MINISTRY OF FINANCE
REPUBLIC OF MACEDONIA

BULLETIN

march/april 2005

web site of the Ministry of Finance of the Republic of Macedonia
http://www.finance.gov.mk/

web site of the Public Revenue Office
http://www.ujp.gov.mk/

web site of the Customs Administration of the Republic of Macedonia
http://www.customs.gov.mk/

web site of the Macedonian Stock Exchange
http://www.mse.org.mk/

web site of the Securities Exchange Commission
http://www.sec.gov.mk/

web site of the State Statistical Office
http://www.stat.gov.mk/

Skopje, march/april 2005

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HONOURABLE,

In the last two years we have been concentrated on the process of consolidation of the public finance, meaning undertaking of number of activities related to the manner of collecting the public revenues and programming, execution and control over the public expenditures. These activities have given particular results in the central government budget, as well as in the other public funds (except for the HIF) at central level. These results will further be an important challenge to the operations within the Ministry of Finance.

We are now face another big reform. Allow me to promote, through the pages of our Bulletin, for the first time the concept of that reform and to introduce its basis.

Our medium - term strategy now presupposes further strengthening of the above-mentioned function of the Ministry of Finance and the government as a whole. We will pay special attention to more efficient public funds management and strengthening of the collection of taxes and contributions. To that end, strong reform will be undertaken in the organization and the manner of functioning of the institutions responsible for collection of taxes and contributions, i.e. the Public Revenue Office and the social funds. We will harmonize the bases for personal income tax and the social contributions; we will make appropriate broadening of the tax base at the direct taxes (profit tax and personal income tax), and finally we will integrate the collection of personal income tax and social contributions.

This reform has already commenced and it will be realized in the next 40 months, i.e. by the end of 2008. It will be a complex and painstaking process, already projected and designed. In the course of July this year, Government of the Republic of Macedonia established the Committee for implementation of the reform in the collection of personal income tax and contributions, composed of the leading people in the Ministry of Finance, Ministry of Labour and Social Policy, Ministry of Health, Public Revenue Office (PRO), Pension Insurance Fund, Health Insurance Fund, Employment Agency and experts from the Ministry of Finance. The reform has also been initiated with the submission of the completely new Law on Public Revenue Office (i.e. the tax administration) and the Law on Tax Procedure (offering radically new approach in the creation of a single base for the general tax law and tax administration procedure) by the Government of the Republic of Macedonia. The two laws will be adopted by the end of 2005, through regular procedure, and will start to be applied from January 2006. Tax administration will be reformed from organizational point of view, and it will be assigned new rights and obligations, including the announcing of offence penalties as its competence. New organizational set-up will enable the PRO to improve its capacity and to upgrade the level of operational planning and carrying out of its competencies. A comprehensive program on identification and registration of the taxpayers will be developed, as well as processing of the tax returns, collection of arrears, detection of non-reported taxes, etc. Results to monitor this reform will be ensured through creation of specific indicators for each of these individual functions of the tax administration. National surveys will also be carried out for the level of satisfaction of the taxpayers from the services provided by the tax administration.

By the end of July 2006, special office will be established for the large taxpayers within the PRO, which will significantly increase efficiency and will improved the services rendered to the largest taxpayers, and by July 2007, pilot office will be set for the administration of small and medium taxpayers. In parallel, by June 2006, offices will be established within the Pension and Disability Insurance Fund and Health Insurance Fund for the 100 largest contributors, i.e. employers. In the meantime, PRO will develop new computer system compatible with the systems being developed within the social funds. The system will be tested for the first time and it will start functioning before the end of July 2007. In the period by the middle of July 2006, the Government will propose harmonization of the base for the personal income tax and the social insurance contributions.

This ambitious plan should be finished during 2008 with the merger of the Offices (which will already be operational in that period) for Large Taxpayers and Large Contributors within the PRO. By the end of 2008 at the latest, final decision will be reached on the dynamics of the complete integration of the collection of taxes and contributions within the tax administration.

These reforms are to significantly promote the efficiency of the tax procedures and administration, to improve the public funds management and to alleviate the tax process from the point of view of the taxpayers.

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)]			
	2002	**2003**	**2004**	**2005**	**2002**	**2003**	**2004**	**2005**	**2002**	**2003**	**2004**	**2005**
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	V + G + D	\	E	@	Z	Y + I + Q	J + K + L + N				
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	Desription	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

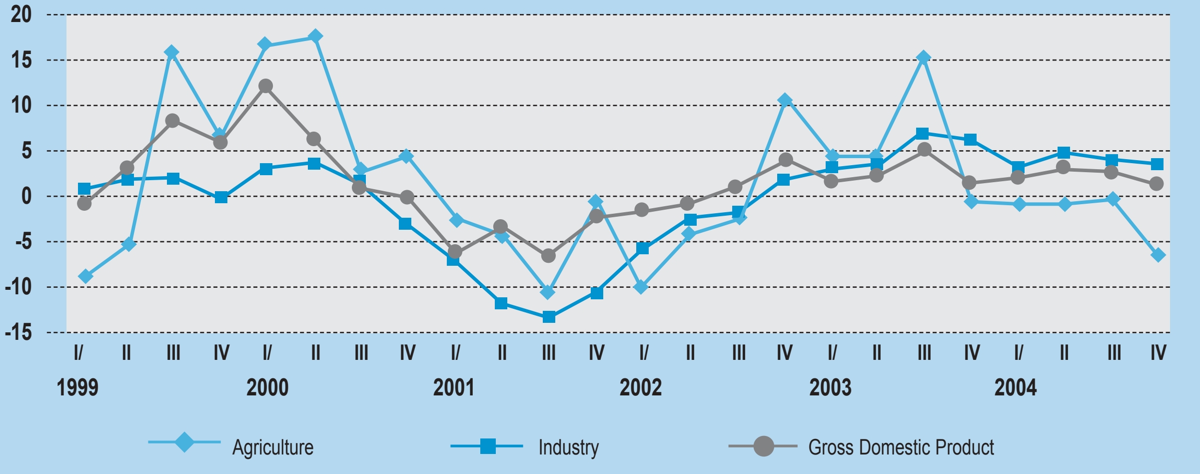
Percentage change from the same period previous year, if otherwise not stated

	2000	2001	2002	2003	2004	2004				2005				
						Q - 1	Q - 2	Q - 3	Q - 4	January	February	March	Q - 1	April
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	9.2	6.2	0.3	4.8	10.5
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	-1.4	0.0	0.2	-0.4	0.6
Industrial producer prices	8.9	2.0	-0.9	-0.3	0.9	-1.5	0.5	2.2	2.6	1.2	2.2	2.3	1.9	3.1
Competition of the industry														
Productivity	6.0	0.5	3.0	13.1	3.9	-28.0	-20.8	-16.7	-3.1	15.6	12.3	6.4	39.2	15.1
Unit labour cost	-4.7	-0.7	0.2	-10.3	0.7	45.1	29.8	20.7	13.6	-9.8	-15.2	-3.8	-35.1	-17.5
Real unit labour cost	-12.5	-2.7	1.1	-10.1	-0.4	50.6	28.2	16.8	9.2	-11.1	-17.4	-6.0	-34.8	-20.8
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	44.3	45.6	53.1	47.6	51.9
Lamb	261.9	291.2	330.3	388.4	461.4	458.6	453.8	452.8	472.7	476.2	478.5	479.7	478.1	472.0
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	14,505.0	15,350.0	16,191.0	15,348.0	16,142.0
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	3,170.0	3,254.0	3,379.0	3,268.0	3,394.0
Lead	45.4	47.6	45.3	51.5	88.7	84.4	81.1	93.2	95.9	95.32	97.8	100.4	97.8	98.6
Zink	112.8	88.6	77.9	82.8	104.8	107.0	102.2	97.5	111.4	126.6	132.6	137.2	131.5	130.0
Steel cold rolled coilsreat	385.8	299.2	328.3	444.6	607.1	520.0	608.3	650.0	650.0	650.0	687.5	712.5	683.3	750.0
Steel hot rolled coilsreat	295.8	216.5	246.7	320.2	502.5	401.7	508.3	550.0	550.0	550.0	587.5	612.5	583.3	650.0
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	33.2	18.6	31.8	30.6	36.0
Import of goods (CIF)	17.9	-19.4	16.3	15.3	25.9	13.8	18.6	28.4	35.8	7.7	11.5	8.7	12.8	29.0
Trade balance (in millions of US $)	-771	-533	-849	-937	-1,230	-246.0	-339.6	-264.0	-368.4	-61.9	-67.3	-87.7	-216.9	-137.0
Current account balance (in millions of US $)	-236	-38	-324	-277	-415	-107.4	-172.9	-5.8	-129.7	-8.2	2.7	-15.9	-21.4	-62.4
"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	17.6	62.0	62.0	112.0
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	1,918.5	1,937.0	1,924.6	1,924.6	1,927.0
Foreign exchange rates														
Denar / EURO	60.73	60.91	60.98	61.26	61.34	61.29	61.28	61.31	61.46	61.43	61.36	61.42	61.40	61.39
Denar / USA $	65.89	68.04	64.73	54.30	49.41	49.94	50.87	50.20	47.53	46.69	47.19	46.57	46.82	47.45

	2000	2001	2002	2003	2004	2004				2005				
						K - 1	K - 2	K - 3	K - 4	January	February	March	Q - 1	April
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	5.7	-15.7	-15.9	-9.0	14.0
Tax revenues	22.1	-6.9	14.0	-9.6	6.8	5.7	5.0	6.7	9.9	10.1	-16.3	-3.8	-3.1	14.0
VAT	75.2	-1.8	19.8	3.2	21.6	25.3	16.8	18.7	25.8	13.8	-31.5	-2.5	-5.9	15.7
Expenditures	12.7	27.0	-0.1	-13.8	0.3	5.2	3.0	-4.4	-1.7	12.7	5.9	-1.4	5.6	3.2
Current expenditures	1.8	31.9	17.2	-1.2	1.4	5.7	1.2	-2.8	1.9	3.4	3.7	3.2	3.6	0.0
Capital expenditures	94.5	28.3	11.8	-447.0	-3.4	-34.3	-38.4	-15.9	-22.8	461.0	68.0	46.7	42.2	32.9
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	84.0	-1,038.0	-18.0	-1005.0	389
General government balance (in million of denars)	5,905	-13,171	-13,019	-2,596	7	655.0	-635.0	654.0	-667.0	-207.0	-875.0	-266	-1269	642
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	4.7	5.4	4.0	4.0	6.3
Credit to private sector	17.2	7.3	12.7	15.8	18.7	18.9	25.9	24.4	18.7	19.7	18.3	16.9	16.9	14.5
Cash in circulation	16.6	48.5	0.0	0.3	-0.1	9.2	4.7	2.0	-0.1	-0.3	1.5	9.6	9.6	3.7
M1	22.6	5.6	4.6	1.1	-1.1	9.1	8.6	2.3	-1.1	4.0	7.6	3.9	3.9	1.5
M2	29.4	61.9	-7.0	15.9	15.1	18.1	20.1	18.3	15.1	16.9	19.9	22.3	22.3	21.5
M4	25.6	56.7		13.2	15.3	15.4	18.9	16.7	15.3	15.6	18.8	20.2	20.2	19.5
Foreign exchange reserves / M4 (denars)	165.0	188.2	150.5	150.7	162.0	161.7	166.9	153.3	162.0	169.0	167.5	167.6	167.6	168.2
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					
Number of new employed	101,996	90,308	110,401	79,921	112,013	25,648	51,190	80,235	112,013	6,838	9,300	11,707	11,707	11,711
Number of new emlpoyed on full time	63,987	63,346	74,341	49,661	63,538	16,153	31,870	47,135	63,538	3,726	5,807	7,268	7,268	6,022
Wages														
Nominal net wages	5.5	3.5	6.9	4.8	4.0	4.0	4.4	3.4	4.0	5.5	1.1	2.2	3.0	1.0
Real net wages	-0.3	-1.9	5.0	3.6	4.4	2.4	4.9	5.0	5.4	7.0	1.1	2.0	3.4	0.4
Consumer basket	2.5	5.2	2.7	-0.7	-2.7	0.7	-2.8	-5.0	-3.9	-5.8	-3.0	-3.3	-4.0	
Social protection														
Number of pensioners	241,221	247,200	249,421	254,267	260,075	254,333	256,917	258,360	260,075	260,364	260,591	260,879	260,879	261,447
"Number of households that receivesocial protection"	77,309	80,160	82,673	64,453		64,584	64,594	65,960	66,940	66,243	68,080	69,667	69,667	63,442
"Number of persons that receiveunemployment benefits"	35,046	41,375	46,772	47,324	45,867	53,273	51,221	48,189	45,867	46,928	46,059	44,230	44,230	44,267

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

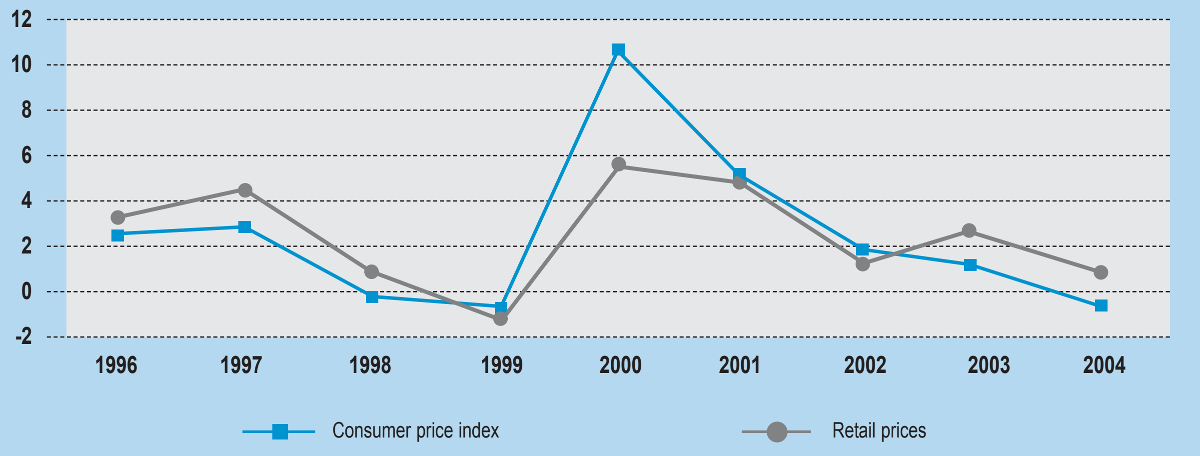
GROSS DOMESTIC PRODUCT
real growth rate, year-on-year



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [2]
Gross Domestic Product [1]	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											
	1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003** [2]
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 %

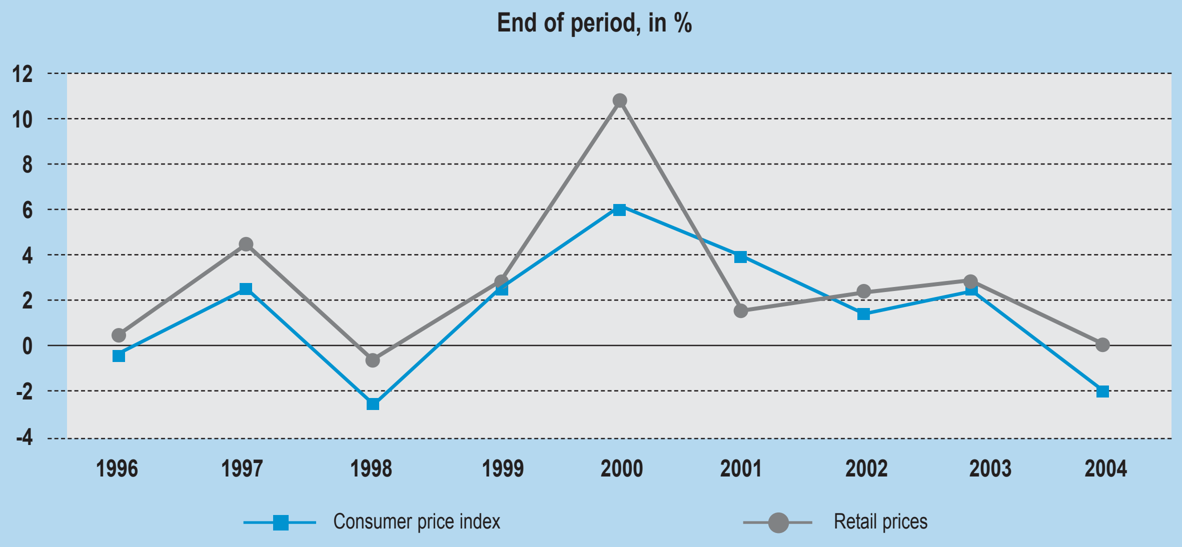


Average rates, in %

	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 %

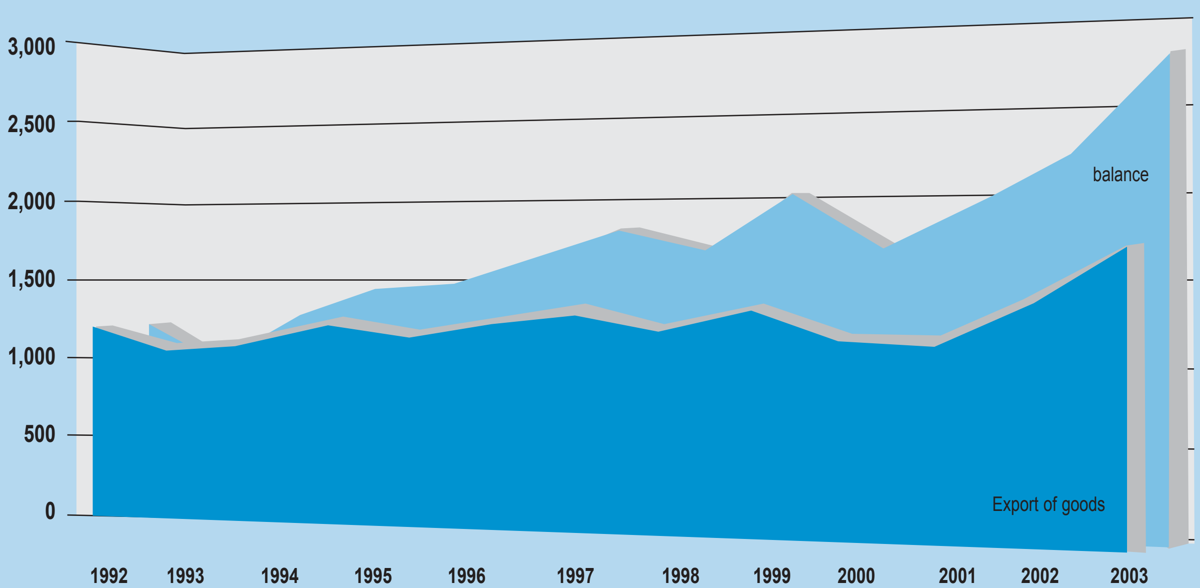
	1996	1997	1998	1999	2000	2001	2002	2003	2004
Consumer price index	-0.7	2.7	-2.4	2.4	6.1	3.7	1.1	2.6	-1.9
Retail prices	0.2	4.5	-1.0	2.3	10.8	1.2	2.2	2.9	-0.1



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	478.0	697.3	-219.3	122.1	69.0	53.1	60.4	48.3	12.1
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	240.3	-62.8	33.2	26.2	7.0	33.6	26.0	7.6
	IV	174.6	238.2	-63.6	28.6	25.3	3.3	37.8	30.1	7.7

in million US $

USA			Italy			Greece			Russia		
Export	Import	Balance	Export	Import	Balance	Export	Import	Balance	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
8.0	14.7	–6.7	38.4	29.4	9.0	68.1	58.0	10.1	3.7	73.7	–70.0
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
3.4	3.9	-0.5	9.9	16.2	-6.3	31.2	29.6	0.4	1.5	30.6	-29.1

SHORT-TERM ECONOMIC TRENDS

APRIL 2005

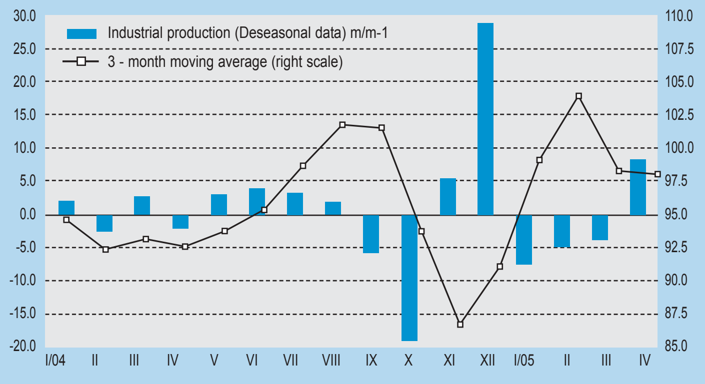
SUMMARY OF THE MOST IMPORTANT SHORT-TERM ECONOMIC DEVELOPMENTS IN APRIL 2005

- The industrial production grew by 7.3% on monthly basis, i.e. by 6.4% on annual basis;
- The level of costs of living on monthly basis remained almost unchanged;
- Average inflation still negative, at -0,2%;
- Rise of stock exchange prices of certain products, above all oil and nickel;
- Cumulative growth of export of goods by 31.9% on annual basis, simultaneously with the rise of import of goods by 17.6%.
- Foreign trade deficit during the four months of 2005 amounted to US$ 356 million, almost identical as last year;
- External debt of the Republic of Macedonia increased on monthly basis by only US$ 3 million (US$ 1.4 million in exchange rate differences) whereby it achieved a level of US$ 1.927 million;
- Central government budget surplus in the first two months of 2005 was in the amount of Denar 616 million;
- Rise in the overall bank investments on monthly basis;
- Level of gross foreign exchange reserves of the NBRM grew on monthly basis by US$ 7 million (US$ 971 million);
- Number of registered unemployed persons declined on annual basis by 10,000 persons (385.338).

1. REAL SECTOR

1.1. Industrial production

At the beginning of the second quarter, i.e. in April 2005, the industrial production grew by 7.3% on monthly basis compared to the previous month. This is third subsequent monthly rise of the industrial production as a result of the positive performances, largely in major part of the industrial sectors. At the same time, after three-month negative results, the deseasoned industrial production finally grew in April 2005 by 8.6% on monthly basis. The production rose in 15 out of 24 industrial sectors.

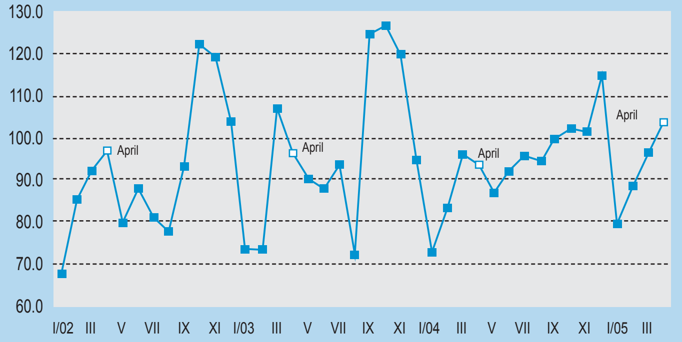


Source: Ministry of Finance, State Statistics Office

More intensive monthly activity lead to growth in the overall industrial production index, which in the period January-April 2005 was by 6.4% higher compared to the same period last year, whereby 14 out of 24 industrial sectors experienced greater production on annual basis. Thereby, as a positive feature of the industry in this period we can point out the expansion in the industry for production of construction materials, which began in December last year experiencing 10.4% growth in the period January-April. The greater production in this branch is a certain indicator of the greater activity of the domestic construction in the period to come.

In addition, 11.4% cumulative production growth is registered in the textile industry (temporary import), the chemical industry (6.7%), industry for production of metal products and machines, electricity (3.8%) and production of base metals (89%). Here lies the basis for the industrial growth since out of the total 6.4% growth, the steel industry comprises around 5 percentage points.

Industrial production
(chain indexces)

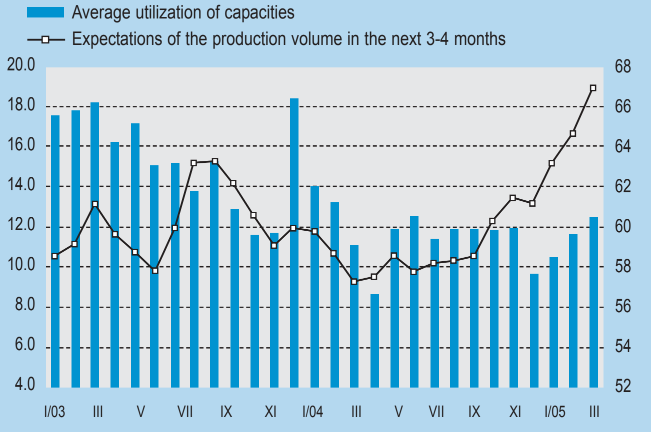


Source: State Statistics Office

At the same time, on cumulative basis, in the more important industrial branches, decline was registered in the food industry (-3.7%) and tobacco industry (-20.6%), where despite the continuous growth on monthly basis the total index is still below zero. Still, taking into account the seasonal rise in the production in the food industry, as well as the initiation of the operations of the Tobacco Company Kumanovo, intensified activity is expected in these sectors in the period to come.

What is especially positive is the greater expectations of the managers on the production volume in the processing industry in the next period, which, except for January, have grown for nine subsequent months. Such positions reflect the confidence of managers in the perspectives of the Macedonian economy, i.e. the improvement of the business environment. Thereby at the beginning of the year, the optimism of the leading persons in the Macedonian industrial companies with regard to the future volume of production grew exceptionally, by over 40%.

Such expectations are underpinned with the data on the average utilization of industrial capacities in April 2005 (61.5%), which although still low, is at the highest level in the past year and a half.

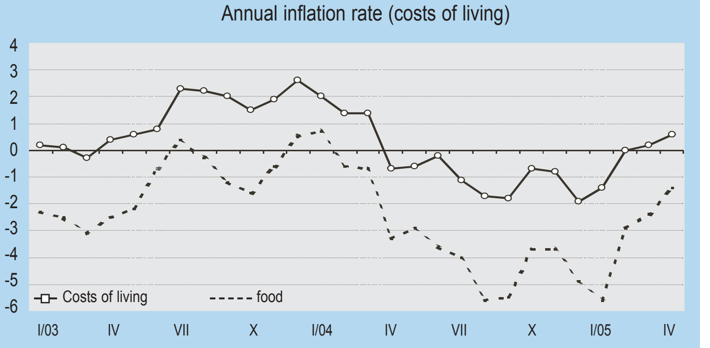


Source: State Statistics Office

1.2. Prices

In April 2005, the CPI declined monthly by 0.1%, while on annual basis the price level grew by 0.6%. Despite the annual increase, the average inflation rate in the first four months of 2005 (January-April 2005 / January-April 2004) is still in the negative zone and is -0.2%, which in relation to the first three months of 2005 is growth by 0.2 percentage points.

Annual inflation rate (costs of living)



Source: State Statistics Office

The negative inflation rate on monthly basis was largely determined by the decline in the prices of food, as well as clothes, while the prices rose in the category Heating and Lighting and Culture and Entertainment.

On cumulative basis, deflationary tendencies were noted in all categories of products, except the following: Tobacco and Beverages, Clothes and Footwear, Heating and Lighting, as well as Transport Facilities and Services. Within the CPI, prices of goods declined by 0.7%, while the prices of services grew by 2.1%.

The prices of the producers of industrial products in April 2005 grew by 0.6% in relation to previous month above all as a result of rise of the energy price by 3.4%. The rise in the oil price lead to rise in the annual prices of industrial products in April 2005 (3.1% in relation to April 2004). The prices in the category Energy were by 10.5% higher, and the prices of consumer durables grew by 3%.

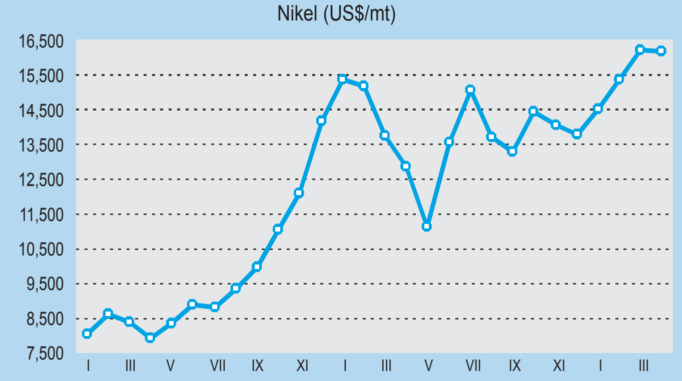
1.2.1 Stock Exchange Prices

In April 2005 stock exchange prices of most of the most frequently traded products on the world stock markets declined on monthly basis, terminating the three-month trend of rise in prices. Only the prices of copper (0.44%) grew in relation to the previous month, at both hot-rolled and cold-rolled steel products, by 6.1% and 5.3%, respectively.

After the 4-month growth of the stock market price of oil, in April, the average price of this product declined by 2.3% in relation to March and reached US$ 51,9 per barrel, still close to the peak prices. The high price of oil is a result of the decline in the daily production of OPEC in Q2 last year and the still low value of the US dollar.

On the world stock markets, the nickel was sold at US$ 16,142 per metric ton, being slight reduction of price in relation to previous month. Still, on annual level, the price of nickel grew by 25.6%. Despite the April decline of prices of many stock market products, on annual basis, the prices of all products grew, most notably the prices of oil (55.5%), sugar, (30.9%), and lead (30.8%).

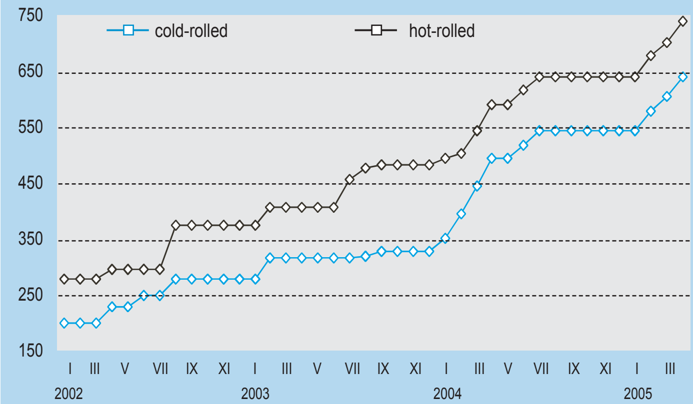
Nikel (US$/mt)



Izvor: World Development Prospects, Pink Sheets

The stock market prices of steel and steel sheets continued to rise in April 2005 for third subsequent month after a very stable seven-month period, reflecting the greater demand on the world markets. Especially high growth was registered at hot-rolled steel sheets, which reached a price of US$ 650 (30% annual rise) while the prices of cold-rolled steel sheets rose by 25% and the prices of pure steel grew by 10% on annual level.

Commodity prices of the steel sheets



Izvor: World Development Prospects, Pink Sheets

2. EXTERNAL SECTOR

2.1. Foreign Trade

In April 2005, foreign trade of the Republic of Macedonia, expressed in US dollars grew on annual basis (April 2005 / April 2004) by 31.4%. Compared to March this year, the foreign trade grew by 9.2% whereby the export declined by 1.9% while the import grew by 16.5%. The trade deficit in April was US$ 137 million and is greater than the one in March by US$ 46.8 million which is usual seasonal rise in this period of the year.

Analyzed cumulatively, in the first four months of 2005 there was significant increase in the export of goods by 31.9% compared to the same period of the previous year, as a result of restarting of certain facilities and the enhanced economic activity of the business entities in the country. In the same period, the import grew by 17.6% which contributed for slight decline of deficit in the exchange with abroad (US$ 6 million) compared to deficit in the first 4 months of 2004, meaning that the deficit reached US$ 356 million. Such trends conditioned improvement of the degree of coverage of import, amounting to 64.5% and is higher than the one in the previous year by 7 percentage points.

Analyzed by groups of products according to SMTK, the export of meat and meat processing in April 2005 in relation to previous month declined by around US$ 3 million (or 40%), the export of tobacco by US$ 3,2 million (or around 50%), while the export of fruit and vegetables grew by US$ 2 million (or 40%), of oil and oil products by US$ 4 million (or 43,4%). The level of iron and steel, as well as clothes is almost the same as in the previous month.

Realized export and import of goods (US $ million)

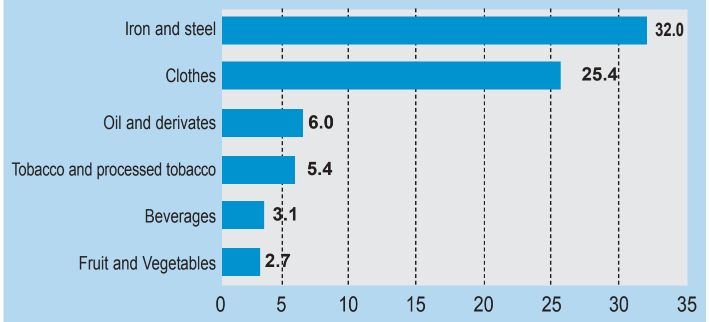
Source: State Statistics Office

Observed cumulatively, in the first four months of 2005 the export of iron and steel grew by around US$ 112 million or 120.6% in relation to the same period of the last year, of oil by US$ 25.6 million or 193.5%, followed by fruit and vegetables by US$ 6 million rise or 54%, tobacco and tobacco processed goods by US$ 5.5 million or 18.8%, clothes with slightly over US$ 5 million or 3,2%, footwear by around US$ 4 million or 29.7%.

The following products are the main "drivers" of export in the period January-April 2005: iron and steel, clothes, oil and oil products, tobacco and tobacco processed goods, beverages, fruit and vegetables, etc. These six groups of products comprise 74.6% of the total export of goods in the country.

In the first 4 months of 2005, 59.2% of the total exported goods were placed on the European Union market, while 43.9% of the total goods imported in the Republic of Macedonia originated from the Union. Export of goods in the European

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



Source: State Statistics Office

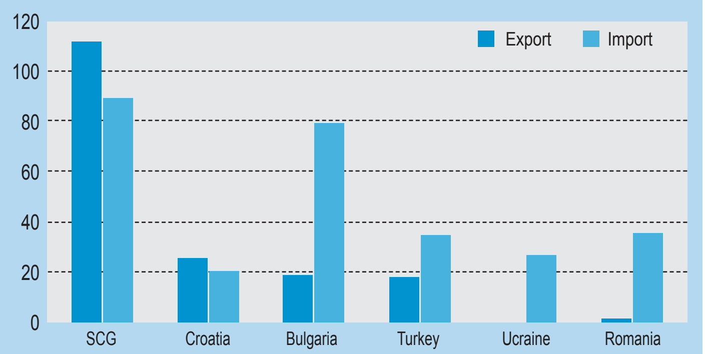
Union was higher by 29.1%, and the import by only 0.8%. Germany, Serbia and Montenegro, Greece, Italy, Croatia, and Bulgaria continue to be our greatest partners, the share of which in the total import is 70.3%.

The analysis of import according to the economic purpose in the first 4 months of 2005 point to the positive tendencies in the trends of the economy, observed at import of raw materials and intermediate goods, which reached 20.1% growth rate in relation to the same period of 2004. Import of equipment grew by 30.8% and the consumption goods by 12%. In the overall structure, the share of import of consumer goods declined by 1.5 percentage points.

Main import products, (according to SMTK) in the period January-April 2005 continue to be oil and oil products, iron and steel, textile products, road vehicles, industrial machines.

There continues to be slightly higher import than export with countries having signed free trade agreements, such as Bulgaria, Turkey, Romania and Ukraine. Foreign trade deficit with these four

Foreign trade with countries with which free trade agreements are concluded



Source: State Statistics Office

FOREIGN TRADE of the Republic of Macedonia
(by currency)

Export	I - IV 2004					I - IV 2005						
currency	000 t	Export in currency	average Denar exch. rate in relation currencies	Export in Denar	structure in %	000 t	Export in currency	average Denar exch. rate in relation currencies	Export in Denar	structure in %	absolute change in currency value	relative change in currency value (in %)
EUR	375	294,002,572	61.2904	18,019,535,246	74.0	534	382,951,358	61.3995	23,513,021,922	77.4	88,948,786	30.3
USD	159	121,139,217	49.5290	5,999,904,286	24.6	216	139,586,762	46.9658	6,555,803,954	21.6	18,447,545	15.2
EUR+USD	534			24,019,439,550	98.6	750			30,068,825,876	99.0		
Total	**536**			**24,354,318,291**	100.0	**752**			**30,369,544,848**	100.0		**24.7**

countries is US$ 138.9 million, which is around 40% of the trade deficit realized in the period January-April 2005.

2. The analysis of the currency structure of the foreign trade of the Republic of Macedonia in the first 4 months of 2005 compared to the same period last year, shows declined of the structural share of the US dollar in the total export (by around 3 percentage points), which spilled in the part of export realized in euros. This proves that slowly, but surely we gain access to the European market, resulting in visible tendency of reduction of trade deficit.

It should be underlined that the dominant share of the euro in the foreign trade structure largely affects the rise of the fictive rise of its indicators expressed in US dollars. Thus, the part of the trade conducted in euros in the first 4 months of 2005 in relation to the same period in 2004 notes high rise on the export side by around EUR 89 million, i.e. 30.3%, and on the import side by EUR 52.8 million, i.e. 10.5%.

At the same time, the trade in US dollars notes significant rise on the export side by US$ 18.4 million or 15.2%, while, due to the "cheaper dollar" the import grew by US$ 46 million or 20.5%.

In the analyzed period, export of goods from the Republic of Macedonia expressed in denar equivalent grew by 24.7%. If the US dollar share of the export in the first quarter of 2005 is reduced to the average US dollar exchange rate realized in the same period in 2004, loss in export could be observed by around Denar 378 million or US$ 7.2 million (calculated according to the same foreign exchange rate).

Import in euros in the first 4 months of 2005 grew by EUR 52.8 million, which is 10.5% rise. Thus, in the analyzed period, the total import of goods in denar equivalent grew by 11.2%.

The balance in the foreign trade is lower that the one in 2003 and 2004. The part of the deficit realized in euros declined by EUR 36.2 million (or 17.4%) while the part of the deficit in US dollars grew by US$ 27.5 million (or by 26.8%).

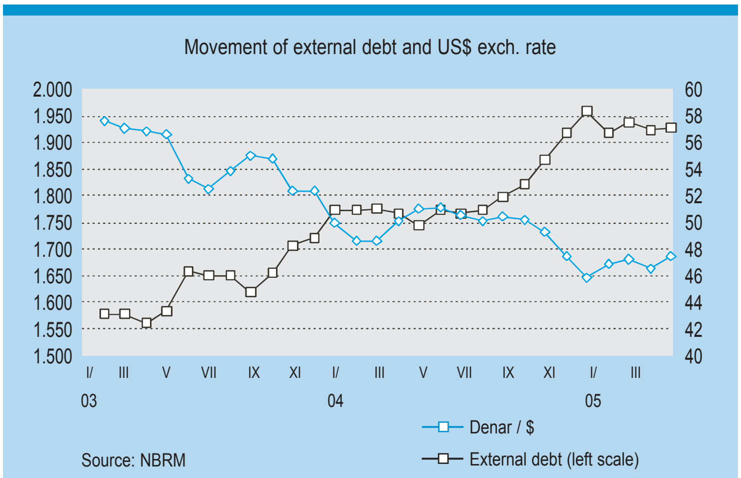
Accordingly, the total Denar amount of the trade deficit noted decline by Denar 1.3 billion, i.e. 7.1%.

FOREIGN TRADE of the Republic of Macedonia
(by currency)

trade balance	I - IV 2004					I - IV 2005						
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	structure in %	absolute change in currency value	relative change in currency value (in %)
EUR	-217	-207,701,305	61.2904	-12,730,096,055	70.7	-186	-171,544,969	61.3995	-10,532,775,344	63.0	36,156,336	-17.4
USD	-550	-102,780,463	49.5290	-5,090,613,532	28.3	-381	-130,311,368	46.9658	-6,120,177,648	36.6	-27,530,905	26.8
EUR+USD	-767			-17,820,709,588	98.9	-567			-16,652,952,991	99.6		
Deficit	**-769**			**-18,013,684,138**	100.0	**-568**			**-16,728,099,619**	100.0		**-7.1**

2.2. External Debt

External debt of the Republic of Macedonia at end-April 2005 amounted to US$ 1.927 million and in relation to the previous month, it grew by US$ 3 million. The growth of the external debt is mostly due to the decline of the US$ in relation to the euro and other currencies. The positive exchange rate differences for this month amounted to US$ 1.4 million.



From the aspect of the currency structure of the debt, referring only to the principal, the most frequently used currency continues to be the euro, with a share of 43.4%, followed by the US dollar with 30.9% and the SDRs with 23.6%. Other currencies have insignificant share in the structure of the principal of the external debt.

The used resources on the basis of already approved credits in April amounted to US$ 9 million and in relation to the previous month, when they amounted to US$ 23 million, are much lower. Most of the disbursed resources are from multilateral creditors in the amount of US$ 7 million, US$ 6 million out of which from the EBRD. These resources from bilateral creditors amounted to US$ 1 million, while from private creditors resources in the amount of US$ 0.5 million were disbursed.

This month, new credit arrangements were concluded in the amount of US$ 47 million, all of which from private creditors, which is the highest amount since the beginning of the year, when the monthly amount of the concluded credit arrangements was around US$ 8.5 million.

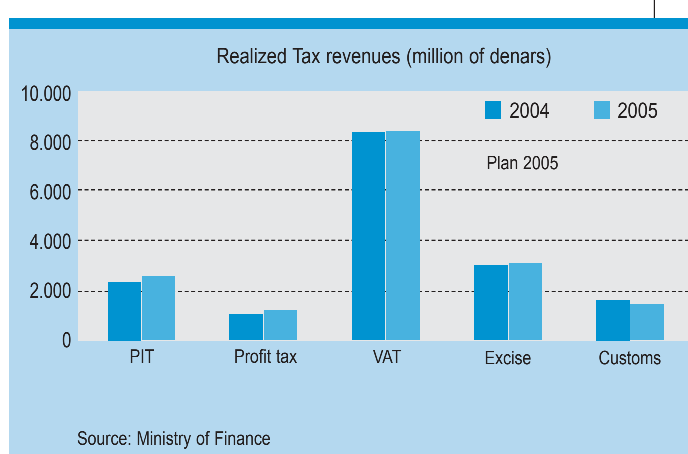
The servicing of the external liabilities is regular, whereby in April this year, US$ 12 million were repaid, US$ 8 million out of which are principal. US$ 7 million were paid to multilateral creditors, US$ 4 million out of which towards EIB.

The arrears in April this year amounted to US$ 2.8 million, mostly as a result of the non-updated data on the realized repayments by the persons authorized for credit operations. Persons authorized to report on the credit operations from the private sector are late in reporting to the NBRM on the changes, when updating the credit operations.

According to the NBRM Repayment Plan, in the period May-December 2005 US$ 149 million fall due as liabilities towards abroad, US$ 113 million out of which as principal.

3. FISCAL SECTOR

In the first 4 months of 2005, total central government budget revenues reached an amount of Denar 18.269 million, which is slight decline of 3% in relation to the same period last year. The decline in total revenues is a result, above all, of the decline in the non-tax revenues, i.e. revenues from the profit of public financial institutions, administrative fees and capital revenues[1]. At the same time,



out of the total projected tax revenues in the period January-April 2005 in the amount of Denar 16.853 million, Denar 17.330 million were realized, which is 2.8% increase in relation to the plan, i.e. 1.5% in relation to the tax revenues in the same period in 2003.

The share of the VAT in the total tax revenues in the first 4 months of 2005 is 49.2%, i.e. the share of VAT, including excise is 67.4%. On the basis of

1) This refers to the unpaid portion of the envisaged Telekom dividend.

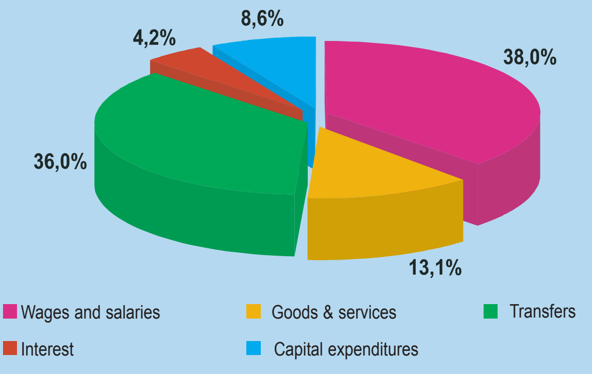
value added tax, total revenues were collected in the amount of Denar 8.524 million, which is insignificant increase of 0.2%, i.e. Denar 20 million more in relation to the same period last year. At the same time, such realization is 1.5% in relation to the planned VAT revenues for the first 4 months.

The excise revenues in this period grew by 3% on annual basis or Denar 93 million, reaching Denar 3.160 million.

In the period January-April 2005, compared to the same period last year, revenues from PIT and profit tax grew by bigger rate. In this period, PIT generated Denar 2.596 million which is by Denar 143 million or 5.8% more in relation to the last year. At the same time, revenues from profit tax reached Denar 1.300 million which on annual basis is 14.4% increase.

In the period January-April 2005, there was a notable decline of the revenues on the basis of customs (10.5%), mainly as a result of the reduction of the customs tariffs pursuant to the WTO Accession Agreement and the free trade agreements.

Central budget expenditure structure



Source: Ministry of Finance

On the expenditure side in the first 4 months of 2005, total central government budget expenditures amounted to Denar 18.885 million, which is by 4.9% higher in relation to the same period last year, i.e. the total central budget expenditures are by Denar 890 million higher. Expenditures for goods and services are in the amount of Denar 2.468 million, which is 1,9% increase in relation to the same period last year. At the same time, total budget expenditures are by Denar 539 million, or 2.8% lower than the projected ones for the period January-April 2005.

With respect to the total expenditures in the central government budget, expenditures related to wages and salaries and allowances accounted for 37.9%, i.e. the resources for wages and allowances grew by 3.8%. This increase is a result of the increase of the salary expenditures as a result of the so-called civil service salary decompression.

With regard to transfers (share of 35.9% in the total central budget expenditures) in this period Denar 6.774 million was spent, i.e. 3.8% more noted in relation to 2004. Transfers to the Pension and Disability Insurance Fund of Macedonia were in the amount of Denar 2.701 million, i.e. Denar 32 million more in relation to the same period last year.

In the area of capital expenditures, resources in the amount of Denar 1.625 million were spent (capital expenditures are projected in the Budget at the level of Denar 5.739 million). Unlike the past years, this time, the execution of these expenditures is according to the set dynamics, whereby 92% of the envisaged capital expenditures were realized in the first four months.

Such trends in the fiscal area, i.e. the failure to realize the planned non-tax revenues despite the better collection of tax revenues and lower expenditures, lead to higher central government budget deficit, whereby in the period January-April 2005 it was Denar 616 million.

4. MONETARY SECTOR

In April 2005 monetary policy was carried out in conditions of favorable trends on the foreign exchange market, whereby price stability was maintained (inflation measured via the costs of living was 0.4%[2]).

Liquidity at end-April 2005 was almost unchanged in relation to the end of the previous month. Cash in circulation grew by 7.5% thus affecting the reduction of liquidity, while deposits of the state declined by 2.9%, thus creating liquidity.

2) April 2005 in relation to the average inflation in 2004

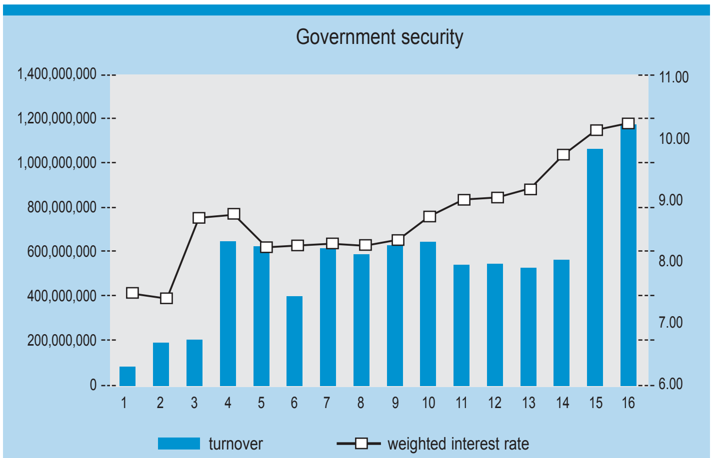
Total foreign currency assets of the NBRM grew by Denar 408 million and lead to withdrawal of primary money. This was also the effect of the domestic assets of the NBRM, whereby Denar 148 million were disbursed. The significant decline of the T-

monthly change in million of denars)	I.05	II.05	III.05	IV.05
Withdrawal of primary money	**-803**	**-3162**	**-893**	**-556**
Net foreign assets	-85	-834	-396	-408
Net domestic assets	-718		-200	-148
CB bills		-2328	-297	
Creation of primary money	**1143**	**497**	**0**	**648**
Net foreign assets				
Net domestic assets		497		
CB bills	1143			648
Net effect	**340**	**-2665**	**-893**	**92**

Source: National Bank of the Republic of Macedonia

bills in the amount of Denar 648 million in April lead to creation of primary money, whereby the net effect was created Denar 92 million.

In April 2005 three auctions of treasury bills were held offering a total of Denar 1,6 billion (growth by 17% in relation to past month). Total demand for T-bills was Denar 1,303 billion (12% growth in relation to the previous month) and treasury bills in value of Denar 1,259 billion were sold. Thereby, the average weighted interest rate in April 2005 was



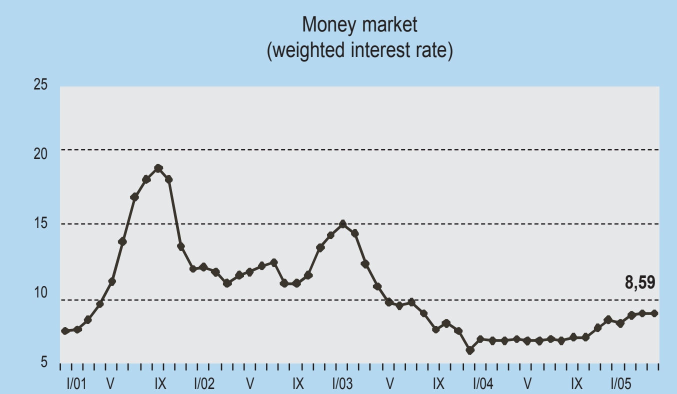
Source: Ministry of Finance

10.4%, which is a decline by 0.1 percentage point in relation to the previous month.

In April 2005, M4 monetary aggregate was Denar 101.538 million, which in relation to the previous month is 3% rise. The growth is largely due to the growth of the foreign currency and denar quasi-deposits of the non-government sector, while the non-monetary deposits, as well as the deposits of the government grew insignificantly.

M1 monetary aggregate grew by 0.5%, above all as a result of of the growth of cash in circulation, while deposit money (largely of the non-government sector) grew insignificantly by 6%. The growth of cash in circulation was the main factor for the growth of primary money by 5.7%.

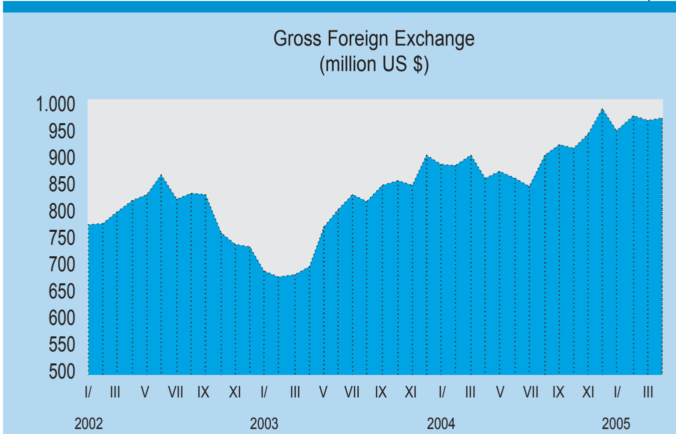
On the institutionalized money market, in April 2005, total turnover of Denar 336.5 million was realized, which in relation to the previous month is 31% growth. Thereby, in conditions of a demand by De-



Source: National Bank of the Republic of Macedonia

nar 34 million higher than the supply, the weighted interest rate grew slightly by 0.09 percentage points.

Gross foreign exchange reserves of the National Bank of the Republic of Macedonia, as of April 2005 were US$ 971 million, which in relation to the previous month was increase by US$ 7 million, above all as a result of favorable trends on the foreign exchange market[3].



Source: National Bank of the Republic of Macedonia

3) In addition to the foreign exchange market interventions, foreign exchange reserves are affected by repayments to foreign creditors, payment operations on behalf of the country and foreign exchange differentials

5. LABOUR MARKET

5.1 Employment

According to the data of the Employment Agency of the Republic of Macedonia, in the first 4 months of 2005 almost 40.000 were employed, 57.7% out of which are full-time employments. Thereby, the total number of newly employed persons in the period January-April 2005 grew by 6.061 persons or 18% in relation to the same period last year.

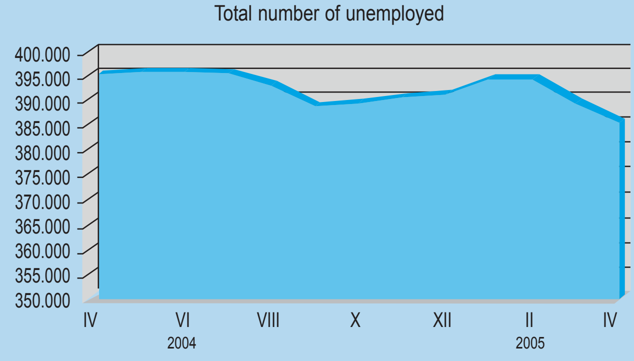
Out of the total number of employments in April 2005, 41.1% are from the records of the Employment Agency, while other employments are directly from the inactive population, defined as population that previously did not search job via the Agency[4]. This category encompasses students who have just graduated and other persons that not use the Agency as a job-searching method due to various reasons, most often non-confidence in the Agency effectiveness. Additionally, as an employment outside the records is considered the mobility from on place to another.

Source: Employment Agency

According to the regional structure of employment, most employments were realized in Skopje (36.2%), followed by Bitola (8.2%) Strumica (5.1%), etc.

5.2. Unemployment

In April 2005, the number of registered unemployed persons was 385.338 persons, meaning a continuation of the trend of decline of the registered



Source: Employment Agency

unemployment. On annual basis, the number of unemployed persons was reduced by around 10,000 or 2.5%, while in relation to March, the decline is 1%.

Still, what causes worries is the long-term nature of the unemployment since 85% of the unemployed seek job longer than one year[5]. The long-term unemployment is a result of the stagnant nature of the labour market in Macedonia expressed via the low rates of transfer from unemployment to employment[6]. Thus, in April 2005, only 1.3% found job. The transfer to employment according to the educational structure shows that there is greater employment probability than average for those with secondary education (1.8%), with community college (2.1%) and with higher education (3%), while the rate of transfer to employment of the non-skilled unemployed persons is 0.8%.

5.3. Beneficiaries of unemployment benefit and right to health insurance

Number of beneficiaries of unemployment benefits in April 2004 was 44,267 persons, i.e. 11.5% out of the total number of registered unemployed persons. In relation to the previous month, the number of beneficiaries of pecuniary benefit grew by 0.1%, while on annual basis, there was 13.7%

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4) This definition differs from the one of the ILO (International Labour Organisation) definition, where a person is considered inactive if it does not seek job via any job-seeking method. In addition to the Employment Agency, job-seeking methods are considered direct contacts to employers, searching through job announcements, informal methods (cousins and friends), posting job advertisements etc. ILO definition is fully applied in the Labour Force Survey (LFS) implemented quarterly.

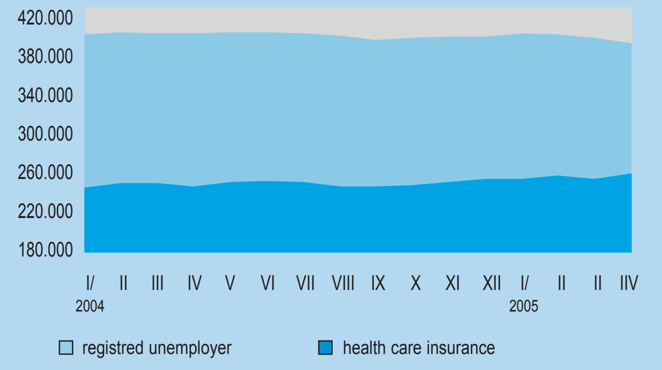
5) Definition of long-term unemployment used by all international institutions within the EU and OECD.

6) Number of persons employed divided by the number of total number of unemployed.

decline. Most of the beneficiaries of the benefit are persons laid off as redundancy (59%), persons from bankrupt companies (25%) and redundant persons from the loss-making enterprises (11%).

Around 67% of the registered unemployed persons in April used free health care insurance from the Employment Agency. Despite the reduction of the number of unemployed persons in April, the number of beneficiaries of health care insurance grew by 4.8% on annual level and by 1.8% on monthly basis since the transfer from unemployment to employment or to inactivity as greater at persons not being beneficiaries of this benefit (see chart). This, perhaps, points to the adverse effect of the protection of the unemployed persons on their active job search.

Number of Unemloyer and Health Care Insurance



Source: Employment Agency

EXTERNAL DEBT OF THE REPUBLIC OF MACEDONIA

External debt as of April 30, 2005 amounted to US$ 1,927 million and in relation to March, it grew by US$ 2.4 million. This rise is mostly due to the declining value of the US dollar in relation to the euro and other currencies, whereby positive exchange rate differences this month were US$ 1.4 million, and the amount of used resources and paid principal was almost identical.

The structure of the external debt continues to be almost unchanged, whereby more than half of the debt (54.1%) is towards multilateral creditors. Private creditors comprise 33.9%, while the bilateral creditors comprise 11.9%. The largest individual creditors continue to be IDA with US$ 378,7 million and the London Club of Creditors with US$ 227,6 million.

From the aspect of the currency structure of the debt, referring only to the principal, there are no significant changes, whereby the most frequently used currency continues to be the euro, with a share of 43.4%, followed by the US dollar with 31.0% and the SDRs with 23.6%. Other currencies have insignificant share in the structure of the principal of the debt.

On the basis of approved credits during April, residents used resources in the amount of US$ 8.7 million, and compared to March, when US$ 23.2 million were used, they have dramatically declined. Most of the used resources are from multilateral creditors in the amount of US$ 6.9 million, most of which from the EBRD (US$ 6.1 million). Significantly lower amount of resources were used from bilateral creditors (US$ 1.3 million) and private creditors (US$ 0.5 million).

The servicing of the external liabilities continues to be regular, whereby during April US$ 12.1 million were repaid (US$ 8.3 million out of which are principal). Liabilities in the amount of US$ 7.8 million were repaid to official creditors, and US$ 4.4 million towards private creditors.

The arrears in April this year amounted to US$ 2.8 million, mostly as a result of the non-updated data on the realized repayments by the persons authorized for credit operations from the private sector.

In the fourth month of the year, new credit arrangements were concluded with private creditors in the amount of US$ 47 million, all from the non-financial private sector.

By the end of the year, (May-December 2005) according to the repayment schedule of the National Bank of the Republic of Macedonia, liabilities towards abroad in the amount of US$ 149 million fall due, US$ 113 million out of which as principal.

The short-term debt at end-April amounted to US$ 76.6 million and comprises debt of entities from the private sector. In April US$ 0.3 million were used on the basis of approved short-term credits, while liabilities in the amount of US$ 0.4 million were paid.

EXTERNAL DEBT OF THE REPUBLIC OF MACEDONIA [1]

(In million of US dollars)

	12/31/1997	12/31/1998	12/31/1999	12/31/2000	12/31/2001	12/31/2002	12/31/2003	12/31/2004	3/31/2005	4/30/2005
Official creditors	**870**	**1,004**	**1,031**	**1,033**	**980**	**1,048**	**1,198**	**1,313**	**1,270**	**1,274**
Multilateral creditors	**521**	**684**	**714**	**716**	**688**	**756**	**926**	**1,062**	**1,041**	**1,043**
IMF	99	114	113	82	71	67	68	62	61	59
IBRD	92	115	117	123	124	145	181	224	215	215
IFC	1	55	57	57	33	18	20	9	8	7
IDA	145	179	222	250	255	295	358	388	378	379
EIB	37	54	68	67	75	102	116	148	143	140
EUROFIMA	25	22	17	17	14	12	8	8	8	8
CEDB	5	5	5	7	6	14	17	23	22	22
EBRD	88	90	72	72	61	32	36	65	78	84
EU	27	48	40	37	44	65	112	122	116	117
IFAD	0	1	2	3	4	5	7	10	11	11
EAR	0	0	0	1	1	0	2	1	1	0
Bilateral creditors	**349**	**320**	**317**	**316**	**292**	**292**	**272**	**252**	**229**	**231**
Commercial creditors	**261**	**394**	**407**	**405**	**464**	**501**	**572**	**644**	**654**	**653**
London club	234	243	250	253	262	254	234	233	228	228
Others	27	151	157	152	202	247	328	412	426	426
Banks and financial institutions	16	27	26	32	143	181	211	250	256	253
Enterprises	11	124	131	120	59	66	117	162	170	173
TOTAL	**1,131**	**1,398**	**1,438**	**1,438**	**1,444**	**1,549**	**1,770**	**1,957**	**1,924**	**1,927**

Source: State Statistics Office

1) Long - term and medium debt

TOTAL EXTERNAL DEBT PER DEBTORS *

	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 log - term debt

EXTERNAL DEBT - PER CREDITORS

	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 - April 2005)

(in million USD dolars)	Total	Principal	Interest
Total (principal and interest)	**77,5**	**57,8**	**19,7**
Official creditors	**47,4**	**36,3**	**11,1**
Multilateral creditors	**25,5**	**18,1**	**7,4**
IMF	1,7	1,4	0,3
IBRD	4,8	3,3	1,5
IFC	1,9	1,7	0,2
IDA	1,6	0,6	1,0
EIB	7,0	4,7	2,3
EUROFIMA	0,0	0,0	0,0
CEDB	0,1	0,0	0,1
EBRD	7,3	6,2	1,1
EU	0,9	0,0	0,9
IFAD	0,0	0,0	0,0
EAR	0,3	0,3	0,0
Bilateral creditors	**21,8**	**18,2**	**3,6**
Reschedule 1995	14,2	11,5	2,7
Unrescheduled debt	/	/	/
Reschedule 2000	4,8	4,6	0,2
New credits	2,9	2,1	0,8
Private creditors	**30,2**	**21,5**	**8,7**
London club	**8,4**	**5,2**	**3,2**
Others	**21,8**	**16,3**	**5,5**
Banks and financial institutions	13,1	9,4	3,7
Enterprises	8,7	6,9	1,8

Source: National Bank of the Republic of Macedonia

EXTERNAL DEBT BY FOREIGN EXCHANGE STRUCTURE
(principal only)

Valuta	12/31/2004	1/31/2005	2/28/2005	3/31/2005	4/30/2005
DKK	**6,264,755**	**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
%	0,06	0,05	0,05	0,05	0,05
JPY	**297,582,450**	**289,148,252**	**289,148,252**	**261,980,284**	**262,601,308**
in USD	2,870,533	2,798,311.00	2,743,724	2,437,148	2,497,447
%	0,15	0,15	0,14	0,13	0,13
SEK	**5,308,682**	**5,037,906**	**5,037,906**	**4,144,892**	**4,144,892**
in USD	801,058	722,631	731,053	587,433	584,994
%	0,04	0,04	0,04	0,03	0,03
CNF	**38,124,204**	**38,753,310**	**38,753,310**	**38,244,435**	**38,166,945**
in USD	33,590,802	32,672,495	33,073,240	31,908,550	32,166,583
%	1,74	1,74	1,73	1,68	1,69
GBR	**1,050,618**	**987,382**	**985,754**	**968,879**	**965,284**
in USD	2,016,452	1,858,425	1,881,338	1,822,933	1,846,079
%	0,10	0,10	0,10	0,10	0,10
USD	**607,905,524**	**594,860,852**	**598,704,521**	**593,314,602**	**588,808,133**
in USD	607,905,524	594,860,852	598,704,521	593,314,602	588,808,133
%	31,47	31,61	31,38	31,23	30,95
EUR	**604,626,427**	**610,598,810**	**317,754,239**	**632,129,170**	**637,362,416**
in USD	822,534,287	795,914,810	813,274,241	818,164,146	825,830,369
%	42,58	42,29	42,63	43,07	43,42
SDR	**296,835,757**	**297,963,905**	**297,740,170**	**298,001,253**	**297,334,872**
in USD	460,988,020	451,963,905	456,134,580	450,227,952	449,303,796
%	23,86	24,02	23,91	23,70	23,62
AUD	**131,685**	**131,685**	**131,685**	**131,685**	**131,685**
in USD	102,141	101,889	103,046	101,513	103,003
%	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**

SERVISING 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 first quarter of 2005

Introduction

To the end of providing centralized approach, i.e. a concept of competences regarding public debt management at one institution, in March 2005 a 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 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.

A legal framework on the basis of which this function would be performed is the Law on Public Debt, which is in procedure of adoption and is expected to be enacted by the end of the first half of the year. This law defines the following in more detail: 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.

In accordance with the proposal for adoption of the Law on Public Debt, **public debt** comprises 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 for the public sector debt and its analysis in the period 1999 - 2004 and the first quarter of 2005, as well as clarification of the specificities of the municipal arrears.

Analysis of the data on the overall public sector debt in this text will be carried out by applying the methodology set in the Government Financial Statistics Manual - GFS 2001 - IMF) and data will be presented for the first time according to the draft 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, national 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 public enterprises.

Unlike the GFS methodology, public debt definition set out in the draft 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 internal 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 59% in relation to 1999 and reached the level of EUR 2.233,31 million. Such rapid growth of public sector debt was due to, above all, increase of the internal borrowing by the central government by issuance of two new structural bonds for old foreign exchange saving and the Stopanska Banka privatization bond.

The overall public sector debt as of December 31, 2004 was EUR 1.860,86 million which meant insignificant increase by 0.08% in relation to 2003. Such increase is due above all to the central bank bills issued by the National Bank of the Republic of Macedonia, which in 2004 amounted to EUR 74,09 million, which is by 3.71% in relation to 2003.

The share of public debt in the gross domestic product in 2004 was 44.11%, which in relation to 2003 is a decline by 0.91 percentage point.

The share of the internal and external debt in the overall public debt in 2004 was 35.59% (EUR 662,28 million) and 64.41% (EUR 1.198,58 million) respectively. Compared to 2003 the share of internal debt undergoes a declining trend by 1.19%, while the share of the external debt increased by 0.79%.

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

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

In accordance with the proposal for adoption of the Law on Public Debt, public debt comprises 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 share of public debt in the gross domestic product in 2004 was 41,24, and in relation to 2003 is a decline by 0.66 percentage points. Compared to the calculations of the share of public debt in GDP according to the GFS methodology, this would mean lower share of public debt by 2.87 percentage points.

The share of the internal and external debt in 2004 was 33.81% (EUR 615,17 million) and 66.19% (EUR 1.151,47 million) respectively.

In the first quarter of 2005 the overall public debt mildly increased by EUR 80 million compared to December 2004, above all 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 internal debt:

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
EXTERNAL PUBLIC DEBT	1,289.08	1,442.23	1,394.54	1,267.51	1,189.18	1,198.58	1,189.40
General government debt	1,024.30	1,153.14	1,191.43	1,089.04	1,005.12	1,009.41	1,002.70
Central government debt	1,024.30	1,153.14	1,191.43	1,089.04	1,005.12	1,009.41	1,002.70
Central government	971.54	1,100.48	1,143.77	1,050.66	972.31	978.00	971.80
Public funds	52.76	52.66	47.66	38.38	32.81	31.40	30.90
Municipalities	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Central bank	101.53	103.17	80.56	64.29	54.42	47.11	47.00
Public enterprises	163.25	185.92	122.55	114.18	129.64	142.06	139.70
INTERNAL PUBLIC DEBT	113.62	791.08	733.31	675.66	670.28	662.28	751.46
General government debt	79.85	711.76	681.52	626.57	598.84	588.19	652.50
Central government debt	79.85	711.76	681.52	626.57	598.84	588.19	652.50
Structural bonds	79.85	711.76	681.52	626.57	598.84	557.07	613.26
Stopanska banka rehabilitation bond	58.73	53.57	48.08	42.66	37.19	31.77	31.80
Small bond	3.98	2.00	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
Stopanska banka privatization bond	0.00	120.20	111.60	103.00	94.40	85.39	83.68
Old foreign exchange saving bond	0.00	518.90	504.80	462.40	409.90	357.50	357.69
Denationalization bonds (I, II, III and IV issue)	0.00	0.00	0.00	1.50	40.40	65.50	123.18
Continuous government securities	0.00	0.00	0.00	0.00	0.00	31.12	39.24
Municipalities	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
Public enterprises	n/a	n/a	n/a	n/a	n/a	n/a	n/a
TOTAL PUBLIC DEBT*	1,402.70	2,233.31	2,127.85	1,943.17	1,859.46	1,860.86	1,940.86
Gross domestic product**	3,448.10	3,892.80	3,838.93	4,000.95	4,137.08	4,218.45	4,218.45
Average export	1,116.97	1,433.27	1,290.18	1,180.49	1,204.59	1,324.82	1,324.82
External public debt as % of the overall public debt	91.90	64.58	65.54	65.23	63.95	64.41	61.28
Internal public debt as % of the overall public debt	8.10	35.42	34.46	34.77	36.05	35.59	38.72
Total debt as % of average GDP	40.68	57.37	55.43	48.57	44.95	44.11	46.01
Total debt as % of average export	125.58	155.82	164.93	164.61	154.36	140.46	146.50
Total central government debt	1,104.15	1,864.90	1,872.95	1,715.61	1,603.96	1,597.60	1,655.20
Total external central budget debt as % of the total central budget debt	92.77	61.83	63.61	63.48	62.66	63.18	60.58
Total internal central budget debt as % of the total central budget debt	7.23	38.17	36.39	36.52	37.34	36.82	39.42
Total central budget debt as % of average GDP	32.02	47.91	48.79	42.88	38.77	37.87	39.24
Total central budget debt as % of average export	98.85	130.12	145.17	145.33	133.15	120.59	124.94
Total public debt calculated according to the draft Law on Public Debt	1,267.40	2,050.82	1,995.49	1,829.79	1,733.60	1,739.66	1,794.90
External public debt as % of the overall public debt	93.70	65.29	65.85	65.76	65.46	66.19	63.65
Internal public debt as % of the overall public debt	6.30	34.71	34.15	34.24	34.54	33.81	36.35
Total debt as % of average GDP	36.76	52.68	51.98	45.73	41.90	41.24	42.55
Total debt as % of average export	113.47	143.09	154.67	155.00	143.92	131.31	135.48

* 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

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

II. DOMESTIC PUBLIC DEBT

Internal 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 December 31, 2004 inclusive issued a total of six structural bonds:

a) Stopanska banka rehabilitation bonds (Big bond);

b) Selective credit bond;

c) Stopanska banka privatization bond (New bond);

d) Old foreign exchange saving bonds;

e) Denationalization bonds (I, II, III issue) and the IV issue will be made in 2005; 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) *Stopanska banka rehabilitation bonds (Big bond);*

According to the Law on rehabilitation and restructuring of part of the banks in the Republic of Macedonia (Official Gazette of the RM no. 14/95), the Asset Management Agency, on behalf of and for the account of the Republic of Macedonia, issued rehabilitation and reconstruction bonds for Stopanska banka 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*

According to the Law on rehabilitation and restructuring of part of the banks in the Republic of Macedonia (Official Gazette of the 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.

The biggest increase of the overall public debt was experienced in 2000, when it grew by 59% in relation to 1999. Such rapid growth of public sector debt was due to, above all, increase of the internal borrowing by the central government by issuance of two new structural bonds for old foreign exchange saving and the Stopanska Banka privatization bond

c) *Stopanska banka privatization bonds (New bond);*

Liabilities under this bond are regulated by the Law on guarantee of investments of strategic investors and for 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 Stopanska banka privatization bond, whereby this bond enable 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.

e) Denationalization bonds

The Law on issuance of bonds by the Republic of Macedonia for denationalization (Official Gazette of the 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.

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[1] year	Debt as of 31.03.2005[2] year
Stopanska banka rehabilitation bonds	1996	1996	2010	15	at the level of the discount rate	1.IV	each month	31.80	31.80
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 i 1.X	357.69	357.69
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	83.68
First issue of denationalization bonds	2002	1.VI 2003	1.VI 2012	10	2% p.a.	1.VI 2003	1.VI 2003	0.99	0.99
Second issue of denationalization bonds	2003	1.VI 2004	1.VI 2013	10	2% p.a.	1.VI 2004	1.VI 2004	27.80	27.80
Third issue of denationalization bonds	2004	1.VI 2005	1.VI 2014	10	2% p.a.	1.VI 2005	1.VI 2005	36.39	36.39
Fourth issue of denationalization bonds	2005	1.VI 2006	1.VI 2015	10	2% p.a.	1.VI 2006	1.VI 2006	0.00	58.00
TOTAL								**557.4**	**613.26**

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

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

Government debt ob the basis of issued structural bonds by December 31, 2004 inclusive amounts to EUR 557.4 million, i.e. Denar 34.247,2 million.

In 2005 funds were envisaged to be paid from the Budget of the Republic of Macedonia in the amount of Denar 5.172,89 million, Denar 4.403,82 million out of which on the basis of principal and Denar 769,07 million on the basis of interest.

In the first quarter of 2005, funds in the total amount of Denar 203,9 million were paid from the Budget 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, and the remaining Denar 41,72 million on the basis of interest. The remaining payments in the total amount of Denar 30.39 million are repayments of liabilities on the basis of interest upon the Stopanska banka rehabilitation bond.

Trading in structural bonds in 2004

Amounts are expressed in EUR

		2003			2004							
					Q1		Q2		Q3		Q4	
Structural bonds	As of 31.12.2002	traded value	liquidity ratio[3]	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

	Q1 in 2005						
Structural bonds		January/2005		February/2005		March/2005	
	As of 31.12.2004	traded value	liquidity ratio	traded value	liquidity ratio	traded value	liquidity ratio
Old foreign exchange saving bonds	357,685,138.00	200,766.61	0.00	293,234.01	0.00	416,787.39	0.00
Denationalization bonds I issue	990,000.00	691.99	0.00	10,671.64	0.01	11,316.12	0.01
Denationalization bonds II issue	28,000,000.00	342,476.81	0.01	159,133.31	0.01	97,413.66	0.00
Denationalization bonds III issue	36,390,000.00	625,845.20	0.02	751,246.32	0.02	810,972.51	0.02
Denationalization bonds IV issue	58,000,000.00	0.00	0.00	0.00	0.00	5,298,698.24	0.09

Liquidity of structural bonds

Structural bonds - bonds for old foreign exchange saving and denationalization bonds (I, II, III and in early-2005, IV issue) are listed on the Macedonian Securities Stock Exchange. Since these bonds are 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 (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 exchange fee and the fee of the Central Securities Depositary.

According to the liquidity ratio, the most liquid bond in 2004 was the denationalization bond - third issue, which compared to other bonds, has higher liquidity ratio. (See tables 3 and 4 on the trading in structural bonds in 2004 and 2005)

II.2. Continuous government securities - treasury bills

The Government of the Republic of Macedonia adopted a Strategy for development of government securities market, and in January 2004 the issuance of the first government securities began - 3-month treasury bills, while in November of the same year 6-month treasury bills were introduced as well. The intention is to increase the government securities portfolio in 2005 by introducing 12-month treasury bills, and long term government securities are planned to be introduced - 2-year government bonds, which is a legal precondition for the new two-pillar pension system to start functioning.

During 2004 total of 23 auctions of three-month T-bills and two auctions of six-month T-bills were held. The total offered amount on the T-bill auctions (including three-month and six-month) for 2004 was Denar 6.980 million, while the total demand is Denar 7.318,1 million. Interest costs in 2004 were Denar 220 million.

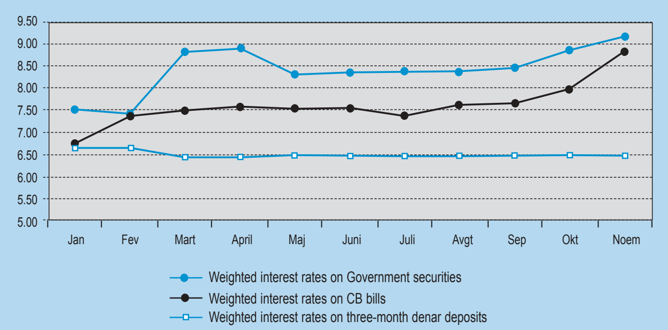
In 2005, the Ministry of Finance made continuous issuance of T-bills.

By the end of 2004, the Republic of Macedonia issued a total of six structural bonds: Stopanska banka rehabilitation bonds (Big bond), Selective credit bond, Stopanska banka privatization bond (New bond), Old foreign exchange saving bonds, Denationalization bonds (I, II, III issue), and Bond for assuming the remaining foreign exchange deposits (Small bond)

In the first quarter of 2005 the total offered amount for 3- and 6-month treasury bills was Denar 3.050 million. The demand for this amount was lower, amounting to Denar 2.589 million, and the realization was Denar 2.410 million. During the first three months of 2005, net disbursements under this basis were Denar 520,7 million, and the interest costs was Denar 42,9 million.

Observed in aggregate, there is smaller demand for T-bills, despite the fact that the demand for 3-month T-bills was somewhat larger than the offered amount in two auctions. On the 2nd auction of 3-month T-bills, an amount of Denar 380 million, and the demand was Denar 422 million, and on the fifth auction, amount of Denar 370 million was offered, while the demand was Denar 392 million. With regard to the interest for purchasing 6-month treasury bills, greater interest was noted only on the first auction in 2005, when demand was Denar 83,4 million for the offered amount of Denar 50 million.

Weighted interest rates on Government securities, CB bills and interest rates on three-month denar deposits in 2004



The interest rate of the treasury bills is market-set, depending on the supply and demand. On the auctions of 3-month treasury bills in 2005, the lowest interest rate of 9.00% was noted, and the maximum interest rate was achieved in all the auctions in the first quarter was 11.5%. The weighted interest rate tends to continuously rise. Thus, the weighted interest rate on 3-month treasury bills of 9.41% on the first auction in 2005 rose by 10.51% on the last auction in the first quarter.

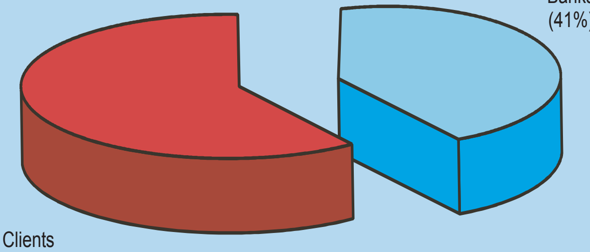
On the auctions of 6-month treasury bills, the lowest interest rate of in 10.5% was noted on the first auction in 2005, when the weighted interest rate was 10.79%. The weighted interest rate rose and on the next two auctions it was 10.84% and 11.21% respectively.

The interest rates on three-month denar deposits in the banking sector are lower than the weighted interest rates on three-month T-bills. Also, the central bank bills have lower interest rates than the treasury bills, but this is an expected trend having in mind that the central bank bills have shorter maturity period (7 and 28 days) in relation to treasury bills (three, and six months).

The ownership structure of treasury bills from one auction to the other during 2004 significantly fluctuated between banks and clients. At the beginning, on the first several auctions, the banks prevailed, which was expected in the initial phase of the development of the government securities market. Despite the promotional campaign for the new financial instrument, especially as risk-free instrument since its payment is guaranteed by the state, still, the broader public was obviously insufficiently acquainted, which resulted in significantly greater participation of banks in the first several auctions - even by 50% more than the participation of clients.

To the end of focusing the efforts to liquidity management and interest rates in the banking system, the central bank, when conducting monetary operations with central bank bills (as exclusively monetary instrument) on April 15, 2004 restricted the access only to banks. Thus the clients - legal entities and physical persons, shifted to the government securities market. As a result, already in the next auctions, the participation of clients in the ownership structure of the three-month T-bills dramatically increased, at the expense of the participation of banks, which significantly declined. Thus, on cumulative basis, the ownership structure as of April 5, 2004 showed that the participation of banks in the demand for three-month T-bills was 41%, while the clients participated with 59%. (See Chart 2).

The ownership structure of treasury bills
(condition 05.04.2005)



To the end of promoting the treasury bills as a liquid instrument, in April 2005 Rules on the manner and procedure for trading and settling transactions in T-bills on the OTC market were adopted (Official Gazette of the Republic of Macedonia no. 24/2005), prepared by the National Bank of the Republic of Macedonia, in cooperation with the Ministry of Finance. The adoption of these rules marked the official start of the functioning of the OTC market - over the counter market, where secondary trading in treasury bills is conducted. Thus the Ministry of Finance expects that the development of the secondary trading will lead to a reduction of the interest rate on treasury bills, due to the reduction of the liquidity risk of the treasury bills present until April 2005 due to the high transaction costs of trading on the Macedonian Securities Stock Exchange.

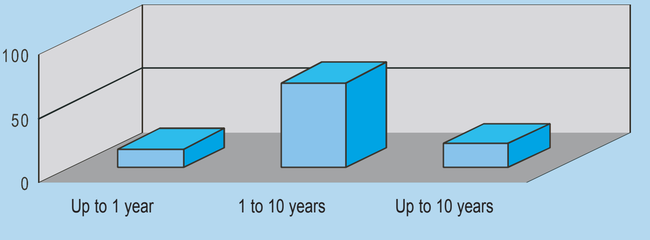
To the end of increasing the demand for treasury bills, the Ministry of Finance currently prepares marketing strategy for promotion of the advantages and favorable conditions of purchasing government securities.

II.3. Central bank bills

To the end of pursuing monetary policy objectives, as well as regulating the liquidity in the economy, the National Bank of the Republic of Macedonia issues its own securities, central bank bills, via auction. Central bank bills are short-term securities, with 7- and 28-day maturity periods, used for monetary purposes, unlike the treasury bills, which are used for fiscal purposes. Currently the volume tender (unlimited amount) is applied, as well as fixed 10% interest rate on central bank bills with 28-day maturity period.

The level of central bank bills as of December 31, 2004 was Denar 4.552 million. The level of central bank bills as of March 31, 2005 was Denar 6.078,4 million. Average weighted interest rate on central bank bills in March 2005 reached 9.31%. The rise in the average interest rate (10%) is a result of the decision to cancel

The maturity structure of the internal public debt

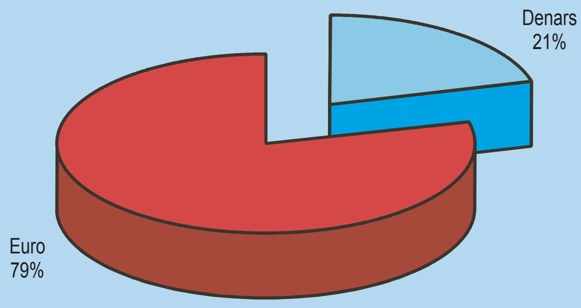


Source: Ministry of Finance - Public Debt Management Department the issue of the 7-day central bank bills, which started applying as of March 9, 2005.

II.4. Maturity structure of the Domestic public debt

The analysis of the public sector internal 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 overall internal public debt. The longest repayment period is the one of the selective credit bond, with 25-year maturity period. Short-term internal 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 internal public sector debt is 15.87%. (See Chart 3).

Currency structure of the Domestic public debt

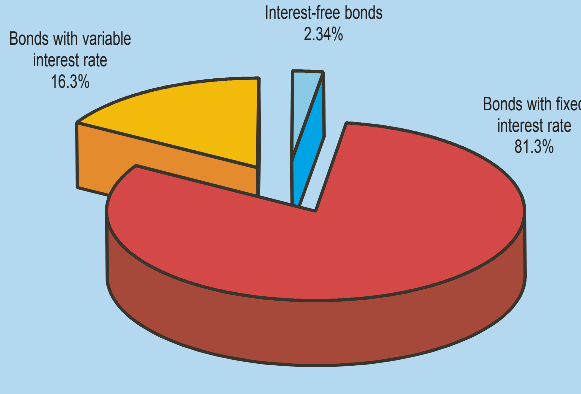


Source: Ministry of Finance - Public Debt Management Department

II.5. Currency structure of the internal public debt

From the aspect of the currency structure of the internal public debt of the Republic of Macedonia, one could say that the most part, i.e. 77% of the total internal public debt is expressed in euros and the remaining 23% is expressed in denars. (See Chart 3).

Interest structure of the Domestic public debt



Source: Ministry of Finance - Public Debt Management Department

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.6. 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

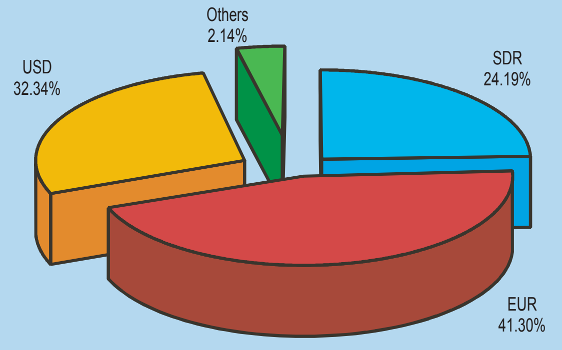
The external debt of the Republic of Macedonia comprises liabilities of residents towards non-residents, created on the basis of used long-term and short-term loans and credits from multilateral, bilateral and private creditors. External public debt of the Republic of Macedonia, in accordance with the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

In the period 1999 - 2004 the overall external public debt notes 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.

The total external public debt of the Republic of Macedonia as of December 31, 2004 according to the GFS methodology amounts to EUR 1.198,58 million, out of which:

- General government debt in the amount of EUR 1.009,41 million, which compared to 2003 is an increase by EUR 4,29 million

Currency structure of the external public debt



Source: National Bank of the Republic of Macedonia

- Debt of the monetary authorities - EUR 47,11 million, which is decline by EUR 7,31 million in relation to 2003
- Debt of the public enterprises, in the amount of EUR 142,06 million which is by EUR 12,42 million higher in relation to 2003

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

Currency structure of the external public long-term debt
as of September 30, 2004

in million USD

Repayment period	Amount	percentage
do 5 years	41.80	2.78%
5-10 years	60.18	4.00%
10-15 years	505.51	33.60%
15-20 years	484.16	32.19%
20-25 years	34.09	2.27%
25-30 years	0.00	0.00%
> 30 years	378.56	25.16%
TOTAL	**1504.30**	**100.00%**

Source: National Bank of the Republic of Macedonia

of the external public debt shows that most frequent currency is the euro, the share of which is 41.33%, followed by the US$ with a share of 32.34% and special drawing rights with 24.19%, while the share of other currencies in the debt currency structure is insignificant. (See Chart 5)

III.2. Maturity structure of the external public debt

The analysis of the **maturity structure** of external public debt until September 30, 2004 inclusive, (the most recent data from the NBRM which keeps 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 overall 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 budget users, funds and agencies. Liabilities on the basis of external debt of public enterprises are services by the enterprises themselves, except in the case of called up issued guarantee.

For repayment of external debt, in the first quarter of 2005, from the account of the Ministry of Finance, funds in the amount of EUR 26,376 million were paid, i.e. Denar 1.616,87 million (EUR 19,41 million or Denar 1.189,85 million on the basis of principal and EUR 6,97 million, or Denar 427,01 million on the basis of interest). For repayment of liabilities on the basis of external debt, by end-2005, additional funds will be appropriated in the amount of EUR 36,058 million, i.e. Denar 2.210,4 million, EUR 23,40 million or Denar 1.434,53 million out of which for repayment of principal and EUR 12,66 million, or Denar 775,87 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.

IV. MUNICIPAL DEBT

As previously mentioned, the **proposal for adoption of the Law on Public Debt**, envisages for the public debt, in addition to government debt, to also include 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.

Municipal borrowing is made pursuant to the **Law on Local Financing**, excluding the borrowing by the city of Skopje, which is made pursuant to the Law on the City of Skopje.

Type of debt	Amount
Administrative	11.75
Construction works	1963.899
Electricity	267.64
Expropriation	110.394
other	795.84
TOTAL	**3149.523**

Law on Local Financing envisages resolution of the problem with municipal debt as a precondition for initiation of the process of fiscal decentralization. Pursuant to this law, by June 30, 2005, the municipalities are obliged to begin the implementation of a plan for resolution of the arrears problem (incurred in the period before August 31, 2004) towards suppliers and othe creditors.

The Ministry of Finance in cooperation with the European Agency for Reconstruction and ZELS, made assessment of the municipal debt, but the data are incomplete and imprecise. The assessment was made in the following manner: questionnaires were sent to the municipalities regarding the debts and claims and on the basis of the returned filled out questionnaires, municipal debt was estimated at around Denar 2.6 billion.

The Ministry of Finance made an additional assessment of municipal debt, in cooperation with USAID and the municipal debt was estimated at Denar 3.2 billion, until August 31, 2004 inclusive.

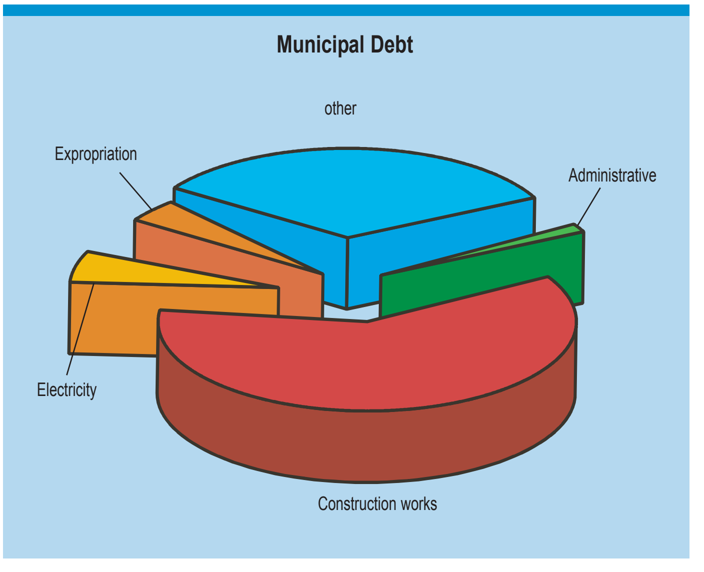
The reason for this difference in the assessments of municipal debt is the different source of data, i.e. for the first assessment, data were collected from debtors and larger creditors, while the data for the second assessment were provided only from creditors. Therefore, adjustment process was implemented, meaning comparison of information with the ones already received from ZELS, as well as a request to the municipalities to verify this information.

The structure of the municipal debt from the aspect of the claims by creditors according to both assessments is as follows:

Structure of municipal debt

in million denars

	Construction works	Expropriation	Administrative debts	Electricity	other
EAR	2,054	237	58	188	63
MDW[4]	1,964	110	12	268	795



The municipality with highest debt is the city of Skopje with Denar 592 million, followed by municipality of Ohrid with Denar 583.981 million, municipality of Struga with around Denar 170 million etc. What is especially important is that the municipal debt are liabilities towards sup-

4) MDW-Make Decentralization Work - unit financed by the USAID for implementation of the decentralization process.

pliers outstanding longer than 90 days, **which points to the fact that this is not borrowing in the traditional sense, i.e. borrowing from banks and other financial institutions.**

According to the draft Law on Public Debt, outstanding liabilities of the bearers of public debt are not treated as public debt, and therefore the data on these municipal liabilities are not shown in table 1 of this information. The Ministry of Finance acquired information that from the moment of assessment until today the total municipal debt was reduced by Denar 400 million in the meantime.

The conducted analyses of municipal debt point to the need the Government of the Republic of Macedonia to adopt a Plan for resolution of municipal debt, since the municipalities have critical level of debts that could seriously impair the fiscal decentralization process. Thereby, it is necessary for the Government of the Republic of Macedonia to state its position on whether the municipal arrears would mean partial or full burden for the central budget.

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 budget users, funds and agencies. Liabilities on the basis of external debt of public enterprises are services by the enterprises themselves, except in the case of called up issued guarantee

The plan for resolution of debts is not a legal instrument and it should be set on voluntary basis between the concerned parties, via negotiations between the debtors, the creditors and the country.

CENTRAL GOVERNMENT BUDGET OF THE REPUBLIC OF MACEDONIA

(millions denars)

	2001	2002	2003	Q - 1	Q - 2	Q - 3	Q - 4
TOTAL REVENUES	**58,160**	**53,881**	**4,506**	**4,058**	**5,538**	**4,775**	**4,706**
Tax Revenues	**54,389**	**49,163**	**4,118**	**3,869**	**4,569**	**4,527**	**4,468**
Personal Income Tax	7,513	7,502	505	576	657	715	581
Profit Tax	2,624	3,271	140	300	518	178	153
VAT	20,521	21,175	2,161	1,926	2,016	2,401	2,231
Excises	10,715	10,564	885	634	830	718	923
Import Duties	6,336	6,140	349	380	499	477	541
Other Taxes	340	476	78	53	49	35	39
Tax on Financial Transactions	6,336	31	0	0	0	3	0
Utility Taxes	4	4	0	0	0	0	0
Non Tax Revenues	**3,170**	**4,040**	**331**	**147**	**893**	**164**	**202**
Profit of Public Financial Institutions	1,057	1,807	68	0	725	26	49
Administrative Taxes and Charges	1,092	1,369	98	123	137	109	131
Other Administrative Taxes	205	370	20	20	24	21	19
Other Non Tax Revenues	35	495	145	4	7	8	3
Capital Revenues	**601**	**555**	**57**	**42**	**76**	**84**	**36**
Foreign Donations	**0**	**0**	**0**	**0**	**0**	**0**	**0**
TOTAL EXPENDITURES	**65,503**	**56,432**	**4,149**	**4,210**	**4,741**	**4,895**	**4,583**
Current Expenditures	**51,591**	**50,984**	**4,041**	**4,063**	**4,311**	**4,405**	**4,258**
Wages and Allowances	18,338	20,234	1,719	1,655	1,761	1,759	1,757
Goods and Services	8,715	6,914	470	651	676	626	561
Transfers	20,576	21,105	1,549	1,635	1,740	1,765	1,875
Pension Fund	6,538	7,305	669	670	671	659	647
Employment Fund	4,111	4,360	433	446	421	479	424
Other Transfers	3,404	3,264	42	180	144	191	315
Refugees	391	259	14	17	13	15	14
Structural Reforms	1,387	1,659	44	62	91	56	128
Public Administration Reforms	442	528	36	37	35	38	35
Interest	3,401	2,443	303	94	134	254	65
Domestic	1,179	950	12	12	57	222	57
Foreign	2,222	1,493	291	82	77	32	8
Guaranties	561	288	0	28	0	1	0
Capital Expenditures	**8,636**	**5,037**	**108**	**147**	**430**	**490**	**325**
Fixed Assets	2,718	1,737	96	140	77	122	165
Capital Transfers	2,476	2,796	11	6	347	354	149
Commodity Reserves	418	0	0	0	0	0	0
International Financial Institutions	22	18	0	0	0	5	3
Telecom Projects	3,002	486	1	1	6	14	8
Crisis Related Expenditures	**5,276**	**412**	**0**	**0**	**0**	**0**	**0**
BUDGET BALANCE	**-7,343**	**-2,551**	**357**	**-152**	**797**	**-120**	**122**
FINANCING	**7,343**	**2,551**	**-357**	**152**	**-797**	**120**	**-122**
Inflow	**13,430**	**10,585**	**316**	**469**	**-371**	**1,740**	**151**
Privatisation Receipts	5,177	4,673	68	0	20	0	0
Foreign Donations	2,641	2,560	490	0	0	0	0
Capitalisation	0	0	0	0	0	0	0
Foreign Loans	1,548	3,773	1,020	0	0	1	0
Deposits	4,029	-422	-1,360	264	-612	1,153	-302
BIS	0	0	98	205	221	586	453
Outflow	**6,087**	**8,034**	**673**	**317**	**426**	**1,620**	**273**
Repayment of Principal	6,087	8,034	673	317	426	1,620	273
Foreign	3,602	3,682	669	317	294	0	0
Domestic	2,485	4,352	4	0	132	1,620	273
Purchase of Bonds	0	0	0	0	0	0	0

Source: National Bank of the Republic of Macedonia

(In million of denars)

Total 2004	Budget 2005	I	II	III	Q - 1	IV	Total 2005
56,982	**56,502**	**4,746**	**3,422**	**4,658**	**12,826**	**5,443**	**18,269**
52,526	**52,321**	**4,535**	**3,238**	**4,397**	**12,170**	**5,160**	**17,330**
7,707	7,931	526	648	660	1,834	762	2,596
2,361	2,571	145	302	633	1,080	220	1,300
25,757	25,623	2,460	1,320	1,965	5,745	2,779	8,524
10,335	10,965	1,044	605	668	2,317	843	3,160
5,815	4,731	289	315	422	1,026	499	1,525
548	500	71	48	49	168	57	225
0	0	0	0	0	0	0	0
4	0	0	0	0	0	0	0
3,844	**3,561**	**162**	**157**	**225**	**544**	**238**	**782**
1,595	1,661	40	0	42	82	43	125
1,463	1,390	103	128	156	387	159	546
257	300	17	17	24	58	22	80
529	210	2	12	3	17	14	31
600	**620**	**49**	**27**	**36**	**112**	**45**	**157**
11	**0**	**0**	**0**	**0**	**0**	**0**	**0**
56,611	**59,206**	**4,693**	**4,462**	**4,676**	**13,831**	**5,054**	**18,885**
51,726	**53,467**	**4,195**	**4,215**	**4,447**	**12,857**	**4,403**	**17,260**
20,944	21,757	1,777	1,791	1,805	5,373	1,783	7,156
6,832	7,352	515	647	741	1,903	632	2,535
21,840	21,859	1,549	1,710	1,767	5,026	1,748	6,774
8,054	7,705	675	668	688	2,031	670	2,701
5,438	5,494	469	448	472	1,389	469	1,858
3,056	3,496	51	208	228	487	188	675
272	100	0	10	14	24	23	47
732	634	29	23	18	70	23	93
527	657	44	47	40	131	43	174
2,052	2,499	354	67	134	555	240	795
930	1,069	26	25	65	116	212	328
1,123	1,430	328	42	69	439	28	467
58	0	0	0	0	0	0	0
4,886	**5,739**	**498**	**247**	**229**	**974**	**651**	**1,625**
2,187	3,428	498	128	128	754	416	1,170
2,368	1,919	0	119	101	220	222	442
0	0	0	0	0	0	8	8
18	42	0	0	0	0	5	5
313	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**	**-616**
-371	**2,704**	**-53**	**1,040**	**18**	**1,005**	**-389**	**616**
6,761	**10,037**	**821**	**1,082**	**483**	**2,386**	**1,283**	**3,669**
459	1,041	65	200	0	265	95	360
1,044	816	0	0	0	0	0	0
0	0	0	0	0	0	0	0
2,081	2,636	0	0	0	0	1	1
1,268	3,044	832	828	-60	1,600	468	2,068
1,909	2,500	-76	54	543	521	719	1,240
7,132	**7,333**	**874**	**42**	**465**	**1,381**	**1,672**	**3,053**
7,132	7,333	874	42	465	1,381	1,672	3,053
2,932	2,919	874	42	333	1,249	0	1,249
4,201	4,414	0	0	132	132	1,672	1,804
0	0	0	0	0	0	0	0

CENTRAL BUDGET OF THE REPUBLIC OF MACEDONIA

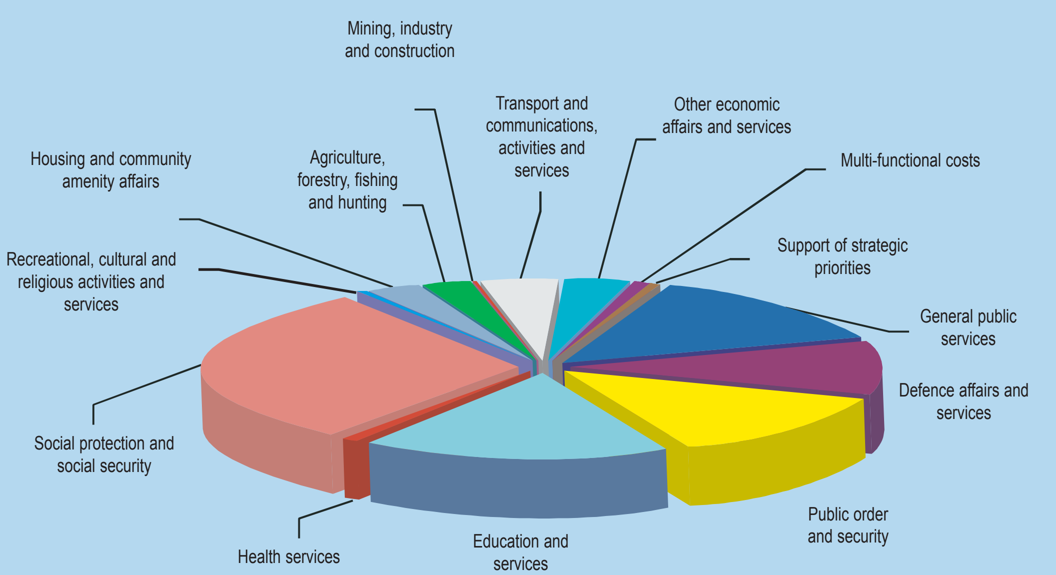
	2001 Final statement	2002 Final statement	2003 Final statement	2004 Supplem. Budget	2005 Budget
TOTAL REVENUES	69,688,034,455	71,981,222,938	68,406,577,974	65,708,297,000	66,538,470,000
CURRENT REVENUES (TAX AND NON-TAX)	50,447,329,542	58,896,097,958	56,784,247,919	55,591,660,000	56,022,000,000
TAX REVENUES	47,716,085,795	54,389,136,894	49,166,396,854	51,616,660,000	52,321,000,000
Taxes on income, profits and capital gains	10,254,737,418	10,137,596,496	10,772,545,343	10,821,000,000	10,502,000,000
Personal income tax	7,248,441,986	7,513,310,320	7,502,459,597	7,806,000,000	7,931,000,000
Profit tax	3,006,295,432	2,624,286,176	3,270,085,746	3,015,000,000	2,571,000,000
Other taxes on income, profit and capital gains	0	0	0	0	0
Domestic taxes on goods and services	27,961,655,103	31,235,879,140	31,741,066,910	34,914,660,000	36,588,000,000
Value Added Tax (since 1.4.2000)	17,131,677,006	20,521,036,109	21,175,919,119	24,383,000,000	25,623,000,000
Excises	10,829,978,097	10,714,843,031	10,565,147,791	10,531,660,000	10,965,000,000
Taxes on international trade and transactions	6,110,896,250	6,336,011,440	6,141,579,944	5,301,000,000	4,731,000,000
Custom duties	4,819,880,460	5,230,636,743	4,909,408,470	4,168,374,000	3,725,000,000
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	500,000,000
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	3,701,000,000
Enterpreneurial income and property income	1,151,786,582	931,379,088	1,963,471,700	1,813,000,000	1,801,000,000
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	210,000,000
CAPITAL REVENUES	10,660,015,021	7,193,569,639	4,081,105,548	3,940,438,000	4,161,850,000
Sales of capital assets	9,714,039,661	6,244,440,021	4,002,729,305	3,552,773,000	3,961,850,000
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	1,218,220,000
Transfers from other levels of government	5,407,618,545	1,167,411,039	1,136,220,479	2,335,000	401,600,000
Foreign donations	1,076,459,061	2,641,146,391	2,515,334,399	1,042,048,000	816,620,000
DOMESTIC LOANS	1,333,471,478	480,521,896		2,000,000,000	2,500,000,000
BORROWING FROM ABROAD	763,140,808	1,584,121,754	3,766,572,092	3,131,816,000	2,636,400,000
International development agencies	763,140,808	1,584,121,754	3,766,572,092	3,131,816,000	2,636,400,000
REVENUES FROM REPAYMENT OF LOANS	0	18,354,261	123,097,537	0	
TOTAL EXPENDITURES	68,520,623,429	71,700,272,895	64,462,761,283	65,708,297,000	66,538,470,000
CURRENT EXPENDITURES	57,496,087,268	56,314,747,304	51,104,920,817	53,013,066,000	46,890,023,000
Wages, salaries and allowances	16,407,589,066	18,337,661,335	20,233,542,216	21,279,049,000	21,757,205,000
Goods and other services	19,985,061,676	13,991,420,289	7,325,808,770	7,344,275,000	7,351,570,000
Current transfers	17,494,812,744	20,586,832,339	21,101,506,628	22,209,422,000	15,282,248,000
Interest payments	3,608,623,782	3,398,833,341	2,444,063,205	2,180,320,000	2,499,000,000
SUBSIDIES AND TRANSFERS	-	-	-	-	2,452,295,000
SOCIAL TRANSFERS	-	-	-	-	4,123,652,000
CAPITAL EXPENDITURES	7,140,072,243	8,366,132,516	4,687,684,918	5,340,407,000	5,739,500,000
Acquisition of capital assets	5,117,069,331	5,418,620,859	2,116,960,533	2,662,557,000	3,820,372,000
Capital transfers	2,023,002,912	2,947,511,657	2,570,724,386	2,677,850,000	1,919,128,000
LENDING, EQUITY PARTICIPATION					
AND DEBT REPAYMENT	3,884,463,918	7,019,393,075	8,670,155,548	7,354,824,000	7,333,000,000
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	7,333,000,000

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 borowing		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

VIII	IX	X	XI	XII	Total 2004	Projection 2005	I	II	III	Q1	IV	Total 2005
6,836	**7,424**	**7,520**	**7,206**	**8,765**	**88,176**	**89,579**	**6,806**	**6,013**	**7,275**	**20,094**	**8,302**	**28,396**
6,412	6,811	6,954	6,811	8,105	81,259	82,773	6,441	5,670	6,792	18,904	7,821	26,725
4,278	4,463	4,672	4,455	5,063	53,188	53,045	4,594	3,284	4,436	12,314	5,210	17,525
572	644	603	614	899	7,707	7,931	526	648	660	1,834	762	2,596
175	152	146	129	100	2,361	2,571	145	302	633	1,080	220	1,300
1,892	2,129	2,377	2,180	2,593	25,757	25,623	2,460	1,320	1,965	5,745	2,779	8,524
1,178	1,001	984	943	790	10,996	11,689	1,103	651	707	2,461	893	3,355
422	496	522	536	636	5,815	4,731	289	315	422	1,026	499	1,525
39	41	40	53	45	549	500	71	48	49	168	57	225
2,134	2,347	2,282	2,357	3,042	28,072	29,728	1,848	2,386	2,356	6,590	2,611	9,200
1,367	1,498	1,468	1,508	1,968	18,040	19,151	1,188	1,538	1,504	4,230	1,669	5,898
95	105	103	107	137	1,270	1,320	84	118	110	312	119	431
671	744	710	742	938	8,762	9,257	576	730	742	2,048	823	2,871
380	576	527	353	601	6,306	6,186	315	316	446	1,078	436	1,514
54	220	88	0	77	1,616	1,686	40	0	43	83	44	127
95	126	121	130	142	1,463	1,390	103	128	156	387	159	546
37	42	42	48	56	562	600	34	45	48	127	45	172
17	20	21	19	25	257	300	17	17	24	58	22	80
27	24	114	18	154	737	400	21	23	40	84	24	108
149	144	141	137	148	1,672	1,810	101	103	136	340	142	482
45	37	39	42	59	600	620	49	27	36	112	45	157
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**	**92,952**	**6,935**	**6,888**	**7,541**	**21,363**	**7,660**	**29,023**
5,983	6,719	6,939	7,355	7,620	82,136	85,521	6,400	6,706	7,374	20,479	7,186	27,666
1,596	1,826	1,795	1,827	1,869	21,440	22,323	1,791	1,833	1,849	5,473	1,840	7,312
389	607	584	920	886	8,200	8,530	611	787	953	2,351	787	3,137
3,903	4,134	4,203	4,559	4,677	50,125	51,816	3,644	4,019	4,429	12,092	4,261	16,353
3,767	3,924	3,849	4,088	4,013	46,861	48,288	3,593	3,801	4,187	11,582	4,050	15,631
2,084	2,103	2,062	2,110	2,214	25,121	25,688	2,022	2,110	2,163	6,294	2,125	8,419
271	278	267	255	258	3,289	3,190	257	266	260	783	266	1,050
332	326	348	344	342	3,993	4,172	296	315	354	965	346	1,311
0	0	3	0	0	31	70	0	0	0	0	0	0
0	0	0	0	0	0	4	0	0	0	0	0	0
1,080	1,217	1,169	1,380	1,199	14,428	15,164	1,018	1,110	1,411	3,539	1,313	4,852
121	195	239	456	654	2,992	3,428	51	208	228	487	188	674
15	15	115	15	10	272	100	0	10	14	24	23	47
67	151	357	49	188	2,312	2,852	354	67	143	564	299	864
24	63	267	24	67	930	1,069	26	25	65	116	212	328
43	88	90	25	121	1,383	1,783	328	42	78	448	87	536
28	1	0	0	-1	58	0	0	0	0	0	0	0
359	542	559	519	1,166	6,033	7,431	535	181	167	883	473	1,357
494	**162**	**22**	**-668**	**-21**	**7**	**-3,373**	**-129**	**-874**	**-266**	**-1,269**	**642**	**-627**
-494	**-162**	**-22**	**668**	**21**	**-7**	**3,373**	**129**	**874**	**266**	**1,269**	**-642**	**627**
-453	303	1,691	668	500	7,687	11,276	1,003	916	768	2,687	1,174	3,862
0	12	50	150	90	459	640	65	200	0	265	95	360
0	0	0	554	0	1,044	816	0	0	0	0	0	0
519	68	213	19	935	3,618	3,856	14	0	12	26	14	40
-940	-28	1,377	-71	-464	606	3,444	999	662	213	1,874	346	2,221
-940	-28	1,377	-71	-464	606	3,444	999	662	213	1,874	346	2,221
0	0	0	0	0	0	0	0	0	0	0	0	0
-34	245	34	-2	-61	1,909	2,500	-76	54	543	521	719	1,240
2	5	17	19	0	51	20	1	0	0	1	0	1
41	466	1,713	0	479	7,694	7,903	874	42	503	1,419	1,816	3,235
41	466	1,713	0	479	7,694	7,903	874	42	503	1,419	1,816	3,235
41	296	145	0	272	3,344	3,339	874	42	333	1,249	144	1,393
0	169	1,568	0	207	4,351	4,564	0	0	170	170	1,672	1,842

BALANCE OF PAYMENT OF THE REPUBLIC OF MACEDONIA

(Annual data)[1]

(In million of US dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	I-2005	II-2005	III-2005	Q1-2005
CURRENT ACCOUNT	**-298.91**	**-339.85**	**-286.14**	**-269.29**	**-32.46**	**-75.28**	**-235.43**	**-357.81**	**-152.28**	**-414.82**	**-8.25**	**2.68**	**-15.91**	**-21.46**
Goods, net	**-222.78**	**-314.67**	**-386.13**	**-515.09**	**-495.81**	**-690.41**	**-523.23**	**-804.34**	**-851.48**	**-1112.08**	**-53.55**	**-58.12**	**-79.26**	**-190.92**
Export, f.o.b.	1,204.05	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	156.42	173.46	477.73
Import, f.o.b.[2]	-1,426.83	-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	-201.40	-214.54	-252.72	-668.65
Services, net	**-200.51**	**-156.16**	**-137.74**	**-59.60**	**41.83**	**47.05**	**-15.79**	**-22.13**	**-2.56**	**-54.39**	**1.37**	**-0.97**	**-4.08**	**-3.68**
Income, net	**-39.57**	**-51.35**	**-54.90**	**-44.82**	**-42.15**	**-45.44**	**-39.46**	**-29.78**	**-32.33**	**-39.23**	**-2.13**	**3.33**	**-0.91**	**0.29**
o/w : interest, net	-39.73	-56.42	-54.88	-44.34	-41.41	-39.15	-33.59	-18.64	-31.88	-26.22	-5.09	-0.73	-4.52	-10.34
Current transfers, net	**163.95**	**182.34**	**292.63**	**350.21**	**463.66**	**613.53**	**343.06**	**498.45**	**734.09**	**790.88**	**46.06**	**58.44**	**68.34**	**172.85**
Official	27.01	51.58	7.46	37.39	72.69	132.30	48.65	100.50	103.36	70.07	1.47	7.38	2.88	11.73
Private	136.94	130.76	285.17	312.82	390.97	481.23	294.41	397.95	630.73	720.81	44.59	51.06	65.46	161.12
CAPITAL AND FINANCIAL ACCOUNT	**280.65**	**318.23**	**327.15**	**281.84**	**-128.46**	**11.28**	**178.23**	**376.87**	**169.97**	**407.01**	**14.83**	**3.84**	**19.39**	**38.05**
Capital account, net	**1.70**	**0.00**	**0.00**	**-1.79**	**0.00**	**0.31**	**1.30**	**8.26**	**-6.69**	**-4.61**	**-0.04**	**0.09**	**-0.05**	**-0.01**
Capital transfers, net	1.70	0.00	0.00	0.00	0.00	0.31	3.64	9.92	-6.60	-4.61	-0.04	0.09	-0.05	-0.01
Official	1.70	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
Other	0.00	0.00	0.00	0.00	0.00	0.31	0.00	0.00	-6.60	-4.61	-0.04	0.09	-0.05	-0.01
Acquisition/disposal of nonfinancial assets	0.00	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
Financial account, net	**278.95**	**318.23**	**327.15**	**283.63**	**-128.46**	**10.97**	**176.93**	**368.62**	**176.66**	**411.62**	**14.87**	**3.75**	**19.44**	**38.06**
Direct investment, net	9.51	11.23	15.74	117.72	31.80	176.23	442.32	77.72	94.26	155.85	15.73	9.27	11.14	36.14
Portfolio investment, net	2.68	0.31	2.08	7.79	0.14	-0.09	0.36	0.35	3.39	14.82	1.52	3.31	11.65	16.47
Other investment, net	367.35	300.78	341.14	226.66	-32.01	85.05	-183.27	159.98	129.97	260.42	-11.25	8.76	1.36	-1.13
Trade credits, net	144.58	76.94	267.44	45.39	7.13	146.54	-125.08	83.1	82.95	170.05	-26.82	-25.12	-6.43	-58.37
Loans, net	29.31	41.51	75.39	219.87	54.83	13.51	-107.31	8.19	23.47	59.82	3.33	4.06	5.23	12.62
Currency and deposits, net	86.66	113.77	-9.81	-40.62	-135.01	-122.53	27.09	44.69	2.85	-3.66	10.78	27.92	-1.72	36.99
o/w Monetary Authorities, net	0.00	0.00	0.00	0.00	-21.20	-0.19	-77.08	68.79	17.77	26.44	0.02	0.00	0.00	0.02
o/w Commercial Banks, net	23.43	61.37	-29.14	-28.77	-51.28	-93.26	-272.39	112.17	-54.59	-105.08	2.06	24.80	-5.20	21.67
o/w individuals, net	63.23	52.40	19.33	-11.85	-62.52	-29.08	376.56	-136.27	39.68	74.97	8.70	3.12	3.48	15.30
Other, net	106.81	68.56	8.12	2.03	41.04	47.53	22.03	24.00	20.69	34.22	1.46	1.90	4.28	7.63
Gross official reserves ("-" = increase)[3]	-100.59	5.91	-31.81	-68.54	-128.39	-250.22	-82.48	130.57	-50.96	-19.47	8.87	-17.59	-4.71	-13.42
ERRORS AND OMISSIONS	**18.26**	**21.62**	**-41.02**	**-12.55**	**160.92**	**64.00**	**57.19**	**-19.07**	**-17.70**	**7.81**	**-6.57**	**-6.52**	**-3.50**	**-16.60**

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 realized by the Pension and Disability Insurance Fund in the first four months of 2005 amounted to Denar 9,518 million and increased by 2.1% in relation to the same period in 2004. Most of the revenues, i.e. 59.3% were revenues on the basis of salary contributions, which increased by 3.7%. State budget revenues participated with 30% in the total revenues and increased by 1.9%, while revenues of the Employment Agency with respect insurance of unemployed persons - beneficiaries of unemployment benefits - decrease by 7.7% and their share in the total revenues amounted to 5.7%.

Fund's **expenditures** in the first four months in 2005 amounted to Denar 9,681 million and increased by 1.4%. Most of the total expenditures, i.e. 87% were related to payment of pensions to the beneficiaries, being a higher level by 1.2% in relation to 2004. Thereby, 91% of the pensions were paid for regular pensions, and they increased by 2.1%. Expenditures for health insurance contribution participated with 11% in the total expenditures of the Pension and Disability Insurance Fund.

Deficit of the Pension and Disability Insurance Fund in Q1 of 2005 amounted to Denar 163 million.

PENSION AND DISABILITY INSURANCE FUND

(In million of denars)

Types of revenues / expenditures	1998	1999	2000	2001	2002	2003	2004	2005
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Jan-April
REVENUES	**20,717**	**21,229**	**22,883**	**24,289**	**25,811**	**28,191**	**28,983**	**9,518**
Contribution from salaries	13,373	14,316	15,722	15,671	15,784	16,882	17,204	5,646
Contribution from income	239	311	311	331	283	307	383	127
Revenues from the Government Budget	3,618	3,266	4,174	5,744	6,961	7,741	8,486	2,863
Revenues from the private sectors	400	439	404	377	409	394	412	117
Revenues from individual farmers	74	65	58	41	61	71	41	9
Revenues from excises	691	632	804	716	688	677	661	195
Contributions from the Employment Fund for unemployed	961	868	1,101	1,126	1,404	1,536	1,719	540
Other revenues	122	45	74	73	29	65	57	20
Revenues from dividends	619	245	68	209	192	42	21	1
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**	**9,681**
Pensions	17,730	17,756	19,774	21,278	22,255	24,008	25,121	8,419
Regular pensions	16,912	16,977	18,948	19,041	19,982	21,667	22,824	7,658
War veteran pensions	464	458	505	514	518	499	509	166
Agricultural pensions	354	321	321	297	262	234	217	65
Retroactive payment of 8%	0	0	0	1,167	1,136	1,131	1,027	335
Early retirement by the Law from year 2000	0	0	0	112	103	121	88	27
Early retirement by the Law from year 2001	0	0	0	148	254	262	247	84
Early retirement by the Law from year 2004								24
Compensation for body injury	63	69	72	72	83	80	82	27
Compensation for disability insurance	98	95	94	91	76	98	97	38
Employment and accomodations 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	1,064
Compensation for administration	133	132	141	153	165	172	170	56
Other expenditures	161	154	175	254	222	192	257	62
Capital expenditures	-	-	-	37	145	0	50	13
BALANCE								
Deficit / Surplus	**196**	**560**	**-57**	**-408**	**-78**	**451**	**-149**	**-163**

Source: Internal data of the Ministry of Finance

Health Insurance Fund

In the period January-April 2005 **revenues** of the Health Insurance Fund amounted to Denar 4,868 million, being an increase by 3.5% compared to the same period last year. With respect to the revenue structure, highest share (59%) goes the health insurance contributions, whcih increased by 3.9%. Contributions from the Pension Fund participated with 21.9% in the total revenues and increase by 1.5% in relation to the first four months last year, while the contributions paid by the Employment Agency for the unemployed persons participated with 14.3% in the revenues and increased by 6.2%.

At the same time, **expenditures of the** Health Insurance Fund in Q1 of 2005 amounted to Denar 4,990 million, i.e. they increased by 7.5% compared to the same period last year. Outpatient - related expenditures and expenditures for hospital treatment had the largest share in the expenditures (69.2%).

In Q1 of 2005, Health Insurance Fund realized a **deficit** in the amount of Denar 122 million.

HEALTH INSURANCE FUND

(In million of denars)

Types of revenues / expenditures	1998	1999	2000	2001	2002	2003	2004	2005
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Jan-April
REVENUES	**11,087**	**12,068**	**12,790**	**12,295**	**13,656**	**14,698**	**14,886**	**4,868**
Contributions	6,736	7,363	7,745	7,528	7,823	8,418	8,762	2,871
Contributions from the Pension Fund	2,309	2,417	2,649	2,616	3,075	3,184	3,349	1,064
Contributions from the Employment Fund	1,037	1,350	1,941	1,554	1,763	1,849	1,998	699
Contributions from the Ministry of Labour	45	0	0	48	54	64	41	21
Other revenues	851	938	455	70	734	1,064	676	40
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	172
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**	**4,990**
Outpatient expenditures	5,303	2,491	2,486	2,505	4,430	5,132	5,959	1,487
Hospital treatment	4,702	5,482	5,737	5,919	4,929	5,038	5,098	1,968
Costs for programs	214	125	105	306	123	21	0	787
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	54
Medical treatment abroad	290	161	70	90	144	221	117	38
Other treatment (contributions)	719	801	694	769	832	968	941	575
Administration	326	288	250	268	360	309	254	81
Equipment and maintenance	36	39	90	44	656	219	23	0
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**	**-122**

Source: Internal data of the Ministry of Finance

Employment Agency

Employment Agency in the period January-April 2005 realized total **revenues** in the amount of Denar 2,397 million, being an increase by 1.1% compared to last year. At the same time, revenues from contributions increased by 7.2%, while the subsidies from the budget reduced by 2.4% and participated by 81.8% in the total revenues. With respect to the very structure of the subsidies of the Budget, 80.5% was on the basis of covering the deficit of the Agency.

In the first four months of 2005, **expenditures** of the Employment Agency amounted to Denar 2,407 million, being by 1.6% lower in relation to the same period last year. Function-related expenditures amounted to Denar 2,333 million, i.e. they decreased by 1.6%. 36.5% out of these expenditures were intended for payment of unemployment benefits, and 8.9% were expenditures for active measures (employment encouragement and allowance for re-qualification). Professional service-related expenditures accounted for 3.1% of the total expenditures and they decreased by 1.3% compared to the first four months last year.

Employment Agency, in the first four months of 2005, realized a **deficit** in the amount of Denar 10 million.

EMPLOYMENT AGENCY

(In million of denars)

Types of revenues / expenditures	1998	1999	2000	2001	2002	2003	2004	2005
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Jan-April
REVENUES	**4,260**	**4,129**	**5,119**	**4,827**	**5,918**	**6,241**	**7,456**	**2,397**
Revenues from contributions	990	1,058	1,121	1,136	1,180	1,224	1,270	432
Contributions from wages	969	1,037	1,098	1,113	1,178	1,223	1,155	345
Contributions from self-employed	22	21	22	23	2	0	24	8
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	77
Revenues from the Government budget	3,261	3,066	3,990	3,677	4,726	5,002	6,163	1,962
For covering the deficit of the								
Employment Fund	2,737	2,575	3,470	3,170	3,742	3,958	4,522	1,579
For paying allowances to the employees of the								
loss-making enterprises	524	490	516	481	944	980	988	171
Public administration reform	-	-	-	26	19	3	61	12
Others	0	0	3	26	21	61	592	200
Other revenues	9	6	8	13	12	16	23	3
EXPENDITURES	**4,264**	**4,135**	**5,110**	**4,749**	**5,868**	**6,214**	**7,325**	**2,407**
Expenditures for the functions	4,084	3,970	4,913	4,571	5,658	6,005	7,102	2,333
Unemployment benefits	2,073	1,755	1,875	1,879	2,273	2,377	2,697	851
Contributions for health insurance	1,039	1,347	1,936	1,555	1,763	1,849	1,998	699
Contributions for pension and disability insurance	972	868	1,102	1,138	1,453	1,557	1,729	544
Transfers for employment of disabled persons	-	-	-	-	128	121	58	31
Payments according to the new Law	-	-	-	-	-	61	592	200
Compensation for training	-	-	-	-	41	40	29	8
Expenditures for the personel	180	165	198	178	210	209	223	74
Wages and salaries	99	105	118	116	124	134	132	44
Allowances	14	17	19	18	22	20	20	7
Goods and other services	43	34	54	43	42	51	68	23
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**	**-10**

Source: Internal data of the Ministry of Finance

Regional and National Road Fund

In the period January-April 2005, Regional and National Road Fund collected **revenues** in the amount of Denar 895 million, being lower by 19.6% compared to the same period last year. Budget revenues accounted for 44.7%, being the highest share in the total revenues, which compared to last year, reduced by 33.3%, and 30.2% of the total revenues were collected from the annual fee for road vehicles, which decreased by 3.9%.

Expenditures of the Road Fund, in the period January-April 2005, amounted to Denar 672 million. Most of the expenditures (69.9%) were realized in the road maintenance. With respect to investments, only Denar 88 million was spent, being a decrease by around 81% compared to last year. Expenditures related to studies, designing, surveillance, fees and operating costs participated with 6.7% in the total expenditures.

Road Fund, in the period January-April 2005, realized **surpluss** in the amount of Denar 223 million.

REGIONAL AND NATIONAL ROAD FUND

(In million of denars)

Types of revenues / expenditures	1998	1999	2000	2001	2002	2003	2004	2005
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Jan-April
REVENUES	**2,660**	**3,793**	**3,506**	**4,012**	**3,434**	**3,668**	**3,299**	**895**
Revenues from Budget	668	924	1,590	1,655	1,305	1,603	1,610	400
Paytoll by foreign motor vehicles	49	54	82	73	87	82	77	22
Annual fee for motor vehicles subject to registration	524	518	746	704	761	797	853	270
Paytoll for use of motorway	468	492	537	375	381	728	741	189
Foreign credit	939	1,793	538	1,098	862	418	9	0
Other revenues	12	13	14	21	2	39	9	14
Grants	-	-	-	87	36	1	0	0
EXPENDITURES	**2,660**	**3,793**	**3,506**	**4,013**	**3,420**	**3,661**	**3,889**	**672**
Investments	1,203	1,985	1,662	1,756	1,250	1,107	1,753	88
Expenditures for studies, projections, supervision,								
fees and material costs	0	0	179	286	289	205	156	45
Road maintenance	784	790	952	926	900	1,063	1,081	470
Repayment of loans	264	148	212	299	304	424	242	69
Funds for local roads	321	386	502	596	528	666	611	0
Other expenditures	89	142	0	0	0	46	45	0
Liabilities from the previous year	0	342	0	0	0	0	0	0
Liabilities towards the Bank Rehabilitation Agency	0	0	0	150	149	150	0	0
BALANCE								
Deficit / Surplus	**0**	**0**	**0**	**-1**	**14**	**7**	**-590**	**223**

Source: Internal data of the Ministry of Finance

Macedonian Stock Exchange

Stock Exchange Indicators - April 2005

Realized turnover through classical trading on the Macedonian Securities Stock Exchange in April 2005 amounted to Denar 706,1 million, and compared to the previous month, it decreased by 40.6%. Turnover realized through block transactions on the Stock Exchange in this month amounted to Denar 27.9 million, and compared to the previous month, it decreased by 72.2%. Total turnover on the Macedonian Stock Exchange in April 2005, as a result of the classical trading, and the block transactions amounted to Denar 734.1 million, and compared to the previous month, it decreased by 47%.

Turnover in shares on the Stock Exchange through classical trading in April 2005 amounted to Denar 470.8 million, which compared to the previous month, was a drop by 39.7%. Turnover in government bonds during the analysed period amounted to Denar 235.3 million, and in relation to the previous month, it dropped by 42.4%.

In April 2005, average daily turnover amounted to Denar 44.1 million, and compared to March, it decreased by 29.49%.

Total number of transactions on the Macedonian Stock Exchange in April 2005 was 3,313 transactions in 16 trading days, and in relation to the previous month, it dropped by 25.94%. Average daily number of transactions in the analyzied period was 207 transactions, and compated to March, it was lower by 11.91%.

If one analyses the total turnover in government bonds of the Republic of Macedonia in April 2005, which amounted to Denar 235.31 million, one can conclude that turnover in government bonds for the old foreign currency saving in April 2005 amounted to Denar, 26.64 million, whereby the average price of these bonds was 74.1% of their nominal value, and compared to the previous month, it was lower by 2.8 percentage points. In the analysed period, turnover in denationalization bonds from the first issue amounted to Denar 694.81 thousand, their average price was 71% of their nominal value and, compared to the previous month, it remained unchanged.

Denationalization bonds from the second issue were sold at the average price of 71.3% of their nominal value, which, compared to March this year, was higher by 0.3 percentage points, while their total turnover in April amounted to Denar 19.5 million. In April 2005, total turnover in denationalization bonds from the third issue amounted to Denar 30.1 million, while the average price of these bonds was 73.9% of their nominal value, which, compared to previous month, increased by 3.58 percentage points.

When trading with government denationalization bonds from the fourt issue in april 2005, turnover was realized in the amount of Denar 159 million, and their average price was 64.28% of their nominal value, which, compared to previous month, decreased by 1.62 percentage points.

MACEDONIAN STOCK EXCHANGE - APRIL 2005

	March	April	% Change
TURNOVER (denars)			
TRADING IN BEST	1,189,254,846	706,134,057	-40.6
Shares	780,854,306	470,823,080	-39.7
Bonds	408,400,540	235,310,977	-42.4
DAILY AVERAGE TURNOVER (denars)	62,592,360	44,133,378	-29.5
DAILY AVERAGE NUMBER OF TRANSACTIONS	235	207	-11.9
BLOCK TRANSACTIONS	100,530,974	27,918,000	-72.2
GOVERNMENT AUCTIONS	94,187,818	0	-
Shares	0	0	-
Stakes	94,187,818	0	-
TOTAL	1,383,973,638	734,052,057	-47.0
VOLUME (in securities)			
SHARES	462,519	287,003	-37.9
TRADING IN BEST	404,435	273,433	-32.4
BLOCK TRANSACTIONS	58,084	13,570	-76.6
GOVERNMENT AUCTIONS	-	0	-
BONDS (NV in EURO'S)	10,207,304	5,744,504	-43.7
NUMBER OF TRANSACTIONS			
TRADING IN BEST	4,471	3,311	-25.9
BLOCK TRANSACTIONS	10	2	-80.0
GOVERNMENT AUCTIONS	5	0	-
TOTAL	4,486	3,313	-26.1
MARKET CAPITALIZATION (denars)			
MARKET CAPITALIZATION OF SHARES	45,942,164,114	43,791,030,133	-4.7
LISTED SHARES	29,207,414,164	27,968,986,252	-4.2
PUBLICLY HELD COMPANIES	16,734,749,950	15,822,043,881	-5.5
MARKET CAPITALIZATION OF BONDS	24,205,266,540	22,332,828,619	-7.7
TOTAL MARKET CAPITALIZATION	70,147,430,654	66,123,858,752	-5.7
MBI-10	2,197.22	2,026.35	7.5
NUMBER OF LISTED SECURITIES	64	63	-
NUMBER OF TRADING DAYS	19	16	-15.8

In April 2005, official stock exchange index (MBI-10), as an indicator of the movement of share prices, was Denar 2,026.35, and compared to the previous month, it dropped by 7.78%.

In April 2005, highest turnover on the Macedonian Securities Stock Exchange in April 2005 was realized on the official market - 97.19% of the total turnover, in the amount of Denar 713.4 million. On the unofficial market of the Stock Exchange, total turnover realized was in the amount of Denar 20.6 million, accounting for 2.81% of the total turnover on the Stock Exchange.

Total turnover by the 10 most liquid joint stock companies on the official market on the Macedonian Securities Stock Exchange in April 2005 amounted to Denar 478.1 million, whereby the most notable was the trading with shares of: Komercijalna Banka AD Skopje with 27.1% in the turnover, Alkaloid AD Skopje with 21.08% in the turnover and Toplifikacija AD Skopje with 15.13% in the turnover of the 10 most liquid joint stock companies on the official market of the the Macedonian Stock Exchange.

Highest increase of the average price of shares in April, compared to the previous month, was noticed at the prices of shares of: Beton AD Skopje, which average increase of shares was 88.76%, and the average price per share amounted to Denar 3,944.12. In the analyzed period, proce of shares of Granit AD Skopje increased by 73.86%, and it amounted to Denar 396.95. Average price of shares of Lotarija na Makedonija Skopje also increased by 52.99% in relation to the previous month and it amounted to Denar 375.60 per share.

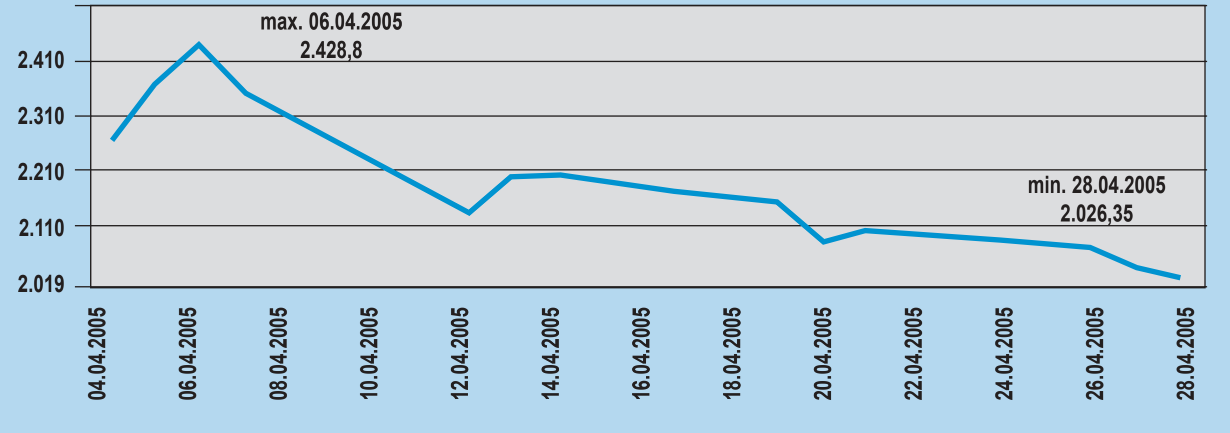
When analysing the dividen yield of the 10 joint stock companies with highest share in the turnover on the official market of the Macedonian Stock Exchange, it can be noted that shares of Stopanska Banka Bitola had the highest dividen yield per share in the amount of 10.77%, followed by the shares of Ohridska Banka Ohrid with dividen yield of 9.39% and shares of Toplifikacija AD Skopje with dividen yield of 6.01%.

If the ownership structire of the capital of joint stock companies is analyzed, it can be noted that, with respect to the 10 most liquid joint stock companies on the Macedonian Securities Stock Exchange in April 2005, highest share of foreign investors in the founding capital of the joint stock companies was present in: Toplifikacija AD Skopje with 23.56% foreing capital, Komercijalna Banka AD Skopje with 15.88% foreign capital in the founding capital of the company and Alkaloid AD Skopje with 7.01% foreign capital in the founding capital of the company.

Regarding the total turnover on the official market of the Macedonian Stock Exchange in April 2005, foreign investors participated with 9.62% in the turnover.

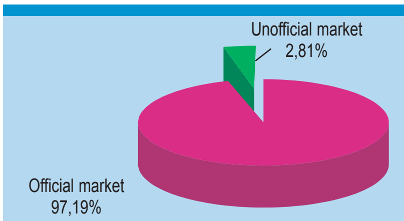
Macedonian Stock Exchange

MACEDONIAN STOCK EXCHANGE	MARCH 2005	APRIL 2005	% CHANGE
TURNOVER (denars)			
TRADING IN BEST	1.189.254.846	706.134.057	▼40,62%
Shares	780.854.306	470.823.080	▼39,70%
Bonds	408.400.540	235.310.977	▼42,38%
DAILY AVERAGE TURNOVER (denars)	62.592.360	44.133.378	▼29,49%
DAILY AVERAGE NUMBER OF TRANSACTIONS	235	207	▼11,91%
BLOCK TRANSACTIONS	100.530.974	27.918.000	▼72,23%
GOVERNMENT AUCTIONS	94.187.818	0	-
Shares	0	0	-
Stakes	94.187.818	0	-
TOTAL	1.383.973.638	734.052.057	▼46,96%
VOLUME (in securities)			
SHARES	462.519	287.003	▼37,95%
TRADING IN BEST	404.435	273.433	▼32,39%
BLOCK TRANSACTIONS	58.084	13.570	▼76,64%
GOVERNMENT AUCTIONS	0	0	-
BONDS (NV in EURO'S)	10.207.304	5.744.504	▼43,72%
NUMBER OF TRANSACTIONS			
TRADING IN BEST	4.471	3.311	▼25,94%
BLOCK TRANSACTIONS	10	2	▼80,00%
GOVERNMENT AUCTIONS	5	0	-
TOTAL	4.486	3.313	▼26.15%
MARKET CAPITALIZATION (denars)			
MARKET CAPITALIZATION OF SHARES	45.942.164.114	43.791.030.133	▼4,68%
LISTED SHARES	29.207.414.164	27.968.986.252	▼4,24%
PUBLICLY HELD COMPANIES	16.734.749.950	15.822.043.881	▼5,45%
MARKET CAPITALIZATION OF BONDS	24.205.266.540	22.332.828.619	▼7,73%
TOTAL MARKET CAPITALIZATION	70.147.430.654	66.123.858.752	▼5,73%
MBI-10	2.197,22	2.026,35	▼7,78%
NUMBER OF LISTED SECURITIES	64	63	▼1,56%
NUMBER OF TRADING DAYS	19	16	▼15,79%



TURNOVER STRUKTURE in February 2005

Market segment	Turnover (denars)	Turnover (EUR)	%	No. of trans.
OFFICIAL MARKET	713.418.942	11.620.951	97,19	3.161
UNOFFICIAL MARKET	20.633.115	336.156	2,81	152
TOTAL	**734.052.057**	**11.957.107**	**100,00**	**3.313**



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	2.500	2.103	2.357	57.008	129.577.450	2.110.578	27,10	319	4.284.194.209
Alkaloid Skopje	5.998	4.165	4.902	20.273	100.768.599	1.641.223	21,08	334	5.554.547.489
Toplifikacija Skopje	3.399	2.800	3.113	23.040	72.323.021	1.177.805	15,13	265	1.305.000.000
Stopanska Banka Bitola	4.800	4.400	4.649	9.229	42.685.023	695.435	8,93	99	1.564.004.800
Komercijalna Banka Skopje - prior.	2.490	2.051	2.301	11.518	26.714.501	435.122	5,59	166	421.763.472
Granit Skopje	550	310	397	53.663	21.256.410	346.261	4,44	283	957.778.204
Makpetrol Skopje	22.000	17.000	18.920	771	14.661.104	238.843	3,06	88	2.022.876.000
Makedonija Turist Skopje	2.585	2.000	2.169	6.420	14.044.764	228.729	2,94	62	949.718.700
Evropa Skopje	2.272	1.000	1.502	6.168	11.795.508	192.073	2,46	91	308.488.681
Ohridska Banka Ohrid	3.500	3.300	3.467	3.110	10.870.200	177.067	2,27	19	798.016.720
Others				41.051	33.411.385	544.326	7,00	236	9.802.597.977
TOTAL				**232.251**	**478.107.965**	**7.787.462**	**100,00**	**1.962**	**27.968.986.252**

TOP 3 GAINERS

Issuer	March 2004 Average price (denars)	April 2005 Average price (denars)	% change
Beton Skopje	2.089,48	3.944,12	88,76%
Granit Skopje	228,32	396,95	73,86%
Lotarija na Makedonija Skopje	245,50	375,60	52,99%

TOP 3 LOSERS

Issuer	March 2004 Average price (denari)	April 2005 Average price (denari)	% change
Makpetrol Skopje	21.057,88	18.919,56	10,15%
Hoteli Metropol Ohrid	150,00	135,00	10,00%
Stopanska banka Bitola prior.	3.500,00	3.246,67	7,24%

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)	76,80	73,10	74,10	28.04.2005	585.509	26.643.299	433.980	11,60%
Government bonds Denationalization II issue (RMDEN01)	71,00	70,00	71,00	23.03.2005	16.058	694.810	11.314	10,20%
Government bonds Denationalization II issue (RMDEN02)	75,00	71,00	71,30	27.04.2005	427.138	19.528.476	318.203	9,31%
Government bonds Denationalization II issue (RMDEN03)	74,00	69,40	73,88	28.04.2005	685.796	30.120.592	490.704	7,87%
Government bonds Denationalization II issue (RMDEN04)	65,00	62,10	64,28	28.04.2005	4.046.061	159.018.609	2.590.602	9,55%

*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 ratio[1]	Dividend yield[2]	Foreign investors participation in March 2005	Foreign investors participation in April 2005	% Change
Alkaloid Skoje	10,93	1,65%	6,57%	7,01%	0,44%
Granit Skopje	6,97	2,89%	1,88%	2,09%	0,21%
Evropa Skopje	44,55	-	5,90%	5,95%	0,05%
Komercijalna banka Skopje	5,82	4,10%	15,25%	15,88%	0,63%
Makedonijaturist Skopje	9,45	3,90%	1,89%	2,12%	0,23%
Makpetrol Skopje	15,38	5,24%	1,71%	1,77%	0,06%
Ohridska banka Ohrid	7,85	9,39%	3,45%	4,93%	1,48%
Skopski pazar Skopje	4,40	1,94%	0,00%	0,00%	0,00%
Stopanska banka Bitola	7,05	10,77%	4,22%	6,35%	2,13%
Toplifikacija Skopje	13,31	6,01%	22,35%	23,56%	1,21%

2) Share price (28.04.2005)/ Earning per share by non-audited Profit and loss accounts (01.01-31.12.2004).

3) Data as of 28.04.2005, according to the Central Securities Depository.

4) Data as of 28.04.2005, according to the Central Securities Depository, regarding the participation of the foreign investors in the total nominal value of bonds.

5) Data as of 28.04.2005, according to the Central Securities Depository, regarding the participation of the foreign investors in the total turnover.

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	12,24%	0,75%	12,98%	15,41%	2,43%
Bonds[4]	2,19%	3,43%	5,62%	5,58%	0,04%
Total official market	7,65%	1,97%	9,62%	10,96%	1,34%

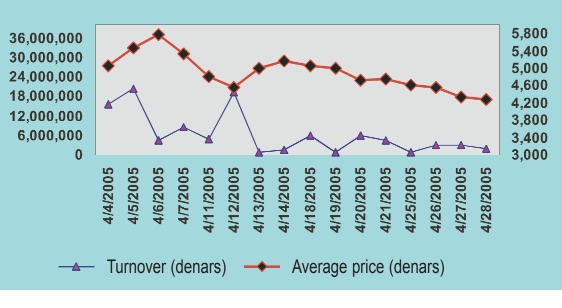
FOREIGN INVESTORS IN THE TOTAL TURNOVER [5]

	Buying	% of total	Selling	% of total	TOTAL	% of total
April 2005	237.720.816	32,38%	67.668.356	9,22%	305.389.172	41,60%

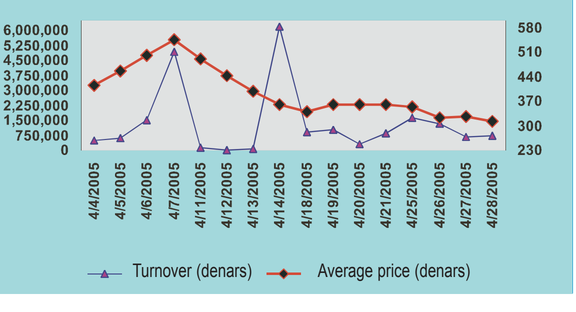
TURNOVER PER MEMBERS

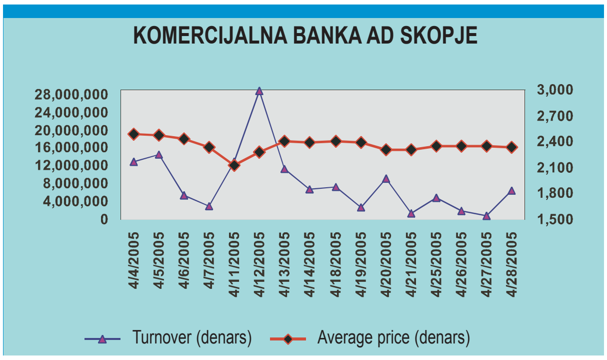
Issuer	Code	Trading in Best System	Trading in Best System (%)	Block	Block %	Total
Komercijalna banka AD	KB	462.314.348	32,74	38.266.000	68,53	500.580.348
Tutunska broker AD	TN	212.591.624	15,05	0	0,00	212.591.624
Teteks-Kreditna Banka AD	TK	129.784.341	9,19	0	0,00	129.784.341
MAK Broker AD	MK	116.151.113	8,22	0	0,00	116.151.113
Stopanska banka AD	SB	104.863.369	7,43	0	0,00	104.863.369
Investbroker AD	MI	85.665.838	6,07	17.570.000	31,47	103.235.838
UNI banka AD	BL	87.746.377	6,21	0	0,00	87.746.377
Sileks banka AD	SL	70.582.375	5	0	0,00	70.582.375
Fersped broker AD	FR	55.068.416	3,9	0	0,00	55.068.416
Bitola broker AD	BB	48.158.287	3,41	0	0,00	48.158.287
Ohridska banka AD	OH	27.693.352	1,96	0	0,00	27.693.352
Postel Broker AD	PT	11.648.674	0,82	0	0,00	11.648.674
Total		**1.412.268.113**	**100**	**55.836.000**	**100,00**	**1.468.104.113**

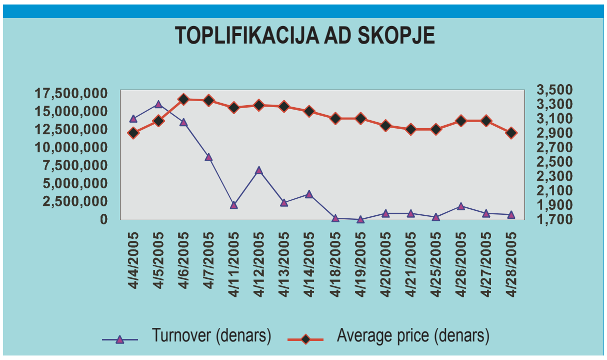
ALKALOID AD SKOPJE

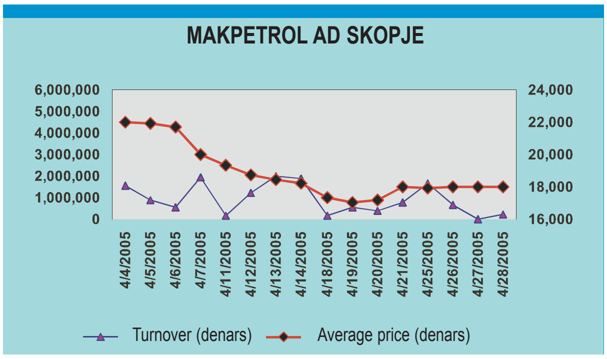


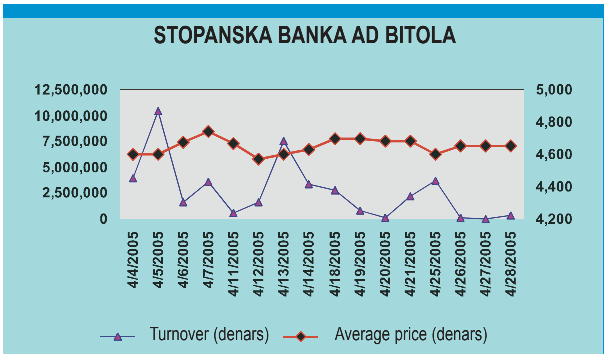
GRANIT AD SKOPJE

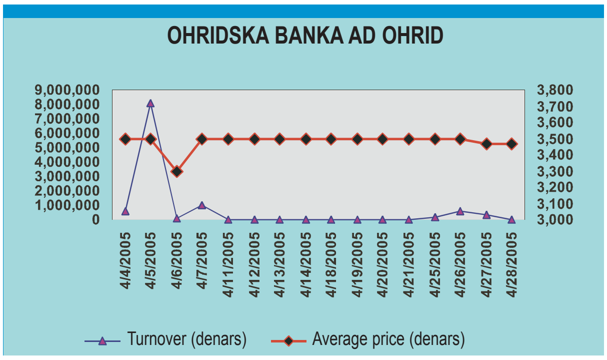


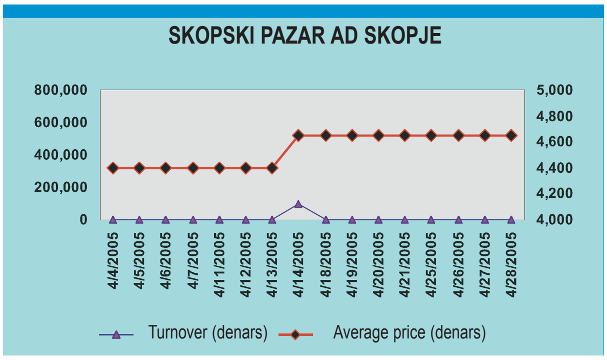

KOMERCIJALNA BANKA AD SKOPJE
Turnover (denars)
Average price (denars)

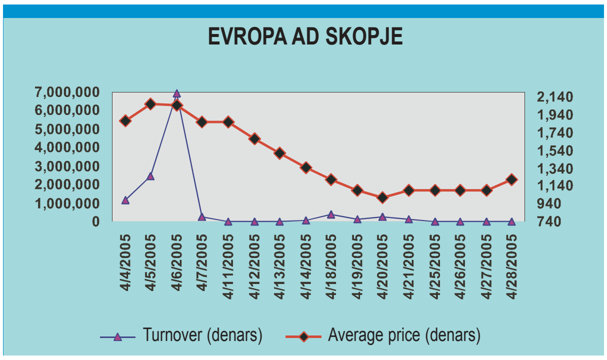

TOPLIFIKACIJA AD SKOPJE
Turnover (denars)
Average price (denars)

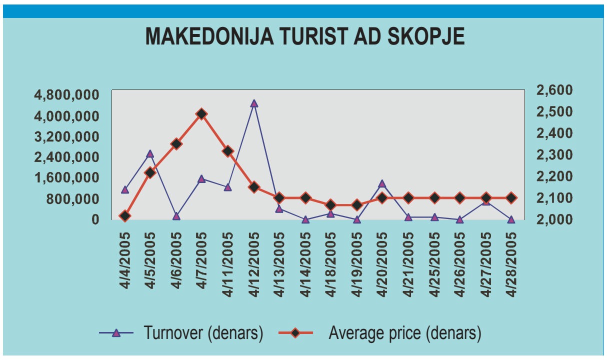

MAKPETROL AD SKOPJE
Turnover (denars)
Average price (denars)


STOPANSKA BANKA AD BITOLA
Turnover (denars)
Average price (denars)


OHRIDSKA BANKA AD OHRID
Turnover (denars)
Average price (denars)


SKOPSKI PAZAR AD SKOPJE
Turnover (denars)
Average price (denars)


EVROPA AD SKOPJE
Turnover (denars)
Average price (denars)


MAKEDONIJA TURIST AD SKOPJE
Turnover (denars)
Average price (denars)

MONEY AND SHORT-TERM SECURITIES MARKET

The realized trading on the money and short-term securities market in **March 2005** amounts to Denar 256,8 million and declined by 0.46% in relation to the previous month.

Demand for liquid assets during the analyzed period amounted to Denar 450,3 million, and compared to the previous month, there was an increase by 8.64%.

At the same time, supply of liquid assets on the money market in March 2005 grew by 45.6% compared to the previous month and amounted to Denar 473.3 million.

Average weighted interest rate in the analyzed period is 8.51% and in relation to the previous month is by 0.07 percentage points higher.

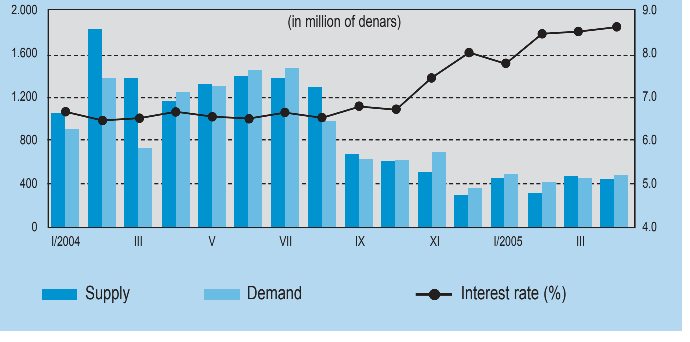
The realized trading on the money and short-term securities market in April 2005 amounts to Denar 336.5 million and grew by 31% in relation to the previous month.

Demand for liquid assets during the analyzed period amounted to Denar 475.5 million, and compared to the previous month, there was an increase by 5.6%.

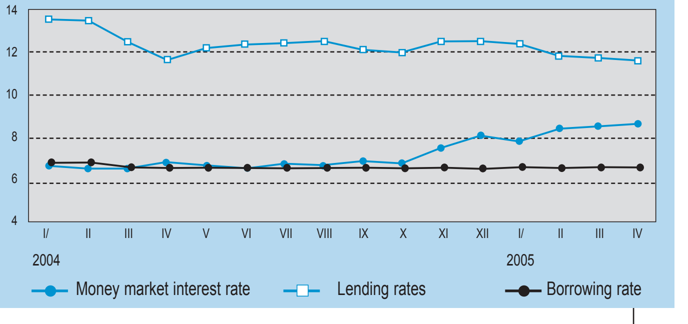
The supply of liquid assets on the money and short-term securities market in **April 2005** declined by 6.7% in relation to the previous month and it amounts to Denar 441.5 million.

Average weighted interest rate in the analyzed period is 8.6% and in relation to the previous month is by 0.1 percentage point higher.

Money and short-term securities market



Lending and borrowing interest rate of the commercial banks and interest rate on the money market



MONEY AND SHORT-TERM SECURITIES MARKET (by months)

2002	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
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	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
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	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
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	I	II	III	IV								
Total turnover (In million of denars)	413	258	257	337								
Interest rate (%, annual)	7.77	8.44	8.51	8.61								

Deposits of citizens and enterprises at the banks

Total deposits of banks in the Republic of Macedonia in March 2005 grew on monthly basis by 1.8% as a result of the increased short-term and long-term deposits by 1.9% and 1% respectively.

Deposits of citizens

At end-March 2005, total bank deposits of the population amounted to Denar 47,069 million, which, on monthly basis, is 1.8% rise as a result of the growth of all categories of deposits. During the third month of the year, short-term deposits of the population grew on monthly basis by 1.8%, while the growth of the long-term deposits was 0.9%. From currency point of view, Denar deposits decreased by 2.0% on monthly level, while the monthly increase of the foreign currency deposits amounted to 1.7%. On annual level, total deposits of the citizens increased by 20.2%.

Deposits of enterprises

Total deposits of the corporate sector in March 2005 reached a level of Denar 21,321 million, which is monthly increase by 2.0%, whereby both short-term and long-term deposits grew (2% and 3.4%) respectively. Analyzed by currency, foreign currency deposits of enterprises declined on monthly basis by 7.5%, which is partly due to the transformation of the foreign currency deposits into Denar deposits and corresponds to the higher monthly level of import. Compared to March previous year, total deposits of enterprises grew by remarkable 50.6%.

Deposit Insurance Fund indemnifies only the deposits of physical persons at the banks and the savings houses having license from the National Bank of Macedonia to operate with deposits of physical persons.

Deposit Insurance Fund

On March 31st 2005, total funds of the Fund amounted to 3.35% of the total deposits of physical persons at the banks and savings houses. Out of the total calculated obligation for indemnification in the amount of Denar 109,281 million, up to March 28th 2005, the Deposit Insurance Fund paid indemnification in the amount of Denar 102,670 million. As of February this year, the Fund paid 93.95% out of the total calculated obligation for indemnification.

Deposits of citizens

The analysis of deposits according to their structure showed monthly increase of deposits of the population by 3% as a result of the growth in all categories of deposits. The most intensive growth was registered at the denar short-term deposits of the population (above all sight deposits and three-month time deposits) reflecting the effect of the payment of the old foreign exchange saving bond.

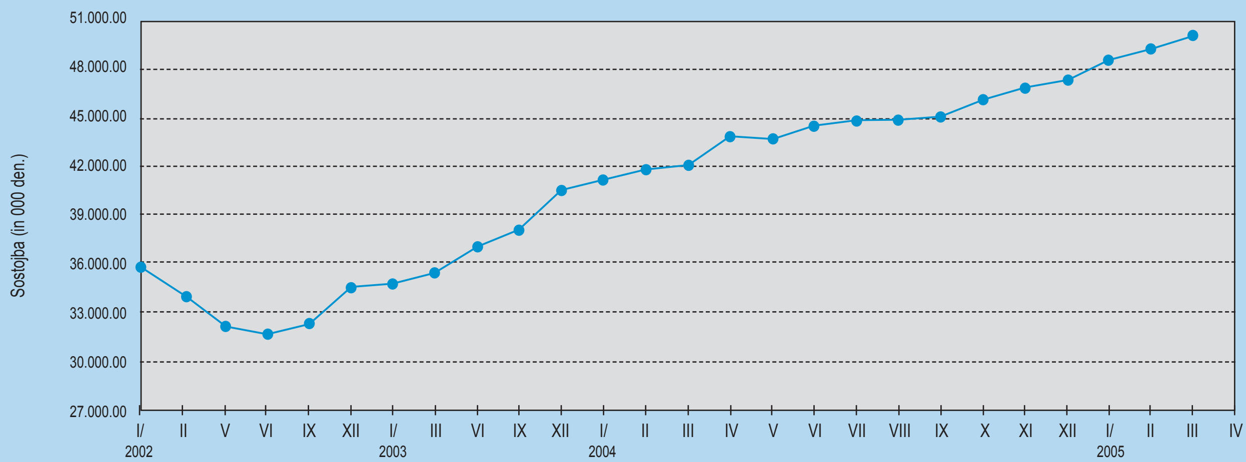
Deposits of enterprises

Total deposits of the corporate sector in April 2005 grew by 6.8%. Both denar and foreign currency deposits of enterprises grew, whereby, foreign currency deposits grew more intensively (by 12.3%).

Deposit Insurance Fund

As of April 30, 2005, total funds of the Fund amounted to 3.29% of the total deposits of physical persons at the banks and savings houses. Out of the total calculated obligation for indemnification in the amount of Denar 109,281 million, up to April 30, 2005, the Fund paid indemnification in the amount of Denar 102,670 million. As of April 2005, the Fund paid out 94% of the total calculated obligation for indemnification.

Deposits of physical persons and saving houses



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

	Denar deposits							Foreign exchange deposits							
Banks	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	1.0%	4.5%		5.0%	5.5%	6.0%		EUR	0.80%		1.40%	1.50%	1.70%		
Interest rates since June, 2004								USD	0.50%				1.00%		
								CHF	0.10%				0.40%		
								GBP	0.20%						
Eurostandard banka AD Skopje	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%
Interest rates since February, 2004								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	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%
Interest rates since March, 2004								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	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%
Interest rates since August, 2004								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	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%		
Interest rates since July, 2004								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	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%
Interest rates since March, 2004															
Makedonska banka AD Skopje	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%
Interest rates since April, 2004								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	1.0%	6.0%	7.0%	7.5%	8.0%	8.5%	9.0%	EUR	0.50%				2.50%	2.60%	2.80%
Interest rates since March, 2004								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		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%
Interest rates since December, 2004								USD			1.00%	1.25%	1.50%	1.80%	2.25%
Radobank AD Skopje	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.
Interest rates since September, 2004								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.	upp. agr.	upp. agr.	upp. agr.	upp. agr.	upp. agr.	upp. agr.
Stopanska banka AD Skopje	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%
Interest rates since February, 2005								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	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%	
Interest rates since November, 2003								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"	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%
Interest rates since June, 2004								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	2.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	EUR	1.20%				2.00%	2.50%	3.00%
Interest rates since June, 2004								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	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%		
Interest rates since February, 2004								USD	0.60%	0.90%	1.00%	1.10%	1.20%		
								CHF	0.10%	0.20%	0.30%	0.40%	0.50%		
								Others	0.70%	1.00%	1.20%	1.40%	1.80%		
UNI banka AD Skopje	2.5%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	EUR	1.00%	2.00%	2.50%	3.00%	3.50%	5.00%	6.00%
Interest rates since December, 2003								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 theirs 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 - exterritorial 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 vinculation 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 vrednosta 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 seze 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 cerain 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

NEW GOVERNMENT PROGRAM ON DEVELOPMENT

The measures proposed by the Cabinet of Ministers will be used to resolve the problems Macedonian faces over a decade - insufficient economic growth, large level of unemployment and trade balance deficit and BOP deficit. For the first time, proposed measures on economic growth are not of monetary and fiscal nature, but ther primarely refer to the private sector.

"Competent domestic, expert and business public, as well as the foreign experts who monitor the trends in the Macedonian economy, have agreed that after the stabilization period, Macedonian economy has faced the challenge to finally move towards new, development stage", it is stated in the economic program of the Government.

Insufficient economic growth, unemployment and trade balance and BOP deficits are the three key problems of the Macedonian economy that the Government has committed to resolve with the recently proposed economic program. It defines the priority measures for higher economic growth and acceleration of the structural reforms.

It will be achieved through improvment of the overall working environment, further strengthened restructuring of the enterprise sector and the financial sector, direct support to the SMEs, new benefits to the export-oriented firms, elimination of the barriers to investments, increase of the active measures for employment encouragement.

With the proposed measures, the Government plans in the next several yars for the economic growth of the country to range between 4% and 5%, creating conditions for opening of 60,000 new working posts.

In the Program, the Government has concluded that the basic preconditions for efficiency of all proposed measures is improvement of the business and investment climate. To that end, Prime Minister Buckovski has announced final commencment of the long announced one-stop shop system for fast registration fo the firms. Harmonization of the national laws and regulations with the EU regulations will lead to removal of the often changing of the laws, being one fo the most pointed out remarks by the investors.

GUARANTEE FUND FOR SMEs

Special set of measures in the government program are aimed at support to the SMEs, with innovative and export-oriented businesses. The Government has announced establishment of a special Guarantee Fund within the Macedonian Bank for Development Promotion. Through this Fund, SMEs with justified business ideas will be extended financial support up to 30% of the total value of the project. The Fund will support justified, innovative, export-oriented and agricultural projects.

As a novelty in this proposal is that the commercial banks, through which the credits will be extended, will be selected through a tender, and the advantage will go to those banks offering more favourable terms and conditions.

CONTRACT WITH "LUKOIL" SIGNED

Fourty imposing petrol stations of the Russian oil company "Lukoil" will be constructed in Macedonia, it is envisaged in the investment contract signed in Saint Petersbourg by Prime Minister Vlado Buckovski and

Vagit Alekperot, President of this oil giant. According to the contract, Russian investors will start developing a network of oil warehouse in Macedonia as soon as possible, and the state will need to give the location on which the new petrol station are to be constructed.

"Entrance of the Russian company Lukoil on the Macedonian market will contribute to more developed infrastructure, higher quality of services and more developed competition. Lukoil will make all in its power to help the economic development in Macedonia", said the President of this company.

For Prime Minister Buckovski the entrance of this renowned company in Macedonia will mean new working posts, better economic situation and liberalization of the trade with oil derivatives. According to the announcements, 14 persons will be employed at each of the 40 petrol stations. 20 petrol station will be built in the capital, two at each of the broder crossings, many petrol stations along the highway towards Greece and one petrol station in each of the larger cities in the country.

"GRANIT" WITH THREE PRIZES FOR TOP QUALITY

Macedonian construction company "Granit" has been awarded three prestigious recongnitions for quality of its carried out works in Ukraine. The event was organized by the European Center on Market Research from Brussels, European Business Association from Oxford and the Ukraine Institute for Rating Assessment and Observation - ranking the best companies in all areas of economy in this country, and they awarded "Granit" the prizes for highest European quality. Our most successful construction company worked in Ukaine on the reconstruction of the national road Kiev - Chop, being in its final stage and fully handed over for usage at the end of the summer.

SIGNED CONTRACT FOR STRATEGIC COOPERATION BETWEEN SIEMENS AND THE GOVERNMENT OF THE REPUBLIC OF MACEDONIA

Minister of Economy Fatmir Besimi and the member of the Siemens Management Board, in charge of Southeast Europe, Johanes Feltmaer, in Munich, signed Contract for Strategic Cooperation between the Government of the Republic of Macedonia and the German giant "Siemens".

"Siemens enters in the Republic of Macedonia. So far we have had annual turnover of around EUR 6 million in Macedonia, and now we are expanding our investment engagement. We are ready to state the support to its economic development and we wish to help Macedonia on its road to joining the EU", said the first man in Siemens for SEE.

According to him, in cooperation with the Macedonian side, "Siemens" will prepare a joint concept for specific infrastructure projects in the part of energy production and transport, telecommunications, medical technology, security, trasport and airports. "Siemens" will commence its specifi work on the investment project for the "Skopje" steam power plant, and will aslo commence works on three projects for power plants in the coming months.

"Siemens" will apply the experience and, above all, the labour force of the local firms and experts in the implementation of the investment projects and participation in the production process, as well as the business participation and establishment of partnership with the Macedonian local firms.

Macedonian Prime Minister welcomed the signing of the Contract, pointing out that "this is also a step closer to attaining the goal, i.e. to make the Republic of Macedonia an attractive business destination for the big brand companies such as "Siemens". Signed contract with "Siemens" takes us to achieving our strategic goal by the end of this year, besides "Siemens", to also bring at least three other world companies that will change the perception for Macedonia as a desirable business destination."

IMPORT OF RAW MATERIALS AND INTERMEDIATE GOODS CUSTOMS-FREE

The Government of the Republic of Macedonia reached decision to abolish the customs duties on import of intermediate goods and raw materials for agriculture, textile and mechanical engineerign industry. This measure encompasses around 623 tariff numbers, and it will be applied on the day it is published in the Official Gazette.

According tot he Director of the Customs Administration, Ilija Iloski, abolishment of the customs duties will reduce the budget revenues, but, on the other hand, it will improve the economic climate in the country. "Last year, textile industry participated with around 50% in the total export. This sector employs 305,000 people. All this points out that it has a great significance for the economic development", said Iloski. He also stated that 125 tariff numbers are abolished in the sector of agriculture and cattle breeding, 358 in the textile sector, and 140 in the sector of production machines and equipment. No wool fibers will be customs free, as well as all types of yarn intended for retail sale.

"Around Denar 200 million were collected in the budget in the last three year from these products. It means that this year around Denar 100 million less than the envisaged will be collected in the budget. However, the Customs Administration , even without these funds, will realize the envisaged collection of Denar 4.7 billion", Iloski pointed out.

EUR 10.3 MILLION LOAN FROM THE WORLD BANK FOR REAL ESTATE CADASTRE

Establishment of efficient real estate cadastre and improvement of the business climate in Macedonia is the

goal to be achieved with the Land Registration Project, funded by World Bank loan. Loan Agreement was signed by the World Bank Resident Representative in Macedonia, Sandra Bloemenkamp, and the Minister of Finance, Nikola Popovski.

The loan in the amount of EUR, 10.3 million was approved for 17 years, with several years of grace period. Regarding the project realization, donations have also been provided from the SIDA Swedish agency in the amount of EUR 3 million, the Dutch Embassy - EUR 500,000, while the Government will participate with US$ 2 million.

According to the World Bank Resident Representative in Macedonia, one of the obstacles to investments in the country is the uncertain ownership of real estate, pointing out that between 60% and 70% of real estate in Macedonia is not registered. "Confidence in registration and cadastre data is small, because data are significantly obsolete, and such uncertainty creates adverse effects over investments in the private sector and over the development of the economy in general", said Bloemenkamp.

First efects from the project, according to the Director of State Bureau of Geodetic Works, Bisera Jakimovska, will be felt even in the firt year of the realization. The project will be implemented from 2006, and iti will be completed in 2009.

UPDATE ON THE CREDIT RATING OF MACEDONIA IN SEPTEMBER

Towards the end of June, delegation from the Standard and Poor's credit rating agency visited the Republic of Macedonia. This rating agnecy was engage to prepare the first credit rating for the Republic of Macedonia in the course of 2004, whereby it was awarded BB with a positive tendency for foreign currency and BB+ with a positive tendency for local currency.

The objective of this visit by Standard and Poor's is to carry out annual, standard of the awarded credit rating of the country. During the visit, representatives from the credit agency realized many meetings with domestic and foreign institutions, among which were the following: Ministry of Finance, National Bank of the Republic of Macedonia, Ministry of Economy, Ministry of Labour and Social Policy, Vice President of the Government of the Republic of Macedonia in charge of Eropean integration, as well as with representatives from IMF and World Bank in the Republic of Macedonia, the USA and German Embassies and foreign investor "Stopanska Banka AD Skopje".

Several topic were discussed at the meetings: macroeconomic trends and expectations, public finance and fiscal policy, monetary and financial system, political events and relations with abroad. Republic of Macedonia expects in September 2005 to receive the report by Standar and Poor's on update of the obtained credit rating.

"TURBO INSTITUTE" WILL BUILD 20 MINI-HYDRO POWER PLANTS IN MACEDONIA

Slovenian firm "Turbo Institute" in the next two years will build 20 mini-hydro power plants in Macedonia, worth EUR 100 million. Protocol on the project for construction fo the power plants in Skopje was signed by the Minister of Economy, Fatmir Besimi, and the General Director of "Turbo Institute", Vladimir Kercan.

After signing the document, Minister Besimi pointed out that it is a matter fo a very significant project for the Macedonian economy, especially in the field of energy. The project, added Besimi, will have a positive influence over the intensification of the investment cycle and engagement of Macedonian construction companies, taking into account that the Protocol envisages 70% of the value fo the investment to be realized via engagement of domestic firms.

According tot he Slovenian investor, the construction of the power plants is a big project for both Macedonia and Turbo Institute. "It is not only an energy, but it is also a development project with benefits to all, most to the Macedonian economy", pointed out Kercan, expressing hope that in two years the investment will be fully realized.

Immediately after signing the Protocol, the agreement will be prepared, which will be harmonized with the national legislation.

Construction of the hydro power plants should commence immediately after signing the agreement, and the works will be completed in 20 months. Together with the investor, the location are also to be determined on which the mini power plants are to be built, the total installed power of which will be 70 megawatts, and it will produce 300 million kW/h electricity a year. Slovenian firm has an obligation to prepare the documentation, to build and maintain the hidro power plants, and after the expiry of the 30-year concession period, it will cede it, without any compensation, to the state. Operating company in Macedonia will be established for the needs of realization of the project, which, during the period of exploitation, will operate the small hydro power plants. The overall process from the beginning to its final realization will be monitored by a joint body of the Government and the Slovenian company.

FREE TRADE AGREEMENT BETWEEN MACEDONIA AND SERBIA AND MONTENEGRO

Delegations of Serbia and Montenegro and Macedonia harmonized and initialed the Freed Trade Agreement. This is the first agreement Serbia and Montenegro concludes within the Stability Pact, envisaging customs-free exchange of goods between the two countries.

The Agreement, after two-day meeting of the mixed sub-committee for amendments to the Free Trade Agreement, signed in 1996 between the Governments of the Socialist Republic of Yugoslavia and Socialist Republic of Macedonia, was initialed by the Assistant tot he Minister for International Economic Relations of Serbia and Montenegro and the State Secretary of the Macedonian Ministry of Economy.

What remains to be done is to sign the Agreement and its ratification in the Parliaments of Serbia and Montenegro and Macedonia, and it is expected to come into force by the end of this year.

EUR 8.8 MILLION LOAN FOR IMPROVED BUSINESS ENVIRONMENT

World Bank Board of Directors approved a loan in the amount of EUR 8.8 million to Macedonia for the Business Environment Reform Institutional Strengthening Project (BERIS), announced the Ministry of Economy. The project, as WB announces, should help Macedonia in the efforts to improve the business environment and to aleviate the access of domestic and foreign investments.

Among the problems in the business environment in Macedonia, the Bank points out the following: number and complexity of regulations, weak institutional framework for strengthening the competition, as well as the limited access to information related to credits and accurate financial information on the business entities.

BERIS project comprises several elements: business regulations, metrology system, standardization, quality testing and accreditation, competitiveness policy and access to information.

PROJECT FOR EMPLOYMENT OF YOUNG HIGHLY EDUCATED PERSONNEL

Ministry of Labour and Social Policy and the UN Development Program (UNDP) signed agreement for resoving the problem with unemployment in Macedonia of highly educated personnel, a project financed by the Norwegian Government.

The project, worth EUR 530,000, will cover 900 young persons without working experience, in two groups of 450 persons each. The objective fo the project is to improve the capabilities, readiness for employment and better position on the labour market for young unemployed persons with high education, without working experience, as well as to support the development of the local economies. The project will be implemented in cooperation with the Ministry of Labour and Social Policy and active participation by the Employment Agency and its local offices, while the Chamber of Commerce of Macedonia will be an integral part of the project with its local offices. Main partner in the project realization are the local authorities. It is planned for the project to be implemented in 20 municipalities.

The Agreement for project realization was signed by the Minister of Labour and Social Policy, Stevco Jakimovski, and the UNDP Resident Representative in Macedonia, Frode Mauring. Ambassador of Norway in the country, Carl Vibi, President of the Chamber of Commerce, Branko Azeski and a number of mayors of the municipalities in Macedonia attended the ceremony.

According to Minister Jakimovski, positive expectations for the project are underpinned by the successful completion of such project in the municipalities of Karpos and centar, where out of 60 persons involved, more than 40 remained employed. As one fo the main reasons to implement the project is the fact that most of the unemployed persons in Macedonia are at the age between 20 and 29, whereby 90% of the announcements are seeking for candidates with working experience.

CONFERENCE ON ESTABLISHMENT OF ENERGY COMMUNITY IN SEE

Provision of mutual stable energy market in Southeast Europe (SEE), competition for all types of energizers, modernization of the existing energy systems and reduction of the energy shortage, are part of the main objectives of the Agreement for Energy Community, discussed by the MPs from the countries in SEE at the two-day conference held in Skopje.

Agreement for Energy Community will be signed in the autumn, and its ratification is expected thereafter. Broad dialogue will be needed between the governments and the citizens, as wll as timely and consistent harmonization of the national legislation in the region with the one of the European Union, recommended the representatives of the European Commission and the Stability Pact.

The agreement, as first multilateral agreement of the SEE countries with the European Union will enable joint energy market, where there will be free movment of energy, free of customs duty. Its application should enable opening of markets, larger competitivness and stable

supply of electricity. To that end, special institutions will be established, Council of Ministries, Permanent High-Level Group, Forum for Gas and Electricity, Board for Regulations and Secretariat. The budget of the energy community is limited only to the functioning of these institutions, whill the assistance for the region will be provided from international donors.

Part of the energy community will be Macedonia, Croatia, Albania, Bulgaria, Bosnia and Herzegovina, Romania and Serbia and Montenegro. These countries should sign the Agreement with the European Union. In order for this Agreement to come into force, it needs to be ratified by at least six countries from the region and the European Union. It will be valid for 10 years.

MACEDONIAN WINE WILL CONQUER THE BRITISH MARKET

Six wine cellars, organized in grouping for export of Macedonian quality wine, at the beginning of September will promote Macedonian wine on te British market. They will offer the wine under joint lable as a product from Macedonia. These activities are carried out by the Wine Cluster, supported by the United States Agency for International Development (USAID).

"Macedonia has no image on the foreign markets as a good producer of wine. Research has shown that Macedonian wine can be well accepted on the British market, since britain is one of the largest consumers of wine in the world", said the vinters. According to them, one of the largest problem for improvment fo the wine quality, which is the third strategic export branch in the country, is the bad organization of the wine cellars, the vine breeders and the state. It is necessary to make a more recognizable brand of Macedonian wines, as well as broader promotion on the foreign markets through organized presentations attended by people working in this field.

Macedonian Competitivness Activity (MCA), also supported by USAID, through its working groups, carries out training for vine breeders and vintars on improving the quality of Macedonian wine. Intitiative by MAC to open laboratory to test wine quality is in its final stage.

The shift away from the thrift

Across the rich world, people are saving less. Does that matter?

It may be a virtue, but in much of the rich world thrift has become unfashionable. Household saving rates in many OECD countries have fallen sharply in recent years. Anglo-Saxon countries-America, Canada, Britain, Australia and New Zealand-have the lowest rates of household saving. Americans on average, save less than 1% of their after-tax income today compared with 7% at the beginning of the 1990s. In Australia and New Zealand personal saving rates are negative as people borrow to consume more than they earn.

Other countries with rapidly greying populations-especially Japan and Italy-have also seen their personal saving rates plummet, though from a higher level. The Japanese today save 5% of their household income, compared with 15% in the early 1990s. A few rich countries, notably France and Germany, have bucked the trend away from thrift. Germans saved around 11% of their after-tax income in 2004, up slightly from the mid-1980s. These shifts raise important questions. Are people saving too little? What are the consequences of falling saving rates? Should governments try to encourage people to save more, and if so, how?

One school of thought, led by Ben Bernanke, a prominent American central banker, suggests that the world suffers from too much rather than too little saving. Mr Bernanke, who was nominated to be head of George Bush's Council of Economic Advisers on April 1st, points out that long-term interest rates are extremely low across the globe. He attributes this, in large part, to high saving by Asian economies. If this "savings glut" argument is correct, then presumably there is little need to worry about falling thrift in the rich world.

Others argue that declining thrift is a sign of economic vigour. Thanks to high returns from shares and, more recently, from house prices, people can achieve their financial goals with less discretionary saving. The sophistication of financial markets in Anglo-Saxon economies allows people to tap their wealth more easily, by refinancing their mortgages, for example. For people who live in bank-dominated systems, such as Germany, that is much harder. Higher saving rates in Germany, according to this logic, are the result of poor returns and underdeveloped financial markets.

Pessimists, in contrast, fret that the shift away from thrift is dangerous. The demographic profile of Japan or Italy may explain their falling saving rates, but other rich countries, including America, should have been saving more as the baby-boomers entered their peak earning years. Instead, people are putting aside far too little money to pay for their retirement, relying on unfulfillable promises from bankrupt government pension plans and absurdly rosy assumptions about capital gains from their shares and houses. This myopia greatly reduces the pool of capital available for investment and also worsens existing imbalances in the global economy.

The truth is more complicated. For a start, both the right measure of saving and the appropriate rate of saving depend on whether you are looking at individuals or economies.

From a macroeconomic perspective the right measure is the national saving rate: the sum of private saving (which is household saving and corporate saving, or companies' retained profits) and public saving (ie, a budget surplus) or dis-saving (a budget deficit). It does not matter who in an economy is doing the saving. What matters is how much in aggregate is being set aside to finance the investment that supports economic growth.

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During the mid-1990s national saving rates rose in many OECD economies despite the decline in household thrift, thanks to improved public finances. (Japan, where national saving has been falling since the early 1990s, is a big exception.) In some Anglo-Saxon economies, such as New Zealand, healthy budget surpluses still dampen the impact of low personal saving. But in America, the dramatic shift from budget surplus to deficit since 2001 has amplified the effect of falling household saving. Not only is household saving close to a record low, but net national saving (at around 2% of GDP) is at its lowest rate since the Great Depression.

Does this matter? The relationship between thrift and economic growth is complicated. High rates of saving do not guarantee rapid economic growth (think of Germany). Nor, as global capital markets integrate, must investment be funded by domestic saving alone. Countries can borrow cheaply from abroad and run current-account deficits. Most low-saving Anglo-Saxon economies do just that: America's current-account deficit has reached a gaping 6.3% of GDP. Low long-term interest rates do imply that, for now, global savings are more than adequate relative to investment opportunities.

The true cost of borrowing

But is this sustainable? Even in a more global capital market, there are limits to foreign borrowing. The debts incurred must be serviced, capping how big the current-account deficit can become. More important, today's "saving glut" has less to do with a structural surplus of saving than a shortfall in investment that may prove temporary. Despite its plummeting national saving rate, Japan still exports capital to the rest of the world because its investment rate has fallen even more.

Nor have Asia's economies-with the exception of China's-seen a substantial rise in saving. In some countries, such as South Korea, whose population is ageing rapidly, national saving rates are falling. These countries have become net lenders because their investment rates plummeted after the financial crises of the late 1990s. If investment rises, the savings glut will quickly disappear. Over the longer term, demographic trends suggest national saving in rapidly greying countries (Japan, South Korea, Italy, etc) will continue to fall, further reducing the prospect of surplus saving to finance the Anglo-Saxon deficits.

Furthermore, America-despite its huge external borrowing-itself has a relatively low investment rate. To maintain high productivity growth, investment rates probably need to rise. Add together the need for greater investment and the likelihood of less easy access to foreign borrowing, and the conclusion is clear: Anglo-Saxon economies with low national saving rates, particularly America, need to save more.

Economists agree about the surest way to do this: focus on the government's finances. Alan Greenspan recently called greater fiscal discipline "the most significant vehicle we have" to raise national saving. However, some budgetary prudence may be offset by lower private saving. A theory called "Ricardian equivalence" holds that increases in public saving are cancelled out by falls in private saving as individuals anticipate future tax cuts.

A recent OECD study of 16 rich countries between 1970 and 2002 finds that, on average, around half of any improvement in public finances is offset by lower private saving in the short term, and around two-thirds in the long term. But the most extreme case of low national saving (America) had the weakest offset. A change in America's fiscal stance had no statistically significant impact on private saving, suggesting fiscal discipline will be particularly effective. But even in other low-saving economies, budgetary prudence is the surest route to higher national saving.

That does not mean private saving rates are irrelevant. Encouraging higher private saving would clearly help raise national saving. Moreover, the adequacy of personal saving is important from the perspective of individual welfare. Even if a country overall is saving adequately to fund future economic growth, savings might be distributed in a way that leaves certain groups with insufficient wealth.

But the concept of "adequate" saving is tricky. People have many reasons to save: as a precaution against a sudden drop in income; to smooth their consumption over their lifetime; or to leave assets to their children. Gauging whether people are setting aside enough from their current income depends on what you assume those people will want to consume or bequeath in future, what wealth they have already accumulated and what returns on those assets will be.

Measurement problems bedevil this process. The household saving rate is calculated by subtracting consumption spending from after-tax income. But the definitions of both income and spending that statisticians use in the national accounts often bear little resemblance to what people think of as saving and spending. Realised capital gains, for instance, are not included in income, even though the taxes paid on capital gains are deducted from income. And differences between countries' tax structures and government services can mean the same basic saving behaviour can yield quite different measured saving rates.

Mind the gap

Adjusting for these problems, however, does not change the basic picture. A study by the OECD and European Central Bank shows that, once adjusted for different tax and pension structures, the saving gap between America and continental Europe widens further. Martin Barnes of the Bank Credit Analyst, a consultancy in Montreal, reckons that, once adjusted for measurement problems, America's personal saving rate was relatively stable until 2001. Since then, however, it has plunged.

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But does less saving mean too little saving? The most extensive academic work on individuals' savings adequacy has been in America. Ironically, economists there have become more sanguine even as measured saving rates have fallen. In the mid-1990s a slew of academic papers fretted about inadequate saving rates. In particular, work by Douglas Bernheim, an economist at Stanford, suggested a dramatic undersaving by most households.

A second group of studies, pioneered by Eric Engen of the Federal Reserve, Bill Gale of the Brookings Institution, and Cori Uccello of the Urban Institute, built more sophisticated models of optimal saving, and painted a less gloomy picture. The most recent, and optimistic, study, published in January 2004 by John Karl Scholz and Ananth Seshadri of the University of Wisconsin, and Surachai Khitatrakun of the ERS Group, a consultancy, argues that 80% of American households have more accumulated wealth than they need.

But these studies make a number of rosy assumptions. First, they include individuals' equity in their house as part of their financial assets. That may be a mistake not just because the recent run-up in house prices could prove to be a bubble, but also because houses are lumpy assets. Not all old people will want to sell their house to finance their retirement consumption. If only half an individual's house equity is included, the most optimistic study suggests that just under 60% of American households have adequate savings-a dramatic change.

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Second, these studies assume that future state pension benefits will be paid as promised. Given the budgetary pressures posed by the baby-boomers that looks unlikely. If Mr Bush succeeds in passing social-security reform (a big "if", at present), some form of benefit cut is almost certain to be part of it. For poorer Americans, any cut in promised pension benefits would sharply reduce the adequacy of their saving today. Projected payments from social security exceed the value of all other financial assets for the bottom one-third of the income distribution.

A look at Britain, where the government's level of pension provision is set to replace a much smaller proportion of earnings than in America makes the point. A recent report by Britain's Pension Commission argued that, given downward trends in the occupational pensions provided by employers and the erosion of state pensions, 60% of workers over 35 are not saving enough.

A return to saving?

In all of these analyses much depends on assumptions about the rate of return on savings. In recent years, the biggest difference between high-saving and low-saving OECD countries has been the return on assets. As a recent report from the McKinsey Global Institute points out, between 1975 and 2003 asset appreciation was responsible for almost 30% of the increase in the value of household financial assets in America, whereas in Japan high saving rates made up for negative returns on assets. Based on current rates of return and saving patterns in big industrial economies, the McKinsey study takes a dim view of the adequacy of global wealth accumulation. But it notes that more saving is an unhelpful prescription for countries that already save a lot, such as Germany. The answer there is to raise returns on saving, through financial and corporate restructuring, greater competition and so forth. In other words, these economies need to become more Anglo-Saxon.

In low-saving Anglo-Saxon economies, by contrast, raising people's saving rate must be part of the mix. But how, if at all, can governments encourage people to save? Monetary policy is one tool, albeit a blunt one. In recent years, unusually low interest rates have encouraged borrowing and caused asset bubbles, particularly in Anglo-Saxon economies. While this consumption in the short term supported the global economy, it has accelerated the saving decline. A return to more normal levels of interest rates ought to boost saving.

Another approach is simply to force people to save more, for instance by introducing compulsory contributions to new pension accounts. Australia and Switzerland have both done this. (In Australia's case the impact on saving is not clear cut: the saving rate has fallen nonetheless, though arguably by less than it would have done without the mandatory component.) While compulsion may be an important possibility for extreme low-savers, it is decidedly illiberal and most countries have tried to encourage rather than compel more saving.

Their main route has been the tax code. Income-tax systems deter saving by taxing the returns twice (first when the company makes a profit and again when an individual receives the investment income). From the perspective of maximising the incentive to save, the best policy would be a wholesale shift to a consumption-based tax system.

But no OECD country has done this, although many raise some revenue from consumption taxes. Instead, policymakers create incentives for saving within the income-tax system. Most industrial countries offer some tax-sheltered retirement-saving accounts. One OECD study suggests the typical rich country offers a subsidy worth

20 cents for every dollar in these retirement accounts. America, with a subsidy of 27 cents on the dollar, is 10th highest. This subsidy costs over 1% of GDP in forgone tax revenue, considerably more than the country's total personal saving. These subsidies make sense only if they are encouraging saving that would not otherwise take place. The evidence for this is mixed, at best. Studies suggest tax-favoured retirement accounts essentially divert existing saving or encourage only modest new saving.

By giving a break on progressive income taxes, these accounts give a fatter subsidy to richer people who are more likely to save anyway. In most countries, the tax system discourages poor people (who are more likely to be low savers) from thrift. In America, eligibility for welfare assistance such as food stamps is phased out if a couple has assets over $3,000. In Britain, the means-tested pension credit, designed to help pensioners, has the perverse result of making saving for workers on moderate incomes a foolish idea. For every pound of savings income they can incur marginal tax rates of at least 40%.

Housing is another area where the tax code distorts saving behaviour. Mortgage-interest deductions and exemptions from capital gains for residential property both favour excessive saving in property. John Makin, an economist at the American Enterprise Institute, reckons that America's tax breaks for property will cost around $1 trillion over the next five years, a huge drag on the budget and hence national saving.

Decisions, decisions

Rather than focusing on tax incentives, recent economic research suggests politicians ought to look harder at what stops people saving. A slew of studies by behavioural economists suggest people are deterred from thrift by the decision-making involved. Poorer people, for instance, are more likely to be enrolled in private retirement plans if that is the employer's default option than if workers have to elect to enrol. In one study by Brigitte Madrian of the Wharton School, University of Pennsylvania and Dennis Shea of the United Health Group, shifting to automatic enrolment raised participation among poorer workers from just over 10% to 80%. Other studies suggest that people will raise their saving rate as their earnings increase, provided these increases are automatic. Behavioural economics suggest many intriguing policy ideas, such as encouraging employers to make membership the default option for pension plans.

None of these changes will dramatically increase household saving rates. But they will make it easier and more attractive for those who are saving least to put aside some money, while at the same time reducing the fiscal burden of misplaced tax subsidies to the rich. Poorer people, government budgets and national saving rates would all see some benefit.

Taken from:

The Economist, April 7, 2005

NEW GROWTH FACTORS AND EU INTEGRATION

Information tehnology revolution, undermining in decades the foundation of the traditional economy relying on the classical growth factors, has led to the stage of "knowledge-based society", which depends on the new growth factors - information and knowledge

Zlatka Popovska

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The modern history of economic development has no example of a country with dynamic growth rates and export expansion founded on the growth of competitiveness of products and services, without having its long-term development strategy anticipating the accelerations of the technological progress. Convergence of growth rates of a less developed country towards the rates of the more developed ones is only possible via a long-term effort in the realization of the strategic goals situated on the trajectories of the modern developing tendecies.

1. Strategies as an answer to global challenges

Advanced countries, as well as large number of developing countries, develop own strategies as an answer to the deep changes brought by both the globalization and the digitalization. IT becomes connective tissue between different players, sectors, states. It continuously increases the efficiency of using growth factors, with a string effect over the growth of the general productivity. IT revolution, undermining in decades the foundation of the traditional economy relying on the classical growth factors, has led to the stage of "knowledge-based society", which depends on the new growth factors - information and knowledge. Development of the "knowledge-based society", or "knowledge-based economy", is a real transformation process supported by long-term strategies, programs, policies on regional, national and international level. According to the data from the World Bank, in the last fiftheen years, braches based on knowledge in most of the OECD countries have realized increase in the value added by 3.5% in average, which is above the general economic growth of 2.3%. The share of these branches has also been increased in the total value added: in Germany from 51% to 60%, in Britain from 45% to 51%, in Finland from 35% to 42%, etc. Half of GDP in the OECD developed economies results from the knowledge-based activities.[1]

Acumulation of knowledge opens, or creates, possibilities for capital formation. Modern theory (for instance, Romer's model) emphasises the priority importance of

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

1) According to: B. Lundvall: "The Learning Economy", Conference on "Structural Change and the Regulation of Economic Systems", Paris. Also see: "The Knowledge - based Economy", OECD/ GD/ 102/1996; R. Mansel and U. When: "Knowledge Societies: Information Technology for Sustainable Development", Oxford Universty Press, 1998.

the investments in the development of human capital. Empirical data on the advanced countries register the fast growth of non-material investments in relation to the growth of investments in fixed assets. These countries realize the concept of sustainable development being a strong correlation between the productivity growth rates and the investment growth rates in the education, and the economic growth rates.

It is the knowledge that creates innovations. On the world market, the race with the competition is a race through inovations. Their creation is least an exclusivity of the talent of individuals - they are created and diffused as a permanent activity of the companies that adhere to the criteria of the world productivity. Therefore, innovation policies are in the center of the interest of the industrial policies on national, regional and international level. Particular priority is given to the development of the network of relations and players, whose interaction depends on the upgrading of the innovation capacity of a single economy. This network encompasses the companies, scientific institutions, various agencies for innovation support and expansion, as well as government bodies and authorities responsible for different aspects related to innovations. Their connection and cooperation becomes new growth and development factor.

In the time of globalization, export strategies are inseparable from the innovation strategies. No long-term export success can be presupossed without recognizing the innovations as basis of the competitive ability of a company or firm. National policies place the international (rather than national) competitiveness in the center of the interest, dictated by the production and diffusion of high technologies.

Theory and practice equally confirm the penetration of both the knowledge and the information as new growth factors, which completely change the very bases of social life, communication and organization. Globalization reinforces these changes. Thus, it is generally known that if classical growth factors are exhausted, i.e. quantitative increase of the employees and capital cannot be the driving force of the commitments for export expansion, faster growth and sustainable development. Therefore, both the transition countries already part of the EU, and those being candidate countries, are in the process of creating their strategies and policies that anticipate the contemporary tendencies of development of the knowledge-based society. The road to adjustment to these new changes is very long. However, postponing its begining is a threat of permanent development marginalization of a country.

2. Roots of lagging behind of the Macedonian economy

It has become clear with the beginning of the IT revolution that the concept of predominant relying on the natural comparative advantages needs to be gradually abandoned. Predominant relying on the natural resources and the cheap labour force do not anymore generate increase in employment, productivity and competitive export on the long run.

Republic of Macedonia, in decades, sets the exoprt increase as a strategic direction. At the same time, it has underestimated the causality of the technical and development changes in decades. High price of underestimating this causality was delivered to us by the assessment of the criteria of the world market which our companies faced in the transition process. The "opening" meant collapsing of a lot of firms, but at the same time it was supposed to be a lesson that adjustment to the world competition was not possible without adjustment to the new growth factors and the productive production structures relying on them. Our production structure is mainly relying on the classical techologies being energy intensive and based on raw-material. Export part of such structure faces competition of the modern production structures based on new and high technologies, raw-material and energy non-intensive, but technologically and scientifically intensive structures. Therefore, positioning of the Macedonian export and competitivness of the Macedonian products at extremely unsatisfactory level, as well as the absence of permanent development effect from the international trade are logical.

According to the data from the World Bank, in the last fiftheen years, braches based on knowledge in most of the OECD countries have realized increase in the value added by 3.5% in average, which is above the general economic growth of 2.3%. The share of these branches has also been increased in the total value added

BOP deficit sizeis is largely a result of the obsolete and non-productive structures. Technological capacity of the business sector is at unsatisfactory level, reflecting the overall weakness of the economic and institutional capacity, followed by low economic growth rates. Techological capacity is actually a unity of the production, investment and innovation capacity. Weaknesses of the production capacity are evident in the insufficient labour productivity, competition and profitability. Reasons for the insufficient domestic investment capacity are also reasons for the low level of foreign investments. Consequently, innovation capacity of the business sector plays a small role in the increase of its competitive ability. It also corresponds with the insufficient allocations to the education and training in the problems posed by the new age, with the long-term stagnation in the allocations for R&D as a percentage of GDP (in some years, only 0.3%), with the weak patent production (which is an indication of the ability to create innovations), with the pooor utilization of Internet (which is taken as an indication of the technologies spread), etc. Legging behind the modern technological changes is most closely realted to the depth of the development gap that divides us from the developed world.

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Undoubtedly, contemporary development changes face Macedonia with the challenge to seriously turn to the significance of the new growth factors. They face Macedonia with the challenge of more emphasized orientation towards the development of the acquired comparative advantages compared to the utilization of the natural comparative advantages. However, turning to such policy is just the beginning of a long-lasting battle to overcome the extensive growth factors and adjust to the new tendencies. Such battle deserves a long-term strategy, the continuity of which will not depend on the policy cycles.

3. EU integration, an opportunity to change our attitude towards the new growth factors

The road towards EU memberships is also the road towards changing our social attitude about the importance of the new development factors, being a priority for the knowledge-based society. Macedonia has set the objective - EU membership - as its national priority, being supported by a national consensus. Nine-year effort to join the EU is expected to yield its ultimate rezult at the end of this, orthe begining of the next decade. However, joining the EU will not only be a historical day, but primarily a beginning of a historical stage in which Macedonia will commence building its modern economy. Approximation to EU and becoming its member is a complex transformation process, which has to cover all spheres of the economic and social organization and action. It does not only mean application of standards, directives or agreed programes for reforms in the vital development sectors, but also a process of creation of the bases for self-generation of the growth factors, self-adjustment to the challenges of the global competition.

Particular stimulating force to change our attitude towards the new changes is the possibility to follow and and participate in the EU collective management mechanisms in this field. Some fo them are of obligatory nature expressed through policies, programs, overview tables, monitoring and examining the progress in different areas. Transition countries that have already become EU members, as well as the countries that are certain to become members, are included in the European policies for the most important segements in the building of the knowledge-based societies. All these countries have started to follow the changes that lead to realization of one of the most important tasks of EU: increase of its role on the world market, i.e. deminishing of the gap that distinguishes EU from the USA and Japan.

In 2000, European Commission at the Lisbon European Council set the following strategic objective: by 2010 the European Union to become the most competitive and most dynamic knowledge-based economy in the world with sustainable economic growth, larger number of working posts, as well as greater social cohesion. The essence of the Losbon proposal is the innovations. With respect to the innovation policy domain, the European Union has adopted series of important documents of strategic significance. In 1995, the basic document Green Paper on Innovations was adopted. Three global objectives were set: innovations are the key for the European competitivness; innovation policy should become new type of horizontal policy interfacing with many other traditional policies; activities at European level will supplement the national efforts in the field of innovations. The three listed objectives of the innovation policy were defined in 17 specific areas in the Innovation Action Plan that followed in 1997. The Action Plan has become policy and institutional framework for the European innovation policy.

The realization of such long-term complex multi-dimensional and multinational projects requires high level of coordination. Therefore, within the collective mechanisms, new European management model[2] was introduced: European Trend Chart on Innovations. This new model of open coordination has become an instrument for spreading the best practices and for attaining greater convergence in the realization of the basic European objectives. It has become a model for the transnational learning process, having effect on the strengthening the overall innovation capacity in the whole European area. It is a summary table of the objectives of the policies, i.e. the measures. Information on the measures of innovation policy is continuously collected, and each country submits Country Report, supplemented with the administrative and legal context of its policy. A step forward is the adoption of the European Innovation Scoreboard in 2000, as a stronger impetus for mobilization of the energy in the realization of the innovation objectives. It is a part of a system of changes, also encompassing the European Competitivness Report and the Enterprise Chart. There are 20 relevant performance indicators of the European innovation policy, groupped in four areas:

- human resources;
- knowledge creation;
- knowledge transfer and application and
- financing of innovations, results from innovations and markets.

Selection of these indicators is coordinated with the structural indicators and the reasearch policy indicators. European Innovation Scoreboard offers a possibility to observe the general national innovation development via the overall indicator called summary innovation index. According to this index, Sweden and Finland remain innovation leaders within EU, whilw from among the new member states, the leaders are Slovenia and Estonia.

All EU member states, as well as the candidate countries, for four years now present their results according to the listed indicators, monitored by qualitative analyses, periodical monitoring assessments and examination of the gained results. It is an obligation for each country. At the same time, it is also a stimulating force for each country to take continuous care pf the new changes and to follow and compare them with the European changes.

Table 1 presents the results in 2004 (Innovation Scoreboard) for the transition countries, showing their position in relation to the European average. Legging behind of the analyzed transition countries in relation to the European average is estimated from the point of view of the strategic objective fo the EU for development of the economy relying on knowledge, capable of winning the battle with the competitive leaders even in this decade. Therefore, EU strives to apply mora active policy to increase the innovation capability of the whole European area, also encompassing the increase of the assistance to the countries being new EU member states.

Positive results have already been visible. Monitoring the dynamics of the changes in the indicators in the last four years show faster dynamics in the new member states, compared to the EU countries - 15. Although such improvement is mostly related to the changes in the legislative, regulatory and administrative surrounding as part of the reforms oriented towards market economy, it also covers the first efforts in the development of the national innovation capacities. "However, they are still lagging behind in the growth that relies on innovation and knowledge. Policy framework by 2010 is much more challengeing than the regulatory regimes for adjustment to the market economy. Building up much powerful national innovation systems in a competitive surrounding of enlarged Europe will require creation of number of new interfaces between the private and the public players, between the demand and the supply for investments and innovations and between the domestic and the foreign markets".[4]

Balance of payment deficit size is is largely a result of the obsolete and non-productive structures. Technological capacity of the business sector is at unsatisfactory level, reflecting the overall weakness of the economic and institutional capacity, followed by low economic growth rates

New member states have a broader domain of activities. Facing the new challenges requires strategic reply in many areas, such as for example the construction of appropriate institutional infrastructure. Part of this infrastructure in within the hands of the governments. In the Czech Republic, R&D Council has a special role as a government body. Ministry of Education and Ministry of

2) See: P.Lowe: "The European Trend Chart on Innovation: A Policy Learning Tool", European Commission DG Enterprise, Innovation Policy Unit, 2003.

3) 2003 European Competitiveness Report, SEC (2003) 1278; "Towards a Euroepan Research Area- Science, Technology and Innovation-Key Figures 2003-2004"; Luxembourg : OPOCE, 2003- 96 pp.; "Investing in Research: an Action Plan for Europe", Luxembourg: OPOCE, 2003- 76 p.- known as the "3% Action Plan".

4) Quoted according to: "Innovation Policy in Seven Candidates Countries: the Challenges, Bulgaria, Latvia, Lithunia, Malta, Romania, Slovakia, and Turkey", European Commission Enterprise, DG, March, 2003, no.

Performances of the transition countries, EU member states and candidate countries according to the European Innovation Scoreboard

INDICATORS	EU-25	EU- 15	Czech R.	Estonia	Hungary	Latvia	Lithuania	Poland	Slovakia	Slovenia	Bulgaria	Romania
1.1. Graduated high-school students	11,5	12,5	5,7	6,6	4,8	8,1	14,6	8,1	7,8	9,5	11,7	5,8
1.2. Working-able population with tertiary education	21,2	21,8	12,0	30,4	15,4	18,2	23,2	13,8	11,8	17,8	21,3	9,6
1.3. Life-long learning	9.0	9,7	5,4	6,2	6,0	8,1	4,5	5,0	4,8	15,1	1,4	1,3
1.4. Employment in high technology processing sector	6,60	7,10	8,71	3,35	8,27	1,85	3,03	-	8,00	8,94	4,66	5,32
1.5. Employment in high technology service sector	3,19	3,49	3,18	2,32	3,14	2,31	1,66	-	2,54	267	2,69	1,45
2.1. Public allocations for research and development	0,67	0,69	0,47	0,55	0,66	0,25	0,54	0,46	0,25	0,62	0,40	0,15
2.2. Allocations for research and development by the business sector	1,27	1,30	0,75	0,22	0,36	0,17	0,14	0,13	0,31	0,91	0,09	0,23
2.3.1. High technology patents registered in the European Patent Office	26,0	30,9	0,5	2,6	4,0	0,5	1,3	0,3	0,9	3,4	0,6	0,2
2.3.2. High technology patents registered in the American Patent Office	9,4	11,2	0,2	1,1	0,5	0,3	0,0	0,0	0,0	1,5	0,1	0,0
2.4.1. Patents registered in the European Patent Office	133,6	158,5	10,9	8,9	18,3	6,0	2,6	2,7	4,3	32,8	3,7	0,9
2.4.2. Patents registered in the American Patent Office	59,9	71,3	3,9	2,7	4,9	0,3	0,5	0,4	1,9	8,4	0,8	0,2
3.1. Innovations in the domestic production of SMEs	31,7	32,1	24,6	36,9	-	15,9	21,5	12,5	12,5	18,3	-	-
3.2. Innovations of SMEs in corporate production	7,1	6,9	6,2	11,3	11,1	4,0	12,3	5,0	3,3	7,6	-	2,9
3.3. Export of innovations	2,15	2,17	1,07	1,43	1,40	2,56	1,74	1,84	8,09	1,28	-	1,32
3.4. Non-technological exchange	49	-	39	53	29	36	31	-	10,0	51	-	77
4.1. Venture capital in high technologies	-	50,8	27,8	-	8,0	-	-	6,6	50,0	-	-	-
4.2. Vanture capital in early stages	0,025	0,025	0,001	-	0,02	0,000	-	0,007	0,002	-	-	0,03
4.3.1. Production of products that are new on the market	5,9	5,9	7,2	4,5	1,4	-	4,3	-	6,6	5,3	-	7,8
4.3.2. Production of products that are new to the firms	16,8	17,1	7,3	5,4	4,9	-	10,6	-	6,2	4,9	-	1,6
4.4. Access to/application of Internet	-	0,57	-	-	-	0,00	0,07	0,27	-	0,45	-	-
4.5. Expenses for information and communication technologies	6,3	6,2	9,2	11,5	9,4	10,1	8,2	7,7	8,9	6,8	11,2	6,4
4.6. Production of high technology	12,7	14,1	7,1	-	16,0	2,8	8,1	5,7	5,2	13,3	8,6	5,2

Note: Data in teh Table are from MERIT, OECD and from the national databases.

Source: On the basis of European Innovation Scoreboard 2004, Comparative Analysis of Innovation Performance, Commission Staff Working Paper, COM (2004) 1475, 19.11.2004, Commission of the European Communities

Industry and Trade are engaged inthe implementation of the national innovation strategy, on the basis of which 2005-2008 National Innovation Policy has been adopted. In Hungary, under the management of the Prime Minister, the highest coordinative body in the field of science and technology is the Council for Scientific and Technological Policy. Research and Development National Office is responsible for the innovation programs, domestic and international R&D, cooperation, as well as survaillance of the network of Hungarian attachés for science and technology. Agency for managing funds for R&D is at the same time also responsible for monitoring their allocation. In Slovakia, the Minister of Education manages the government advisory body - National Council for Science and Technology. This Council works on defining and implementing the policies within the field of science and technology. EMS Development Agency is in charge of the development, transfer and diffusion of innovations in this sector. In Poland, three ministries play significant role in the field of innovation policy: Ministry of Scientific Research and IT, Ministry of Economy, Labour and Social Policy and Ministry of Education and Sports.

The first one is responsible for the development of the national scientific and technological policy, the second one for the development and promotion of the innovation policy, and the third one for the development of the education policy and the training systems. Implementation of the innovation polici is mainly a responsibility of the government Agency for Development of Enterprises. In Slovenia, it is the Ministry of Economy that is in charge of the innovation policy, while the Ministry of Education, Science and Sports is responsible for the support to the science. Two years ago, a law was adopted for establishment of two agencies, Scientific Research Agency and Agency for Development and Technological Research. In Estonia, Research and Development Council is under the management of the Prime Minister, dealing with strategic issues. Ministry of Economic Affairs and Communications, i.e. its Department for Innovations and Technological development is engaged in the field of innovations and technical development policy. In Latvia, the responsibility for defining and implementing the innovation policy is in the Ministry of Education and Science, Ministry of Economy and the Management Committee for National Innovation Program. Bulgaria, on the other hand, adopted its Innovation Strategy in 2004 - a document establishing the National Innovation Fund for support of innovations and research.

These are only part of the changes that are ocurring in these countries. According to the annual national reports on innovation policy, some countries have already been included among the European leaders on the basis of certain indicators for estimating the success on the path towards knowledge-based economy. For example, the Czech republic is among the leaders according to the indicator for employment in the medium and high-rechnological processing sector, Latvia and Hungary according to the share of expenses for information and communication technologies in GDP, Estonia according to the revenues from the sale of products that are new for the firms.[5]

New EU member states, from the stage of predominant orientation towards allocations for R&D, through the stage of orientation towards diffucion and transfer of technologies, today are entering the stage of predominant orientation towards innovation ability fo the business sector, within the development of national innovations systems.

Republic of Macedonia has not promoted active policy corresponding to these stages. More precisely, it has not started with the process of implmenting these changes, although the long-term disregarding of the challenges of the technological development is also in the roots of our current economic problems. Finally, will the path to EU lead to starting the implementation of these changes?

4. New policy towards own possibilities and potentials

Largest potential of Macedonia is the human capital, which, with its education, can show creativity necessary for the realization of the new growth policy. Starting point is the shaping of the social awareness about the significance of messages from the knowledge-based society in appropriate strategies and policies Macedonian aspirations for EU integration also mean readiness for inclusion in the European policies in various segments of the technological development. There are number of EU projects that include the transition countries via various programs. It also gives huge opportunity "to make all that it needs to be done" and to keep up with the changes the advanced transition countries are already making. This huge opportunity provides for the prospect to reduce the gap that separates us from the more developed countries, i.e. the prospect for gradual convergence in the key growth factors, as well as the very economic growth rates. The basic assumption to resond to these challenges is the strengthening of the management capacity at macro and micro level.

> **Transition countries that have already become EU members, are included in the European policies for the most important segements in the building of the knowledge-based societies. All these countries have started to follow the changes that lead to realization of one of the most important tasks of EU: increase of its role on the world market, i.e. deminishing of the gap that distinguishes EU from the USA and Japan**

Taking into account the indicated challenges arising from the EU policies, basic directions of the policy aimed at increase of our production, innovation and investment capacity, within the trajectory of the knowledge-based society, would be the following:

- investments in people;

5) According to Communication from the Commission, Science and Technology, the Key to Europe's Future- Guidelines for Future European Union Policy to support Research, COM (2004) 353 final, 16.06.2004, Commission of the European Communities

- investments in IT and communication infrastructure; and
- development of business climate.

Most important domains of activities are the creation and application of new knowledge, innovations, as a well as strengthening of the cooperation. The scope of activities is broad and it has to be conceptualized via a system of long-term measures. For example, according to the European Trend Chart on Innovations and our innovation policy, the basic measures would be the following three priority areas:

Still, there is no strategy, no policy, no measure that can have success if the productive mechnisms are not active for the provision of equitable competition on the domestic market. This condition, being indispensible, is the biggest test for the management capacity of a country

- spreading the innovation culture (with sub-areas: education and training; mobility of students, researches and tecahers; raising social awareness and involvement of the stakeholders in the field of innovations; innovations and enterprise management; public services; promotion of merging and cooperation regarding the innovations)
- set up of appropriate regulatory framework for innovations (with sub-areas: competition; protection of intellectual ownership; administrative simplification; legal and regulatory surrounding; financing of innovations; taxes)
- transforming the research into innovations (with sub-areas: strategic vision for R&D; support to the research by the firms; new technology-based firms; intensification of cooperation between the research, universities and firms; support to SMEs to accept the technologies and know-how).

Still, there is no strategy, no policy, no measure that can have success if the productive mechnisms are not active for the provision of equitable competition on the domestic market. This condition, being indispensible, is the biggest test for the management capacity of a country. Without equitable competition there is no motivation for competition via innovations - no national policy, regardles of how European-orientied it is, can give results in conditions of ruling of monopolies and non-market structures in the economy.

THE CHALLENGES OF THE MACEDONIAN TRADE

Foreign trade policy must do everything to contribute in solving domestic economic problems

Snezana Delevska

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Globalization is a phenomenon of the world economy that shapes the planet and that gives new shape to practically any state, transforming every industry and touches everyday life. By creating solid connection and interconnection of national economies, it enables the world economy to act as a single complex organism with each national economy playing its own part. Hence the international cooperation is of great importance.

According to the most recent estimates, above 50% of the world GDP is created in the industry, which has been significantly overwhelmed by globalization or is joining these processes. Also each industrial production where production costs decline by at least 20% at each doubling of volume is considered as potential candidate to be overwhelmed by globalization, i.e. as business to imminently joining these processes. By 2027, the share of the global industry in the creation of the world GDP is expected to be 80%, i.e. out of the expected US$ 91,000 billion, US$ 73,000 billion will be created on global basis.

Despite the fact that globalization basically means integration and unity, still, this process has largely proven to be polarizing. Is the planed connected by companies such as Microsoft, Nike, Citigroup into a dynamic new system, that would ultimately save the poor from the long-year misery, or could it be that the common folks are now victims of the ruthless corporation domination, while these same companies are pursuing new profits at the detriment of the poor? Hence, many times the following question is raised - what had the globalization done, i.e. what it failed to do?

The architects of globalization are right - not only is the international economic inte-

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

Expected Globalization Trend by 2027
(value of world GDP in 000 billion of US$)

Industrial production	1997	2027 - estimation
Globalizied	6	73
Partly globalized	18	13
Local	4	5
Total	**28**	**91**

Source: Project 1464 documentation

gration good for the poor; it is essential. No country has even developed without trade. Examples include Asian countries such as Japan, Korea, Taiwan, China and their neighbours, which, in mid 70s saved around 300 million people from poverty, mainly via trade.

But globalization involves risks as well. By opening its economy, the state becomes more susceptible to the foreign "diseases". The countries that have liberalized their capital markets are especially sensitive, since the short-term capital that entered the country can flee it as quickly when the investor faces uncertainty. Therefore, the initial stage of gradual opening is especially important, i.e. the protection of the national economy. Guided by this objective, Mr. Dany Rodrick of Harvard used the data of Dollar and Crey so as to see whether the best measure of openness - customs rates - are in correlation with the growth. His conclusion was that countries with higher customs rates have faster growth. Rodrick states that the countries covered by his study started trading more since they had higher growth and became richer. He emphasizes that India and China began their trade reforms 10 years after the beginning of their higher growth. When a country opens, it requires more government control mechanisms, not less.

By 2027, the share of the global industry in the creation of the world GDP is expected to be 80%, i.e. out of the expected US$ 91,000 billion, US$ 73,000 billion will be created on global basis

In this context, the Republic of Macedonia, according to the principles of open market economy, achieved high level of liberalization. Under the free trade agreements with Serbia and Montenegro, Bulgaria, Slovenia, Turkey, Croatia, Romania, Ukraine, Bosnia and Herzegovina, Albania, EFTA Member States, as well as the Interim Agreement on Trade and Trade Issues with the European Union, 86% of the total trade of the Republic of Macedonia is carried out under preferential conditions of liberalized trade. Should we add the joining to the WTO (April 2003), it means almost full trade liberalization.

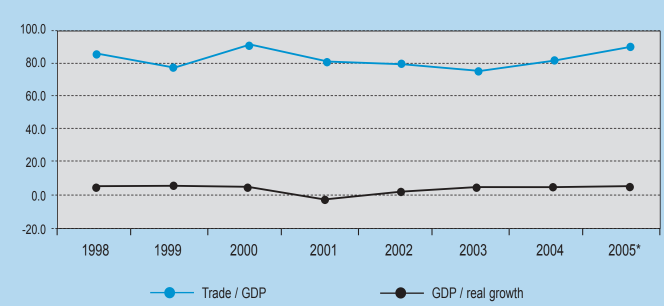
We will not be wrong to say that the Macedonian market is one of the larges in Europe. Certainly, export can be made to the "choosy" market if rules on origin of goods are fulfilled (having EUR1).

Indicators show that the Macedonian economy largely fulfils its needs for raw materials, intermediate materials and energy customs-free or with little customs burden. The insatiable need for imported goods of the Macedonian economy and the change of the domestic competition in certain markets enhanced the role of the foreign trade. Thus the index of economic openness undergoes upward trend.

In 2004, for production of US$ 1 of GDP, the Republic of Macedonia imported 52 cents and exported 31 cent. As a comparison, this ratio in 2003 was 47, i.e. 29 cents respectively.

But in addition to the ensured preconditions for enhancing and achieving the positive effects of trade the Republic of Macedonia cannot be content with the results achieved in the foreign trade, which, one should not forget, was exposed to excessively adverse trends in the past several years, caused by external and internal shocks.

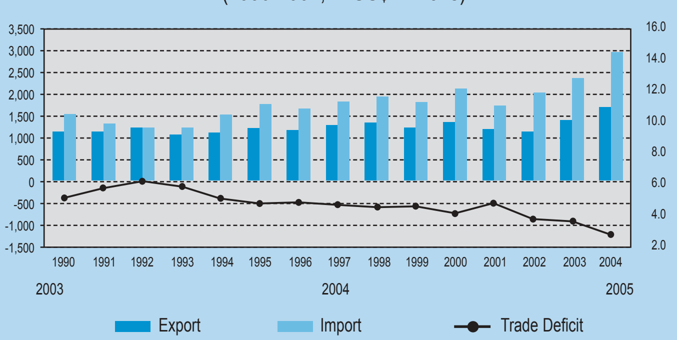
The rate of Trade oppeness and GDP
(in %)



Still, the results in the foreign trade achieved in 2004, especially the first quarter of 2005 give reason to be optimistic on the further trends. Thus the export of goods in 2004 in relation to 2003, in US$ equivalent increased by 22.4%. This growth is a result of the successful restart of several former largest loss-making companies, after they were sold to foreign investors. The first quarter of 2005 noted significant increase in the export of goods by 30.6% compared to the same quarter of the previous year, as a result of the enhanced economic activity of the business entities in the country. During this period, import increased by 12.8%, which lead to lower deficit than the one in Q1 of 2003 and 2004 amounting to US$ 217 million. Such trends conditioned improvement of the degree of coverage of import, amounting to 68.8% and is higher than the one in the previous year by 9.4 percentage points.

When estimating the export-related results, one should take into account that part of the growth of the export of goods reflects the depreciation rate of the average annual US$ exchange rate in relation to the euro and the domestic currency. In order to obtain more realistic picture of the export of goods, we will consider its currency structure, thus avoiding higher actual position on the basis of exchange rate differences. Part of the trade conducted in euros in 2004, compared to the one in 2003, was notably increased on the export side by EUR 202 million, i.e. around 25% which certainly instils

Foreign Trade
(1990-2004, in US$ millions)



Source: State Statistics Office

hope that slowly, but surely, we gain access to the European market. In addition, the structural share of euro in the overall export increased (at the expense of US$) by more than 6 percentage points in relation to 2003. At the same time, the share of trade conducted in US dollars notes significant decline on the export side by US$ 43.4 million or 10.2%.

In 2004, the resources the Republic of Macedonia obtained from the export of goods as a real inflow expressed in denars increased by 11.4% in relation to the previous years. If the US dollar share of the export in 2004 is reduced to the average US dollar exchange rate in 2004, loss in export could be observed by around Denar 1.9 billion or US$ 34.6 million. Reduced to the US dollar value, on the other hand, in 2002, this loss amounted to Denar 5.9 billion, or around US$ 91 million.

According to 2004 data, the Macedonian economy exports 31% of GDP (as a comparison: the export of Hungary, the Czech Republic and Slovakia for several years has been over 50% of GDP). The per capita export of Macedonia is US$ 826 and is among the lower in the region (as a comparison: Slovenia in 2003 made export exceeding US$ 6.390 per capita, while Serbia and Montenegro somewhat above US$ 353). The export is mainly targeted to Serbia and Montenegro, Germany, Greece and Italy and is 61.4% of the overall export of the country. Major part of the overall export, i.e. 38.2% is export from the labour-intensive industries, i.e. temporary import.

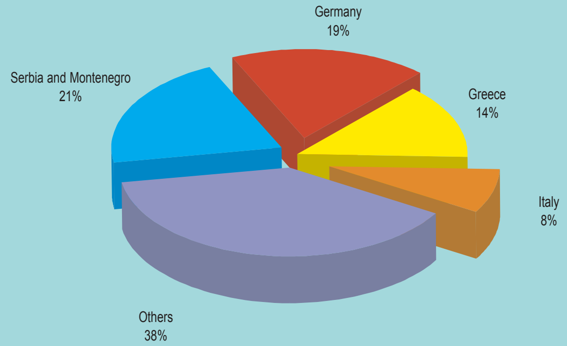
In 2004, as well as in the past several years, the export comprises the following: textile, iron and steel were most exported with respect to finishing products, while oil, tobacco, fruit and vegetables and beverages were most exported with respect to regular export. These six groups of products comprise around 70% of the total export of goods by the country.

FOREIGN TRADE of the Republic of Macedonia
(by currency)

Export	I-XII 2003				I-XII 2004					
currency	Export in currency	average Denar exch. rate in relation currencies	Export in Denar	struc-ture in %	Export in currency	average Denar exch. rate in relation currencies	Export in Denar	struc-ture in %	absolute change in currency value	relative change in currency value (in %)
EUR	812,485,677	61.2639	49,776,041,283	67.17	1,014,473,793	61.3377	62,225,489,169	75.39	201,988,116	24.9
USD	427,065,232	54.3031	23,190,965,974	31.29	383,580,000	49.4105	18,952,879,609	22.96	-43,485,231	-10.2
		EUR+USD	72,967,007,257	98.46		EUR+USD	81,178,368,777	98.35		
		Total export	74,108,375,247	100.00		Total export	82,538,885,662	100.00		11.4

In this context, the Hirschmann's index of concentration shows the degree of concentration or specialization of the external trade, i.e. the degree to which Macedonia

Main Trade Partners of the Republic of Macedonia

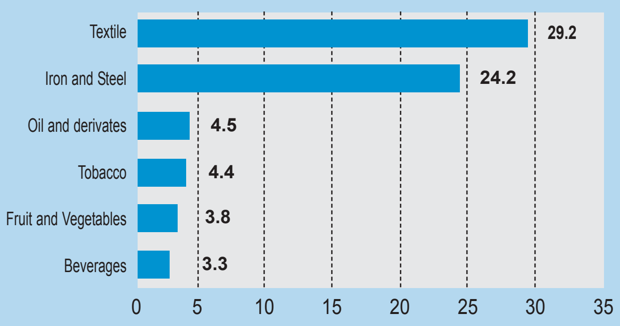


Source: State Statistics Office

has export-oriented high-quality internationally propulsive product, that would have greater share in the overall export. Actually, this index shows the new trends in trade.

Macedonia is among the first countries in the region measured by the level of the Hirschmann's index. Basi-

Export of Goods by SITC
2004, (%)



Source: State Statistics Office

cally, the increase of the Hirschmann's index means improvement in trade via modernization or export of technology-intensive products. But is this so in the Macedonian economy?

Starting from the fact that it is a matter of products including, or being added low-qualified or medium-qualified labour, and not of products with high specialization, it is rather difficult to assess the Hirschmann's index: clothes, iron and steel still comprise more than half of the overall Macedonian export. Therefore, the reduced Hirschmann's index in 2002 and 2003 (12.7%, i.e. 13.9% respectively) is a result of the cancelled temporary import deals by foreign partners (due to the security crisis). In the first quarter of 2005 the Hirschmann's index

Value of export and Hirschmann coefficient of export concentration

	1999	2000	2001	2002	2003	2004	Q1 2005
Value of export (in mil. $)	1.191	1.322	1.155	1.112	1.359	1.672	355
Hirschmann's index	0,1452	0,1703	0,1507	0,1274	0,1391	0,1554	0,1839

Source: State Statistics Office

reached the highest value (18.4% and is above the index ofthe developed countries) above all, as a result of the improved conditions in the processing industry.

As a reminder: Hirschmann's index on the overall export, other countries in transition, 2001 data, in percentage: Romania 13, Bulgaria 13, Croatia 14, Serbia and Montenegro 9, (Macedonia 15).

This indicator is highly correlated to the indicator of the summary share of the ten leading groups of products in the overall export. This shows whether or how much Macedonia uses the comparative advantages. One must see the ranking of these products on the list of the world export, and then the marketability of our products can be seen.

As a reminder: list of world export of goods by groups of products with the largest share in 2003: iron and steel, ore and minerals, oil, chemical products, agricultural products, other consumer products, cars, machines and equipment, semi-finished goods, non-metal minerals, clothes, textile, telecommunication equipment etc.

In 2004 the exported goods in the first 10 production groups according to SMTK(3) is around US$ 1,003 million, being around 60% of the overall export, or, 40% of the overall export is in 229 groups of products.

1) Hirschmann-ov indeks na koncentracija se presmetuva kako: HIx= xi/X)2, kade i e broj na grupite na proizvodi, xi e izvozot od i, a X go pretstavuva vkupniot izvoz. Ovoj indeks varira me|u 0 i 1, (ili 0% i 100%), vo normalni vrednosti. Se smeta deka prose~niot indeks za zemjite vo tranzicija e okolu 0,16, a nad 0,17 treba da bide indeksot na razvienite zemji. Zna~ajno pomalite vrednosti indiciraat pomala koncentracija (pogolem broj na proizvodi pridonesuvaat so malo u~estvo vo strukturata na vkupnata trgovija), dodeka zna~ajno pogolemite vrednosti indiciraat pogolema koncentracija (nekolku proizvodi pridonesuvaat so golemo u~estvo vo vkupnata trgovija).

Regarding import, in 2004, 25.9% more goods were imported in relation to 2003 (expressed in denar equivalent, i.e. what the Macedonian economy actually paid is 14.5%). Thereby, there is increased export of iron and steel, oil and oil products, road vehicles, textile yarn, food products, above all meat, fruit and vegetables etc. One of the reasons for the greater import is a result of the higher crude oil price on the World stock market by 34.6%. In October 2004 the price reached the highest average level of US$ 50 per barrel. The data on the imported oil in 2004 could be used to calculate that for 1,049 tons per 2003 oil prices, it should have been paid US$ 40 million less.

Analyzed by branches, basic metals and food products and beverages accounted for the highest share in the import of 12%, followed by chemicals and chemical products the share of which was 10%.

According to the trends in the export and import of goods, the 2004 trade deficit, wxpredded in US$ equivalent amounted to US$ 1.230 million, i.e. 22.8% of GDP (on CIF basis). The tendency of negative balance in the free trade agreements with certain countries continues as well. Deficit in the foreign trade with Bulgaria (US$ 157.3 million), Slovenia (US$ 113.1 million), Romania (US$ 111.2 million), Ukraine (US$ 71.9 million) and Turkey (US$ (40.8 million) is around 40% of the trade deficit realized in the country in 2004.

Deficit in the trade with the European Union member states amounted to US$ 425.7 million, and the deficit in the trade with the EFTA member states was US$ 39.7 million.

Export of 10 major products by SITC

	SITC (3)		quantity (kg)	value ($)	the share in total export
1	842	Woman clotes	10,503,003	226,804,416	13.6
2	673	Flat-rolled products of Iron	403,042,670	169,105,389	10.1
3	841	Man clotes	5,798,188	156,476,230	9.4
4	671	Iron products	118,683,115	122,190,539	7.3
5	334	Oil and derivates	181,501,867	70,385,803	4.2
6	679	Pipes and profiles	78,142,053	58,109,002	3.5
7	121	Tobacco	15,849,967	57,854,639	3.5
8	851	Shoes	1,902,470	50,224,729	3.0
9	845	Other textile	3,414,601	46,157,837	2.8
10	844	Woman clotes, knitted	2,932,737	45,576,858	2.7
		Total (1-10)	**821,770,671**	**1,002,885,442**	**59.9**
		Total Macedonia	**2,108,191,018**	**1,673,487,078**	**100.0**

Source: State Statistics Office

Import of Oil and Oil Derivates

	2003	2004	saldo	in %
kg.	1.166.870.592	1.049.322.937	-117.547.655	-10,1
$	258.972.299	295.852.644	36.880.345	14,2
denars	14.062.998.647	14.618.227.088	555.228.441	3,9
1$ = denars	54,3031	49,4105		-9,0

Source: State Statistics Office

In addition to the increased trade volume in the past several years, this did not helped Macedonia to reduce the gap in the exchange. Very slowly, Macedonia leaves the peripheral area by trading with more complex products. We are still "prisoners" of the traditional comparative advantages, based on the abundance of cheap labour.

If the US dollar share of the export in 2004 is reduced to the average US dollar exchange rate in 2004, loss in export could be observed by around Denar 1.9 billion or US$ 34.6 million. Reduced to the US dollar value, on the other hand, in 2002, this loss amounted to Denar 5.9 billion, or around US$ 91 million

International experience and research point out that the key to resolution of these problems in trade is the concept of competitiveness. The important question is to what extent the competitiveness could solve the aforementioned problems. Still, there is general agreement that there is neither fast nor easy way to remove major factors of non-competitiveness.

In modern conditions, the phenomenon of competitiveness cannot rely on the traditional paradigm, the so called comparative advantages, but it must adjust to the international competitiveness, meaning capability of companies to build their own competitive position within the local national market, but according to international or globally accepted criteria (criteria of key factors of competitiveness). On the other hand, competitiveness from macro aspect means capability of the country to create value added and thus increase national wealth, managing the key resources appropriately to the economic and social model. It is also expressed via the capability to realize dynamic, but sustainable growth and development, which would not pose obstacles for future generations in the satisfaction of their needs.

The per capita export of Macedonia is US$ 826 and is among the lower in the region (as a comparison: Slovenia in 2003 made export exceeding US$ 6.390 per capita, while Serbia and Montenegro somewhat above US$ 353). The export is mainly targeted to Serbia and Montenegro, Germany, Greece and Italy and is 61.4% of the overall export of the country

Separate entities should first reach certain level of so-called national competitive capability, giving them initial market power to access the international market. Thus, regardless whether it is a matter of small, medium-size or large enterprise, it is imminent to establish a practise of full market determination in the development of business activity with deeper economic integration in the world market, via complex entrepreneurial and marketing engagement. This is a matter of international production which actually means that the enterprise should have control over certain production activity in more than one country, which is usually created via FDIs but also via various non-ownership engagements. Thereby the investments abroad and from abroad, unlike the pure trade do not end only on the initial transactions, but have broader horizon, since they mean a commitment for long-term relationships between participants located in different countries.

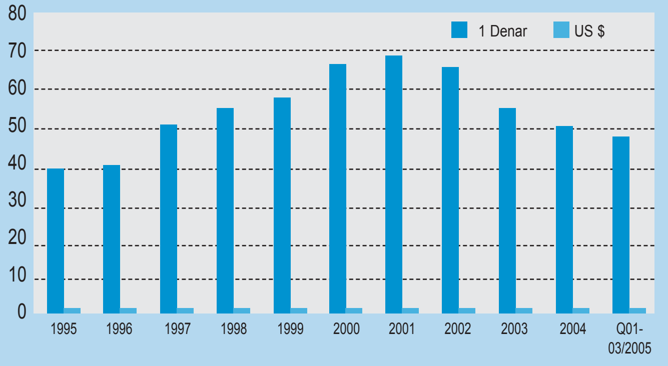
However, one must take into account that internationally mobile capital is wary in selecting the location it will stay on. In addition to the market size, the growing purchasing power, the resources, the labour costs and similar advantages, the investor also perceives risks he must bear in order to take these advantages. From this aspect, our country is still far from the risk-free zone and still falls within the group of countries ridden with high-level of corruption.

In this context, the price competitiveness is vital issue, and it is achieved via the domestic currency exchange rate, which is often criticised. We can agree that the exchange rate is not a factor that could turn a non-competitive economy into a competitive one, but if not realistic, it could pose obstacle for the competitiveness. Therefore, we believe that in the first phase the exchange rate should be fixed, even in conditions of greater external misbalance, to firmly pull down growth rates of the domestic prices and create conditions for permanent stability on longer term. The second phase should be under fluctuating exchange rate regime, with flexible adjustment, that would express the needs arising from the area of external equilibrium. Thus, one must emphasize that the internal economic equilibrium could be efficient only if the external equilibrium is not neglected. The third phase is again, the phase of fixed exchange rate, which is usually conditioned with the inclusion into the international integration, when a common currency is accepted and actually the sovereignty in conducting monetary policy is abandoned.

Within this context, economists consider that should the exchange rate be set on certain level providing equilibrium, than it is irrelevant whether it is fixed or flexible, since the consumption ensures production and productivity growth.

The so called non-price factors gain in importance for the competitiveness in the modern economy, such as the technology level and labour productiveness, quality, design, package, easy use, shelf life, safety, fast delivery, guarantee period, servicing, spare parts, buyer crediting, payment terms, company business reputation, product code and international certification, efficiency in promotion and advertising on various markets etc. The number of non-price factors is extremely big. One should not neglect the fact that the enhancement of sales volume under reduced prices gives only limited results on short-term. But the combination of the two factors, the price factor (exchange rate) and the non-price factor could give best results. The exchange rate could enable maintenance of the already acquired access by

Average exchange rate Denar/US$



Source: NBRM

exporters on the foreign markets and stimulating greater import.

This is also the case with our economy. Thus, the reasons for low competitiveness of the Macedonian economy are in the export structure, i.e. the quality of products exported by Macedonian companies. As previously mentioned, the export of the Macedonian economy is largely based on labour-intensive products with low finishing. Since the products with low finishing are cheap, their competitiveness is based on the price factors. At the same time, there is significant lack of information and knowledge in our companies regarding target markets. There is pressing need to make research of these markets.

From this aspect, FDIs are more important, i.e. new technological knowledge, educated labour force, establishment of contacts and gradual entrance in global trade network.

The so far exceptionally difficult access to credits, due to the expensive capital being three to four times more expensive than anywhere in the world, export insurance, especially against non-commercial risks, the inability to provide variable resources, largely affect the non-competitiveness.

The situation in the research area is also unsatisfactory. There is insufficient number of research centres. The level of professional knowledge of managers is insufficient so as to make a good start. The practise has shown that the companies having good management also show good results, growth, export and competitiveness.

The infiltration of the rule of law in all segments of life, the institutional stability and the definite victory of the principle of sub legem libertas are the basic preconditions for realization of the necessary leap forward.

In this context, the price competitiveness is vital issue, and it is achieved via the domestic currency exchange rate, which is often criticised. We can agree that the exchange rate is not a factor that could turn a non-competitive economy into a competitive one, but if not realistic, it could pose obstacle for the competitiveness

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Analysis of fiscal policy

Selection of appropriate concept to measure the fiscal balance is based on several factors: type of imbalance, scope (central government, general budget or public sector), method of accounting (cash-based or accrual-based), and status of the conditional obligations

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Measures of fiscal imbalance

In the economic literature and practice, there is no unique or best way to measure fiscal balance. Depending on the objective, in practice alternative concepts of fiscal balance can be used, defined in accordance with different analytical criteria. Total budget deficit or surpluss as percentage of gross domestic product (GDP) is most often used as a summary indicator of the fiscal performances, and it may be the widest accepted indicator to measure the fiscal position of the country. However, to have a clearer picture, this conventional measure could be supplemented with some, or with all other indicators, menioned in this article. In addition to the quantitative indicators, in order to ensure comprehensiveness, the summary indicator shoul also take into account the structural aspects of the fiscal policy, such as ae the revenue collection and expenditure realization. Qualitative indicators for execution of the fiscal policy, which are most often difficult to defin, and even more diffocult to determine, will not be considered in this analysis.

Conventional approach of presenting the deficit can be shown with the following equation:

$$D=G + iB + i^*EFg - T$$

where D = deficit; G = public expenditures; T = tax + non-tax revenues; i = interest rate on domestic debt; i* = interest rate on external debt; B = stock of public debt in domestic currency; Fg = stock od debt in foreign currency; E = nominal foreign exchange rate.

Selection of appropriate concept to measure the fiscal balance

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

is based on several factors: 1/ type of imbalance; 2/ scope (central government, general budget or public sector); 3/ method of accounting (cash-based or accrual-based); and 4/ status of the conditional obligations. Several indicators for measuring the fiscal balance will be shown below.

Most comprehensive measure of fiscal balance is the concept borrowing by the public sector. It is a conventional concept for measuring the fiscal balance for the overall public sector, which includes the net demand of financial resources by the public sector. This comprehensive concept of balance can be applied for each level of state administration. Borrowing from the central government and borrowing from the general government are part of the concept borrowing by the public sector. Calculations with respect to the borrowing from the central government actually can be made from the indicators for borrowing from the general government and from the public enterprises, with appropriate off-setting fo the transfers between sectors.

Current fiscal balance presents the difference between the current revenues and current expenditures. It is often used as an indicator of the saving of the government, i.e. as a measure of the contribution by the government sector in the overall saving. Still, there are limitations on the usfulness of this concept in the practical fiscal analysis. The concept is mainly based on distinguishing between the current revenues and expenditures. Capital expenditures include the purchase of assets that are expected to be used in the production for longer than a year. What should be also taken into consideration here are the capital transfers. All other expenditures are considered as current.

However, such distinction for classifying the expenditures as current and capital is arbitrary. Experience shows that the accepted concepts for distinguisning between the capital and current expenditures differ among countries, making it difficult to compare the public investments even between the large highly developed countries. Even more significant, the basic assumption that all investment expenditures of the country contribute to the development and therefore they are desirable, is questionable, since there is number of cases of public investment projects for which unreasonably lot of funds are spent, and have not given the expected effect. Spending funds for new investments at the expense of the expenditures for maintenance of the existing capacities, in certain cases can lead to reduction of the growth rate, instead of its increase.

Thus, although attractive at first sight, the indicator for current fiscal balance is not very useful. It is also not useful for analysing the effect of the fiscal policy over the external or domestic macroeconomic balance.

The concept of primary or non-interest fiscal deficit precisely measures the effects of the current discretionary budget policy. It is based on exclusion of the payments on the basis of interest from the conventional way of measuring the fiscal balance. In general, total payments on the basis of interest are substracted from the total expenditures so as to calculate the primary fiscal deficit. However, from a point of view of the concept, only net payments on the basis of interest (substracted from the income on the basis of interest) should be substracted. This primary fiscal deficit shows how current fiscal activities of the government influence the net public debt, and accordingly it is an important indicator for evaluating the sustainability of the budget deficits. It can be presented as follows:

Most comprehensive measure of fiscal balance is the concept borrowing by the public sector. It is a conventional concept for measuring the fiscal balance for the overall public sector, which includes the net demand of financial resources by the public sector. This comprehensive concept of balance can be applied for each level of state administration

D = G - T

or,

primary fiscal deficit/surpluss = conventional fiscal deficit/surpluss - interest payments

The concept operative deficit/surpluss is conventional deficit/surpluss minus the inflation part of the interest payments, or primary fiscal deficit/surpluss plus the real component of interest payments. Inflation reduces the real value of the stock of the nominal public debt, although the creditors are compensated by higher nominal interest rates. This type of compensation, most often called "monetary adjustment", is income from capital, not income on capital. In other words, part of the interest payments on the basis of government debt is actualy amortization (princiapl payment), and if this amount is not taken out from the total amount fo the interest payments, the deficit will be unjustifily increased. Amorization is recorded as outflow of funds in the part for financing the deficit.

The concept of operative deficit/surpluss overcomes this problem. This concept is especially important in countries with high inflation and large public debt, since it measures the level to which the fiscal policy influences the real srock of public debt in a certain time period. In conditions of high inflation, trends in the real public debt give much more clear picture of the sustainability of the fiscal policy, rather than the trends in the nominal public debt. In countries with high inflation, indicators obtained with the conventional and operative concept differ to a great extent, while their trends can move in completely different directions.

Operative deficit/surpluss can be shown with the following equation:

D = G + (i - ?) + i*EFg - T

where ? is the inflation rate.

or,

operative deficit/surpluss = primary deficit/surpluss + real component from the interest payments.

The concept of operative deficit/surpluss overcomes this problem. This concept is especially important in countries with high inflation and large public debt, since it measures the level to which the fiscal policy influences the real srock of public debt in a certain time period. In conditions of high inflation, trends in the real public debt give much more clear picture of the sustainability of the fiscal policy, rather than the trends in the nominal public debt. In countries with high inflation, indicators obtained with the conventional and operative concept differ to a great extent, while their trends can move in completely different directions

Sustainability of fiscal policy

When we can say that fiscal policy run by the state is not sustainable? Can we single out an operative indicator that can help the fiscal policy creators in the decision-making process when running the fiscal policy? In the past several years the issue of sustainability of the fiscal policy has attracted much of attention. Despite the fact that there is no generally accepted definition on what sustainable fiscal policy is, what is generally accepted is the interpretation that the fiscal policy is not sustainable if the current and future fiscal position result with steady and fast increase of the public debt expressed as a percentage of GDP.

Accordingly, key indicator of sustainability is based on the amount and rate of increase the public debt/GDP ratio. Practice in many countries shows that coninuouslu gigh percentage of public debt in relation to GDP on he long run is expensive to finance and inevitably becomes unsustainable, in which case it is necessary to revise both the fiscal and debt policy.

Such high percentage is not sustainable because it pressures the real interest rates, increasing the share of the rate of debt servicing in the total BOP deficit of the country, thereby narrowing the room for fiscal maneuver and fiscal policy flexibility. Most often the unsustainability of the high public debt/GDP ratio affects the change of the expectations on the financial markets, since the current policies lose their credibility, and it is necessary to revise them. Thus, changed expectations on the financial markets will to a great extent make it difficult, if not impossible, for the government to finance the debt by issuing bonds. In fact the market will relatively quickly recongize the unsustainability of such policy, and the higher the percentage of public debt in relation to GDP, the harder the government will manage to meet the fiscal targets. Therefore, the risk of monetization of the fiscal deficit increases, unless restructuring or full write-off of the debt is obtained.

Taking into account the said arguments, one can directly come to the definition on sustainable fiscal policy, according to which it is a policy that does not lead to increase of the public debt/GDP ratio, but rather contributes to its stabilization in conditions of reasonably acceptable real growth rates, interest rates and inflation rates. Although such criteria define relatively simple indicator for sustainability of the fiscal policy, it still has two basic deficiencies. First, in the economic theory, it is still not precisely determined which level of public debt expressed as a percentage of GDP is optimal. Most often, in practice, targets are determined for the public debt level on medium and long run. Second, experience shows that stabilization of the public debt/GDP ration can impose too much restrictive policies. In order to avoid too much restrictivness, the principle of solvency is applied.

Solvency as an indispensible requirement for fiscal sustainability is achieved when the public debt/GDP ration increases at a rate lower than the difference between the real interest rate and the real GDP growth rate. Accordingly, nominal debt can increase at a rate lower than the nominal interest rate.

Furher below we are going to have a look at three indicators enabling to assess the level of the necessary adjustment in order to meet the principle of solvency. These indicators show how much adjusment is needed to stabilize the public debt/GDP ratio. Thereby, insignificant level of seigniorage is assumed. However, it should be mentioned that these indicators are not supported with a formal definition on sustainability of the fiscal policy, but they are rather based on intuitive reasoning on the difference between the sustainable and unsustainable fiscal policy.

In 1985, Willem H. Buiter promoted the principle on positive net value or positive net wealth. Accordingly, sustainable fiscal policy is the one that keeps the ratio between the net wealth of the public sector and GDP on current level. Thereby, he calculated the permanent primary deficit necessary for realizing that objective. He presents it through an equation:

$$\bar{d} - d_t = (r_t - n_t)\, w_t - d_t$$

where dt is the ratio between the deficit and GDP, wt is the ratio between the net value and GDP, and nt is the growth rate.

This actualy shows the difference between the existing and the current primary deficit. If negative value is realized, it means that the current primary deficit is too high so as to be able to stabilize the rati between the net wealth fo the public sector and GDP, and in that case it is deemed that such fiscal policy is not sustainable.

Althought it is easily interpreted, Buiter's indicator has a great disatvantage because it is very difficult to acquire precise information on the real size of the net wealth of the government. Blanchard tried to overcome this problem, considering the change in the policies necessary to sustain the public debt/GDP ratio on the current level. He talks about two indicators for sustainability.

Indicator for measuring the primary gap presents the difference between the present discount value fo the primary deficit that would stabilize the basic ratio between the debt and GDP and the real realized primary deficit. If the gap is positive, then in order to stabilize the ratio between the debt and GDP it is necessary to tighten the fiscal "belt" on the side of the expenditures. This indicator is useful and it needs minimum information - the realized primary deficit, the basic ratio between the debt and GDP, the real interest rates and the production increase, i.e. GDP growth. It can be shown with the following equation:

$$d - d_t = (n_t - r_t)\, b_t - d_t$$

where bt is the ratio between the debt and GDP.

Negative value of this indicator points out that the current primary deficit is too high so as to stabilize the ratio between the debt and GDP, and that such fiscal policy is not sustainable.

Solvency as an indispensible requirement for fiscal sustainability is achieved when the public debt/GDP ration increases at a rate lower than the difference between the real interest rate and the real GDP growth rate. Accordingly, nominal debt can increase at a rate lower than the nominal interest rate

As an alternative approach, Blanchard points out to the indicator on medium-term tax gap. This indicator measures the necessary adjustment of the tax coverage necessary to stabiliza the stock of public debt in relation to GDP in the next N years, in conditions of projected trend of interest-free expenditures and transfers (expressed as percentage of GDP), real interest rates and growth rates. Medium-term tax gap is presented with the equation:

$$t_t - \bar{t} = t_t + (n_t - r_t)\, b_t - \frac{1}{N}\sum_{i=0}^{N} g_{t+i}$$

where gt is the ratio between the public interest-free expenditures and GDP.

The previous two indicators basicaly have the same concept, but the difference is that at the firts indicator the accent is placed on the reduction of the primary deficit to the end of debt stabilization, while at the second indicator, it shows the necessaru increase of the collection of taxes in conditions of defined expenditure policy.

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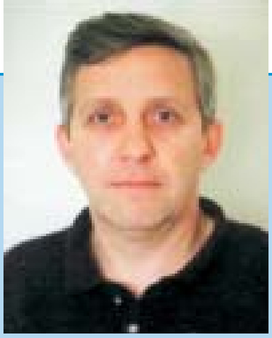
NEW BUDGET SOLUTION FOR THE YEARS TO COME



We prepare a proposal-solution for applicative product, which would be proprietary product of the Ministry of Finance, and with regard to the proposed concept, the product would be an e-Budget. Since the realization of this project requires specialist in certain areas, our concept envisages cooperation with national software company, on the principle of mutual cooperation

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Introduction

The least popular, but always the most respected ministry in every government throughout the world, the Ministry of Finance bears an enormous burden, since in addition to its many obligations, it also has the "trouble" of preparing the budget and pursuing the fiscal policy. This article will not deal with projections, policies and analyses, but is will be focused on representation of the use of the new information technologies that should assist in the budget preparation, aiding all participants in this process.

During the past 5 years, for the first time in the budget preparation process, a database was applied by abandoning MS EXCEL package in its final design, which immediately proved to be the only path on which the Ministry of Finance is focused. The new manner of budget preparation and its final design changed depending on the reforms underway, every year. The applicative solution changed as well, which during some budget years, due to lack of time, was only partial approach to the problem. Taking into account the fact that the budget is a process which will continue to be subject to changes and improvements, taking thereby into account the capacity, the possibilities and the knowledge of the employees in the IT Department, we always support a single possible option, the option of own development and sustainability by adjusting own needs.

The procurement of applicative package for budget preparation by domestic or foreign company bears the risk of additional costs, even for the slightest changes in the program each year. This should also include the costs for annual maintenance and especially the time of response of the preparer as the biggest problem in this process, since budget preparation is tied with deadlines. During budget preparation, the Ministry

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of Finance cannot just cancel the process and patiently wait correction of a deficiency or installation of new component while bearing the burden of tight deadlines and the time running.

In the pursuit of a solution, the Ministry of Finance in 2002 tried to resolve this problem by announcing a tender for procurement of applicative product, which proved to be over-expensive investment and an investment bearing many hidden costs for each year of its use. Hence, this attempt failed, i.e. the Ministry of Finance did not spend the enormous resources appropriated for implementation of this product.

Due to this, we prepare a proposal-solution for applicative product, which would be proprietary product of the Ministry of Finance, and with regard to the proposed concept, the product would be an e-Budget. Since the realization of this project requires specialist in certain areas, our concept envisages cooperation with national software company, on the principle of mutual cooperation, whereby the whole product remains a property of the Ministry of Finance and our partner will have the obligation to prepare the complete documentation and organize trainings for the employees which would maintain the applicative solution. This eliminates the maintenance cost and the cost of possible supplements and repairs of the product. This also eliminates the cost of training for the employees in the Budget Department, since these trainings will be organized and carried out by the employees in the IT Department.

New budget solution - objective, need and gains

The new applicative solution for Budget preparation should fully replace the so-far old solution, implementing, from technical point of view, the most recent IT developments, and from technological point of view, the present legal regulations and possible changes, the envisaged reforms, world standards, and recommendations. The safety aspect that the new solution should ensure, which is a separate task, should envisage implementation of the technology of electronic signature.

Eliminating weaknesses from the so-far applicative solution, the use of the possibilities offered by the latest IT achievements, above all for improvement of the budget preparation process, imposed the need of new modern solution.

The gains from the new applicative solution will be multiple and very significant in the realization of he overall process. The new solution will be modern solution, implementing all the latest achievements in the information technology, and thus fully satisfying the needs and expectations of the Ministry of Finance and of the budget users. Implementation of electronic signature will be confirmation for indisputability and confidentiality of data. Application of new technologies and tools for development and application of modern database IBM - DB2. In addition to the traditional access channel via the client-based applicative solution, WEB access channel is introduced, being part of the e-Government. The applicative solution will also enable access to other government bodies, openness for integration with other applicative solutions and data exchange with the treasury. This would enable, throughout the work, real-time updated status and the process of generating the requests by the budget users will be opened with a history of the entered changes and versification of the budget until its final preparation.

In other words, any change entered in the request by the budget user will be immediately updated and available to the budget analyst. The central database will be opened for the budget user until the moment of input and adjustment of its request and during the discussions and negotiations and adjustment of amounts of certain sub-items will be made. During the budget preparation, its final version will be made, i.e. certain budget versions will be kept, set on the basis of some critical points from its operations. Such approach will enable comparative analysis of different budget working versions. The final version of the budget will be made bi-lingual, in Macedonian and English, and the English version will alleviate data exchange and communication with the World Bank and the IMF. The overall solution that should ensure budget planning five years in advance will be fully documented, and the flexibility in the possible upgrading, the easy transfer in case of change of certain classification will be accompanied with minimum costs.

Technology of the program solution

The new applicative solution will encompass several functions in the overall process of planning and preparation of the budget. These functions refer to planning of the request of the budget user (via Internet, floppy disc or other medium) submission of data to the central database, analysis of the budget request, entering of the request as draft-budget, changes to the draft-budget and establishment of a final version of the budget.

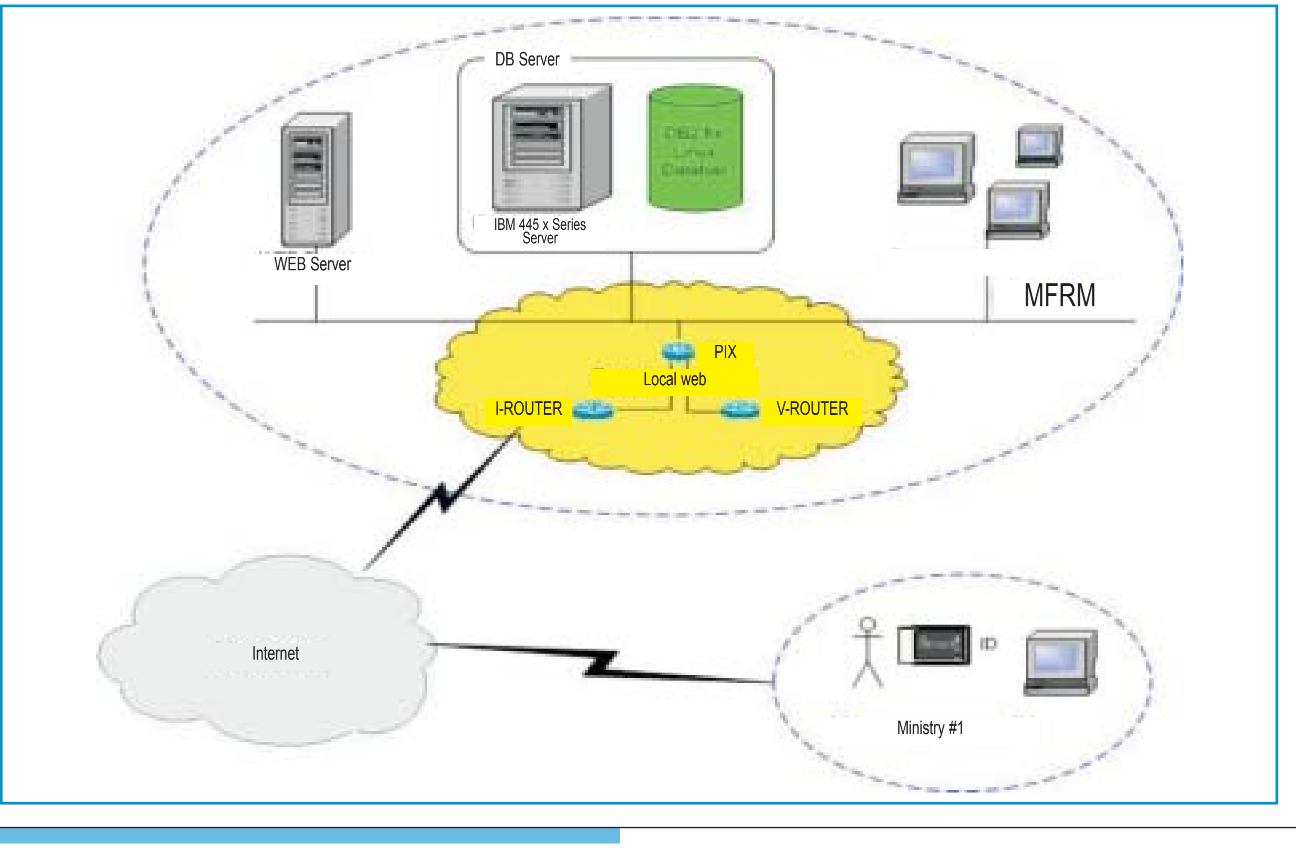
The preparation of the applicative budget solution will include the already set classifications:

- Organization classification;
- Program classification;
- Economic classification; and
- Functional classification.

The program concept envisages realization of the project on two sides, the budget user side and Ministry of Finance side, using thereby a modular approach in its functioning with interface via which the overall flow of information will be carried out, the so-called web service. The web service, which is a new gain enabling communication between two applications and containing fundamental set of functionalities based on the XML technology, will be installed on the web server of the Ministry of Finance.

On the budget user side, independent application is envisaged, which will be installed on the computers of the first-line budget users. The applicative solution will function with own relation database and will exchange data with the central database via various channels and media such as Internet, direct access and CD. The program will incorporate PKI safety technology of digital signature and verification of all data to be exchanged from and to the application, thus ensuring guarantee on the authenticity of the sender. Such approach enables the budget user a direct input and adjustment of its own request and budget planning for the next 5 years, which would be great alleviation for all participants in the budget process. In this case, the budget user will easily and simply submit data on the planned resources to the central system, using thereby all the codes from the central database. From the moment the negotiations are finished, when the budget process goes to the next phase, the analysis and planning phase at the responsible budget analyst, the central database for the respective budget user is closed until the publication in the Official Gazette of the Republic of Macedonia. From the moment of its publication, the budget becomes available for each

The procurement of applicative package for budget preparation by domestic or foreign company bears the risk of additional costs, even for the slightest changes in the program each year. This should also include the costs for annual maintenance and especially the time of response of the preparer as the biggest problem in this process, since budget preparation is tied with deadlines



budget user only in the reporting segment, in two versions in Macedonian and English language.

In the Ministry of Finance limited access application will be installed, only for the persons having digital certificate for signing the entered data. At the budget analysts, the access will also be limited only to the organizational codes being subject to their operations, so as to avoid any misuse of the budget preparation process. The Head of the Budget Department and the Minister of Finance should have access to all the reporting parts of the application. The budget analyst will have many functions that would enable easier planning and analysis of the budget request by the budget user. He/she would be able to download the respective request in the working version of the budget, make adjustments in the working version and generate versions for each budget user. The versification of data for each budget user would enable comparability of version and analysis of the data entered

The new applicative solution for Budget preparation should fully replace the so-far old solution, implementing, from technical point of view, the most recent IT developments, and from technological point of view, the present legal regulations and possible changes, the envisaged reforms, world standards, and recommendations

in the different versions of the budget. During the planning and analysis of data, the budget analyst will be able to make comparisons with all necessary ceilings, comparisons of the balance of planned expenditures and revenues, their allocation in programs, i.e. subprograms, as well as the balance of each separate account. The budget analyst will have the opportunity to access the reporting part by showing on the screen all the necessary reports and printing them.

Within the Ministry of Finance, specially authorized user will be able to set parameters of the system. Its basic task will be reporting other users in the system operating with the application, update of the codes, granting authorizations and privileges, setting a list of budget users according to the budget analysts, the possibility to generate working version of the budget and possibility to establish final version with budget review via all necessary reports.

The program solution for budget preparation will contain additional two modules, module for preparation of supplementary budget and module for preparation of the final account of the budget. These two modules will be installed only in the Ministry of Finance and will be available only for the budget analysts from the Budget Department.

When preparing the Supplementary Budget, all the possibilities given in the budget preparation will be present, excluding the aforementioned functions for the budget users. The need to implement certain data from the Treasury in the process of preparation of the Supplementary Budget, especially the final account of the Budget, gives the system, especially these two modules, a feature of openness in the exchange of the relevant information.

From the moment the supplementary budget or the final account are published in the Official Gazette, they will be placed on the website of the Ministry of Finance and will be available for any user.

The combination of parts of the system prepared in Open Source, parts based on Proprietary Software, as well as the ownership of the source code by the Ministry of Finance will certainly contribute to the flexibility, robustness and scalability of the system that would be able to respond to all present and future demands. From technical and technological point of view, it is obvious that verified and modern technologies are applied (Linux, DB2 UDB, Delphi, Web services, PKI).

Maybe someone would ask why these tools were selected? The answer is very simple. The Ministry of Finance, i.e. the IT Department has made great progress in the past four-five years. As an operative system of the server, we use the Linux, and in the meantime, via additional education and training, we gained several experts in this area (we take special pride in our RHCE - Redhat Certified Engineers), being the top in this area, so to speak. Also, with the help of the USAID we trained several persons precisely in the area of Linux, Delphi, DB2 UDB, and at the same time, we obtained assistance in the procurement of Delphi and DB2 UDB, which has weighted in favour of this platform.

Web services are standardised approach to certain services, regardless of the technology, so this segment is also in accordance with the technological trends. The last segment is the PKI (Public Key Infrastructure), which would actually gradually introduce new standards in the operations and is fully compatible with the efforts to activate any segment of the e-Government.

The certificates and the electronic signature will be distributed by the Ministry of Finance, i.e. the IT Department, thus fully eliminating the problems and costs of government institutions regarding the implementation process. The certificates will be issued according to the rules applying for a registered certificate issuer, but (at the beginning) there will not be any qualified certificates since they will not be issued on smart cards or similar device. The certificates will be issued internally, since the Ministry of Finance is not a registered issuer of certificates, but as I have previously mentioned, the gradual introduction of the concept and the use of the electronic signature would definitely contribute to introduction of government institutions with this technology and breaking many taboos.

There is an interesting world-wide trend which confirms our commitment for own development. In the online issue of Fortune1 , the article by David Kirkpatrick dated May 6 2005, states that according to certain research, 1990s were years of "one-size-fits-all" applications, such as SAP R3 and Oracle, but this decade would be a decade of personalized software solutions. An interesting data was also presented in the same article. This was the research presented by Ken Berryman from McKinsey company, showing a decline in the use of the two indicated packages and similar packages, as a percentage of the overall software-related costs. In the meantime, the software created by the companies for their own needs grew from 31% in 1998 to 42% in 2003.

Any change entered in the request by the budget user will be immediately updated and available to the budget analyst. The central database will be opened for the budget user until the moment of input and adjustment of its request and during the discussions and negotiations and adjustment of amounts of certain sub-items will be made

These numbers and statements, as strange as they may sound, are quite normal and expected for those acquainted with this situation, as well as for the analysts.

1) http://www.fortune.com/fortune/fastforward/0,15704,1058043,00.html

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EDITORIAL BOARD	Snezana Delevska Ljupka Mindoseva
TECHNICAL ASSISTANT	Gjulten Dalipovska
PRINT	Vinsent Grafika, Skopje
COPYES	400
TRANSLATOR	Zana Sokarovska Maja Petrovska

ISSN 1409 - 9209
Bulet. Minist. Financ.
03-04/2005