



Quarterly Report

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

The trend of favorable macroeconomic developments in the economy continued in the last quarter of 2005. The registered growth in the industrial output, increased trade turnover, and accelerated activity in the agriculture indicate further economic growth, which is expected to reach 3.6% p.a. in the fourth quarter of 2005.

Industrial activity registered positive annual growth rates, with moderate slowdown in the growth intensity. Accordingly, in 2005, the actual volume of the industrial output registered average growth of 7% relative to the previous year, which is due primarily to the increased production of basic metals, other non-metal minerals and metal products in the metalworking stage.

In continuation to the stable price movements since the beginning of 2005, in the last quarter of 2005 a low inflation rate of 0.8% was registered (0.4% in the first nine months of 2005). The average inflation rate in 2005 reached 0.5%. The positive rate of inflation was primarily due to the increase in the prices of fuels, cigarettes, and footwear. The further decline in the costs of food and the lower prices of the hygiene and health products, acted in the opposite direction. If the effect from the change in the prices of food and energy is included, in 2005 the inflation would equal 1.21% (core inflation rate).

The total foreign trade of the Republic of Macedonia in the last quarter of 2005 registered an annual increase of 10.4%, with faster growth of the exports relative to the imports of goods (of 17.8% and 6.2%, respectively). Accordingly, in the analyzed period, higher import-export coverage ratio was registered. Given the favorable movements on the foreign exchange market and the net-purchase of foreign currency by the NBRM, the denar exchange rate remained stable also in the fourth quarter of 2005.

In the last quarter of 2005, a rise in the banks' deposit base was registered, as well as further acceleration of their credit activity. In the fourth quarter of 2005, the total deposits of the private sector with banks went up by 6.5% relative to the previous quarter, which is mostly due to the increase in the short-term denar deposits (of 17.5%). The banks' total placements to the private sector were higher by 4.5% on a quarterly basis, registering a simultaneous growth in both denar and foreign currency placements. The sector-by-sector analysis reveals that in the last quarter of 2005, the trend of supporting the investment activity of the corporate sector and stimulating the consumption of households, continued. Most of the newly-extended loans pertain to long-term denar lending to the households sector and long-term foreign currency lending to the corporate sector.

In line with the favorable movements on the foreign exchange market and the favorable macroeconomic performances, in October 2005, NBRM shifted from volume tender type of CB bills auctions to interest rate tender type CB bills auctions (market setting of the interest rate, having a restricted amount of offered CB bills). This led to a decline in the interest rates on the CB bills, accompanied by a decline in the interest rates on the Treasury bills and the interbank money market.



1.

Prices

In 2005, the average inflation rate equaled 0.4, and the core inflation rate equaled 1.21%

In 2005, the average inflation rate in the Republic of Macedonia, measured by the consumer price index, equaled 0.5%. The core inflation rate, which excludes the effect of the food and the energy, equaled 1.21%¹ in 2005.

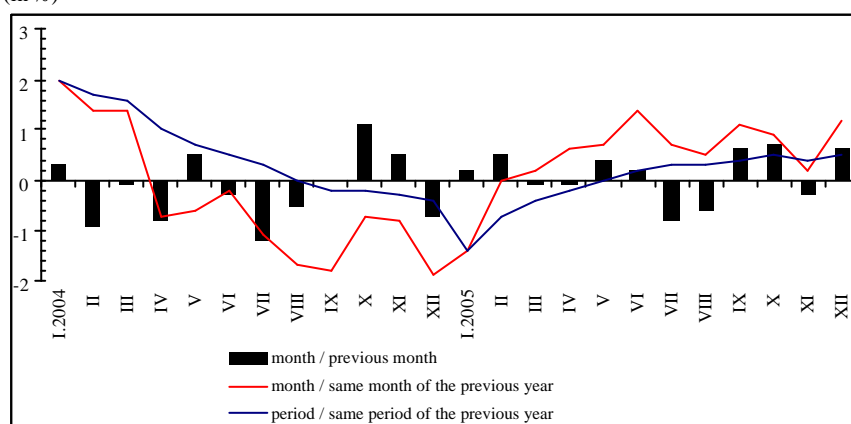
Having in mind the increase in the costs with a number of categories within the inflation index, most significant for the registered rate of inflation is the increase in the costs in the categories "transport equipment and services", "tobacco and beverages" and in the category "clothing and footwear".

The increase in the category "transport equipment and services" (3.7%) was primarily due to the higher prices of liquid fuels (which follow the movement of the world prices of oil), and to a smaller extent to the effect of the higher prices of PTT services, due to the low comparison basis from the first half of the preceding year (prices of PTT services were increased in July 2004, and remained on that level by end 2005). The increase in the category "tobacco and beverages" (5.5%) reflected the higher prices of cigarettes due to the higher excise on these products, increased in January 2005 (harmonization with the EU Directives). The increased costs in the category "clothing and footwear" (2.2%) were a result of the higher prices of footwear.

Still, the effect of the relatively high rates of growth in the mentioned categories on the overall inflation, was significantly offset with the drop in the costs of food² (1.2%) and in the costs of hygiene and health (3.5%).

At the same time, the costs of services registered a more intensive growth (of 1.3%) relative to the growth in the costs of goods (of 0.3%), which was mostly a result of the higher prices of transport services, and the reduced prices of the food products.

Figure 1
Consumer prices
(in %)



Source: State Statistical Office

¹ The calculation was made according to a methodology of the NBRM.

² The fall in the costs of food, which are the dominant category in the inflation index, 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.



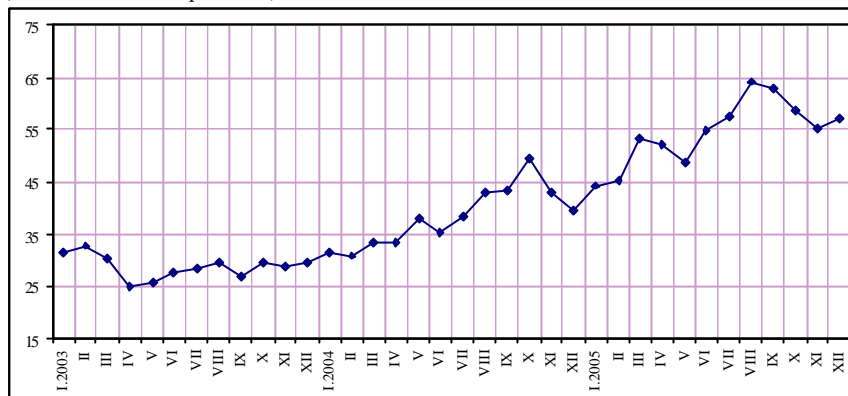
Attachment 1

Decline in the prices of crude oil on the international markets in the last quarter of 2005

In the fourth quarter of 2005, the average price of crude oil, internationally, stood at US Dollar 57 per barrel, which is a decline of 7.4% relative to the average level in the preceding quarter. Such a trend in the world oil prices led to a deceleration in their annual growth rate, which in the fourth quarter of 2005 was reduced to 29.2% relative to the same period of 2004.

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 downward trend in the prices of crude oil on the international markets, which commenced in the last month of the third quarter, continued also in the first two months of the last quarter of 2005. The adjustment of the demand for oil derivatives to the high prices and the maximum utilization of the oil production and processing capacities in the Mexican Gulf after stabilization of the weather conditions, contributed the average price of crude oil on the international markets to drop to US Dollar 58.7 per barrel in October (US Dollar 62.9 US Dollar in September).

The further decline in the price of crude oil was registered in November, when it amounted to US Dollar 55.3 per barrel, on average. Such movements were influenced by the demand for oil and heating fuel, which was lower than the common demand in the beginning of the heating season (due to the favorable weather conditions in the countries from the northern hemisphere), and they were also influenced by the increased demand in line with the rehabilitation of the refineries damaged by the hurricanes in the Mexican Gulf.

In December, oil prices reached US Dollar 57 per barrel, on average, mainly due to the deterioration of the weather conditions in the countries of the northern hemisphere, which led to gradual increase in the demand for heating fuels. Besides this seasonal effect, the increase in the price of oil in the respective month was also influenced by the globally increased demand for oil and oil derivatives (mainly by China, India and USA), reduced exports of oil and oil derivatives from Nigeria, but also the speculations related to the possible reduction of the output by OPEC in the forthcoming month (announcements by Iran, as the second largest producer within OPEC).

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

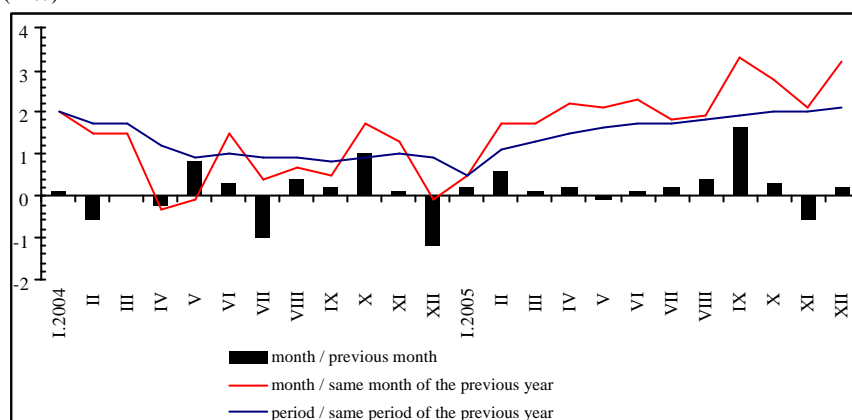
Analyzed by month, in October and December monthly rates of inflation were registered (of 0.7% and 0.6%, respectively), caused by the



Average increase in retail prices in 2005 of 2.1%

increase in the costs of food, due to the higher prices of vegetables. In November, a monthly deflation rate of 0.3% was registered, due to the reduced price of the main type of white bread and of fuels. Similar monthly dynamics was registered also with the consumer price index (increase in October and December of 0.3% and 0.2%, respectively, and a decline in November of 0.6%), mainly under the influence of the same factors. Still, the average growth in retail prices in 2005 was faster relative to the increase in the consumer prices, and it equaled 2.1%. That was 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 in the Euro-zone in the fourth quarter of 2005

In the fourth quarter of 2005, the average inflation rate in the Euro-zone (measured by the Harmonized Index of Consumer Prices - HICP) retained the level from the previous quarter, i.e. it equaled 2.3%. The prices of goods registered an increase of 2.5%, which was primarily a result of the higher prices of energy, under the influence of the movement in the world oil prices. Prices of services were by 2.1% higher, which is a somewhat lower level relative to the average level registered in the previous three quarters.

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

	Share in %	2004	2005	Q.1 2005 / Q.1 2004	Q.2 2005 / Q.2 2004	Q.3 2005 / Q.3 2004	X.2005	XI.2005	XII.2005	Q.4 2005 / Q.4 2004
Harmonized consumer price index (HICP)	100	2.1	2.2	2.0	2	2.3	2.5	2.3	2.2	2.3
Goods (total)	59.2	1.8	2.1	1.8	1.8	2.4	2.6	2.4	2.4	2.5
Energy	8.6	4.5	10.1	7.6	8.8	12.7	12.1	10	11.2	11.1
Unprocessed food	7.5	0.6	0.8	0.5	0.8	0.8	1.1	1.5	1.5	1.4
Processed food	12	3.4	2	2.4	1.6	1.8	2.4	2.6	1.8	2.2
Industrial products other than energy	31	0.8	0.3	0.3	0.3	0.1	0.3	0.4	0.4	0.4
Services (total)	40.8	2.6	2.3	2.4	2.3	2.2	2.2	2.1	2.1	2.1

Observed by months the annual inflation rate in the Euro-zone in the fourth quarter registered a downward trend. From the level of 2.6% registered in September, the inflation rate was reduced to 2.5% in October, 2.3% in November, and 2.2% in December. Such a trend is mainly linked with the gradual relieving of the pressure on the world oil markets. Reduced growth rate in the prices of processed food additionally influences the reduction of the annual inflation rate, due to the termination of the effect from the higher prices of cigarettes (increase in the tax in December 2004).



Still, the increase in the prices of energy does not have a significant indirect effect on the other HICP components. This is confirmed by the annual core inflation rate in the Euro-zone, excluding the movements in the most variable components (energy and unprocessed food prices). In the fourth quarter of 2005, this rate was relatively stable and it equaled 1.5% on average (1.4% in the previous quarter).

The average inflation rate in the Euro-zone equaled 2.2% in 2005, and it was mainly due to the increase in the prices of energy. In 2005, the core inflation rate, (excluding energy and unprocessed food prices), equaled 1.5% (2.1% in 2004).

Source: Eurostat and European Central Bank

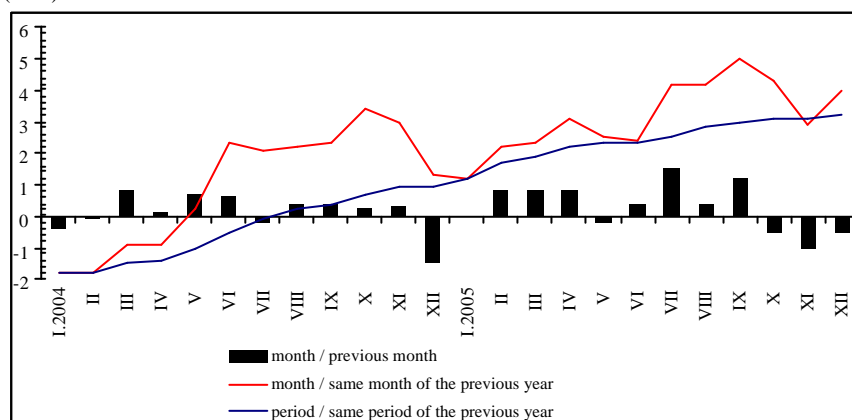
The prices of producers of industrial products were by 3.2% higher, on average, in 2005

The prices of the producers of industrial products in 2005, registered an average increase of 3.2%. The main driving force behind such increment were the higher prices of the producers of oil derivatives (by 32.7%), which is in line with the movement of the world prices of oil. Beside the prices of oil derivatives, the higher prices of the producers of electrical machinery and apparatus (by 3.0%) had a more significant contribution to the increase in the prices of producers of industrial products. In 2005, fall in the prices was registered only with the producers of textiles (of 0.4%) and with the producers of basic metals (of 0.1%).

The analysis of production prices by individual sectors indicates the dominant effect of the increase in the prices in the manufacturing, with a minimum increase being registered in the mining and quarrying sector, and an unchanged level of prices being registered in the electricity, gas and water supply sector.

The monthly dynamics of the production prices in the fourth quarter of 2005, was under the influence of the drop in the refinery prices of oil derivatives, with the most significant monthly decline being registered in November (1.0%).

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



Source: State Statistical Office

The increased domestic consumption³ in the third quarter of 2005⁴, contributed to the accomplishment of a positive inflation rate in the observed

³ 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.

⁴ Last available data of the SSO.



period. In the third quarter of 2005, *public consumption*, registered an increase of 3.3% relative to the same period of the preceding year. It is estimated that the *personal consumption also increased*, on the basis of the movements in the indicative categories in the observed period: annual increase in the wages (of 2.3%), retail trade (of 14.4%), credits to households (of 50.2%), income from value-added tax (of 10.4%) and import of consumer goods (of 22.6%, which at the same time is faster than the increase in the import of capital goods). In line with the increase in both the public and the individual consumption, an annual increase in the *final consumption* in the third quarter of 2005 may be assumed.

In the third quarter of 2005, the indicative categories for the *gross investments* registered divergent movements. *The investments in machinery and equipment* in the third quarter of 2005 were by 2.8% lower on annual basis, and comprise only one-third of the gross investments. Domestic production of capital products and completed construction works also register a decline (of 2.5% and 21.1%, respectively). On the other hand, the upsurge in the lending to the corporate sector and the import of capital goods (of 13.4% and 2.3%, respectively) indicate increased 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, which encompasses approximately 80% of the domestic consumption, and unchanged level of gross-investments, the *domestic consumption* is assumed to increase in the third quarter of 2005. Considering the inflationary effect of the domestic consumption, the average rate of inflation in the observed period equaled 0.8%.

The rate of inflation registered in the third quarter of 2005 was relatively low, having in mind the fact 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 prices⁵ (the effect cannot be quantified precisely). In the third quarter of 2005, net-import of goods and services was registered, with faster growth in the export of goods and services (16.8%), relative to the growth in the import of goods and services (9.9%), compared to the same period of 2004.

Table 2
Expenditure aggregates of GDP
(nominal growth rates)

	III Q.2005* / III Q.2004
Public consumption	3.3
Investments in machinery and equipment	-2.8
Export of goods and services	16.8
Import of goods and services	9.9

* Preliminary data of the State Statistical Office.

In the fourth 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 extended to the households, the higher turnover in the retail trade, and the higher income from value-added tax relative to the same period of 2004 (only import of consumer goods registered a decline). The effect of the *public consumption* was estimated to act in the same direction if the moderate increase in current budget expenditures in the analyzed period is taken

⁵ 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).



into consideration. The high increase in the total lending to the corporate sector and in the import of capital goods, as opposed to the decline in the completed construction works and in the production of capital goods, as indicators of the investment activity in the fourth quarter of 2005, make it difficult to assess the movement in the gross-investments and their influence on the inflation. The effect of the decline in the import prices is still present, having a net import of goods (further increase in the exports and a decline in the imports). Taking into account these estimations, one may ascertain that the realized average annual inflation rate in the fourth quarter of 2005 of 0.7% was mainly a result of the increase in the domestic consumption⁶.

2.

Economic activity

In the third quarter of 2005, positive annual rate of economic growth of 3.9% was registered...

In continuation to the positive movement of the gross domestic product in the first two quarters, in the third quarter of 2005⁷, an annual GDP growth rate of 3.9% was registered. The increase was a result of the positive accomplishments in all three sectors of the economy, except for the construction sector (fall of 3%). The highest growth rate was registered in the "trade" sector (8.6%), which had a share of 13% in the structure of GDP in the analyzed period. The sectors "agriculture", "industry", and "transport", which have joint structural share of 41% in the total GDP in the third quarter of 2005, registered an annual increase of 1.5%, 5.9%, and 8%, respectively, relative to the same period of the preceding year.

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	III Q. 2004	III Q. 2005
		I Q.2005/ I Q.2004	II Q.2005/ II Q.2004	III Q.2005/ III Q.2004						
		(real growth rates, in %)			(share in GDP, in %)					
Gross Domestic Product	4.1	2.8	4.8	3.9						
Agriculture, hunting, forestry and fishing	6.2	3.3	2.4	1.5	10.0	10.1	9.7	9.5	9.7	9.5
Mining and quarrying; Manufacturing and electricity, gas and water supply	-0.8	4.7	13.0	5.9	22.6	23.0	22.5	24.3	23.4	23.9
Construction	7.4	-9.7	-8.9	-3.0	4.2	3.7	6.4	5.6	6.5	6.1
Wholesales and retail sales, repair of motor vehicles, motorcycles and personal and household items	15.7	5.9	8.1	8.6	12.7	13.0	13.0	13.4	12.5	13.0
Hotels and restaurants	-11.3	3.9	8.6	7.1	1.6	1.6	1.6	1.7	1.9	1.9
Transport, storage and communications	-4.8	6.4	7.4	8.0	7.2	7.5	7.2	7.4	7.3	7.6
Financial intermediation; Real estate and business activities	11.7	0.2	0.9	1.5	14.4	14.1	13.4	12.9	13.1	12.8
Public administration and defense, obligatory social security, Education, Health and social work and Exteritorial organizations and bodies	-0.6	0.5	0.3	2.0	15.1	14.8	14.1	13.4	13.6	13.3

Source: State Statistical Office. Preliminary data.

In the fourth quarter of 2005, real GDP growth is expected, compared with the same period of 2004, having in mind that industry, trade and agriculture registered an annual increase in the activity in the last three months of the year, while only the activity in the "construction" sector is still below the level from the preceding year. In line with the projections for 2005, in the fourth quarter of 2005, real annual GDP growth rate of 3.6% is expected.

In 2005, cumulative rate of growth in the industrial output of 7% was registered...

The accelerated industrial activity resulted in a positive cumulative change in the industrial output in 2005 of 7%, compared with the previous year. The cumulative increase is mainly a result of the higher production of products of other non-metal minerals (by 21.5%), basic metals (by 33.4%), and metal products in the metalworking stage (by 18.9%), which according to the use, belong to the group of intermediary products (other than energy). Consequently, the production of intermediary products, which in 2005 registered an annual increase of 14.2%, contributed the most to the growth in the total output. The

⁶ The analysis is made according to the last available data on each indicator. By the day the Quarterly Report IV/2005 was submitted to the NBRM Council, the preliminary data on the GDP for the fourth quarter of 2005, had not been published.

⁷ Last available data of the SSO



significant growth in the production of this group of products is partially a result of the low comparison basis from the previous year (when one of the larger metallurgical facilities was out of operation) and of the higher price of metals on the international markets.

Table 4
Prices of metals on the international markets

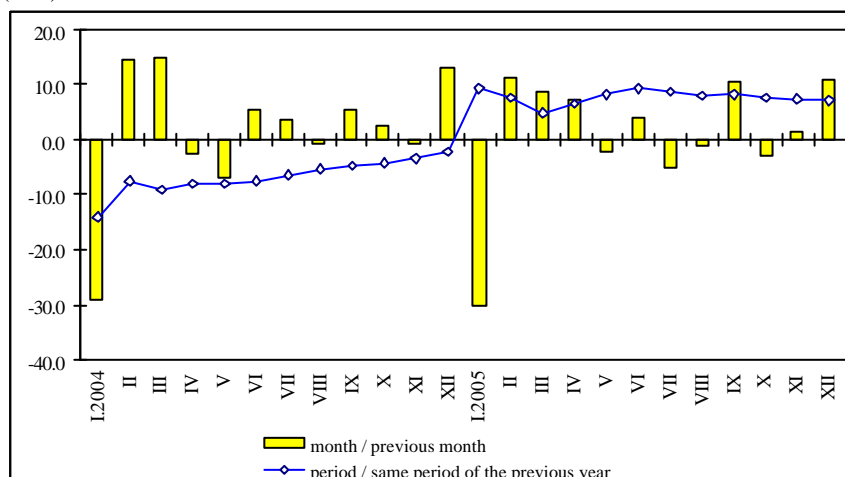
	Jan.-Dec. 2004	Jan.-Mar. 2005	April-June 2005	July-Sep. 2005	Oct.-Dec. 2005	Jan.-Dec. 2005
<i>US Dollars per ounce</i>						
Gold	409.2	427.1	427.3	439.5	485.6	444.8
<i>US Dollars per ounce</i>						
Silver	6.69	7.0	7.2	7.1	8.1	7.3
<i>US Dollar per dry metric tone unit</i>						
Iron ore	0.38	0.7	0.7	0.7	0.7	0.7
<i>US Dollar per metric tone</i>						
Nickel	13,823.0	15,348.4	16,411.0	14,567.2	12,649.3	14,744.0

Source: World Bank

The increase in the industrial output in 2005 was supported also by the registered increase in the production of "non-durable goods for joint consumption" of 3.8%, which was mainly caused by the production of food products and beverages, and of wearing apparel. Simultaneously with the increased import of oil in 2005, the production of oil derivatives registered an increase of 16.6%.

Analyzing by sector, the increase in the industrial output in 2005 was a result of the simultaneous increase in the output in all three industrial sectors, with the manufacturing industry, as the prevailing sector (with a share of 79.4%), contributing the most to the realized increase in the output. The production in the manufacturing industry registered an average annual increase of 7.3%. The sector of mining and quarrying registered an intensive average growth of 40.4% (restarting of one mine), while the growth rate in the sector of electricity, gas and water supply, was more moderate and equaled 2.5%.

Figure 5
Dynamics of the industrial output
(in %)



Source: State Statistical Office

In the fourth quarter of 2005, mainly positive monthly growth rates were registered, except for October. The drop in the output in October of 3.2% arises from the reduced production of food products and beverages, mainly as a result of the higher comparison basis in September, when the largest part of the processing of grapes was realized. In November and December, industrial output registered monthly increase of 1.5% and 11%, respectively.

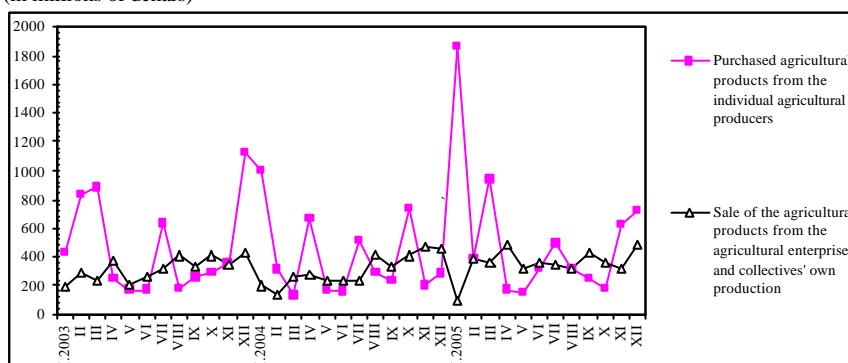


In December 2005⁸, the current economic standing of the enterprises was assessed as being improved relative to the end of the previous quarter. The average exploitation of the capacities of the companies increased by 0.3 percentage points on a quarterly basis and in December it equaled 63.8% of the regular exploitation level. Economic agents still point to the insufficient domestic demand as the main factor hindering the increase in the output. They have optimistic expectations about the volume of the production and the average selling prices of finished products in the forthcoming quarter.

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

The total value of sold agricultural products of the own production of the agricultural companies in the fourth quarter of 2005, stood at Denar 1,164 million, which is by 5.6% more relative to the preceding quarter. The increase was mainly due to the larger sale of industrial plants, fruits and grapes, and alcohol beverages (60% of the total agricultural products sold in the fourth quarter of 2005). On annual basis (fourth quarter of 2005 / fourth quarter of 2004), a decline in the sale of 12.7% was registered, which was a result of the drop in the sale in most of the categories of agricultural products. Thus 27.3% of the total sale in 2005 were made in the fourth quarter. In 2005, agricultural products in the amount of Denar 4,269 million were sold, which is an increase of 16.2% relative to the previous year. The total value of the agricultural products purchased from the individual agricultural producers in the last quarter of 2005 totaled Denar 1,521 million, which is by 44% more on a quarterly basis (mainly due to the higher purchase of industrial plants, fruits and grapes, and milk and dairy products) and 25.2% on annual basis. In 2005, agricultural products in the total value of Denar 6,418 million were purchased, which is by 36.9% more relative to the previous year.

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



Source: State Statistical Office.

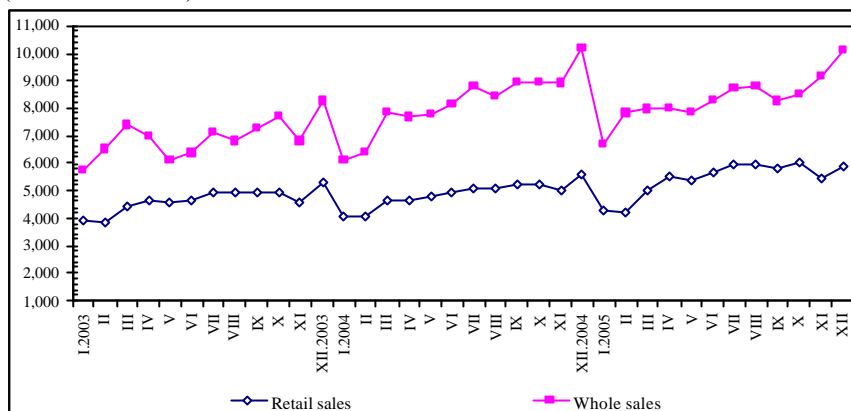
...and faster trade activity

The total trade turnover in the last quarter of 2005 amounted to Denar 45,152 million, which is a quarterly growth of 3.8%. The growth was solely due to the increase in the wholesale turnover (of 7.8%), while the retail trade turnover registered quarterly decline (2.1%). Compared with the same quarter of the previous year, the total trade turnover in the fourth quarter of 2005 went up by 2.7% as a result of the increase in the retail trade turnover (of 10%), with a minimum decline in the wholesale turnover (of 1%) being registered. In 2005, the total trade turnover stood at Denar 165,280 million and registered growth of 5.4% relative to the previous year, having faster increase in the retail trade turnover and more moderate increment in the wholesale.

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



Figure 7
Trade turnover
(in millions of denars)

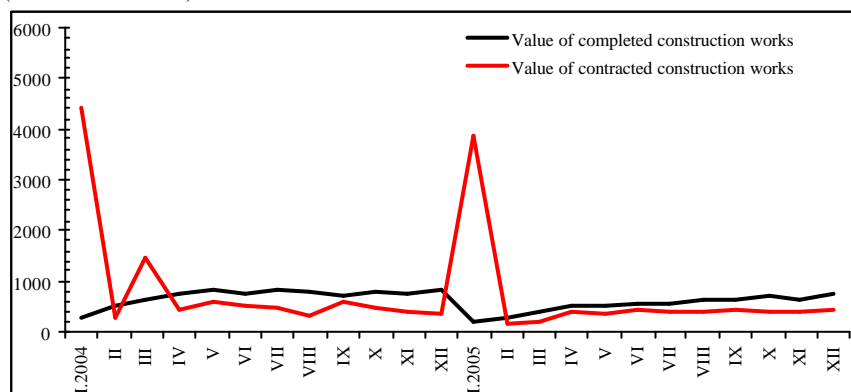


Source: State Statistical Office.

In the fourth quarter of 2005, reduced construction activity was registered

In the fourth quarter of 2005, more intensive construction activity was registered. Thus, in the last quarter of the year, 32.3% of the total construction works since the beginning of the year were completed, which is by 12.8% more relative to the previous quarter. Nevertheless, compared with the same quarter of the previous year, the value of completed construction works dropped by 12.4%. In 2005, the value of total completed construction works amounted to Denar 6,411, which is a decline of 23.3% relative to the previous year. In the fourth quarter of 2005, construction works in the amount of Denar 1,240 million were contracted, which is a quarterly decline of 0.6%. On the other hand, compared with the same quarter of the previous year, their value was higher by 0.5%. The total value of the contracted construction works in 2005 stood at Denar 7,881 million, i.e. by 24.1% less relative to the preceding year.

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



Source: State Statistical Office.

Attachment 3
An outline of the transition indicators of the European Bank for Reconstruction and Development (EBRD) for the Republic of Macedonia

With respect to the results achieved in particular areas of the transition of the Republic of Macedonia, in the 2003 - 2005 period, EBRD awarded the highest score for the liberalization of the trade and the foreign exchange system (4+, the highest score reflecting a level of highly industrialized economies), while the progress regarding price liberalization was also well evaluated.



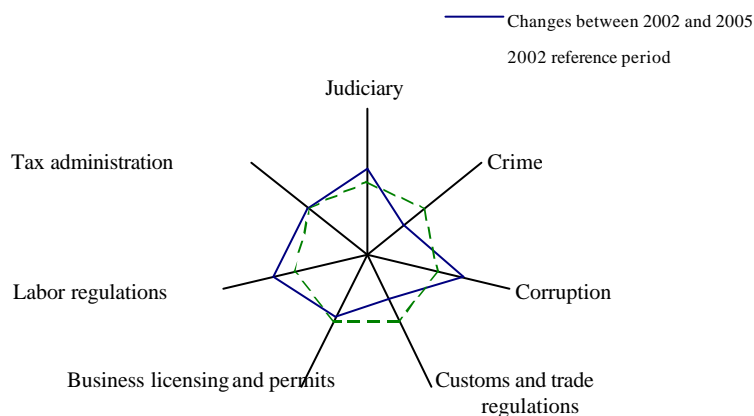
According to the EBRD score for the banking reforms and interest rates liberalization in the past two years (3-), Macedonia is in the same group with Ukraine, Moldavia, Serbia and Montenegro, Bosnia and Herzegovina and Armenia. Also, EBRD ranks the transition economies in the context of the macroeconomic risks the banking system is exposed to, through the macro-prudential indicator. On the basis of the macro-prudential indicator, Macedonia has the highest score, i.e. 1 (lowest risk). This indicator assesses the pressure on the banking system arising from its exposure to a macroeconomic risk and is based on certain thresholds for real credit growth, movement of the national stock market index, and the real exchange rate. The macro-prudential indicator for the Macedonian banking system (1) indicates lowest level of exposure of the banking system to risks of macroeconomic nature.

From the viewpoint of the infrastructural reforms (electric power supply, telecommunications, railways and roads, and water supply), in 2005, Macedonia made some progress (upgrade from 2+ to 3-) in the area of electric power supply due to the restructuring of the Macedonian Electricity Company (ESM) through the creation of separate transmission, distribution and generation companies.

The Business Environment and Enterprise Performance Survey (BEEPS) of the EBRD indicates that the problems related to corruption, judiciary and labor regulations register stronger adverse influence in 2005, relative to 2002, and are indicated by the enterprises⁹ as most frequent obstacles hindering the regular conduct of the business activity.

Effect of the business environment on the enterprises' performances

- Based on the relative rating of each obstacle in the business environment according to the reports of the Macedonian enterprises which participated in the BEEPS



The results are based on the perception of the companies of the extent to which each of these factors influences their business performances.

Note: The solid line indicates how problematic each obstacle is for the business performances of the enterprises. Where the solid line falls outside the dotted line, this represents larger obstacles for the business operations in 2005 relative to 2002, i.e. deteriorated business environment regarding the respective dimension.

Source: "EBRD Transition Report 2005".

According to the latest EBRD Transition Report 2005, the key challenges ahead of Macedonia pertain to the following areas:

- Larger flexibility of the labor market as a support to the process of creating jobs in the private sector, with simultaneous strengthening of the judiciary and clear ownership rights, in order to encourage productivity and investments;

⁹ The Business Environment and Enterprise Performance Survey of the EBRD, encompassed two hundred legal entities from the Republic of Macedonia.



- Transparent privatization of the energy sector, which will facilitate the country's presence on the regional energy market;

- Increasing the potential for economic growth through larger inflow of foreign direct investments, especially in the export-oriented industries.

Source: EBRD Transition Report, 2003, 2004 and 2005

3.

Employment and wages

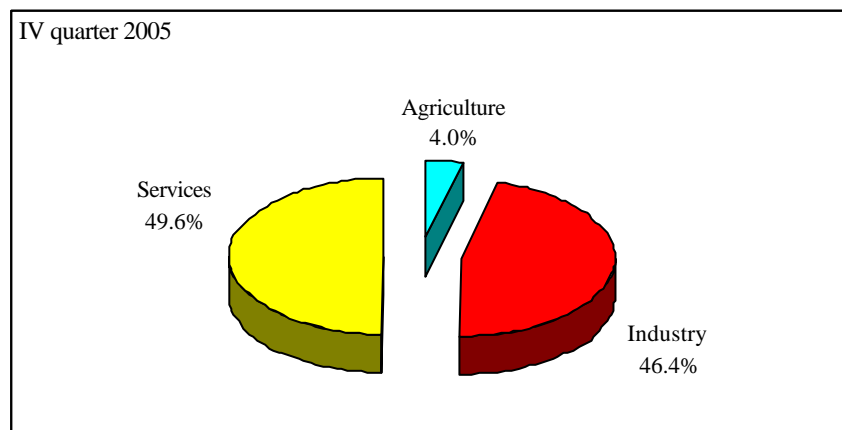
Reduction in the employment in the fourth quarter of 2005

In the fourth quarter of 2005, the average number of employees equaled 242,781¹⁰, which is a decline of 1.5% 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 industry (2.7%), due to the smaller number of employees in all industrial activities. The manufacturing industry, which employs 32% of the total number of employees, registered a decline of 3.1% relative to the previous quarter.

The number of employees in the services sector dropped insignificantly (by 0.3%), which is mainly a result of the reduced number of employees in most of the service activities. Thus, employment reduced in the "hotels and restaurants" activity, in "transport, storage and communication", "real estate, renting and business activities" and in "health".

The reduced number of employees in the "agriculture, hunting and forestry" and in "fishing" led to a decline in the number of employees in the "agriculture" of 2.5%.

Figure 9
Share of the sectors in the total number of employees (in %)



Source: State Statistical Office

On annual basis (fourth quarter of 2005 / fourth quarter of 2004), employment reduced by 5.1%, reflecting the faster decline in the agriculture and in industry (by 5.4% and by 5.9%, respectively), while in the services sector the decline was more moderate (4.3%).

¹⁰ Source: State Statistical Office.



According to the Labor Force Survey the total active population¹¹ (employed and unemployed) equaled 876,074 persons, of whom 555,938 persons were employed, while 320,136 persons were unemployed. The rate of unemployment retained the level registered in the previous quarter and equaled 36.5%, while the rate of employment equaled 34.6% (a decline of 0.5 percentage points relative to the previous quarter). Nevertheless, on annual basis (fourth quarter of 2005 / fourth quarter of 2004) positive developments are evident. The unemployment rate was lower by 1.5 percentage points, while the employment rate increased by 3.4 percentage points.

Figure 10
Employment and unemployment rates
(in %)



Source: Labor Force Survey, State Statistical Office

Analyzed by activity, the quarterly decline in the number of employed persons was a result of the smaller number of employed persons in the agriculture (by 35.2%), reflecting the lower employment in the "agriculture, hunting and forestry". In the fourth quarter of 2005, the remaining sectors of the economy registered an increase in the number of employees (of 5.8% in industry and of 11.3% in the services sector). Relative to the same period of the previous year, an increase in the number of employees was registered in all three sectors of the economy (of 30.7% in the agriculture, 4% in the industry, and 11.8% in the services sector). The number of employees in the manufacturing and in trade (which have the highest share in the total number of employed persons) increased by 1.7% and by 18.4%, respectively.

With respect to the gender structure, the rate of unemployment with the male population was 35.4%, while the employment rate was 42%. On the other hand, the female population registered higher unemployment rate (38.3%), and lower employment rate (27%), relative to the male population.

As to the age, highest unemployment rate in the fourth quarter of 2005 was registered with the population aged between 15 and 24 (64%), while the employment rate was highest with the population aged between 25 and 49 (50.4%).

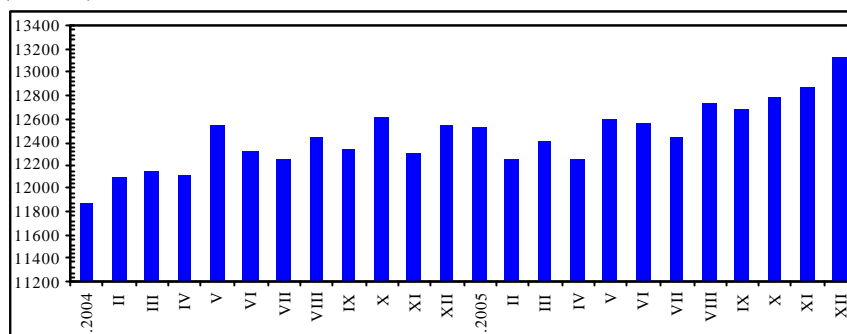
Increase in the nominal average net paid wage per employee in the fourth quarter of 2005

In the last quarter of 2005, the nominal average net paid wage per worker in the Republic of Macedonia equaled Denar 12,925, which is an increase in nominal and in real terms of 2.4% and 1.6%, respectively, relative to the previous quarter.

¹¹ 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.



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



Source: State Statistical Office.

The quarterly increase in the wages was caused by the increase in the wages in the industry and in the services sector, where an increase of 3.6% and 1.2%, respectively, was registered. Within industry, significant rise in the wages was registered in the manufacturing and in the electricity, gas and water supply sector (of 5% and 6.6%, respectively). In the mining and quarrying sector the increase was more moderate. Wages in the construction reduced by 1.3% on a quarterly basis. Wages registered an increase in most of the activities of the services sector, with the upsurge being the most evident in the hotels and restaurants activity (of 6.2%). In the fourth quarter of 2005, lower wages were registered in two service activities - financial intermediation and health (fall of 0.9% and 0.5%, respectively). The average wage in the agriculture in the October - December 2005 period was lower by 2.8%.

On annual basis (fourth quarter of 2005 / fourth quarter of 2004), the nominal average net paid wage per worker increased by 3.6%, as a result of the positive movements in the wages in the three sectors of the economy (3.2% in the agriculture, 4.7% in the industry and 4% in the services sector).

In the fourth quarter of 2005, 16.1% of the total number of the employees did not receive wage. Relative to the previous quarter, it is a decline of 0.8 percentage points, while on annual level the decline is more intensive (by 7.1 percentage points¹²).

4.

Monetary policy

In the last quarter of 2005, in terms of continuing favorable movements on the foreign exchange market and solid performances in both real and external sector of the economy, the NBRM introduced change in the monetary instruments layout. Namely, the type of the tender was changed in October, and the NBRM started implementing CB bills auctions according to the "interest rate tender" principle (auctioning with interest rates and their establishment at the market). The change in the type of the tender resulted in gradual decrease in the average weighted interest rate, with its level of 10% at the beginning of October given "volume tender" being reduced to 8.52% in December 2005.

At the end of December 2005, in comparison with the end of the previous quarter, the banks' liquidity level went up by 50.3%¹³. The higher

¹² The decrease is primarily due to a methodological change, i.e. a decline in the sample, since the employees in closed companies were exempted from the records, in order to improve the quality and the accurateness of the obtained data.

¹³ The liquidity includes the account of the banks with the NBRM and the banks' cash in vault.



liquidity is due to the increase in the net foreign assets¹⁴ of the NBRM, representing, on a cumulative basis, main flow of creating liquidity in the last quarter of the year. The largest portion of the created liquidity is neutralized by the withdrawal through the net domestic assets (contributing by 74.3% in the total withdrawn liquidity). Having in mind the decrease in the government Denar deposits and the liquidity creation on that basis, the sterilization was accomplished through other components of the net domestic assets. Also the CB bills auctions and the currency in circulation acted in this direction, the share of which in the total withdrawn liquidity in the fourth quarter being equal to 18.6% and 7.1%, respectively.

Table 5
Liquidity creation and withdrawal*
(in millions of Denars)

	30.09.2005	Monthly changes			Total	31.12.2005	Contribution to the creation / withdrawal in %
		October	November	December			
Liquidity of the banks	3,991	736	-184	1,457	2,009	6,000	
Liquidity creation					15,300		
1. Net foreign assets	51,055	1,680	1,499	12,048	15,227	66,282	99.5
2. Other	91	3	-35	105	73	18	0.5
Liquidity withdrawal					-13,291		
1. Net domestic assets	-27,029	330	-503	-9,702	-9,875	-36,904	74.3
of which: Government deposits (in denars)	-9,588	868	-413	2,140	2,595	-6,993	
Other items, net	-10,320	-677	-288	-1,352	-2,317	-12,637	
2. CB Bills	6,454	-1,239	-1,639	411	-2,467	8,921	18.6
3. Currency in circulation	13,490	-38	494	-1,405	-949	14,439	7.1

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

Source: NBRM

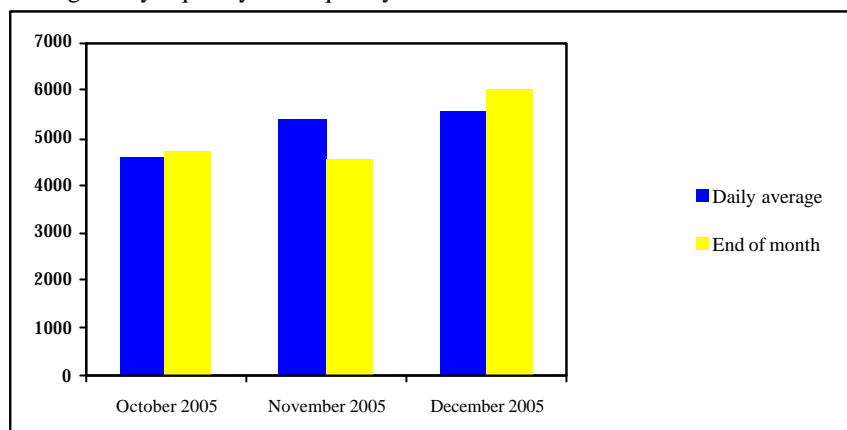
Higher average daily liquidity of the banks in the fourth quarter of 2005

In the fourth quarter of 2005, the average daily liquidity of the banking system equals Denar 5,177 million, which is an increase of Denar 98 million, or 1.9% compared to the previous quarter. All autonomous factors acted towards the increase in the average daily liquidity, with part of the created liquidity being neutralized through the higher average level of CB bills. Analyzed by the dynamics, the lowest average daily amount of liquidity of Denar 4,594.8 million was registered in October 2005, as a result of the higher interest of the banks to invest in CB bills. The increase in the average daily liquidity in November (Denar 5,381 million) is mostly generated from the net purchase of foreign exchange on the foreign exchange market by the NBRM. The influence of the foreign exchange transactions towards liquidity creation was dominant also in December 2005. Namely, the liquidity creation based on the net purchase of foreign exchange by the NBRM, in combination with the intensified budget consumption in December, conditioned the highest average level of liquidity in the fourth quarter of Denar 5,553.9 million.

¹⁴ The significant quarterly increase in the net foreign assets of the NBRM reflects the high external inflows based on Euro bonds (Euro 149.2 million) and the withdrawn funds from the International Bank for Reconstruction and Development in December, as well as the quarterly net purchase of foreign exchange on the foreign exchange market by the NBRM.



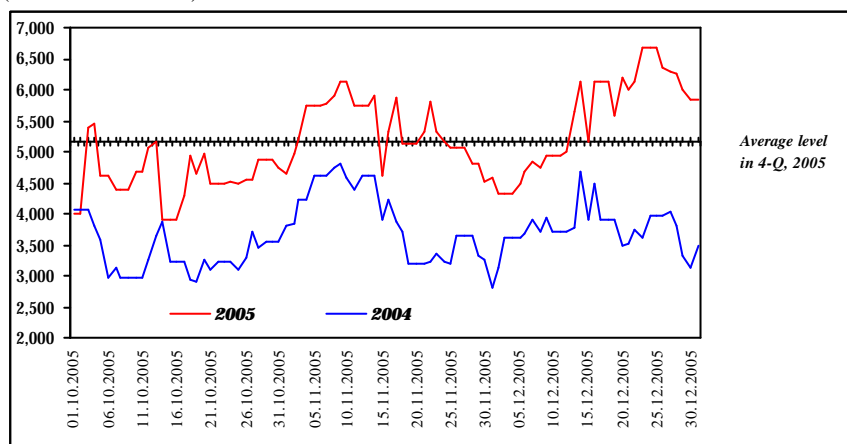
Figure 12
Average daily liquidity and liquidity of the banks at the end of the month*



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

In the fourth quarter of 2005, the excess liquid funds over the allocation of reserve requirement (in Denars)¹⁵, equals 14.6%, on average, compared to 7.4% in the previous quarter. In October and November, the excess of liquid funds was below the average (10.3% and 9.3%, respectively), while in December, an extraordinary high level of excess liquidity was registered (24.2% over the requirement).

Figure 13
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 the last quarter of 2005, the foreign exchange transactions of the NBRM represented dominant flow of liquidity creation in the banking sector. Namely, the relatively high inflows on the basis of the currency exchange operating and the active participation of the banks on the foreign exchange market regarding the bank - enterprises segment's supply led to higher supply of than demand for foreign exchange on the foreign exchange market. Consequently, in the fourth quarter, the NBRM realized net purchase of foreign exchange in continuity, thus creating liquidity in the banking sector.

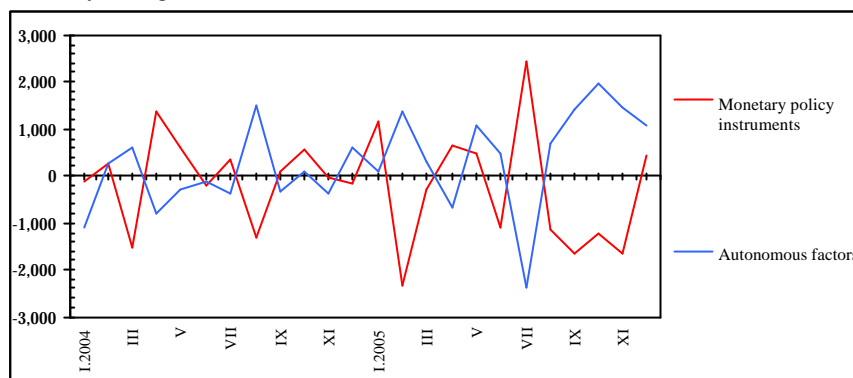
¹⁵ The period for maintaining (fulfilling) the banks' reserve requirement covers the period from the 11th in the current month to the 10th in the following month



In the fourth quarter, the Government Denar deposits represented flow of liquidity creation

At the end of 2005, compared to the end of the previous quarter, the Government Denar deposits with the NBRM went down by 27.1%. Thus they represented flow of liquidity creation in the banking system. The quarterly decrease in the Government deposits with the NBRM is in line with the regular payment of the Government's liability on the basis of the old foreign exchange saving bonds in October, as well as the incremented budget consumption registered at the end of the year.

Figure 14
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

In the fourth quarter of 2005, the CB bills auctions acted towards liquidity withdrawal, and they amounted to Denar 2,467 million. The changes in the level of the CB bills during the quarter were mainly caused by the banks' liquidity and the changes in the structure of the CB bills auctions. Thus on October 26, 2005, the NBRM replaced the volume tender with the interest rate tender principle (auctioning with interest rate and their establishment on the market). Despite the decrease in the average weighted interest rate, the CB bills remained attractive for investing the excess liquid funds by the banks. Thus in October and November, the level of CB bills rose by Denar 1,239 million and Denar 1,639 million, respectively, acting towards withdrawal of liquid funds from the banks. In December, the CB bills auctions represented a flow of liquidity creation (monthly decrease in the level of the CB bills by Denar 411 million). From the aspect of maturity of the CB bills, the NBRM continued to tender CB bills with maturity of 28 days.

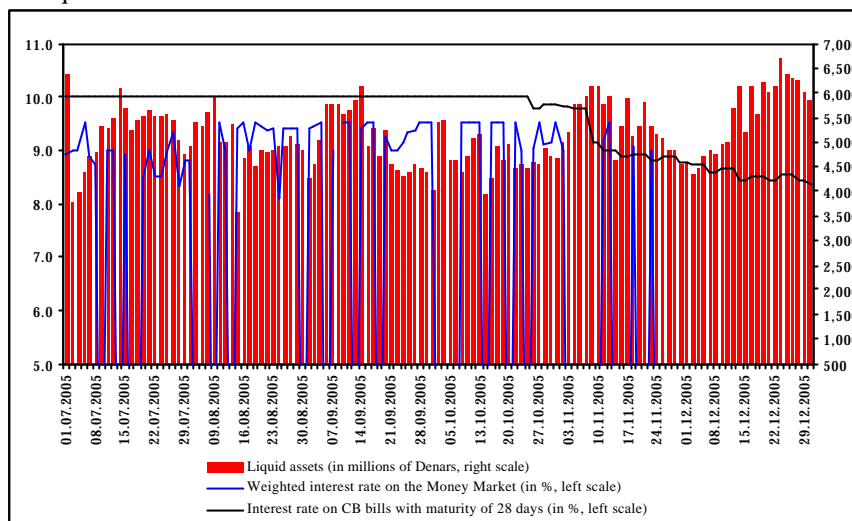
Reduced turnover on the interbank Money Market

In the fourth quarter of 2005, given the high liquidity in the banking sector, significant drop in the turnover on the interbank Money Market was registered. Thus during the analyzed period, the average monthly turnover on the institutionalized Money Market amounts to Denar 114.5 million¹⁶, which is a quarterly decrease of 4.1 times. In absence of demand for liquid funds, no transactions at all were realized in December. Reduced turnover was registered within the bilateral interbank trading, with the monthly turnover in the fourth quarter being equal to Denar 679.7 million, on average (quarterly decrease of 1.8 times). The average weighted interest rate on the Money Market (both segments) preserved the level registered in the previous quarter, and it equaled 8.9%, on average.

¹⁶ The average turnover encompasses the transactions realized in October and November.



Figure 15
Movements of the interest rates on the Money Market, the CB bills auctions and the liquid funds of the banks*

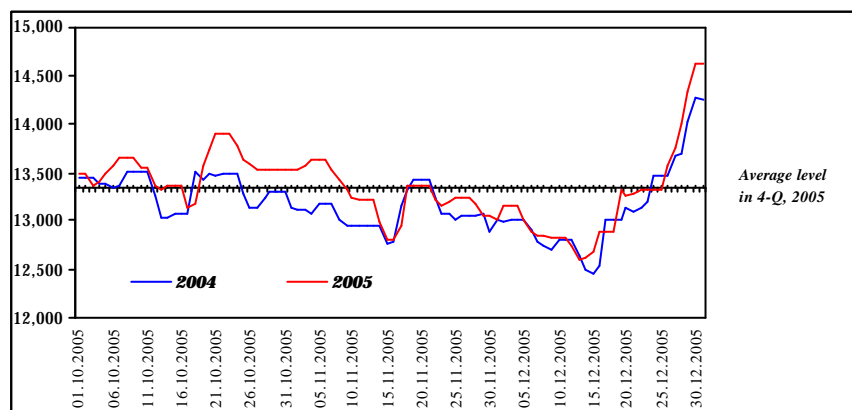


*In some days of the month, the Money Market registers no transactions and interest rate.
Source: NBRM and the Money Market of short-term securities

Higher demand for currency in circulation

On a quarterly basis, the currency in circulation went up by 7%, which is due to the common seasonal influences, i.e. higher demand for cash prior to the New Year and Christmas Holidays. In the fourth quarter, the demand for cash registered divergent movements. From the aspect of the average daily stock, the highest amount was registered in October (Denar 13,538 million), while in November and December, the average daily level was relatively stable (Denar 13,277 million and Denar 13,224 million), respectively).

Figure 16
Daily dynamics of the currency in circulation
(in millions of Denars)



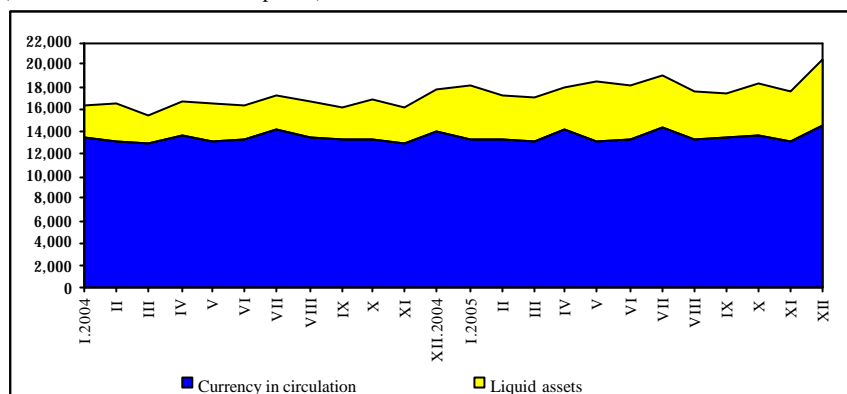
Source: NBRM

Increase in the reserve money in comparison with the previous quarter

In the fourth quarter of 2005, the higher liquidity of the banking system and the intensive demand for currency in circulation resulted in increase in the reserve money of 16.9% in comparison with the previous quarter. On annual basis (December 2005 / December 2004) the reserve money augmented by 15.2%.



Figure 17
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 sector¹⁷

5.1. Deposits with banks

In the fourth quarter of 2005, all monetary aggregates registered a quarterly increase influenced by the seasonally higher demand for currency in circulation, higher level of transaction deposits, as well as increase in the saving in the banking system.

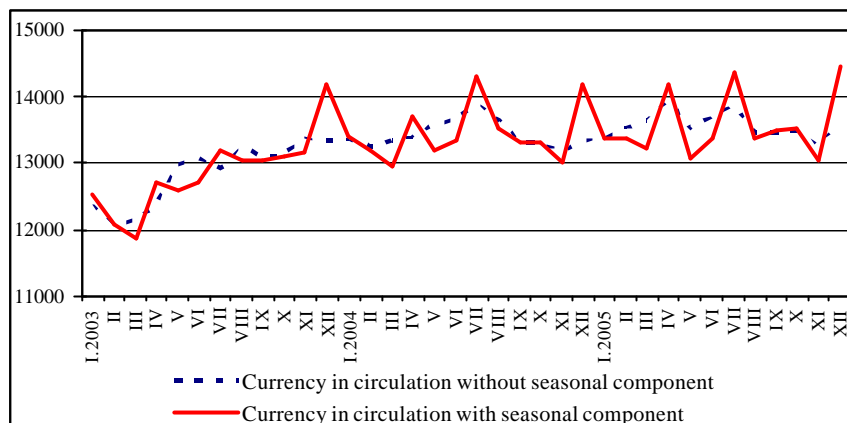
At the end of the fourth quarter of 2005, the level of currency in circulation rose by 7% compared to the end of the previous quarter. The quarterly increase in the currency in circulation originates from the common seasonal intensification of the demand for currency in circulation in December (high monthly increase of 10.8%), as a result of the higher households' preferences for cash before the New Year and Christmas Holidays. The transaction deposits went up by 5.6%, on a quarterly basis, given the more intensive increase in the households' Denar deposits (of 18.2%), relative to the corporate sector (by 3.2%). Consequently, the money supply M1 surged by 6.3% at the end of the fourth quarter compared to the previous quarter. From the aspect of the annual dynamics (December 2005 / December 2004), having in mind the simultaneous increase in the currency in circulation and the demand deposits (of 2% and 13.3%, respectively), the growth rate of the monetary aggregate M1 equals 7.5%.

Quarterly increase in the money supply M1

¹⁷ Since May 2005, the data on the banks' deposits and credits exclude "Radobank" a.d. Skopje, to which the NBRM revoked the founding and operating license on May 27, 2005.



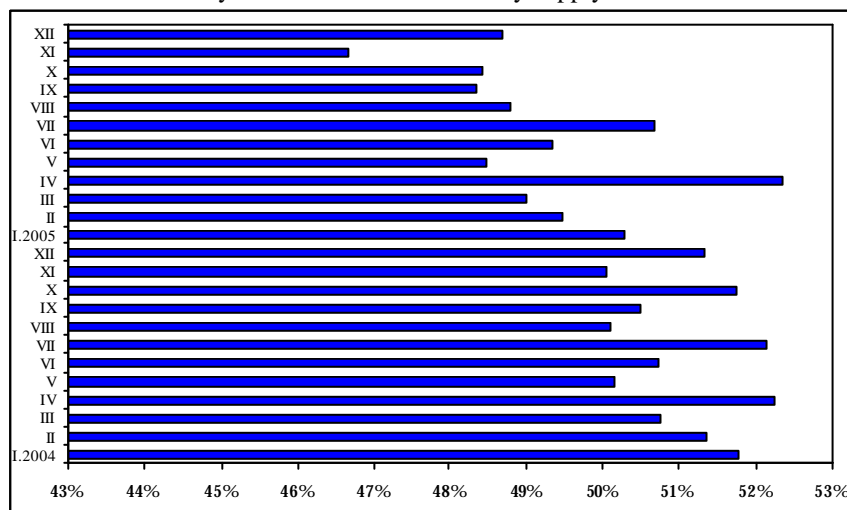
Figure 18
Currency in circulation with and without seasonal component
(in millions of Denars)



Source: NBRM

In the fourth quarter of 2005, in comparison with the previous quarter, the average share of the currency in circulation in the monetary aggregate M1 went down by 1.4 percentage points and in equals 47.9%. In comparison with the last quarter of 2004, the average share of the currency in circulation was reduced by 3.1 percentage points, indicating favorable movements in the structure of the money supply M1. The intensified increase in the reserve money, compared to the increase in the money supply M1 was the reason for holding the monetary multiplication process up, with the monetary multiplier of the money supply M1 being equal to 1.45 in December 2005, compared to 1.6 and 1.56 in September 2005 and December 2004, respectively.

Figure 19
Share of the currency in circulation in the money supply M1



Source: NBRM

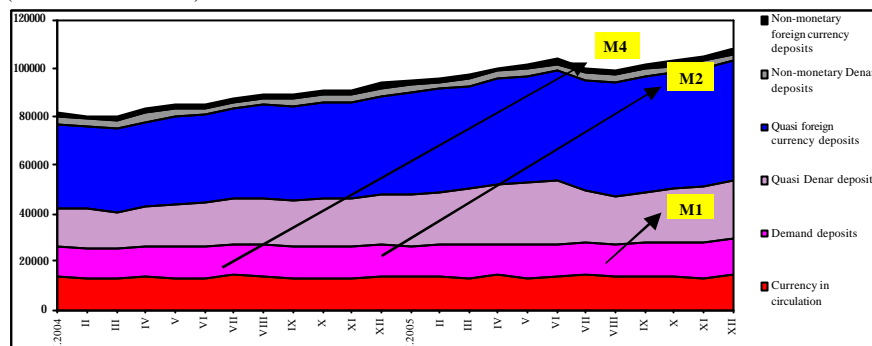
Higher level of the broad monetary aggregates on a quarterly basis

The increase in the money supply M1 and the total deposit potential of the banks in the last quarter of 2005 conditioned positive quarterly dynamics with the broad monetary aggregates. Having in mind the significant increase in the short-term deposit potential and moderate increase in the long-term deposit base, the monetary aggregates M2 and M4 registered almost identical increase of 6.6% and 6.4%, respectively. The monetary multipliers of the money supply M2 and M4 equaled 5.05 and 5.29, respectively at the end of the fourth quarter, in comparison with 5.54 and 5.81, respectively, at the end of the previous quarter (at the end of the fourth quarter they equaled 5.01 and 5.29, respectively. On annual basis (December 2005 / December 2004), the monetary aggregates M2



and M4 went up by 16% and 15.1%, respectively, reflecting the high annual increase in the short-term deposits (of 19.9%), given the registered decline in the long-term saving of 0.4%.

Figure 20
Monetary aggregates' components
(in millions of Denars)

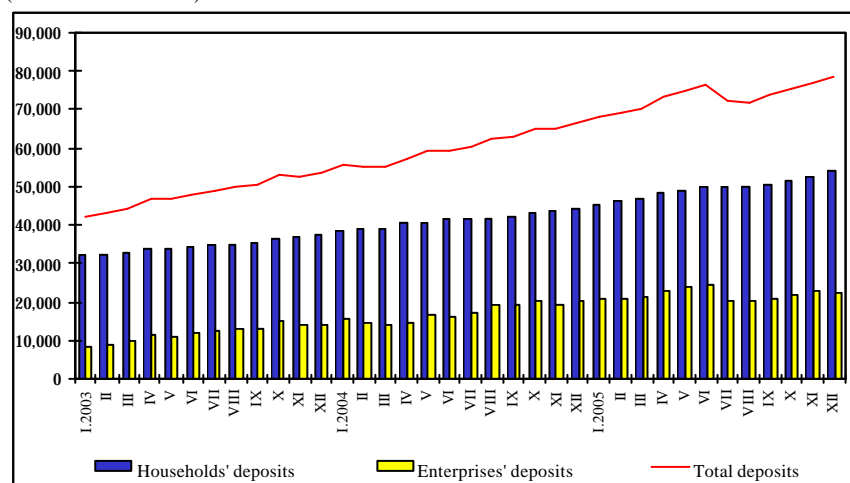


Source: NBRM

Higher total deposit potential of the banks on a quarterly basis

In the fourth quarter of 2005, the total bank deposits¹⁸ registered continuous increase and at the end of December 2005, in comparison with the end of September 2005, they rose by 6.5%. From the aspect of the maturity structure, the short-term deposits registered a quarterly increase of 6.7%, given the simultaneous increase in both Denar and foreign currency deposits of 17.5% and 2%, respectively. The long-term deposit potential of the banks augmented quarterly by 3.5%, given the registered divergent movements in its currency structure (augmented foreign currency deposits by 13.9% and decreased Denar deposits by 2.3%). From the aspect of the currency structure, more intensive quarterly increase of 14.9% was registered in the Denar deposits, while the foreign currency deposits went up by 2.4%. However, dominant share in the total deposits' currency structure still accounts for the foreign currency deposits, which, on average, equal 65.8% in the fourth quarter. On annual basis, the private sector's total deposits with banks surged by 18.3%, given the simultaneous growth in both Denar and foreign currency deposits (by 15% and 20.2%, respectively).

Figure 21
Deposit timeframes
(in millions of Denars)



Source: NBRM

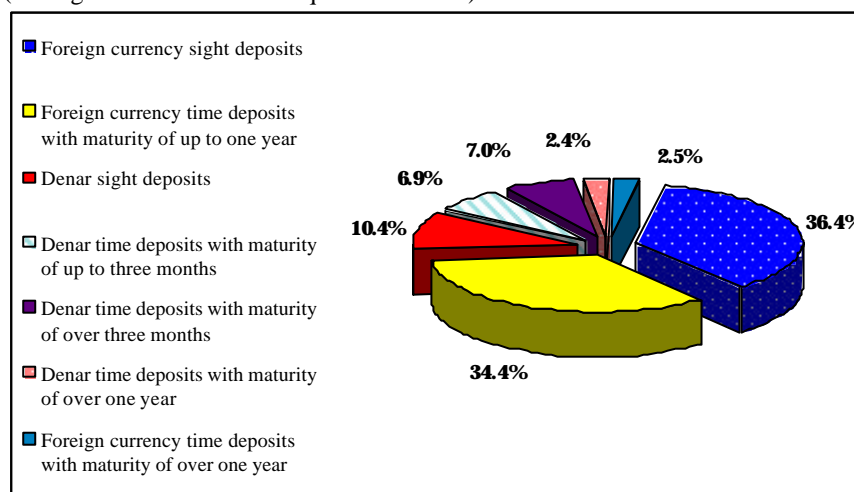
¹⁸ The total deposits of the non-Government sector encompass both short-term and long-term (Denar and foreign currency) deposits of the economic agents (without demand deposits).



Quarterly increase in the households' deposits ...

At the end of December 2005, compared to the previous quarter, the total households' deposits rose by 6.6%, as a result of the increase in the short-term and long-term deposits in both domestic and foreign currency. The positive change in the total deposits with the sector households is partially generated from the additional inflows on the households' accounts originating from the payment of the Government's liabilities based on old foreign exchange saving in October. The analysis of the maturity structure shows apparent preferences of the households to hold highly liquid funds (the share of the short-term deposits in the total households' deposits equals 94.9%, on average, in the fourth quarter), which is proved by the increase in the short-term deposits of 6.4%, on a quarterly basis. Namely, all categories of short-term deposits augmented in the fourth quarter, with the most intensive quarterly change being recorded with the Denar sight deposits and the foreign currency deposits with maturity of up to one year. The long-term households' deposits surged by 10.3% on a quarterly basis, mainly due to the increase in the long-term time deposits in foreign currency. From the currency structure, the Denar and the Foreign currency deposits of the households went up by 14.7% and 3.8%, respectively. The annual rate of increase in the total households' deposits equaled 21.7% in December.

Figure 22
Structure of households' deposits
(average share in the fourth quarter of 2005)



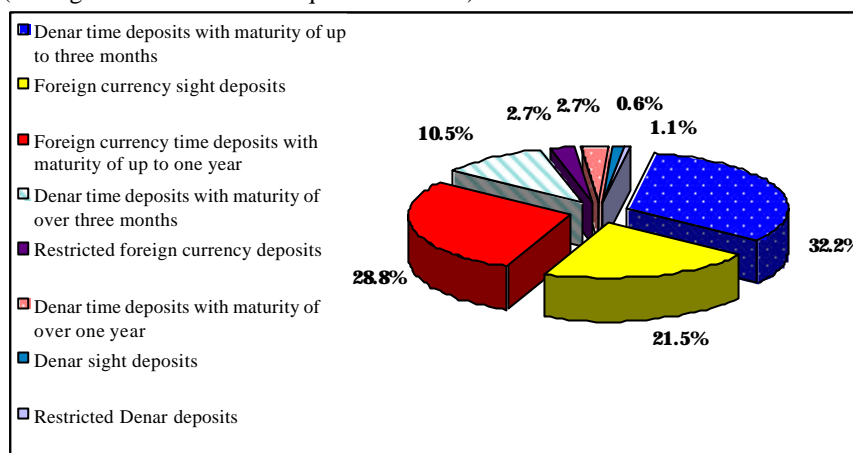
Source: NBRM

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

The deposits of the corporate sector also registered a quarterly increase, which at the end of 2005, compared to the previous quarter augmented by 7.6%. The analysis of the maturity structure of the enterprises' deposits points to dominant contribution of the short-term deposits (by 89.4%) in the increase in the total deposits of the corporate sector. Namely, the short-term deposits went up by 7.2%, on a quarterly basis, reflecting the higher level of Denar deposits with maturity of one and three months and the foreign currency deposits with maturity of six months. The long-term deposits of the corporate sector registered quarterly increase of 14.9%. From the aspect of the currency structure, the enterprises' Denar deposits surged by 20.5%, given the simultaneous decline in the foreign currency deposits of 2.4% on a quarterly basis. Annually (December 2005 / December 2004), the total enterprises' deposits increased by 11.6%.



Figure 23
Structure of the enterprises' deposits
(average share in the fourth quarter of 2005)



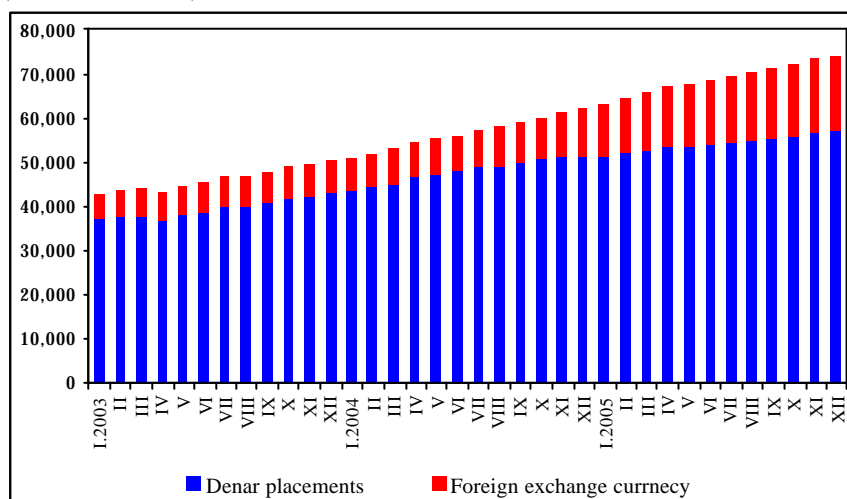
Source: NBRM

5.2. Placements and interest rates of the banks

Continuous intensification of the banks' credit activity in the fourth quarter of 2005 is registered. Thus at the end of December 2005, compared to the end of the previous quarter, the total bank placements went up by 4.5%. The main cause for the intensified credit activity is the broaden deposit base of the banks. Also, the more active use of the banks' foreign assets contributed additionally to increase in the credits (especially to those in foreign currency). Namely, the share of the accounts with foreign banks in the total assets of the banking sector declined by about 1 percentage point on a quarterly basis, pointing to a gradual process of directing part of the broaden foreign currency base of the banks towards enhanced crediting of both households and enterprises in the country.

*Intensified credit activity
in the fourth quarter*

Figure 24
Banks' placements by currency
(in millions of Denars)



Source: NBRM

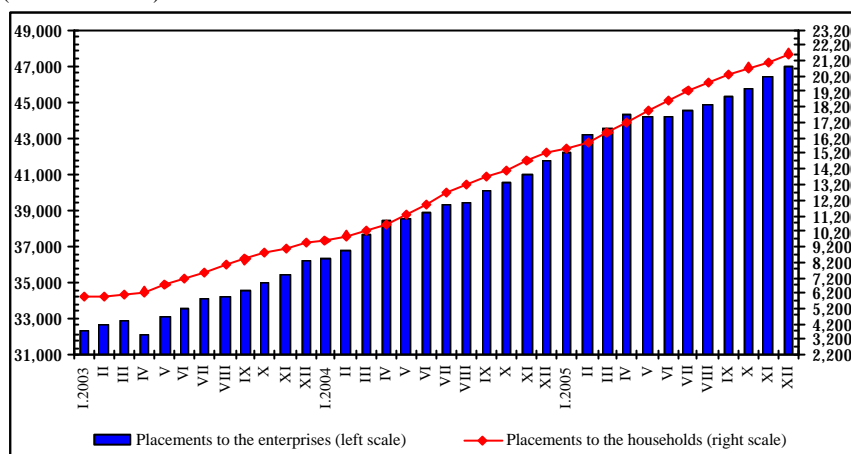
The analysis of the currency structure of the total placements in the fourth quarter of the year indicates positive quarterly change in both domestic¹⁹ and foreign currency loans (increase of 3.8% and 6.6%, respectively). The higher

¹⁹ The foreign exchange indexed loans are also included.



volume of Denar loans originates from the enhanced long-term crediting of the households and the short-term crediting of the corporate sector. The long-term loans extended to the corporate sector are the main generator of the increase in the foreign currency placements. From the aspect of maturity, the long-term placements registered intensified increase of 5.5%, given the simultaneous increase in the Denar and foreign exchange loans (of 3.3% and 10.3%, respectively). Also, the short-term loans rose by 3.2% on a quarterly basis, with their share in the total placements in the fourth quarter being equal to 45%, on average (compared to 45.9% in the previous quarter). On annual basis (December 2005 / December 2004), the total bank placements with the private sector surged by 20.5%.

Figure 25
Banks' placements by sectors
(in Denar million)



Source: NBRM

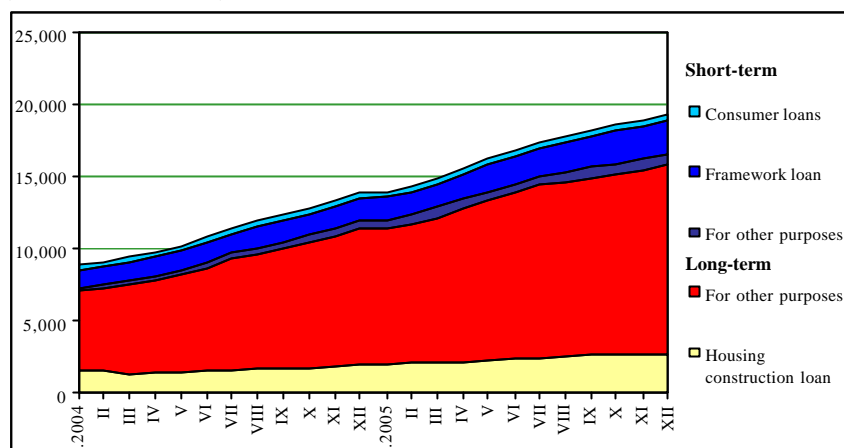
Higher lending to the households and enterprises

Analyzed by sectors, the total households' placements went up by 6.6% on a quarterly basis. In the fourth quarter of 2005, higher interest for long-term borrowing was registered with the households (the share of the long-term loans in the total households' loans equals 76%, on average, in the fourth quarter). Consequently, the long-term loans of the households registered an increase of 6.2% on a quarterly basis, generated primarily from the higher amount of extended Denar loans for construction of buildings and other purposes. The short-term loans increased by 8.1%, mainly due to the quarterly increase in the framework loans²⁰ of 12%. From the aspect of the currency structure, the increase was registered in both Denar and foreign currency placements of 6.2% and 21.7%, respectively, with the Denar placements remaining to be the dominant category in the total households' placements, the average share of which in the fourth quarter equals 96.8%. The annual growth rate in the total households' placements equals 41.6% in December 2005.

²⁰ Negative balances based on current accounts.



Figure 26
Distribution of the households' Denar credits by types of credits
(in millions of Denars)



Source: NBRM

In the last quarter of 2005, intensified lending to the enterprises by banks through extending short-term and long-term loans in both domestic and foreign currency was registered. Thus the total enterprises' placements increased by 3.6% on a quarterly basis, with their participation in the increase in the total bank placements being equal to 55.5%. From the aspect of the currency, the foreign currency placements represent the main component of the increase in the placements to enterprises (with a share of 56.5% in the total increase), which went up by 6% on a quarterly basis. These funds are partially intended for payment of due liabilities abroad (the share of these credits in the total foreign exchange loans of the enterprises equal 48.6% in December 2005, in comparison with September 46.9%). For the purpose of financing the short-term liquidity needs in the fourth quarter, the enterprises used funds in domestic currency, which resulted in growth in the total Denar placements of 2.4%. In accordance with such movements, quarterly increase of identical 2.4% with the short-term loans is registered. On the other hand, more intensive increase in the enterprises' long-term loans (of 5.1% on a quarterly basis) is the leading indicator for the enhanced investment consumption. On annual basis (December 2005 / December 2004) the total bank placements with the enterprises went higher by 12.7%.

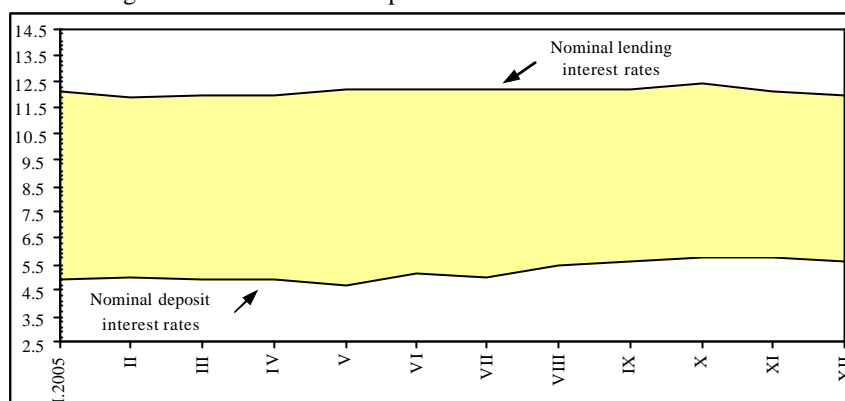
Insignificant changes in the banks' interest rate policy in the fourth quarter

In October 2005, the NBRM started implementing the new Methodology for calculating bank interest rates²¹, with the interest rates being reviewed according to new methodology since the beginning of 2005. For the purpose of the banks' interest rate policy monitoring, the lending and the deposit interest rates on credits and deposits for all maturities and all sectors are selected as representative ones. The average weighted lending interest rate on Denar loans for all maturities and all sectors equals 12.1% in December 2005, compared to 12.2% in September 2005. The average weighted deposit interest rate on Denar deposits for all maturities and sectors remained unchanged on a quarterly basis, and it equals 5.6% in December. The average weighted interest rate on foreign exchange loans for all maturities and sectors equals 7.8% in December, i.e. increase of 0.2 percentage points on a quarterly basis. Simultaneously, the average weighted interest rate on foreign currency deposits for all maturities and sectors rose by 0.1 percentage point relative to the previous quarter, and it equaled 1.4% in December.

²¹ Official Gazette of RM, no. 22/2005



Figure 27
Banks' weighted interest rates and spreads*



* Pertain to Denar loans and deposits for all maturities and sectors, with the Denar loans and the deposits with currency clause being included.
Source: NBRM

Attachment 4 Monetary policy projection for 2006

In 2006, the monetary policy will be directed towards further maintenance of the price stability and creating favorable environment for dynamic and sustainable economic development. The NBRM will continue applying strategy for targeting the nominal Denar exchange rate against the Euro. The maintenance of stable Denar exchange rate relative to the Euro, as indirect monetary objective, is expected to contribute to successful achievement of the projected average rate of inflation in 2006 of about 2%. The monetary policy layout will continue to base on active coordination with other macroeconomic policy segments, contributing to maintenance of consistent macroeconomic framework.

The monetary and the credit aggregates projection for 2006 is based on the projections for the key indicators of the economy's real sector - GDP and inflation, the expectations for the financial policy structure and the external sector projections.

The monetary growth in 2006 is expected to be determined by several factors: a) increase in the available income of the economic agents; b) maintenance of the constant propensity for saving; and c) further strengthening of the confidence in the banking system. Consequently, growth in the money supply M4 - private sector of 18.5% is expected in 2006, given the simultaneous increase in Denar and foreign currency deposits of the corporate sector.

As a continuation of the positive movements registered in 2005, active use of foreign assets of the banks and intensified credit activity in the country in 2006 was projected. Namely, the projection assumes larger use of foreign assets of the banks deposited in foreign banks aimed at crediting of the private sector in the country. Annual growth rate in the total loans of 19.6% on the basis of such projected variables is expected for 2006.

During the latest IMF mission in February 2006, review on the macroeconomic projections for 2006 was made, with an annual increase in the reserve money of 2.1% and also higher growth rates relative to the initial projection with the broadest money supply M4 and the total bank placements with the private sector of about 20% and 23%, respectively being expected within the monetary projection. The revised monetary projection should provide preconditions for accomplishing the projected real increase in the GDP of 4% in 2006.



6.1. Stock Exchange

The total turnover on the stock exchanges (including block transactions and Government segment) realized on the Macedonian Stock Exchange a.d. Skopje in the fourth quarter of 2005 amounts to Denar 2,655.7 million. The block transactions registered on both official and unofficial market segment of the stock exchange comprise 16.3% of the total stock exchange turnover. Total turnover in the amount of Denar 2,209 million was registered in terms of classical trading (without block transactions), with the average daily stock exchange turnover being equal to Denar 44.5 million, while the average number of transactions per day equaled 187. The turnover realized on the official market segment comprises 89.4% of the total turnover on the stock exchange market, 10.1% of the total stock exchange trading²² is realized on the unofficial market, while 0.5% out of the stock exchange turnover accounts for the concluded transactions with shares and stakes in the ownership of the Government stock exchange segment.

Increase in the stock exchange turnover ...

In the fourth quarter of 2005, in comparison with the previous quarter, the total turnover on the stock exchange registered an increase of 74.4%. Besides the reduced activity of the Government market segment, a significantly higher turnover in comparison with the previous quarter in the classical trading with shares and bonds, as well as within the concluded block transactions was registered. Namely, the announcement for repealing the tax exemption on capital gain²³ originating from securities since January 2006 resulted in a significantly higher supply of than demand for shares of the most profitable companies (especially in December). Such a massive sale of shares of the domestic investors in order to benefit from the old favourabilities, was used by foreign investors²⁴, the participation of which in the total turnover realized on the Stock Exchange in December 2005 equals 42.77% and 11.25% regarding the purchase and sale,²⁵ respectively. At the end of 2005, compared to the end of September of the same year, slight increase in the total capital of all listed companies on the official Stock Exchange market was registered, as well as in the total face value of the listed bonds²⁶ (13.82% as of December 31, 2005), compared to 13.05% at the end of September 2005). However, 11.36% are owned by foreign legal entities, while the remaining 2.47% are owned by foreign natural persons.

At the end of 2005, there are 57 joint stock companies listed on the official market segment of the Stock Exchange, which is the same number compared to the end of the third quarter of 2005.

²² No trading with convertible certificates issued by the Government for compensating the depositors of the bankrupted savings houses was registered on the unofficial market.

²³ Capital gain from securities is income generated by the tax payer as a positive difference from the sale of securities, between their sale and purchase price. Until the end of 2005, the capital gain was exempted from taxation in order to stimulate the development of the securities market in the Republic of Macedonia. Since January 1, 2006, the capital gain will be taxed at rate of 15%, while the tax relief will equal only 25% of the calculated tax. Also, since 2006, the tax benefit on the profit tax of the quoted companies will reduce - from 50% (from the moment of quotation in the following three years), to a relief of only 30% in the first year, and 15% in the second year from the quotation moment.

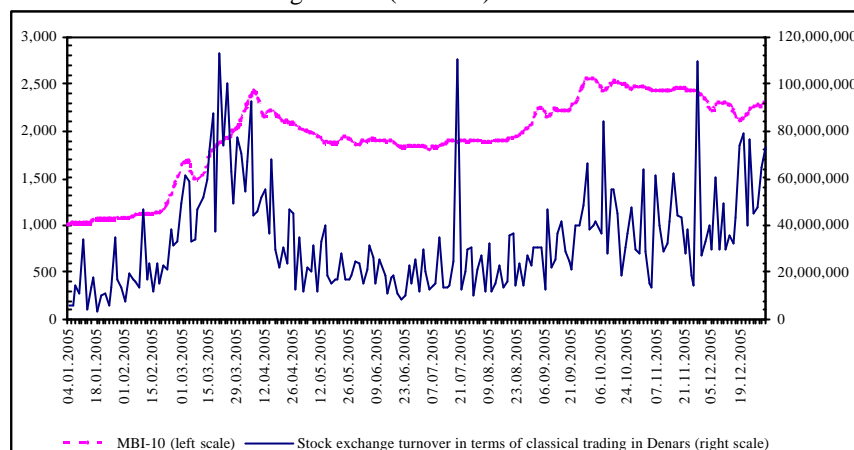
²⁴ The calculated profit tax paid by the legal entities is reduced proportionally to the share of the foreign capital, under condition that the share of the foreign capital equals at least 20% of the total invested fixed capital of the tax payer. The invested funds denote also the purchase of shares by the foreign entity. The tax relief is valid in the first three years.

²⁵ According to the data provided by the Central Securities Depository.

²⁶ According to the data provided by the Central Securities Depository.



Figure 28
Macedonian Stock Exchange Index (MBI-10)



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

...and decrease in the value of the stock exchange index in the fourth quarter of 2005 was registered

In the fourth quarter of 2005, although short periods of stagnation and growth were evidenced, the value of the Macedonian stock exchange index MBI-10²⁷ was generally registering a decrease, after the annual maximum recorded on September 29, 2005. Thus, at the end of 2005, the value of the index equaled 2,292.04 compared to 2,577.15 at the end of the third quarter of 2005, which reflects the average decline in the prices of the ten mostly traded common shares at the Stock Exchange of 11.06%. In accordance with such a trend, the market capitalization of the ten most liquid companies listed on the official market segment in the fourth quarter of 2005 amounts to Denar 22,120.1 million, compared to Denar 24,846.9 million as it equaled at the end of the previous quarter.

6.2. Government securities market

In the fourth quarter of 2005, **Government bonds** in the amount of Denar 630.7 million were traded on the Stock Exchange official market, which is an increase of 72.2% in comparison with the previous quarter. The largest share of the turnover accounts for the denationalization bonds (fourth issue)²⁸. During the quarter, the Government bonds were traded at price of 66.1 - 84.6%²⁹ of the face value.

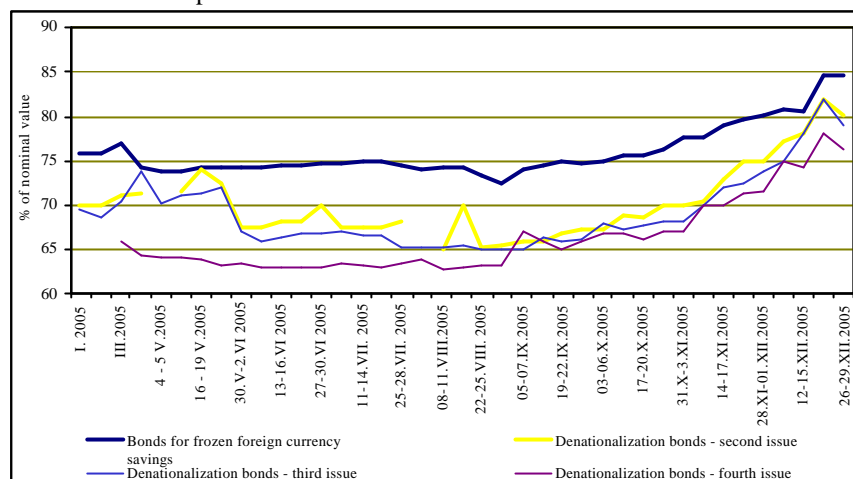
²⁷ Price index weighted with the market capitalization which is composed of the common shares of ten listed companies on the official market.

²⁸ The return up to maturity of fourth issue denationalization bonds equals 7.32% at the end of 2005, calculated according to the last average trade price of the bonds.

²⁹ The interval has been chosen according to the last average weekly price of the bonds trading within the analyzed quarter.



Figure 29
Movement of the prices of Government bonds



Source: Macedonian Stock Exchange a.d. Skopje

On November 11, 2005 the Ministry of Finance issued its first domestic Continuous bond.³⁰ The two-year Government bond, as a new standard debt instrument, aroused large interest on the primary market, which can be seen from the results of the first auction. Namely, amount of Denar 100 million was offered, while the demand for the bond exceeded the supply by 2.43 times, with the total offered amount being realized. The continuous bond quotes on the official Stock Exchange Market since December 12, 2005.

In the fourth quarter of 2005, six auctions of three-month Treasury bills were held on the primary Government securities market in accordance with the previously set calendar for Government securities issue³¹. The total supply of Treasury bills with maturity of three months amounted to Denar 2,450.0 million, the demanded amount Denar 5,282.0 million, while the total realization equaled Denar 2,450.0 million. The average weighted interest rate on the Treasury bills with maturity of three month registered on the auctions held in the fourth quarter, equaled 9.0%, compared to 10.40% as it equaled in the previous quarter.

Analyzed by months within the quarter, the demand for three-month Treasury bills significantly exceeded the supply. Thus the realized amount, as a percentage of the total demand, ranges between 35.4% in November and 57.8% of the demanded amount of three-month Treasury bills in December. Thus, the highest average weighted interest rate was realized in October (9.80%), when three-month Treasury bills in the amount of Denar 1,000.01 million were sold. In the following two months the interest rate was gradually decreasing, in line with the movement of the interest rates on the CB bills auctions.

³⁰ The continuous Government bond no. 1 was issued in dematerialized form, in Denars and it is unrestrictedly transferable. The interest rate offered on the held auction equals 10% annually, and the coupon is paid once a year within a two-year period. The face value of the bond matures on November 28, 2007.

³¹ The calendar for holding auctions of Government securities is published six months in advance, with the precise amount for each auction being published four days before the auction is held.

Table 6
Supply, demand and interest rate of Treasury bills*

Three-month Treasury bills	Supply	Demand	Realization	Average weighted interest rate
	<i>(in Denars)</i>			
X.2005	1,000,000,000	1,955,490,000	1,000,010,000	9.799
XI.2005	750,000,000	2,115,970,000	750,020,000	8.85
XII.2005	700,000,000	1,210,560,000	700,010,000	8.03
Total for the quarter:	2,450,000,000	5,282,020,000	2,450,040,000	9.00

Six-month Treasury bills	Supply	Demand	Realization	Average weighted interest rate
	<i>(in Denars)</i>			
X.2005	160,000,000	416,140,000	160,000,000	10.08
XI.2005	100,000,000	319,550,000	100,000,000	9.92
XII.2005	200,000,000	476,960,000	200,000,000	8.81
Total for the quarter:	460,000,000	1,212,650,000	460,000,000	9.493043478

One-year Treasury bills	Supply	Demand	Realization	Average weighted interest rate
	<i>(in Denars)</i>			
XII.2005	200,000,000	213,020,000	200,000,000	9.59
Total for the quarter:	200,000,000	213,020,000	200,000,000	9.59

Source: Ministry of Finance of the Republic of Macedonia

Three auctions of Treasury bills with maturity of six months were held during the fourth quarter. The total supply equaled Denar 460 million, which was completely realized, compared to the demanded amount of Denar 1,212.7 million. Analyzed by months, the demand exceeded the supply on every auction. The average weighted interest rate on the six-month Treasury bills on the auctions held during the quarter reached 9.49%, which is by 1.39 percentage points less compared to the previous quarter.

During the fourth quarter of 2005, one auction of Treasury bills with maturity of twelve months was held. The supplied and demanded amounts were relatively balanced and they equaled Denar 200 million and Denar 213 million, respectively. The average weighted interest rate registered on this auction equaled 9.59%.

In the fourth quarter of 2005, purchase and sale transactions with securities in the amount of Denar 6 million were concluded on the Over the Counter Market³², which is small trading volume having in mind their unrestricted transferability. Analyzed by the latest traded price reached on the Over the Counter Market, the Treasury bills were traded within a range of 99.20% and 99.86% of their face value.

7.

Balance of payments

In the fourth quarter of 2005, the favorable movements in the external sector continued, contributing to the lower deficit on the balance of payments' current account (on annual basis), and increase in the gross foreign reserves. In terms of higher supply of than demand for foreign currency and for the purpose of maintaining stable level of the Denar exchange rate relative to the Euro, in the fourth quarter of 2005, the NBRM registered a significant net purchase of foreign exchange on the foreign exchange market. In December 2005, the issue of the first Euro bonds of the Republic of Macedonia was successfully realized,

³² 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. No transactions with CB bills at all were concluded on this market since it started to operate officially.



with the funds being aimed at complete repayment of the debt to the London Club of Creditors.

A) *Current account*

Annual drop on the balance of payments' current account of 76% in the last quarter of 2005 was registered

In the fourth quarter of 2005, lower deficit on the balance of payments' current account on annual basis was registered, in terms of enhanced movements in the foreign trade of goods and the income. Influenced by seasonal factors (higher import of consumption goods before the New Year and Christmas Holidays, and consequently higher deficit in the trade of goods), the fourth quarter is commonly registering trade deficit on the balance of payments' current account. Thus in the fourth quarter of 2005, deficit in the amount of Euro 24 million was registered, and it is lower by Euro 13.8 million and Euro 75.8 million compared to the same period of 2003 and 2004, respectively.

Table 7
Balance of payments' current account /
(in millions of Euros)

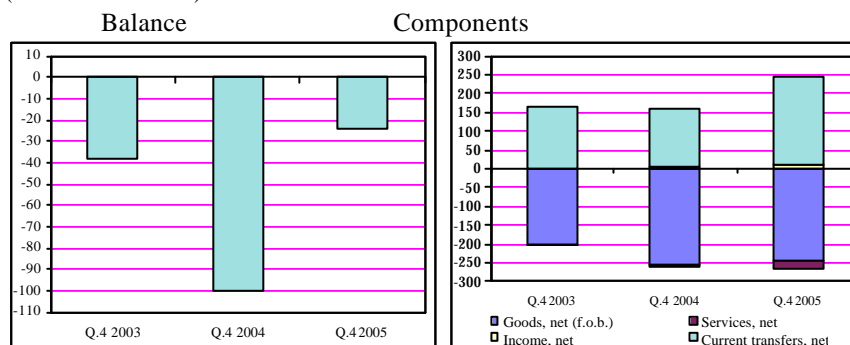
	2004				2005				2004		2005		2005/2004	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Total	Total	Q.4	Total	Q.4	Total
Goods, net (f.o.b.)*	-180.4	-264.9	-192.9	-255.9	-145.5	-272.0	-188.4	-247.4	-894.0	-853.4	8.4	40.5	-3.3	-4.5
Services, net	-26.7	-11.6	0.4	-5.6	-2.9	-13.1	9.4	-20.7	-43.4	-27.2	-15.1	16.2	271.8	-37.3
Income, net	0.9	-30.7	-9.7	6.3	0.5	-16.3	-36.8	8.2	-33.2	-44.4	1.9	-11.2	30.2	33.6
Current transfers, net	120.5	162.7	198.4	155.3	131.9	214.6	280.7	236.0	637.0	863.2	80.6	226.2	51.9	35.5
Current account	-85.6	-144.5	-37	-99.8	-15.9	-86.8	64.8	-24.0	-333.6	-61.8	75.8	271.8	-76.0	-81.5

I/ Preliminary data.

Source: National Bank of the Republic of Macedonia.

Observed from the aspect of the current account components, the highest contribution to the decrease in the negative balance in the current account in the fourth quarter of 2005 accounts for the higher net inflows originating from private transfers (by Euro 92 million) and the reduced deficit in the trade of goods (by Euro 8.4 million). Minor change was registered in the category "income", while the deficit regarding the services incremented by Euro 15.1 million.

Figure 30
Balance and current account components
(in millions of Denars)



Source: National Bank of the Republic of Macedonia

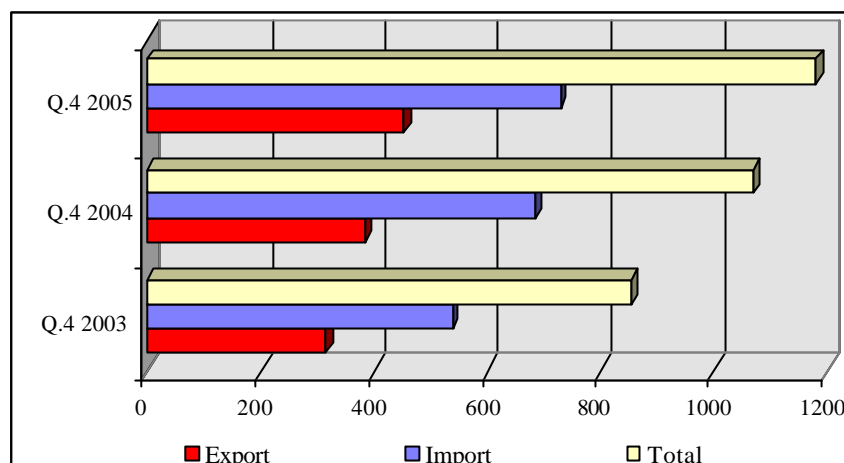
Annual increase in the total foreign trade of goods of 10.4% in the third fourth quarter of 2005 was registered ...

In terms of increase in the export and import of goods, *the total foreign trade of goods* in the fourth quarter of 2005 reached its highest amount so far of Euro 1,180.8 million³³, which is an increase of 10.4% compared to the same period of the previous year.

³³ 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.



Figure 31
Dynamics of the foreign trade of the Republic of Macedonia
(in millions of Euros)



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

...given annual increase in the export of goods of 17.8%...

In the fourth quarter of 2005, the export of goods reached Euro 452.8 million, which is an increase of 17.8% compared to the same period of 2004. The analysis from the aspect of the product categories with higher importance shows that the largest contribution to the increase in the export in the fourth quarter of 2005 accounts for the enhanced export of oil derivatives, food products, clothing and textile, metal ore and tobacco (total contribution of 78.8%). Significant annual increase in the export of oil derivatives by 1.3 times in the fourth quarter of 2005 is caused by the growth of the import price of oil derivatives of 84.7% is mainly caused by the increase in the price of oil derivatives of 50.6% annually. Simultaneously, increase in the exported quantities of oil derivatives of 23.4%, annually was also registered. Such a dynamics leads to higher share of oil derivatives in the total export by 3.3 percentage points, which equaled 9.1% in the fourth quarter of 2005.

Table 8
Export by groups of products according to the SITC/³⁴

groups of products	Q.4 2004	Q.4 2005	change in absolute
			amount
in million EURO			
Total export of goods	384.5	452.8	68.3
food products	29.0	41.0	12.1
out of which: fruits and vegetables	16.7	22.3	5.7
tobacco	23.0	27.3	4.3
Metal ore and waste	2.5	11.2	8.7
Clothing and textile	110.7	120.6	9.9
oil and oil products	22.3	41.2	18.9
share in the total export (in %)			
food products	7.5	9.1	17.7
tobacco	6.0	6.0	6.3
Metal ore and waste	0.7	2.5	12.7
Clothing and textile	28.8	26.6	14.4
oil and oil products	5.8	9.1	27.7
Total	48.8	53.3	78.8

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

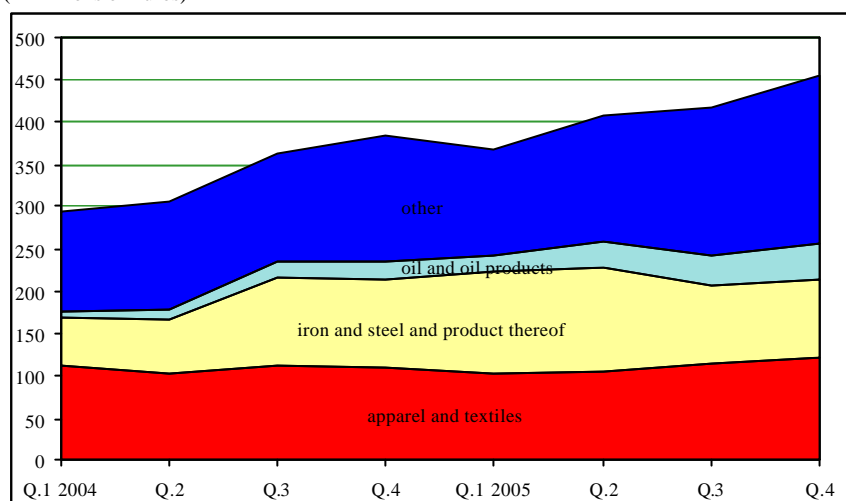
Among other significant export products, in the fourth quarter of 2005, larger export of clothing and textile by 8.9% was registered. Such a dynamics of the export of clothing and textile proves that the increased competitiveness of China in the placement of textile on foreign markets effected negatively on the export of these products from the Republic of Macedonia only in the first quarter

³⁴ Standard International Trade Classification.



of 2005 (annual decrease of 8.4%), while an increase was recorded in the remaining quarters of the year (annual increase of 2.0% and 2.2%, respectively in the second and third quarter, respectively). Higher export of metal ore (copper ores and concentrates) by 3.4 times was evidenced in the fourth quarter of 2005 in comparison with the same period of 2004, which is due to the intensified activity of one mining facility of higher importance after its restartation at the beginning of the second half of 2005. Thus in the fourth quarter of 2005, export of copper ores and concentrates in the amount of Euro 6.8 million was registered (compared to Euro 0.7 million in the first half of 2005 and Euro 2 million in the third quarter of 2005).

Figure 32
Export dynamics by groups of products
(in millions of Euros)



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

On the other hand, the export of iron and steel and products thereof, representing significant export category, amounts to Euro 101.4 million in the fourth quarter of 2005, which is an annual drop of 6.5%. Such a dynamics is caused by the lower production and export activity of one significant metallurgical facility in the environment of unfavorable setting regarding the world prices.

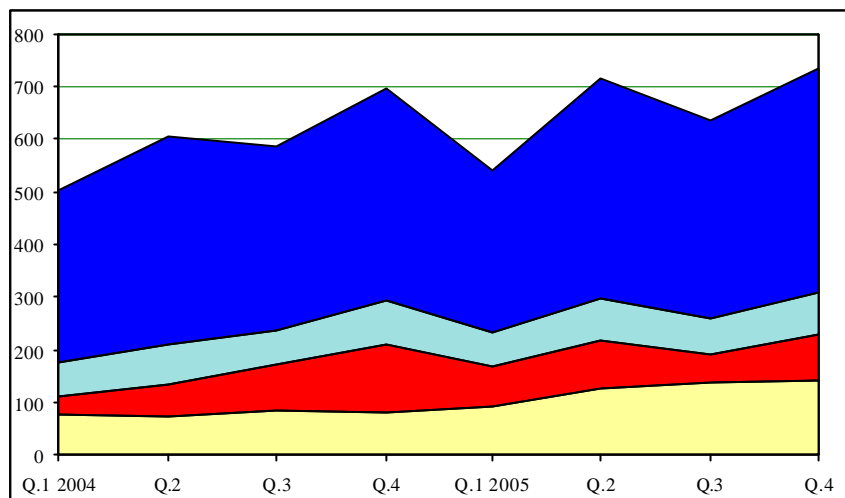
...and increase in the import of goods of 6.2%

In the fourth quarter of 2005, the import of goods equals Euro 728 million, which is an annual increase of 6.2%, mainly reflecting the dependence of the Macedonian economy on the import, the increase in the oil derivatives on the international markets and the effect of the reduced customs rates at the beginning of the year³⁵.

³⁵ In conformity with the joining of the Republic of Macedonia to the WTO, since January 2005 the customs duties on individual products reduced, with the average custom rate beginning lowered from 11.09% in 2004 to 10.05% in 2005.



Figure 33
Import dynamics by groups of products
(in millions of Euros)



Source: State Statistical Office; the NBRM calculations in Euros

In the fourth quarter of 2005, the import of energy augmented by 75.2% annually, with its share in the total import of goods being higher by 7 percentage points, thus reaching 17.4%. Within different types of energy sources, the highest growth was registered in the import of crude oil (by 84.3% annually). The increase in the import of crude oil represents combined effect of the enlarged quantities of imported oil and higher prices. Thus the quantities of the imported crude oil and the factual import price of this energy source rose by 32% and 39.6%, respectively in comparison with the fourth quarter of 2004. In the fourth quarter of 2005, the realized import of oil derivatives surged by 19.6%, which given the lower imported quantities, completely represents price effect.

Table 9
Import of oil, oil derivatives and electricity

	2004	2005	Q.4 2005-Q.4 2004	Q.4 2005/Q.4 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	685.4	728.0	42.6	6.2
2. Import of energy	82.0	143.7	61.7	75.2
Oil and oil derivatives	69.0	118.2	49.2	71.4
crude oil (in mil. of euros)	55.2	101.8	46.5	84.3
quantity in tons	205854.7	271816.9	65962.2	32.0
actual price per 1 kg.	0.27	0.37	0.1	39.6
lubricants obtained from oil (in mil. of euros)	13.7	16.4	2.7	19.6
quantity in tons	35916.6	31258.2	-4658.4	-13.0
actual price per 1 kg.	0.38	0.53	0.1	37.4
electricity (in mil. of euros)	1.9	8.4	6.5	335.9
quantity in MWH	61.388	226.593	165.2	269.1
actual price per 1 kg.	31.34	37.02	5.7	18.1
3. Share in the total imports of RM (in %)	10.3	17.4		
Oil and oil derivatives	10.1	16.2		
crude oil	8.1	14.0		
lubricants obtained from oil	2.0	2.3		
Electricity	0.3	1.2		

Source: State Statistical Office; the NBRM calculations in Euros

In the fourth quarter of 2005, the realized import of electricity augmented by 3.4 times compared to the same period of the previous year. The increase in the import of electricity, in terms of small increase in the factual price on annual basis, is primarily due to the increase in the imported quantities.

On the other hand, the high dependence of the Macedonian economy on the imports, and the reduced export activity of significant metallurgical export facility led to lower import of iron and steel. Thus in the fourth quarter of 2005, import of iron and steel and products thereof (regular import and import of goods



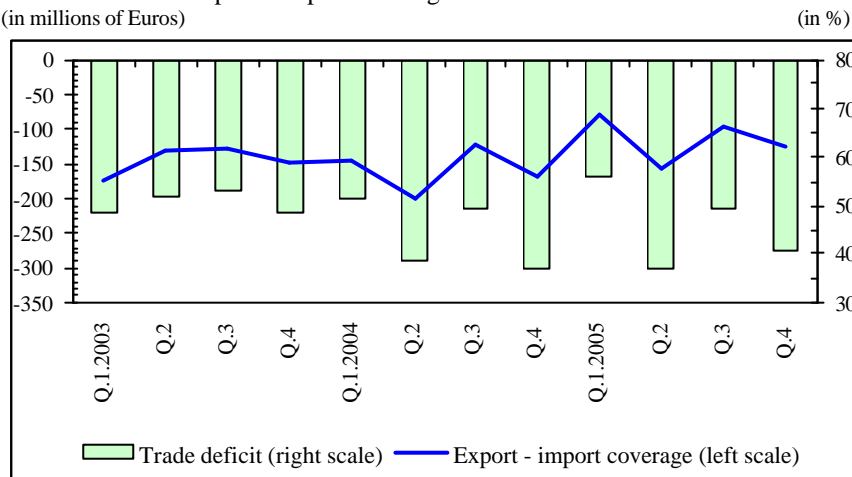
for further processing) in the amount of Euro 84.2 million was registered, which is drop of 35.3% compared to the same period of the previous year.

From the aspect of the monthly dynamics, the highest volume of export of goods in the amount of Euro 159.1 million was registered in October 2005, which is the highest monthly export since 1996. The highest import of goods in the amount of Euro 253.6 million was registered in December 2005, which is the second highest import since 1996³⁶. Simultaneously, the highest monthly volume of the total foreign trade of the Republic of Macedonia in the amount of Euro 401.7 million was registered in December 2005, which is due to the increase in both its components.

Reduced trade deficit and higher export - import coverage ratio

Such movements in the foreign trade registered in the fourth quarter of 2005, resulted in a decrease in the trade deficit and increase in the export - import coverage ratio. Thus in the fourth quarter of 2005, the trade deficit amounts to Euro 275.1 million which means annual decline of 8.6% (due to the high comparison base in the fourth quarter of 2004)³⁷, while the export - import coverage ratio equals 62.2%, which is higher by 6.1 percentage points relative to the fourth quarter of 2004.

Figure 34
Trade deficit and export - import coverage ratio
(in millions of Euros)



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

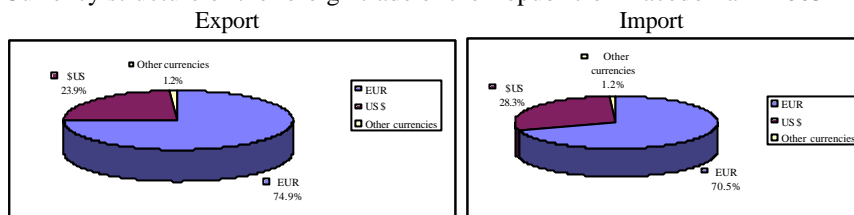
Higher presence of the US Dollar in the total foreign trade

The foreign trade analysis by currency of denomination structure in 2005 indicates that the presence of the Euro is by 2.8 percentage points lower compared to 2004. Simultaneously, the share of the US Dollar goes up by 3.2 percentage points, which is closely related to the higher import of oil and oil derivatives mainly paid in US Dollar. The Euro dominates on the side of export and import of goods, equaling 74.9% and 70.5%, respectively. Relative to 2004, the share of the Euro in the export and the import was lower by 0.6 percentage points and 4.2 percentage points, respectively. On the other hand, the share of the US Dollar in the export and the import of goods in 2005 went up by 1 percentage point and 4.5 percentage points, respectively.

³⁶ Higher monthly import of goods was realized in March 2000, when net import of goods in the amount of Euro 312.2 million was realized just before the introduction of the value added tax.

³⁷ In the fourth quarter of 2004, higher import of iron and steel for the needs of the restarted metallurgical facility in May 2004 was realized, as well as high import of vehicles due to the Macedonian Government announcements for re-introduction of excise at the beginning of 2005.

Figure 35
Currency structure of the foreign trade of the Republic of Macedonia in 2005

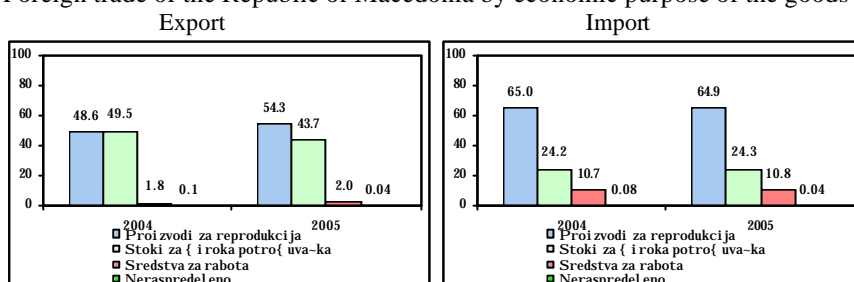


Source: State Statistical Office; Calculations in Euro made at the National Bank of the Republic of Macedonia.

Dominant share of production materials...

The foreign trade analysis by economic purpose of the products in 2005 implies that the production materials¹³ dominate the structure of export and import with 54.3% and 64.9%, respectively. The consumer goods account for 43.7% on the export side and 24.3% on the import side. The analysis by the dynamics shows that compared to the preceding year, the export side registered higher share of the production materials and lower share of the consumer goods (by 5.7 percentage points and 5.8 percentage points, respectively, on annual basis).

Figure 36
Foreign trade of the Republic of Macedonia by economic purpose of the goods

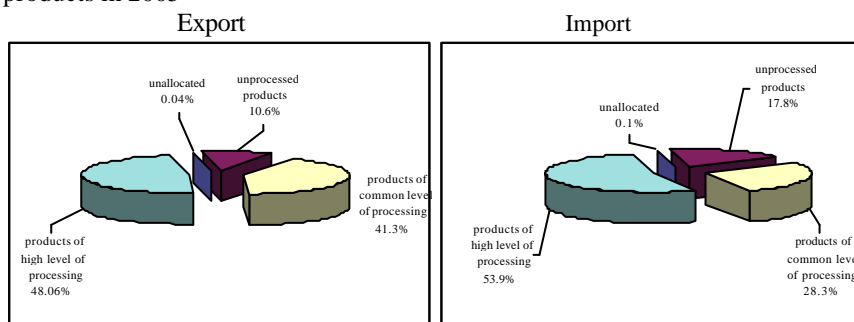


Source: State Statistical Office; Calculations in Euro made in the National Bank of the Republic of Macedonia.

...and the highly processed products in the export and import of goods

Observing the product classification by processing degree in 2005, the export and the import consist mostly of highly processed products (48.1% and 53.9%, respectively). Also, the share of processed products is high (41.3%), on the export side, and the unprocessed products constitute 10.6%. Also, as to the import side, 28.3% of the total import consist of processed products and 17.8% are unprocessed products.

Figure 37
Foreign trade of the Republic of Macedonia by the degree of processing of the products in 2005



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

¹³ Production materials include raw materials and intermediary products, machine fuel and finished production materials.



The European Union dominates the total foreign trade in 2005

The geographic distribution of the foreign trade in 2005 shows dominant share of the European Union in the total foreign trade of 48.4%. Observing the trade components, this group of countries constitutes 53% and 45.5%, respectively, of the total export and import of goods. In 2005, 18.1% of the foreign trade of the Republic of Macedonia was made with the former SFRY countries, and 18.2% with the countries of Central and Eastern Europe.

Table 10
Geographic distribution of the foreign trade in 2005

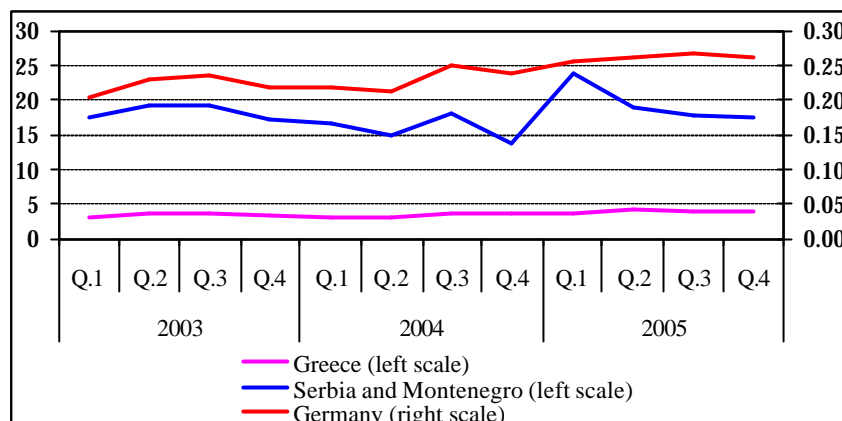
	Export	Import	Total trade	Trade balance	Import-export coverage ratio
	in millions of Euros				in %
European Union	870.7	1,183.5	2,054.2	-312.9	73.6
Germany	291.93	270.13	562.06	21.79	108.07
Greece	251.85	239.22	491.07	12.64	105.28
Italy	136.41	156.36	292.77	-19.95	87.24
Other	190.5	517.8	708.3	-327.3	36.8
Countries of Central and Eastern Europe and of former USSR	108.9	664.8	773.7	-556.0	16.4
Russia	17.25	343.56	360.81	-326.30	5.02
Bulgaria	61.71	188.27	249.99	-126.56	32.78
Romania	3.40	51.54	54.93	-48.14	6.59
Other	26.5	81.5	108.0	-55.0	32.5
Former SFRY republics	477.9	292.3	770.3	185.6	163.5
Serbia and Montenegro	371.89	212.51	584.40	159.38	175.00
Other	106.0	79.8	185.9	26.2	132.8
Other countries	186.1	460.3	646.3	-274.2	40.4
China	7.64	92.61	100.26	-84.97	8.25
Other	178.4	367.7	546.1	-189.2	48.5
TOTAL	1,643.5	2,601.0	4,244.5	-957.4	63.2

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

Analyzing the ten most important trading partners, in 2005, most of the trade of the Republic of Macedonia was made with Serbia and Montenegro, Germany and Greece, making up 38.6% of the total trade. The export-import coverage ratio of the three most important foreign trade partners in 2005, compared to the preceding year went up by 32.6, 22 and 24.4 percentage points, respectively, implying higher presence of the Macedonian products on the markets of these countries. The Republic of Macedonia registered the highest surplus in the trade of goods with Serbia and Montenegro in the amount of Euro 159.4 million (the highest since the independence, particularly owing to the higher export of oil derivatives), achieving the highest export-import coverage ratio of 175%, and in the trade with Russia, it registered the highest deficit in the amount of Euro 326.3 million and the lowest export-import coverage ratio of 5% (due to the high import of oil). In 2005, the list of the ten most important trading partners included China (in 2004, France was the tenth), the share of which in the total foreign trade of the Republic of Macedonia rose by 0.6 percentage points and equaled 2.4%, owing to the faster import of goods from China (annual increase of 40.5%).



Figure 38
Share of export of the Republic of Macedonia in the import of the three most important trading 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.

Attachment 5

Review of the sixth Ministerial Conference within the negotiations at the World Trade Organization (WTO)

The sixth WTO Ministerial Conference, which is a part of the so-called Doha Development Agenda, was held from December 13 - 18, 2005 in Hong Kong. It is a conference held once every two years, where decision on all relevant WTO-related issues are adopted, in line with the set long-term goal - "establishing fair market-oriented trade system through a fundamental reform program". The negotiations were primarily focused on the trade in agricultural products, trade in non-agricultural products, services and trade facilitation. The participation of the Republic of Macedonia in the WTO conferences of ministers is aimed at improving the current situation of Macedonia on the international market. Thus, the Republic of Macedonia, as a WTO member-state bound itself to gradually decrease the average weighted customs rate for the purpose of liberalizing the world trade system, and in the period from 2003 to 2006, the customs duties on agricultural and industrial products reduced by 4.6 and 1.8 percentage points, respectively, and the total customs encumbrance is by 2.4 percentage points lower. Consequently, at the Hong Kong Conference, the Macedonian delegation presented its view on specific provisions for customs duty reductions and extension of the period for implementation of the new requirements for accession to the market after the admission to the WTO¹⁴.

One of the crucial topics at the DDA conferences was the trade in agricultural products. It was focused on the definition of measures and procedures for reducing and eliminating the domestic support, export subventions and the customs duties (free access to the markets of the member states). Therefore, a decision was made to reduce the domestic support by distorting effects on the trade, decision on elimination of all kinds of export subventions by 2013, and as to the „access to the market“ the customs duties are further reduced within the system at four levels, with the developing countries being entitled to determine a number of tariff lines of special products on the basis of specific criteria (food security and rural development). This would make the trade conditions equal for all WTO member states. Having in mind the large significance of the agricultural sector for the Macedonian economy, and

¹⁴ All member states that participate in the negotiation form their own draft -views on certain issues subject to negotiations as specified in the Decision of the WTO General Council dated August 1, 2004. The draft -views are presented at the WTO conferences of ministers.



consequently, the opportunity for acquiring comparative advantage in this sector, the possibility to form a group of „sensitive products“ which would enjoy special customs privileges¹⁵ in the Republic of Macedonia would identify strategic products and would support their production. In the further negotiations, precise definition of the measures of the so-called Green box support would be of an interest for the Republic of Macedonia, that is measures for protection of the domestic production which are justified and does not import distortion¹⁶ into the foreign trade.

Relevant part of the trade, other than the agricultural products, are the non-agricultural products¹⁷, which over the recent years accounted for roughly 90% of the international export. The trade in non-agricultural products is mainly liberalized by reducing the customs rates by the so-called Swiss formula (elimination of customs peaks¹⁸, high customs duties and the phenomenon of customs escalation¹⁹). Among other adopted provisions, the Macedonian economy benefits from the decision on flexible approach towards the reduction of the customs tariffs for non-agricultural products, which will apply to the small economies, and the relatively new member states. The period for developing the procedure ends on April 30, 2006, and the member states should submit their lists by July 31, 2006. As to the trade in services and trade facilitation, the negotiations carry on, with the ultimate objective being full liberalization of the service sector and elimination of non-tariff barriers.

The negotiations within the DDA, according to the set time schedules for submitting initial offers are expected to be completed by the end of 2006.

Source: Ministry of Economy of the Republic of Macedonia; World Trade Organization.

Higher service deficit

The fourth quarter of 2005 witnessed negative development merely in the trade in *services*, resulting in deepening of the deficit. The deficit in the services in the fourth quarter of 2005 in the amount of Euro 20.7 million, was by Euro 15.1 million higher, compared to the same period of 2004. Having lower inflows from services, such dynamics of the services is primarily due to the higher payments for services from abroad. Observing the dynamics of certain service categories, the most substantial increase in the outflows was registered in the transport services (by Euro 10.9 million higher). The higher payments for transport services determine 84% of the increase in the total payments for services from abroad. On the other hand, the fourth quarter of 2005 registered lower inflows from investment operations abroad (by Euro 10.3 million less), which also contributed towards increasing the deficit in the service trade.

¹⁵ The obligations for reducing the customs rates will not apply to some products within the group of "sensitive products, or they will be minimally reduced, indirectly by increasing the customs quota.

¹⁶ The products produced in quantities and sold at prices that do not match the quantity demanded, i.e. the price which would be formed under conditions of pure competitive market, import distortion in the trade.

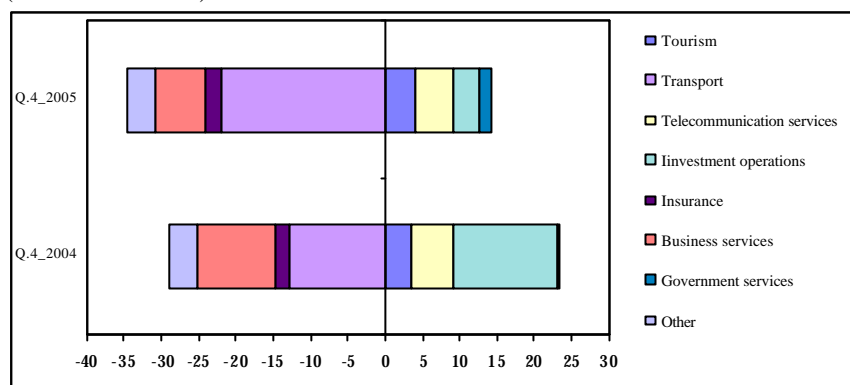
¹⁷ Products not included in the WTO Agriculture Agreement - so called NAMA products. The term mostly applies to processed products, fuels and products from mining, fish and fish products and wooden products.

¹⁸ Tariff peaks are customs duties on specific products (mostly within the group of sensitive products), which are relatively higher compared to the general customs level of the other products of that group. As to the developed countries, any customs rate of 15% and more is considered a tariff peak.

¹⁹ Customs escalation denotes an application of higher customs duties on semi-processed products rather than on raw materials, and the customs duties on the finished products are even higher. This is the way of protecting the domestic manufacturing industries, while the development of processed products in the countries of origin of the raw materials is discouraged.



Figure 39
Balance of certain service categories
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

Higher surplus in the income sub-balance

In the fourth quarter of 2005, the *income* sub-balance registered a surplus in the amount of Euro 8.2 million, which compared to the same period of 2004 slightly increased by Euro 1.9 million. In environment of stable income developments based on investments (direct, portfolio and other investments) the higher positive balance of the income in the fourth quarter of 2005 is primarily due to the higher amount of received wages and other compensations for employed residents (by Euro 1.3 million).

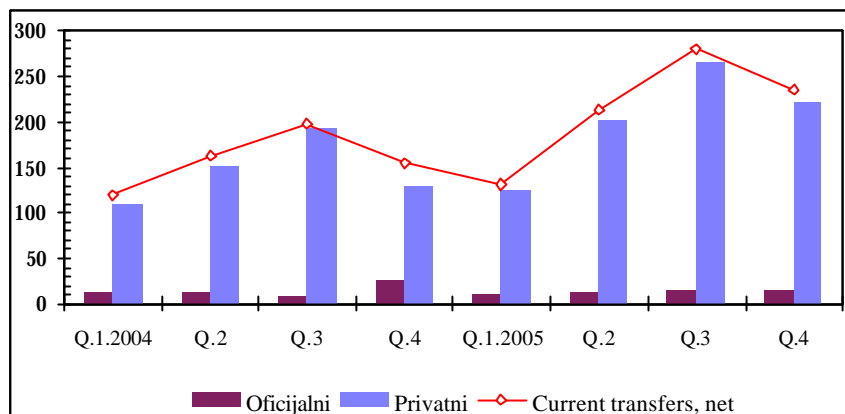
Higher net-inflows from current transfers

The net-inflows from *current transfers* in the fourth quarter of 2005 reached Euro 236 million, which is an increase of Euro 80.6 million compared to the same period of 2004. Having lower net-inflows of official transfers (by Euro 11.4 million)²⁰, the increase fully results from the higher net-inflows of private transfers. Thus, in the fourth quarter of 2005, the net-inflows from private transfers worth Euro 221.8 million were by Euro 92 million higher relative to the same period of 2004 (increase of 70.8%). Most of the increase in the private transfers (83.1%) is a result of the higher net-inflows from currency exchange operations, which is by Euro 76.4 million more relative to the fourth quarter of 2004. Consequently, their structural share in the total net-inflows of private transfers surged by 11.2 percentage points, reaching 67,2% in the fourth quarter of 2005. Simultaneously, the other components of private transfers registered minor increase. Thus over the observed period of 2005, the net inflows from other private transfers and remittances (worth Euro 38.7 million and Euro 34 million, respectively) on annual basis are higher by Euro 13.2 million and Euro 2.4 million, respectively.

²⁰ Euro 7 million of the assistance in financial assets are donation for microfinancial support from the Netherlands, which arrived in December 2005.



Figure 40
Current transfers, net
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

The high foreign exchange inflows from private transfers in the fourth quarter of 2005 funded 89.6% of the trade deficit (50.7% in the same period of the preceding year).

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



Source: National Bank of the Republic of Macedonia.

B) Capital and financial account

Higher foreign exchange inflows in the capital and financial account

The transactions in the capital and the financial account of the balance of payments resulted in an increase in the foreign exchange inflows in the fourth quarter of 2005 relative to the same period of 2004 of Euro 145.3 million. The portfolio-investments dominate the financial inflow structure with 64.7% (8.9% in the same period of the preceding year).



Table 11
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.4	Total	Total	Q.4	Total	Q.4	Total	Q.4	Total
<i>Capital account, net</i>	-1.2	-1.5	-1.4	0.2	0.0	-0.2	0.2	-1.8	-3.8	-1.7	-2.0	2.1	-816.1	-54.3		
<i>Financial account, net</i>	91.4	115.5	33.6	106.1	30.1	107.8	30.3	253.3	346.5	421.6	147.3	75.1	138.9	21.7		
Direct investments, net	33.6	42.0	13.7	36.9	27.7	26.6	14.1	8.7	126.2	77.1	-28.2	-49.1	-76.3	-38.9		
Portfolio investments, net*	0.5	-0.8	0.9	10.7	12.5	3.8	14.4	167.3	11.3	198.0	156.6	186.7	1459.3	1651.8		
Trade credits, net	22.4	66.1	6.8	41.1	-45.7	66.4	-32.1	32.5	136.4	21.1	-8.6	-115.3	-20.8	-84.5		
Loans, net	-10.3	16.3	16.1	25.8	14.3	64.8	4.7	41.2	47.9	125.0	15.4	77.1	59.6	161.0		
Currencies and deposits, net**	39.4	-15.4	-12.2	-14.0	17.9	-57.9	24.4	-5.2	-2.3	-20.7	8.8	-18.5	-63.1	821.1		
Other, net***	5.7	7.2	8.4	5.5	3.4	4.2	4.7	8.8	26.9	21.1	3.2	-5.8	58.6	-21.4		
Capital and financial account	90.2	114.0	32.2	106.3	30.1	107.7	30.5	251.6	342.7	419.8	145.3	77.1	136.6	22.5		

1/ Preliminary data.

* in Qu.4 2005 with Eurobonds.

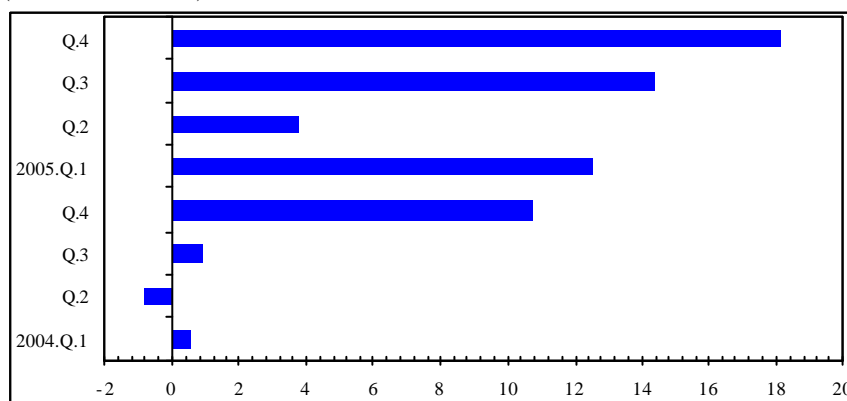
*(-) denotes reduction.

** overdue liabilities

Source: National Bank of the Republic of Macedonia.

In the observed period of 2005, the net-inflows from portfolio-investments reached a record level of Euro 167.3 million, which is an increase of Euro 156.6 million relative to the fourth quarter of 2004. Euro 149.2 million of these inflows are portfolio-investments based on issuing debt securities - Eurobonds in December 2005, with the inflow being intended for full regulation of the liabilities of the Republic of Macedonia to the London Club of Creditors. The portfolio-investments void of inflow from Eurobonds, however, are valued at Euro 18.1 million and rose by 68.7% relative to the fourth quarter of the previous year, implying higher interest of foreign investors. In addition, in December 2005, the portfolio-investments registered an inflow from the European Bank for Reconstruction and Development for the privatization of the Electricity Company of the Republic of Macedonia in the amount of Euro 5 million.

Figure 42
Dynamics of portfolio-investments in the Republic of Macedonia /1
(in millions of euros)

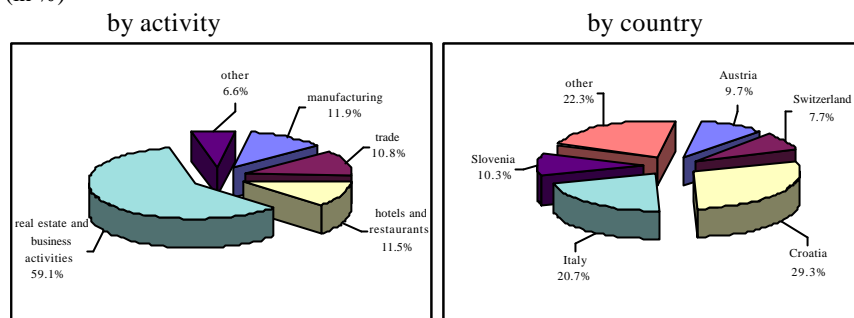


1/ In the fourth quarter of 2005 excluding the inflow from the Eurobonds

Source: National Bank of the Republic of Macedonia.

In the fourth quarter of 2005, the foreign direct investments in the country are valued at Euro 13.7 million (Euro 26.5 million less compared to the same period of the preceding year). The analysis by activity shows that most of the foreign direct investments in the country are allocated to companies for intermediation for real estate and business activities, production, trade and tourism (hotels and restaurants). Observing by country, most of the investments originate from Croatia and Italy (valued at Euro 4 million and Euro 2.8 million, respectively).

Figure 43
Foreign direct investments in the Republic of Macedonia in the fourth quarter of 2005
(in %)



Source: National Bank of the Republic of Macedonia.

In the observed period of 2005, the Republic of Macedonia made direct investments abroad worth Euro 2.1 million, which is an increase of 6.8 times relative to the same period of 2004. Thus, most attractive activity for investing the funds of the domestic investors in the observed period of 2005 is the production (98.6%), and these investments were fully made in Albania. In the fourth quarter of 2005, foreign direct investments were withdrawn in the amount of Euro 3.9 million (most of them from Serbia and Montenegro and Austria, worth Euro 1.4 million and Euro 1.1 million, respectively).

The fourth quarter of 2005 registered a positive balance of commercial credits (common for the last quarter of the year) in the amount of Euro 32.5 million (Euro 41.1 million in the fourth quarter of 2004), owing to the higher import of goods relative to the executed payments.

In the analyzed period of 2005, the currencies and deposits grew by Euro 5.2 million (Euro 14 million in the fourth quarter of 2004), solely due to the higher cash foreign currency with the households of Euro 19.4 million. The net-foreign currency of the commercial banks simultaneously reduced by Euro 14.2 million, primarily due to the increase in the foreign exchange liabilities of the banks (by Euro 11.5 million).

Attachment 6

Realization of the projection for export and import of goods in 2005 and projection for 2006

For the purposes of working out a projection of the balance of payments of the Republic of Macedonia, usually once a year, the NBRM conducts a Survey of the business plans of the most important institutions-driving forces of the foreign trade activity of the Republic of Macedonia. In 2005, however, this survey was conducted twice, in February²¹ and in October 2005. The reasons that imposed the need of conducting the Survey in October 2005 could be divided into two groups:

- *Changed assumptions for the external factors.* The rapid increase in the oil price on the international markets and the movement of the metal prices initiated the need for revising the projection for the last quarter of 2005.
- *Need for preparing a quarterly projection for 2006.*

The analysis of the realization of the projection of the foreign trade components of the Republic of Macedonia in 2005 indicates a *high degree of*

²¹ The results from the Survey in February 2005, and the deviation from the projection for the first quarter of 2005 are discussed, in more detail, in the annex „Projection and performance of the export and import of goods “ in the NBRM Quarterly Report I/2005. The report is available at the NBRM web site: www.nbrm.gov.mk



realization of the projection on annual basis of 99.6%. Observing by component, the export registered an exceeding of Euro 3.4 million, i.e. 99.8% realization of the projection, while the import underperformed by Euro 16.5 million, i.e. 99.4% realization of the projection. Having better performance on the export side (higher export) and the import side (lower import) relative to the expectations, we witnessed **an Euro 20 million lower trade deficit** relative to the projection.

Observing by group of products, the export side shows slight, but positive divergence as to the food, beverages, tobacco, wearing apparel and the textile. The group of "other products" registered significant exceeding relative to the projection, particularly in the export of oil derivatives (of Euro 60.2 million), owing to the increase in the world prices. On the other hand, the underperformance in the iron and the steel and products thereof is due to the optimistic plans of one relevant metallurgical plant, which were not fully effectuated due to the fall in the world price of their export products.

The high dependence of the Macedonian economy on import, in environment of underperformance of the plans in the metallurgy, resulted in lower import of iron and steel (a part of the group of "goods for investments and raw materials"). On the other hand, the increase in the oil price on the international markets resulted in higher import of mineral fuels. Simultaneously, the import of consumer goods went down and the import of goods for further processing in the country increased relative to the projection.

Table 12
Projection and realization of the export and the import of goods in 2005 by group of products
(in millions of euros)

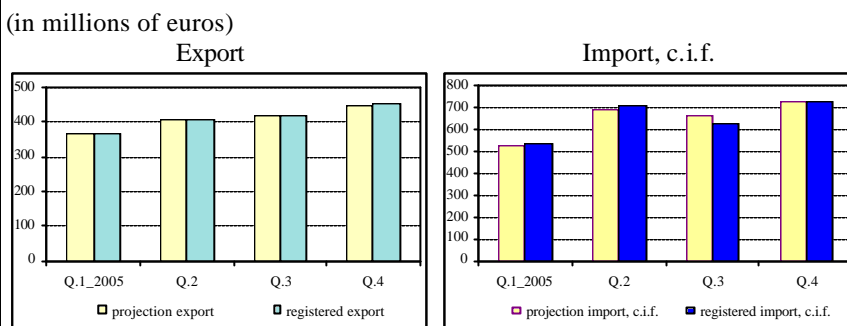
	projection	realized	difference
1	2	3	4=3-2
Goods, net	-977.4	-957.4	20.0
Export of goods	1,640.1	1,643.5	3.4
Food	61.9	70.5	8.7
Beverages	43.8	49.8	6.0
Tobacco	61.5	82.1	20.6
Clothing and textile	406.1	411.9	5.7
Iron and steel and products thereof	612.7	453.7	-159.0
Other products	454.1	575.5	121.4
Import of goods, c.i.f.	2,617.5	2,601.0	-16.5
Tobacco	11.6	12.6	1.0
Iron and steel and products thereof	28.2	27.1	-1.1
Textile-processing	288.4	285.7	-2.8
Other- processing	51.7	58.5	6.8
Consumer goods	400.8	395.2	-5.6
Investment goods and raw materials	1491.2	1322.8	-168.4
Mineral fuels	345.7	499.2	153.5

Source: Projection of the National Bank of the Republic of Macedonia, performance according to the data of the State Statistical Office.

The analysis of the achievement of the projection for 2005 on quarterly basis shows inconsiderable divergences in the components of the foreign trade.



Figure 44
Projection and realization of the export and the import of goods by quarter in 2005
(in millions of euros)



Source: Projection of the National Bank of the Republic of Macedonia, performance according to the data of the State Statistical Office.

According to the projection of the components of the foreign trade of the Republic of Macedonia (based on the answers of the enterprises subject to the survey, the planned increase in the gross domestic product of the Republic of Macedonia and the developed countries, relevant foreign trade partners and the projections of some macroeconomic variables developed by international institutions), the current account deficit is expected to grow moderately in 2006, measured as a GDP percentage (from 18.9% in 2005 to 21% in 2006), primarily due to the expected rise in the oil price on the international markets. At the same time, the balance of payments current account deficit is expected to reach 3.7% of the GDP in 2006.

In the fourth quarter of 2005, the net-inflows in the loans stand at Euro 41.2 million, which is by Euro 15.4 million more relative to the fourth quarter of 2004. Also, the net inflows of short-term credits and long-term and medium-term loans and credits went up by Euro 10.3 million and Euro 5.1 million, respectively, and in the fourth quarter of 2005 they reached Euro 10 million and Euro 31.2 million, respectively. The used long-term and medium-term loans and credits in the fourth quarter of 2005 stand at Euro 62.7 million. With respect to creditors, most of the withdrawn funds, or Euro 38.2 million, are from multilateral creditors (Euro 28.6 million of which from the World Bank²²), Euro 22.4 million from private creditors and Euro 2.1 million from bilateral creditors. In the fourth quarter of 2005, the liabilities to foreign creditors were regularly serviced.

Increase in the total external debt of Euro 193.6 million compared to September 30, 2005

The total external debt of the Republic of Macedonia as of December 31, 2005 stands at Euro 1,909.6 million, which is by Euro 193.6 million more relative to September 30, 2005, and by Euro 381.4 million more relative to the end of 2004.

Quarterly increase in the external long-term debt of 12%...

At the end of the fourth quarter of 2005, the external debt totals Euro 1,838 million and went up by Euro 196.8 million, or by 12% compared to the end of the preceding quarter. The increase in the long-term debt is almost solely due to the higher amount of used funds from the principal paid. Note that the effect of the issued Eurobonds on the increase in the debt is transient, as the funds are intended for repayment of the debt towards the London Club of Creditors.

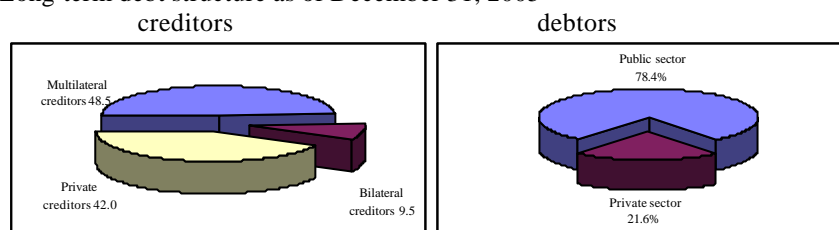
The structural analysis from the aspect of creditors indicates that the official creditors and the private creditors account for 58% and 42%, respectively, of the total long-term debt. Observing by debtor, 78,4% of the long-

²² Euro 24.4 million were received in December 2005 on the basis of the Programmatic Development Policy Loan - PDPL I.



term debt refers to the public sector, and the share of the private sector equals 21.6%.

Figure 45
Long-term debt structure as of December 31, 2005



Source: National Bank of the Republic of Macedonia.

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

As of December 31, 2005, the short-term debt, which fully refers to the private sector, totals Euro 71.6 million, which is by Euro 3.2 million lower compared to September 30, 2005.

Attachment 7 Eurobonds

The Eurobond market includes all types of bonds issued and traded outside the country-issuer. The primary function of this market is to provide a capital for the borrowers throughout the world (countries and companies) through the wide range of offered currencies and financial instruments. In the 1950s and early 1960s, the capital market in the USA played the role of primary source of funds for the international borrowers. In 1963, a new Interest Equalization Tax-IET was adopted in the USA, which required higher income tax on the foreign bonds owned by domestic investors. Thus, the companies-non-residents in the USA were forced to offer higher interest rates on the issued bonds, so as to attract the US investors. As a result of such measures, the attractiveness of the US capital market considerably declined, initiating the development of the European Eurobond market. The first Eurobond was issued in 1963 by the Italian Government, worth US Dollar 15 million, intended for highway construction²³. Ever since, the Eurobond market has been growing intensively, attracting myriad of investors and security issuers worldwide.

The Eurobonds are foreign currency-denominated long-term securities issued by the Government in order to mobilize additional financial assets. The Eurobond, as a financial instrument, enjoys the following features:²⁴

- Issued and traded on the international capital market;
- The subscription process is made by intermediation of international banks or bank consortiums and sold to wide range of investors;
- The denomination is in currency, not always domicile for the investors and bank intermediators. Therefore, the investors in Eurobonds take credit and foreign exchange risk, simultaneously;
- Basically, it is a negotiable instrument easily converted into cash, thus offering high liquidity and anonymity to the end investor;
- The coupon interest is determined depending on the market conditions at the moment of issuance, and calculated on the basis of LIBOR, plus risk premium. The market risk is measured through the spread (premium) over the yield curve of the German Government bonds (generally accepted as least risky bonds);

²³ Antonio de Padua Ferreira Passos, "The International Bond Market and Brazil's Insertion as Sovereign Partner", The George Washington University.

²⁴ Hosmidio Soares, "Brazil: Re-entry into the Eurobond Market (An Overview)", Minerva Program, Fall 1996.



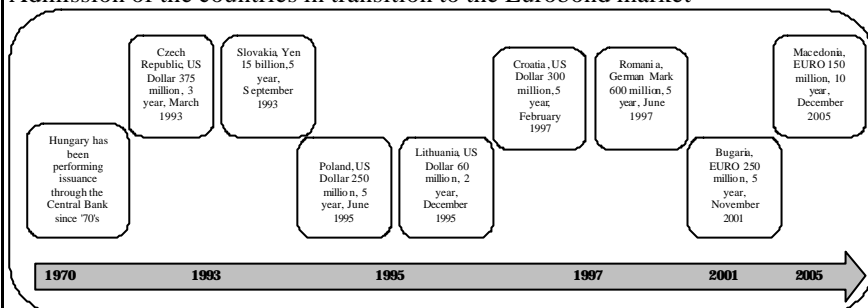
- The primary issue is made by listing on the Stock Exchanges in London or Luxembourg (public bid), or by direct sale to the interested investors (private placement).

The Eurobond issue has become a practice of many countries worldwide, and over the recent years it is typical for the countries in transition. The countries facing lack of domestic accumulation (low rate of domestic savings) and moderate inflows of foreign investments, use the issue of Eurobonds as relatively easy and inexpensive way of collecting fresh foreign capital.

The practical examples imply that investors from developed countries are interested in purchasing the bonds of the economies in transition. Thus, with the first issue in 1997, Croatia and Romania registered an inflow of US Dollar 300 million and DEM 600 million, respectively, and in 2001, Bulgaria registered an inflow of Euro 250 million, on the same basis.

Picture 1

Admission of the countries in transition to the Eurobond market



Source: web-sites of Central Banks.

Once the Republic of Macedonia was given a credit rating by two internationally recognized agencies²⁵, it met all formal and essential requirements to participate in the international capital market. Thus, after the successfully completed promotion of the Eurobonds by the team of the Ministry of Finance and the NBRM, on December 2, 2005, the first Macedonian Eurobonds were issued on the London Stock Exchange at the value of Euro 149.2 million, with maturity of ten years and coupon interest rate of 4.625%. Compared to the 10-year bonds issued by the countries in the region, Macedonia achieved relatively favorable interest rate.

Table 13

Ten-year Eurobonds issued by the countries in the region

Issuer	Date of issue	Moody's / S&P	Amount (in millions of Euros)	Coupon interest	Date of maturity
Slovenia	02.04.2001	Aa3 / AA-	450	5.375	11.04.2011
Bulgaria	22.03.2002	Ba1 / BBB	810	7.5	15.01.2013
Romania	26.04.2002	Ba1 / BBB-	700	8.5	08.05.2012
Slovakia	07.05.2004	A2 / A	1,000	4.5	20.05.2014
Croatia	02.04.2004	Baa3 / BBB	500	5	15.04.2014
Czech Republic	14.06.2004	A1 / A-	1,500	4.625	23.06.2014
Macedonia	02.12.2005	/ BB+	150	4.625	08.12.2015

Source: Bloomberg

Eurobond demand reached Euro 593 million and exceeded the supplied amount by 4 times, indicating high interest of the investors in this financial

²⁵ In August 2005, Standard & Poors increased the long-term credit rating of the Republic of Macedonia in domestic and foreign currency from „BB“ to „BB+“, and in November 2005, the „Fitch“ Agency assigned the Republic of Macedonia a favorable rating (BB).



instrument issued by the Republic of Macedonia. The issue was placed with the total of fifty six institutional investors as follows: 33% with British investors, 31% with German investors, 22,5% investors of other European countries (France, Italy, Switzerland, Greece, Slovenia, Cyprus), 12% US investors and 1,5% investors from Asia. Major investors are investment banks, investment funds and asset management companies. The inflows are intended for repayment of the existing debt to the London Club of Creditors, which will not cause changes in the amount of the Government debt, but its maturity is extended and more favorable conditions were acquired for its repayment.

Source: National Bank of the Republic of Macedonia and Ministry of Finance.

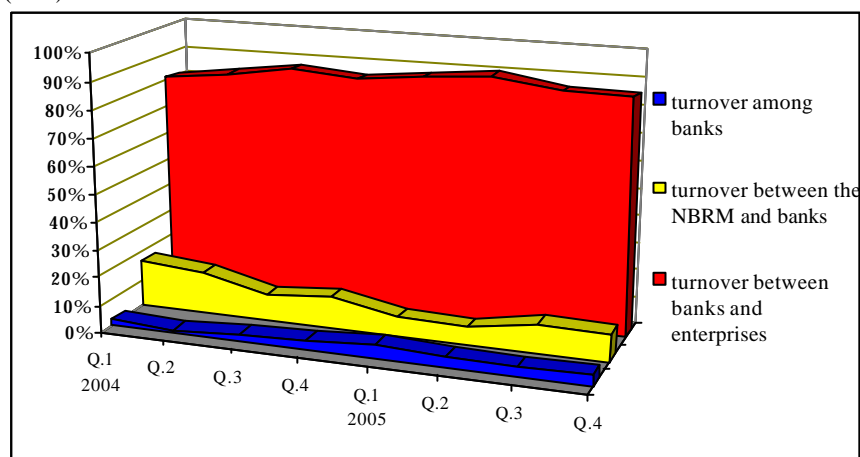
8.

Foreign exchange developments

Quarterly fall in the turnover on the foreign exchange market of 7.4%

In the fourth quarter of 2005, the turnover on the *foreign exchange market* totaled Euro 937.3 million, registering a decline of 7.4% relative to the preceding quarter. Having a higher comparison base in the preceding quarter as a result of the payment of higher dividends to foreign investors, such dynamics is particularly due to the lower demand for foreign currency by the enterprises. Given the faster fall in the demand for relative to the supply of foreign currency by the enterprises (63.7% and 5.5%, respectively), the banks registered a 40.5% lower net sale of foreign currency relative to the previous quarter. The last quarter of 2005 registered a 7.6% higher turnover among banks. In addition, the structural analysis of each segment of execution of the turnover on the foreign exchange market shows that only the turnover among banks registered higher structural share in the total turnover (by 0.6 percentage points), reaching 4.1%. The segment of banks-enterprises, observing by the turnover, still dominates, accounting for 85.9% of the total turnover.

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



Source: National Bank of the Republic of Macedonia.

In the fourth quarter of 2005, the average monthly turnover on the foreign exchange market stood at Euro 312.4 million, and relative to the preceding quarter it dropped by Euro 24.9 million. With respect to the monthly analysis of the foreign exchange market turnover, in the last quarter of 2005, December registered the highest turnover of Euro 354.8 million, which is by Euro 42.3 million higher relative to the average monthly turnover in the quarter.

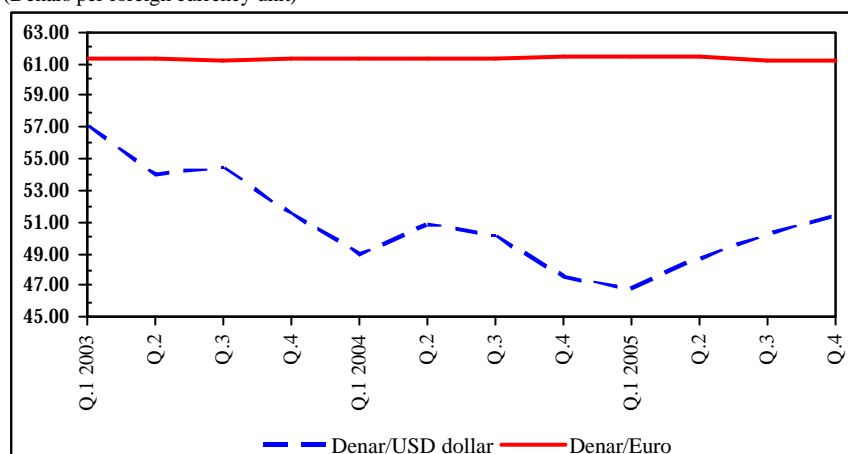


Stable exchange rate of the Denar against the Euro on the foreign exchange market...

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

In the last quarter of 2005, the foreign exchange market reregistered pressures for Denar appreciation. In line with the monetary strategy for maintaining stable exchange rate, such pressures were offset through the NBRM transactions on the foreign exchange market. In the fourth quarter of 2005, the NBRM continued with the net-purchase of foreign currency on the foreign exchange market, however in slower dynamics, in line with the lower net-inflows on the currency exchange market. As a result of such developments on the foreign exchange market, the NBRM managed to maintain the Denar exchange rate stable relative to the Euro, which in the fourth quarter of 2005 equaled Denar 61.19 per one Euro, on average. The exchange rate of the Denar against the US Dollar was determined by the movement of the US Dollar on the international foreign exchange markets, and in the last quarter of 2005, the US Dollar went on appreciating against the Euro. Consequently, in the fourth quarter of 2005, the Denar depreciated relative to the US Dollar on the foreign exchange market by 2.5% compared to the preceding quarter, and the exchange rate of the Denar against the US Dollar equaled Denar 51.47, on average (Denar 50.20 per one US Dollar, on average in the previous quarter).

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



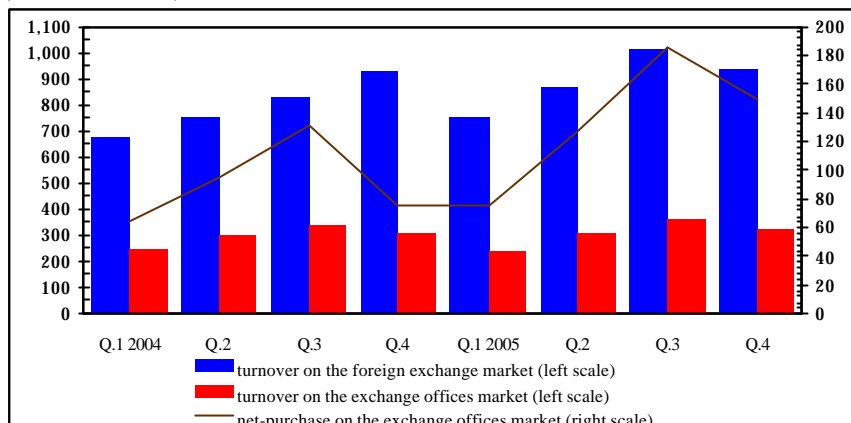
Source: National Bank of the Republic of Macedonia.

Quarterly fall in the turnover on the currency exchange market of 11.1%

In the fourth quarter of 2005, the currency exchange market registered lower turnover, which took place in environment of lower supply of and demand for foreign currency, due to the higher activity typical for the preceding quarter. The total turnover on the currency exchange market in the fourth quarter of 2005 stands at Euro 320.4 million and relative to the preceding quarter it fell by 11.1%. The faster decrease in the supply of relative to the demand for foreign currency (by 13.8% and 2.4%, respectively) resulted in lower net-purchase of foreign currency. The net-purchase on the currency exchange market was Euro 149.8 million worth in the fourth quarter of 2005, which is by 19.3% less relative to the previous quarter (as twice as high on annual basis).



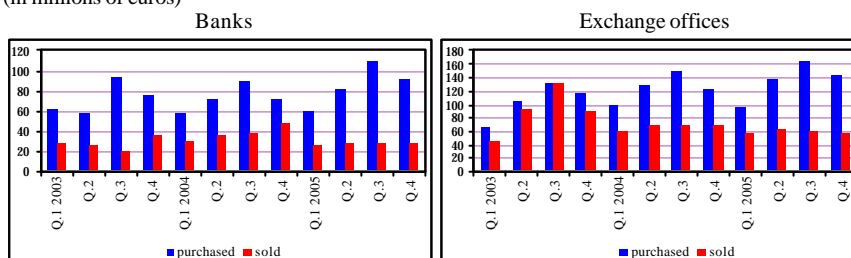
Figure 48
Movement of the total turnover on the foreign exchange and currency exchange market
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

The analysis of the monthly dynamics shows relatively stable developments in the demand for foreign currency on the currency exchange market, with the record amount of Euro 31.7 million being registered in December. On the other hand, the supply registered minor oscillations, with the highest supply of foreign currency in the amount of Euro 81 million being registered in October. Simultaneously, this month registered the record amount of net-purchase of foreign currency worth Euro 53.8 million. The structural analysis indicates that most of the turnover on the currency exchange market, or 62.9% was made through the exchange offices (0.8 percentage points higher structural share), while the banks participated with 37.1%.

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



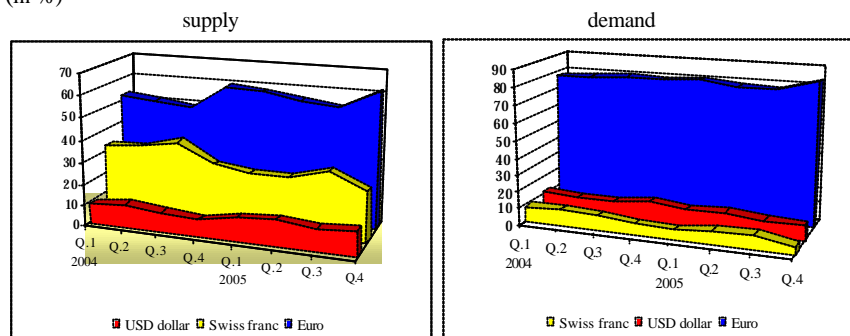
Source: National Bank of the Republic of Macedonia.

The analysis of the currency of denomination structure shows higher structural share of the Euro on the side of the supply and the demand on the currency exchange market in the fourth quarter of 2005 (by 8.2 percentage points and 5.7 percentage points, respectively), equaling 62.3% and 84.4%, respectively. On the other hand, the share of the Swiss Franc in the total supply and demand dropped (by 7 percentage points and 4.3 percentage points, respectively) making up 23.1% and 4.3%, respectively. The share of the US Dollar on the side of the supply and the demand is stable accounting for 10.9% and 9.1%, respectively.

Higher structural share of the Euro, and lower share of the Swiss Franc



Figure 50
Currency of denomination structure of the turnover on the currency exchange market
(in %)



Source: National Bank of the Republic of Macedonia.

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

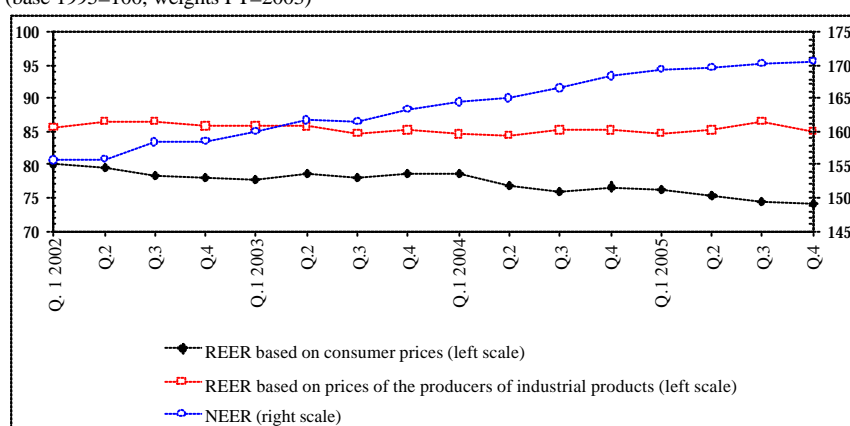
...and depreciation of the Denar against the US Dollar

Depreciation of the Denar real effective exchange rate

In the fourth quarter of 2005, the average exchange rate of the Denar against the Euro on the currency exchange market was stable and equaled Denar 61.42 per one Euro. The US Dollar was traded for Denar 51.36, on average, and compared to the preceding quarter, the Denar depreciated by 2,4% (Denar 50.17 per one US Dollar, on average, in the previous quarter).

In the fourth quarter of 2005, the index of Denar real effective exchange rate (REER) calculated by consumer prices and prices of the producers of industrial products indicates higher competitiveness of the Republic of Macedonia on foreign markets. The average Denar REER in the fourth quarter of 2005 calculated by consumer prices depreciated by 0.4% relative to the preceding quarter, which in the environment of slight appreciation of the Denar nominal effective exchange rate (NEER) of 0.2%, is primarily due to the faster growth in the foreign prices relative to the domestic prices²⁶, (by 1.6% and 0.9%, respectively). The average Denar REER calculated by the prices of the producers of industrial products in the fourth quarter of 2005 depreciated by 1.6% relative to the previous quarter, which took place in the environment of higher foreign prices (by 1.5%) and lower domestic prices (by 0.4%).

Figure 51
Denar REER* and NEER Index
(base 1995=100, weights FT=2003)



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

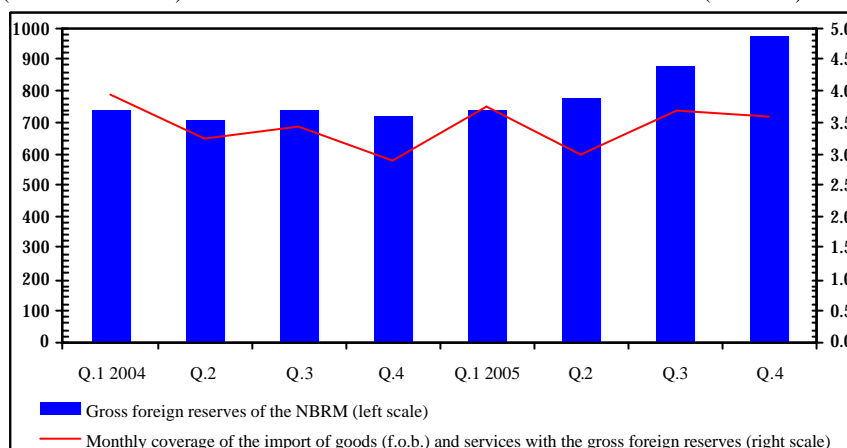
²⁶ Refers to the change in the current quarter versus preceding quarter, with a base average 1995.



Quarterly increase in the gross foreign reserves of Euro 246.4 million

On December 31, 2005, the gross foreign reserves reached Euro 1,122.9 million, which is the highest level of foreign reserves ever. The gross foreign reserves went up by Euro 246.4 million compared to the end of the preceding quarter, increasing by Euro 406 million relative to the end of 2004. The quarterly growth in the gross foreign reserves is primarily a result of the inflow from the Eurobonds (in the amount of Euro 149.2 million), and the net-purchase on the foreign exchange market made by the NBRM, the funds from the International Bank for Reconstruction and Development based on the Programmatic Development Policy Loan (PDPL I), the donation from the Netherlands, the funds from the European Bank for Reconstruction and Development for the pre-privatization of the ESM and the exchange rate differentials. At the end of the fourth quarter of 2005, the gross foreign reserves (excluding the inflow from the Eurobonds) ensured 3.6 average monthly coverage of the import of goods and services provided in the fourth quarter of 2005.

Figure 52
NBRM Gross foreign reserves and monthly coverage of the import of goods (f.o.b.) and services with gross foreign reserves (in millions of euros) (in months)



Source: National Bank of the Republic of Macedonia.

9.

Public finance

In the fourth quarter of 2005, the total public revenues stood at Denar 24,462 million, being lower by 4.6% compared to the preceding quarter, reflecting the lower non-tax and capital revenues, whereas the revenues from taxes and contributions over the analyzed period went up by 8.7%. On annual basis (fourth quarter of 2005 / fourth quarter of 2004) the total public revenues surged by 4.1%.

The revenues of the Central Government in the fourth quarter of 2005 are by 10.2% lower compared to the previous quarter, reducing to Denar 15,957 million. The quarterly fall in the total budget revenues is particularly due to the fast decline in the non-tax revenues of 79.3%, owing to the high comparison base of the previous quarter (lower amount of profit from public and financial institutions). Simultaneously, the capital revenues in the observed period plunged by 78.4%, owing to the high comparison base of the previous quarter, when revenues were generated on the basis of sale of state-owned land.

The tax revenues, which are dominant category within the total budget revenues (structural share of 95%), in the last three months of the year went up by 8.9% quarterly. In the fourth quarter of 2005, among the relevant categories of tax revenues, higher revenues were generated from the income tax, the value

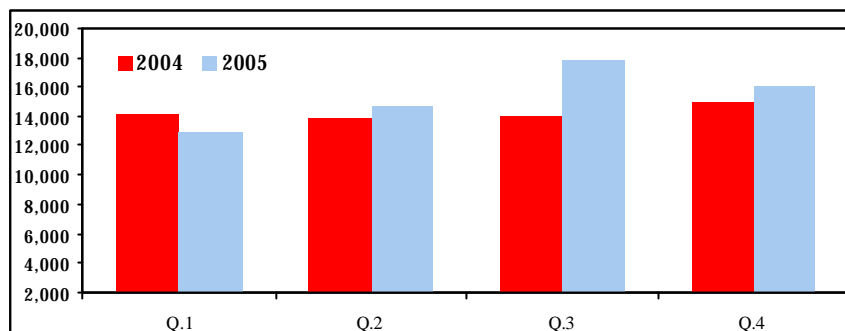
In the fourth quarter of 2005, the total revenues of the Central Government were by 10.2% lower on quarterly basis...



added tax and from the customs duties, making up 73%, in total, of the budget revenue structure.

On annual basis, the total budget revenues in the last quarter of 2005 were by 6.1% higher relative to the same quarter of 2004, owing to the higher amount of generated tax revenues, whereas the non-tax and capital revenues dropped.

Figure 53
Quarterly distribution of the total revenues of the Central Budget
(in millions of denars)



Source: Ministry of Finance.

In the fourth quarter of 2005, the total public expenditures stood at 26,315 million, which is by 16.6% more relative to the expenditures in the preceding quarter, reflecting the increase in the current and capital expenditures. On annual basis, the public expenditures went up by 8.9% in the last quarter of 2005.

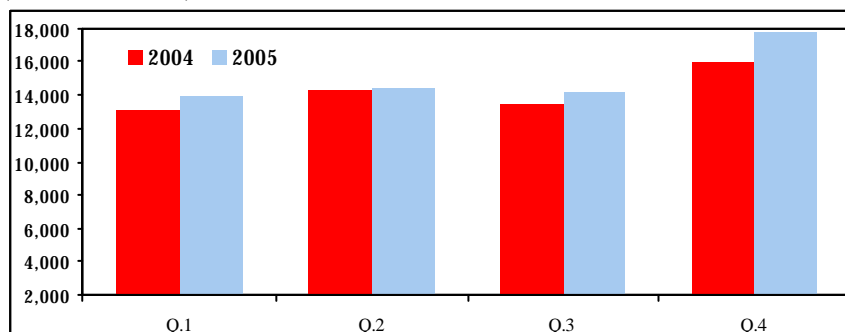
...having 24.2% higher budget expenditures

The expenditures of the Central Government in the fourth quarter of 2005 totaled Denar 17,664 million, which is a quarterly increase of 24.2%. The increase is due to the simultaneous rise in the current and the capital expenses (by 13.4% and by 2.1 times, respectively). Within the current expenses, faster quarterly growth was registered in the costs of goods and services (by 70.2%), while the payments of salaries and wages and transfers grew moderately.

In the last quarter of 2005 compared to the same quarter of the preceding year, the total budget expenditures rose by 11%, having an increase in the current and capital expenses (of 1.7% and 85%, respectively).

In 2005, both the budget revenues and expenditures went up. Thus the total budget revenues and expenditures in 2005 increased by 7.5% and 6.1%, respectively, compared to the preceding year.

Figure 54
Quarterly distribution of the total expenditures of the central budget
(in millions of denars)



Source: Ministry of Finance.

Over the last three months of 2005, the total revenues and expenditures of the social funds increased compared to the previous quarter (by 9.7% and



7.6%, respectively). The increase is due to the higher inflows and expenses of the Pension and Disability Insurance Fund and the Health Insurance Fund. On the other hand, the revenues and the expenditures of the Employment Fund registered a quarterly fall. In addition, the Road Fund also registered lower revenues and expenditures in the fourth quarter of 2005.

In the fourth quarter of 2005, compared to the fourth quarter of 2004, the total revenues of the social funds went down by 0.8%, whereas the expenditures grew by 2.1%.



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

- ❖ *eighth installment of the bonds for old foreign exchange savings on the basis of principal was paid (and the eleventh payment of interest), in accordance with the common dynamics for payment of these bonds twice a year (in April and in October).*
- ❖ *On October 21, the construction of the second stage of the ring road nearby Skopje commenced.*
- ❖ *On October 25, in Athens representatives of the countries of Southeast Europe (Macedonia, Albania, Bulgaria, Croatia, Bosnia and Herzegovina, Romania, Turkey, Serbia and Montenegro and Kosovo) signed an agreement on establishing joint regional energy and gas market. The purpose of the agreement is to provide competitiveness and security in the delivery of electricity, opening of energy markets and creating conditions for functioning of a single electricity market in the region. The enforcement of the Agreement is envisaged for 2006, after being previously ratified by the parliaments of the signatory countries.*
- ❖ *Since October 26, the NBRM switched from volume tender auctions (fixed interest rate and unrestricted amount of supplied CB bills) towards interest rate tender auctions of CB bills (restricted amount of offered CB bills for which the banks bid with interest rates).*
- ❖ *Since October 28, the largest producer of bread and baked goods in the country "Zito Luks - Skopje" reduced the prices of the white bread (basic type) by 15%, as a result of the positive effects from the restructuring of this company and the lower operating costs.*
- ❖ *On November 1, the Republic of Macedonia received the second official credit rating by „Fitch“ credit rating agency, with the long-term credit rating being BB with positive prospects.*
- ❖ *From November 2 to 10, the Republic of Macedonia hosted the International Monetary Fund Mission, having a single goal that is discussion about the arrangement performance and adjustment of the Budget for the next year. Also, the macroeconomic projections for 2005 were reviewed, determining the basic guidelines for the next year.*
- ❖ *On November 10, Skopje was the host of the first annual meeting of the Ministers of Transport of Macedonia, Albania, Bosnia and Herzegovina, Croatia, Serbia and Montenegro and Kosovo. The meeting was supported by the EU and it is a commitment specified by the Memorandum of Understanding signed by the West Balkan countries in June 2004, with the aim to develop the main regional transport network in Southeast Europe.*
- ❖ *On November 14, a „Twining“ Partnership Agreement was signed between the Customs Administrations of Macedonia and the Netherlands. The duration of this program with the Dutch Customs is three years, having a primary goal to evolve the business efficiency by establishing direct relations with the customs authorities of the EU member states.*
- ❖ *On November 14, the Regulatory Energy Committee granted MEPSO and „BRIK“ a.d. Berovo licenses for conducting energy-related activities.*
- ❖ *On November 17, the Republic of Macedonia signed two European Council conventions (Anti-Human Trafficking Convention and Convention on Anti-Money Laundering and Detecting, Arresting and Confiscating Crime Incomes for Financing Terrorism), within the 115th session of the Council of Ministries in Strasbourg.*
- ❖ *On November 17, an Agreement on Cooperation in the Tourism was signed between Macedonia and Albania, thus completing the legal framework for regulating the relations between the two countries in this area.*
- ❖ *On November 22, the negotiations with the World Bank team on the new energy sector development support project were completed, aimed at evolving the electricity security and supply and cost reduction.*
- ❖ *On November 24, long-term government bonds were issued as specified by the Decision on issuing continuous long-term government bonds in 2005 ("Official Gazette of the Republic of Macedonia" no. 101/2005). The government bonds are with maturity of two years and coupon interest rate of 10%.*
- ❖ *On November 28, the European Bank for Reconstruction and Development signed an agreement with „Mittal Steel“ - Skopje on extending credit, enabling the usage of natural gas as an energy source, rather than the crude oil as used before.*



- ❖ On November 28, an Agreement was signed between Macedonia and Austria on granting non-repayable funds for the purposes of stimulating the usage of solar energy in the Republic of Macedonia.
- ❖ On December 2, the first Macedonian Eurobonds were placed on the London Stock Exchange, which made Macedonia join the international financial market. The issued Eurobonds in the amount of Euro 150 million are with maturity of 10 years and coupon interest rate of 4.625%.
- ❖ On December 5, Pro Credit Bank a.d. Skopje was awarded the official long-term credit rating of the credit rating agency "Fitch", with the long-term credit rating for the foreign currency being "BB", while the long-term credit rating for the domestic currency being "BB+".
- ❖ On December 9, in Skopje, a Memorandum of Understanding was signed between the Anti-Money Laundering Directorate and the American Financial Crime Enforcement Network (FINCEN), in order to improve the cooperation between these two institutions in the area of exchanging data and information important for prevention of money laundering and financing terrorism.
- ❖ In the period from 13th through 18th of December, Hong Kong hosted the Sixth Ministerial Conference of the World Trade Organization, where a delegation of the Republic of Macedonia also took part. The Ministerial Conference is held every other year and covers all important issues within the framework of the WTO, mainly with the aim of further improvement of the rules, fulfillment of the assumed obligations and liberalization of the multilateral trade system.
- ❖ On December 16, the first National Report on Competitiveness was promoted, prepared under the auspices of the National Council for Entrepreneurship and Competitiveness (NCEC). The report is based on the results from the Global Competitiveness Report developed by the World Economic Forum (SEF), aimed at setting the competitiveness of the Macedonian economy throughout the world.
- ❖ On December 17, the Republic of Macedonia was granted a status of candidate-country for membership in the European Union.
- ❖ On December 19, the Government of the Republic of Macedonia reviewed and adopted the Macroeconomic policy of the Republic of Macedonia for 2006, according to which it is expected to have an increase in GDP of 4%, to maintain low and stable inflation rate of 2% and to have budget deficit of 0.6% of GDP.
- ❖ On December 21, a tranche was disbursed from the Programmatic Development Policy Loan of the World Bank. Simultaneously, on December 31, a donation from the Dutch Government was received from the general budgetary support of the Netherlands for the Republic of Macedonia.
- ❖ On December 23, the National Bank of the Republic of Macedonia Council adopted the monetary projection for 2006. The main objective of the monetary policy is maintaining the price stability, with the average inflation rate in 2006 expected to equal 2%. In 2006, an increase is expected in the money supply (private sector) of 18.5% and of the banks' total credits with the private sector of 19.6%.
- ❖ On December 23, the National Bank of the Republic of Macedonia Council adopted a Decision on calculating and announcing the effective interest rate on loans and deposits (which includes all costs, fees, etc.), which sets basic uniform rules and increases the transparency in offering banking services ("Official Gazette of RM" No. 117/2005).
- ❖ On December 30, the Chamber of Information and Communication Technology and Services started officially operated within the framework of the Chamber of Commerce.
- ❖ In the fourth quarter of 2005, the Regulatory Energy Committee adopted the following decisions on setting the highest prices of some oil derivatives in accordance with the Methodology:
 - on October 3, 2005, Decision on increasing the refinery and retail prices of oil derivatives on average by 3.3% and 1.71%, respectively ("Official Gazette of the Republic of Macedonia" no. 84/2005);
 - on October 17, 2005, Decision on decreasing the retail and refinery prices of oil derivatives on average by 3.08% and 5.47%, respectively ("Official Gazette of the Republic of Macedonia" no. 87/2005);
 - on October 31, 2005, Decision on decreasing the refinery and retail prices of oil derivatives on average by 1.09% and 1.01%, respectively ("Official Gazette of the Republic of Macedonia" no. 93/2005);
 - on November 14, Decision on decreasing the prices of the diesel and the extra light fuel by 0,16% and 0,57%, respectively, whereas the prices of oil derivatives remained unchanged, i.e. at the level of October 31 ("Official Gazette of the Republic of Macedonia" no. 98/2005);
 - on November 28, Decision on decreasing the retail and refinery prices of oil derivatives on average by 2,73% and 4,86%, respectively, ("Official Gazette of the Republic of Macedonia" no. 102/2005);
 - on December 12, Decision on increasing the retail and refinery prices on average by 1.08% and 2.02%, respectively ("Official Gazette of the Republic of Macedonia" no. 108/2005);



- on December 26, Decision on increasing the retail prices of oil derivatives by 1.93% on average, and increasing the refinery prices by 2.56% on average, by December 31, i.e. by 2.49% starting from January 1, 2006, in line with the provisions of the Law on Environment Protection ("Official Gazette of the Republic of Macedonia" no. 114/2005). The effect of this Decision on the general level of prices in the economy will be evident in the first month of the following quarter, in line with the nature of the statistical price screening.
- ❖ *New laws:*
 - Law on One-Stop Shop and Maintaining Trade Registry and Registry of Other Legal Entities ("Official Gazette of RM" No. 84/2005).
 - Securities Law („Official Gazette of the Republic of Macedonia" no. 95/2005).
 - Law on amending the Law on Profit Tax ("Official Gazette of RM" No. 120/2005).
 - Law on amending the Law on Personal Income Tax ("Official Gazette of RM" No. 120/2005)



Statistical appendix

1. Prices

Table 1

Costs of living and retail prices

	XII.2005	XII.2005	I-XII.2005
	XI.2005	XII.2004	I-XII.2004
in %			
Costs of living	0.6	1.2	0.5
Food	1.4	0.1	-1.2
Tobacco and beverages	0.0	4.8	5.5
Clothing and footwear	0.6	1.8	2.2
Housing	-0.1	0.6	0.4
Flat (rent, water, services)	-0.1	-0.2	0.3
Fuel and lighting	-0.1	1.4	1.0
Hygiene	0.3	-2.5	-3.5
Culture and entertainment	0.7	5.2	0.9
Transport, communications, services	-0.1	3.4	3.7
<i>Goods</i>	<i>0.7</i>	<i>1.3</i>	<i>0.3</i>
<i>Services</i>	<i>0.1</i>	<i>0.9</i>	<i>1.3</i>
Retail prices	0.2	3.2	2.1
Agricultural products	5.9	4.1	-1.0
Non-food industrial products	0.0	4.7	3.0
Processed food products	0.1	-1.7	-1.5
Beverages	-0.1	-0.2	1.3
<i>Goods</i>	<i>0.3</i>	<i>2.7</i>	<i>1.5</i>
<i>Services</i>	<i>0.1</i>	<i>3.9</i>	<i>3.1</i>

Source: State Statistical Office of the Republic of Macedonia



Table 2
Prices of producers of industrial products

	<u>XII.2005</u>	<u>XII.2005</u>	<u>I-XII.2005</u>
	<u>XI.2005</u>	<u>XII.2004</u>	<u>I-XII.2004</u>
	in %		
Prices of producers of industrial products	-0.5	4.0	3.2
Energy	-1.3	16.6	11.8
Intermediary goods (except Energy)	-0.3	-0.8	0.5
Capital goods	0.0	0.0	0.0
Durable consumer goods	0.0	0.0	2.5
Non durable consumer goods	0.0	1.6	0.8
<i>Mining and quarrying</i>	<i>0.0</i>	<i>0.2</i>	<i>0.1</i>
<i>Manufacturing industry</i>	<i>-0.6</i>	<i>4.8</i>	<i>3.9</i>
Manufacture of food products and beverages	-0.5	0.7	0.2
Manufacture of tobacco products	0.0	0.2	0.3
Manufacture of textiles	0.0	0.0	-0.4
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	-3.0	47.5	32.7
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	0.2
Manufacture of basic metals	0.0	-0.1	-0.1
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	3.0
<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		
	X.2005	XI.2005	XII.2005	X.2005 IX.2005	XI.2005 X.2005	XII.2005 XI.2005	X.2005 X.2004	XI.2005 XI.2004	XII.2005 XII.2004
	in Denar			in %			in %		
Total	9,701	9,672	9,947	1.5	-0.3	2.8	-0.4	-2.2	1.0
Cereal and cereal products	1,811	1,693	1,687	0.0	-6.5	-0.4	-2.9	-9.1	-7.9
Vegetables, fresh and processed	1,082	1,167	1,406	15.0	7.9	20.5	-5.6	-8.7	7.7
Fruit, fresh and processed	689	700	687	-3.0	1.6	-1.9	2.5	5.3	4.2
Meat, fresh and processed	2,436	2,433	2,497	1.1	-0.1	2.6	5.4	3.8	6.8
Fats	366	364	359	0.0	-0.5	-1.4	-4.2	-3.2	-4.0
Milk and dairy products	1,600	1,598	1,592	-0.1	-0.1	-0.4	-3.4	-3.3	-2.5
Other food products	1,717	1,717	1,719	0.2	0.0	0.1	0.6	0.4	0.8

* 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	Contribution to the cumulative increase
		X.2005	XI.2004	I-XI.2004	
		in %			
Total	100.0	11.0	3.7	7.0	100.0
Energy	21.8	5.4	0.0	4.6	14.6
Intermediary goods (except Energy)	33.8	-1.0	3.9	14.2	69.7
Capital goods	4.8	18.9	1.0	-3.2	-2.2
Durable consumer goods	1.4	4.1	-40.1	-14.9	-3.0
Non durable consumer goods	38.1	26.9	8.6	3.8	21.0
Mining and quarrying	1.8	25.2	<i>1,3 times</i>	40.4	10.6
Manufacturing industry	79.4	12.2	3.1	7.3	84.1
Manufacture of food products and beverages	20.0	44.9	17.7	4.0	11.6
Manufacture of tobacco products	3.9	-3.6	-4.0	2.0	1.1
Manufacture of textiles	2.5	-8.1	13.1	0.4	0.1
Manufacture of wearing apparel; dressing and dyeing of fur	8.6	-3.6	-7.0	4.3	5.4
Publishing, printing and reproduction of recorded media	3.9	38.2	-13.6	-3.3	-1.9
Manufacture of coke, refined petroleum products and nuclear fuel	3.0	10.5	15.7	16.6	7.2
Manufacture of chemicals and chemical products	5.9	28.5	1.6	-0.1	-0.1
Manufacture of rubber and plastic products	2.6	-15.2	-15.5	-5.4	-2.0
Manufacture of other non-metallic mineral products	8.1	-19.3	27.9	21.5	25.3
Manufacture of basic metals	6.0	-8.5	-7.8	33.4	29.1
Manufacture of fabricated metal products, except machinery and equipment	3.8	-22.0	-8.7	18.9	10.4
Manufacture of electrical machinery and apparatus n.e.c.	3.2	53.1	-17.2	8.8	4.1
Electricity, gas and water supply	18.8	4.5	-2.6	2.5	6.8

* Previous data

Source: State Statistical Office of the Republic of Macedonia



Table 5
Trade turnover

	Amounts				Monthly changes			Annual changes			Average changes
	X.2005	XI.2005	XII.2005	I-XII.2005	X.2005	XI.2005	XII.2005	X.2005	XI.2005	XII.2005	I-XII.2005
	in Denar million				IX.2005	X.2005	XI.2005	X.2004	XI.2004	XII.2004	I-XII.2004
					in %			in %			in %
Trade turnover - total*	14,524	14,605	16,023	165,280	3.2	0.6	9.7	2.1	4.8	1.5	5.4
Retail sales*	6,016	5,451	5,870	65,057	3.6	-9.4	7.7	14.6	9.2	5.1	11.2
Whole sales*	8,508	9,155	10,153	100,223	2.9	7.6	10.9	-5.3	2.3	-0.5	1.9

* Estimated

Source: State Statistical Office of the Republic of Macedonia

Table 6
Contracted and completed construction works

	Amounts				Monthly changes			Annual changes			Average changes
	X.2005	XI.2005	XII.2005	I-XII.2005	X.2005	XI.2005	XII.2005	X.2005	XI.2005	XII.2005	I-XII.2005
	in Denar million				IX.2005	X.2005	XI.2005	X.2004	XI.2004	XII.2004	I-XII.2004
					in %			in %			in %
Value of contracted construction works	376	422	449	6,640	-16.6	12.2	6.3	-18.1	32.3	-25.4	-30.5
Value of completed construction works	576	631	630	4,339	3.1	9.6	-0.3	-30.8	-20.8	-9.9	-31.8

Source: State Statistical Office of the Republic of Macedonia

3. Wages and employment

Table 7
Employees by activities

	IX.2005	IV Q.2005	IV Q. 2005 / III Q. 2005	IV Q. 2005 / IV Q. 2004	structure in %
	Number of employed		changes in %		
Total	241,705	242,781	-1.5	-5.1	100.0
Agriculture	9,725	9,740	-2.5	-5.4	4.0
Agriculture, hunting and forestry	9,576	9,589	-2.5	-5.3	3.9
Fishing	149	151	-7.2	-8.9	0.1
Industry	111,124	112,536	-2.7	-5.9	46.4
Minerals and stone mining	2,189	2,198	-1.8	-7.7	0.9
Manufacturing	77,373	78,503	-3.1	-5.7	32.3
Electricity, gas and water supply	13,995	14,132	-1.6	-0.2	5.8
Construction	17,567	17,703	-2.0	-10.5	7.3
Services	120,856	120,505	-0.3	-4.3	49.6
Wholesales and retail sales, mending of motor vehicles, motorbikes and personal consumption items	12,286	12,249	0.1	0.7	5.0
Hotels and restaurants	3,892	3,902	-2.3	-7.1	1.6
Transport, storage and communications	14,911	14,986	-1.2	-10.6	6.2
Financial intermediation	5,563	5,523	0.2	-1.4	2.3
Real estate and business activities	6,599	6,568	-2.2	4.2	2.7
Public authorities and defense, compulsory social welfare	15,581	15,362	1.3	5.6	6.3
Education	29,888	29,809	1.6	1.2	12.3
Health and social work	23,706	23,627	-1.9	-15.7	9.7
Other public utility services, general and personal services	8,430	8,478	-1.5	-4.5	3.5



Table 8
Average net wages

	XII.2005	I-XII.2005	IV Q. 2005	IV Q.2005 III Q.2005	IV Q.2005 IV Q.2004	I-XII.2005 I-XII.2004
	in denars			in %		
Nominal average net wage per worker	13,125	12,597	12,925	2.4	3.6	2.5
Costs of living				0.8	0.7	0.5
Real average net wage per worker				1.6	2.9	2.0
Nominal average net wage by sectors						
Agriculture	11,336	11,407	11,359	-2.8	3.2	14.4
Industry	13,738	12,718	13,172	3.6	4.7	3.7
Services	14,971	14,546	14,840	1.2	4.0	3.9

Source: State Statistical Office of the Republic of Macedonia

4. Monetary policy

Table 9
Reserve money
(in Denar million)

	30.09.2005	Monthly changes			Total	31.12.2005
		October	November	December		
Reserve money	17,481	774	-678	2,862	2,958	20,439
Currency in circulation	13,490	38	-494	1,405	949	14,439
Banks liquidity	3,991	736	-184	1,457	2,009	6,000

Source: National Bank of the Republic of Macedonia

5. Banking sector

Table 10
Money supply M1 and its components
(in Denar million)

	30.09.2005	Monthly changes			Total	31.12.2005
		October	November	December		
Money supply M1	27,906	33	-6	1,730	1,757	29,663
Currency in circulation	13,490	38	-494	1,405	949	14,439
Demand deposits	14,416	-5	488	325	808	15,224
- Demand deposits of households	2,683	-14	41	462	489	3,172
- Demand deposits of enterprises	9,825	-102	440	-20	318	10,143

Source: National Bank of the Republic of Macedonia



Table 11
Broader monetary aggregates and their components
(in Denar million)

	30.09.2005	Monthly changes			Total	31.12.2005
		October	November	December		
Money supply M1	27,906	33	-6	1,730	1,757	29,663
Denar short - term deposits	20,732	1,608	902	1,122	3,632	24,364
<i>Monetary aggregate M2 - denar component</i>	48,638	1,641	896	2,852	5,389	54,027
Foreign currency short - term deposits	48,142	-353	1,132	186	965	49,107
<i>Monetary aggregate M2</i>	96,780	1,288	2,028	3,038	6,354	103,134
Non - monetary deposits	4,871	61	-89	197	169	5,040
- In Denar	3,130	-222	63	86	-73	3,057
- In foreign currency	1,741	283	-152	111	242	1,983
<i>Monetary aggregate M4</i>	101,651	1,349	1,939	3,235	6,523	108,174

Source: National Bank of the Republic of Macedonia

Table 12
Total deposits of the non-government sector
(in Denar million)

	30.09.2005	Monthly changes			Total	31.12.2005
		October	November	December		
Total deposits	73,745	1,316	1,945	1,505	4,766	78,511
1. According to maturity						
- short-term	68,874	1,255	2,034	1,308	4,597	73,471
- long-term	4,871	61	-89	197	169	5,040
2. According to currency of denomination						
- In denar	23,862	1,386	965	1,208	3,559	27,421
- In foreign currency	49,883	-70	980	297	1,207	51,090

Source: National Bank of the Republic of Macedonia



Table 13
Households and enterprises deposits
(in Denar million)

	30.09.2005	Monthly changes			Total	31.12.2005
		October	November	December		
Total households deposits	50,742	947	826	1,567	3,340	54,082
1. According to maturity						
- short-term	48,233	897	749	1,436	3,082	51,315
- long-term	2,509	50	77	131	258	2,767
2. According to currency of denomination						
- In denar	12,880	923	239	735	1,897	14,777
- In foreign currency	37,862	24	587	832	1,443	39,305
Total enterprises deposits	20,967	744	1,052	-204	1,592	22,559
1. According to maturity						
- short-term	19,832	399	1,242	-218	1,423	21,255
- long-term	1,135	345	-190	14	169	1,304
2. According to currency of denomination						
- In denar	9,157	797	674	409	1,880	11,037
- In foreign currency	11,810	-53	378	-613	-288	11,522

Source: National Bank of the Republic of Macedonia

Table 14
Banks' placements and overdue claims
(in Denar million)

	30.09.2005	Monthly changes			Total	31.12.2005
		October	November	December		
Total banks' placements	65,825	834	1,064	1,054	2,952	68,777
<i>Denar placements</i>	49,773	660	651	588	1,899	51,672
<i>Foreign currency placements</i>	16,052	174	413	466	1,053	17,105

Source: National Bank of the Republic of Macedonia

Table 15
Structure of total placements
(in Denar million)

	30.09.2005	Monthly changes			Total	31.12.2005
		October	November	December		
Maturity structure						
- short-term	29,950	366	-213	812	965	30,915
- long-term	35,875	468	1,277	242	1,987	37,862
Structure of currency of denomination						
- Denar	49,773	660	651	588	1,899	51,672
- Foreign currency	16,052	174	413	466	1,053	17,105
Structure by sectors						
- enterprises	45,349	395	635	608	1,638	46,987
- households	20,277	448	438	462	1,348	21,625
- other	199	-9	-9	-16	-34	165

Source: National Bank of the Republic of Macedonia



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

	31.12.2005	Quarterly change	Annual change
	(in %)	(in percentage points)	
Denar placements			
maturity structure			
- short-term	51.1	0.2	-4.4
- long-term	48.9	-0.2	4.4
structure by sectors			
- enterprises	59.3	-0.8	-8.0
- households	40.4	0.9	7.8
- other	0.3	-0.1	0.2
Foreign currency placements			
maturity structure			
- short-term	26.3	-2.5	-12.2
- long-term	73.7	2.5	12.2
structure by sectors			
- enterprises	95.6	-0.5	-0.3
- households	4.3	0.5	1.2
- other	0.1	0.0	-0.9

Source: National Bank of the Republic of Macedonia

6. Financial markets

Table 17
Stock exchange indicators

	July-September 2005	October-December 2005	change in %
Turnover (denars)			
Trading in BEST	1,348,725,623	2,209,008,726	63.78
Shares	982,445,243	1,578,281,507	60.65
Bonds	366,280,380	630,727,219	72.20
Average daily turnover (denars)	27,637,085	44,532,868	61.13
Average daily number of transactions	137	187	36.83
Block transactions	150,582,280	433,221,443	187.70
Government segment	23,446,874	13,432,860	-42.71
Shares	21,368,663	13,432,860	-37.14
Stakes	2,078,148	-	
Other securities			
Total	1,522,754,777	2,655,663,029	74.40
Market capitalization (denars)			
Market capitalization of shares - quoted companies	34,343,378,482	33,171,015,553	-3.41
Market capitalization of bonds	22,130,700,860	23,972,382,237	8.32
Mbi/mbi-10	2,577	2,292	-11.06
Number of quoted companies	57	57	0.00

Source: Macedonian Stock Exchange

Table 18
Turnover structure

Market segment	Turnover (denars)	Turnover (euros)	%	Number of transactions
Official market	2,374,453,695	38,803,577	89.41	8,439
Unofficial market	267,776,474	4,376,619	10.08	1,317
Government segment	13,432,860	219,334	0.51	1
Total	2,655,663,029	43,399,530	100.00	9,757



7. Balance of payments

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

	2005												2005				2005
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	Q.1	Q.2	Q.3	Q.4	
I. Current Account	-6.4	2.2	-11.7	-47.5	-18.4	-20.9	30.9	10.5	23.4	12.2	-8.4	-27.8	-15.9	-86.8	64.8	-24.0	-61.8
GOODS, net	-41.1	-44.6	-59.8	-96.8	-73.3	-101.9	-51.5	-67.4	-69.6	-67.3	-85.1	-95.1	-145.5	-272.0	-188.4	-247.4	-853.4
Exports, f.o.b.	112.7	120.2	134.5	134.9	141.2	130.5	153.0	119.3	143.7	158.7	145.4	148.0	367.4	406.6	416.0	452.2	1642.2
Imports, f.o.b. /2	-153.8	-164.9	-194.3	-231.7	-214.5	-232.4	-204.5	-186.7	-213.3	-226.0	-230.5	-243.1	-512.9	-678.6	-604.5	-699.6	-2495.6
SERVICES, net	1.0	-0.7	-3.1	-6.7	-7.3	0.9	3.8	2.8	2.7	-3.1	0.8	-18.4	-2.9	-13.1	9.4	-20.7	-27.2
INCOME, net	-1.5	2.6	-0.6	-3.4	-7.4	-5.5	-18.2	-16.7	-1.8	2.3	4.3	1.6	0.5	-16.3	-36.8	8.2	-44.4
o/w: Interest, net	-3.8	-0.5	-3.3	-1.6	-0.4	-1.8	-3.0	-1.7	-4.0	-0.3	0.1	-0.5	-7.6	-3.7	-8.7	-0.7	-20.7
CURRENT TRANSFERS, net	35.2	45.0	51.8	59.4	69.6	85.6	96.9	91.8	92.0	80.2	71.7	84.0	131.9	214.6	280.7	236.0	863.2
Official	1.1	5.7	2.2	2.4	3.3	7.0	11.9	3.2	1.5	1.9	2.2	10.1	9.0	12.7	16.7	14.1	52.5
Private	34.1	39.3	49.6	57.0	66.3	78.6	85.0	88.6	90.5	78.4	69.5	73.9	123.0	201.9	264.0	221.8	810.7
II. Capital & Financial Account	8.5	-0.8	11.8	49.0	19.3	15.5	-31.9	-6.7	-23.3	-10.2	8.7	31.9	19.5	83.9	-61.8	30.4	71.9
CAPITAL ACCOUNT, net	0.0	0.1	0.0	0.2	0.1	-0.5	0.2	0.1	-0.2	-0.2	-0.4	-1.2	0.0	-0.2	0.2	-1.8	-1.7
Capital transfers, net	0.0	0.1	0.0	0.2	0.1	-0.5	0.2	0.1	-0.2	-0.2	-0.4	-1.2	0.0	-0.2	0.2	-1.8	-1.7
Official	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.1	0.0	0.2	0.1	-0.5	0.2	0.1	-0.2	-0.2	-0.4	-1.2	0.0	-0.2	0.2	-1.8	-1.7
Acquisition/disposal of non-produced, non-finan. assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCIAL ACCOUNT, net	8.6	-0.9	11.8	48.8	19.2	16.1	-32.1	-6.8	-23.1	-10.1	9.2	33.1	19.5	84.0	-62.0	32.1	73.7
Direct investment, net	12.0	7.2	8.5	5.3	6.8	14.5	3.1	11.2	-0.1	1.6	6.6	0.6	27.7	26.6	14.1	8.7	77.1
Portfolio investment, net	1.2	2.5	8.8	2.2	0.9	0.7	2.0	11.3	1.1	0.2	5.8	161.3	12.5	3.8	14.4	167.3	198.0
Other investment, net	-11.1	3.1	-2.0	46.9	11.5	19.0	-2.1	-16.4	20.3	7.9	5.9	63.5	-10.1	77.5	1.8	77.3	146.5
Trade credits, net	-20.4	-19.6	-5.7	31.7	17.7	17.0	-34.8	-9.3	11.9	1.4	10.3	20.8	-45.7	66.4	-32.1	32.5	21.1
Loans, net	3.3	4.2	6.8	23.6	10.5	30.8	4.2	-17.3	17.8	2.3	7.9	31.0	14.3	64.8	4.7	41.2	125.0
Currency and deposits, net	5.6	17.8	-5.4	-9.9	-17.6	-30.4	27.6	9.2	-12.3	2.9	-13.5	5.4	17.9	-57.9	24.4	-5.2	-20.7
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	0.0	0.0	0.0	-0.3	0.3	0.0	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	12.1	-5.9	8.0	16.3	-49.0	40.8	14.2	22.4
o/w: Individuals, net	4.2	-1.3	-1.3	0.2	-3.6	-5.2	-5.0	-1.8	-9.9	-9.1	-7.7	-2.6	1.6	-8.6	-16.7	-19.4	-43.1
Other, net	0.4	0.7	2.3	1.5	1.0	1.7	0.9	0.9	2.9	1.2	1.2	6.3	3.4	4.2	4.7	8.8	21.1
Gross official reserve assets, (- = increase) /3	6.5	-13.6	-3.5	-5.6	0.0	-18.2	-35.1	-12.8	-44.4	-19.8	-9.1	-192.3	-10.6	-23.8	-92.3	-221.2	-347.9
III. Errors & Omissions	-2.2	-1.4	-0.1	-1.5	-0.9	5.4	1.0	-3.9	-0.1	-1.9	-0.4	-4.1	-3.6	2.9	-3.0	-6.4	-10.1

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	Q.4 2005	I-XII.2005	Q.4 2005		Q.4 2005		I-IX.2005	
						Q.3 2005	Q.4 2004	Q.4 2004	I-IX.2004		
	Amount	Amount	%	Amount	%	Amount	%				
Foreign trade	902.5	1,114.4	1,046.8	1,180.8	4,244.5	134.0	12.8	110.8	10.4	544.6	14.7
Exports	367.6	406.6	416.5	452.8	1,643.5	36.3	8.7	68.3	17.8	297.6	22.1
Imports	534.9	707.8	630.3	728.0	2,601.0	97.7	15.5	42.6	6.2	247.0	10.5
Balance	-167.3	-301.3	-213.8	-275.1	-957.4	-61.3	28.7	25.7	-8.6	50.6	-5.0

Source: State Statistical Office of the Republic of Macedonia



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

	Foreign trade		Exports		Imports		export coverage ratio
	Amount	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	(in %)
Republic of MACEDONIA	4,244.5	100.0	1,643.5	100.0	2,601.0	100.0	63.2
<i>out of which:</i>							
Serbia and Montenegro	584.4	13.8	371.9	22.6	212.5	8.2	175.0
Germany	562.1	13.2	291.9	17.8	270.1	10.4	108.1
Greece	491.1	11.6	251.9	15.3	239.2	9.2	105.3
Russia	360.8	8.5	17.3	1.0	343.6	13.2	5.0
Italy	292.8	6.9	136.4	8.3	156.4	6.0	87.2
Bulgaria	250.0	5.9	61.7	3.8	188.3	7.2	32.8
Slovenia	128.5	3.0	25.5	1.6	103.0	4.0	24.8
Turkey	128.4	3.0	36.9	2.2	91.5	3.5	40.4
Croatia	125.9	3.0	65.1	4.0	60.8	2.3	107.1
China	100.3	2.4	7.6	0.5	92.6	3.6	8.3
Total (10 largest trading partners)	3,024.1	71.2	1,266.2	77.0	1,757.9	67.6	72.0

Source: State Statistical Office of the Republic of Macedonia

Table 22
Foreign trade of the Republic of Macedonia by the economic use of the products

	I-XII 2005			
	Export		Import	
	in millions of euros	structure	in millions of euros	structure
Total	1643.5	100.0	2601.0	100.0
Production goods	892.9	54.3	1688.0	64.9
Means of production	32.4	2.0	280.3	10.8
Consumption goods	717.5	43.7	631.0	24.3
Unallocated	0.7	0.0	1.7	0.1



Table 23

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

	Debt outstanding			Used credits			Paid liabilities		
	31.10.2005	30.11.2005	31.12.2005	X-2005	XI-2005	XII-2005	X-2005	XI-2005	XII-2005
Official creditors	1,025.5	1,036.3	1,065.8	45	29	32.9	6.7	3.8	6.5
out of which:									
Multilateral	853.7	861.3	891.8	43	1.8	32.0	6.3	3.4	4.5
MMF	54.1	53.6	52.7	0.0	0.0	0.0	1.1	1.5	1.1
IBRD	184.8	186.9	210.4	0.5	0.1	24.9	0.0	1.3	2.5
IFC	5.0	5.1	5.1	0.0	0.0	0.0	0.6	0.0	0.0
IDA	300.2	305.2	307.1	1.1	0.8	1.1	1.3	0.1	0.2
EIB	115.4	115.4	118.4	1.0	0.0	3.0	3.3	0.3	0.1
EUROFIMA	6.1	6.1	6.1	0.0	0.0	0.0	0.0	0.0	0.2
Council of EDB	16.9	16.8	16.8	0.0	0.0	0.0	0.0	0.2	0.1
EBRD	70.6	71.2	74.2	1.6	0.6	2.9	0.0	0.0	0.0
EU	90.0	90.0	90.0	0.0	0.0	0.0	0.0	0.0	0.3
IFAD	10.5	10.9	11.0	0.2	0.3	0.0	0.0	0.0	0.0
European Agency for Reconstruction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	171.8	175.0	174.0	0.1	1.1	0.9	0.5	0.4	2.1
Paris club (rescheduled 1995)	100.7	102.3	102.3	0.0	0.0	0.0	0.1	0.0	0.0
Non-rescheduled debt	6.6	6.6	6.6	0.0	0.0	0.0	0.0	0.0	0.0
Paris club (rescheduled 2000)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New credits	64.5	66.0	65.1	0.1	1.1	0.9	0.4	0.4	2.0
Private creditors	613.2	624.6	772.2	63	5.0	151.9	4.6	3.7	6.1
out of which:									
London Club of Creditors	183.2	188.6	188.5	0.0	0.0	0.0	0.0	0.0	0.0
Other private creditors	430.0	436.0	583.7	63	5.0	151.9	4.6	3.7	6.1
TOTAL	1,638.7	1,660.9	1,838.0	10.8	7.9	184.9	11.3	7.5	12.6

Source: State Statistical Office of the Republic of Macedonia



8. Public finances

Table 24
Central Government Budget

	2004		2005				2005			2005/2004			
	Q.4	Q.1+Q.2 +Q.3+Q.4	Q.1	Q.2	Q.3	Q.3	Q.1+Q.2 +Q.3+Q.4	Q.4/Q.3	Q.4/Q.4	Q.1+Q.2 +Q.3+Q.4	Q.4/Q.3	Q.4/Q.4	Q.1+Q.2 +Q.3+Q.4
	amount		amount				changes in %						
Total budget revenues	15,035	56,982	12,826	14,690	17,762	15,979	61,257	-10.0	6.3	7.5			
<i>Tax revenues:</i>	14,028	52,526	12,170	13,783	13,914	15,155	55,022	8.9	8.0	4.8			
- personal income tax	2,116	7,707	1,834	2,052	1,951	2,260	8,097	15.8	6.8	5.1			
- profit tax	375	2,361	1,080	600	623	534	2,837	-14.3	42.4	20.2			
- value added tax	7,150	25,757	5,745	6,767	6,652	7,918	27,082	19.0	10.7	5.1			
- excises	2,555	10,335	2,317	2,776	3,192	2,804	11,089	-12.2	9.7	7.3			
- custom duties	1,694	5,815	1,026	1,441	1,335	1,464	5,266	9.7	-13.6	-9.4			
- other	143	548	168	147	161	175	651	8.7	22.4	18.8			
<i>Non-tax revenues:</i>	867	3,844	544	800	3,261	697	5,302	-78.6	-19.6	37.9			
- inflows from state property dividends	162	1,595	82	252	2,828	139	3,301	-95.1	-14.2	2.1 times			
- administrative taxes and fees	393	1,463	387	459	358	453	1,657	26.5	15.3	13.3			
- other administrative taxes	65	257	58	69	55	64	246	16.4	-1.5	-4.3			
- other non-tax revenues	247	529	17	20	20	41	98	2.1 times	-83.4	-81.5			
<i>Capital revenues</i>	140	600	112	107	587	127	933	-78.4	-9.3	55.5			
Total budget expenditures	15,917	56,611	13,833	14,333	14,226	17,651	60,043	24.1	10.9	6.1			
<i>Current expenditures</i>	14,149	51,726	12,859	12,908	12,695	14,380	52,842	13.3	1.6	2.2			
- wages and salaries	5,363	20,944	5,373	5,437	5,274	5,571	21,655	5.6	3.9	3.4			
- goods and services	1,992	6,832	1,903	1,657	1,367	2,335	7,262	70.8	17.2	6.3			
- transfers	6,313	21,840	5,026	5,264	5,360	5,957	21,607	11.1	-5.6	-1.1			
- interest	482	2,052	557	550	694	517	2,318	-25.5	7.3	13.0			
<i>Capital expenditures</i>	1,768	4,886	974	1,425	1,531	3,271	7,201	2.1 times	85.0	47.4			
Budget balance	-882	371	-1,007	357	3,536	-1,672	1,214						
Financing	882	-371	1,007	-357	-3,536	1,672	-1,214						
<i>Inflows</i>	2,788	6,761	2,388	2,150	-2,060	3,536	6,014						
<i>Outflows</i>	1,906	7,132	1,381	2,507	1,476	1,864	7,228						

Source: Ministry of Finance

Table 25
Total revenues and expenditures of the budget funds

	October-December 2005					
	Amount (in Denar million)	Total revenues		Amount (in Denar million)	Total expenditures	
		Quarterly changes (Q.4/Q.3)	Annual changes (2005/2004)		Quarterly changes (Q.4/Q.3)	Annual changes (2005/2004)
		in %			in %	
Social Funds	13,605	9.7	-0.8	13,479	7.6	2.1
- pension and disability insurance	7,677	9.0	-1.5	7,584	6.2	-0.5
- health insurance	4,277	17.0	4.3	4,235	15.7	10.9
- employment	1,651	-3.2	-9.5	1,660	-4.0	-6.1
Road Fund	707	-18.5	-5.0	985	-18.9	-10.0

Source: Ministry of Finance

**Table 26**NBRM Balance sheet on December 31, 2005
(in million Denars)

Assets	Amount	Liabilities	Amount
Foreign assets	69,504	Reserve money	20,439
Claims on Government	3,911	NBRM instruments	8,921
Claims on banks and other financial institutions	1,080	Restricted deposits	411
Other assets	4,290	Foreign liabilities	3,222
		Government deposits	24,419
		Capital accounts	11,024
		Other liabilities	10,349
Total	78,785	Total	78,785

Source: National Bank of the Republic of Macedonia