

National Bank of the Republic of Macedonia



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Macroeconomic developments in the Republic of Macedonia in the third quarter of 2005

The intensified activity in industry, trade, and agriculture, and the increased value of the transactions executed in the payment operations in the third quarter of 2005, signal further economic development, which, according to the projections for 2005, is expected to reach 4% p.a.

Despite the seasonal fluctuations in the industrial activity, in the third quarter of 2005 positive annual growth rates of the volume of industrial output were registered. In the January-September 2005 period, the industrial output went up by 8.2% relative to the same period of the previous year, which is still due primarily to the increased production of basic metals, metal products in the metalworking stage, electrical machinery and apparatus, and other non-metal minerals.

Price movements were again stable in the third quarter of 2005. In this period, low inflation rate of 0.8% was registered as a continuation to the low inflation in the second quarter of 0.9%. Such movements contributed to a moderate increase in the average inflation rate in the first nine months of 2005, which reached 0.4% (0.2% in the first half of 2005). This is primarily due to the increase in the costs in the category of transport equipment and services (partly in line with the increase in the retail prices of oil derivatives) and in the category of tobacco and beverages. Costs of food still register a decline, which significantly offsets the effect of the increase in the prices in the mentioned categories, contributing to the maintaining of a low level of inflation. The core inflation rate, which does not take into account the effect of the change in the prices of food and energy, equaled 1.23% in the first nine months of the year¹.

The favorable developments in the external sector continued also in the third quarter of 2005. The total foreign trade of the Republic of Macedonia in the analyzed period registered an annual increase of 11.1%, given the further faster growth of the export relative to the import of goods (of 14.5% and 9%, respectively) and the higher import-export coverage ratio. The higher supply of foreign currency led to net-purchase of foreign currency by the NBRM on the foreign exchange market, so that the denar exchange rate remained stable.

In the third quarter of 2005, increased financial intermediation was registered, by way of utilization of banks' own foreign currency funds and borrowing from abroad, given the decline in the banks' deposit base and the almost unchanged interest rate policy. In the third quarter of 2005, the total deposits of the private sector with banks dropped by 3.9% relative to the previous quarter, which is almost entirely due to the decline in the short-term denar deposits (of 21.3%, caused by the decline in the short-term denar deposits of one enterprise due to payment of dividends). The growing trend of the banks' credit activity continued in the third quarter of 2005. Thus, the banks' total placements to the private sector are higher by 4.5% on a quarterly basis, accompanied also by an increase in the credits in domestic and in foreign currency. The sector-by-sector analysis reveals that in the third quarter of 2005 most of the increased credit support pertains to long-term denar lending to the households sector and long-term foreign currency lending to the corporate sector, which is a positive impulse for credit growth acceleration, by incurring the demand and the investment activity.

¹ The calculation is made in the NBRM Research Department, according to own methodology.



1.

Prices

In the first nine months of 2005, the average inflation rate equaled 0.4%...

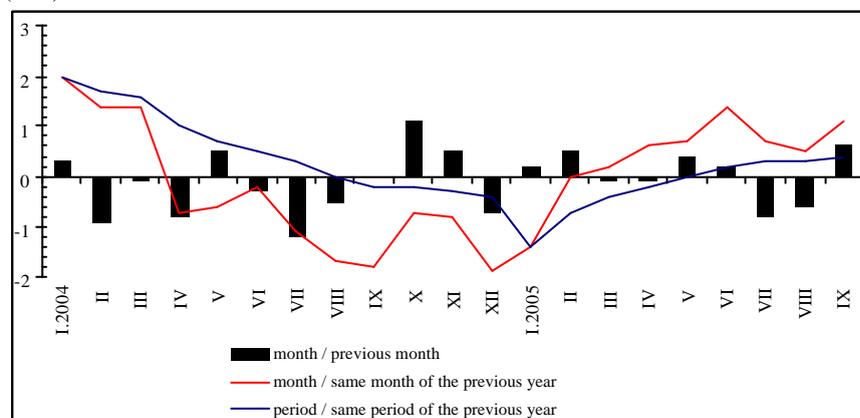
...and the core inflation rate equaled 1.23%

In the January - September 2005 period, the average inflation rate in the Republic of Macedonia equaled 0.4%, measured by the consumer price index. The registered inflation rate is a result of the higher costs in the categories of transport equipment and services, tobacco and beverages, and clothing and footwear, whose effect on the overall inflation was to a large extent offset by the fall in the costs of food², as a prevailing category in the structure of the inflation index³. The core inflation rate, which excludes the effect of the food and the energy, equaled 1.23%⁴ in the first nine months of 2005.

The increase in the category of transport equipment and services of 4.0% was mostly due to the higher prices of liquid fuels, in line with the multiple increment in the retail prices of the oil derivatives by the Regulatory Energy Committee due to the increase in the prices of crude oil on the international markets, as well as to the effect of the higher prices of PTT services, due to the low comparison base from the first half of the preceding year (the prices of PTT services were raised in July 2004, and they remained at that level also in the first nine months of 2005). The increase in the category of tobacco and beverages (5.7%) results mainly from the higher price of cigarettes (increment in the excise on these products in January 2005, due to its adjustment to the EU Directives). The increase in the category of clothing and footwear (2.5%) resulted from the higher prices of footwear.

The effect from the higher prices of transport services led to a higher level of costs of services (by 1.6%), as opposed to the minimum increase in the costs of goods (by 0.1%).

Figure 1
Consumer prices
(in %)



Source: State Statistical Office

Oil prices on the international markets

The growing trend of the prices of crude oil on the international markets, which started in the end of the second quarter, continued in the first two months of the third quarter of 2005. The decision of the OPEC member states on increasing the daily production of crude oil, taken at the beginning of July, did not yield the

² The fall in the costs of food reflects the effect of the decrease in the customs duties on the agricultural and food products, in line with the membership of the Republic of Macedonia in the WTO.

³ Since January 2005, the SSO has been applying a new structure of weights and contents of the index list, which, according to the methodology, is revised every five years.

⁴ The calculation was made in the NBRM Research Department, according to own methodology.

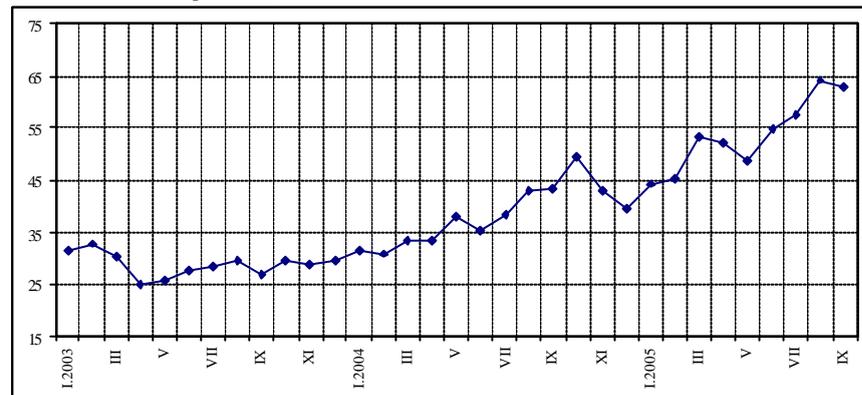


expected results, so that the oil prices, in global terms, continued to grow. Thus, in July, the average price of crude oil on the international markets reached US Dollar 57.6 per barrel (US Dollar 54.8 in June). The increase in the prices was accelerated in August, when the average price of crude oil reached the record level of US Dollar 64.3 per barrel. Dominant factors of the increase in the world oil prices in the first two months of the third quarter of 2005 were*:

- the unfavorable weather conditions (the hurricane season in the Mexican Gulf), which reduced the output of the American refineries located in this region;
- the reduced supply which is due to the fact that part of the refineries in the USA were out of operation as a result of technical problems;
- the need of cumulating reserves for the winter season;
- the political instability in Saudi Arabia, which disposes of one quarter of the total oil reserves in the world;
- the social unrest in Ecuador and the government decision to reduce the oil production;
- speculative factors (the uncertainty caused by the terrorist attacks in London in the beginning of July and the danger of possible termination of the export of oil from Iran due to the deteriorated international relations and the pressure for reducing the nuclear activities).

Figure 2

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



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

The quick rehabilitation of a large number of the refineries damaged by the hurricanes in the south of USA, the decision of the USA on activating the country's reserves of oil and oil derivatives, as well as the announcements of OPEC for increasing the production of crude oil by additional 0.5 barrels per day, are the main reasons* for the gradual reduction of the pressure on the oil prices, which registered a moderate decline in September, and were reduced to an average level of US Dollar 62.8 per barrel.

In the third quarter of 2005, the average price of crude oil was US Dollar 61.6 per barrel, which is by 48.1% more relative to the same period of 2004, i.e. by 18.1% relative to the average level in the previous quarter.

*CNN Money, Reuters, Associated Press and BBC News.

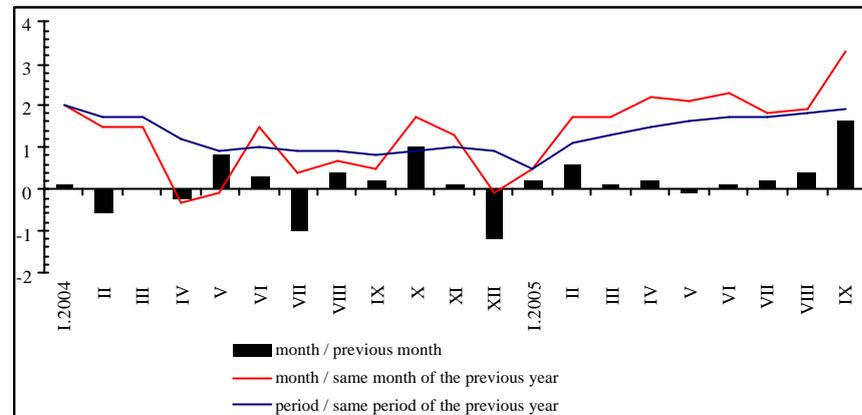
Average increase in retail prices in the January - September 2005 period of 1.9%

With respect to the monthly dynamics, in July and August monthly rates of deflation were registered (of 0.8% and 0.6%, respectively), under the influence of the seasonal decline in the prices of agricultural products, while in September an annual inflation rate of 0.6% was registered, which was mainly due to the increased fuel prices. Unlike the consumer price index (inflation index), the retail price index registered monthly growth rates throughout all three months (due to the higher fuel prices), with the highest monthly growth rate being registered in September (1.6%). Consecutively, the average growth of



retail prices in the first nine months of 2005 was also faster relative to the increase in the consumer prices, and it equaled 1.9%. That is due to the different weighting structure of these two indices, i.e. the effect of the higher prices of oil derivatives is more evident in the retail price index.

Figure 3
Consumer prices
(in %)



Source: State Statistical Office

Attachment 2

Inflation growth in the Euro-zone in the third quarter of 2005

In the third quarter of 2005, the average inflation rate in the Euro-zone, measured by the Harmonized Index of Consumer Prices (HICP) exceeded the level of 2%, maintained in the previous two quarters, and reached 2.3%. The higher inflation rate in the Euro-zone derives mainly from the increase in the prices of goods (of 2.4%), having in mind the fact that the growth rate in the prices of services does not register any major changes relative to its level in the previous two quarters (2.3%). The energy prices, which, as a result of the movement of the world oil prices, registered high increase, had the largest contribution to the increase in the prices of goods.

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

	Share in %	2004	Q.1 2005 / Q.1 2004	Q.2 2005 / Q.2 2004	VII.2005	VIII.2005	IX.2005	Q.3 2005 / Q.3 2004
Harmonized consumer price index (HICP)	100	2.1	2.0	2	2.2	2.2	2.6	2.3
Goods (total)	59	1.8	1.8	1.8	2.1	2.2	2.9	2.4
Energy	8.6	4.5	7.6	8.8	11.8	11.6	15.2	12.9
Unprocessed food	7.6	0.6	0.5	0.8	0.3	1.1	1.1	0.8
Processed food	12	3.4	2.4	1.6	1.6	1.7	2.3	1.9
Industrial products other than energy	30.8	0.8	0.3	0.3	0	0	0.2	0.1
Services (total)	41	2.6	2.4	2.3	2.3	2.3	2.2	2.3

Source: Eurostat and European Central Bank

Observed by months, the annual inflation rate in July and August was maintained at the level of 2.2%. Significant increase was registered in September, when the annual inflation rate reached 2.6%, mostly as a result of the high rise in the prices of energy and, to a lesser extent, to the increase in the prices of processed food (increase in the tax on cigarettes in Germany).

In the third quarter of 2005, the annual core inflation rate in the Euro-zone, excluding the most variable components (energy and unprocessed food prices), ranged from 1.4% (in July and August) to 1.5% (in September), indicating a very



weak indirect effect of the increase in the energy prices on the other components within the basic HICP.

The average inflation rate in the Euro-zone equaled 2.1% in the first nine months of 2005.

Source: Eurostat and European Central Bank

The prices of producers of industrial products were by 3% higher, on average, in the first nine months of 2005

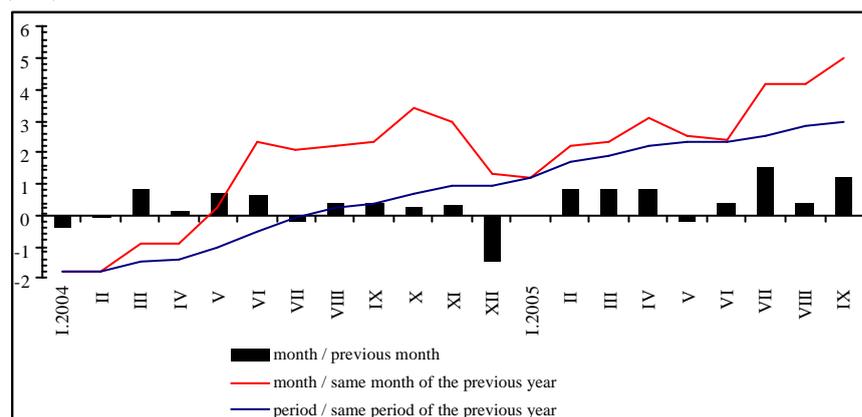
The prices of the producers of industrial products in the January - September 2005 period registered an average increase of 3%. The main driving force behind such increment were the higher prices of the producers of oil derivatives (by 30.3%), which is in line with the movement of the world prices of oil and oil derivatives. Besides the prices of oil derivatives, the higher prices of the producers of electrical machinery and apparatus (by 4.1%) had a more significant contribution to the increase in the prices of producers of industrial products. In the analyzed period, fall in the prices was registered only with the producers of food products and beverages (of 0.1%) and with the producers of textiles (of 0.5%).

Analyzing the movement of production prices classified by groups of products, the increase in the prices of producers of oil derivatives resulted in higher level of prices of the producers of energy (by 10.8%), while the increase in the prices of producers of electrical machinery and apparatus was reflected in the prices of producers of intermediary products, other than energy (of 0.8%).

The analysis of production prices by individual sectors indicates the dominant effect of the increase in the prices in the manufacturing, taking into account the unchanged level of prices in the electricity, gas and water supply sector and the minimum increase in the mining and quarrying sector.

The monthly dynamics of the production prices in the third quarter of 2005 is in line with the increase in the refinery prices of oil derivatives, with the most significant monthly increase being registered in July (1.5%).

Figure 4
Prices of producers of industrial products
(in %)



Source: State Statistical Office

Unlike the analyses of the effect of the domestic consumption⁵ on the inflation, made in the previous two quarters, when no clear affiliation between

⁵ Final consumption and gross investments. The SSO does not publish complete data on the expenditure side of GDP on quarterly basis, i.e. data are missing on the individual (personal) consumption, the investments in construction buildings and the change in the inventory. Accordingly, the quarterly analyses made for this purpose are based on estimations made on the basis of available data on other categories of indicative relevance and therefore, they should be taken with a great precaution.



them was identified, the analysis of the movements in the second quarter of 2005 confirmed the theoretical expectations for the effect of the increase in the domestic consumption on the registered inflation rate.

In the second quarter of 2005⁶, *public consumption*, registered a nominal decline of 2.3% relative to the same period of the preceding year. In the absence of appropriate data on the *personal consumption*, an estimation is made on the basis of an analysis of the movements in the indicative categories in the observed period. Thus, an increase in the individual consumption is estimated on the basis of the registered annual increase in the wages (of 1.1%), retail trade (of 14.7%), credits to households (of 59.2%), income on value-added tax (of 4.4%) and import of consumer goods (of 25.5%, which at the same time is faster than the increase in the import of capital goods). Despite the divergent movement in the public and in the individual consumption, an annual increase in the *final consumption* in the second quarter of 2005 may be assumed, having in mind that the individual consumption is its dominant component (with a share of approximately 80%).

In the second quarter of 2005, the indicative categories for the *gross investments* registered divergent movements. *The investments in machinery and equipment* (constituting one third of the gross investments) in the second quarter of 2005 were by 4.8% higher on annual basis. Lending to the corporate sector and import of capital goods also registered an increase (of 14.5% and 21.3%, respectively). Domestic production of capital products and completed construction works, however, went down (by 1.2% and 29.6%, respectively), indicating lower investment activity. Since the change in the gross-investments in the analyzed period is contingent upon the degree of offsetting the divergent movements in the above categories, one may not quantify precisely the movement of gross investments. Therefore, they are assumed to remain unchanged on annual basis, in the observed quarter.

On the basis of the estimations for increase in the final consumption and unchanged level of gross-investments, the *domestic consumption* is assumed to increase in the second quarter of 2005 (considering that most of the domestic consumption or about 80% make up the final consumption), which is in line with the registered average rate of inflation in the observed period (0.9%).

However, having mind that the rate of inflation registered in the second quarter of 2005 is relatively low, one may assume (the effect cannot be quantified precisely) that the effect of the increase in the domestic consumption on the inflation was mitigated by the accomplished net-import of goods and services, given the decline in the import prices⁷. In the second quarter of 2005, net-import of goods and services was registered, with faster growth in the export of goods and services (30.7%), relative to the growth in the import of goods and services (17.1%), compared to the same period of 2004.

⁶ Last available data of the SSO.

⁷ Such an effect is a result of the decline in the import prices of a larger number of agricultural and food products, which have a significant share in the inflation index structure, caused by the decline in the customs duties (in line with the WTO requirements and the EU directives).



Table 2
Expenditure aggregates of GDP
(nominal growth rates)

	II Q.2005* / II Q.2004
Public consumption	-2.3
Investments in machinery and equipment	4.8
Export of goods and services	30.7
Import of goods and services	17.1

* Preliminary data of the State Statistical Office.

In the third quarter of 2005, it is estimated that the *personal consumption* had an inflationary effect, in line with the increase in the wages and the higher amount of loans made to the households, the higher turnover in the retail trade, the higher income from value-added tax and the growth in the import of consumer goods, relative to the same period of 2004. The effect of the *public consumption* was estimated to be in the same direction if the increased current budget expenditures in the analyzed period are taken into consideration. The divergent movements of the indicators of the investment activity in the third quarter of 2005 make it difficult to assess the development of the gross-investments and their influence on the inflation (increased lending to the corporate sector and higher import of capital goods, and lower completed construction works and production of capital goods). The effect of the decline in the import prices is still present, having a net import of goods and a favorable trend of faster increase in the exports compared to the increase in the imports. Taking into account these estimations, one may ascertain that the realized average annual inflation rate in the third quarter of 2005 of 0.8% was mainly a result of the increase in the domestic consumption⁸.

2.

Economic activity

In the second quarter of 2005, positive rate of economic growth of 4.7% was registered...

In the second quarter of 2005, an annual GDP growth rate of 4.7% was registered. Positive trends were registered in all sectors of the economy, except for the construction sector (fall of 8.9%). The realized GDP growth is mostly a result of the accelerated activity in the industry, where growth of 13% was registered, which at the same time is the dominant sector in the creation of GDP, the share of which in the analyzed quarter is 24.3%. Regarding the other more important sectors, trade, transport, and agriculture registered an annual increase of 8.2%, 6.7%, and 2.3%, respectively. In the second quarter of 2005, all these sectors together account for 20.2% of GDP.

⁸ The analysis is made according to the last available data on each indicator. By the day the Quarterly Report III/2005 was submitted to the NBRM Council, the preliminary data on the GDP for the third quarter of 2005, had not been published.



Table 3
Production side of GDP
(real annual rates of change, in %)

	2004/2003	2005		I Q.2004	I Q.2005	II Q.2004	II Q.2005
		I Q.2005/ I Q.2004	II Q.2005/ II Q.2004				
		(real growth rates, in %)					
Gross Domestic Product	2.9	2.7	4.7	100.0	100.0	100.0	100.0
<i>Agriculture, hunting, forestry and fishing</i>	4.4	2.5	2.3	10.0	10.0	9.6	9.4
<i>Mining and quarrying; Manufacturing and electricity, gas and water supply</i>	-2.1	4.7	13.0	22.5	22.9	22.5	24.3
<i>Construction</i>	8.7	-9.7	-8.9	4.3	3.8	6.6	5.7
<i>Wholesales and retail sales</i>	7.4	6.4	8.2	11.9	12.3	12.2	12.6
<i>Hotels and restaurants</i>	5.3	3.9	6.0	1.9	1.9	2.0	2.0
<i>Transport, storage and communications</i>	5.2	5.6	6.7	8.1	8.3	8.1	8.2
<i>Financial intermediation; Real estate and business activities; Other community, social and personal service activities and imputed rents</i>	2.5	0.2	0.9	13.4	13.1	12.4	12.0
<i>Public administration and defense, obligatory social security, Education, Health and social work and Exteritorial organizations and bodies</i>	1.8	0.5	0.3	15.7	15.3	14.6	14.0

Source: State Statistical Office. Preliminary data.

In the third quarter of 2005, on the basis of the available indicators of the movements in industry, trade and agriculture, real GDP growth is expected, compared with the same period of 2004. The aforementioned sectors registered an annual increase in the activity, while only in the construction sector the activity is still under the level registered in the previous year. The higher value of the transactions in the payment operations in the third quarter of 2005 compared to the same period of 2004 (by 3.7%) is also in favor of the expectations for growth in the GDP. In line with the projections for 2005, in the third quarter of 2005 a 4% GDP real annual growth rate is expected.

Table 5
Contribution of each category to the increase in the industrial output in the first half of 2005

	Structure	I-IX.2005 I-IX.2004	Contribution to the
	in %		
Total	100	8.2	100
Energy	21.8	3.7	10.1
Intermediary goods (except Energy)	33.8	16.1	68.1
Capital goods	4.8	-2.8	-1.7
Durable consumer goods	1.4	-7.8	-1.4
Non durable consumer goods	38.1	5.2	24.8
Mining and quarrying	1.8	23.1	5.1
Manufacturing industry	79.4	9.3	90.3
Manufacture of food products and beverages	20.0	5.3	11.4
Manufacture of tobacco products	3.9	4.4	1.8
Manufacture of textiles	2.5	-3.5	-0.9
Manufacture of wearing apparel; dressing and dyeing of fur	8.6	3.8	3.5
Publishing, printing and reproduction of recorded media	3.9	3.4	1.4
Manufacture of coke, refined petroleum products and nuclear fuel	3.0	13.3	4.3
Manufacture of chemicals and chemical products	5.9	2.9	1.8
Manufacture of rubber and plastic products	2.6	-5.7	-1.6
Manufacture of other non-metallic mineral products	8.1	15.7	13.7
Manufacture of basic metals	6.0	49.4	31.9
Manufacture of fabricated metal products, except machinery and equipment	3.8	27.3	11.2
Manufacture of electrical machinery and apparatus n.e.c.	3.2	20.6	7.1
Electricity, gas and water supply	18.8	2.0	4.6

Source: State Statistical Office



In the third quarter of 2005, annual rate of growth of the industrial output of 8.2% was registered...

Despite the relative deceleration of the industrial activity in the third quarter of 2005 (mainly under the influence of the reduced activity during the summer holidays due to seasonal factors), the trend of positive annual growth rates was retained. In the January - September 2005 period, the actual volume of the industrial output increased by 8.2% relative to the same period of 2004. The cumulative increase is mainly a result of the higher output of basic metals (by 49.4%), metal products in the metalworking stage (by 27.3%), electrical machinery and apparatus (by 20.6%) and other non-metal minerals (by 15.7%). Consequently, the group of intermediary products (other than energy), which accommodates the aforementioned industrial branches, registered a cumulative increase of 16.1%, thus contributing the most to the growth in the total output. Thus, one should take into account that the high increase in the production of basic metals (31.9% share in the total growth) partially result from the low comparison base form the preceding year, when one of the larger metallurgical facilities was out of operation. Also, the intensified production in this branch in 2005, is in line with the global demand for and supply of nickel, which imposed higher prices of this metal on the international markets, relative to the previous year.

Table 5
Prices of metals on the international markets

	Jan.-Dec. 2004	Jan.-Mar. 2005	April-June 2005	July 2005	August 2005	September 2005	July-Sep. 2005
<i>US Dollars per ounce</i>							
Gold	409.2	427.1	427.3	424.5	437.9	456.0	439.5
<i>US Dollars per ounce</i>							
Silver	6.69	7.00	7.18	7.04	7.03	7.19	7.09
<i>US Dollar per dry metric tone unit</i>							
Iron ore	0.38	0.65	0.65	0.65	0.65	0.65	0.65
<i>US Dollar per metric tone</i>							
Nickel	13,823.0	15,348.4	16,411.0	14,580.7	14,892.7	14,228.2	14,567.2

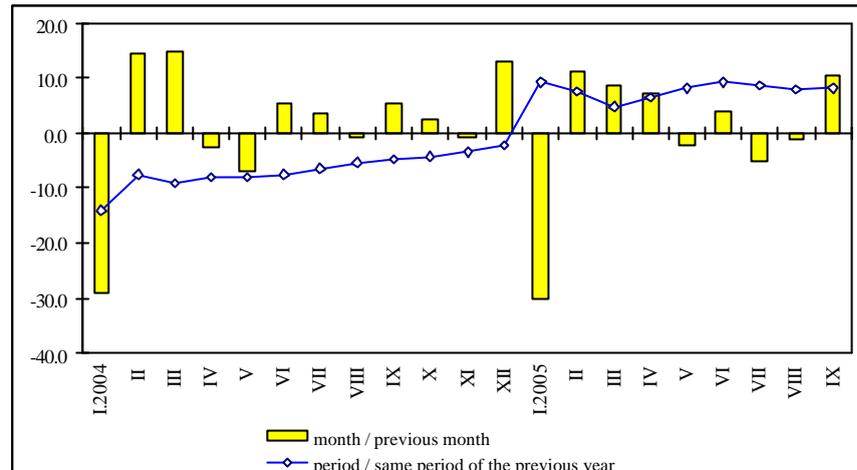
Source: World Bank

The production of food products and beverages, tobacco products, wearing apparel, dressing and dyeing of fur and publishing and printing products also had a significant contribution to the cumulative industrial growth. The increase in the aforementioned industrial branches was reflected in the increased production of non-durable goods for joint consumption (by 5.2%). The higher production of energy (power generation and distribution) and the increased production of oil derivatives (by 2% and by 13.3%, respectively) also had their share in the overall growth of the industrial output. The accelerated industrial activity in the first nine months of 2005 was supported by the increased import of electricity, oil and oil derivatives and gas - natural and industrial (by 64.8%, 54.6% and 31.9%, respectively, on annual basis).

Analyzing by sectors, the manufacturing industry, as a prevailing sector, has the most considerable contribution to the increase in the industrial output (90.3%). Revival of the industrial activity was registered also in the sector of mining and quarrying due to the restarting of the mining facilities, thus increasing the contribution of this sector to the overall industrial growth on a quarterly basis, which reached 5.1%.



Figure 5
Dynamics of the industrial output
(in %)



Source: State Statistical Office

In the third quarter of 2005, common seasonal movements in the industrial output were registered. Thus, in July and August, monthly rates of decline in the output were registered (of 5.1% and 1.1%, respectively). In September there was an increase (of 10.5%), as a result of the low comparison basis from the previous month and of the concentration of the wine production in September (which commonly takes place in October).

According to the business tendency survey in the manufacturing industry in September 2005⁹, the assessment of the enterprises, regarding their economic standing, is improved relative to the previous month. The average exploitation of the capacities of the companies increased by 0.4 percentage points and equals 63.5% of the regular level. Economic agents point to the insufficient domestic demand, financial problems and insufficient foreign demand as the main factors hindering the increase in the output.

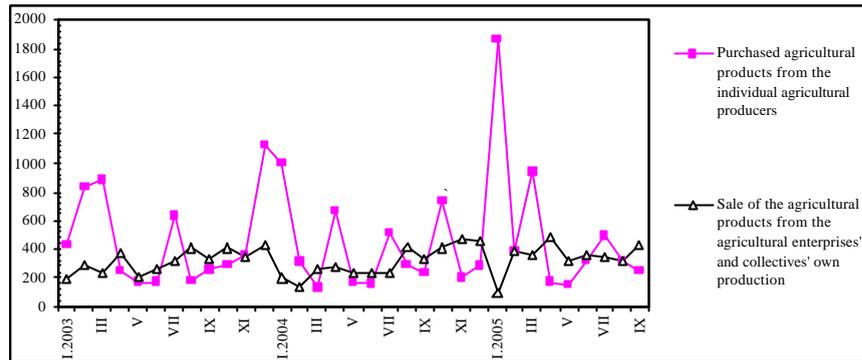
The total value of sold agricultural products of the own production of the agricultural companies and collective farms in the January - September 2005 period stood at Denar 3,105 million, which is an increase of 32.8% relative to the same period of the preceding year. Increase in the sale was registered in almost all categories of products, with the fastest increase being registered in the sale of industrial plants, leather and wool and fruits and grapes. Thus 35.5% of the total sale in the analyzed period was made in the third quarter. The total value of the agricultural products purchased from the individual agricultural producers in the first nine months of 2005 totaled Denar 4,896 million, which is by 41% more compared to the same period of 2004. The increase was due to the higher purchase of vegetables, industrial plants, and milk and dairy products. Also, 21.6% of the total purchase in the observed period was made in the third quarter.

In the third quarter of 2005 positive trends in the agriculture were registered...

⁹ Source: State Statistical Office.



Figure 6
Sale and purchase of agricultural products
(in millions of denars)

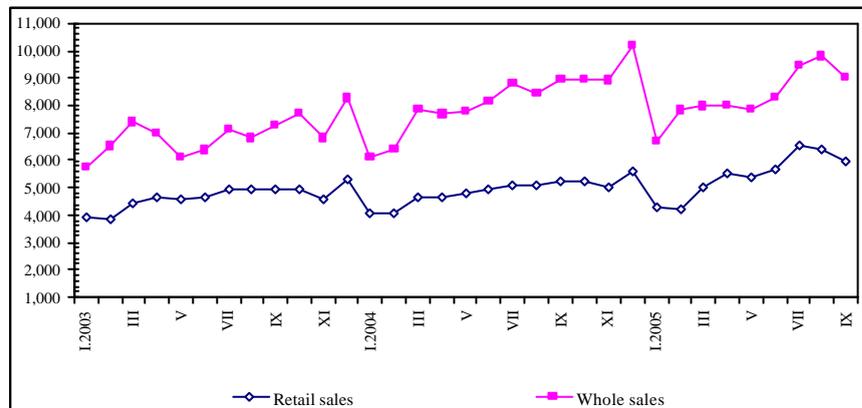


Source: State Statistical Office.

...and faster trade activity

The total trade turnover in the third quarter of 2005 amounted to Denar 47,095 million, i.e. 12.9% more compared with the turnover realized in the third quarter of 2004. The larger portion (60%) of the overall turnover pertained to the wholesale, where an annual increase of 6.8% was registered, while the increase in the retail trade was faster and equaled 14%. The total trade turnover in the January - September 2005 period totaled Denar 123,717 million and registered cumulative growth of 9.6%, having a simultaneous increment in both the retail trade and the wholesale (14.4% and 6.6%, respectively).

Figure 7
Trade turnover
(in millions of denars)



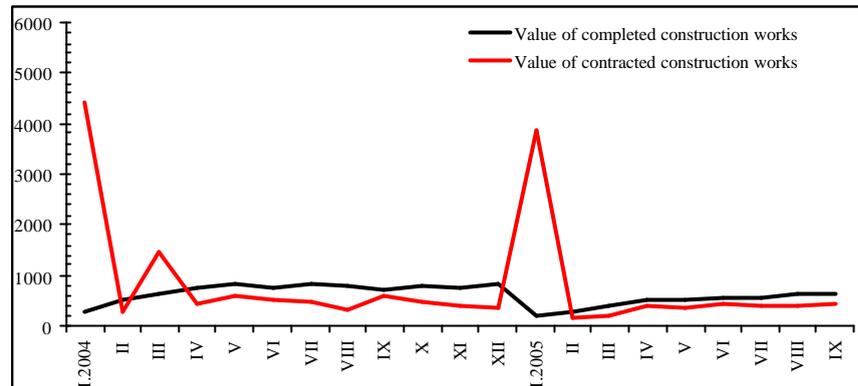
Source: State Statistical Office.

In the third quarter of 2005, more intensive construction activity was registered

In the third quarter of 2005, more intensive construction activity was registered, which is in line with the seasonal movements in construction. Thus, in the July - September 2005 period, 42.3% of the total construction works since the beginning of the year, were completed. Nevertheless, in the third quarter of 2005, the value of completed construction works was by 21.1% lower relative to the same period of 2004 and amounted to Denar 1,837 million. The value of the contracted construction works in the third quarter of 2005 dropped by 9.6% relative to the same period of the preceding year and stood at Denar 1,247 million. In the January - September 2005 period, the value of the completed and the contracted construction works dropped by 27.6% and 27.4%, respectively, compared to the same period of 2004.



Figure 8
Contracted and completed construction works
(in millions of denars)



Source: State Statistical Office.

Attachment 3

Analysis of the expenditure side of GDP

The expenditure side of GDP pertains to the changes in the domestic consumption (final consumption and gross-investments) and changes in the net-exports (i.e. the difference between the export and the import of goods and services). In order to understand their relevance for the movement of the GDP and to depict the contribution of the individual components to the changes in the GDP in the Republic of Macedonia, statistical and econometric analysis of the expenditure side of GDP was made for the 1997 - 2003 period, by using annual data¹⁰.

Statistical analysis of the expenditure components of GDP

The statistical analysis presents the basic statistical indicators of the expenditure components of GDP. The components are analyzed both individually, in order to identify their features, and relative to the GDP in order to identify their influence on the GDP. In the 1997 - 2003 period, the gross domestic product registered real growth of about 1.8%. Regarding the individual components of GDP, high average real growth is registered in the export and in the import of goods and services (5.26% and 5.99%, respectively), while personal consumption, public consumption and gross-investments registered lower average real growth rates (2.94%, 1.7% and 2.99%, respectively).

GDP growth rate in the 1997 - 2003 period had a relatively low standard deviation (3.1). On the other hand, it was identified that its components are of variable character, i.e. they have relatively high values of standard deviation. Thus, personal and public consumption have standard deviations of 8.1 and 13.7, respectively, while the standard deviation of gross-investments is 12.7. The "increase in inventories" category registered the highest value of standard deviation (91.01), but having in mind its low share in the GDP structure (3.2% in 2003) this category does not have a significant influence on the developments in the GDP. Standard deviations of the export and the import of goods and services are also high, amounting to 15.5 and 17.7, respectively, which indicates that their movement is highly dependant on the movement of seasonal and other economic and non-economic factors in the economy.

¹⁰ Source: State Statistical Office of the Republic of Macedonia



From the viewpoint of the degree of correlation of the individual expenditure components with GDP, all components move in the same direction, except for the "investments in fixed assets" category (weak positive correlation) and "public consumption" (negative correlation). The relatively high negative correlation coefficient of public consumption (-0.7) is partially due to the crisis period (year 2001), when public consumption was sharply raising, while GDP, in line with the decelerated economic activity, decreased. On the other hand, the correlation coefficient in personal consumption shows that in 69% of the analyzed observations, its movement corresponds with the movement of the GDP, while the correlation of gross-investments is 52%. Having in mind the fact that exports are important for the GDP (high structural share in the GDP), as is the share of import components in the exports and the dependence of the Macedonian economy on imports, one may conclude that the movement of export and import of goods and services is in line with the movement of GDP, which could be confirmed with the relatively high correlation coefficients. The correlation coefficient of the export of goods and services equals 0.85, while that of the import of goods and services equals 0.56.

Table 4
Basic statistical indicators of the real changes in the GDP and its components on the production side

	Number of observations	Mean value	Standard deviation	Correlation (with respect to GDP)	Relative cyclical movement (with respect to GDP)
Gross domestic product	7	1.83	3.10	/	/
Domestic consumption	7	2.41	5.62	0.59	Cyclical movement in the same direction
Final consumption	7	2.37	4.45	0.58	Cyclical movement in the same direction
Personal (of households)	7	2.94	8.08	0.69	Cyclical movement in the same direction
Public	7	1.70	13.72	-0.71	Cyclical movement in the opposite direction
Gross investments	7	2.99	12.72	0.52	Cyclical movement in the same direction
Investments in fixed assets	7	0.04	8.31	0.18	Poor cyclical movement
Increase in inventories	7	36.26	91.01	0.44	Cyclical movement in the same direction
Export of goods and services	7	5.26	15.47	0.85	Cyclical movement in the same direction
Export of goods FOB	6	-1.75	12.65	0.57	Cyclical movement in the same direction
Export of services	6	20.12	39.03	0.66	Cyclical movement in the same direction
Procurements from non-residents in the country	6	23.42	56.50	0.67	Cyclical movement in the same direction
Import of goods and services	7	5.99	17.69	0.56	Cyclical movement in the same direction
Import of goods FOB	6	1.42	18.71	0.52	Cyclical movement in the same direction
Export of services	6	10.32	7.58	0.84	Cyclical movement in the same direction

Econometric analysis of elasticity¹¹

The econometric analysis of elasticity is aimed at identifying the contribution of the expenditure components of GDP to its growth (or decline). In line with the structural share, personal consumption has the largest contribution to the increase in GDP. If the personal consumption increases by 1%, the gross domestic product will increase by 0,65%. Personal consumption is a complex category, mainly contingent upon the changes in wages, disposable income, prices, interest rates, as well as the propensity to spend.

The export of goods and services has a significant contribution to the change in the gross domestic product (1% of growth will cause 0.49% growth in GDP), while the other analyzed components have lower regression coefficients. Thus, 1% change in public consumption and gross-investments leads to 0.19%, i.e. 0.27% change in GDP. On the other hand, the import of goods and services acts towards a decline in GDP, where in the case of an increase in the import of goods and services of 1%, GDP will drop by 0.62%. Given the trade deficit, the net-effect of the foreign trade on GDP is negative.

¹¹ The elasticity analysis uses the OLS (Ordinary Least Squares) method with a 95% confidence level.



Table 5
Regression analysis of elasticity of the components to the GDP

GDP regressors	Regression coefficient	Standard deviation	T-statistical data	Probability
Personal consumption (of households)	0.65	0.05	13.56	0.01
Public consumption	0.19	0.03	7.43	0.02
Gross investments	0.27	0.05	5.69	0.03
Export of goods and services	0.49	0.04	13.56	0.01
Import of goods and services	-0.62	0.05	-11.54	0.01
Number of observations = 7				R ² =0.99

3.

Employment and wages

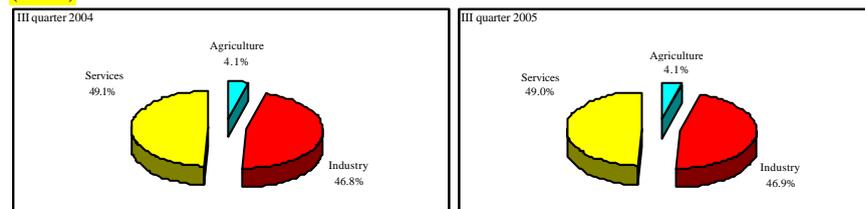
The employment reduced by 2.4% on a quarterly basis

In the third quarter of 2005, the average number of employees equaled 246,498¹², which is a decline of 2.4%¹³ compared to the previous quarter. The quarterly drop is mainly caused by the simultaneous decline in the employment in all three sectors of the economy. The decrease in the employment was most intensive in the services sector (2.9%), mainly due to the smaller number of employees in all service activities, except in the "activities related to real estate, renting and business activities", and in the "public administration and defense, compulsory social care", where moderate increase was registered.

In the industrial sector, in the third quarter of the year, the average number of employees went down by 2%, with a simultaneous decline in the number of employees being registered in all activities in industry, except for "electricity, gas and water supply" (increase of 1.4%). The main cause for the negative developments in this sector is the decline in the number of employees in the manufacturing industry (which employs around one third of the total number of employees) by 2.5%, on average.

The average number of employees in the agriculture registered a quarterly decline of 0.9%, with a reduced number of employees in the "agriculture, hunting and forestry" and a moderate increase in "fishing" (3.6%).

Figure 9
by sectors
(in %)



Source: State Statistical Office

Relative to the same period of the previous year, employment reduced by 4.1%, with a simultaneous decline being registered in the number of employees in the agriculture, industry, and services (of 4.1%, 3.9% and 4.3%, respectively).

Attachment 4

An outline of the new Law on Labor Relations¹⁴

The high unemployment in the Republic of Macedonia and its structural

¹² Source: State Statistical Office.

¹³ The quarterly number of employees is calculated as an average of the number of employees in the three months of the quarter.

¹⁴ Source: "Official Gazette of RM" - No. 62/2005; Ministry of Finance of RM.



character points to the need of intensification and acceleration of the reforms directed towards increasing the flexibility of the labor market, improving the legal and regulatory framework, improving the institutions related to this segment of the economy, as well as creating new jobs by incurring domestic investments and attracting foreign capital. Part of the reforms of the labor market started to be implemented with the latest amendments to the regulations in this area.

In July 2005, a new Law on Labor Relations was adopted. Thus, the Law on Labor relations from 2003 ceased to be effective. The new Law, which governs the working process, is directed toward increasing the flexibility of the labor market. Thus, the Law broadens and simplifies the base for concluding an employment contract (fixed-term employment contract and contract for employment for unlimited period of time) and enables alternative forms of employment, i.e. seasonal employment, employment with restricted working hours, while the so-called trial work is introduced in order to identify the ability of the worker to complete efficiently the work assigned to the particular position. According to the new Law, again, the period of 40 hours per week is considered full working time. Also, depending on the character of the work, a period shorter than 40 hours per week may be considered full working time, with the minimum being set at 36 hours¹⁵. Under specific circumstances (if there is a possibility of injury or harm for the health of the worker on the job) full working time may comprise fewer than 36 hours per week, while overtime, same as in the old Law, has been set at maximum of 10 hours per week. Simultaneously, a compulsory electronic record of the working hours is introduced (for an employer providing employment for more than 25 persons).

Further reforms related to the labor market pertain to increasing the transparency and efficiency of the operations. Thus, it is planned to publish regularly a list of occupations for which there is lack of demand or excessive demand (on annual basis), while in order to increase productivity, the system of on-the-job education, and the reform of the education system, are becoming increasingly important.

According to the Labor force survey, the rate of unemployment¹⁶ in the third quarter of 2005 equaled 36.5%, which relative to the previous quarter is a decline of 0.9 percentage points. On the other hand, the rate of employment was higher by 0.7 percentage points (35.1%). From the total active population¹⁷ (888,725 persons), 564,880 persons were employed (quarterly increment of 2.2%), while the number of unemployed persons¹⁸ dropped by 1.8% and equaled 324,845 persons. Relative to the same period of the previous year, the unemployment rate reduced by 1.2 percentage points.

¹⁵ In the previous Law on Labor Relations, the interval for defining full working time was wider, i.e. it ranged from 32 to 40 hours per week.

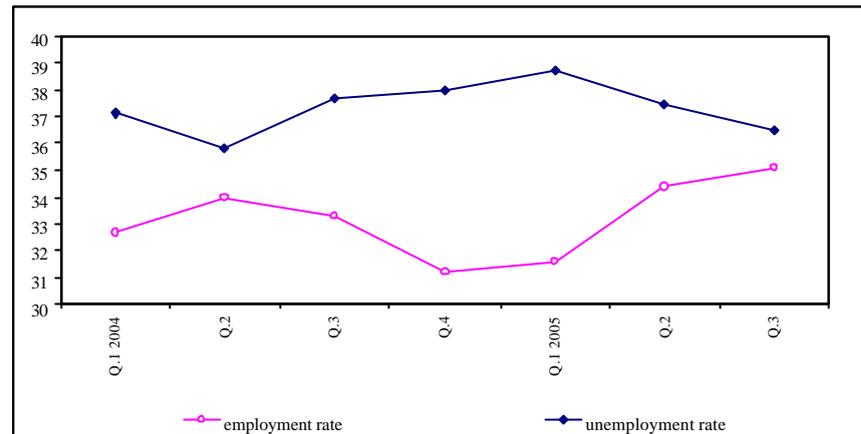
¹⁶ The Labor Force Survey is conducted by the State Statistical Office of the Republic of Macedonia on the basis of a sample of 10,000 households on the whole territory of the country and it is in accordance with the methodological recommendations of the International Labor Organization (ILO) and the recommendations of the European Statistical Bureau (EUROSTAT). Starting from 2004, it is being conducted as a continuous survey throughout the year, while data are processed quarterly.

¹⁷ Total labor force.

¹⁸ In line with the ILO standards, the persons who fulfill the following three conditions are considered *unemployed*: had no job during the reported week (according to set criteria); were actively seeking for a job, i.e. undertook concrete activities to find one; were ready to accept a job in the reported week or in the following week. *The rate of unemployment* is the share of the number of unemployed persons in the total labor force.



Figure 9
Employment and unemployment rates
(in %)



Source: Labor Force Survey, State Statistical Office

The quarterly increase in the number of employed persons, and accordingly, the higher employment rate was a result of the increased employment in the agriculture and in the services sector (by 7.5% and by 2.7%, respectively), while in the industry, the number of employed persons reduced (by 2.5%). Analyzed by individual activities, the number of employees registered quarterly increment in most of the activities. Thus, the agriculture, hunting and forestry, the trade, transportation and the health and social work (share in the total number of employees of 48.6%) registered an increase of 7.7%, 1.2%, 1.4% and 8.3%, respectively. Quarterly decline was registered in five activities, with the number of employees in the manufacturing industry (structural share of 20%) being lower by 6.7%.

In the third quarter of 2005, 60% of the total number of employed persons were males (338,807 persons) with the employment rate being almost unchanged and equaling 42.1%, while the unemployment rate reduced by 0.5 percentage points (36%). On the other hand, the employment rate with the female population increased by 1.5 percentage points (28.1%), with the unemployment rate being lower by 1.7 percentage points (37.2%).

With respect to the age, highest employment rates in the third quarter of 2005 were registered with the population aged between 25 and 49 (50.6%), while the unemployment rate was highest with the population aged between 15 and 24 (59.9%).

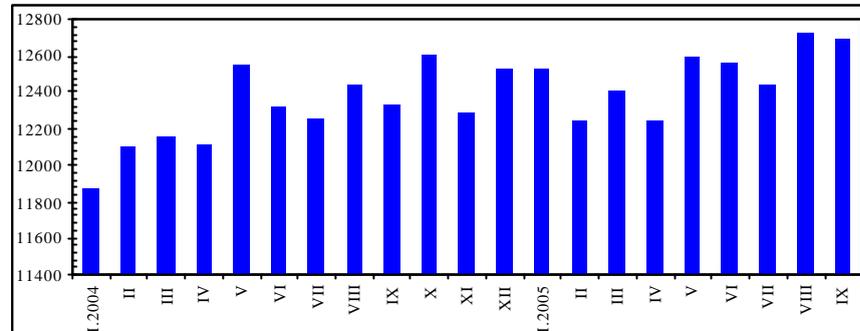
In the third quarter of 2005, the nominal average net paid wage per worker in the Republic of Macedonia equaled Denar 12,617, which is an increase in nominal and in real terms of 1.3% and 0.4%, respectively, relative to the previous quarter. In the July - September 2005 period an increase in the wages in all three sectors in the economy was registered. Thus, the nominal average net paid wage in the agriculture and in industry registered an identical quarterly increase of 2%, while in the services sector the average wage increased by 1.5%. Higher wages are registered in most of the activities in the economy. Analyzing by individual activities, significant increase in the wages was registered in the fishing and in the public administration and defense, compulsory social security (identical quarterly increase of 6.3%). The quarterly increase in the wage in the manufacturing was more moderate and it equaled 1.2%. On the other hand, in the mining and quarrying, the wholesale and retail trade, hotels and restaurants and in the real estate, renting and business activities, the average wages reduced (by 1%, 0.7%, 0.7% and 2.6%, respectively). The highest average net-wage was paid in the financial intermediation (in the amount of Denar 26,539).

Nominal and real growth in the average net-wage per employee in the third quarter of 2005...



On annual basis (third quarter of 2005 / third quarter of 2004), the nominal average net-wage per worker in the Republic of Macedonia increased by 2.2%, reflecting the increase in the wages in all three sectors in the economy. On average (January - September 2005 / January - September 2004, the average monthly net-wage registered an increase of 2.1%.

Figure 11
Average net-wage per worker
(in denars)



Source: State Statistical Office.

In the third quarter of 2005, 16.9% of the total number of the employees did not receive wage, which is a decline of 0.8 percentage points relative to the previous quarter, while on annual level the decline is more intensive (by 6.2 percentage points¹⁹).

4.

Monetary policy

In the first third of 2005, in terms of favorable movements on the foreign exchange market, the NBRM was focused on maintaining stable foreign exchange rate of the Denar relative to the Euro, through combined application of interventions on the foreign exchange market and the CB bills auctions, contributing to further maintenance of the price stability (the average rate of inflation in the January - September period equals 0.4%).

In accordance with the common seasonal quarterly dynamics, the foreign exchange transactions of the NBRM represented a flow of liquidity creation during the third quarter of the year. Namely, the common seasonal increase in the supply of foreign exchange on the foreign exchange market and the active utilization of the foreign assets of the banks in supplementing the supply of the segment banks - enterprises led to a significant net purchase of foreign assets on the foreign exchange market by the NBRM. The created liquidity on this basis is completely neutralized through accumulation of funds on the Government's Denar account with the NBRM, the higher level of currency in circulation and through the monetary policy instruments. Consequently, the bank liquidity decreased by 14.9%, and at the end of September 2005, it equaled Denar 3,991 million.

¹⁹ The decrease is primarily due to a methodological change, i.e. a decline in the sample, since the employees in already closed companies were exempted from the records, in order to improve the quality and the accurateness of the obtained data.



Table 4
Liquidity creation and withdrawal*
(in millions of Denars)

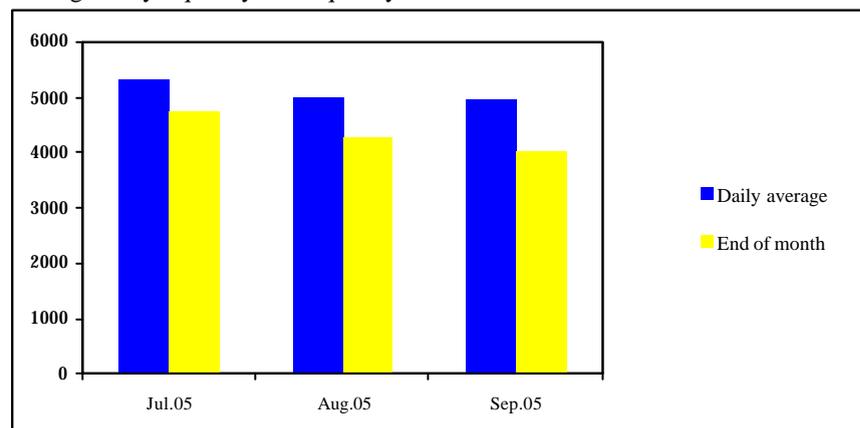
	30.06.2005	Monthly changes				30.09.2005	Contribution to the creation / withdrawal in %
		July	August	September	Total		
Liquidity of the banks	4,691	18	-450	-268	-700	3,991	
<i>Liquidity creation</i>					5,238		
1. Net foreign assets	45,817	1,877	849	2,512	5,238	51,055	100.0
<i>Liquidity withdrawal</i>					-5,938		
1. Net domestic assets	-21,639	-3,320	-1,031	-1,039	-5,390	-27,029	90.8
<i>of which: Government deposits (in denars)</i>	-4,874	-4,067	-952	305	-4,714	-9,588	
Other items, net	-9,659	406	126	-1,193	-661	-10,320	
2. CB Bills	6,053	2,410	-1,162	-1,649	-401	6,454	6.8
3. Currency in circulation	13,390	-941	946	-105	-100	13,490	1.7
4. Other	44	8	-52	13	-47	91	

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

Lower average daily liquidity of the banks in the third quarter of 2005

In the third quarter of 2005, the average daily liquidity of the banking system equals Denar 5,078 million, which is a decrease of Denar 103 million, or 2% compared to the previous quarter. The decrease in the liquid funds is primarily due to the higher average level of the Government Denar deposits with the NBRM and the averagely higher level of currency in circulation. Analyzed by the dynamics, in July 2005 the average daily level of liquidity increased by 2.9% and reached Denar 5,288 million. Namely, despite the significant accumulation of funds by the Government (as a result of higher income in the Budget originating from the payment of dividend by an enterprise having a state-owned capital at the beginning of July), the net purchase of foreign exchange on the foreign exchange market, and the average lower level of CB bills were the reason for the highest monthly level of liquidity during the third quarter. In August and in September, the average liquidity went down by 5.8% and 0.3%, respectively, in terms of further accumulation of funds by the Government and, on average, higher interest of banks for investment in CB bills. In comparison with the third quarter of 2004, the banks' assets on the account with the NBRM and the cash in vault incremented by 39.4%, due to the effect of the higher rate of allocation of reserve requirement introduced at the beginning of 2005.

Figure 10
Average daily liquidity and liquidity of the banks at the end of the month*



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

In accordance with the lower level of liquidity, in the third quarter the NBRM approved two Lombard credits¹⁷ to two banks with maturity of one day and interest rate of 13%.

¹⁷ Loans the NBRM extends to commercial banks on the basis of pledge on securities.

**Attachment 5****Introduction of repo transactions in the Republic of Macedonia**

The repo transactions represent transactions for prompt sale/purchase of securities with an obligation for their repurchase/resale or of equivalent securities. Basically, they enable better risk and liquidity management, representing one of the most important financial instruments in both developed economies and developing countries.

The basic precondition for introduction of this instrument is developed liquid securities market as the most commonly used collateral in concluding repo transactions. In the Republic of Macedonia this process commenced at the beginning of 2004, when the Government started with Treasury bills issue on a continuous basis. The legal and the institutional framework for realization of the repo transactions was supplemented by the establishment of the Over the Counter Market in April 2005, thus enabling simplified procedure for trading with securities, especially with Treasury bills, larger liquidity on the market, realization of the transactions in real time and lower transaction expenses. The introduction of this market is in function of more efficient planning and liquidity management by the banks, and in the beginning the banks would execute outright transactions (purchase/sale of securities), and later also repo transactions as a temporary purchase and sale of securities.

For the purpose of further development and deepening of the secondary securities market, at the end of June 2005, the NBRM promoted the *General Repo Agreement*, thus providing legal ground for concluding repo transactions with Government securities among market participants. Simultaneously, the rules for trading on the Over the Counter Market were amended, thus enabling conclusion and settlement of repo transactions on the Over the Counter Market.

Together with the activities intended for development of the secondary securities market, the NBRM introduced repo transactions for conducting monetary operations. The utilization of the repo transactions is especially suitable for overcoming certain weaknesses stated when extending collateralized loans, in the process of pledging securities and in the process of the realization of the pledge. Also, the repo transactions represent flexible instrument with regard to the amount, maturity, frequency, interest rate, type of tender etc., that the NBRM will use in order to provide more successful securities and liquidity management in the banking system. In that regard, at the end of September 2005, the NBRM adopted amendments to part of by-laws referring to the monetary instruments, thus enabling use of repo transactions in *approving intraday and Lombard credits*.¹⁸ By reducing the structural excess liquidity, active utilization of repo transactions in the monetary policy of the Republic of Macedonia is expected.

The introduction of repo transactions in the Republic of Macedonia will wide the set of liquidity and risk management instruments, not only for the monetary authority, but the other market participants, as well. That will increase the demand for securities and consequently, it will stimulate the financial markets development.

The excess liquid funds over the allocation of reserve requirement (in Denars)¹⁹ in the third quarter of 2005, equals 7.4%, on average, which is by 1.2

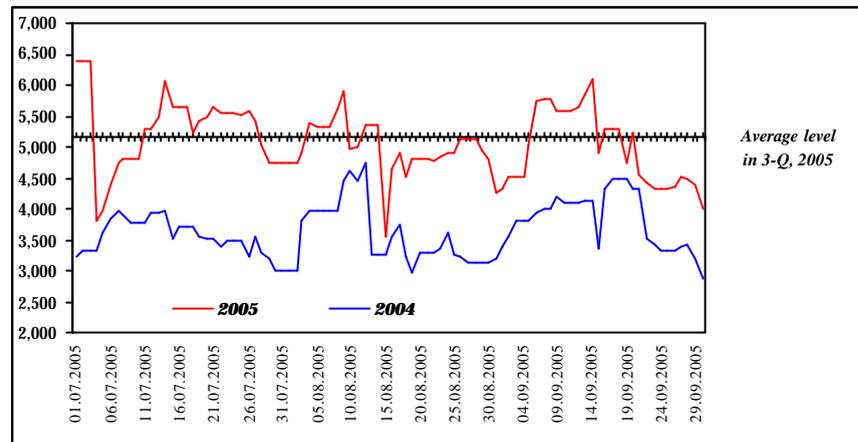
¹⁸ The Lombard credit extended so far was also on the basis of pledge on securities. The novelty in the repo transactions is the fact that securities are transferred to the NBRM ownership.

¹⁹ The period for maintaining (fulfilling) the banks' reserve requirement covers the period from the 11th in the current month to the 10th in the following month



percentage points less in comparison with the second quarter of 2005. In July and August, lower excess of liquid funds than the average was registered (6.9% and 7.3%, respectively), while in September, the excess liquidity was higher than the average and it equaled 7.9%.

Figure 11
Daily dynamics of the liquidity of the banks*
(in millions of Denars)



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

* Source: NBRM

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

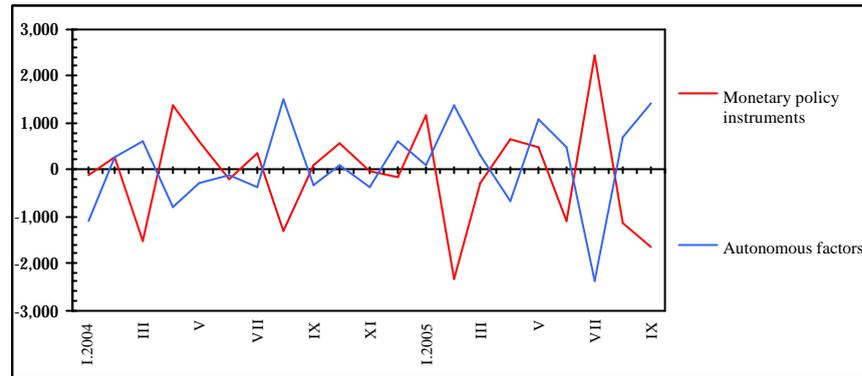
In function of maintaining the stability of the nominal Denar foreign exchange rate relative to the Euro (as a mediate monetary objective), in the third quarter of 2005 the NBRM registered active participation on the foreign exchange market. In terms of higher supply of than demand for foreign assets, the NBRM continuously realized net purchase of foreign exchange on the foreign exchange market, with the foreign exchange transactions of the NBRM representing a flow of liquidity creation. Such movements originates from the seasonally higher inflow on the basis of the currency exchange operating, as well as of the more active use of foreign assets by the banks for overcoming the discrepancy between the supply of and the demand for foreign currency of the bank - enterprises segment.

Accumulation of the Government Denar deposits with the NBRM in the third quarter

In September 2005, the total Government Denar deposits with the NBRM went up by 1.9 times on a quarterly basis, thus acting towards withdrawal of liquidity from the banking sector. The intensive quarterly increase in the Government deposits with the NBRM is due to the payment of dividend by a domestic enterprise with state-owned capital in July (monthly increase of the balance on the Government Denar account with the NBRM of Denar 4,067 million). Auctions of three-month and six-month Treasury bills were held during the quarter, and the Government additionally mobilized Denar 442.9 million.



Figure 12
Monetary regulation instruments and autonomous factors of liquidity creation and withdrawal*
(monthly changes in millions of Denars)



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

*Source: NBRM

The CB bills auctions acted towards liquidity withdrawal

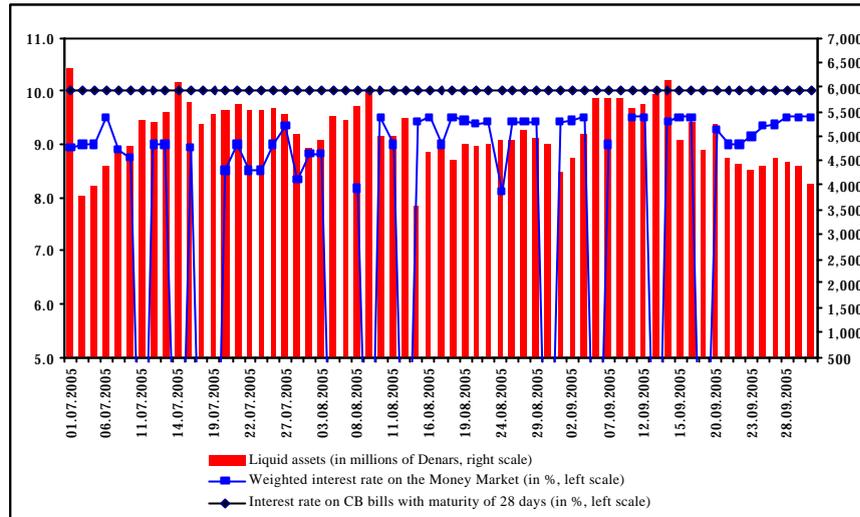
At the end of September, the level of the CB bills reached Denar 6,454 million, which is an additionally withdrawn liquidity in the amount of Denar 401 million on a quarterly basis. From the aspect of the dynamics, the deviation from this trend was realized only in July. Namely, the payment of the dividend to the Government and the foreign investor by a significant domestic entity caused a significant decrease in the liquidity in the banking system at the beginning of the month, which was supplemented by the decline in the level of CB bills (a monthly decrease of Denar 2,410 million). In August and September, the CB bills acted in accordance with their basic function, sterilization of the liquidity (monthly increase in the level of CB bills of Denar 1,162 and 1,649 million, respectively). From the aspect of the monetary policy layout, and during the third quarter, the NBRM continued with carrying out CB bills auctions in form of "volume tender" with fixed interest rate of 10% and maturity of 28 days.

Intensified activity on the non-institutionalized Money Market

In the third quarter of 2005, average monthly turnover in the amount of Denar 470.6 million was registered on the institutionalized market, which is identical to the average registered in the previous quarter. The higher demand for than the supply of liquid funds (by 26.3%, on average), was the reason for higher weighted interest rate on the Money Market, which equaled 9.2%, on average (8.6% in the previous quarter). On the other hand, intensification in the direct bilateral trading of the banks was registered, as a result of which the registered monthly turnover was equal to Denar 1,227.8 million, on average (quarterly increase of 36.3%). The average weighted interest rate on the Money Market (both segments) in the third quarter equaled 8.9%, on average (increase of 0.6 percentage points compared to the previous quarter). The increased turnover and the higher interest rate on the interbank Money Market are primarily due to the lower liquidity with certain banks which compensate the lack of liquidity through indebtedness on the Money Market in order to meet the reserve requirement.



Figure 13
Movements of the interest rates on the Money Market, the CB bills auctions and the liquid funds of the banks*

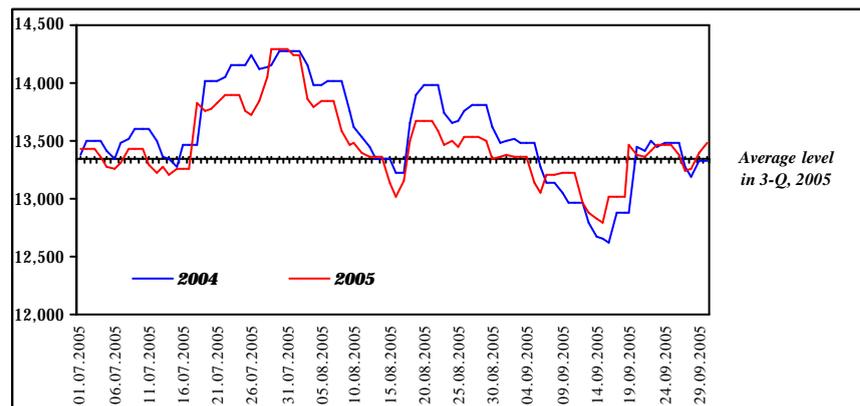


*In some days of the month, the Money Market registers no transactions and interest rate.
Source: NBRM and the Money Market of short-term securities

Almost unchanged level of currency in circulation on a quarterly basis

On a quarterly basis, (September 2005 / June 2005), the currency in circulation registered an insignificant increase of 0.7%. Analyzed by months, the seasonal preferences for managing cash before the summer vacations and the Ilinder Holiday were the reason for high monthly increase in the currency in circulation in July, when the highest level of currency in circulation during the third quarter was registered. After this seasonal effect was exhausted in August, the demand for cash intensified again in September. From the aspect of the average daily amount, the almost identical level is registered in July and August (Denar 13,601 and 13,556 million, respectively), while in September, the average level was lower and it equaled Denar 13,231 million.

Figure 14
Daily dynamics of the currency in circulation
(in millions of Denars)



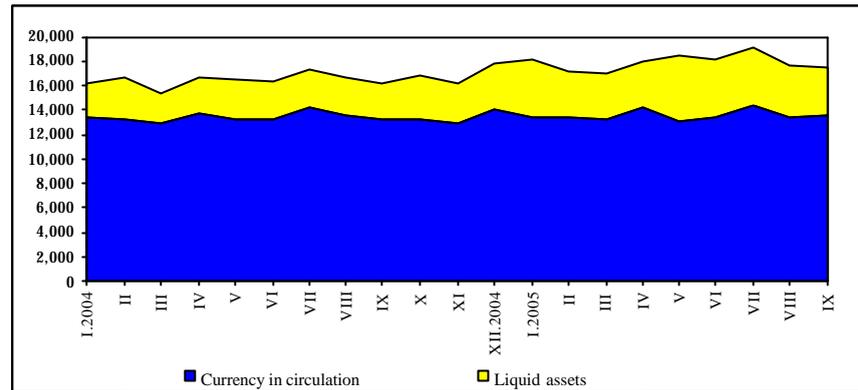
Source: NBRM

Decrease in the reserve money in comparison with the previous quarter

At the end of September 2005, compared to the previous quarter, the reserve money went down by 3.3%. In terms of slight increase in the currency in circulation, the negative dynamics of the reserve money is completely caused by the lower liquid funds of the banks. On annual basis (September 2005 / September 2004) the reserve money augmented by 7.8%.



Figure 15
Reserve money
(in millions of Denars, end of period)



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

*Source: NBRM

5.

Banking sector

5.1. Deposits with banks

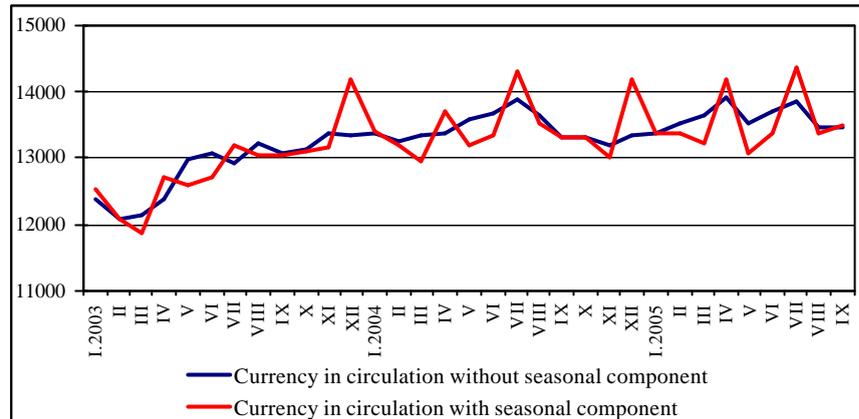
In the third quarter of 2005, in terms of almost unchanged demand for cash and higher level of transaction deposits, the dynamics of the broad monetary aggregates is determined by the decrease in the short-term deposit potential of the banks.

At the end of the third quarter of 2005, the level of currency in circulation is almost unchanged (increase of 0.7%) compared to the end of the previous quarter. Analyzed by months, significant monthly increase is registered in July, followed by the intensive decrease in August and moderate increase in September. Such movements mainly reflect the seasonal influences, i.e. higher demand for cash prior to the summer vacation and the Ilinden Holiday and appropriate stabilization of the level of currency in circulation in the following month. On the other hand, the demand deposits registered quarterly increase of 4.8% which is completely caused by the increase in the enterprises' demand deposits of 7% (as a dominant category of the total demand deposits with an average being equal to 67.6% in the third quarter). The funds on the households' transaction accounts decreased by 6.4% on a quarterly basis. In accordance with such movements, at the end of the third quarter, in comparison with the previous quarter, the monetary aggregate M1 registered an increase of 2.8%. On annual basis (September 2005 / September 2004), the monetary aggregate M1 went up by 5.8%, given the simultaneous increase in the currency in circulation and transaction deposits (of 1.3% and 10.5%, respectively).

Quarterly increase in the money supply M1



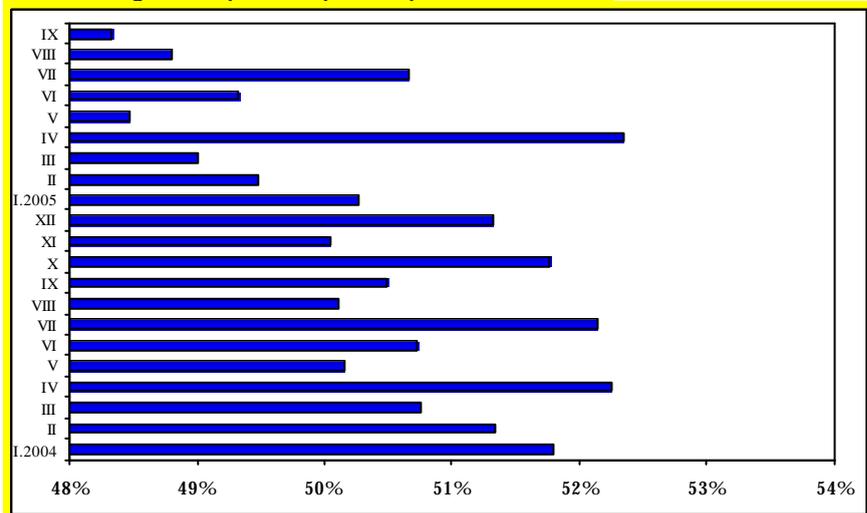
Figure 16
Currency in circulation with and without seasonal component
(in millions of Denars)



Source: NBRM

In the third quarter of 2005, positive changes in the structure of the monetary aggregate M1 were registered, evident through lower average share in the currency in circulation that corresponds with the gradual development of the cashless payment and the higher use of new instruments in the cashless payment operations.²⁰ Thus, in the third quarter of 2005, the average share of the currency in circulation of the monetary aggregate M1 equals 49.3% (decline of 0.8 percentage points in comparison with the previous quarter and of 1.6 percentage points compared to the third quarter of 2004). In conformity with these movements, the average value of the monetary multiplier of the money supply M1 in the third quarter of 2005 equals 1.55 (compared to 1.49 in the previous quarter and 1.161 registered in the third quarter of the previous year).

Figure 17
U-estvo na gotovite pari vo optek vo pari~nata masa M1



Source: NBRM

Lower level of the broad monetary aggregates on a quarterly basis

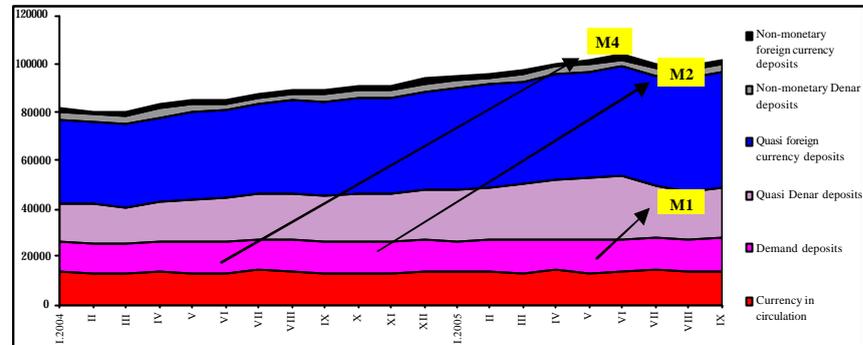
In the third quarter of 2005, despite the registered increase in the monetary supply M1, the lower deposit base of the banks resulted in almost identical quarterly decrease with the broad monetary aggregates M2 and M4 (of 2.2% and 2.1%, respectively). However, on annual basis, the monetary aggregates M2 and M4 went up by 14.1% and 13.7%, respectively, primarily as

²⁰ The number of cards circulating in the payment operations in the third quarter of 2005, equaled 163,395, on average, (which is an increase of 9.5% compared to the previous quarter when total of 885,474 transactions in the amount of Denar 3,351.2 million were registered (Denar 3,229.1 million in the previous quarter).



a result of the higher increase in the short-term deposit potential (by 17.8%). The monetary multiplier of the money supplier M2 in September 2005 equals 5.54 compared to 5.47 in June 2005 and 5.23 in September 2004. The monetary multiplier of the money supply M4 reached 5.81 at the end of the third quarter, contrary to 5.74 at the end of the previous quarter and 5.51 in September 2004.

Figure 18
Monetary aggregates' components
(in millions of Denars)



Source: NBRM

Interruption to the several month continuing increase in the total deposit potential of the banks

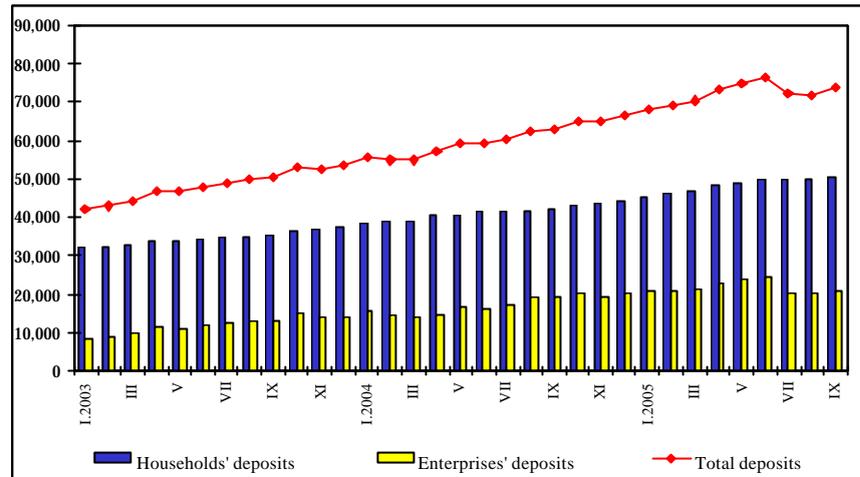
In the third quarter of 2005, the short-term Denar deposit potential decreased, which led to an interruption of the several month continuing increase in the total bank deposits.²¹ Namely, during the quarter, because of the payment of the dividend,²² the short-term Denar funds of an enterprise went down, causing a quarterly decrease in the total bank Denar deposits of 3.9%. From the aspect of the maturity structure, the short-term deposits registered a quarterly decrease of 4.1% completely determined by the lower level of Denar deposits (by 21.3%). The foreign currency deposits with short-term maturity rose by 5.9% on a quarterly basis. On the other hand, the level of the deposits with long-term maturity remained almost unchanged on a quarterly basis (minimal decline of 0.6%), in terms of divergent movements in their currency structure (increase in the Denar deposits of 1.2% and decrease in the foreign currency deposits of 3.8%). The analysis of the currency structure of the total deposits shows increase in the foreign currency deposits of 5.5%, given the simultaneous quarterly decrease in the Denar deposits of 18.9%. On annual basis (September 2005 / September 2004), the total deposits of the banks went up by 16.9%, primarily due to the increase in the short-term deposits (17.8%).

²¹ The total deposits of the non-Government sector encompass both short-term and long-term (Denar and foreign currency) deposits of the economic agents (without demand deposits).

²² The payment of dividend by a large enterprise caused decrease in the Denar deposits with banks in July (payment of dividend to the Government and repatriation of the first tranche of the dividend to the foreign investor) and in significantly lower volume in August (repatriation of the second tranche of the dividend abroad). The situation normalized in September, when the total deposit potential of the banks increased once again.



Figure 19
Deposit timeframes
(in millions of Denars)

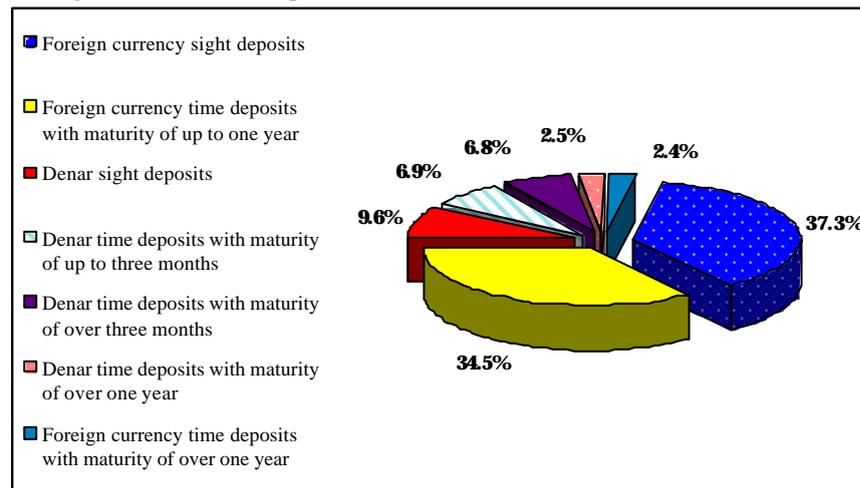


Source: NBRM

Quarterly increase in the households' deposits ...

At the end of September 2005, compared to the previous quarter, the total households' deposits rose by 1.7%. From the aspect of maturity, the short-term deposits augmented by 1.4% on a quarterly basis, given higher amount of foreign currency deposits with up to one year maturity and sight deposits in foreign currency. The long-term saving of the households (the average share of which in the total households' deposits is relatively low and in the third quarter it equals 4.8%) increased by 9.6% and it is mainly due to the higher foreign currency deposits. From the aspect of the currency structure, the foreign currency deposits went up by 4.2%, while the Denar deposits dropped by 5%. However, the foreign currency still dominate in the households' currency deposits, which equal 74.1%, on average, in the third quarter. The annual rate of increase in the total households' deposits equals 20.5%.

Figure 20
Structure of households' deposits
(average share in the first quarter of 2005)



Source: NBRM

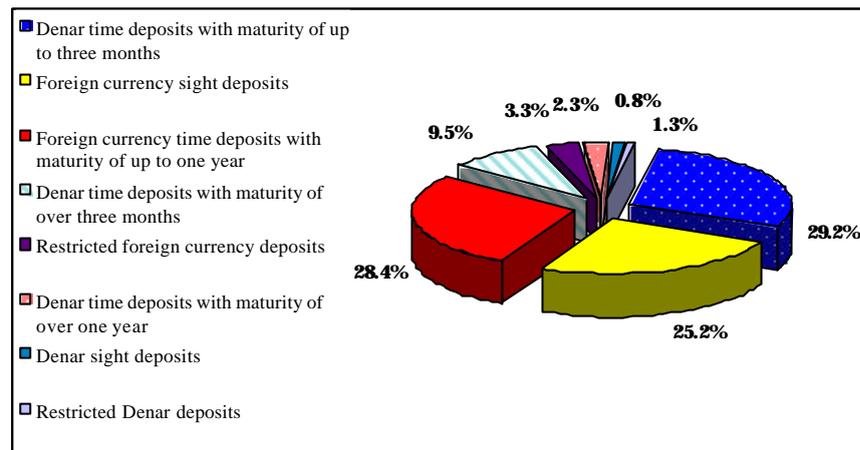
...given a simultaneous decrease in the enterprises' deposits

At the end of September 2005, compared to the end of the previous quarter, the deposits of the corporate sector dropped by 15.3%, mainly due to the identical decrease of the short-term deposits (of 15.3%) (dominant category in the total enterprises' deposits, with an average share of 93.5% in the third quarter). The dynamics of the short-term deposits originates from the intensive



decrease in the Denar deposits with maturity of up to one month (effect from the reduced deposits of a large enterprise due to the payment of dividend). The long-term deposits recorded a quarterly decrease of 15.1%, completely due to the lower amount of restricted deposits in foreign currency related to the instruments in the foreign payment operations. From the aspect of the currency structure, the Denar deposits went down by 34.9%, while the foreign currency deposits augmented by 10.6% on a quarterly basis (increase in the sight deposits and the deposits with one-year maturity). Such movements lead to a significantly slower intensity of the annual increase in the enterprises' deposits, with their amount being higher in September 2005 by 8.4%, compared to the same month of the previous year.

Figure 21
Structure of the enterprises' deposits
(average share in the first quarter of 2005)



Source: NBRM

Attachment 6

The comparative analysis of both households and enterprises' deposits in the South-East European Countries

The theoretical and empirical researches undoubtedly prove the fact that an adequate level of capital accumulation is required for accomplishing long-term and sustainable economic growth. The national saving is one of the key factors determining the domestic level of investments necessary for generating long-term economic growth. Higher level of national saving (Government saving and saving of the private sector) basically means lower level of foreign indebtedness and lower level of deficit on the current account.

The level of the national saving mostly depends on the saving of the private sector (households and enterprises). The researches conducted in the South-East European countries indicate that the stability and the financial system development level, the financial liberalization, the level of monetization of the economy, the tax policy, inflation, as well as the reforms in the pension system are the main determinants of the level of the national saving. Namely, the transition economies' restructuring period is mainly characteristic by macroeconomic instability, including periods of high inflation, crises in the banking system and lower confidence of the private sector in saving in banks. However, the countries that carried out privatization of bank earlier, especially those having foreign capital, solved the problem with the bad placements very soon, registering high level of financial intermediation and in the last years they have been registering higher share of the deposits of the private sector.



Table 9
Share of the private sector deposits with the GDP, 1997-2004

	Deposits of the private sector* in% of GDP							
	1997	1998	1999	2000	2001	2002	2003	2004
Albania	44.8	46.4	49.7	47.9	46.8	45.4	46.5	47.3
Bosnia and Herzegovina	14	16.7	16.4	15.7	25.2	25.2	27.5	34.5
Bulgaria	25	20.8	21.3	22.4	27	28.4	30.9	36
Croatia	35.3	36.1	34	31.8	56.9	56.9	57.9	59.8
Macedonia	5.9	6.4	7.7	9.4	12.0	17.0	19.1	22.8
Romania	20.1	21.3	20.5	18.9	19	21	20.5	23.1
Serbia	9.2	10.4	9.7	14.7	13.4	15.5	17.7	20.7

* private sector pertains to enterprises and households, except in Albania and Macedonia, where other non-banking financial institutions, local governments and non-profitable, non-financial enterprises are included.

Source: "Banking in South-Eastern Europe"-On the move, Economics Department, Bank of Austria, September 2005; The calculation pertaining for the RM was made by the Research Department

Analyzed in the 1997 - 2004 period, a trend of gradual increase in the private sector deposits is registered in almost all South-East European countries, pointing to a gradual strengthening of the confidence in the banking system. Analyzed by the dynamics, an increase recorded in 2001 is specific, as a result of the mobilization of foreign currency deposits in the process of conversion in Euros. This effect is the most apparent in Croatia where high increase in the share of the private sector deposits in the GDP was evidenced (of 25.1 percentage points). The registered high level of saving in Croatia is preserved also in the following years, and in 2004 it has been the highest in the region. In 2004, except Croatia, high share of the private sector deposits in the GDP was registered in Albania and Bulgaria. Namely, these three countries have the largest share of foreign capital in the banking system, participating 80% in the total bank assets. In 2001, also in Macedonia the deposits of the private sector augmented their share in the GDP (by 2.6 percentage points, due to conversion in Euros), and in the following years it registered a gradual increase, and in 2004 it reached 22.8%. However, in comparison with the other South-East European countries, the Macedonia records the lowest saving of the private sector (in 2004, only Serbia registered lower level equalling 20.7% of the GDP).

From the aspect of the sectors, the households are the dominant factor in the creating the banks' deposit base. The households' propensity to save in the banks is determined by a number of factors, which vary from country to country. Thus the households adopt the subjective decisions on current and deferred consumption on the basis of the amount of the available current income, the level of the prices in the economy, the amount of the interest rates, as well as on the basis of the acquired confidence in the banking system. Analyzed by years, at the end of 2001, the highest annual growth rates of the households' deposits were registered in Macedonia, Serbia and Montenegro and Bosnia and Herzegovina (as a result of the Euro conversion). The following year, part of the deposited funds of the households in the Republic of Macedonia and in Croatia were withdrawn from the banking system, with a negative rate of change being registered in 2002. In the following years, the most significant growth was registered in the households' deposits in Serbia, while in Croatia and in Albania, one-digit annual growth rates were recorded. The households' deposits in Macedonia in the last three years register stable increase, pointing to a strengthen confidence of the households in the banking system. The enterprises are the second most significant sector in creating the banks' deposit base.

Analyzed since 2001, positive rates of annual change are registered in all countries from the region, except in Macedonia, where negative annual rates in 2001 and 2002 were registered. Partially it is due to the lower economic activity in the crisis period. Also, in 2003 the enterprises we allowed to unrestrictedly manage with the foreign assets (without time restriction), which acted in direction of significant increase in the enterprises' foreign currency deposits (annual growth rate of 61.3% in 2003). Among other countries, in 2001 and 2003 significant positive changes were recorded in Albania, while in 2004, the highest



growth rate of the enterprises' deposits is registered in Bosnia and Herzegovina and Romania.

Table 10
Annual rates of change of the deposits of the private sector in the South-Eastern countries (2001-2005)

	Croatia		Serbia		Macedonia		Romania		Bulgaria		Bosnia and Herzegovina		Albania	
	enter-prises	house-holds	enter-prises	house-holds	enter-prises	house-holds								
2001	37.1	52.8	29.7	505.9	-9.4	226.3	38.7	57.7	44.4	40.5	39.4	162.7	138.1	14.9
2002	26.7	-0.3	12.7	119.3	-11.0	-20.3	80.3	28.6	25.3	12.5	33.9	10.9	7.9	5.9
2003	27.6	8.1	34.5	49.5	61.3	18.1	25.0	18.6	43.7	20.9	33.2	24.2	155.4	17.0
2004	18.7	9.4	36.9	53.9	41.5	18.0	108.1	25.3	27.8	29.3	114.7	31.0	21.7	6.2
2005*	4.0	8.8	3.3	20.8	3.8	14.2	20.9	10.4			0.3	25.0		

* Serbia as of May 2005, Macedonia as of June 2005, Romania as of August 2005, Croatia and Bosnia and Herzegovina as of September 2005.

Source: Central banks of the respective countries

The largest share in the total deposits of the private sector accounts for the sector "households".²³ Analyzed since 2000, the largest share in the total deposits of the private sector in Albania and Croatia accounts for the households' deposits (of 97.7% and 78.8%, respectively on average), while that share in Serbia and Romania is the lowest (on average, of 42.6% and 56.8%, respectively). In Macedonia, the share of the households' deposits in the total deposits in the private sector in 2001 is significantly increasing and in the following years it maintained high (in the last four years it equals 70.4%, on average).

Table 11
Share of the households and enterprises' deposits in the total deposits of the private sector in the South-Eastern countries (2000 - 2005 period)

<i>Households' deposits in the total deposits</i>							
	Bosnia and Herzegovina						
	Bulgaria	Croatia	Romania	Serbia	Macedonia	Albania	
2000	57.5%	81.2%	62.4%	60.0%	9.7%	49.6%	98.9%
2001	60.8%	82.5%	65.0%	74.8%	33.6%	77.1%	98.3%
2002	59.3%	79.3%	59.5%	70.0%	50.6%	75.5%	98.4%
2003	61.3%	77.3%	57.8%	69.6%	50.9%	70.3%	96.6%
2004	60.7%	76.6%	49.0%	61.3%	53.7%	67.0%	96.2%
2005*		76.0%	47.0%	65.1%	57.1%	68.8%	
average	59.9%	78.8%	56.8%	66.8%	42.6%	68.8%	97.7%
<i>Enterprises' deposits in the total deposits</i>							
	Bosnia and Herzegovina						
	Bulgaria	Croatia	Romania	Serbia	Macedonia	Albania	
2000	24.5%	15.0%	21.8%	27.2%	78.3%	44.4%	0.7%
2001	26.6%	13.7%	19.9%	18.0%	57.7%	19.2%	1.5%
2002	28.9%	16.7%	25.6%	20.4%	44.7%	21.0%	1.6%
2003	35.5%	19.2%	26.2%	21.7%	40.4%	26.7%	3.4%
2004	34.8%	20.7%	36.9%	31.3%	37.9%	30.5%	3.8%
2005*		19.6%	38.7%	26.7%	34.5%	28.4%	
average	30.1%	17.5%	28.2%	24.2%	48.9%	28.3%	2.2%

*Serbia as of May 2005, Macedonia as of September 2005, Romania as of August, 2005, Croatia and Bosnia and Herzegovina as of September 2005.

Source: Central banks of respective countries.

Analyzed by 2000 within the South-East European countries, the largest share of the enterprises' deposits in the total deposits of the private sector was registered in Serbia (average of 48.9%). However, in the following period, that share gradually decreases, in comparison with the share of the enterprises' deposits in Romania, which is increasing. In the remaining countries, the shares of the enterprises' deposits in the total deposits of the private sector register cyclical movements. In Macedonia, in 2001 the enterprises' deposits register the highest share in the total deposits of the private sector (of 44.4%), while in the following year, it is significantly decreasing. In the last four years, the share of

²³ The private sector encompasses: non-financial private and public enterprises, households, local Government, other non-banking financial institutions and non-profit non-financial enterprises. Such a structure is made by the Research Department in order to provide comparability with the record of the deposits of the private sector for Macedonia.



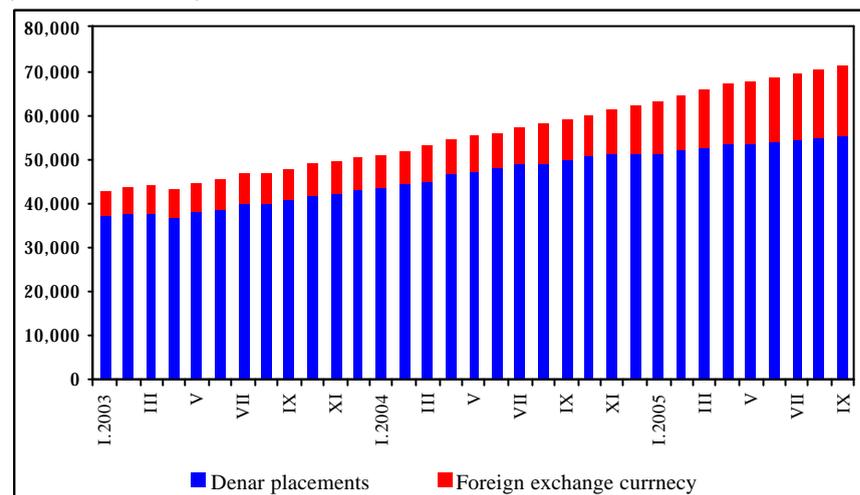
the enterprises' deposits ranges 26.6% , on average, of the total deposits of the private sector.

5.2. Placements and interest rates of the banks

Despite the decrease in the deposit base of the banks in the third quarter of 2005, the total credit activity of the banking sector registered an increase, on the basis of active use of the foreign assets of the banks and providing additional funds through indebtedness in the country. Thus in September 2005 the share of the accounts with foreign banks in the total assets of the banking sector declined by about 2 percentage points on a quarterly basis. Simultaneously, intensified interest of the banks for using foreign credit lines (the long-term credits from foreign banks augmented by 21% on a quarterly basis) aimed at financial support of the private sector. It led to a decrease in the banks' net foreign assets and a total foreign currency deposits in the banking systems correlation, which equaled 0.49 in September, compared to 0.60 in June 2005. As a result of such movements, the total banks' placements at the end of the third quarter rose by 4.5% compared to the previous quarter.

Preserved upward trend of the banks' placements

Figure 22
Banks' placements by currency
(in millions of Denars)



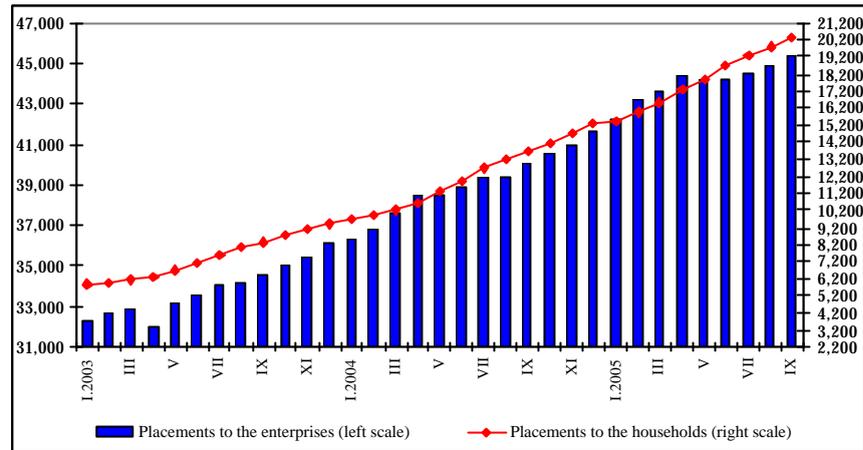
Source: NBRM

Observed from the aspect of the currency structure, the total Denar²⁴ placements registered quarterly increase of 2.5%, with more enhanced crediting of the households on a short-term and a long-term basis being registered. On the other hand, in terms of the enterprises' orientation towards indebtedness in foreign currency, more intensive quarterly increase of 11.2% was recorded in the total foreign currency placements. From the aspect of maturity, the preferences for long-term crediting were more apparent in the third quarter, which caused a quarterly increase in the long-term loans of 9%, given the simultaneous decrease in the short-term loans (of 0.4%). Such movements caused positive movements in the maturity structure of the total placements in direction of increase in the share of the long-term credits from 52.3% at the end of the second quarter to 54.5% in September 2005. On annual basis (September 2005 / September 2004), the total banks' placements surged by 22%, given the higher increment in the foreign currency placements (80.1%), compared to the increase in the Denar placements (10.5%).

²⁴ The index loans are also included



Figure 22
Sector structure of the banks' placements
(in Denar million)

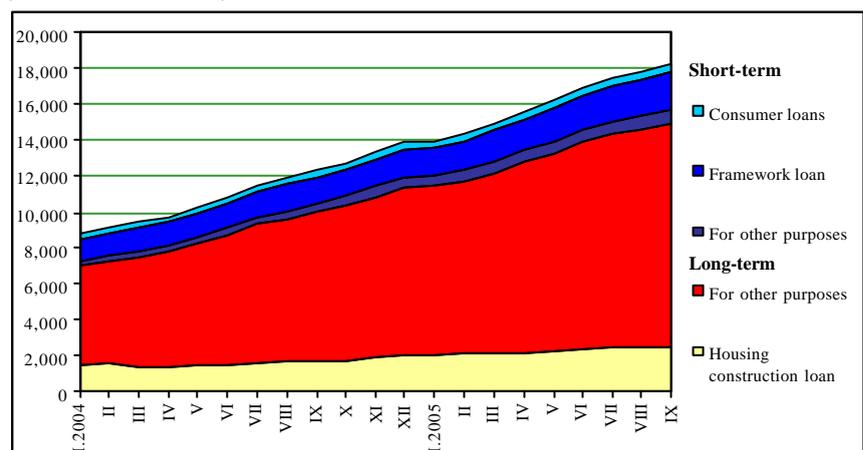


Source: NBRM

Higher lending to the households and enterprises

Higher lending to both households and corporate sector by the banks was evidenced in the third quarter. Thus, at the end of September, compared to the previous quarter, the total households' placements went up by 8.5%. The basic component of the increase in the total placements with the households are the Denar placements (quarterly increment of 8.4%), the share of which in the total increase equals 95.5%. The foreign exchange placements rose by 13.2% on a quarterly basis. From the aspect of the maturity structure, the long-term lending to the households is the dominant one (in the third quarter, the share of the long-term credits in the total households' credits equals 76.5%, on average). Analyzed by the structure, all categories of long-term loans register an increase, with the most intensive one being recorded with the loans in domestic currency. Within the short-term loans of the households, the most severe increase (of 11.1%) is evidenced in the framework loans, which further retain their relatively high share in the total short-term households' loans (43.9% in September 2005). The annual growth rate in the total households' placements equals 48.5%.

Figure 24
Distribution of the households' Denar credits by types of credits
(in millions of Denars)



Source: NBRM

The total enterprises' placements increased by 2.6% at the end of September, in comparison with the previous quarter. In the terms of reduced Denar loans (by 1.3%), the increase is caused by the higher foreign currency placements (by 11.2%), which confirms the corporate sector orientation towards cheaper sources of credit financing. From the aspect of the maturity structure, an

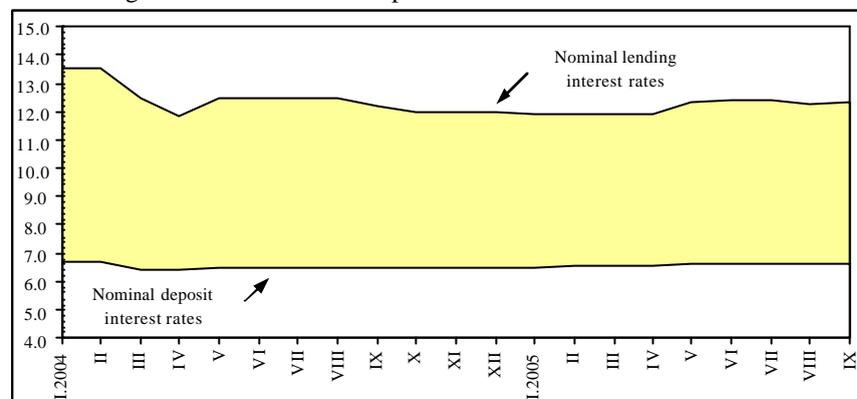


increase in the long-term crediting of the enterprises was registered (of 9.7% on a quarterly basis), which is a significant impulse for intensifying the economic activity. On the other hand, the credits extended on a short-term reduced by 2.5%. On annual basis (September 2005 / September 2004) the total placements of the enterprises went higher by 13.2%.

Insignificant changes in the banks' interest rate policy in the second quarter

No changes of higher importance in the interest were registered in the third quarter of 2005. Thus the average weighted interest rate (on the short-term Denar loans) in September 2005 equaled 12.30%, compared to 12.36% in June 2005. The average weighted deposit interest rate (on a three-month Denar deposits) registered an insignificant increase in comparison with the previous quarter and it equaled 6.63% (6.60% in June 2005). The average weighted interest rate on the short-term foreign currency loans equaled 7.53% in September 2005 compared to 7.49% as it equaled at the end of the second quarter. The interest rate on the three-month time deposits in Euros ranged between 1% and 3.26% in September, while the interest rate on the three-month deposits in US Dollars varied in the interval from 0.90% to 2.63%.

Figure 25
Banks' weighted interest rates and spreads*



* Pertain to Denar loans and deposits.

Source: NBRM

6.1. Stock Exchange

The total turnover on the stock exchanges (including the block transactions and the Government segment) realized on the Macedonian Stock Exchange a.d. Skopje in the third quarter of 2005 amounts to Denar 1,522.8 million. The block transactions registered on both official and unofficial market segment on the stock exchange comprise 9.9% of the total stock exchange turnover. Total turnover in the amount of Denar 1,348.7 million was registered in terms of classic trading (without block transactions), with the average daily stock exchange turnover being equal to Denar 27.6 million, while the average number of transactions per day equaled 137. The turnover realized on the official market segment comprises 87.9% of the total turnover on the stock exchange market. 10.5% of the total stock exchange trading²⁵ is realized on the unofficial market, while 1.5% out of the stock exchange turnover accounts for the concluded transactions with shares and stakes in the ownership of the Government stock exchange segment.

²⁵ No trading with convertible certificates issued by the Government for compensating the depositors of the bankrupted savings houses was registered on the unofficial market.

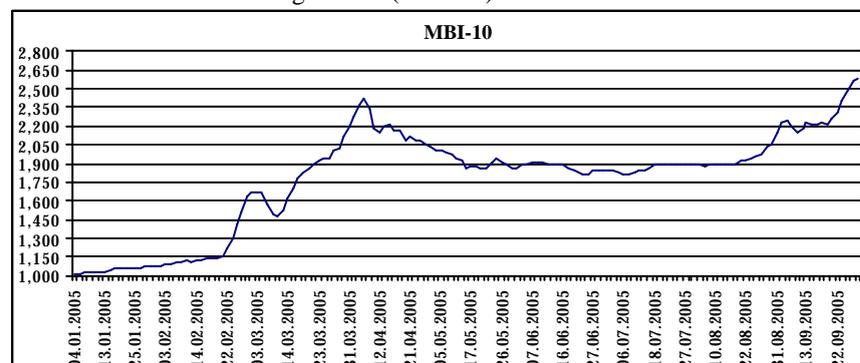


In comparison with the previous quarter, in the third quarter of 2005 the total turnover on the stock exchange registered a decrease of 14.1%. This decrease is due to the lower turnover of Government bonds, lower activity of the government market segment, as well as the lower volume of concluded block transactions within the quarter. The reduced trading with Government bonds is considered temporary. Namely, with the initiation of the private pension funds, incremented stock exchange operating and especially higher interest by the pension funds in Government bonds is expected from the following year, which corresponds to their legal obligation for placing the largest part of accumulated funds in safe instruments²⁶. In line with the expectations for enhanced stock exchange trading, the number of brokerage houses also increased²⁷. On the other hand, the decrease in the structural share of the block transactions and the trading of the Government segment in the Stock Exchange turnover (of 8.3 and 5.3 percentage points, respectively, relative to the previous quarter) are certain indicators for rounding off the development phase on the Stock Exchange as a necessary market infrastructure for further privatization of the socially-owned and state-owned capital and consolidation of the ownership structures created during the privatization process.

As of September 30, 2005 there are 57 joint stock companies listed on the official market segment of the Stock Exchange. Namely, with the expiration of the legal requirement pertaining to the listing (on December 31, 2004), at the beginning of 2005 there were 68 companies listed on the Stock Exchange, but in the meanwhile, eleven joint stock companies ceased quoting because they failed to meet the obligations for publishing financial and other price sensitive information and/or being illiquid in the trading. The abandoning of the stock exchange listing points to the fact that the Macedonian companies are still unprepared for transparent operating.

At the end of the third quarter of 2005, compared to the end of the previous quarter²⁸, the share of foreign investors in the total capital of all listed companies on the official market of the Stock Exchange augmented, as well as in the total face value of the quoted bonds (13.05% as of September 30, 2005 compared to 11.69% at the end of June 2005). However, 10.59% are owned by foreign legal entities, and the remaining 2.46% are in possession of foreign natural persons. Also, the share of the foreign investors in the stock exchange turnover realized on the official market segment in September equals 16.74% regarding the purchases and 14.15% regarding the sales.

Figure 26
Macedonian Stock Exchange Index (MBI-10)



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

²⁶ The pension funds are legally bounded to place 80% of their funds in the country, and 20% abroad.

²⁷ The brokerage house Ilirka was founded by three Slovenian companies and one natural person from Macedonia.

²⁸ According to the data provided by the Central Securities Depository.

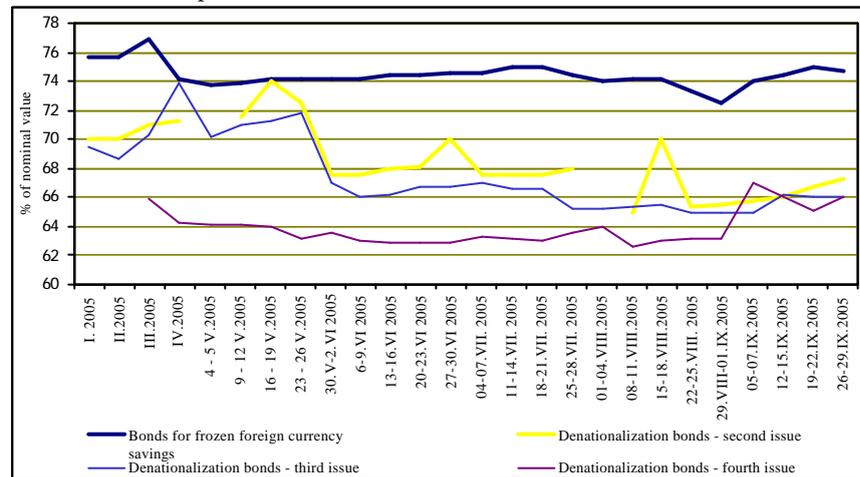


During the third quarter of 2005, after the stagnation registered in the second half of July and the first two decades of August, the Macedonian stock exchange index MBI-10²⁹ registered an increase. Thus, on September 30, 2005, the value of the index equaled 2,577.15 compared to 1,834.28 at the end of the second quarter of 2005, which reflects the average increase in the prices of then the mostly traded common shares at the Stock Exchange of 40.5%. In accordance with such a trend, the market capitalization of the ten most liquid companies listed on the official market segment in the third quarter of 2005 amounts to Denar 24,846.9 million, compared to Denar 17,053.9 million as it equaled at the end of the previous quarter.

6.2. Government securities market

In the third quarter of 2005, **Government bonds** in the amount of Denar 366.3 million were traded on the Stock Exchange official market, which is a decrease of 30.2% in comparison with the previous quarter. The largest share of the turnover accounts for the denationalization bonds (fourth issue)³⁰. During the quarter, the Government bonds were traded at price of 62.7 - 75%³¹ of the face value.

Figure 27
Movement of the prices of Government bonds



Source: Macedonian Stock Exchange a.d. Skopje

In the third quarter of 2005, six auctions of three-month Treasury bills (two auctions per month) were held on the primary Government securities market in accordance with the previously set calendar for Government securities issue³². The total supply of Treasury bills with maturity of three months amounted to Denar 3,400.0 million, the demanded amount Denar 4,609.4 million, while the total realization equaled Denar 3,333.4 million³³. On the auctions held in the third quarter, the average weighted interest rate of the Treasury bills with maturity of three month equaled 10.40%.

Analyzed by months in 2005, except to the first three months, the supply of short-term securities was relatively stable (with small oscillations it equals about Denar 1,200.0 million), which is significant for keeping the

²⁹ Price index weighted with the market capitalization which is composed of the common shares of ten listed companies

³⁰ The yield from the maturity of fourth issue denationalization bonds equals 11.02% on September 30, 2005, calculated according to the last average bonds' trade price.

³¹ The interval has been chosen according to the last average weekly price of the bonds trading within the analyzed quarter.

³² The calendar for holding auctions of Government securities is published six months in advance, with the precised amount for each auction being published four days before the auction is held.

³³ In the previous quarter, the total supply of Treasury bills with maturity of three-month equaled Denar 3,450.0 million.



potential investors interested in the Government securities. Contemporaneously, higher demand than supply was registered in every month comprising the respective quarter, with the realized amount, as a percentage of the total demand, being ranged from 58.5% in September to 85.6% of the demanded amount of the three-month Treasury bills in July. Thus, the highest average weighted interest rate was realized in August (10.52%), when three-month Treasury bills in the amount of Denar 1,200 million were sold.

Table 12
Supply, demand and interest rate of Treasury bills*

Three-month Treasury bills	Supply	Demand	Realization	Average weighted interest rate
	<i>(in Denars)</i>			
VII.2005	1,050,000,000	1,148,830,000	983,430,000	10.42
VIII.2005	1,200,000,000	1,495,980,000	1,200,000,000	10.52
IX.2005	1,150,000,000	1,964,600,000	1,150,000,000	10.25
Total for the quarter:	3,400,000,000	4,609,410,000	3,333,430,000	10.40

Six-month Treasury bills	Supply	Demand	Realization	Average weighted interest rate
	<i>(in Denars)</i>			
VII.2005	150,000,000	115,880,000	115,880,000	10.60
VIII.2005	100,000,000	88,190,000	88,190,000	10.88
IX.2005	100,000,000	112,090,000	100,000,000	11.20
Total for the quarter:	350,000,000	316,160,000	304,070,000	10.88

* During the third quarter of 2005, no securities with maturity of twelve months were registered on the primary Government securities market.

Source: Ministry of Finance of the Republic of Macedonia

Three auctions of Treasury bills with maturity of six months were held during the third quarter (one auction per month). The total supply equaled Denar 350 million (compared to Denar 245 million in the second and Denar 250 million in the first quarter) which can be deemed a strategic direction of Government indebtedness through instruments with longer maturity, within the public internal short-term debt management. Analyzed by months, the demand exceeded the supply only in September, because of which the demanded amount was not completely realized only in this month. The average weighted interest rate on the six-month Treasury bills held on the auctions during the quarter reached 10.88%.

During the third quarter of 2005, purchase and sale transactions with securities in the amount of Denar 186.7 million were concluded on the Over the Counter Market³⁴. The higher volume of trading on the secondary Government securities market points to a gradual positioning of this market segment in the structure of the financial markets in the Republic of Macedonia.

7.

Balance of payments

In the third quarter of 2005, positive movements in the external sector were registered, reflected through positive balance on the balance of payments' current account and the increase in the gross foreign reserves. In terms of seasonally higher supply of foreign currency on the currency exchange market, and for the purpose of maintaining stable level of the Denar relative to the Euro, in the third quarter of 2005, the NBRM registered a significant net purchase of foreign exchange on the foreign exchange market. In this quarter, annual increase in the long-term debt was registered, having in mind the larger amount of used funds (within the tranche of the Stand By arrangement with the IMF) compared to the paid principal.

³⁴ The Over the Counter Market commenced operating officially on April 25, 2005, and the first transaction was concluded on May 18, 2005. Purchase and sale transactions with securities outside the Stock Exchange and the Money and Short-term Securities Market were concluded. All short-term securities issued by the Republic of Macedonia are traded on the Market, with exception to the CB bills.



A) *Current account*

Surplus on the balance of payments' current account was registered in the third quarter of 2005

In the third quarter of 2005, positive balance on the balance of payments' current account was registered, in terms of favorable movements in the foreign trade of goods, services and inflows of private transfers.

Table 13
Current account of the balance of payments/1
(in millions of U Dollars)

	2004				2005			2004		2005		2005/2004		2005/2004	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.1-Q.3	Q.1-Q.3	Q.1	Q.2	Q.3	Q.1-Q.3	Q.3	Q.1-Q.3
								difference		difference		difference		changes in (%)	
Goods, net (f.o.b.)*	-180.4	-264.9	-192.9	-255.9	-145.5	-272.2	-190.1	-638.1	-607.8	34.9	-7.4	2.8	30.3	-1.4	-4.8
Services, net	-26.7	-11.6	0.4	-5.6	-2.9	-13.0	9.4	-37.9	-6.6	23.8	-1.5	9.0	31.3	2238.4	-82.7
Income, net	0.9	-30.7	-9.7	6.3	0.5	-17.4	-36.9	-39.5	-53.9	-0.4	13.3	-27.2	-14.4	281.2	36.4
Current transfers, net	120.5	162.7	198.4	155.3	131.9	214.6	280.7	481.7	627.3	11.4	51.9	82.3	145.7	41.5	30.2
Current account	-85.6	-144.5	-3.7	-99.8	-15.9	-88.1	63.1	-233.8	-40.9	69.7	56.4	66.9	192.9	-1785.5	-82.5

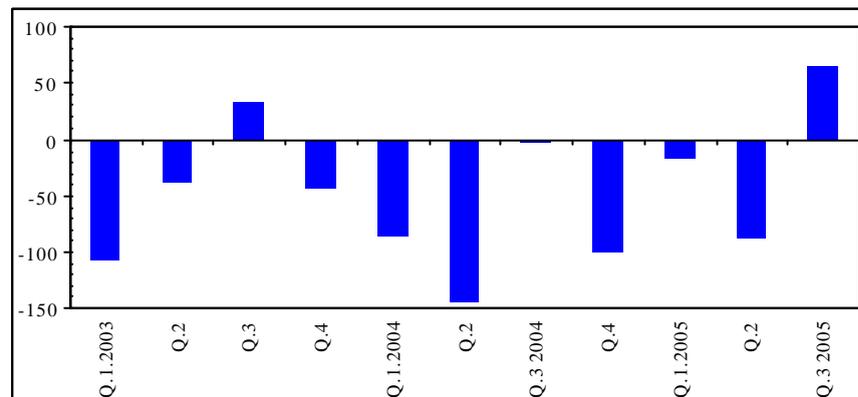
I/ Preliminary data.

* The c.i.f- f.o.b. factor equals 4.06%

Source: National Bank of the Republic of Macedonia.

Under the influence of the seasonal factors (higher private transfers), usually there is a potential for registering good results regarding the balance of the balance of payments' current account in the third quarter. Thus in the third quarter of 2005, a surplus of Euro 63.1 million was registered, while in the same period of the previous year, there was a relatively smaller deficit in the amount of Euro 3.7 million.

Figure 28
Dynamics of the current account balance
(in millions of Denars)

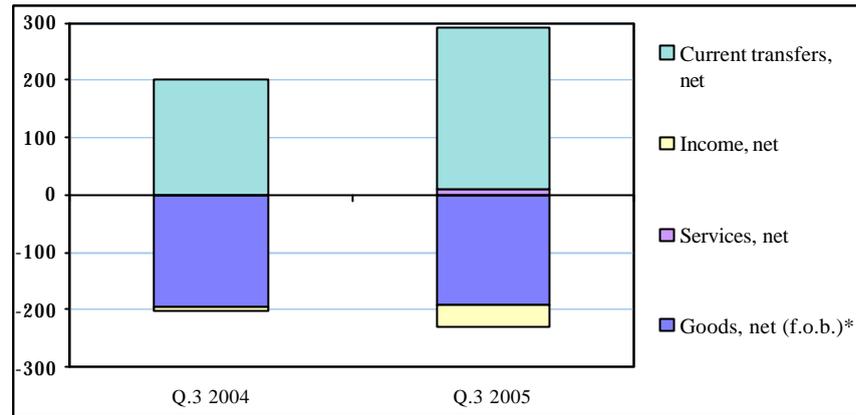


Source: National Bank of the Republic of Macedonia

From the aspect of the current account components, the high positive balance in the current account registered in the third quarter of 2005 is primarily a result of the higher net inflows originating from private transfers (by Euro 72.8 million), which completely neutralized the effect of the higher outflows based on income.



Figure 29
Components of the balance of payments' current account
(in millions of Denars)



Source: National Bank of the Republic of Macedonia

The total foreign trade of goods in the third quarter of 2005 in the amount of Euro 1,044.7 million³⁵ registered an annual increase of 11.1%, given the surge in the export and import of goods.

In the third quarter of 2005, the export of goods reached Euro 414.7 million, which is an increase of 14.5% on annual basis. The analysis from the aspect of the most important product categories shows that the largest contribution to the increase in the export in the third quarter of 2005 accounts for the higher export of oil derivatives, tobacco and food (total contribution of 77.2%). Significant annual increase in the export of oil derivatives in the third quarter of 2005 by 1.3 times is caused by the growth of the import price of oil derivatives of 86% annually. Simultaneously, increase was registered also with the exported quantities of oil derivatives of 8.2%, annually. Such a dynamics with the oil derivatives led to higher share of these products in the total export by 4.1 percentage points, which equaled 9.5% in the third quarter of 2005.

Annual increase in the export of goods of 14.5% in the third quarter of 2005 was registered ...

Table 14
Export by groups of products

groups of products	Q.3 2004		Q.3 2005		change in absolute amount
	in million EURO		in million EURO		
Total export of goods	362.3	414.7	362.3	414.7	52.4
food products	14.3	20.6	14.3	20.6	6.2
tobacco	6.3	20.7	6.3	20.7	14.4
textile, yarn , etc.	104.1	105.7	104.1	105.7	1.5
oil and oil products	19.6	39.4	19.6	39.4	19.8
	share in the total export (in %)		share in the total export (in %)		contribution to the total increase (in %)
food products	4.0	5.0	4.0	5.0	11.9
tobacco	1.7	5.0	1.7	5.0	27.5
textile, yarn , etc.	28.7	25.5	28.7	25.5	3.0
oil and oil products	5.4	9.5	5.4	9.5	37.8
Total	39.8	44.9	39.8	44.9	80.2

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

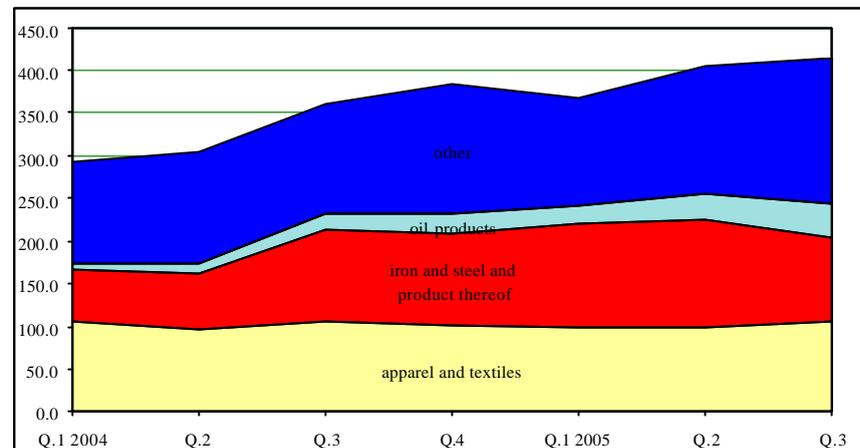
Among other significant export products, export of clothing and textile in the amount of Euro 105.7 million was registered in the third quarter of 2005 (annual increase of 1.5%). Such a dynamics of the export of clothing and textile

³⁵ Preliminary data of the State Statistical Office of the Republic of Macedonia, while the calculations in Euros are made by the NBRM. The export of goods is presented on f.o.b basis, while the import of goods on c.i.f. basis.



proves that the enhanced competitiveness (China) in the placement of textile on foreign markets had negative effect on the export of these products from the Republic of Macedonia only in the first quarter of 2005 (annual decrease of 7.7%), while in the second quarter of 2005, the export rose by 2.1% on annual basis.

Figure 30
Export dynamics by groups of products
(in millions of Denars)



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

On the other hand, the export of iron and steel and products thereof amounts to Euro 98.7 million in the third quarter of 2005, which is an annual drop of 10.2%. Such a dynamics is mainly caused by the lower production and export activity of one significant metallurgical facility. Simultaneously, the remaining exporters of iron and steel and product thereof realized higher export of these products on the world markets by 18.8% in comparison with third quarter of 2004.

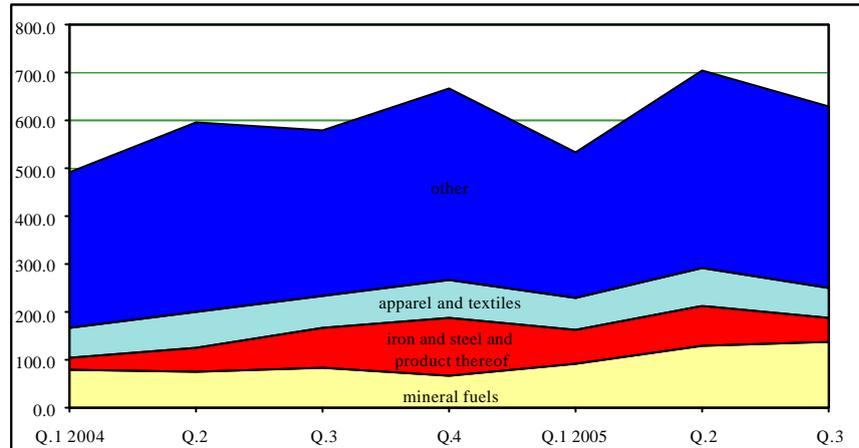
..and increase in the import of goods of 9%

In the third quarter of 2005, the import of goods totalled Euro 630.1 million and increased annually by 9%, primarily reflecting the import dependence of the Macedonian economy, the increase in the price of crude oil and oil derivatives on the international markets and the effect of the lower customs rates from the beginning of the year.²⁰

²⁰ In line with the admission of the Republic of Macedonia to the WTO, the customs duties on certain products dropped on January 2005, with the average customs rate decreasing from 11.09% in 2004 to 10.05% in 2005.



Figure 31
Dynamics of the import by group of products
(in millions of euros)



Source: State Statistical Office; The calculations were made at the National Bank of the Republic of Macedonia.

In the third quarter of 2005, the import of energy amounted to Euro 136 million (annual increase of 60.5%), increasing its share in the total import of goods by 6.9 percentage points, which makes up 21.6%. Within the types of energy, *the oil, oil derivatives and electricity* contributed the most to the increase in the import of goods. In the observed period of 2005, 80.7% of the increase in the total import of goods is due to the higher import of *oil and oil derivatives*, with the import of crude oil (72.4%) having considerable contribution. Considering that the imported quantities of oil compared to the third quarter of 2004 went up by 9.4%, whereas the quantities of imported oil derivatives simultaneously dropped by 1.9%, it appears that the increase in the price of oil and oil derivatives on the international markets is the main determinant for the higher import, thus affecting the increase of the actual import price of this type of energy (import price) of 51.3% and 36.9%, respectively.

Table 15
Share of the import of energy in the total increase in the import of goods
(in %)

	2004	2005	Q.3 2005-Q.3 2004	Q.3 2005/Q.3 2004
	Q.3	Q.3	change in absolute amounts in millions of euros	rates of change in (%)
1. Import of goods in the Republic of Macedonia	578.3	630.1	51.8	9.0
2. Import of energy	84.8	136.0	51.3	60.5
Oil and oil derivatives	68.2	110.0	41.8	61.3
crude oil (in mil. of euros)	55.6	93.0	37.5	67.5
quantity in tons	222091.498	242935.67	20844.2	9.4
actual price per 1 kg.	0.25	0.38	0.1	53.1
lubricants obtained from oil (in mil. of euros)	12.6	16.9	4.3	34.3
quantity in tons	33188.876	32565.272	-623.6	-1.9
actual price per 1 kg.	0.38	0.52	0.1	36.9
electricity (in mil. of euros)	4.3	12.4	8.1	190.0
quantity in MWH	137.493	428.13506	290.6	211.4
actual price per 1 kg.	30.99	28.86	-2.1	-6.9
3. Share in the total imports of RM (in %)	12.5	19.4		
Oil and oil derivatives	11.8	17.5		
crude oil	9.6	14.8		
lubricants obtained from oil	2.2	2.7		
Electricity	0.7	2.0		
4. Contribution to the increment in the exports of RM (in %)				96.3
Oil and oil derivatives				80.7
crude oil				72.4
lubricants obtained from oil				8.4
Electricity				15.6

Source: State Statistical Office; The calculations were made at the National Bank of the Republic of Macedonia.

In the third quarter of 2005, the import of *electricity* in the amount of Euro 12.4 million went up by 1.9 times relative to the same period of the



previous year, determining 15.6% of the increase to the total import of goods. The increase in the import of electricity, having a lower actual price relative to the same period of 2004, is solely due to the increment in the imported quantities.

On the other hand, in line with the high import dependence of the Macedonian economy, the lower export activity of one significant metallurgical export facility led to lower import of iron and steel. Thus, the third quarter of 2005 registered an import of iron and steel in the amount of Euro 56.5 million, which is a decrease of 40.3% relative to the same period of the preceding year.

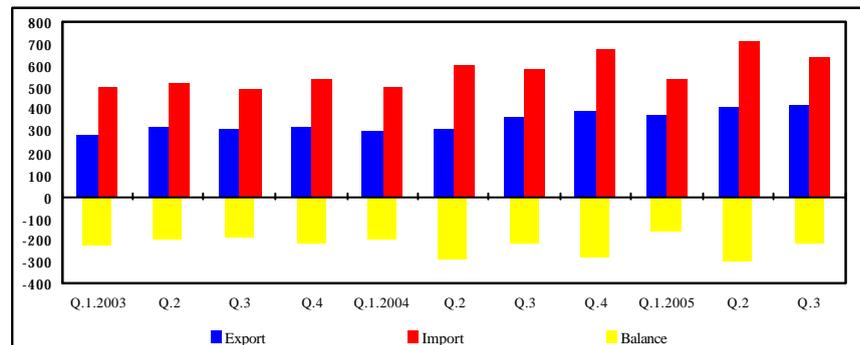
Observing the monthly dynamics, July 2005 registered the highest volume of foreign trade of the Republic of Macedonia worth Euro 366.4 million due to the increase in its both components. Also, in July, the export of goods was valued at Euro 153.1 million, which is the highest monthly export since 1996. In August 2005, both components of the foreign trade declined, usually owing to seasonal factors.

Such developments in the foreign trade in the third quarter of 2005 led to lower trade deficit and higher export-import coverage ratio. Thus in the third quarter of 2005, the trade deficit stands at Euro 215.4 million, which is a decline of Euro 0.6 million relative to the same quarter of 2004, while the export-import coverage ratio equals 65.8%, which is by 3.2 percentage points more relative to the third quarter of 2004.

The highest monthly amount of export of goods and the total foreign trade in July 2005

Lower trade deficit and higher export-import coverage ratio

Figure 32
Export, import and trade deficit
(in millions of euros)

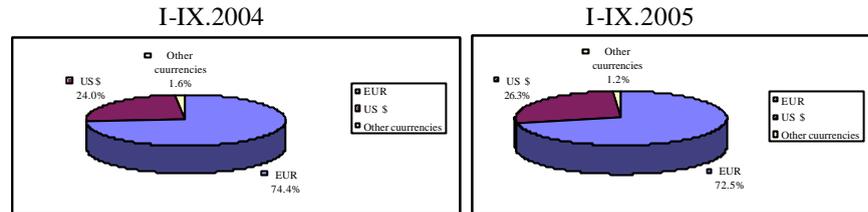


Source: State Statistical Office; The calculations were made at the National Bank of the Republic of Macedonia.

Higher share of the US Dollar in the total foreign trade

The analysis of the foreign trade by the currency of denomination structure in the January - September 2005 period indicates lower share of the Euro by 1.9 percentage points, relative to the same period of 2004. Simultaneously, the share of the US Dollar went up by 2.3 percentage points, which is in close relation with the higher import of oil and oil derivatives which are usually paid in US Dollars. The Euro dominates on the side of the exports and the imports, which in this period equals 75.1% and 70.8%, respectively. Relative to the same period of 2004, the share of the Euro in the exports goes up (by 0.2 percentage points), while on the import side, its share dropped by 3,3 percentage points.

Figure 33
Currency of denomination structure of the foreign trade of the Republic of Macedonia

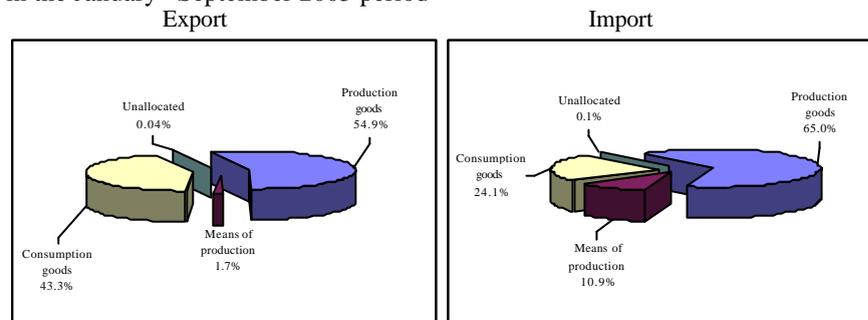


Source: State Statistical Office; The calculations were made at the National Bank of the Republic of Macedonia.

Dominant share of the production goods...

The analysis of the foreign trade by the economic use of the products for the January - September 2005 period indicates that the production goods²¹ dominate the structure of both the export and the import with a share of 54.9% and 65%, respectively. The joint consumption goods constitute 43.3% of the side of the export and 24.1% of the import side.

Figure 34
Foreign trade of the Republic of Macedonia by the economic use of the products in the January - September 2005 period



Source: State Statistical Office; The calculations were made at the National Bank of the Republic of Macedonia.

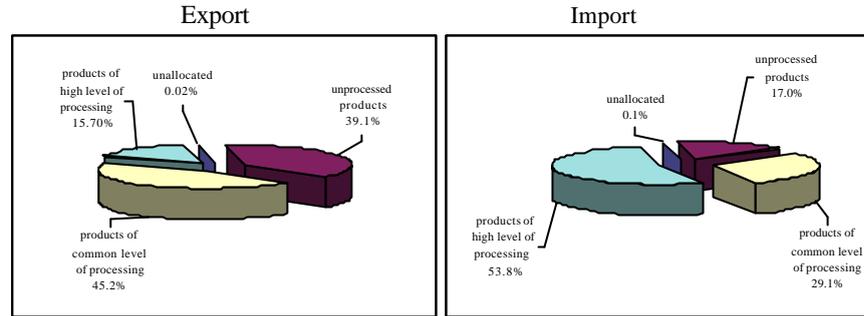
...and the products with a high degree of processing in the export and import of goods

The analysis by the classification of the products depending on the processing degree in the observed period shows that most of the export and the import includes products with high processing degree (47.4% and 53.8%, respectively). Also, on the export side, the share of products with regular processing is high (42.8%), and the share of unprocessed products equals 9.8%. Simultaneously, on the import side, 29.1% of the total import are products with regular processing and 17% are unprocessed products.

²¹ Production goods include raw materials and intermediary products, machine fuel and finished production materials.



Figure 35
Foreign trade of the Republic of Macedonia by the degree of processing of the products in the January - September 2005 period



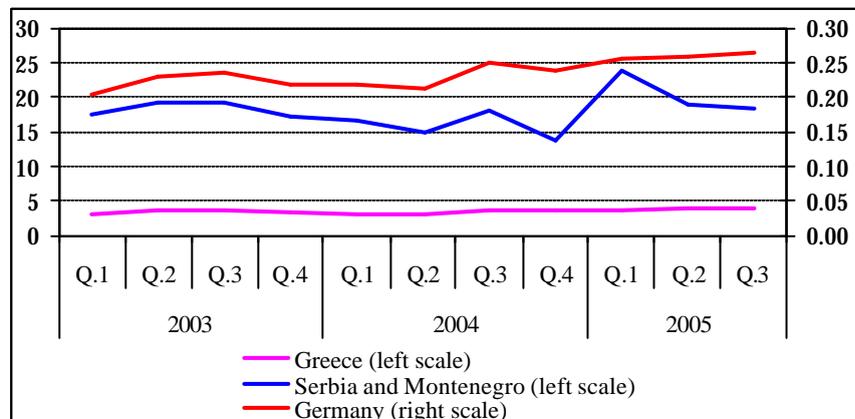
Source: State Statistical Office; The calculations were made at the National Bank of the Republic of Macedonia.

The European Union dominates the total foreign trade with abroad in the third quarter of 2005

The geographic distribution of the foreign trade in the third quarter of 2005 shows dominant share of the European Union in the total foreign trade of 47.4%. Analysing the foreign trade components, this group of countries makes up 51.8% and 44.5%, respectively, of the total export and import of goods. In the third quarter of 2005, 20% of the foreign trade of the Republic of Macedonia were carried out with the former SFRJ states, and 18.5% with the countries of Central and Eastern Europe.

Analysing the ten most significant trade partners in the January - September 2005 period, the Republic of Macedonia registered the highest foreign trade with Serbia and Montenegro, Germany and Greece, the share of which in the total foreign trade is 38.8%. Thus the export-import coverage of the three most relevant foreign trade partners in this period of 2005, compared to the same period of the preceding year picked up by 24.2, 27.1 and 27.2 percentage points, respectively, indicating higher presence of Macedonian products on the markets of these countries. The Republic of Macedonia registered the highest surplus in the foreign trade with Serbia and Montenegro worth Euro 104.3 million, thus registering the highest export-import coverage of 166.9%, whereas in the foreign trade with Russia it registered the highest deficit of Euro 223.2 million and the lowest export-import coverage ratio of 5.3%.

Figure 36
Share of the export of the Republic of Macedonia in the imports of the three most relevant trade partners (in %)



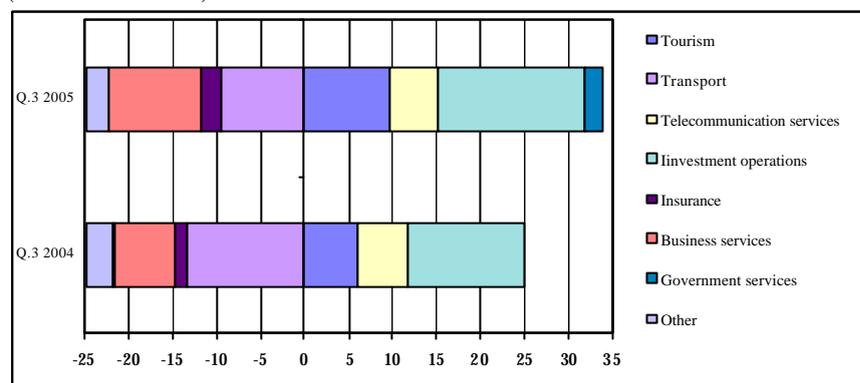
Source: State Statistical Office; Central banks of the respective countries; The calculations were made at the National Bank of the Republic of Macedonia.



Higher surplus in the services

In the third quarter of 2005, the surplus in the trade in *services* is largely caused by the transactions related to the trade in goods with abroad and the seasonally higher net inflows in some service categories. In the third quarter of 2005, the balance was positive and equalled Euro 9.4 million, which is by Euro 9 million more relative to the same period of 2004. Observing the dynamics of the certain service categories, the major increase in the net inflows was registered in the tourism, the investment works and the government services (higher by Euro 3.6 million, Euro 3.2 million and Euro 2.5 million, respectively, compared to the third quarter of 2004). On the other hand, the lower negative balance on the trade in transport services acted towards increasing the surplus in the trade in services (lower deficit by Euro 4 million relative to the third quarter of 2004), as a result of the higher export of goods, and consequently, higher income from transport of goods.

Figure 37
Balance on categories of services
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

Higher deficit in the income sub-balance

In the third quarter of 2005, the *income* sub-balance registered deficit worth Euro 36.9 million, which compared to the same period of 2004 is by Euro 27.2 million higher. In environment of stable income developments based on interest and higher inflows from employees compensations (by Euro 2.4 million relative to the third quarter of 2004), the higher deficit in the third quarter of 2005 is primarily due to the higher amount of paid dividends (by Euro 29.5 million), due to deferred payment from the second to the third quarter of 2005.

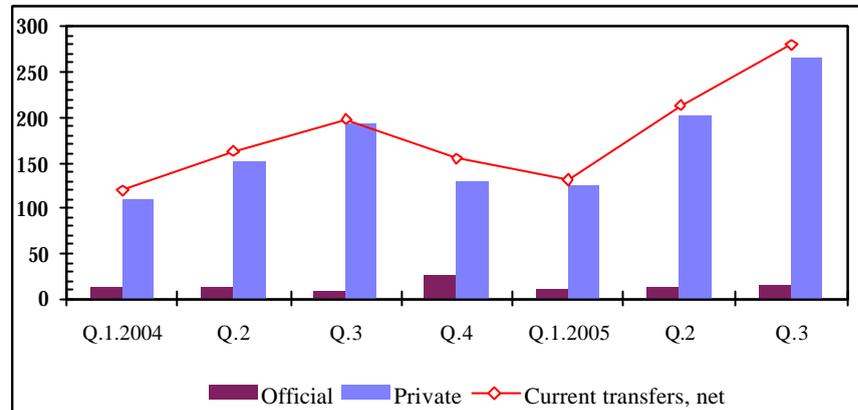
Higher net inflows from current transfers

The net inflows from the *current transfers* in the third quarter of 2005 reached substantially high amount of Euro 280.7 million, which is an increase of Euro 82.3 million compared to the same period of 2004. Also, having higher net inflows in the both components, 88.2% of the increase in the net-current transfers are a result of the higher net inflows of private transfers, and 11.6% of the higher net inflows results from official transfers. Thus, in the third quarter of 2005 the net inflows of official transfers worth Euro 16.6 million are by Euro 9.6 million higher relative to the same period of 2004. Having a slight increase in the aid in goods from the official donators (by Euro 1.1 million), main cause of the increase in the net official transfers are the donations in funds worth Euro 11.1 million, which are by Euro 8.4 million higher relative to the third quarter of 2004. Euro 6.3 million of these funds which are donation for a microfinancial support from the Netherlands, was received in July 2005. In the third quarter of 2005, the net inflows of private transfers in the amount of Euro 264.1 million are by Euro 72.8 million higher relative to the third quarter of 2004 (increase of 38%). Most of the increase in the private transfers (88.6%) is due to the higher net inflows from the currency exchange operations, which are by Euro 64.5 million higher compared to the third quarter of 2004. Consequently, their structural share in the total net private transfers went up by 5.6 percentage points, reaching 73.8% in the third quarter of 2005. Simultaneously, the other components of private transfers registered a minor increase. Thus, in the third



quarter of 2005, the net inflows from remittances and other private transfers (worth Euro 35 million and Euro 34.1 million, respectively) are by Euro 3.2 million and Euro 5.1 million higher, respectively, compared to the third quarter of 2004. In the third quarter of 2005, they make up 13.3% and 12.9%, respectively of the total net private transfers (16.7% and 15.1%, respectively in the third quarter of 2004).

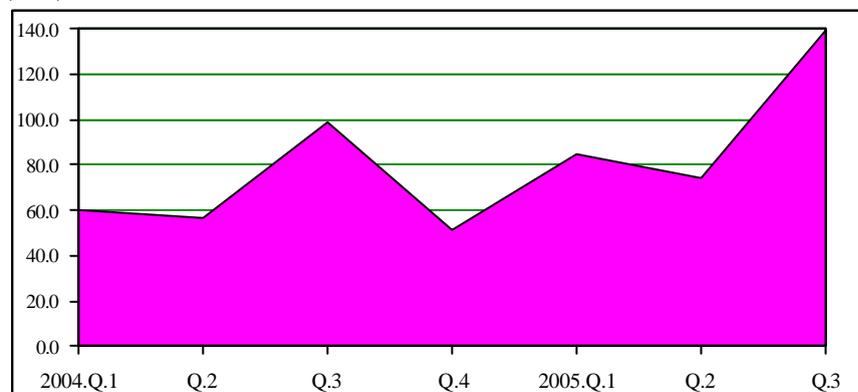
Figure 38
Current transfers, net
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

In line with such increase, in the third quarter of 2005, the foreign exchange inflows from private transfer funded 139% of the trade deficit (unlike 99.2% in the same period of the preceding year).

Figure 41
Coverage of the trade deficit with private transfers
(in %)



Source: National Bank of the Republic of Macedonia.

Annex 7

Private transfers in the Southeast European countries

The private transfers represent a significant source of inflows to the balance of payments current account, particularly for the countries with a number of temporary workers and emigrants abroad. Consequently, the private transfers in the underdeveloped countries have significant positive effects on their balance of payments and social position, the poorer population, in particular.

According to the estimations of the World Bank, the annual amount of inflows from transfers, globally, totals around US Dollar 150 billion, with the



largest portion being directed towards developing countries²². The region of south-eastern Europe is a significant recipient of inflows from private transfers. The analysis of the countries in the region shows that in the 2001 - 2004 period, the highest average share of the net private transfers in the GDP was registered in Albania (14.1%), followed by Serbia (12%), Moldova (11.5%) and Macedonia (11.4%). Simultaneously, in the observed period, the fastest increase in the private transfers was registered in Serbia, Macedonia and Romania, while in Slovenia they reduced. In the eight countries of the regions subject to observation, the inflow from private transfers was Euro 9 billion worth in 2004, which is about 7% of the estimated average annual amount world-wide.

Figure 39
Average share of
private transfers,
net in the GDP in the
2001-2004 period,
(in %)

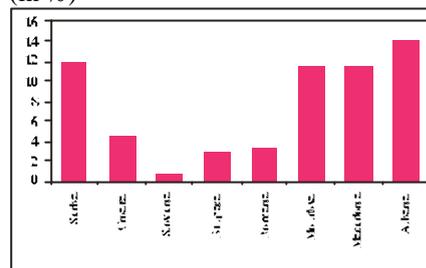
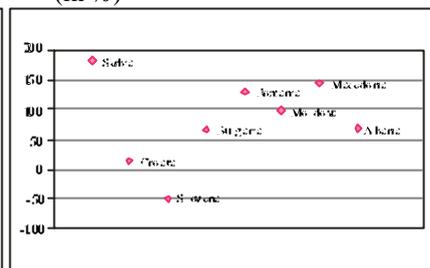


Figure 40
Growth rate of the
private transfers,
net in the
2001-2004 period
(in %)



Source: Publications of the central banks of the observed countries

In spite of the aforementioned positive effects, the private transfers in some instances are related to the functioning of the informal sector of the economy in both the recipient country and the sending country. Some private transfers are considered to originate from residents' collections from non-residents on the basis of trade of goods and services and received transfers in cash foreign currency, i.e. that they are executed outside the official channels.

Nowadays, the international financial institutions seek to increase the positive effects of the transfers for the national economies, highlighting the need of their channelling in as high amount as possible, through the banking system. In this light, activities should be taken for improving their statistical records, reviewing the money transfer regulations, and activities for further development of the banking system.

B) Capital and financial account

Lower net foreign currency inflows with the capital and the financial account

The transactions in the capital and the financial account of the balance of payments resulted in a slight fall in the foreign currency inflows in the third quarter of 2005 relative to the same period of 2004, of Euro 1.8 million. Within the financial inflows, the share of the direct and portfolio investments dominates with 45.4%, financing 15.1% of the trade deficit in the third quarter of 2005 (7.5% in the same period of the previous year).

²² Source: EBRD



Table 16
Capital and financial account of the balance of payments /1
(in millions of euros)

	2004				2005			2004		2005		2005-2004		2005-2004	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.1-Q.3	Q.1-Q.3	Q.3	Q.1-Q.3	Q.3	Q.1-Q.3	Q.3	Q.1-Q.3
Capital account, net	-1.2	-1.5	-1.4	0.2	0.0	-0.2	0.2	-4.0	0.0	1.6	4.1	-113.5	-101.1		
Financial account, net	91.4	115.5	33.6	106.1	30.0	109.2	30.1	240.4	169.4	-3.4	-71.1	-10.3	-29.6		
Direct investments, net	33.6	42.0	13.7	36.9	27.7	27.0	14.3	89.3	68.9	0.6	-20.4	4.4	-22.8		
Portfolio investments, net	0.5	-0.8	0.9	10.7	12.5	3.8	14.4	0.6	30.7	13.5	30.1	1590.4	5258.8		
Trade credits, net	22.4	66.1	6.8	41.1	-45.2	66.3	-33.0	95.3	-11.9	-39.8	-107.2	-584.1	-112.5		
Loans, net	-10.3	16.3	16.1	25.8	13.4	64.5	4.0	22.1	81.8	-12.1	59.8	-75.1	270.5		
Currencies and deposits, net*	39.4	-15.4	-12.2	-14.0	17.9	-57.9	24.4	11.8	-15.6	36.6	-27.3	-300.9	-232.3		
Other, net**	5.7	7.2	8.4	5.5	3.8	5.6	6.0	21.4	15.3	-2.4	-6.0	-28.2	-28.1		
Capital and financial account	90.2	114.0	32.2	106.3	30.0	109.1	30.3	236.4	169.4	-1.8	-67.0	-5.7	-28.3		

1/ preliminary data; Owing to the amendments to the methodology for preparing the balance of payments, the August - January 2005 data in the category of currency and deposits, households were revised in August 2005.²³

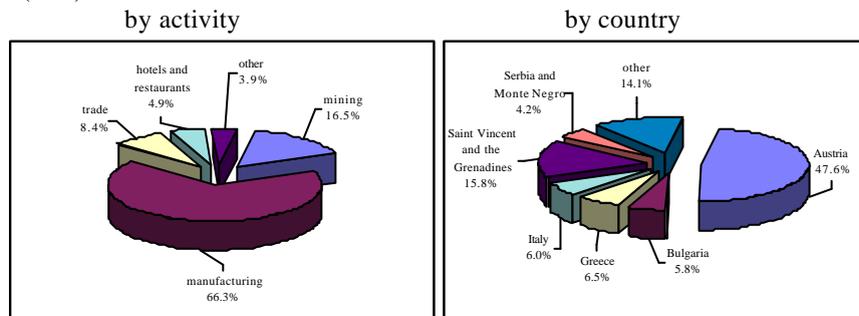
*/ (-) denotes a decline

**/ Overdue claims

Source: National Bank of the Republic of Macedonia

In the observed period of 2005, the net-inflows from direct investments total Euro 14.3 million, accounting for 22.6% of the total financial inflows. Also, most of the net foreign direct investments (90.7%) in the country in the amount of Euro 15.3 million (Euro 14.6 million in the third quarter of 2004) are financial investments. The analysis by activity shows that most of the foreign direct investments in the country have been allocated in the production, mining and trade in the amount of Euro 11.6 million, Euro 2.9 million and Euro 1.5 million, respectively. Analysing by country, most of the investments originate from Austria (Euro 8.3 million). Analysing the dynamics, in the third quarter of 2005, the investments registered more favourable structure, owing to the higher share of investments in the area of production (by 15.1 percentage point relative to the third quarter of 2004).

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



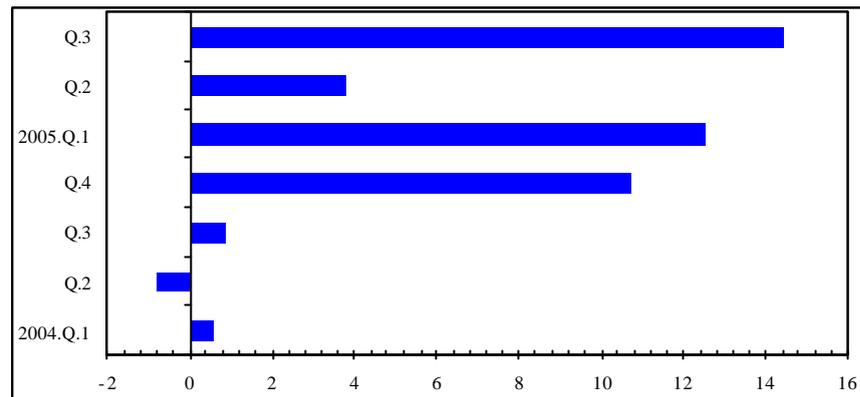
Source: National Bank of the Republic of Macedonia.

In the third quarter of 2005, as a result of the higher share of foreign direct investors on the Stock Exchange (trend that started in the fourth quarter of 2004) the net portfolio-investments reached Euro 14.4 million, which is an increase of Euro 13.5 million relative to the third quarter of 2004.

²³ In August 2005, the preparation of the balance of payments was subjected to methodological changes for the purposes of more comprehensive encompassing of the transactions related to the money transfer services provided through authorised service providers. As a counter-item of the inflows from remittances which in the balance of payments are housed under the current transfers, a change (increase) was made in the category of currencies and deposits of the household sector. The improved scope of data contributed towards decreasing the amount of errors and mistakes in the balance of payments.



Figure 43
Dynamics of the portfolio investments in the Republic of Macedonia
(in million of euros)



Source: National Bank of the Republic of Macedonia.

In the third quarter of 2005, the balance of the commercial credits was negative, valued at Euro 33 million (unlike the positive balance of Euro 6.8 million in the third quarter of 2004), owing to the higher payment commitments based on import of goods in the second quarter of 2005.

In the third quarter of 2005, the category of currencies and deposits dropped in the amount of Euro 24.4 million. Also the foreign assets of the households went up by Euro 16.7 million, while the net foreign assets of the commercial banks dropped by Euro 40.8 million.

In the third quarter of 2005, the inflows from borrowings of residents with foreign creditors on the basis of long-term credits and loans amount to Euro 67.2 million²⁴. As to the creditors, most of the funds, i.e. Euro 40.9 million is withdrawn from the foreign private creditors (Euro 31.2 million originate from banks and financial institutions, and the remaining funds from non-banking private sector). The used funds from official creditors amount to Euro 26.2 million, with the most of the funds of Euro 25.3 million being withdrawn from multilateral creditors, where the International Monetary Fund is the largest creditor (a tranche of the newly concluded Stand-By Arrangement in the amount of Euro 12.6 million was withdrawn in September). The analysis of the debtors shows that Euro 41.3 million (or 61.5%) of the used long-term credits and loans were withdrawn by the domestic private sector (Euro 32.1 million of which being withdrawn by the commercial banks, and Euro 9.2 million by the non-banking private sector). The funds used by the public sector are worth Euro 25.9 million (or 38.5% of the total amount of used funds).

Analysing by month, most of the funds were being withdrawn in September, in the amount of Euro 32.8 million, most of which originating from multilateral creditors (mainly from the International Monetary Fund). In July and August, the used funds totalled Euro 23.3 million and 11.1 million, respectively, and most of the funds were from private creditors.

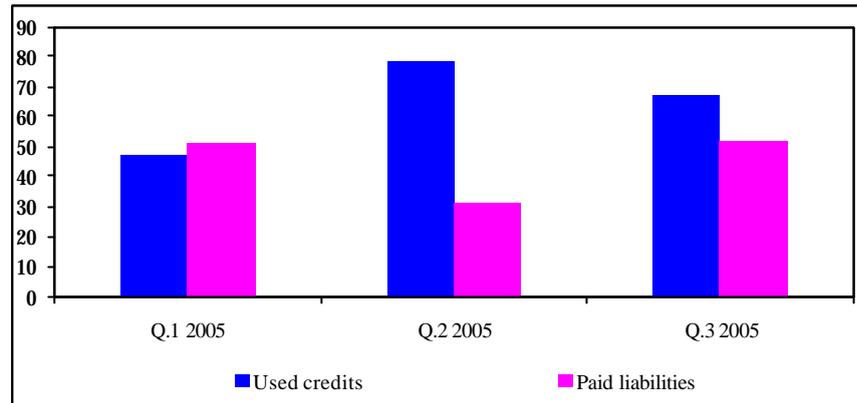
In the third quarter of 2005, after the short-term credits being previously approved, Euro 21.9 million were withdrawn entirely by the non-banking private sector. With respect to the monthly dynamics, most of the funds in the amount of Euro 20.9 million were being withdrawn in July, and the used short-term credits in August and September amounted to Euro 0.8 million and Euro 0.1 million, respectively.

²⁴ Base cut-off date September 30, .2005.

In the third quarter of 2005, Euro 67.2 million were used on the basis of long-term credits and loans...



Figure 44
Used credits and paid liabilities based on long-term debt
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

*...and the liabilities paid totalled
Euro 51.5 million*

In the third quarter of 2005, the amount of liabilities repaid to the foreign creditors on the basis of used long-term credits and loans totals Euro 51.5 million, Euro 37.1 million of which being principal and Euro 14.4 million being interest. With respect to the foreign creditors, the official creditors were repaid funds in the amount of Euro 28.6 million, while Euro 22.9 million were liabilities repaid to private creditors. The analysis by debtor shows that most of the liabilities, or Euro 37.7 million, were paid by the public sector, and the liabilities paid by the private sector amounted to Euro 13.8 million.

Analysing by month, the largest payments were made in July in the amount of Euro 26.5 million (when the second instalment based on the reprogram to the Paris Club and the London Club of Creditors became due), and the liabilities paid in August and September stood at Euro 10.9 million and Euro 14.1 million, respectively.

The liabilities based on short-term credits in the third quarter of 2005 totalled Euro 6.3 million and were fully paid by the private sector (Euro 4.5 million paid by the non-banking private sector, and Euro 1.8 million by the commercial banks).

On September 30, 2005, *the total external debt* of the Republic of Macedonia stood at Euro 1,718.4 million, which is an increase of Euro 60.5 million relative to June 30, 2005, and relative to the end of 2004, it is by Euro 196.3 million higher. In US Dollars, at the end of September 2005, the total external debt equalled US Dollar 2,069.2 million, whereas compared to the end of 2004, it is by US Dollar 9.8 million lower.

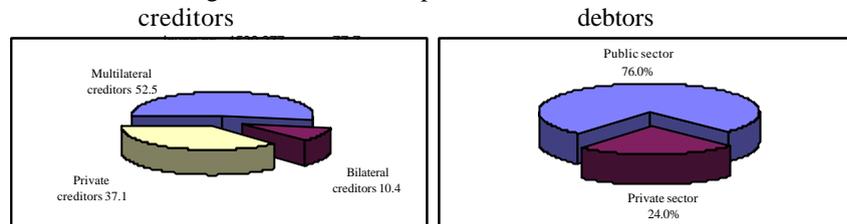
*Quarterly increase in the
external long-term debt of
1.8%...*

At the end of the third quarter of 2005, the long-term debt amounted to Euro 1,643.6 million, which is by Euro 29.4 million, or by 1.8% more relative to the end of the preceding quarter. The increase in the long-term debt is almost solely due to the larger amount of funds used from the paid principal. In the third quarter of 2005, new long-term loans and credits were concluded in the amount of Euro 88.3 million, where the multilateral creditors approved funds in the amount of Euro 63.1 million (Euro 62.1 million of which from the new Stand-By Arrangement with the IMF²⁵), and the newly concluded credits with the private foreign creditors amounts to Euro 25.2 million.

²⁵ On August 31, 2005, the IMF Board of Directors approved a three-year "precautionary" Stand-By Arrangement (total value in original currency of 51.7 million of special drawing rights). One tranche (Euro 12.6 million) was withdrawn in 2005, and no withdrawal is being planned for the following years, in line with the expected inflows from the privatisation.

The structural analysis from the aspect of the creditors indicates dominant share of the official creditors in the total long-term debt of 62.9% , with the private creditors accounting for 37.1%. With respect to the debtors, 76% of the long-term debt is within the public sector, and the share of the private sector equals 24%.

Figure 45
Structure of the long-term debt as of September 30, 2005



Source: National Bank of the Republic of Macedonia.

...and quarterly increase in the short-term debt

On September 30, 2005, the short-term debt, which is fully within the private sector, totals Euro 74.8 million (Euro 43.7 million on June 30, 2005), given the higher amount of withdrawn funds from the principal paid.

8.

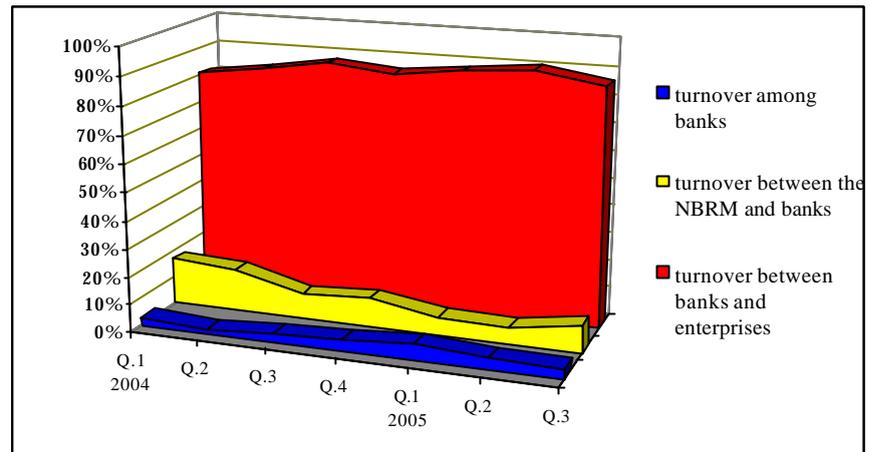
Foreign Exchange Developments

Quarterly increase in the foreign exchange turnover of 16.7%

In the third quarter of 2005, *the foreign exchange market* registered more intensive activity, with the turnover standing at Euro 1,011.9 million (the highest turnover on the foreign exchange market ever), which compared to the preceding quarter, is by 16.7% higher. Unlike the lower import of goods relative to the previous quarter, in the third quarter of 2005, the foreign exchange market registered higher demand for foreign currency by the corporate sector, which is mainly due to the repatriation of higher amounts of dividends to foreign investors in July and August. The wider gap between the supply and the demand for foreign currency was closed with a higher net sale of foreign assets by the banks (an increase of 95.3% compared to the preceding quarter). The structural analysis of the various segments of realising turnover on the foreign exchange market indicates higher turnover of the NBRM, reaching share of 10.1%, and the banks-enterprises segment remained dominant accounting for 86.4% of the total turnover (the second quarter of 2005 registered the highest share of 89.9%).



Figure 46
Share by segment in the total turnover on the foreign exchange market
(in %)



Source: National Bank of the Republic of Macedonia.

In the third quarter of 2005, the average monthly turnover on the foreign exchange market amounted to Euro 337.3 million, which is by Euro 48.2 million more compared to the previous quarter. The monthly analysis of the turnover shows that in the third quarter of 2005, the highest turnover on the foreign exchange market was registered in July, worth Euro 368.5 million, which is by Euro 31.2 million, which is higher relative to the average monthly turnover.

Annex 8

New trading rules on the foreign exchange market in the Republic of Macedonia

For the purposes of advancing the operations and improving the foreign exchange market performance, new rules for operating the foreign exchange market in the Republic of Macedonia were introduced on August 18, 2005. On the one hand, there are certain technical improvements in the trading, by introducing an electronic platform for monitoring the developments of the exchange rate in real time by direct electronic interbank trade in foreign currency. On the other hand, certain essential changes have been made in the manner of NBRM trade on the foreign exchange market. The NBRM signed a Market Makers Agreement with four commercial banks. The signing of the agreement and the assuming of the obligations specified by the Agreement by the banks was voluntarily.

The banks-signatories of the Agreement play the role of foreign exchange market makers and are allowed to trade with the NBRM by previously defined rules, while the other banks on the market will trade only with the banks-market makers. Also, the purchase and the sale of foreign currency between the banks-market makers should be made with a margin of the buying and selling exchange rate for 1 Euro not exceeding Denar 0.07 and minimum amount of Euro 350,000 per transaction. As to the other banks, the banks-signatories of the Agreement shall be required to list exchange rates at any time with a maximum margin of Denar 0.25 between the buying and selling exchange rates for 1 Euro and minimum amount of Euro 30,000 per transaction. The measures lead to an increase in the purchase and sale of foreign currency between the banks and impartial setting of the Denar exchange rate.

Under the new rules of trading, the NBRM will further take part on the foreign exchange market, keeping the discretion to intervene (to the banks - "market makers"), implying that only the manner of trade and the participation of



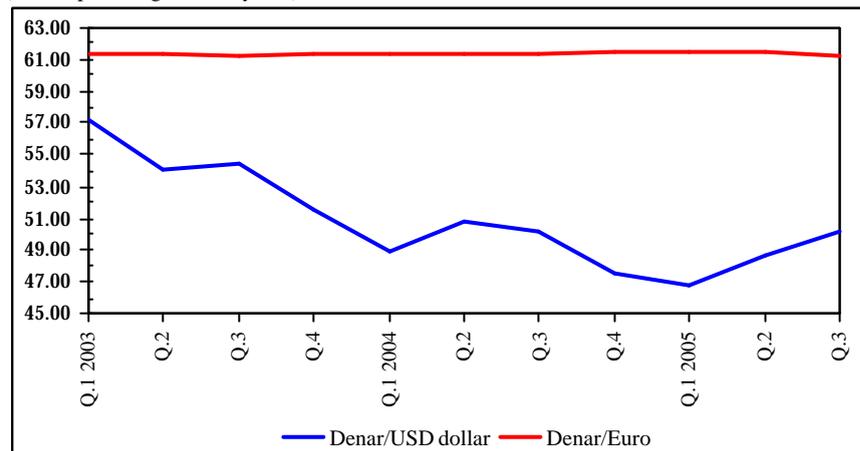
the NBRM in the trade on the foreign exchange market changes. Such practice is identical to the practice of the central banks in the developed market economies.

Slight quarterly appreciation of the exchange rate of the Denar against the Euro on the foreign exchange market of 0.3%...

...and depreciation of the Denar relative to the US Dollar of 3%

In the third quarter of 2005, the NBRM made a higher net purchase on the foreign exchange market, primarily as a result of the higher inflows on the currency exchange market. This quarter registered pressures for appreciation of the Denar, particularly evident in July and September, when there was a high net-purchase of foreign currency, which is in line with the applied monetary exchange rate targeting strategy. Owing to such developments on the foreign exchange market, in the third quarter of 2005, the exchange rate of the Denar against the Euro equalled Denar 61.22 per one Euro, on average, and registered a slight appreciation of 0.3% compared to the preceding quarter (Denar 61.38 per one Euro, on average, in the second quarter of 2005). The movement of the exchange rate of the Denar against the US Dollar was under the influence of the strengthening of the US Dollar against the Euro on the international foreign exchange markets. In the third quarter of 2005, Denar 50.20 were traded per one US Dollar, on average, on the foreign exchange market, thus the Denar depreciating by 3% compared to the preceding quarter (Denar 48.72 per one US Dollar, on average, in the second quarter of 2005).

Figure 47
Average exchange rate of the Denar against the US Dollar and the Euro on the foreign exchange market
(Denars per foreign currency unit)



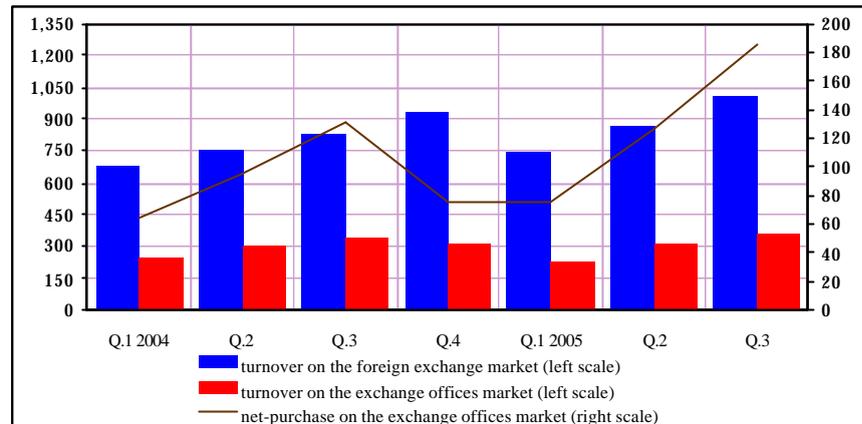
Source: National Bank of the Republic of Macedonia

Higher turnover on the currency exchange market of 15.8% relative to the preceding quarter

In the third quarter of 2005, *the currency exchange market* registered accelerated activity, typical for this period of the year (owing to the inflows from the emigrants during the summer period). In the third quarter of 2005, the total turnover on the currency market stands at Euro 360.2 million, which is an increase of 15.8% compared to the previous quarter (annual increase of 5.3%). Given the higher supply (by 24.6%), and the lower demand for foreign currency (by 5.2% relative to the preceding quarter), the currency exchange market registered a record high net purchase of foreign currency on the foreign exchange market in the amount of Euro 185.5 million, which is by 46.3% more relative to the second quarter of 2005 and an increase of 41% relative to the same quarter of 2004.



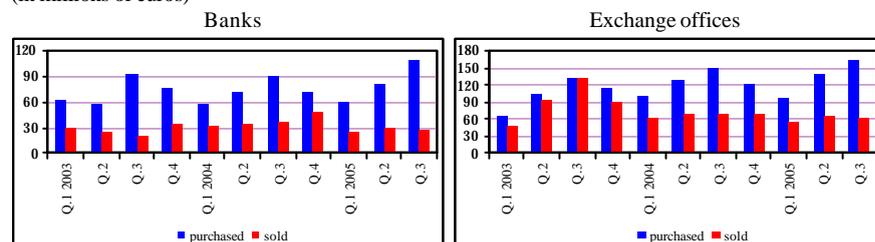
Figure 48
Movement of the total turnover on the foreign exchange and currency exchange market
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

The analysis of the monthly dynamics indicates relatively stable monthly supply and demand for foreign assets on the currency exchange market in the third quarter. Thus July registered the highest amounts of supply and demand (Euro 92.8 million and Euro 31.2 million, respectively). August and September registered a minor decrease in the supply and the demand for foreign currency, with the both month registering identical amounts of net purchase of foreign currency of Euro 62 million, which is the highest monthly net purchase since 2003. Structurally observed, most of the turnover (62.1%) on the currency exchange market was made through the exchange offices, with the share of the commercial banks being 37.9%. The currency structure of the supply on the currency exchange market shows that the structural share of the Euro dropped in the third quarter of 2005 (by 1.9 percentage points relative to the previous quarter), however, still being dominant with a share of 54.1%. On the other hand, the share of the Swiss Franc in the supply went up (by 4.4 percentage points), accounting for 30.1% of the total supply of foreign currency, and the share of the US Dollar equalled 9.8%. On the demand side, the Euro remained dominant with 78.7% (same as in the preceding quarter), while the US Dollar and the Swiss Franc have considerably lower share of 9.2% and 8.6%, respectively.

Figure 49
Movement of the turnover on the currency exchange market
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

Slight quarterly appreciation of the Denar against the Euro on the currency exchange market...

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

In the third quarter of 2005, the average exchange rate of the Denar against the Euro on the currency exchange market equalled Denar 61.45 per one Euro and slightly appreciated by 0.3% (Denar 61.61 per one Euro, on average, in the preceding quarter). The average bid exchange rate equalled Denar 61.32 per one Euro, and the average ask exchange rate equalled Denar 61.58 per one Euro. The exchange rate of the Denar against the US Dollar equalled Denar 50.17 per one US Dollar, on average, with the Denar depreciating by 3.2% quarterly (Denar 48.62 per one US Dollar on average in the preceding quarter). The

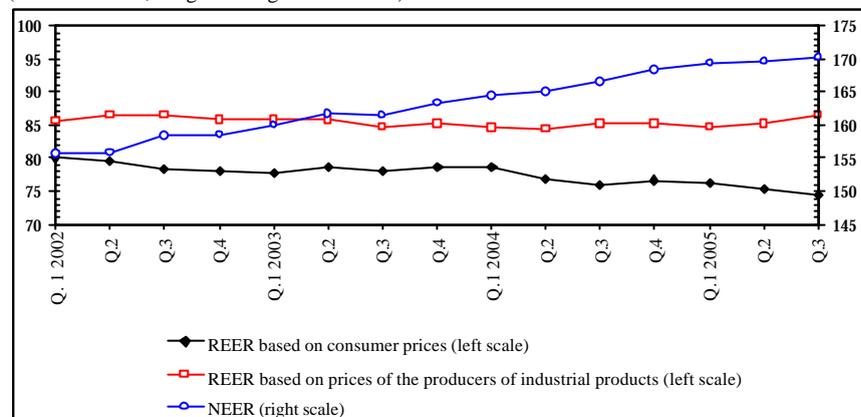


Quarterly depreciation of the real effective exchange rate of the Denar calculated by the consumer prices

average bid exchange rate equalled Denar 49.79 per one US Dollar, and the average ask exchange rate equalled Denar 50.56 per one US Dollar.

In the third quarter of 2005, *the real effective Denar exchange rate index* (REER) calculated by the consumer prices, shows higher competitiveness of the Republic of Macedonia on the international markets. In the third quarter of 2005, the average quarterly REER of the Denar depreciated by 1.1% relative to the preceding quarter, which having a slight appreciation of the nominal effective exchange rate of the Denar (NEER) of 0.3% and fall in the domestic prices²⁶, is primarily due to the increase in the foreign prices (by 0.7% compared to the previous quarter of 2005). The average quarterly REER of the Denar calculated by the prices of the producers of industrial products appreciated by 1.3% in the third quarter of 2005 relative to the preceding quarter, primarily as a result of the faster growth in the domestic relative to the foreign prices (increase of 2.4% and 1.3%, respectively relative to the previous quarter).

Figure 50
Index of REER* and NEER of the Denar
(base 1995=100, weights foreign trade =2003)



*Index below 100 implies higher import competitiveness.
Source: National Bank of the Republic of Macedonia.

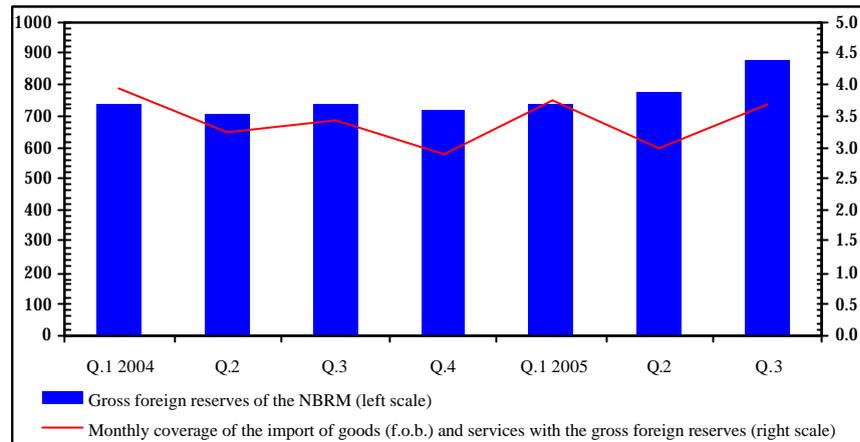
Quarterly increase in the gross foreign reserves of Euro 98.6 million

At the end of the third quarter of 2005, the gross foreign reserves reached Euro 876.6 million, which is an increase of Euro 98.6 million compared to the end of the preceding quarter (compared to the end of 2004 they went up by Euro 159.6 million). Such positive dynamics of the gross foreign reserves was primarily due to the favourable developments on the foreign exchange market, and consequently the high net purchase of foreign assets by the NBRM (contribution to the growth of 74.8%). The gross foreign reserves also increased as a result of the withdrawn funds on the basis of the tranche of the Stand-By Arrangement with the IMF, the funds received from the EBOR for privatisation of the ESM, the donation from the Netherlands, and the positive exchange rate differentials and the inflows from interest on foreign currency deposits with foreign banks. At the end of the third quarter of 2005, the gross foreign reserves ensure 3.7 average monthly coverage of the import of goods (f.o.b.) and services provided in the third quarter of 2005 (compared to 3.0 monthly coverage in the preceding quarter).

²⁶ Refers to the change in a current quarter relative to a previous quarter, with 1995 as a base average.



Figure 51
Gross foreign reserves of the NBRM and monthly coverage of the import of goods (f.o.b.) and services with the gross foreign reserves
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

9.

Public Finances

In the third quarter of 2005, the public revenues totals Denar 25,637 million, which is by 13.4% more relative to the preceding quarter and by 17.5% more compared to the same quarter of the previous year. The quarterly and annual growth in the public revenues is particularly due to the higher amount of non-tax and capital revenues.

In the third quarter of 2005, the budget revenues totalled Denar 17,762 million, that is by 20.9% higher relative to the total revenues in the preceding quarter. All revenue categories registered a quarterly growth, having a notable increase in the non-tax and capital revenues (by 4 times and by 5.5 times, respectively). The higher non-tax revenues result from the high amount of dividend of one company with state capital. The increase in the capital revenues is primarily a result of the revenues generated from the sale of state owned land. Such movements led to quarterly movements of the share of the revenue categories in the total revenues structures. The non-tax and capital revenues rose its share in the total revenues (by 13 and by 2.6 percentage points, respectively), resulting in lower share of tax revenues (by 15.5 percentage points).

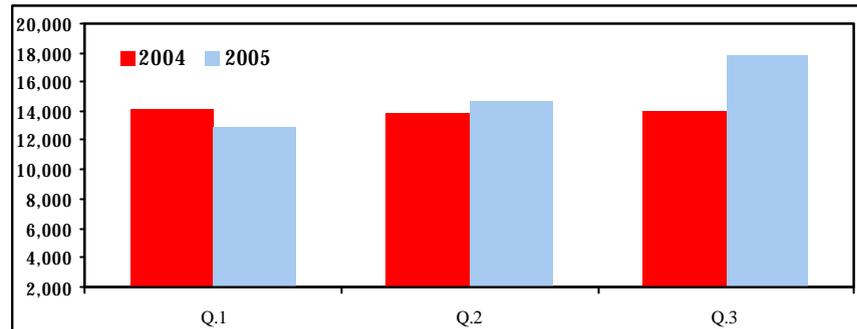
The tax revenues (the most dominant category making up 78.3% of the total revenues) registered a modest quarterly increase of 1%. Within the relevant tax revenues, the most remarkable increase was registered in the revenues based on excise (by 15%), recording high share in the tax revenues (18%). The revenues from profit tax registered a quarterly increase (by 3.8%), and the other tax categories registered lower revenues.

In the third quarter of 2005 the budget revenues went up by 27.3% compared to the same quarter of 2004. All other revenue categories registered an annual growth, with the non-tax and capital revenues registering substantial increment.

In the third quarter of 2005, the total revenues of the central government were by 20.9% higher on quarterly basis...



Figure 52
Quarterly distribution of the total revenues of the central budget
(in millions of denars)



Source: Ministry of Finance.

In the third quarter of 2005, the total public expenditures stands at Denar 22,575 million, which is by 2.7% more compared to the previous quarter, reflecting the increase in the capital expenditures. On annual basis the public expenditures goes up by 6.6%.

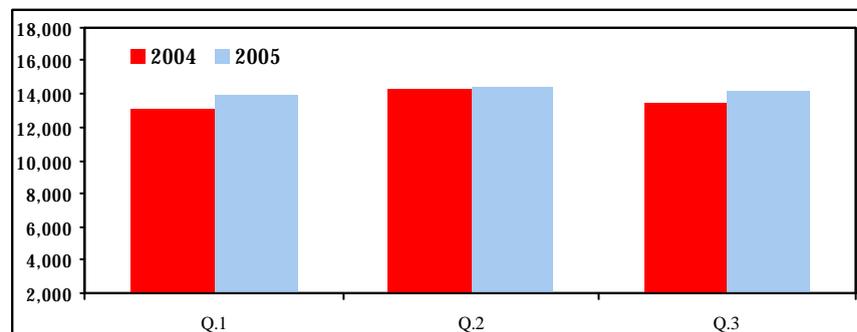
...with the budget expenditures being by 0.7% lower

In the third quarter of 2005, the total budget expenditures went down by 0.7% quarterly. The fall is due to the lower current expenses (by 1.7%), which are the largest expenditure category (constituting 89.2% of the total expenditures). Within the current expenses, a fall was registered in the costs of goods and services (by 17.5%) and the expenses of salaries and wages (by 3%). On the other hand, the transfers and the expenses for interest payment (the external debt, in particular) rose. The capital expenses (having a structural share of 10.8% in the total budget expenditures) surged by 7.4%, mainly due to the higher amount of capital transfers.

On annual basis, the total budget expenditures picked up by 6.6%, having an increase in the current and capital expenses (of 4.2% and 32.7%, respectively).

In the first nine months of 2005, compared to the same period of 2004, the total budget revenues went up by 7.9%, and the total budget expenditures increased by 4.2%.

Figure 53
Quarterly distribution of the total expenditures of the central budget
(in millions of denars)



Source: Ministry of Finance.

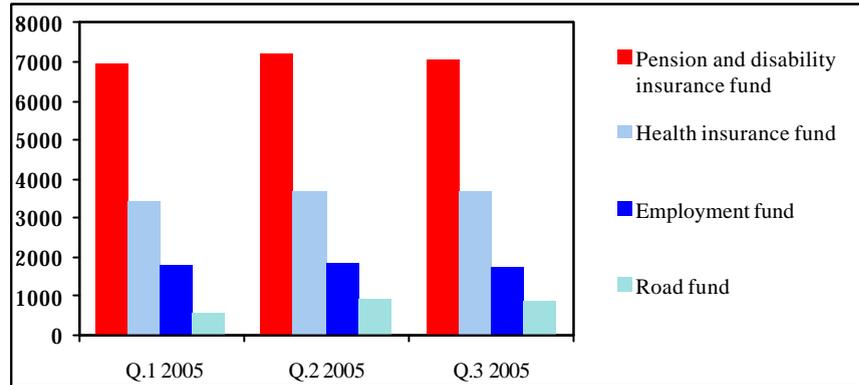
In the third quarter of 2005, the revenues of the social funds total Denar 12,405 million, thus being lower by 2.4%, quarterly. The revenues of all funds reduced (by 2.2% in the Pension and Disability Insurance Fund, 1.1% in the Health Insurance Fund and by 5.3% in the Employment Fund). At the same time, the total expenditures of the social funds dropped on a quarterly basis (by 0.7%) and stood at Denar 12,533 million, with the expenditures of all funds being reduced. In the third quarter of 2005,



the total revenues of the Road Fund dropped quarterly (by 3.9%), and the expenditures of this Fund considerably increased (by 70%, owing to the higher capital investments).

Compared to the same period of the preceding year, in the third quarter of 2005, the social funds revenues dropped by 2.8%, whereas the expenditures remained the same. As to the Road Fund, the revenues remained unchanged on annual basis, and the expenditures went up by 12.3%.

Figure 54
Funds' revenues
(in millions of denars)





***Important economic events and amendments to the legal regulations
in the third quarter of 2005***

- ❖ *On July 4, the Board of Directors of the ESM adopted a decision on dividing the ESM into two independent companies for distribution and for production of electricity.*
- ❖ *On July 8, the Netherlands Government granted Euro 6.3 million to Macedonia, immediately after the extension of the second tranche of the World Bank Public Sector Management Adjustment Loan (PSMAL).*
- ❖ *According to the Decision of the Creditor Board of Sasa, on July 13, the Sasa mines from Makedonska Kamenica became an ownership of Romtrade Company from Russia. The name of the new company registered by the owner will be Sasa MR and will continue producing ore concentrates and purchasing ore supplies.*
- ❖ *On July 21, the Parliament of the Republic of Macedonia adopted the amendments to the Law on the NBRM, according to which the Republic of Macedonia will provide funds for supplementing the NBRM general reserves up to 40% of the amount of the core capital of the National Bank. The funds for the general reserves will be provided from the Budget of the Republic of Macedonia and/or by issuing securities ("Official Gazette of the Republic of Macedonia" no. 61/2005).*
- ❖ *On July 29, the Parliament of the Republic of Macedonia adopted the Budget revision for 2005 ("Official Gazette of the Republic of Macedonia" no. 63/2005).*
- ❖ *Since August 3, in accordance with the Decision of the Managing Board of the National Insurance Bureau, the price of the obligatory insurance of vehicles increased by 15%, on average.*
- ❖ *On August 3, the Law on Budgets was adopted ("Official Gazette of RM", no. 64/2005) which regulates the procedure for preparation, adoption, execution of the Budget of the Republic of Macedonia, as well as the budgets of the local Government units and the city of Skopje.*
- ❖ *On August 3, the Law on Railways was adopted ("Official Gazette of RM" no. 64/2005) which regulates the organization of the railway system, the manner and the conditions for performing the railway transportation, the status of the railway infrastructure and the conditions for access thereto, the providing of public interest services and the layout of the railway transportation.*
- ❖ *On August 18, new rules on the foreign exchange market were introduced in order to improve its operations by creating an e-platform for monitoring the movement of the foreign exchange rates in real time, with a direct interbank e-trading with foreign currency. Also the NBRM signed an agreement with four commercial banks according to which the signatory banks of the agreement act as FX market makers and are allowed to trade with the NBRM according to certain rules, while the remaining banks may trade on the market only with the market makers. The NBRM will continue participating on the foreign exchange market, retaining its discretion to intervene (towards the market maker banks).*
- ❖ *On August 31, the IMF's Board of Directors approved a three-year Stand By Arrangement for the Republic of Macedonia in the total amount of SDR 51.7 million. In the arrangement, an emphasis was placed on the maintenance of the macroeconomic stability and the implementation of the structural reforms in the economy for the purposes of accelerating the economic growth on a sustainable basis, on a medium term.*
- ❖ *On September 1, 2005, an interim free trade agreement was signed between the Republic of Macedonia and Kosovo. The interim free trade agreement will be implemented according to the rules of the WTO, and its duration is related to the UNMIK mandate. This is an asymmetrical agreement which makes official the introduction of customs duties for Macedonian products to be exported to Kosovo. The import of products from Kosovo to Macedonia is duty free, while the import of products from Macedonia to Kosovo will be duty free for 90% of the products, except for eight products (oil derivatives and some agricultural products) for which the customs duties will gradually reduce in a transition period of two and a half years (by 2008, when they will be completely abolished).*
- ❖ *On September 1, 2005 the newly established brokerage house "Ilirika Investments" started trading on the Macedonian Stock Exchange, after fulfilling all preconditions for trading on the Macedonian capital market. Thus, the total number of brokerage houses, members of the Macedonian Stock Exchange reached fifteen.*
- ❖ *New company on the Macedonian insurance market - "Insurance Policy - National Insurance Group." So far, the insurance market comprised of nine insurance companies and four insurance and brokerage houses.*
- ❖ *The esteemed world-famous magazine The Banker awarded "Komercijalna Banka" a.d. Skopje the Bank of the Year award, for the fourth time.*
- ❖ *Novelties in the banking technology in the country: few months after the issuance of the first payment cards with chip, in the beginning of September, UNI Banka applied the latest high technology of communication*



- among ATMs. This technology enables GPRS-communication between the ATMs and the processing - center, through the GSM-network, with the intermediation of the network of "Mobimak" as a medium.
- ❖ On September 1, the Macedonian construction company "Granit" a.d. Skopje signed the second subsequent contract in Ukraine in the amount of Euro 45 million. The project is financed by the European Bank for Reconstruction and Development.
 - ❖ On September 6, the Regulatory Energy Committee granted a license to "Lukoil Macedonia" d.o.o.e.l. Skopje for storage of and trading in oil and oil derivatives. On August 17, this oil company opened an oil derivative storage facility in Stip. According to the announcement of the Regulatory Energy Committee, these are the first licenses issued by the Commission for conducting energy-related operations, and the procedure is underway for issuing licenses to other enterprises that according to the Law on Energy are obliged to obtain a license for conducting energy-related operations.
 - ❖ On September 8, 2005, the Committee on transformation of ESM adopted the draft-conclusions regarding the privatization of the ESM. The first stage of privatization of this company includes sale of 90% of the shares of "Elektrostopanstvo na Makedonija" a.d. and 100% of the shares of the power plant "Negotino" in state ownership, to a strategic investor.
 - ❖ In September 2005, the Government selected "Citigroup" from London as a bank which will prepare the future issuance of the first Macedonian bonds (Euro-bonds). The selection was made from among offers of eleven most attractive investment banks worldwide.
 - ❖ The Polish company "Arlen" builds a factory in Delcevo for production of textile products intended for the EU markets. This is a joint investment with a Macedonian partner. The investment was made after several months of negotiations and with the assistance of the Macedonian Agency for Foreign Investments.
 - ❖ On September 15, 2005, the World Bank approved Euro 15 million for the project for reform of the railways in the Republic of Macedonia. The project will facilitate the reforms of the Macedonian railways and will improve their productivity and efficiency.
 - ❖ On September 20, 2005, the employed persons started to apply for membership in the two private pension funds, in line with the reform of the pension system. The persons whose first employment was after January 1, 2003 are obliged to become members, while for the other employees the membership is on voluntary basis (deadline is December 31, 2005).
 - ❖ At the end of September 2005, the NBRM adopted amendments to a part of the by-laws that refer to the monetary instruments, thereby providing an application of repo-transactions in the approval of intraday and Lombard credit.
 - ❖ New product on the credit market: "Stopanska Banka" a.d. Skopje introduced a revolving credit, i.e. credit which enables the borrowers to obtain a credit, which will be at their disposal for an indefinite period of time, with one application.
 - ❖ The meat processing industry "Pilko", the company for production of healthy food "Vitalia" and the company for production of juice "Gudalat" obtained certificates for implementation of European standards for safe food. The application of these standards enables food quality management, as a precondition for building export potentials and increased competitiveness of the domestic products and companies on the highly selective EU markets.
 - ❖ In the third quarter of 2005, the Regulatory Energy Committee adopted the following Decisions on determining the highest prices of certain oil derivatives set under the Methodology:
 - On July 11, Decision according to which the retail and the refinery prices of oil derivatives increase by 2.36% and 3.42%, respectively, on average. ("Official Gazette of the Republic of Macedonia" no. 55/2005)
 - On July 25, Decision on decreasing the retail and the refinery prices of oil derivatives by 0.98% and 1.52%, respectively, on average ("Official Gazette of the Republic of Macedonia" no. 60/2005).
 - On August 8, a decision according to which the retail and the refinery prices of oil derivatives increase by 2.56% and 3.83%, respectively, on average ("Official Gazette of RM" no. 67/2005).
 - On August 22, a decision according to which the retail prices of oil derivatives, decrease by 3.58% and 5.49%, respectively, on average ("Official Gazette of RM" no. 71/2005).
 - On September 5, a decision according to which the refinery and retail prices of oil derivatives increase by 2.83% and 2%, respectively, on average ("Official Gazette of the Republic of Macedonia" no. 74/2005).
 - On September 19, 2005, a decision on reducing the refinery and retail prices on oil derivatives by 6.33% and 3.97%, on average ("Official Gazette of the Republic of Macedonia" no. 78/2005). The effect of this decision on the general price level will be evident in the first month of the following quarter, in accordance with the character of the statistical treatment of the prices.
 - ❖ New regulations:
 - Law on Establishing an Energy Agency of the Republic of Macedonia and Law on Public Debt ("Official Gazette of the Republic of Macedonia" no. 62/2005)
 - Law on Amending the Law on Privatization of the State-owned Capital ("Official Gazette of the Republic of Macedonia" no. 74/2005)



- *Law on Litigation and Law on Audit (“Official Gazette of RM” No. 79/2005);*
- *Law on the Public Revenue Office (“Official Gazette of RM” No. 81/2005)*



Statistical appendix

1. Prices

Table 1

Costs of living and retail prices

	<u>IX.2005</u>	<u>IX.2005</u>	<u>I-IX.2005</u>
	<u>VIII.2005</u>	<u>IX.2004</u>	<u>I-IX.2004</u>
	in %		
Costs of living	0.6	1.1	0.4
Food	0.0	0.2	-1.4
Tobacco and beverages	0.1	4.7	5.7
Clothing and footwear	-0.3	0.9	2.5
Housing	0.5	0.8	0.3
Flat (rent, water, services)	0.1	0.1	0.4
Fuel and lighting	0.6	1.5	0.9
Hygiene	0.1	-3.9	-3.6
Culture and entertainment	1.8	1.2	-0.3
Transport, communications, services	2.4	4.5	4.0
<i>Goods</i>	<i>0.4</i>	<i>1.3</i>	<i>0.1</i>
<i>Services</i>	<i>1.3</i>	<i>0.2</i>	<i>1.6</i>
Retail prices	1.6	3.3	1.9
Agricultural products	-2.4	-1.0	-1.5
Non-food industrial products	1.8	5.1	2.7
Processed food products	0.4	-0.1	-1.5
Beverages	0.3	-0.2	1.8
<i>Goods</i>	<i>1.1</i>	<i>3.2</i>	<i>1.3</i>
<i>Services</i>	<i>2.3</i>	<i>3.5</i>	<i>2.9</i>

Source: State Statistical Office of the Republic of Macedonia



Table 2
Prices of producers of industrial products

	IX.2005	IX.2005	I-IX.2005
	VIII.2005	IX.2004	I-IX.2004
	in %		
Prices of producers of industrial products	1.2	5.0	3.0
Energy	4.1	19.3	10.8
Intermediary goods (except Energy)	-0.1	-0.6	0.8
Capital goods	0.0	0.0	0.0
Durable consumer goods	0.0	3.0	3.0
Non durable consumer goods	0.7	2.2	0.5
<i>Mining and quarrying</i>	<i>0.0</i>	<i>0.0</i>	<i>0.1</i>
<i>Manufacturing industry</i>	<i>1.5</i>	<i>6.1</i>	<i>3.6</i>
Manufacture of food products and beverages	0.8	1.7	-0.1
Manufacture of tobacco products	0.0	0.2	0.3
Manufacture of textiles	0.0	0.0	-0.5
Manufacture of wearing apparel; dressing and dyeing of fur	0.0	0.0	0.0
Publishing, printing and reproduction of recorded media	0.0	0.0	0.0
Manufacture of coke, refined petroleum products and nuclear fuel	9.0	50.7	30.3
Manufacture of chemicals and chemical products	0.0	0.1	0.1
Manufacture of rubber and plastic products	0.0	0.0	0.0
Manufacture of other non-metallic mineral products	0.0	0.4	0.1
Manufacture of basic metals	0.0	-0.1	0.0
Manufacture of fabricated metal products, except machinery and equipment	0.0	0.0	0.0
Manufacture of electrical machinery and apparatus n.e.c.	0.0	0.0	4.1
<i>Electricity, gas and water supply</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>

* Previous data
Source: State Statistical Office of the Republic of Macedonia



Table 3
Consumers' basket for food and beverages*

	Amounts			Monthly changes			Annual changes		
	VII.2005	VIII.2005	IX.2005	<u>VII.2005</u>	<u>VIII.2005</u>	<u>IX.2005</u>	<u>VII.2005</u>	<u>VIII.2005</u>	<u>IX.2005</u>
	in Denar			VI.2005	VII.2005	VIII.2005	VII.2005	VIII.2005	IX.2005
				in %			in %		
Total	9,805	9,585	9,553	-3.0	-2.2	-0.3	0.9	0.5	0.3
Cereal and cereal products	1,809	1,810	1,811	-0.1	0.1	0.1	-4.0	-3.7	-3.2
Vegetables, fresh and processed	919	916	941	-29.7	-0.3	2.7	-18.7	-5.8	-5.2
Fruit, fresh and processed	1,029	787	710	8.1	-23.5	-9.8	44.1	14.2	10.4
Meat, fresh and processed	2,371	2,402	2,410	0.1	1.3	0.3	3.9	5.5	5.7
Fats	367	366	366	0.5	-0.3	0.0	-5.7	-5.7	-4.7
Milk and dairy products	1,598	1,597	1,601	0.1	-0.1	0.3	-1.4	-2.1	-2.9
Other food products	1,712	1,707	1,714	0.4	-0.3	0.4	0.7	0.4	0.5

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

Source: State Statistical Office of the Republic of Macedonia



2. Economic activity

Table 4
Industrial output

	Structure in %	XI.2005	XI.2005	I-XI.2005
		X.2005	XI.2004	I-XI.2004
		in %		
Total	100.0	1.5	5.5	7.4
Energy	21.8	2.6	9.3	5.1
Intermediary goods (except Energy)	33.8	-2.6	14.0	15.3
Capital goods	4.8	27.1	-2.6	-3.6
Durable consumer goods	1.4	-2.6	-23.1	-10.3
Non durable consumer goods	38.1	3.7	-2.1	3.2
<i>Mining and quarrying</i>	1.8	-11.5	79.7	33.1
<i>Manufacturing industry</i>	79.4	1.2	3.9	7.8
Manufacture of food products and beverages	20.0	5.5	-3.5	2.2
Manufacture of tobacco products	3.9	-15.3	2.2	2.3
Manufacture of textiles	2.5	5.7	14.9	-0.7
Manufacture of wearing apparel; dressing and dyeing of fur	8.6	4.3	11.1	5.5
Publishing, printing and reproduction of recorded media	3.9	5.1	-25.5	-1.8
Manufacture of coke, refined petroleum products and nuclear fuel	3.0	-9.5	27.0	16.8
Manufacture of chemicals and chemical products	5.9	1.9	-17.8	-0.3
Manufacture of rubber and plastic products	2.6	-12.3	-4.6	-4.5
Manufacture of other non-metallic mineral products	8.1	-9.1	57.7	21.0
Manufacture of basic metals	6.0	23.0	19.4	39.0
Manufacture of fabricated metal products, except machinery and equipment	3.8	36.1	2.9	21.6
Manufacture of electrical machinery and apparatus n.e.c.	3.2	-15.1	-19.2	13.3
<i>Electricity, gas and water supply</i>	18.8	5.3	6.5	3.1

* Previous data

Source: State Statistical Office of the Republic of Macedonia



Table 5
Trade turnover

	Amounts				Monthly changes			Annual changes			Average changes
	VII.2005	VIII.2005	IX.2005	I-IX.2005	VII.2005	VIII.2004	IX.2005	VII.2005	VIII.2005	IX.2005	I-IX.2005
	in Denar million				VI.2005	VII.2004	VIII.2005	VII.2004	VIII.2004	IX.2005	I-IX.2004
					in %			in %			in %
Trade turnover - total*	15,963	16,135	14,997	123,717	14.8	1.1	-7.1	14.4	19.1	5.6	9.6
Retail sales*	6,508	6,359	5,964	48,844	15.6	-2.3	-6.2	27.1	24.0	14.1	14.4
Whole sales*	9,455	9,776	9,033	74,873	14.3	3.4	-7.6	7.0	16.1	0.7	6.6

* Estimated

Source: State Statistical Office of the Republic of Macedonia

Table 6
Contracted and completed construction works

	Amounts				Monthly changes			Annual changes		
	VII.2005	VIII.2005	IX.2005	I-IX.2005	VII.2005	VIII.2004	IX.2005	VII.2005	VIII.2005	IX.2005
	in Denar million				VI.2005	VII.2004	VIII.2005	VII.2004	VIII.2004	IX.2005
					in %			in %		
Value of contracted construction works	376	422	449	6,640	-16.6	12.2	6.3	-18.1	32.3	-25.4
Value of completed construction works	576	631	630	4,339	3.1	9.6	-0.3	-30.8	-20.8	-9.9

Source: State Statistical Office of the Republic of Macedonia

3. Wages and employment



Table 7
Employees by activities

	IX.2005	III Q.2005	III Q. 2005 / III Q. 2005 / II Q. 2005 III Q. 2004		structure in %
	Number of employed		changes in %		
Total	244,402	246,498	-2.4	-4.1	100.0
Agriculture	9,907	9,993	-0.9	-4.1	4.1
Agriculture, hunting and forestry	9,751	9,830	-0.9	-4.2	4.0
Fishing	156	163	3.6	-1.4	0.1
Industry	114,312	115,684	-2.0	-3.9	46.9
Minerals and stone mining	2,215	2,238	-3.5	-7.7	0.9
Manufacturing	79,905	81,019	-2.5	-2.7	32.9
Electricity, gas and water supply	14,322	14,365	1.4	-0.3	5.8
Construction	17,870	18,063	-2.2	-10.8	7.3
Services	120,183	120,821	-2.9	-4.3	49.0
Wholesales and retail sales, mending of motor vehicles, motorbikes and personal consumption items	12,249	12,237	-0.1	0.2	5.0
Hotels and restaurants	3,943	3,994	-0.3	-6.3	1.6
Transport, storage and communications	15,062	15,168	-2.7	-12.1	6.2
Financial intermediation	5,525	5,514	-1.3	-1.1	2.2
Real estate and business activities	6,653	6,718	2.9	6.5	2.7
Public authorities and defense, compulsory social welfare	15,169	15,169	1.5	2.9	6.2
Education	29,357	29,338	-0.9	1.1	11.9
Health and social work	23,659	24,080	-11.4	-13.7	9.8
Other public utility services, general and personal services	8,566	8,603	-1.2	-3.4	3.5

Table 8
Average net wages

	IX.2005	I-IX.2005	III kv. 2005	IIIQ.2005 IIQ.2005	IIIQ.2005 IIIQ.2004	I-IX.2005 I-IX.2004
	in denars			in %		
Nominal average net wage per worker	12,685	12,490	12,617	1.3	2.2	2.1
Costs of living				0.9	0.8	0.4
Real average net wage per worker				0.4	1.4	1.7
Nominal average net wage by sectors						
Agriculture	11,727	11,434	11,687	2.0	9.1	17.5
Industry	12,777	12,571	12,717	2.0	3.6	3.2
Services	14,639	14,449	14,658	1.5	4.0	3.9

Source: State Statistical Office of the Republic of Macedonia

4. Monetary policy

Table 9
Reserve money
(in Denar million)

	30.06.2005	Monthly changes			Total	30.09.2005
		July	August	September		
Reserve money	18,081	959	-1,396	-163	-600	17,481
Currency in circulation	13,390	941	-946	105	100	13,490
Banks liquidity	4,691	18	-450	-268	-700	3,991

Source: National Bank of the Republic of Macedonia



5. Banking sector

Table 10

Money supply M1 and its components
(in Denar million)

	30.06.2005	Monthly changes			Total	30.09.2005
		July	August	September		
Money supply M1	27,142	1,143	-860	481	764	27,906
Currency in circulation	13,390	941	-946	105	100	13,490
Demand deposits	13,752	202	86	376	664	14,416
- Demand deposits of households	2,867	52	-204	-32	-184	2,683
- Demand deposits of enterprises	9,183	236	-11	417	642	9,825

Source: National Bank of the Republic of Macedonia

Table 11

Broader monetary aggregates and their components
(in Denar million)

	30.06.2005	Monthly changes			Total	30.09.2005
		July	August	September		
Money supply M1	27,142	1,143	-860	481	764	27,906
Denar short - term deposits	26,335	-5,399	-1,060	856	-5,603	20,732
<i>Monetary aggregate M2 - denar component</i>	53,477	-4,256	-1,920	1,337	-4,839	48,638
Foreign currency short - term deposits	45,462	723	1,078	879	2,680	48,142
<i>Monetary aggregate M2</i>	98,939	-3,533	-842	2,216	-2,159	96,780
Non - monetary deposits	4,902	99	-129	-1	-31	4,871
- In Denar	3,093	26	-228	239	37	3,130
- In foreign currency	1,809	73	99	-240	-68	1,741
<i>Monetary aggregate M4</i>	103,841	-3,434	-971	2,215	-2,190	101,651

Source: National Bank of the Republic of Macedonia

Table 12

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

	30.06.2005	Monthly changes			Total	30.09.2005
		July	August	September		
Total deposits	76,699	-4,577	-111	1,734	-2,954	73,745
1. According to maturity						
- short-term	71,797	-4,676	18	1,735	-2,923	68,874
- long-term	4,902	99	-129	-1	-31	4,871
2. According to currency of denomination						
- In denar	29,428	-5,373	-1,288	1,095	-5,566	23,862
- In foreign currency	47,271	796	1,177	639	2,612	49,883

Source: National Bank of the Republic of Macedonia



Table 13

Households and enterprises deposits
(in Denar million)

	30.06.2005	Monthly changes			Total	30.09.2005
		July	August	September		
Total households deposits	49,880	-8	351	519	862	50,742
1. According to maturity						
- short-term	47,590	-49	229	463	643	48,233
- long-term	2,290	41	122	56	219	2,509
2. According to currency of denomination						
- In denar	13,554	-242	-401	-31	-674	12,880
- In foreign currency	36,326	234	752	550	1,536	37,862
Total enterprises deposits	24,742	-4,531	-95	851	-3,775	20,967
1. According to maturity						
- short-term	23,405	-4,591	-178	1,196	-3,573	19,832
- long-term	1,337	60	83	-345	-202	1,135
2. According to currency of denomination						
- In denar	14,060	-5,125	-558	780	-4,903	9,157
- In foreign currency	10,682	594	463	71	1,128	11,810

Source: National Bank of the Republic of Macedonia

Table 14

Banks' placements and overdue claims
(in Denar million)

	30.06.2005	Monthly changes			Total	30.09.2005
		July	August	September		
Total banks' placements	63,007	941	805	1,072	2,818	65,825
<i>Denar placements</i>	48,567	318	331	557	1,206	49,773
<i>Foreign currency placements</i>	14,440	623	474	515	1,612	16,052

Source: National Bank of the Republic of Macedonia

Table 15

Structure of total placements
(in Denar million)

	30.06.2005	Monthly changes			Total	30.09.2005
		July	August	September		
Maturity structure						
- short-term	30,085	-434	108	191	-135	29,950
- long-term	32,922	1,375	697	881	2,953	35,875
Structure of currency of denomination						
- Denar	48,567	318	331	557	1,206	49,773
- Foreign currency	14,440	623	474	515	1,612	16,052
Structure by sectors						
- enterprises	44,208	342	297	502	1,141	45,349
- households	18,682	624	465	506	1,595	20,277
- other	117	-25	43	64	82	199

Source: National Bank of the Republic of Macedonia



Table 16
Maturity and sector structure of Denar and foreign currency placements

	30.09.2005 (in %)	Quarterly change (in percentage points)	Annual change
Denar placements			
maturity structure			
- short-term	50.9	-0.6	-7.2
- long-term	49.1	0.6	7.2
structure by sectors		0.0	0.0
- enterprises	60.1	-2.3	-9.9
- households	39.5	2.2	9.8
- other	0.4	0.2	0.2
Foreign currency placements			
maturity structure			
- short-term	28.8	35.9	31.3
- long-term	71.2	-64.7	-60.1
structure by sectors			
- enterprises	96.1	-92.3	-91.7
- households	3.8	-3.6	-2.8
- other	0.1	-0.2	-1.5

Source: National Bank of the Republic of Macedonia

6. Financial markets

Table 17
Stock exchange indicators

	April-June 2005	July-September 2005	change in %
Turnover (denars)			
Trading in BEST	1,377,650,971	1,348,725,623	-2.10
Shares	853,189,252	982,445,243	15.15
Bonds	524,461,719	366,280,380	-30.16
Average daily turnover (denars)	27,938,976	27,637,085	-1.08
Average daily number of transactions	163	137	-15.98
Block transactions	268,690,472	150,582,280	-43.96
Government segment	125,396,469	23,446,874	-81.30
Shares	870,764	21,368,663	2,354.01
Stakes	124,525,705	2,078,148	-98.33
Other securities	-	-	-
Total	1,771,737,912	1,522,754,777	-14.05
Market capitalization (denars)			
Market capitalization of shares - quoted companies	26,634,520,498	34,343,378,482	28.94
Market capitalization of bonds	22,072,252,009	22,130,700,860	0.26
Mbi/mbi-10	1,834	2,577	40.50
Number of quoted companies	60	57	-5.00

Source: Macedonian Stock Exchange



Table 18

Turnover structure

Market segment	Turnover (denars)	Turnover (euros)	%	Number of transactions
Official market	1,338,916,628	21,870,568	87.93	6,099
Unofficial market	160,391,275	2,620,242	10.53	559
Government segment	23,446,874	383,191	1.54	15
Total	1,522,754,777	24,874,001	100.00	6,673



7. Balance of payments

Table 19
Balance of payments of the Republic of Macedonia
(in US Dollar million)

	2005									2005			2005
	I	II	III	IV	V	VI	VII	VIII	IX	Q.1	Q.2	Q.3	
I. Current Account	-6.4	2.2	-11.7	-48.4	-18.4	-21.2	30.8	8.9	23.4	-15.9	-88.1	63.1	-40.9
GOODS, net	-41.1	-44.6	-59.8	-96.8	-73.3	-102.2	-51.5	-69.0	-69.6	-145.5	-272.2	-190.1	-607.8
Exports, f.o.b.	112.7	120.2	134.5	134.9	141.2	129.2	153.0	117.7	143.5	367.4	405.3	414.2	1186.9
Imports, f.o.b. /2	-153.7	-164.8	-194.3	-231.7	-214.4	-231.4	-204.5	-186.7	-213.1	-512.9	-677.5	-604.3	-1794.7
SERVICES, net	1.0	-0.7	-3.1	-6.7	-7.3	0.9	3.8	2.8	2.8	-2.9	-13.0	9.4	-6.6
INCOME, net	-1.5	2.6	-0.6	-4.4	-7.5	-5.6	-18.3	-16.8	-1.8	0.5	-17.4	-36.9	-53.9
o/w: Interest, net	-3.8	-0.5	-3.3	-2.6	-0.5	-1.8	-3.1	-1.7	-4.0	-7.7	-4.8	-8.9	-21.3
CURRENT TRANSFERS, net	35.2	45.0	51.8	59.4	69.6	85.6	96.9	91.9	92.0	131.9	214.6	280.7	627.3
Official	1.1	5.7	2.2	2.4	3.3	7.0	11.9	3.2	1.5	9.0	12.7	16.6	38.3
Private	34.1	39.3	49.6	57.0	66.3	78.6	85.0	88.7	90.5	123.0	201.9	264.1	589.0
II. Capital & Financial Account	8.5	-0.9	11.8	49.9	19.3	16.1	-31.8	-6.0	-24.6	19.4	85.3	-62.4	42.3
CAPITAL ACCOUNT, net	0.0	0.1	0.0	0.2	0.1	-0.5	0.2	0.1	-0.2	0.0	-0.2	0.2	0.0
Capital transfers . net	0.0	0.1	0.0	0.2	0.1	-0.5	0.2	0.1	-0.2	0.0	-0.2	0.2	0.0
Official	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.1	0.0	0.2	0.1	-0.5	0.2	0.1	-0.2	0.0	-0.2	0.2	0.0
Acquisition/disposal of non-produced, non-finan. assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCIAL ACCOUNT, net	8.5	-0.9	11.8	49.6	19.1	16.6	-32.0	-6.2	-24.4	19.4	85.4	-62.6	42.2
Direct investment, net	12.0	7.2	8.5	5.5	7.0	14.5	3.1	11.2	0.0	27.7	27.0	14.3	68.9
Portfolio investment, net	1.2	2.5	8.8	2.2	0.9	0.7	2.0	11.3	1.1	12.5	3.8	14.4	30.7
Other investment, net	-11.2	3.0	-2.0	47.6	11.4	19.6	-2.0	-15.7	19.1	-10.2	78.5	1.5	69.8
Trade credits, net	-20.4	-19.4	-5.4	31.5	17.6	17.2	-34.8	-9.0	10.8	-45.2	66.3	-33.0	-11.9
Loans, net	3.0	3.9	6.5	23.2	10.3	31.0	3.3	-16.9	17.6	13.4	64.5	4.0	81.8
Currency and deposits, net	5.6	17.8	-5.4	-9.9	-17.6	-30.4	27.6	9.2	-12.3	17.9	-57.9	24.4	-15.6
o/w: Monetary Authorities, net	0.0	0.0	0.0	0.0	-0.3	0.0	0.3	0.0	0.0	0.0	-0.3	0.3	0.0
o/w: Commercial Banks, net	1.3	19.1	-4.1	-10.1	-13.7	-25.2	32.3	11.0	-2.4	16.3	-49.0	40.8	8.2
o/w: Individuals, net	4.2	-1.3	-1.3	0.2	-3.6	-5.2	-5.0	-1.8	-9.9	1.6	-8.6	-16.7	-23.7
Other, net	0.8	0.7	2.3	2.7	1.1	1.8	2.0	1.0	2.9	3.8	5.6	6.0	15.3
Gross official reserve assets, (- = increase) /3	6.5	-13.6	-3.5	-5.6	0.0	-18.2	-35.1	-12.9	-44.7	-10.6	-23.8	-92.7	-127.1
III. Errors & Omissions	-2.1	-1.3	-0.1	-1.4	-0.8	5.1	0.9	-2.9	1.3	-3.5	2.8	-0.7	-1.4

1/ Previous data.

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

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

3/ Excluding monetary gold and exchange rate differences.

Source: National Bank of the Republic of Macedonia

Table 20
Foreign trade of the Republic of Macedonia
(in EURO million)

	Q.1 2005	Q.2 2005	Q.3 2005	I-IX.2005	Q.3 2005		I-IX.2005	
					Q.3 2004		I-IX.2004	
	Amount				Amount	%	Amount	%
Foreign trade	902.5	1,112.0	1,044.8	3,059.2	104.2	11.1	433.3	16.5
Exports	367.6	405.3	414.7	1,187.6	52.4	14.5	227.0	23.6
Imports	534.9	706.7	630.1	1,871.7	51.8	9.0	206.3	12.4
Balance	-167.3	-301.4	-215.4	-684.1	0.6	-0.3	20.7	-2.9

Source: State Statistical Office of the Republic of Macedonia



Table 21
Ten most important trading partners of the Republic of Macedonia, I-IX, 2005

	Foreign trade		Exports		Imports		Import-export coverage (in %)
	Amount	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	
Republic of MACEDONIA	3,059.2	100.0	1,187.6	100.0	1,871.7	100.0	63.5
<i>out of which:</i>							
Serbia and Montenegro	416.2	13.6	260.3	21.9	156.0	8.3	166.9
Germany	411.8	13.5	218.7	18.4	193.1	10.3	113.2
Greece	359.0	11.7	186.9	15.7	172.1	9.2	108.6
Russia	248.1	8.1	12.4	1.0	235.7	12.6	5.3
Italy	215.1	7.0	102.5	8.6	112.6	6.0	91.0
Bulgaria	180.9	5.9	40.3	3.4	140.5	7.5	28.7
Turkey	96.6	3.2	28.8	2.4	67.7	3.6	42.6
Slovenia	95.8	3.1	18.5	1.6	77.3	4.1	24.0
Croatia	90.7	3.0	48.4	4.1	42.3	2.3	114.3
China	75.1	2.5	7.6	0.6	67.5	3.6	11.2
Total (10 largest trading partners)	2,189.2	71.6	924.4	77.8	1,264.8	67.6	73.1

Source: State Statistical Office of the Republic of Macedonia

Table 22
Foreign trade of the Republic of Macedonia
(in EURO million)

	Export			Import			Total trade			Trade balance		
	Q. 1.2005	Q. 2.2005	Q. 3.2005	Q. 1.2005	Q. 2.2005	Q. 3.2005	Q. 1.2005	Q. 2.2005	Q. 3.2005	Q. 1.2005	Q. 2.2005	Q. 3.2005
European Union	227.8	196.7	215.0	240.9	324.5	280.6	468.7	521.2	495.6	-13.1	-127.8	-65.7
Germany	85.48	63.69	69.59	56.22	72.04	64.86	141.7	135.7	134.4	29.3	-8.4	4.7
Greece	56.57	63.82	66.53	50.74	62.24	59.16	107.3	126.1	125.7	5.8	1.6	7.4
Italy	33.24	31.69	37.57	28.38	44.59	39.60	61.6	76.3	77.2	4.9	-12.9	-2.0
Other	52.5	37.5	41.3	105.5	145.6	117.0	158.1	183.2	158.3	-53.0	-108.1	-75.7
Countries of Central and Eastern Europe and of former USSR	18.4	25.1	28.4	138.2	173.6	165.3	156.6	198.7	193.7	-119.8	-148.4	-137.0
Russia	4.01	4.03	4.40	58.83	79.56	97.29	62.8	83.6	101.7	-54.8	-75.5	-92.9
Bulgaria	9.80	14.31	16.23	41.19	54.42	44.90	51.0	68.7	61.1	-31.4	-40.1	-28.7
Romania	0.62	0.75	0.86	17.76	12.07	8.93	18.4	12.8	9.8	-17.1	-11.3	-8.1
Other	4.0	6.0	6.9	20.4	27.5	14.2	24.4	33.5	21.1	-16.4	-21.5	-7.3
Former SFRY republics	77.7	124.9	133.3	59.8	77.2	75.3	137.5	202.1	208.5	18.0	47.7	58.0
Serbia and Montenegro	57.24	97.40	105.62	44.85	56.43	54.68	102.1	153.8	160.3	12.4	41.0	50.9
Other	20.5	27.5	27.7	14.9	20.7	20.6	35.4	48.2	48.2	5.6	6.8	7.1
Other countries	43.6	58.6	38.1	96.0	131.5	108.9	139.6	190.0	147.0	-52.4	-72.9	-70.8
TOTAL	367.6	405.3	414.7	534.9	706.7	630.1	902.5	1,112.0	1,044.8	-167.3	-301.4	-215.4

Source: State Statistical Office of the Republic of Macedonia

Table 23
Foreign trade of the Republic of Macedonia by the economic use of the products

	I-IX 2005			
	Export		Import	
	in millions of euros	structure	in millions of euros	structure
Total	1187.6	100.0	1871.7	100.0
Production goods	652.5	54.9	1216.8	65.0
Means of production	20.0	1.7	203.4	10.9
Consumption goods	514.7	43.3	450.2	24.1
Unallocated	0.4	0.0	1.2	0.1



Table 24

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

	Debt outstanding			Used credits			Paid liabilities		
	31.07.2005	31.08.2005	30.09.2005	VII-2005	VIII-2005	IX-2005	VII-2005	VIII-2005	IX-2005
Official creditors	1,022.5	1,017.3	1,033.8	5.2	2.0	18.9	15.8	5.8	7.0
out of which:									
Multilateral	847.5	844.0	863.3	4.6	1.9	18.9	4.3	4.1	3.2
MMF	43.8	42.9	55.7	0.0	0.0	12.6	0.0	0.8	0.0
IBRD	185.5	183.9	184.8	0.4	0.6	0.0	1.8	2.0	0.0
IFC	5.9	5.9	5.6	0.0	0.0	0.0	0.0	0.0	0.5
IDA	303.5	301.2	302.8	0.2	0.0	0.7	0.6	0.4	0.0
EIB	117.2	118.0	116.7	3.0	0.8	0.0	0.0	0.0	2.1
EUROFIMA	6.1	6.1	6.1	0.0	0.0	0.0	0.1	0.1	0.0
Council of EDB	16.9	16.9	16.9	0.0	0.0	0.0	0.1	0.0	0.0
EBRD	68.4	68.8	74.3	0.9	0.3	5.2	1.4	0.5	0.3
EU	90.0	90.0	90.0	0.0	0.0	0.0	0.2	0.2	0.3
IFAD	10.2	10.1	10.4	0.1	0.0	0.3	0.0	0.0	0.0
European Agency for Reconstruction	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0
Bilateral	175.0	173.3	170.5	0.6	0.2	0.1	11.6	1.7	3.7
Paris club (rescheduled 1995)	100.9	100.5	101.0	0.00	0.00	0.00	11.3	0.0	0.0
Non-rescheduled debt	6.6	6.6	6.6	0.00	0.00	0.00	0.0	0.0	0.0
Paris club (rescheduled 2000)	3.6	3.6	0.0	0.00	0.00	0.00	0.0	0.0	3.7
New credits	63.9	62.5	62.9	0.6	0.2	0.1	0.3	1.7	0.0
Private creditors	593.9	596.5	609.8	18.1	9.0	13.8	10.7	5.1	7.2
out of which:									
London Club of Creditors	183.9	182.6	184.3	0.0	0.0	0.0	7.9	0.0	0.0
Other private creditors	410.0	413.9	425.4	18.1	9.0	13.8	2.7	5.1	7.2
Banks and financial institutions	217.6	223.1	227.8	16.6	7.6	7.0	1.4	2.1	6.5
Private non-financial sector	192.4	190.8	197.6	1.5	1.4	6.8	1.3	3.0	0.6
TOTAL	1,616.4	1,613.8	1,643.6	23.3	11.1	32.8	26.5	10.9	14.1

Source: State Statistical Office of the Republic of Macedonia



8. Public finances

Table 25
Central Government Budget

	2004		2005				2005	2005/2004	2005/2004
	Q.3	Q.1+Q.2 +Q.3	Q.1	Q.2	Q.3	Q.1+Q.2 +Q.3	Q.3/Q.2	Q.3/Q.3	Q.1+Q.2 +Q.3
	amount		amount				changes in %		
Total budget revenues	13,957	41,948	12,826	14,690	17,762	45,278	20.9	27.3	7.9
<i>Tax revenues:</i>	<i>12,964</i>	<i>38,499</i>	<i>12,170</i>	<i>13,783</i>	<i>13,914</i>	<i>39,867</i>	<i>1.0</i>	<i>7.3</i>	<i>3.6</i>
- personal income tax	1,930	5,591	1,834	2,052	1,951	5,837	-4.9	1.1	4.4
- profit tax	522	1,986	1,080	600	623	2,303	3.8	19.3	16.0
- value added tax	6,025	18,607	5,745	6,767	6,652	19,164	-1.7	10.4	3.0
- excises	2,973	7,780	2,317	2,776	3,192	8,285	15.0	7.4	6.5
- custom duties	1,397	4,121	1,026	1,441	1,335	3,802	-7.4	-4.4	-7.7
- other	114	404	168	147	161	476	9.5	41.2	17.8
<i>Non-tax revenues:</i>	<i>855</i>	<i>2,977</i>	<i>544</i>	<i>800</i>	<i>3,261</i>	<i>4,605</i>	<i>4 times</i>	<i>3,8 times</i>	<i>5,47</i>
- inflows from state property dividends	346	1,433	82	252	2,828	3,162	11.2 times	8.2 times	2.2 times
- administrative taxes and fees	337	1,070	387	459	358	1,204	-22.0	6.2	12.5
- other administrative taxes	59	192	58	69	55	182	-20.3	-6.8	-5.2
- other non-tax revenues	113	282	17	20	20	57	0.0	-82.3	-79.8
<i>Capital revenues</i>	<i>127</i>	<i>460</i>	<i>112</i>	<i>107</i>	<i>587</i>	<i>806</i>	<i>5,5 times</i>	<i>4,6 times</i>	<i>75,2</i>
Total budget expenditures	13,341	40,694	13,833	14,333	14,226	42,392	-0.7	6.6	4.2
<i>Current expenditures</i>	<i>12,187</i>	<i>37,576</i>	<i>12,859</i>	<i>12,908</i>	<i>12,695</i>	<i>38,462</i>	<i>-1.7</i>	<i>4.2</i>	<i>2.4</i>
- wages and salaries	5,097	15,581	5,373	5,437	5,274	16,084	-3.0	3.5	3.2
- goods and services	1,329	4,840	1,903	1,657	1,367	4,927	-17.5	2.9	1.8
- transfers	5,170	15,526	5,026	5,264	5,360	15,650	1.8	3.7	0.8
- interest	561	1,571	557	550	694	1,801	26.2	23.7	14.6
<i>Capital expenditures</i>	<i>1,154</i>	<i>3,118</i>	<i>974</i>	<i>1,425</i>	<i>1,531</i>	<i>3,930</i>	<i>7.4</i>	<i>32.7</i>	<i>26,0</i>
Budget balance	616	1,253	-1,005	357	3,536	2,888			

Source: Ministry of Finance

Table 26
Total revenues and expenditures of the budget funds

	July-September 2005					
	Total revenues			Total expenditures		
	Amount (in Denar million)	Quarterly changes (Q.3/Q.2)	Annual changes (2005/2004)	Amount (in Denar million)	Quarterly changes (Q.3/Q.2)	Annual changes (2005/2004)
	in %			in %		
Social Funds	12,405	-2.4	-2.8	12,533	-0.7	0.0
- pension and disability insurance	7,045	-2.2	-2.0	7,143	-0.3	-1.1
- health insurance	3,655	-1.1	-0.9	3,660	-1.6	5.6
- employment	1,705	-5.3	-9.3	1,730	-0.4	-6.1
Road Fund	867	-3.9	0.0	1,214	70.0	12.3

Source: Ministry of Finance

**Table 27**NBRM Balance sheet on September 30, 2005
(in million Denars)

Assets	Amount	Liabilities	Amount
Foreign assets	54,463	Reserve money	17,481
Claims on Government	3,160	NBRM instruments	6,454
Claims on banks and other financial institutions	46	Restricted deposits	283
Other assets	2,551	Foreign liabilities	3,408
		Government deposits	15,793
		Capital accounts	9,512
		Other liabilities	7,289
Total	60,220	Total	60,220

Source: National Bank of the Republic of Macedonia