government on Economic Cooperation with Developing Markets started to be functional. The objective of the Dutch Program is to stimulate sustainable economic growth by job creation, income and knowledge, as well as to contribute to private sector strengthening.



According to sources from the Sector for European Integration, this Program provides monetary support to the companies that plan to invest on new markets in Southeastern Europe, Asia, Africa and Latin America. The Program supports pilot investments for

Dutch companies which make new joint businesses with firms in the country.

HEATING COMPANY AND RUSSIAN "ITERA" WILL INVEST EUR 120 MILLION IN BUILDING GAS POWER PLANT

For the purpose of building gas power plant, the Russian investors have already registered their firm in Macedonia. The new firm, the main activity of which is electricity generation, is called "Te-to Skopje". Land has already been provided for the building of the new gas power plant, which will be built on the location of present "Heating Company East".

Skopje Heating Company, with its Russian partner "Intera", will build a gas power plant in Skopje, and it is planned to invest EUR 120 million. The new gas power plant, which according to the plans should be ready in two years, will have double purpose. Apart from the generation of electricity, the new gas power plant will be also used for heating, i.e. generation of thermal energy. Installed power of the gas power plant will be 200 MW, as much as one of the three blocks of our biggest producer of electricity "REK Bitola". Power of the generation of thermal energy will be 160 MW.

The Heating Company has been announcing this investment with its Russian partner several years now. And the Russian Ambassador in Macedonia, Agaron Asatur, has announced this investment for several times.

"Intera" is one of the largest Russian companies for generation and distribution of natural gas. It was established in 1992, and started exploitation and trading with natural gas from 1994. "Intera" have invested more than one billion euros in research and exploitation of gas fields. On the Russian market, "Intera" is the second company, by volume, for gas and electricity generation, immediately after the Russian giant "Gasprom".

SIX FIRMS - CANDIDATES FOR AIRPORT CONCESSIONAIRE

Two Turkish companies, one German corporation, one Greek firm, German-Austrian consortium and Malaysian company are interested in becoming concessionaires of Skopje Airport. The period for which the concession for the airports in Skopje and in Ohrid



is granted will be 30 years. This is envisaged in the new Law on Air Traffic, which is in government procedure. The draft-law contains a provision stipulating that with the entrance of Macedonia in the European Union, the concession for performing airport services will be granted for a period of seven years.

The selection of concessionaire will be carried out by a consulting agency, to be selected on a tender. The consultant should be selected by the end of autumn, while the tender for the concession should be announced in March next year. The selection of the concessionaire should be completed by July 2006. The Government has announced that one of the main requirements for participation in the tender will be for the next concessionaire to operate at least two airports with a capacity not less than one million passengers.

The obligation of the concessionaire will be to build new terminal building at the Skopje Airport on a surface of around 23,000 square meters, instead of the existing 4,100 square meters. The reconstruction would cost up to EUR 50 million. With respect to the Skopje Airport, so called BOT contract will be signed with the future concessionaire, i.e. the principle - Build, Operate, Transfer - will be applied. It means that

the concessionaire will be obliged to modernize the airport in the period during which it will run the airport. Following the expiry of the concession deadline, everything that is built will remain into state ownership. Ohrid Airport will be given under traditional concession through renting the existing facilities and infrastructure without any obligation to invest.

"ALKALOID" WITH HIGHEST PROFIT IN THE FIRST HALF OF THE YEAR

Komercijalna Banka, Stopanska Banka - Bitola and Alkaloid are the three firms that realized highest profit in the first half of this year, among the companies listed on the Macedonian Stock Exchange. According to the non-revised reports the companies submit to the Stock Exchange, highest profit in the amount of EUR 4.1 million in the first six months was realized by Alkaloid. It followed by Komercijalna Banka with EUR 3 million and Stopanska Banka - Bitola with EUR 2.6 million. Fersped joint stock company realized profit in the amount of EUR 1.9 million. Out of the firms which have so far submitted semi-annual non-revised reports to the Stock Exchange, Makpetrol realized highest loss in the amount of EUR 1.2 million. Lotarija na Makedonija and Agroplod from Resen incurred losses as well.

Compared to the same period last year, highest increase of the profit was noted at Stopanska Banka - Bitola. Last year the Bank realized profit in the amount of EUR 1.4 million in the first six months. Fersped on the other hand increased its profit by EUR 400,000, while the profit of Makedonija Turist increased by around EUR 150,000 and it amounted around EUR 1 million. Although Komercijalna Banka is among the most profitable ones, still its profitability was reduced compared to the period January-June last year, when it realized EUR 8.2 million. Heating Company and Vitaminka from Prilep realized lower profit this year.

Experts comment that the trend of increase of profitability of the Macedonian companies continues this year as well, and they expect further growth tendency, when most of the domestic enterprises finished last year with record profit.

Out of the companies listed on the Macedonian Stock Exchange, Komercijalna Banka declared highest profit in 2004 of around EUR 12 million. Alkaloid

finished last year with a positive balance of EUR 8.2 million, Fersped realized profit in the amount of EUR 3.9 million, and the profit Stopanska Banka - Bitola realized in its regular operations amounted to EUR 3.3 million. Zito Luks company declared highest loss last year amounting to EUR 4.7 million.

FROM 1ST OCTOBER CONTRIBUTIONS PAID VIA INTERNET

More than 45,000 contributors in the Pension and Disability Insurance Fund of Macedonia will have to obtain their identification codes by the end of September so that they can pay the contributions electronically. Electronic collection of contributions and salary calculation will start from 1st October. Submission of data electronically frees the employer from submitting large number of applications in paper, provides timely and accurate data on each insuree separately in terms of



the implementation of the state pension and disability insurance, as well as for the needs of the mandatory fully funded pension insurance.

"In the procedure for granting the code, which is quite simple and does not last longer than 10 minutes, data from the contributors and their employees will be harmonized with the one determined in the personal records in the Fund. It will enable the Fund to smoothly accept the data related to salaries and calculated contributions and the state pension fund, as well as for the two private pension funds - said the Deputy Director of the Fund. After obtaining the code, the contributors will be able to obtain a free-of-charge software that will enable them to submit and control salary-related data on monthly basis.

HOW FAR WILL IT GO?

China has revalued its currency, the yuan, and linked it to a basket of currencies. By itself, this will do little to slow the economy, but it may ease trade tensions

Sooner or later, it was going to happen, and on July 21st it did. China abandoned the 11-year-old peg of its currency, the yuan, at 8.28 to the dollar. From now on, the yuan will be linked to a basket of currencies, the central parities of which will be set at the end of each day. And the currency has been revalued, although by nothing like as much as America and others have been demanding: the yuan's central rate against the dollar was shifted by 2.1%, to 8.11.

As *The Economist* went to press, it was not clear exactly how the new system would operate. The Chinese called it a "managed floating exchange-rate regime", which may well imply more management than floating. The fact that the Chinese have acted at all is important. But the eventual economic and political effects of the revaluation will depend on how far and how fast the yuan moves from now on.

In particular, such a slight revaluation is unlikely to do much to slow China's fast-expanding economy. The day before the currency regime changed, the country's official statisticians said that GDP in the second quarter of 2005 was 9.5%

higher than a year before, more than most pundits had forecast and only a shade less than the figure for the same period of 2004 (see chart). Industrial production, ahead by 16.8% in the year to June, and investment in fixed assets, up by 25.4% in the first half, year on year, have both eased from their levels at the end of 2003, but remain strong. Inflation, as measured by the consumer-price index, is mild. It slid to 1.6% last month, down from 5%-plus a year ago.

In truth, the economy is slowing more markedly than these (highly suspect) official figures suggest. Many economists say that China has an institutionalised bias to over-reporting growth at the bottom of a cycle and under-reporting it at the top, to reduce the volatility of the numbers. Judged by physical indicators, such as electricity consumption or freight volumes, GDP growth probably peaked at over 12% in 2003 and should slow to 8% by 2006. Since China's macroeconomic growth is driven more by fixed investment than by household consumption (which dominates in the West), it is especially vulnerable to any slowing of corporate investment or public spending on infrastructure.

"In investment cycles," says Andy Xie, Asia economist at Morgan Stanley, "the leading indicators are profit margins, product prices and property prices, which forecast corporate cash flow or ability to borrow." These three are slowing. For the past five years, Chinese industrial firms have enjoyed record profit margins as revenue growth has outpaced the increase in wages and raw-material costs. In 2003 and 2004, industrial production and sales grew at an annual rate of nearly 30% in real terms, analysts estimate, but in 2005 the pace has slowed to around 15%. With commodity prices high, companies' margins are being squeezed: overheated industries such as cars, steel, cement and basic materials are suffering especially.

Property prices are also moderating after a period of extraordinary growth, particularly in big cities. Shanghai house prices, up by half since 1998 and by almost 10% in the first quarter of this year, have fallen back by 10-20% since mid-April. Transaction volumes in most urban centres have also dropped, because the government has imposed a property-sales tax and tightened mortgage requirements.

Overall, however, China seems to be managing the soft landing that it wants. The authorities have acted earlier and more decisively than they did in the mid-1990s, curbing growth before it gets out of hand. Policymakers have also been more sophisticated, targeting selected sectors with administrative restrictions while shifting to market-based measures, including last October's increase in interest rates, to rein in money and credit growth. A dearer yuan-but much dearer, probably, than after this week's move-would give the economy another downward nudge.

In addition, the economy is looking better balanced: there are signs that consumer spending is doing more to support the economy, alongside fixed investment and exports. Rising incomes are boosting households' spending power, lifting retail sales by 13% in the first half of the year, compared with the same period of 2004. And the countryside is finally playing a part: after six years of lacklustre growth, rural incomes rose by 12.5% in the first half.

That said, China's policymakers cannot afford to rest on their laurels. On the one hand, there is a risk that the economy will steam away again as spending

for the Beijing Olympics in 2008 takes off. On the other, the vast amount of manufacturing capacity built up over the past few years means that a slightly sharper slowdown, perhaps triggered by lower growth in America, could tip the country back into deflation. Already, a staggering nine-tenths of manufactured goods in China are thought to be in oversupply.

In the short term, the biggest worry is that China becomes a victim of its own international success. Until recently China has been a powerful engine driving the world economy. If it slows, existing political and trade tensions could still worsen. Thus an unfortunate



side effect of China's attempts to cool its domestic economy has been an exploding trade surplus, because import growth has softened while exports have remained robust. In June, China's exports rose by 30.6%, year-on-year, while imports grew by just 15.1%, widening the monthly trade surplus to \$9.7 billion. The cumulative surplus for 2005 is now nearly \$40 billion, more than for the whole of last year. This year's current-account surplus could reach 9% of GDP. "Just one year ago, China was the world's fastest-growing importer of heavy industrial products," says Jonathan Anderson, chief Asia economist at UBS. "Today, the mainland is actually a growing net exporter, with shipments of not only textiles but also steel, other metals and chemicals accelerating visibly."

Slowing imports (of everything but commodities) are bad news for international companies, at a time when those doing business in China are already suffering

flooding Asia with cheap mobile-phone handsets it cannot sell profitably at home.

Revaluing the yuan should make some of the tensions created by all this less acute. American politicians, in particular, have been demanding a step in this direction. However, they have been demanding a much bigger stride. And investment is becoming as touchy an issue as trade has been. China is no longer using its huge stock of foreign-exchange reserves—over \$700 billion—merely to buy American Treasury bonds, but to snap up physical assets too. The \$18.5 billion contested bid by CNOOC, a big Chinese oil company, for America's Unocal is causing an uproar in Washington, DC. China's move this week may dampen calls for trade protection and revaluation for a while. But if China's domestic economy slows and thus becomes less supportive of global growth, such calls are likely to return soon.

In particular, such a slight revaluation is unlikely to do much to slow China's fast-expanding economy. The day before the currency regime changed, the country's official statisticians said that GDP in the second quarter of 2005 was 9.5% higher than a year before, more than most pundits had forecast and only a shade less than the figure for the same period of 2004



from increased competition and oversupply. And mainland firms are becoming aggressive exporters of everything from textiles and steel to electronics and even cars. Ningbo Bird, based in Zhejiang province, is

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UNEMPLOYMENT AND GROWTH IN THE REPUBLIC OF MACEDONIA

Reduction of the unemployment, which is among the most serious economic and social problems, requires fast changes in the Macedonian economy, dynamic economic growth, adequate social policies, more adequate income and resource distribution, and reforms in the education

Goce Petreski

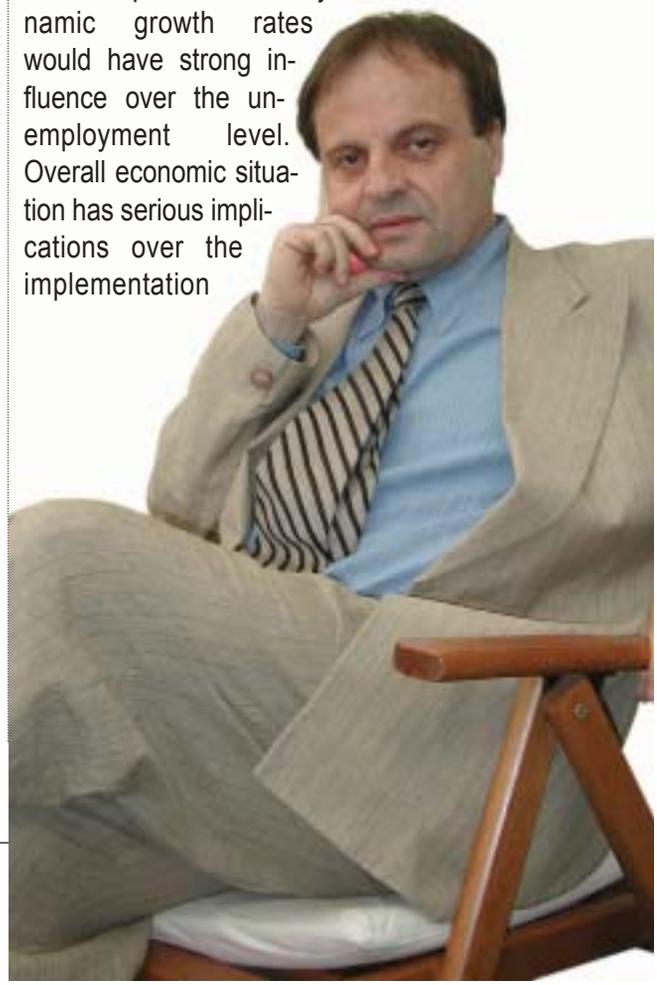
Goce PETRESKI PhD is professor of the Faculty of Economics in Skopje. He was Minister for Development in the Government of the Republic of Macedonia, ambassador, representative of the Republic of Macedonia in the UN in Geneva and other international organizations in Switzerland. He chaired the Economic and Financial Committee of the UN General Assembly and President of UNCTAD, Geneva. He was chief of national delegations at international conferences and meetings, main negotiator of the Republic of Macedonia for accession to the WTO and actively participated in the trade negotiations with EFTA. He published over 140 works (articles, books, research papers). He had a number of study tours abroad and attended international symposia and professional conferences. He received national award in the area of economics.

Introduction

Despite the substantial reform attempts, macroeconomic indicators of the Macedonia economy are unfavourable. Macedonia is in the group of countries with highest unemployment rate in Europe. Persistently high unemployment, more than the low income, is the key factor of poverty. Practically, at various degrees, all known types of unemployment are present. Unemployment is mainly of structural character, with high rate of long-term unemployment and with low educational level of the unemployed persons. In addition to the structural disparities, labour supply is fundamentally higher than the demand. With respect to the standard analytical models, unemployment is a late indicator of the economic cycle in the stage of real GDP growth decline. In the case of Macedonia, labour market is segmented and in deep distortion. Structural imbalances make the market inefficient, and the influence of the policies limited.

Low level, structural inadequacies and poor economic growth rates in the last

two decades have been the main reason for the high unemployment. Slow restructuring gives an image of stagnant economy. Sharp contractions of the economic activity during the transition period also raised the level of informal employment. The main problem, which continues, is the shortage of labour demand in the formal sector. It is hard to expect that even the possible more dynamic growth rates would have strong influence over the unemployment level. Overall economic situation has serious implications over the implementation

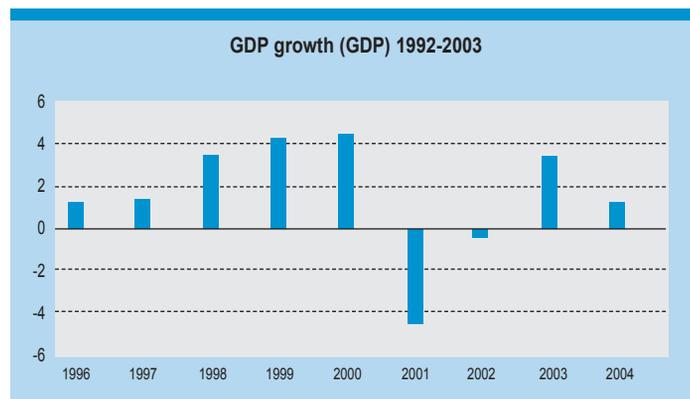


The views expressed in this article are those of the author and do not necessarily represent those of the Ministry of Finance

of the second wave of reforms in the economy in the post-transition period, in particular over the labour market.

Economic situation and medium-term perspectives

Economic situation in Macedonia is still complicated. Serious weaknesses in the functioning of the economy, business climate, competitiveness and implementation of ownership rights are a growing challenge for successful completion of the transition. Foreign direct investments are low and, in near future, they will probably not dramatically increase. Certain increase of the level of foreign investments is possible, if the institutional and political stability improve, and the reforms continue more intensively.



more reasons for concern if the fact that the real growth in the last two years fluctuated within a very narrow range, which might mean that the growth stabilized to a low level (stationary trend).

GDP growth (GDP) 1992-2003

Even the very low growth rates are difficult to maintain on cumulative, incremental basis. This feature imposes the necessity, to influence the vicious circle of slow growth in a more systematic manner and with a coherent set of instruments.

Growth accounting

The attempt to determine the output of the Macedonian economy in an empiric manner and through postulated model of growth faces statistical difficulties and inconsistencies due to the frequent interruptions caused by the external political and economic, or internal transitional, shocks. It is even more problematic to determine the factor causal relations. Explanatory variables in direct relations poorly cover the growth reasons.

In the light of this context, one cannot say that the Macedonian economy is not at all going along the path of economic growth. It is actually more about a case of weak recovery, which is slow and endogenous, not guaranteeing acceleration. So-far specificities of growth show a situation of "low level equilibrium trap", which has been theoretically elaborated even by the early development economists many decades ago (Nurkse, Lewis, Mirdal, Leibenstein).

Number of empiric studies on certain national economies shows high correlation of the growth with the increase of investments and the trade, as well as with

Number of empiric studies on certain national economies shows high correlation of the growth with the increase of investments and the trade, as well as with the depreciation of the real foreign exchange rate

After thirteen years of transition, key macroeconomic aggregates and the social indicators reflect a disappointing development path. Macedonia has experienced the longest subsequent GDP drop among the countries in transition. Employment is below the level since 1990, and the unemployment rate is among the highest in Europe. Not only has poverty level remained persistent, but it also rises. Problems with the fundamental real resources (energy, transport and other infrastructure) and burdening of the external accounts are serious problem and potential limiting factors to the growth. However, despite the several external and internal shocks in the last decade, Macedonian economy has shown significant endurance, if one takes into account the given economic and political circumstances and the external shocks (in the economy).

Growth of the Macedonian economy

During the whole transition period, the economic growth has been weak and instable. Persistence of the low real growth rates, accompanied by high fluctuations, is worrying and opens dilemmas about the real capacity of the economy to generate growth. One

the depreciation of the real foreign exchange rate. Changes in the political regimes and fundamental economic reforms are also significantly correlated with the growth. External shocks (favourable and adverse) exhaust the influence on the medium term. Financial liberalization and the positive external shocks related to the growth acceleration disappear on the medium run.

Each attempt to analyze the sources of growth and of the potential sources faces the problem of subidentification.¹ Regarding the rare attempts to determine the sources of growth in Macedonia (Roberts, 2002), approximate value for α (the value is taken as 0.4 on the basis of the experience of the developing countries, being a real assumption) in Cobb-Douglas' production function, i.e. Solow's model. The conclusion is that, unlike the developed countries, where the physical capital participates with over 50%, in Macedonia in the period 1997-2000/1, the share of the physical capital was only 14%. According to the author, the reason is the low investment rates. Total factor productivity (TFP) accounts for 40%, and employment increase accounts for 45%. The estimated potential growth rate is 2.8%.

Recent empiric analysis shows that average GDP growth rate per capita in the period 1996-2004 was 1.796%, while the productivity growth rate was 2.156%. Capital-labour ratio dropped by 0.899%. Assuming $\alpha=0.4$ in Cobb-Douglas production function, share of the capital is estimated at -0.3596, share of the total factor productivity (TFP) in the growth is 2.156, clearly indicating that the declining relation capital-labour reduced the product growth rate per worker by 0.3596.²

Double logarithmic econometric model for the period 1997-2004, based on assessments for variance of 0.00962 and standard error for β_0 (parameter before K/L) of 0.16414 shows that increase of the K/L ratio by 1% will increase the output per worker (Y/L) by 1.54%. Results unambiguously show the Macedonian economy is effectively limited by the relative capital scarcity. In addition to the implications over the general growth rate, the shortage of capital and the investments have strong impact over the job creation. Increase of the share of total factor productivity (TFP) is the key fac-

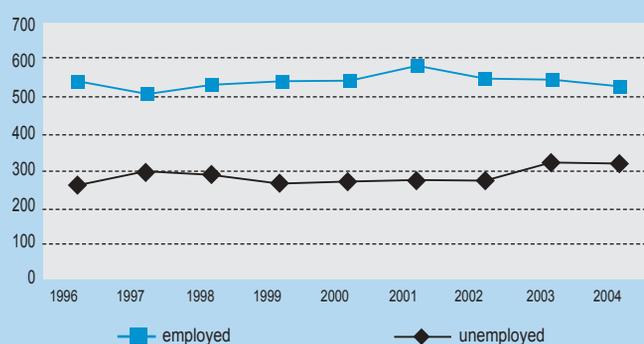
tor of the long-term growth. Until the economy reaches balanced level of capital formation, shortage of capital (insufficient rate) remains to be the limiting factor of job creation.

Current unemployment trends

There is significant inconsistency when data on unemployment are used from different sources - State Statistics Office and the Employment Agency.

Trend of unemployment increase continued in 2004 as well, with a reduced intensity. Unemployment rate in 2004 was 37.2%, being an increase by 0.5 percent-

Number of employed and unemployed persons (in thousands)



Source: State Statistics Office (2005)

Number of employed and unemployed persons (in thousands)

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004
Employed	542	506	531	538	543	583	549	545	523
Unemployed	257	287	284	261	261	263	263	316	309

Source: State Statistics Office (2005), Labour Force Survey (2004), LFS.

age points.³ There were total of 309,286 unemployed persons in 2004. Total working age population (labour force) in 2004 was 832,281, and there was an annual drop by 3.3%. Total number of employed persons (share of employed persons in the total population at the age of 15 and more) dropped by 4.15% in 2004 and was 522,995.

Out of the total number of employed persons, 326,640 (61.3%) are men, and the employment rate of

1) Certain empiric studies show that in the case of newly industrialized countries in East Asia (Kim and Lau, 1994) TFP contributes almost nothing.

2) Estimates of the author made through an econometric model.

3) According to the 2004 Labour Force Survey. The Survey was carried out by the State Statistics Office for a sample of 10,000 households throughout the territory, in line with the ILO methodology and EUROSTAT recommendations. The Survey has been carried out continuously since 2004, data processing is made annually, and the results are published on quarterly basis.

Long-term rate of unemployment

	2003	2004
Long-term rate of unemployment	31.2	31.7
Share of unemployment ⁴	85.1	85.4
Unemployment rate at a very long run ⁵	27.9	27.6

Source: Employment Agency of the Republic of Macedonia (2005)

male population is 40.2%. Number of employed female population in 2004 was 202,355, and the employment rate was 25.4%. Employment rates of female and male population were 36.7% and 37.8% respectively.

Age structure

Highest unemployment rate was registered at the population in the age group from 35 to 39 (51.2%), from 40 to 45 (56.2%) and from 45 to 49 (55.6%). Highest unemployment rate goes to the younger population. Unemployment rate of the population from 15 to 19, 20 to 24 and 25 to 29 are 72.8%, 62.5% and 49.4% respectively.

Trend of continuous salary increase, which began in 1996, continued in 2004 as well. Increase of the nominal salaries is due to the increase of the share of the private sector in the total salary structure

**Population trend and participation rate**

According to the Labour Force Survey (LBS), absolute number of working-age population (15-64) in 2003 reached 1,389 million from 1,337 million in 1999. Relative low participation rate in Macedonia reflects the small number of employees, which is only partially compensated with the high unemployment rate. Average growth rate is 0.96%. Share of the population in the working-age population in 2003 increased from 66.3% in 1999 to 68.7%.

Dependency rates of the young and old population present the so-called "demographic burden". While age dependency of the older population is relatively low, age dependency of the young is expressively

high. Rate of age dependency of the young in 1999 was 37.3, meaning 37 children at the age below 15 per 100 working-age persons, according to LFS, and it declined to 32 in 2003.

Level of urbanization remained stable in the last decade. Urban/rural distribution is estimated to around 60/40, with low level of inland migration. Inland migration patterns are traditional, from mountainous and passive areas to the cities, mainly to Skopje.

Salaries and labour costs

It is an assumption that the flexibility of the relative prices enables full utilization of the resources on the line of potential output. Legally established existing barriers for entrance lead to high transaction costs and limit the flexibility of the labour market. One aspect of the level of real salaries is related to exchange rate, which is the key parameter of the economic policy (monetary, trade and balance of payments) and of the export competitiveness.

Trend of continuous salary increase, which began in 1996, continued in 2004 as well. Increase of the nominal salaries is due to the increase of the share of the private sector in the total salary structure. Law on Salaries limits the increase of salaries in the public sector and in the other entities where privatization is less than 51%. Salaries in the private sector are determined on the basis of the market position and on the business policy of the firms. Salary policy in 2004 was characterized by one-time decompression of the salary of the civil servants, in order to improve the quality of the public administration services.

Paid net salaries in 2004 (average salary is Denar 12,293) show nominal annual increase by 4%. There are significant sector salary differences. Highest salaries are paid in the financial intermediation sector (Denar 25,208), while the lowest average salary per employee is paid in the civil engineering sector (Denar 9,353).

Real salaries in 2004 went through higher increase than the nominal ones by 0.4 percentage points. Real increase of the net salaries per employee of 6.8% was mainly a result of the reduction of the costs of living by 4%.

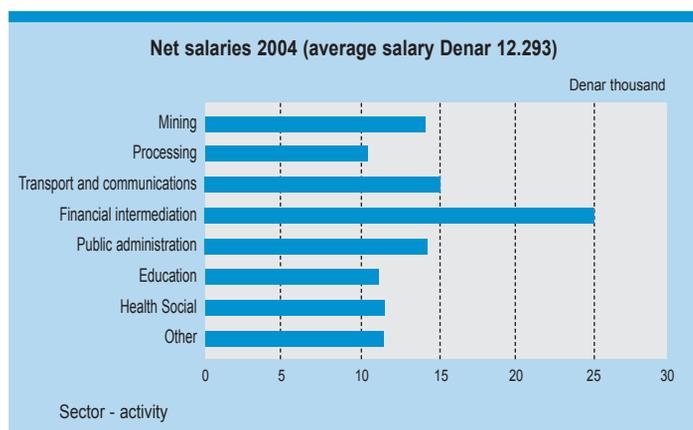
4) Share of long-term unemployment is the total number of long-term unemployed (at least 12 months) as a percentage of the total number of unemployed persons.

5) Exceptionally long-term rate of unemployment is the total number of unemployed on the long run (at least 24 months) as a percentage of the total number of active population.

Until recently the salaries in Macedonia were comparatively higher than in the neighbouring transition economies. In the last years, there was a tendency of leveling, even for the opposite trends in the salary differences. However, gross salaries remain comparatively higher. It influences the international competitiveness of the national economy, the terms of trade and the directions of the foreign trade. This is especially important because these countries are the main competitors in attracting foreign direct investments.

Minimal salaries

Microeconomic restructuring is still ongoing in the Macedonian economy. From the point of view of the efficiency of resource allocation, introduction of minimal wage in the economy in conditions of exceptional excess of labour supply can slow down the restructuring process and place additional entrance barriers to labour.



Increase of flexibility is necessary for the economic policy. Protection of poor workers and their families should be solved more efficiently, via social policy measures. Flexibility of the salaries and of the labour market, as well as of the other relative process, should alleviate the structural adjustment of the economy.

Informal employment

According to certain assessments, it is considered that almost one third of the labour force in the Macedonian economy depends on the informal employment (seasonal work, temporary employment or part time jobs). Informal work is mainly seasonal and instable. Salaries are low, depending on the sec-

tor. Seasonal salaries are close to the average gross salary.

Relatively long duration of unemployment benefits, although low according to the amount, have deterrent effect on job seeking. Official numbers on unemployment are higher than the real unemployment level. Although it is difficult to determine the real situation, there are assuring indications that large number of unemployed persons is engaged in seasonal or informal work.

Sharp contractions in the economic activities in the transition period and the decrease in the living standard, as well as the reduction of the disguised unemployment, as a result of ownership and economic

According to certain assessments, it is considered that almost one third of the labour force in the Macedonian economy depends on the informal employment (seasonal work, temporary employment or part time jobs)

restructuring, increased the level of informal employment. It is highly correlated with the poverty increase. In certain cases it is a matter of lost job, and the motive can also be evasion of paying contributions, other salary-related costs and taxes. Informal employment exists in firms with formal status, as well as in enterprises (not registered) in the informal sector.

Official statistics faces problems in collecting data on the informal sector. Informal sector comprises wide range of activities susceptible to variations, due to which it is difficult to collect solid data on employment and it is complicated to gather official statistics.⁶

Activities in the informal sector are often accepted by the local and by the national authorities in the context of the reality of increase of the population, rural and urban migrations, economic crises and poverty in a concerned country, which cannot be easily removed by law (Charmes, 1998).

Usually there is a discrepancy when economically active population in the national statistics is compared

6) Official statistics in principle underestimates the volume and the economic contribution of the informal sector, in particular the role of the female population in it (WIEGO, 2001). Conventional employment statistics fails to cover or underestimates the number of persons engaged in the informal employment (Mata-Greenwood, 1998).

to data on the labour force from the census. In addition, methodologically there is a residual when data on gross domestic product and data on the balances of the registered enterprises are compared. It is a proof of so called informalization of the formal sector.

While informal activities in most part are legal (they operate for their own account), they are, however, in line with the official or administrative requirements. They are not registered and they do not pay all the necessary duties.

Situation on the labour market

Labour market in Macedonia functions in conditions of wide discrepancy between labour supply and demand. Set aside the discrepancies, labour supply fundamentally exceeds the labour demand. Labour market is buyers' market. Unemployment is mainly of long-term character. Regarding the unemployment, young population prevails, the ones with lower educational degrees or without (functional) education. There are regional and ethnic differences in the unemployment levels.

Active policies need to adhere to the European Directives. The problem of structural unemployment should mainly be resolved through these measures. Active policies are not efficient in terms of improvement of the situation in conditions of general collapse of the labour market. Due to these reasons, active policy measures need to be selectively applied and adequately targeted

Labour market is disintegrated and segmented. Level of informal employment is high. Quality of labour supply needs to be improved, as a precondition for dynamic and growing economy.

Low economic growth rate is the main reason for the high unemployment. Economic structure based on low export orientation, low value added and small number of primary products, is inadequate in terms of job creation.

The level of gross domestic savings is low and leads to low investments and to vicious circle of low growth. Banking sector is insufficiently developed, and the interest rates are high. Financial market is underdeveloped, shallow and scarce in resources.

On the other hand, sources for financing the employment are modest. Passive and active labour market policy measures give mixed results (WB, 2003). Distribution of resources for passive and active policies is inadequate and needs to be changed in favour of the active measures.

Institutional reforms and policies

Reduction of the unemployment, which is among the most serious economic and social problems, requires fast changes in the Macedonian economy, dynamic economic growth, adequate social policies, more adequate income and resource distribution, and reforms in the education. In order to reduce unemployment, it is most important to give pace to the economy, for which investments are necessary, which on the other hand depend on the investment and business climate, as well as on the prospects for growth and profitability of the firms. In principle, reduction of the transaction costs and removal of the barriers to business are focal for the creation of investment climate and for attracting foreign direct investments, enhancing the export and the investments (both domestic and foreign), as a sources for gross product and employment.

It is necessary to strengthen the capacity and the efficiency of the public institutions and of the regulatory agencies. Market economy depends on functional and efficient institutions. Regulatory institutions are new, under staffed, with modest experience in their previous activities. Some of them are still not introduced. Absence of tradition in the regulation and inexperience of the institutions in this area are a serious handicap. It is necessary to accelerate the reforms in the field of market-legitimizing institutions. This also includes the reforms in the pension system, schemes for assistance for the unemployed and other social funds. It is necessary to improve the entrepreneurship at all levels, the legal protection of the private investments, to improve the business culture, the development of the banking sector and privatization completion. Improvement of the corporate management is a pre-condition for development of the private sector and for growth of the overall economy. Nature of the privatization process (dominated by insider buyouts) and inefficient banking system reduce the interest of the foreign investors in the Macedonian companies and of the capital market. Application of complex policy for growth of small and medium-sized enterprises

is also an instrument for job creation (guarantees for small and for medium-sized enterprises, introduction of micro-credit schemes, etc.).

Reforms at all levels of the educational system, investments in human capital are also a requirement for growth and for poverty reduction. Public administration reform should increase transparency and to reduce corruption. Reforms are necessary with respect to the management at local level, by increasing the capacity of the municipalities (via creation of local institutions) so as to stimulate the local development.

Proposals for policies

Institutional reforms on the labour market need to be aimed at the directions mentioned below.

Adequate system needs to be established for registration of the unemployed persons through the State Statistics Office, the Employment Agency and the Ministry of Labour and Social Policy. It is necessary to introduce primary health care for all citizens, so as to stimulate the registration as an unemployed of persons working in the informal sector or other categories of citizens, all that to the end of exercising the right to health care.⁷

New Labour Law, the objective of which is for the labour market to be flexible in terms of both the demand and the supply, should enable improvement of the allocation and efficiency of the labour and to increase the competitiveness of the companies. In addition, through different instruments, reduction of the informal employment needs to be stimulated. The new Law should lead to introduction of flexible modalities of employment (part time tax reduced employment, establishment of agencies for temporary employment, etc.).

It is necessary to establish a new framework for collective negotiations between the social partners. Employment Agency should promote the role of an operator of the passive activities towards implementation of active measures. In order to perform that role, it needs to be equipped in technical, organizational and personnel terms. It is necessary to establish job points. Information basis needs to be expanded, and information dissemination needs to be strengthened,

as well as other activities in the public information media related to the labour market.

Instruments of passive policies dominate in their structure of the labour market policy measures. It reduces the overall efficiency of the use of resources and does not contribute to attaining the objectives. It is necessary to move the focus on the active policy measures by increasing the budget expenditures, redefining the allocation, using foreign resources, budget inflows on various basis for the purpose of employment. Active policies need to adhere to the European Directives. The problem of structural unemployment should mainly be resolved through these measures. Active policies are not efficient in terms of improvement of the situation in conditions of general collapse of the labour market. Due to these reasons, active policy measures need to be selectively applied and adequately targeted.



New Labour Law, the objective of which is for the labour market to be flexible in terms of both the demand and the supply, should enable improvement of the allocation and efficiency of the labour and to increase the competitiveness of the companies. In addition, through different instruments, reduction of the informal employment needs to be stimulated

Although budget position of the public expenditures is tense, certain scope of public works can contribute to unemployment reduction at the most vulnerable groups and at the long-term unemployed.

Regional differences in the employment should also be reduced through sequenced, regionally-oriented approach. Co-financing of working posts in the small and medium-sized enterprises, introduction of subsidies for re-qualification and education and introduction of structure for stimulating the employment of the young inactive population can contribute to unemployment reduction. Income uncertainty should be resolved through targeted measures at the most vulnerable groups of unemployed, within the defined criteria for social assistance, which would provide for more equitable distribution of social transfers. Fully oriented measures need to be prepared, in particular at local level.

⁷ In present practice it is organized via the so called "blue coupons" for health care.

Conditions and perspectives of development of the cooperation between the Russian Federation and the Republic of Macedonia



Taking into account the current situation of the foreign trade of Macedonia, firstly, we must ask the question how to raise export of Macedonian companies to the Russian Federation. It is necessary to prepare program for export to Russia and create new financial schemes for its servicing

Petar Stojanov

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The commercial cooperation between the two countries is one of the essential segments of the Russian-Macedonia economic relations, determining the condition of the overall complex of international relations. They are subject to special attention and analysis in both countries.

In the past decade, contractual and legal framework was created for successful development of the commercial and economic relation between the Russian Federation and the Republic of Macedonia. It was developed during the official visit of the president of the Republic of Macedonia to the Russian Federation in October 2003, as well as of the three sessions of the Russian-Macedonian intergovernmental commission on commercial, economic, scientific and technical cooperation. The realization of the signed intergovernmental documents in the pending period is a priority task of the two countries.

The current situation of the Russian-Macedonian economic relations from the aspect of the Russian Federation is characterized by positive tendency of export

growth, above all, of energy products and machines, while the export of Macedonia to Russia has been lagging during these past several years.

The total exchange in 2004, according to the data from the State Statistics Office of Macedonia is US\$ 271.2 million. Compared to 2003, trade between Russia and Macedonia grew by 40.7%. This, above all, is a result of continuation of the upward trend of Russian export to Macedonia, which grew by 40.5%. Still, Russian import from Macedonia also notes upward trend. It grew by 43.8%, i.e. from US\$ 13.7 to US\$ 19.7 million. However, discrepancy in the mutual trade continues to grow. The positive balance for Russian last year was US\$ 231.8 million (in 2003 - US\$ 165.3 million). The share of Russia in the foreign trade of Macedonia grew by 0.7 percentage points (from 5.2 to 5.9%). Thereby, the share of Russian export grew by 0.9 percentage points and reached 8.7%. Actually, Russian debt in Macedonia in 2004 in relation to 2003 grew from US\$ 179,0 to US\$ 251,5 million.

**Foreign trade of the Russian Federation
with Republic of Macedonia**

	2003		2004		structure in %
	million \$	structure in %	million \$	rates	
Total trade	192.7	5.2	271.2	40.7	5.9
Export of goods from Russia	179.0	1.0	251.5	40.5	1.2
Import of goods in Russia	13.7	7.8	19.7	43.8	8.7
Trade balance	165.3		231.8		

Source: State statistical office

Export of crude oil and oil derivatives grew significantly (47.3%), followed by export of machines and transport vehicles (70,7%), while the production in the metallurgy quadrupled. Export of raw materials for the chemical and food industry continues to grow. Thus, export of grain (barley and wheat) and sunflower oil reached US\$ 4,7 million.

Russian import from Macedonia in 2004 in relation to 2003 grew from US\$ 13,7 to US\$ 19,7 million. Import of machines and equipment, medications and their raw materials and sheepskin also grew.

Export of safety belts for the automotive industry also grew by 25%, i.e., from US\$ 9,1 to US\$ 12,8 million. In relation to 2003, export of medicines and medicinal herbs from US\$ 2,6 to 4 million and the export of fur tripled from US\$ 0,6 to US\$ 1,8 million.

The analysis of the dynamics of the Russian-Macedonian trade shows that in the period 1997 - 2002, it ranged between US\$ 94,1 - US\$ 118,3 million. Taking into account the fact that we have solid contractual and legal framework, historical, cultural and political links, we cannot consider the scope of exchange as appropriate to the level of potential opportunities of trade and economic cooperation between the two countries. This is due to the present conditions in the Republic of Macedonia in relation to export, to the country orientation to conduct trade with Germany, Italy, France and the EU Member States in general, the former Yugoslav republics and the neighboring countries - Greece, Bulgaria, Albania.

In this context, we should expect positive change in the so-far tendencies of development of the Russian-Macedonian trade, meaning higher scope above the present level of US\$ 271,2 million.

In near future, partial restoration of the trade level, achieved in the period before the reforms could be expected only on the basis of the Russian export to Macedonia, above all, hydrocarbons and fuels (oil, oil derivatives, coal, natural gas), which are a necessity

to Macedonia and it is obliged to pay for their import US\$ 260 million or 8,8% of the total value of import of goods in 2004 (US\$ 2,3 billion).

Import of equipment could have positive perspectives as well. This could be achieved if perspective projects are implemented in the area of fuel and energy infrastructure in Macedonia, and appropriate technical, legal and economic preconditions exist.

There is significant potential for the cooperation in mining, pharmaceutical and chemical industry, purchase of raw materials and intermediate materials for export-oriented materials in the agriculture. Russian and Macedonian companies have already acquired experience in the cooperation of these areas. Now we could speak only of faster restoration of previously established links between the economic entities of both countries.

Export of crude oil and oil derivatives grew significantly (47.3%), followed by export of machines and transport vehicles (70,7%), while the production in the metallurgy quadrupled

Taking into account the current situation of the foreign trade of Macedonia, firstly, we must ask the question how to raise export of Macedonian companies to the Russian Federation. The main factor creating difficulty is the current production and financial conditions of the enterprises producing for the Russian market. It is necessary to prepare program for export to Russia and create new financial schemes for its servicing.

The following products will keep their dominant share in the structure of the Russian import from Macedonia in the period to come: safety belts for "Avto VAZ", pharmaceuticals, leather and leather products, agriculture products - wine, fruit and vegetable. In the past several years, the import of traditional products, such as textile, electrical devices and equipment continued to decline due to the non-competitive prices.

But, at the same time, taking into account the current measures of the Government of Macedonia on financial assistance to SMEs, on support to export-oriented production, we could expect higher export of the aforementioned and other products to Russia.

We should look for the solution of this problem in the area of utilization of new payment instruments based on the opening of credit lines and financial guarantees by the commercial banks, credit organizations and financial funds from both countries etc.

Macedonia implements and plans to implement major long-term programs in the following areas: mines of non-ferrous and precious metals; modernization of thermal power plants; construction of thermal power plant by using natural gas; construction of a number of small hydro power plants; development of oil and gas infrastructure; construction of highways (Corridor 8 and Corridor 10), railroad to the border with Bulgaria, accumulations and hydro-meliorative systems; development of infrastructure and telecommunications. In the realization of most of these projects we can have full cooperation with the Russian Federation. Agreements have been reached for some of them and negotiations, being of mutual interest are held for another.

tions, giving both sides an opportunity for maximum usage of the potentials.

The Russian side in the Commission urges to start energy-related projects as soon as possible, to adopt appropriate legal acts and government decisions, referring to the liberalization of the fuel market in Macedonia, to expand the usage of natural gas to determine the priority projects for the development of power facilities.

Thereby, the Russian side showed interest in the construction, reconstruction and modernization of power facilities and the development of gas industry, as well as in the delivery of equipment for the energy-related projects in Macedonia.

Currently, they are considering the issue on the ways to use the resources to arrive after the settlement of the debt of the Russian Federation towards Macedonia, including their investment in the energy sector in Macedonia. This issue will be regulated after the signing of the intergovernmental agreement on regulation of the obligations of the former USSR towards the Republic of Macedonia after the calculations related to the commodity exchange between former USSR and former SFRY.

Issues related to regional cooperation are constantly considered since it is one of the perspectives for the development and expansion of the two-way economic relations, especially regarding increase of Macedonian export to the Russian Federation. Within this context, they are considering the possibility to exempt Macedonian products from customs at import to the Russian Federation, those being the following: tobacco and tobacco products, wine, medications, textile products, car batteries, despite the fact that Macedonia uses preferentials in the trade with the Russian Federation in accordance with the Decision by the Government of the Russian Federation dated November 30, 2001, on the basis of which the customs rates are by 25% lower.

In the interest of development of the regional relations, agreements are to be signed between the governments of Moscow and Nizhegorod province and the Government of Macedonia. The newly established Macedonian-Russian Economic Chamber will contribute to greater cooperation and its task would be to help Macedonia companies in exporting their products on the Russian market.

Activities are underway for development of the international tourism within the Agreement on Cooperation between the Government of the Russian Federation

Taking into account the fact that we have solid contractual and legal framework, historical, cultural and political links, we cannot consider the scope of exchange as appropriate to the level of potential opportunities of trade and economic cooperation between the two countries

Major role in the further development and strengthening of the business cooperation between the two countries in the coordination, expansion and enhancement of the volume of trade cooperation will have the Russian-Macedonian Economic and Technical Commission. On its third session held in Skopje in March 2005, the Commission considered the problems and perspectives for business cooperation and proposed measures for strengthening and expanding the cooperation via diversification of the trade structure, greater share of finished goods, above all, products involving advanced technology, machine industry and construction, mining, power infrastructure as well as expansion of the economic cooperation in both the traditional areas and in the areas based on the most recent scientific achievements.

Both sides underlined the dynamics and the new opportunities in the economic cooperation, thus creating new environment for promotion of business rela-

and the Macedonian Government in the area of tourism, signed in Ohrid 2001.

Agreement was made to jointly act to preserve environment, to rationally use and preserve natural resources. The Macedonian side urged for greater cooperation in industrial ecology, new technological solutions for technological development in the area of metallurgy, soil and environment conservation.

The development of cooperation in the agriculture is currently a top priority. It is based on the intergovernmental agreements on cooperation in the area of veterinary and the area of quarantine and plant protection, as well as the Agreement on Cooperation between the Ministry of Agriculture of the Russian Federation and the Ministry of Agriculture, Forestry and Water Economy of the Republic of Macedonia. The two sides agreed to pay special attention to the development of the cooperation in the area of agriculture and farming, production of seeds and seedlings, mechanization and automation of agriculture production and melioration.

During the session of the Commission, the two sides approved the beginning of the process of restoration of ties in mining industry, metallurgy and chemical industry. A confirmation of this is the beginning of operations of the copper mine Bucim in Radovis and the smeltery Skopski Leguri in Skopje. Negotiations are underway for acquiring the lead and zinc mine Sasa in Makedonska Kamenica and HMK Zletovo. Thus, we have an opportunity to create full circle of extraction and processing ore and restore the former productivity and efficiency of this sector.

At mutual pleasure, the establishment of joint construction consortium MOSSKOP was announced, for export of Macedonian construction services in Moscow and wider. Macedonia is capable of rendering highly advanced construction services which could be successfully done on the broad market in the Russian Federation. The Commission agreed on the rules and the manner of participation of Macedonian companies in the tenders and competitions to be announced for construction of facilities financed by the Budget of the Russian Federation; the manner of issuance of information in conferences, exhibitions and for a, where Macedonian construction companies could demonstrate their possibilities and established direct contacts with the Russian construction organizations and management representatives in the Russian regions.

Both sides underlined the necessity to provide credit lines under acceptable and mutually beneficial con-

ditions to Russian and Macedonian partners. With regard to this, they underlined the importance of the agreement-based cooperation between the credit and financial institutions of the Russian Federation and the Republic of Macedonia, for example, the Agreement between the Vneshtorgbank from the Russian Federation and the Macedonian Bank for Development Promotion of the Republic of Macedonia, signed in Moscow in 2003.

At mutual pleasure, there is an upward trend in the economic cooperation between the two countries.

As a fulfillment of the 2003 Intergovernmental Memorandum regarding the regulation of obligations of the Russian Federation to the Republic of Macedonia, OAD Silovije Masini starter preparing equipment for modernization of TEC Bitola and equipment for raising the capacity for coal exploitation in the Republic of Macedonia.



We should look for the solution of this problem in the area of utilization of new payment instruments based on the opening of credit lines and financial guarantees by the commercial banks, credit organizations and financial funds from both countries etc.

GUP VO Tehnopromeksport won the pre-qualification tender for construction of the long-distance power line Stip (Republic of Macedonia) - Cervena Mogila (Bulgaria) and participated in the main tender for construction of this facility.

OAD Gasprom, via its branch office Gaseksport, implemented the contract on delivery of natural gas for Macedonia, and is considering the possibilities to participate in the projects for construction of national gas pipelines and network for distribution of gas, as well as participation in the construction of thermal power plant with gas turbine in Skopje.

OAD Lukoil is implementing an investment project for construction of chain of gas stations, oil terminal and accompanying facilities in Macedonia. To this end, Lukoil Makedonija DOO is already registered in Macedonia and it plans to build 40 modern gas stations and to be full and equal participant in the wholesale or retail sale of oil derivatives on the Macedonian market.

The Moscow MKK Holding will complete the feasibility study for opening mine for extracting white marble in Prilep. The Macedonian Government has brought a decision to give a location under concession for industrial extraction of white marble, and agreement for exploitation of this land was signed with the Ministry of Economy.

OAD Avto VAZ, with its Macedonian partner SIPO established joint enterprise for production of safety belts for the Russian Toljatti autogiant. This enabled SIPO to be main exporter of the Macedonian production on the Russian market (over US\$ 9 million annually).

The newly established Macedonian-Russian Economic Chamber will contribute to greater cooperation and its task would be to help Macedonia companies in exporting their products on the Russian market



Investment perspective can be seen in the Macedonian production of fertilizers, metals, bio-mixtures and medications, oil and chemical production, in the joint construction of road and railway infrastructure: transport corridors North-South and West-East (Corridor 8 and Corridor 10).

Greater volume of Russian-Macedonian trade could be achieved by activating the operations of the national and regional commerce and economic chambers, by expanding direct contacts between Russian and Macedonian companies, adopting decision on intergovernmental level, signing agreements on deliveries of certain goods, equipment and construction of facilities.

Globalization of international economic processes significantly affects the strengthening of the mutual relations. The Russian Federation and the Republic of Macedonia are also part of this process. They are part of the complex mechanism of the development of the world economy and play certain role. Hence the necessity of overall development and strengthening of the bilateral Russian-Macedonian business relations: to avoid influence of political interests on both sides and to acquire status of service to the interests of the peoples of both countries.

Russian RAD EEC continues the negotiations with Elektrostopanstvo na Makedonija for construction of HEC Cebren under concession. Russian RAD EEC is interested in participating in the privatization of the Macedonian energy system and in delivering competitive electricity in Macedonia.

The investment cooperation is intensifying, and a proof of this is the fact that for the period January - February 2005, investments by the Russian Federation in the Republic of Macedonia were US\$ 14.4 million. Under this indicator, the Russian Federation is first-ranked.

Taking this as a starting point, and also, taking into account the firm long-term contractual and legal basis between the two countries, the traditional close relations between the two peoples, the proven experience in the successful realization of major development programs in various areas of the economy and infrastructure, the Russian organizations and institutions are willing to further improve the mutually beneficial cooperation with their Macedonian partners.

CRUDE OIL PRICE TRENDS AND THE GROWTH OF TRADE DEFICIT OF THE REPUBLIC OF MACEDONIA

The trade deficit growth in the past couple of years causes a need to have analytical approach that would determine the reasons and give answers to many questions. This is why we should try, via series of short text and fragmented analysis, to get closer to the real answers

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1. SITUATION ON THE CRUDE OIL MARKET

Global trends on the crude oil market in the past couple of years show high turbulence in the supply and demand, caused by geopolitical and geo-economic reasons. The turbulences on the world market result in significant oscillatory upward trend of crude oil price.

The Macedonian economy, working under market conditions of small and open economy has been heavily exposed to the influence of global economic trends. Its position of major importer of crude oil and oil products makes it heavily dependable on the world market trends. The import growth in relatively stable and structured domestic demand reflects the effect of these trends.

2. METHODOLOGICAL EXPLANATIONS

The analysis uses data from the State Statistics Office on foreign trade and annual import of goods, focusing on data on import of crude oil and oil products under the tariff number 2709 and 2710. The term "oil products" includes oil derivatives, oils and lubricants, processed products from crude oil classified under tariff group 2710.



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

The trend in import of crude oil and oil products in the period 2002-2004 was analyzed from three aspects: value, quantity and average value per unit measure. Thereby, the import in 2002 was taken as base value for comparison, having in mind the relatively stable trend in crude oil prices on the world market and the domestic demand for these products.

3. TRENDS IN TRADE DEFICIT IN THE PERIOD 2002-2004

Trade deficit of the Republic of Macedonia within the period 2002-2004 grew by 44.8%. The dynamic import growth by 50.4% and its positive effect on the relative decline of the trade deficit lacked due to the relatively high import growth by 47.9%

Trend in foreign trade in 000 US\$

Description	2002	2003	2004	Ind 04/02
1. Export	1.112.727	1.363.252	1.673.487	150,4
2. Import	1.962.110	2.299.921	2.903.435	147,9
3. Total foreign trade	3.074.837	3.663.173	4.576.922	148,8
4. Trade deficit	849.383	936.669	1.229.948	144,8

Export rise of over 50% is fairly good result. There is potential for further rise, but with no greater investments in the Macedonian exporting sectors, it would be rather limited. The import deserves the same attention as the export. The growth of import, i.e. its rise in nominal terms by US\$ 380.5 million within the period 2002-2004 also requires appropriate analysis.

Import rise could be a basis for more dynamic export and growth of competitiveness of domestic products, should the rise in import refers to import of equipment and new technologies. But, export increase influenced by the external factors or intensified mass consumption gives another negative signal. Let us analyze and external factor: price of crude oil and oil products.

4. IMPORT OF CRUDE OIL AND OIL PRODUCTS

Import of crude oil and oil products has been gaining importance in the past several months from the

aspect of the upward trend of the price of crude oil on the world market. These trends caused concerns and evaluations of the effects of the price shocks to the competitiveness of the domestic production worldwide. Generally, the high price of crude oil is expected to remain high and in the long run, continue to rise.

The Macedonian economy has relatively high ratio of sensitivity to developments in the oil sector. This maintains the stability of the domestic demand, having tendency of mild increase. The first comparable data show greater value of import of crude oil and oil products in 2004 compared to 2002 by 70.9%. Crude oil import almost tripled.

Import of crude oil and oil products in 2002-2004

Tariff No.	Description	2002	2003	2004	Ind04/02.
2709 0090 10	Crude oil	73.628.173	192.015.506	220.318.501	299,2
2710 1121 00	White Spirit	206.335	292.980	344.298	166,9
2710 1125 00	Special-purpose petrol				
		40.728	23.948	63.393	155,6
2710 1131 00	Aircraft petrol	38.473	54.743	81.989	213,1
2710 1141 00	Vehicle petrol	25.825.354	13.085.818	12.613.185	48,8
2710 1190 00	Other light oil	940.492	96.432	413	-
2710 1915 00	Kerosene	6.058.437	3.707.880	4.438.358	73,3
2710 1929 00	Medium oil	4.561	222.386	7.117	156,0
2710 1945 00	Gas oil	37.358.914	23.736.738	27.165.262	72,7
2710 1963 00					
2710 1965 00	Heating oil	10.774.871	4.315.164	3.667.799	34,0
2710 1971 00	Lubricants	582.007	569.016	623.957	107,2
2710 1981 00	Motor oil	5.454.069	5.917.028	6.804.209	124,7
2710 1983 00	Hydraulic liquid	718.069	806.264	1.142.673	159,1
2710 1985 00	White oils - liquid paraffin	84.016	74.476	119.269	141,9
2710 1987 00	Gearbox oils and reducer oils	721.206	872.883	923.494	128,0
2710 1991 00	Cast lubricants	460.044	496.400	731.610	159,0
2710 1993 00	Isolation oil	319.579	258.476	426.773	133,5
2710 1999 00	Heavy oil	590.581	546.332	419.564	71,0
	TOTAL	163.805.909	247.092.470	279.891.864	170,9
	Crude oil	73.628.173	192.015.506	220.318.501	299,2
	Oil products	90.177.736	55.076.964	59.573.363	66,1

The analysis of the import value of crude oil and oil products shows that greater import in this group of products is due to the crude oil. Import structure of crude oil and oil product in 2002, 2003 and 2004 shows growth in the structural share of crude oil in

the observed group of products from 44.9% to 78.7%, while regarding oil products, the import declined from 53.1% to 21.3%.

Import structure of crude oil and oil products in the period 2002-2004

STRUCTURE IN %	2002	2003	2004	Ind 04/02
Crude oil	44.9	77.7	78.3	175.4
Oil products	53.1	22.3	21.3	40.1
Total	100.0	100.0	100.0	

Import share of crude oil and oil products in the total import in the period 2002-2004

Value in 000 US\$	2002	2003	2004	Ind 04/02
Total import	1.962.110	2.299.921	2.903.435	147.9
Import of crude oil and oil derivatives	163.805	247.092	279.891	170.9
Structural share	8,3	10,7	9,6	115,6

The share of crude oil and oil products in the total import per annum grows, so in 2004 compared to 2002, it grew in absolute terms by 1.3 percentage points.

4.1. Physical volume of import

Analysis of the physical volume of crude oil and oil products in the period 2002-2004 shows upward trend of import of crude oil by 76.5%, and a decline in the quantities of import of oil products by 60%. Average import of crude oil in the three years is around 700,000 tons. At the same time, imported quantities of oil products are stable, excluding the motor fuels, kerosene and heating oil, the imported volumes of which in 2002 were significantly higher, while import of crude oil was significantly lower.

If 2002 is excluded, as a year of relatively higher import of oil products compared to the import of crude oil, the annual average level of import of oil products in 2003 and 2004 is around 150,000 tons. These 3-year trends of the physical volume of import of crude oil and oil derivatives are presented in Table 4.

In 2002, the ration of import of crude oil and oil products was 55:45, while in 2004 there are certain structural adjustments in favor of the crude oil and this ration stabilized at 85:15.

Physical volume of import of crude oil and oil products

Tariff No.	Description	2002 (tons)	2003 (tons)	2004 (tons)	Ind 04/02
2709 0090 10	Crude oil	414.187	880.061	781.438	188,7
2710 1121 00	White Spirit	512	600	548	107,3
2710 1125 00	Special-purpose petrol	89	50	85	95,5
2710 1131 00	Aircraft petrol	59	80	84	142,4
2710 1141 00	Vehicle petrol	94.367	39.092	30.641	32,5
2710 1190 00	Other light oil	2.461	0,2	0,5	-
2710 1915 00	Kerosene	24.200	12.414	10.403	42,9
2710 1929 00	Medium oil	1,6	1,7	2	-
2710 1945 00	Gas oil	157.771	83.182	68.875	43,6
2710 1963 00					
2710 1965 00	Heating oil	47.912	25.144	19.284	40,2
2710 1971 00	Lubricants	1.479	1.199	78	5,2
2710 1981 00	Motor oil	5.335	4.909	5.046	94,5
2710 1983 00	Hydraulic liquid	954	906	1.194	125,2
2710 1985 00	White oils - liquid paraffin	68	55	93	136,7
2710 1987 00	Gearbox oils and reducer oils	793	756	760	95,8
2710 1991 00	Cast lubricants	382	367	447	117,0
2710 1993 00	Isolation oil	490	400	503	102,6
2710 1999 00	Heavy oil	464	358	230	49,5
	TOTAL TONS	751.525	1.049.575	919.711	122,3
	Total crude oil	414.187	880.061	781.438	176,5
	Total oil products	337.338	169.514	138.273	40,9

Different parameters of the nominal import and physical volume of import and the changes in the import structure point the need to analyze the average prices of import of crude oil and oil products per ton.

The trend in import of crude oil and oil products in the period 2002-2004 was analyzed from three aspects: value, quantity and average value per unit measure. Thereby, the import in 2002 was taken as base value for comparison, having in mind the relatively stable trend in crude oil prices on the world market and the domestic demand for these products

The resulting parameters on the import value per ton point to the following conclusions:

- the price of imported crude oil grew by 39.6%;

Crude oil price trend

Physical volume structure of import of crude oil and oil products

Description	2002	2003	2004	growth-decline
Crude oil	55%	84%	85%	+30%
Oil products	45%	16%	15%	-30%

- the price of imported oil products grew by 61.1%;
- the price of total import of crude oil and oil derivatives grew by 39.6%;

Import per unit measure - ton of crude oil and oil products in the period 2002-2004

Tarifen broj	Opis	2002	2003	2004	Ind 04/02
2709 0090 10	Crude oil	177.8	218.2	281.9	158,5
2710 1121 00	White Spirit	403	488	629	156,1
2710 1125 00	Special-purpose petrol	457	684	746	163,2
2710 1131 00	Aircraft petrol	641	1.095	745	116,2
2710 1141 00	Vehicle petrol	274	335	412	150,4
2710 1190 00	Other light oil	382	336	-	-
2710 1915 00	Kerosene	250	299	426	170,4
2710 1929 00	Medium oil	-	157	-	-
2710 1945 00	Gas oil	237	285	395	166,6
2710 1963 00					
2710 1965 00	Heating oil	145	172	190	131,3
2710 1971 00	Lubricants	393	475	503	127,9
2710 1981 00	Motor oil	1022	1.205	1.348	131,9
2710 1983 00	Hydraulic liquid	753	890	957	127,1
2710 1985 00	White oils - liquid paraffin	1.235	1.354	1.282	103,8
2710 1987 00	Gearbox oils and reducer oils	909	1.155	1.213	133,4
2710 1991 00	Cast lubricants	1.201	1.353	1.637	136,3
2710 1993 00	Isolation oil	652	646	848	130,6
2710 1999 00	Heavy oil	1.270	1.496	1.816	142,9
	TOTAL	217,9	235,4	304,2	139,6
	- crude oil	177,8	218,2	282	159,3
	- oil products	267,3	324,9	430,8	161,1

Import of crude oil and oil products has been gaining importance in the past several months from the aspect of the upward trend of the price of crude oil on the world market.

These trends caused concerns and evaluations of the effects of the price shocks to the competitiveness of the domestic production worldwide

4.2. Simulation of effects on trade deficit in 2004

The rise of prices of crude oil and oil products per unit of quantity shows that in the period 2002-2004, there are notable adjustments in import of these products in terms of greater share of import of crude oil. At the same time, the prices of crude oil and oil products grew significantly. Starting from the import structure of crude oil and oil products in 2004, and applying average 2002 prices per ton, we can see the effects of the rise of prices of crude oil on the world stock markets in the period 2003-2004.

Simulation shows the effects on the greater import and the trade deficit in 2004 only on the basis of movement of prices of crude oil and oil products.

Total effect on import growth, i.e. trade deficit in 2004 on the basis of the effect of rise of prices of crude oil and oil products in 2004 is around US\$ 102 million.

The effect of the price rise of crude oil and oil products on the world market on the import growth and the trade deficit is 37.3% of the nominal growth of the trade deficit in the period 2002-2004.

4.3. Simulation of effects on trade deficit in 2005

Prices of crude oil in the first half of 2005 show continuation of upward trend and record level of crude oil price on the world markets.

Import of crude oil and oil products in the period January-May 2005 as physical volume shows stabilizing tendencies at the level of import, with a slight growth of quantities of certain oil products. This provides basis to assess that the import of crude oil and oil products in 2005 will mainly remain in volume and structure the same as in 2004.

Value of the physical volume of import in 2004 at 2002 prices

Tariff No.	Description	quantities	prices	Value of import
		2004	2002	at 2002 prices
2709 0090 10	Crude oil	781.438	177.8	138.939.676
2710 1121 00	White Spirit	548	403	220.844
2710 1125 00	Special-purpose petrol	85	457	38.845
2710 1131 00	Aircraft petrol	84	641	53.844
2710 1141 00	Vehicle petrol	30.641	274	8.395.634
2710 1190 00	Other light oil	0.5	382	1.910
2710 1915 00	Kerosene	10.403	250	2.600.750
2710 1929 00	Medium oil	2	-	-
2710 1945 00	Gas oil	68.875	237	16.323.375
2710 1963 00				
2710 1965 00	Heating oil	19.284	145	2.796.180
2710 1971 00	Lubricants	78	393	30.654
2710 1981 00	Motor oil	5.046	1.022	5.157.012
2710 1983 00	Hydraulic liquid	1.194	753	899.082
2710 1985 00	White oils - liquid paraffin	93	1.235	114.855
2710 1987 00	Gearbox oils and reducer oils	760	909	690.840
2710 1991 00	Cast lubricants	447	1.201	536.847
2710 1993 00	Isolation oil	503	652	327.956
2710 1999 00	Heavy oil	230	1.270	292.100
	TOTAL TONS	919.711	192,9	177.420.404
	Total crude oil	781.438	177,8	138.939.676
	Total oil products	138.273	278,3	38.480.728

Identification of possible effects of growth on the revenue side of the trade balance of Macedonia in 2005 is based on two assumptions:

- maintenance of the volume and structure of crude oil and oil products;
- maintenance of the average prices in the period January-May 2005 until the end of the year; or
- rise of prices of crude oil in the second half by 5% in average.

Value of import at 2002 and 2004 prices

Description	Import in 2004	Import in 2004 at 2002 prices	difference in value
1. Crude oil	220.318.501	138.939.676	81.378.825
2. Oil products	59.573.363	38.480.728	21.092.635
3 TOTAL	279.891.864	177.420.404	102.471.460

The table shows greater value of imported crude oil and oil products. As a comparison, average prices per ton for 2004 were prepared as well as for the period January-May 2005

Import of crude oil and oil products in January-May 2005

Tariff No.	Description	Quantities	Prices	Value of import
		01/05/2005	US\$/ton	01-05-2005
2709 0090 10	Crude oil	334.783	361	120.893.462
2710 1121 00	White Spirit	196	777	152.216
2710 1125 00	Special-purpose petrol	7	2.169	15.181
2710 1131 00	Aircraft petrol	40	1.166	46.637
2710 1141 00	Vehicle petrol	8.170	488	3.985.717
2710 1190 00	Other light oil	0.2	675	135
2710 1915 00	Kerosene	3.953	489	1.935.088
2710 1929 00	Medium oil	72	410	29.569
2710 1945 00	Gas oil	39.203	495	19.412.875
2710 1963 00				
2710 1965 00	Heating oil	9.686	251	2.436.276
2710 1971 00	Lubricants	406	572	232.151
2710 1981 00	Motor oil	1.817	1.440	2.617.349
2710 1983 00	Hydraulic liquid	484	989	478.760
2710 1985 00	White oils - liquid paraffin	39	1.350	52.651
2710 1987 00	Gearbox oils and reducer oils	323	1.227	396.447
2710 1991 00	Cast lubricants	141	1.744	245.834
2710 1993 00	Isolation oil	291	1.177	342.536
2710 1999 00	Heavy oil	173	1.453	251.427
	Total crude oil	334.783	361	120.893.462
	Total oil products	64.805	504	32.660.849

The estimate shows that import of crude oil and oil products in 2005 would be around US\$ 353.3 million provided the average prices per ton in the period January-May 2005 remain the same and provided the volume and structure of import remain as in 2004.

Since the crude oil prices in June and July further rose on the world market, there is a need to make assessment the effect of the two-month trends. Therefore, rather conservative scenario of 5% rise of the average import prices was made regarding the import quantities in the second half of 2005. According to this assessment, the import of crude oil and oil products in 2005 would be US\$ 361.4 million.

Import trend of crude oil and oil products in the past four years shows double import value. While import growth in 2003 mainly arises from the change in the import structure (bigger share of

Crude oil price trend

Estimated 2005 import of crude oil and oil products

Tariff No.	Description	Average prices per ton in 2004	Average prices per ton in 2005	Quantity at 2004 level	Estimated 2005 value of import
2709 0090 10	Crude oil	281.9	361	781.438	282.099.118
2710 1121 00	White Spirit	629	777	548	425.796
2710 1125 00	Special-purpose petrol	746	2.169	85	184.365
2710 1131 00	Aircraft petrol	745	1.166	84	97.944
2710 1141 00	Vehicle petrol	412	488	30.641	14.952.808
2710 1190 00	Other light oil	-	675	0.5	3.375
2710 1915 00	Kerosene	426	489	10.403	5.087.067
2710 1929 00	Medium oil	-	410	2	820
2710 1945 00	Gas oil	395	495	68.875	34.093.125
2710 1963 00					
2710 1965 00	Heating oil	190	251	19.284	4.840.284
2710 1971 00	Lubricants	503	572	78	44.616
2710 1981 00	Motor oil	1.348	1.440	5.046	7.266.240
2710 1983 00	Hydraulic liquid	957	989	1.194	1.180.866
2710 1985 00	White oils - liquid paraffin	1.282	1.350	93	125.550
2710 1987 00	Gearbox oils and reducer oils	1.213	1.227	760	932.520
2710 1991 00	Cast lubricants	1.637	1.744	447	779.568
2710 1993 00	Isolation oil	848	1.177	503	877.232
2710 1999 00	Heavy oil	1.816	1.453	230	334.190
	TOTAL	304,2	384	919.711	353.325.484
	Total crude oil		361	781.438	282.099.118
	Total oil products		504	138.273	71.226.366

crude oil import), import growth in the period 2003-2005 is mainly due to the price trend of crude oil and oil products.

Estimated 2005 import of crude oil and oil products US\$

Description	2002	2003	2004	2005 estimate
Crude oil	73.628.173	192.015.506	220.318.501	282.099.118
Oil products	90.177.736	55.076.964	59.573.363	71.226.366
TOTAL	163.805.909	247.092.470	279.891.864	353.325.484
Including 5% rise of average import prices in the second half of 2002	163.805.909	247.092.470	279.891.864	361.404.600
Rise - 2002 as base year.	-	83.286.561	116.085.955	189.519.575
Rise - 2002 as base year and 5% rise of average prices in 2005		82.286.561	116.085.955	197.598.691

Possible changes in imported quantities and structure of oil products, along with the further rise in prices of crude oil and oil products in the second

The estimate shows that import of crude oil and oil products in 2005 would be around US\$ 353.3 million provided the average prices per ton in the period January-May 2005 remain the same and provided the volume and structure of import remain as in 2004

half of 2005 could bring the adverse affect to a level of around US\$ 100 million. The estimate shows a realistic possibility for increase of the import value of crude oil and oil products between US\$ 80 and 100 million in 2005, mainly resulting from the rise of prices of crude oil and oil products on the world market.

DIFFERENT BALANCE OF PAYMENTS ANALYSIS

These comparative analysis, always exclude other main elements that have to be considered if we want to get as a final product - relevant analysis

Miso Nikolov

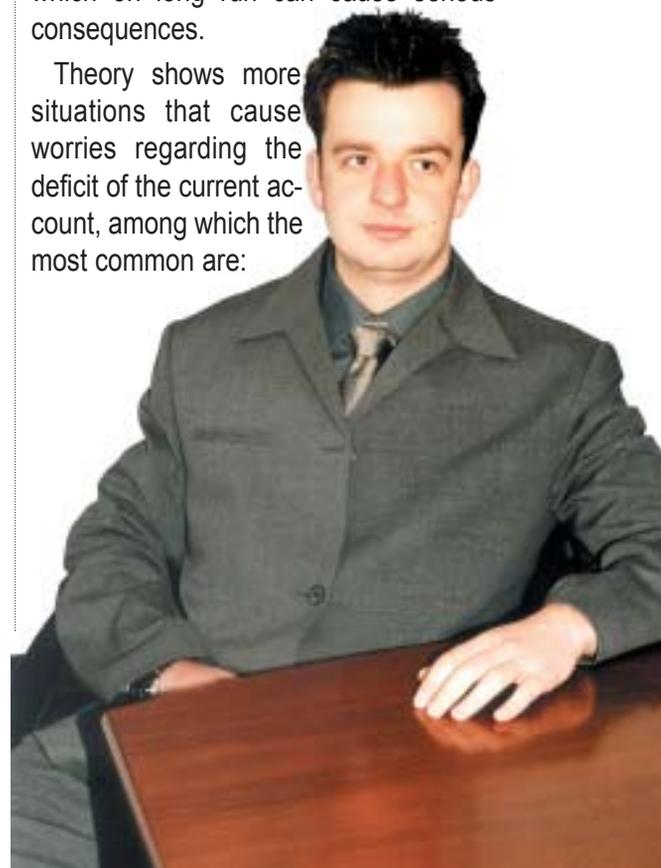
Miso Nikolov works as economic analyst in the Ministry of Finance in Skopje, in the Macroeconomic Policy Department. He graduated in 2001 from the Faculty of Economics in Skopje, major - Financial and Accounting Management. He received the prestigious scholarship from the US State Department - Ron Brown Fellowship, whereby he acquired MA title in Economics at the University of Texas A&M, Texas, USA. During his study in the US, he worked for the American Enterprise Institute in Washington as an economic analyst and advisor. He attended a number of international and national seminars and lectures in the Joint Vienna Institute - Vienna, Austria.

The question regarding the amount and the influence of the current account balance and the consequences of its permanent existence is discussed a lot in the last ten years. Experience in some developing countries shows that the currency crises and balance of payment crisis are initiated mainly with the existence of unsustainable current account deficit. Thanks to the United States of America, where in the last five years the deficit on the trade account and current account has been significant and which is the main cause of the depreciation of the U.S. dollar, this question is more debated.

Why there is so huge public interest regarding this question? Part of the answer is in the definition of the theoretical aspects of the balance of payments (balance of current transactions), which encounter all transactions related with exports and imports of goods (material goods) as well as so called invisible positions which consist of: exports and imports of services, investment income from abroad or foreign payment regard-

ing foreign investments in the country, financial services, transport etc. Usually, balance of payments of one country is not in balance. Most of the time the balance is negative, though sometimes it can be in surplus. The negative current account balance in one country shows that the country consumes more than it produces in the international trade, which on long run can cause serious consequences.

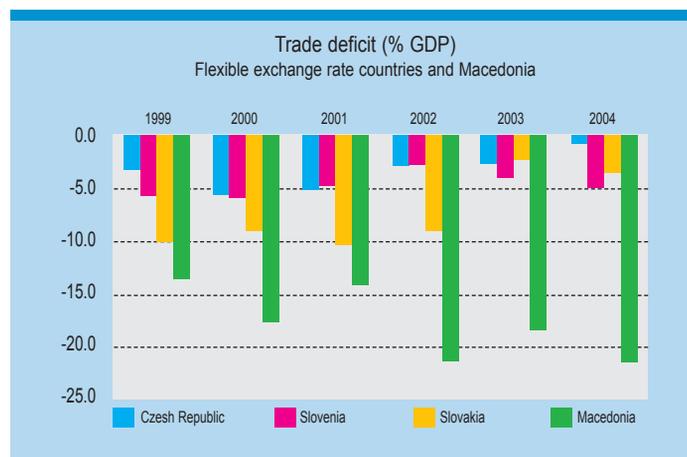
Theory shows more situations that cause worries regarding the deficit of the current account, among which the most common are:



- Continuous growth of the deficit/GDP ratio;
- Appreciation of the domestic currency, which means reduction of the competitiveness of the domestic economy;
- Investments and savings in the national economy and the fact that current account deficit is consequence of the low level of savings.

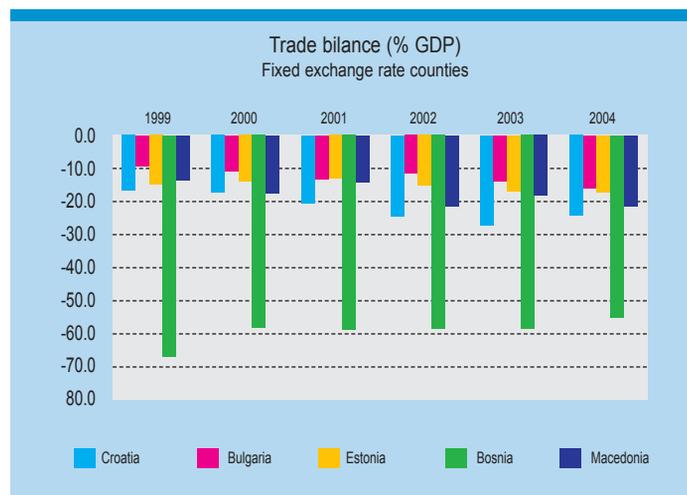
How big are these deficits in the Republic of Macedonia? Balance of payment situation (trade deficit and balance of payment deficit) is continuously misinterpreted in the public. Namely, some economic analysts compare the deficits with other countries, and just by comparative analysis they say that the situation in Macedonia with the current account is extremely bad.

many other countries. Namely in 2004, the deficit of the current account was -21.4% which is 3 percentage



points less than Republic of Croatia, 4 percentage points more than Republic of Bulgaria and 5 percentage points more than Estonia. Just as a reminder, Estonia is already member of European union, Bulgaria will become a member in six months and Croatia is applicant country that soon will become candidate country. So if do not include these countries in our analysis our conclusion will be wrong that Republic of Macedonia has unsustainable current account deficit.

Analysis of the current account shows similar situation. Countries with fixed exchange rate have higher current account deficit, but in this case the situation is not that different. In 2004 the trade deficit in the Republic of Macedonia was 8% of GDP, which is almost the same level as Republic of Bulgaria, 4 percentage points less than Estonia and 3 percentage points more than Republic of Croatia.

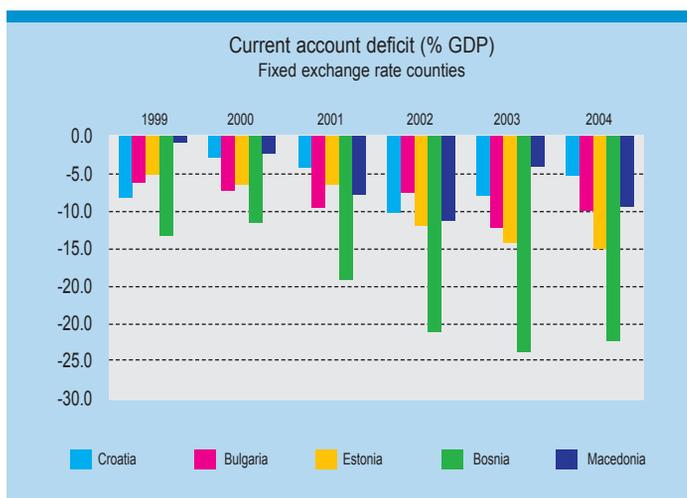


Unlike those countries, countries with flexible exchange rate had smaller current account deficit. Na-

Thanks to the United States of America, where in the last five years the deficit on the trade account and current account has been significant and which is the main cause of the depreciation of the U.S. dollar, this question is more debated

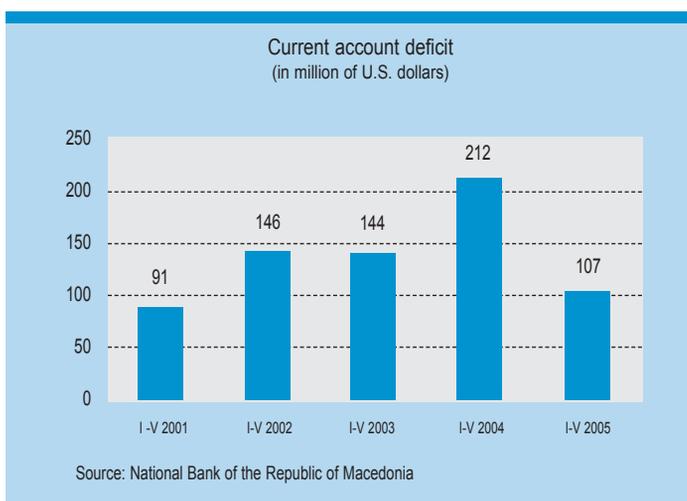
These comparative analysis, always exclude other main elements that have to be considered if we want to get as a final product - relevant analysis. Namely, the exchange rate policy of one country is one key element that must be taken into consideration when analyzing the current account deficit in the transition economies. Numbers show that in the country with fixed exchange rate regime there are usually larger deficits on the current and trade account while in the countries with flexible exchange rate the deficits are usually lower. The presented analysis will be wrong and of course will show that the situation is extremely bad. In other words, the analysis will be wrong and will show wrong information if we only compare Republic of Macedonia with countries like: Slovenia, Slovakia, Czech Republic and Hungary which have implemented strategy of fluctuating exchange rate, unlike Macedonia which has fixed de facto exchange rate.

Situation is different if we compare our country with countries with fixed exchange rate. Namely, comparing Republic of Macedonia with other countries with fixed exchange regime conveys that situation is not that bad and one could argue that is even better than



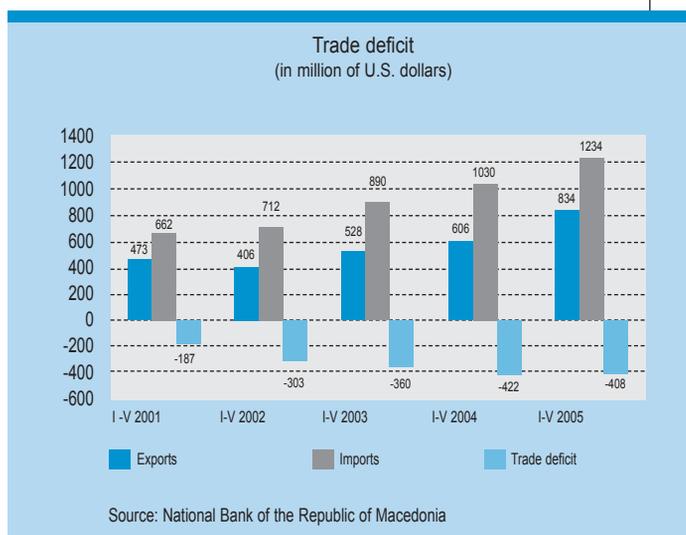
namely, in 2004 Republic of Slovenia had 0.9% current account deficit, Czech Republic 5% and Slovakia 5% of GDP.

If there was some concern in 2004 regarding the increase of the trade and current account deficit, in 2005 we can say for sure that the situation is much better. Namely, in the first five months of 2005, the deficit of the current account in the Republic of Macedonia was 106.5 million of U.S. dollars, which in compar-



ison with the last year is nominal decrease of 50%. Comparison with the last four years shows that the deficit is on lowest level (if we exclude 2001, when due to objective reasons there was significant decrease of the economic activity).

The nominal reduction of the current account deficit in this period (reduction of the deficit as a percentage of GDP is even greater if we consider the increased economic activity in this period) is due to the greater exports of goods in the first five months of 2005 which on annual level increased by 36% (in U.S. dollar term) with simultaneous increase of the imports of goods of only 17%, which caused reduction of the deficit of the



Source: National Bank of the Republic of Macedonia

services for the amount of 20 million dollars and higher level of transfers.

Exports growth in the first five months of 2005 was 36%, while the imports of goods increased 17%. Consequently the trade deficit lower by 14 million of dollars in comparison with the deficit of the same period last year, amounting 408 million of dollars. Besides the quantitative exports increase, it is significant to mention that there was qualitative improvement of the export structure measured by the Hirshman coefficient (0.1839 in the first quarter of 2005).

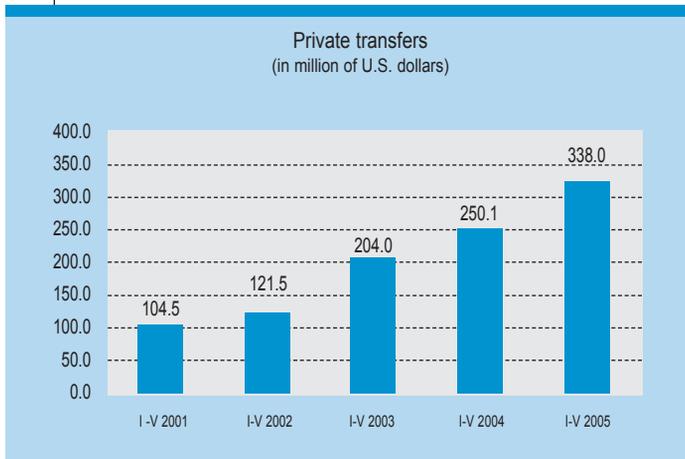
Usually, balance of payments of one country is not in balance. Most of the time the balance is negative, though sometimes it can be in surplus. The negative current account balance in one country shows that the country consumes more than it produces in the international trade, which on long run can cause serious consequences

In the first five months of 2005, the deficit of services (services for transport, financial services, insurance, interest rates income, tourism and dividends and investments abroad) nominally decreased by 20 million of dollars (according to the recent economics literature, the deficit of services is significantly correlated with the increase of exports, with proportional correlation).

At the same time, private transfers in analyzed period nominally increased by 88 million of dollars and reached the highest level since the independence of Macedonia (338 million of dollars).

The amount of private transfers in the Republic of Macedonia is significantly greater than the other countries in the region and with fixed exchange rate (with-

ance of payment deficit. Namely, in the period of January-May 2005, portfolio investments reached the highest level since the independence of the country reaching 20.4 million of dollars (in the same period of 2004 they were only 0.6 million of dollars). Foreign direct investments in the period of January-May 2005 are 38% lower than the same period of last year (in May 2005, the second mobile operator Kosmofon invested 32 million of dollars).



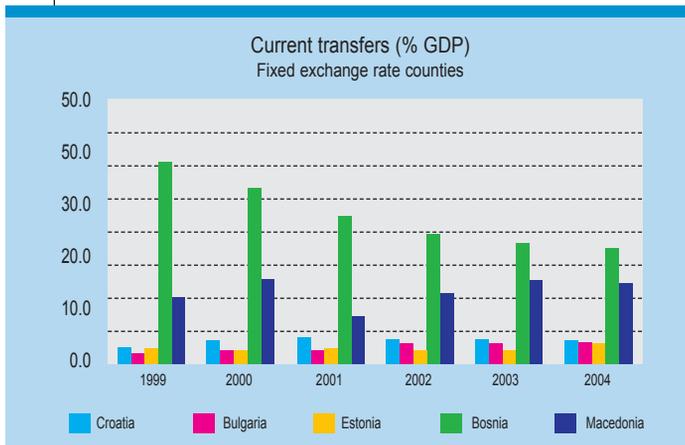
out Bosnia and Herzegovina), as a result of the high amount of money that come from Macedonian Diaspora.

Based on these developments, if this dynamics of balance of payments performance and increased economic activity (achievement of the 3.8% projected GDP growth) continue till the end of 2005, we expect that the deficit of the current account will be around 5.55 of GDP, or 1 percentage point less than initially forecasted and 2.4 percentage points less than 2004. At the same time we expect that trade deficit will reach 18% of GDP or 1.8 percentage points less than the one initially forecasted and 3.4 percentage points less than the one in 2004.

Numbers show that in the country with fixed exchange rate regime there are usually larger deficits on the current and trade account while in the countries with flexible exchange rate the deficits are usually lower

Analysis of the financial account shows that in the last quarter of 2004, as well as the first five months of 2005, there is significant increase of the portfolio investments, which caused further decrease of the bal-

As a conclusion, we would like to emphasize that in the world economic theory there is no single rule by



which it can be determined if the current account balance is sustainable or not. Here I would like to emphasize the sensitivity of the subject "Trade and current account deficit" and "Fixed exchange rate regime in Macedonia". Namely, wrong analysis and interpretation of the data sent to the public is really dangerous for the economic developments in the country, with significant reflection to the exchange rate and foreign exchange reserves, and through different channels to the fiscal and monetary policy. This is why we recommend carefulness when interpreting data in this field.

FISCAL SPACE: WHAT IT IS AND HOW TO GET IT

Room in a government's budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy

"Fiscal space" is a term that has recently become fashionable in the aid community. But what it means is fuzzy. Sometimes, the concept has cropped up when governments have argued that fiscal constraints should be relaxed to accommodate additional borrowing to finance infrastructure projects. The logic is that these projects create productive assets that pay for themselves over the long term, thus creating the fiscal space that they need. But recently, the term has also been used by advocates of higher health and education outlays who have argued that these expenditures will eventually pay for themselves through higher returns to human capital. Although the term is new, the concept is not. It has long been an element of sound fiscal analysis. And the challenge of creating fiscal space is one that has always confronted governments and their advisors, including international financial institutions like the IMF.

Defining fiscal space

What is fiscal space? It can be defined as **room in a government's budget that allows it to provide resources for a desired purpose without jeopardizing the**

sustainability of its financial position or the stability of the economy. The idea is that fiscal space must exist or be created if extra resources are to be made available for worthwhile government spending. A government can create fiscal space by raising taxes, securing outside grants, cutting lower priority expenditure, borrowing resources (from citizens or foreign lenders), or borrowing from the banking system (and thereby expanding the money supply). But it must do this without compromising macroeconomic stability and fiscal sustainability-making sure that it has the capacity in the short term and the longer term to finance its desired expenditure programs as well as to service its debt.

How can this be done? The government must ensure that the higher expenditure in the short term, and any associated future expenditure-including any recurrent spending on operations and maintenance required by an infrastructure investment, or by the establishment of a school or hospital - can be financed from current and future revenues. If debt-financed, the expenditure should be assessed by reference to its effects on the underlying growth rate and the country's revenue-generating capacity. The gov-

ernment needs to be sure, in particular, that increased outlays in one worthwhile area—health, for example—will not ultimately crowd out productive spending elsewhere.

For developing and emerging market countries, fiscal space may seem a more immediate issue than in advanced economies because there are more pressing needs for expenditure today. But longer-term issues are also involved, even for lower-income countries, because of the need to ensure that there will be room to respond to unanticipated fiscal challenges. For example:

- Countries that receive significant flows of foreign resources for a specific sector (such as health care) may, as a result of the associated expansion of the sector, face additional future spending needs that may essentially preempt a share of the growth of future domestic budgetary resources.

"Fiscal space" is a term that has recently become fashionable in the aid community. But what it means is fuzzy. Sometimes, the concept has cropped up when governments have argued that fiscal constraints should be relaxed to accommodate additional borrowing to finance infrastructure projects

- Foreign resource inflows, such as aid, may hurt a country's macroeconomic situation (for example, by raising its real exchange rate and thus reducing its international competitiveness) or cause excessive aid dependency, so that such inflows may need to be limited. A foreign-financed expansion of a specific sector (for example, education) may then imply limits on the magnitude of foreign resources available to other sectors.
- Resource inflows may finance a government activity, such as pension reform, that creates a liability in the form of future payouts that are highly uncertain in magnitude and timing.

The IMF's approach

What is the IMF's stance? When the IMF evaluates a country's macroeconomic situation, it is open to the creation of fiscal space through higher foreign grant inflows for spending on infrastructure or social pro-

grams. But the IMF would flag a concern if the higher spending jeopardized macroeconomic stability or debt sustainability. Such caution particularly extends to the use of central bank credit, given the IMF's concern with inflation and its damaging effects on growth and poverty. Moreover, higher spending in a sector, even if financed from external grant flows, may have implications for other sectors that will need to be taken into account.

How is potential fiscal space determined? The IMF looks at both the scope for greater public saving through expenditure rationalization and tax reform, and the extra resources that can be mobilized from borrowing and grants. It also appraises underlying factors that affect the outcome of government policies.

Reprioritizing expenditure. Curbing unproductive spending should be an important objective. This may require cuts in subsidies or military outlays, wage restraint, or rationalization of elements of the civil service (including by tackling the common problem of ghost workers). But at the same time, productive spending needs to be protected: not spending enough on a sector (say, health) can have damaging social effects and prove to be a false economy, raising future spending requirements by weakening the sector so much that it would be costly and time consuming to "rebuild" it.

Boosting efficiency. Other aims should be to streamline the implementation of programs, reduce corruption, and improve governance. Donors can help by paring conditionality, eliminating aid-tying, reducing administrative overheads, better coordinating spending in a sector, and reducing the administrative overload imposed on the limited number of recipient country program managers.

Raising revenue. For countries with low ratios of government revenue to GDP, broadening the tax base and improving tax administration are likely to be important objectives. For low-income countries, a tax ratio of 15 percent of GDP should be seen as a minimum objective.

Increasing borrowing. Given that domestic and foreign borrowing must be serviced and repaid, policymakers need to evaluate whether the social return

from the uses to which the borrowing is put justifies the cost. Governments may choose to borrow without taking specific account of the direct returns, but then must do so when assessing the overall sustainability of a program. Such assessments typically weigh an economy's prospective growth rate, potential for exports and remittances, prospective interest rate environment, revenue elasticities, composition of existing debt (in terms of interest rates, maturity, and currency of borrowing), and terms of new debt being considered.

The case of Malawi, Tanzania, and Zambia

How much extra fiscal space might there be in Malawi, Tanzania, and Zambia? This question was considered in a recent IMF review. On the tax front, only Tanzania would have room for higher taxes, since tax-GDP ratios in Malawi and Zambia are already high by regional standards. Tanzania might also be able to reprioritize spending, but Malawi and Zambia would be constrained by the high share of wages and salaries and interest payments in total spending. How about higher concessional borrowing? Tanzania could pursue this route, but Malawi and Zambia would be hampered by high domestic debt levels—and until external debt is brought down to sustainable levels through debt relief, taking on more debt would be questionable. Thus, the best route for all three countries would be more foreign grants. But for this to work, Malawi and Zambia in particular would need to strengthen public expenditure management. And they would all need to pursue sound macroeconomic policies to limit any potential adverse effects on real exchange rates or interest rates.

Monetary expansion. This is not a desirable option! A government's borrowing from the banking system should be driven by monetary policy objectives—namely, the creation of sufficient liquidity to support an economy's real growth, with no more than low inflation. Even if a government were explicitly to rely on money creation to facilitate somewhat higher government expenditure, there are clear limits, given the potential inflationary impact.

Securing more external grants. For many developing countries, this is increasingly feasible given the global commitment to help countries reach the Mil-

lennium Development Goals (MDGs). Grants can clearly provide more fiscal space than borrowing, where debt sustainability considerations have to be taken into account even when loans are highly concessional. But only a sustained and predictable flow of grants can create the potential for a scaling up of expenditure that can be maintained, and reduce the uncertainty as to whether a grant is simply of a one-time nature. (See Back to Basics in F&D, December 2004). And countries will need to take account of the potential macroeconomic consequences in terms of international competitiveness that may arise from a significant scaling up in absorption of external resource inflows.

When the IMF evaluates a country's macroeconomic situation, it is open to the creation of fiscal space through higher foreign grant inflows for spending on infrastructure or social programs. But the IMF would flag a concern if the higher spending jeopardized macroeconomic stability or debt sustainability

Pursuing sound macroeconomic policies. Delays in completing IMF program reviews or cessation of IMF-supported programs—which often results from a country's failure to implement agreed macroeconomic policies—can affect assistance from other lenders and donors, and result in volatile flows. Countries that manage policies well are likely to have greater potential for creating extra fiscal space. Governments need to clarify with donors the likely availability of foreign assistance over the medium to long term and structure their expenditure programs accordingly.

In sum, the fiscal space debate has proven useful, reflecting the importance of clarifying ways to facilitate expanded spending by governments to foster growth through higher infrastructure spending and to finance programs vital to the achievement of the MDGs, particularly those related to HIV/AIDS. And the IMF is committed to working with countries to explore the scope for expanded fiscal space.

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