

National Bank of the Republic of Macedonia
Research Department



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

Stable prices, favorable developments in the economic activity indicators, improved external position of the domestic economy, as well as further deepening of the financial intermediation were the main features of the macroeconomic environment also in the last quarter of 2006. Thus, inflation increased by 0.4% relative to the preceding quarter (primarily reflecting seasonal effects and changes in part of the regulated prices), industrial output went up, banks' lending activity accelerated further, while the balance of payments current account registered historically lowest deficit in 2006.

The increase in inflation in the fourth quarter of 2006 was a combined effect of the seasonal rise of part of the food products and the increase in the prices of electricity and heating, which was partially offset with the quarterly decline in the world oil prices. The average inflation for 2006 was 3.2%, which was within the projected level (3.3%), and was primarily a result of supply side factors (increase in the excises and other additional duties which increased the prices of cigarettes), the increase in the world oil prices, as well as higher prices of food products (mainly due to the late supply of early-maturing garden plants). Thus, if we exclude the effect of the change in the most variable categories, food and energy, and if the core inflation rate¹ is adjusted for the effect of the increase in the tobacco price, the average inflation rate for 2006 equaled 1.1%.

In 2006, the average increase in the actual volume of the industrial output equaled 2.5%, with the manufacturing and the mining sectors being the driving forces of the increase. The production in the manufacturing, as the dominant industrial sector, registered an average increase of 2.4%, reflecting the rise in the production of 13 out of 20 manufacturing branches (which comprise around 76% of the total output in the manufacturing industry).

Despite the moderate increase in the trade deficit (having faster annual growth of the imports relative to the exports of 17.1% and 15.9%, respectively), the further growth of foreign exchange inflows based on private transfers, positive services balance and the postponed dividend repatriation by one larger foreign shareholder resulted in a historically lowest deficit in the balance of payments current account. Such developments in the external sector, as well as the positive expectations of the economic agents created pressures for appreciation of the nominal Denar exchange rate, which were eliminated by the NBRM's interventions on the foreign exchange market. The effects of the liquidity created through the foreign exchange transactions, as well as through the extremely high budget spending (concentrated in the last month of the year), were partially offset through the monetary instruments and the seasonal increase in the demand for cash in the last month of the year.

Banks' deposit potential continued to grow at fast pace and in the last quarter of 2006 it registered a quarterly increase of 9.4%. Here, 70.5% of the growth in total deposits was a result of the higher level of Denar deposits, which points to further strengthening of the propensity to save in domestic currency. The continuous increase in the banks' total deposit potential, having a simultaneous moderately relaxed lending requirements, contributed to further acceleration of the banks' lending activity. Thus, at the end of December 2006, banks' total placements to the private sector went up by 9.4% relative to the end of the previous quarter, where one should have in mind the low comparison basis, i.e. the write-off of overdue claims at the end of the third quarter. Latest portion of the credits extended in the fourth quarter were in the form of long-term Denar loans to the households and the corporate sector.

¹ The calculations of the core inflation rate were made according to a methodology of the NBRM.

1.

Prices

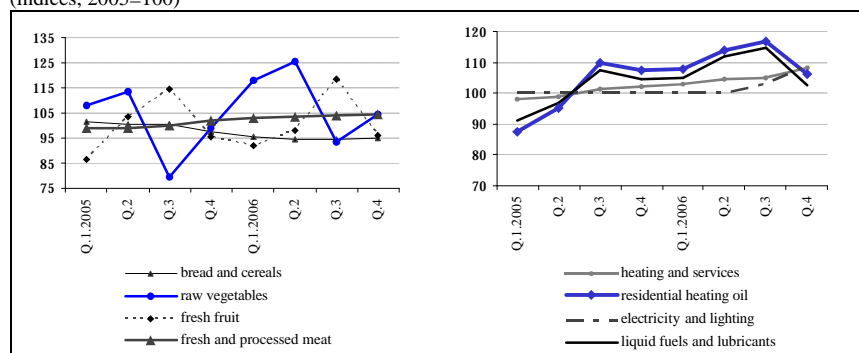
Moderate increment in the price level in the fourth quarter of 2006 relative to the preceding quarter...

In the last quarter of 2006, consumer prices registered moderate increase of 0.4%² on quarterly basis (fourth quarter of 2006 / third quarter of 2006). The seasonal increase in the prices of raw vegetables had a dominant inflationary effect (contribution of 0.5 percentage points), while the increment in the price of bread and baked goods (by 2.1% in November), additionally reflected in the costs of food (contribution of 0.1 percentage point). However, such price increments were partially offset by the decline in the fruit prices (negative contribution of 0.4 percentage points), so that the total costs of food registered an insignificant increase. In the analyzed quarter, the higher electricity price (transferred effect from the preceding quarter) and the higher price of heating (by 25.6% in October) had an inflationary effect. These categories of regulated prices caused 0.4 and 0.1 percentage point respectively, of the overall increase in prices. The growth in the prices of the means for education (of 2.5% in October), of medicines (1.7% in October) and footwear (2.5% in November) additionally increased the price level (positive contribution of 0.3 percentage points). However, major part of the inflationary influences in the fourth quarter were offset with the decline in the price of oil derivatives and the price of the transport equipment and communication (PTT) services (negative contribution of 0.3 and 0.2 percentage points, respectively).

Figure 1

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

Regulated prices



...with registered annual growth of 3.1%

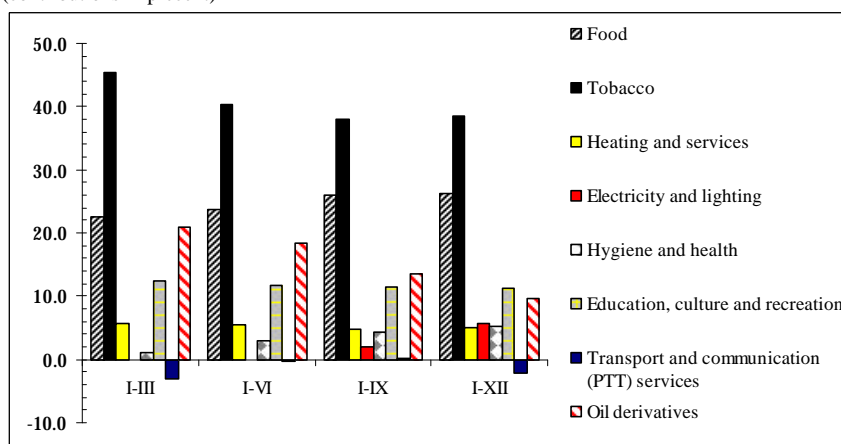
Analyzed on annual basis, the level of consumer prices in the fourth quarter of 2006 was by 3.1% higher relative to the same quarter of the preceding year. As in the preceding quarters, also in the last quarter of the year the largest part, or approximately 40% of the annual inflation, was caused by the increase in the price of cigarettes³, while 26% were due to the higher prices of the food products (raw vegetables, fresh and processed meat and sugar). In the observed quarter, a significant portion of the annual inflation, or around 24% was caused by the changes in part of the regulated prices, i.e. by the increase in the prices of heating and lighting services, with the higher price of electricity determining around 18% of the inflation, while the increase in the price of central heating (having in mind that this manner of heating is not wide spread) determined smaller part of the inflation, or around 6%. The increase in the prices of

² The calculations of the inflation rate in the third quarter of 2006 were made in the Research Department on the basis of data provided by the State Statistical Office.

³ According to the Law on Amendments to the Health Care Law ("Official Gazette of RM" No. 111/2005) and the Decision on determining the products for which compensation for trade, import/export is paid ("Official Gazette of RM" No. 75/2005) arising from the Law on Environment, and since April 1, 2006 also from the Law on Tobacco ("Official Gazette of RM" No. 24/2006), compensation for production or import of tobacco products is calculated and paid since January 01, 2006.

education means and services and of the prices of the items for hygiene and medicines caused approximately 11% and 8%, respectively of the annual inflation. On the other hand, the fall in the price of crude oil on the world markets caused lower domestic prices of oil derivatives, and this category of consumer prices, together with the lower prices of transport equipment and prices of transport and communication (PTT) services had a deflationary effect (negative contribution of approximately 14%).

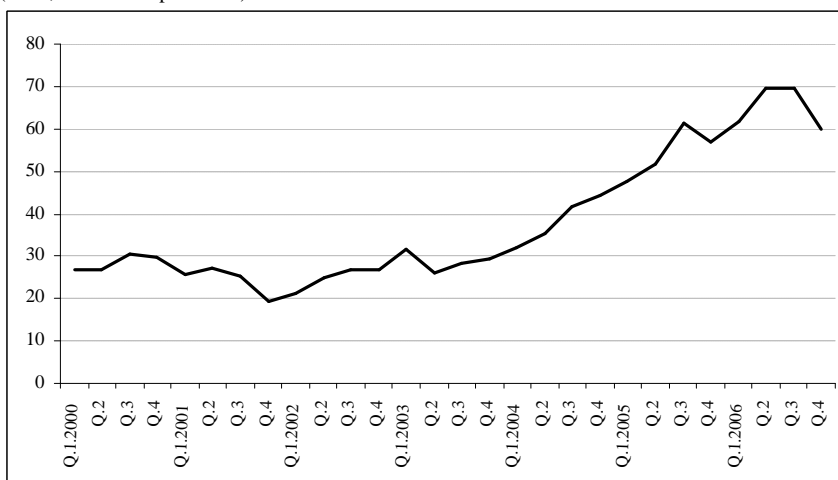
Figure 2
Distribution of contributions by individual categories of the inflation index in the average inflation rate
(contributions in percent)



Annex 1 Developments on the international oil markets in the fourth quarter of 2006

In the last quarter of 2006, the average price of the crude oil on the international markets registered a significant fall of 13.7% on a quarterly basis and it was reduced to 60.1 US Dollars per barrel (69.6 US Dollars per barrel in the preceding quarter). In October and in November, the price of crude oil was on the lowest level since the beginning of the year (57.7 and 59.4 US Dollars per barrel, respectively), while in December it went up and reached 63.1 US Dollars per barrel. In the fourth quarter of the year, the movement in the price of crude oil was characterized with high variability, caused by factors of psychological nature. Thus, the decline in the price of crude oil in October was a result of the announcement of Saudi Arabia for unchanged supply of the refineries from Eastern Asia and Europe with crude oil, stabilized demand in the USA, the announcement for increase in the international stocks of crude oil, and especially of the American stocks and the reduced tension regarding Iranian nuclear program. However, in the following period the reduced daily production of oil by OPEC member-states by 1.2. million barrels, reduced production in Nigeria (due to the raids on refineries by the rebels) and announced data on the decline in the stocks of oil in the USA, acted in the opposite direction, i.e. they stimulated an increase in the price of oil.

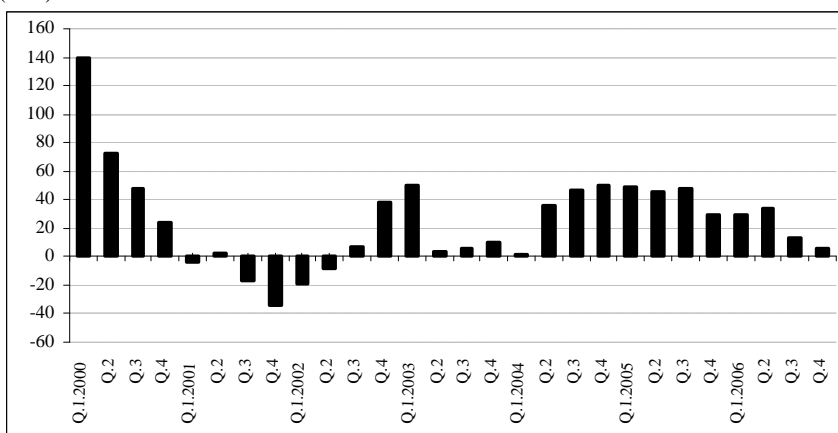
Figure 3
Price of crude oil
(brent, US Dollars per barrel)



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

Analyzed on annual basis, in the fourth quarter of 2006 the price of crude oil increased by 5.3% relative to the same quarter of 2005, which is a significant deceleration of the annual quarterly dynamics (in the preceding quarter the annual growth was 13%).

Figure 4
Annual quarterly change in the price of crude oil
(in %)



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

*Average inflation rate in
2006 of 3.2%*

The average inflation rate in 2006 was 3.2%. In an environment of prudential macroeconomic management, the inflation acceleration compared with the preceding year (when the average inflation equaled 0.5%) was mainly a result of supply side factors. Thus, in 2006, the administrative change in the price of cigarettes had a dominant inflationary effect (contribution of 38.5%), while the increase in the regulated prices had an additional effect (heating and lighting services and price of oil derivatives, which caused about 11% and 10% of the average price increment, respectively). Significant portion of the average inflation, or around 26% was a result also of the higher prices of food products (especially prices of raw vegetables, meat and sugar). Thus, if we exclude the effect of the change in the most variable categories, food and energy, and if the core inflation rate is adjusted for the effect of the increase in the tobacco price, the average inflation rate is lower and equals 1.1%.



Annex 2

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

Having in mind the current monetary strategy of nominal Denar exchange rate targeting against the euro and the importance of the EU as the largest trading partner of the Republic of Macedonia, the difference between the domestic inflation and the inflation in the Euro zone, as well as the ECB's interest rate policy are very important for the Macedonian economy.

Within the Euro zone, the annual inflation rate (measured by the Harmonized Index of Consumer Prices - HICP) equaled 1.8% in the last quarter of 2006, which compared with the preceding quarters, is a deceleration of the annual price increase. In the observed quarter, the increase in the price of unprocessed food had a dominant inflationary effect, while the decline in the price of crude oil on the world markets led to a lower price of energy and reduced contribution of this category in the increase of HICP.

Table 1

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

	Share in %	2005	Q.1 2006 / Q.1 2005	Q.2 2006 / Q.2 2005	Q.3 2006 / Q.3 2005	X	XI	XII	Q.4 2006 / Q.4 2005	2006
Harmonized consumer price index (HICP)	100.0	2.2	2.3	2.5	2.1	1.6	1.9	1.9	1.8	2.2
Goods (total)	59.2	2.1	2.6	2.8	2.3	1.3	1.7	1.8	1.6	2.3
Energy	9.2	10.1	12.2	11.6	6.3	-0.5	2.1	2.9	1.5	7.7
Unprocessed food	7.4	0.8	1.4	1.6	3.9	4.2	4.4	3.7	4.1	2.8
Processed food	11.8	2.0	2.0	2.2	2.1	2.3	2.2	2.1	2.2	2.1
Industrial products other than energy	30.7	0.3	0.3	0.7	0.7	0.8	0.8	0.9	0.8	0.6
Services (total)	40.8	2.3	1.9	2.0	2.0	2.1	2.1	2.0	2.1	2.0

Source: Eurostat and European Central Bank

In the fourth quarter of the year, the core inflation rate, which excludes the movements in the prices of energy and unprocessed food, registered minimum increase and equaled 1.6%.

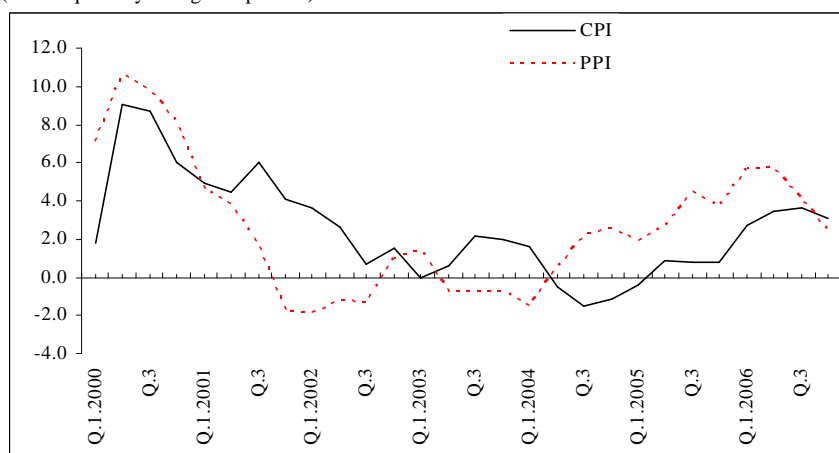
To eliminate inflation pressures in a medium run and maintain stable inflation expectations in a long run, in the last quarter of the year the ECB's Governing Council made a two-fold increase of the interest rates by 0.25 percentage points (on October 05, 2006 and December 07, 2006). After the change, the minimum interest rate on repo transactions equaled 3.50%, the interest rate on the overnight lending facility was 4.50%, and the interest rate on the overnight deposit facility was 2.50%.

Source: European Central Bank.

Average increase in the prices of the producers of industrial products of 4.5% in 2006

The production prices index could be a significant leading indicator for the movement of the consumer prices. The average change in the prices of the producers of industrial products in the Macedonian economy equaled 4.5% in 2006, which corresponds with the average change of the inflation. However, having in mind the different structure of the two indices, the pass-through effect of the prices of the producers of industrial products not always is a dominant factor for the change in the inflation in the forthcoming period.

Figure 5
Consumer prices and prices of the producers of industrial products
(annual quarterly changes in percent)



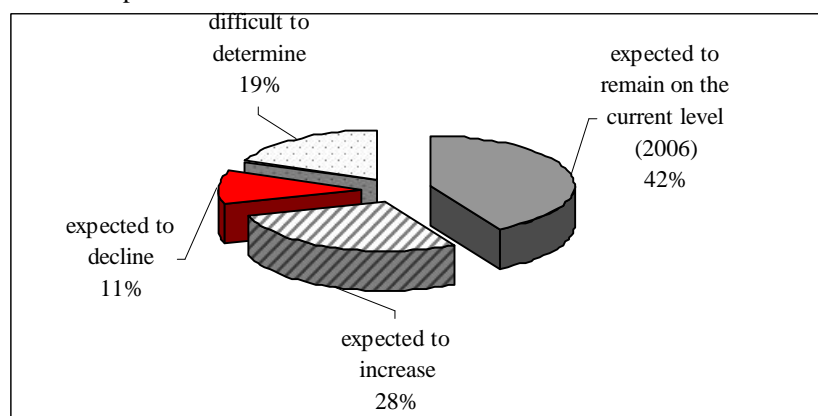
Source: State Statistical Office

In 2006, the largest portion of the average increase of production prices, or about 94% is a result of the higher prices in the manufacturing, while the increase in the prices in the sector "electricity, gas and water supply" and in the mining sector have a minimum contribution in the total increase (of 5% and 1.2%, respectively). Within the manufacturing sector, the prices of the producers of oil derivatives and tobacco products had a dominant influence, and they caused 49% and 27% respectively, of the total growth in the production prices.

Annex 3 Survey on the inflation expectations

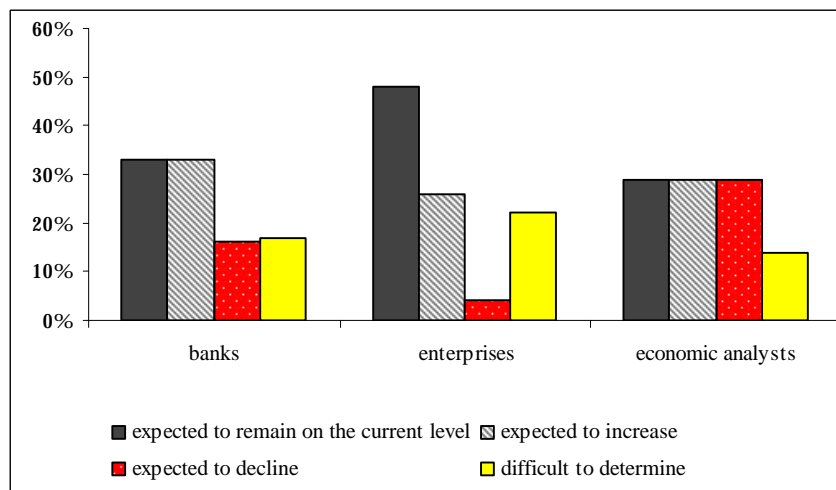
Inflation expectations are a significant input in the monetary policy conduct, i.e. they are an important indicator about the inflation trend in the forthcoming period. Inflation expectations in the Macedonian economy are monitored through the Survey on the inflation expectations, which the NBRM carries out on a quarterly basis. The Survey carried out in the fourth quarter of the year was characterized with a significant response (73% of the total number of participating entities), with the response of the group "banks" being the highest (100%). According to the analysis of the responses on the movements of inflation in 2007, the largest part of the participating entities (42%) expect the inflation rate to retain the level from 2006 (of 3.3% as it was in October 2006). Significant, however, is the number of economic entities (28%) who expect inflation to intensify in 2007.

Figure 6
Inflation expectations in 2007



Analyzed by groups of respondents, stable inflation expectations prevail in the corporate sector, while banks and economic analysts, besides stable, also have formed expectations for increase in the inflation.

Figure 7
Distribution of responses by group of respondents as to inflation expectations in 2007



Established inflation expectations for 2007 (expectations for increase in the inflation) are to a large extent based on the development macroeconomic program of the Government, i.e. the announcement for increased public investment activity and attraction of foreign direct investments. In 2007, certain entities expect the one-time effect of the increase in the price of cigarettes to exhaust and the price of energy products to stabilize.

1.1. Domestic consumption and inflation

It is difficult to quantify the influence of domestic consumption⁴ on the inflation rate in the Republic of Macedonia, in the absence of detailed data on the expenditure components of GDP. However, on the basis of the available data on certain components of consumption and on the basis of the changes in the indicative variables, qualitative assessments may be made about the influence of the domestic consumption on the inflation performances.

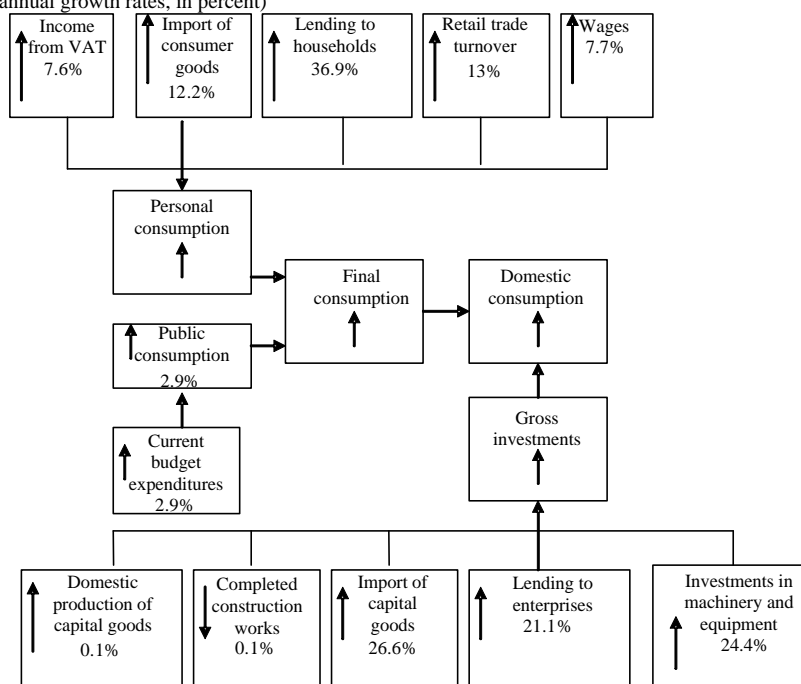
In the third quarter of 2006, on the basis of the estimated annual growth of the *final consumption* and *gross investments*, it is expected *domestic consumption* to be higher on annual basis. The estimation for higher final consumption is based on the increase of the *personal consumption* (estimated according to the movement of certain indicative categories) and the moderate increase of *public consumption*⁵. On the other hand, the higher level of investments in *machines and equipment*⁶ and the increase in certain significant indicative variables points to an improved investment activity.

⁴ Includes final consumption and gross investments. The SSO does not publish complete data on the expenditure side of GDP on a quarterly basis, i.e. data are missing on the individual (personal) consumption, the investments in construction buildings and the change in the inventory. Accordingly, the quarterly analyses made for this purpose are based on estimations made on the basis of available data on other categories of indicative relevance and therefore, they should be taken with precaution.

⁵ Last available data of the SSO.

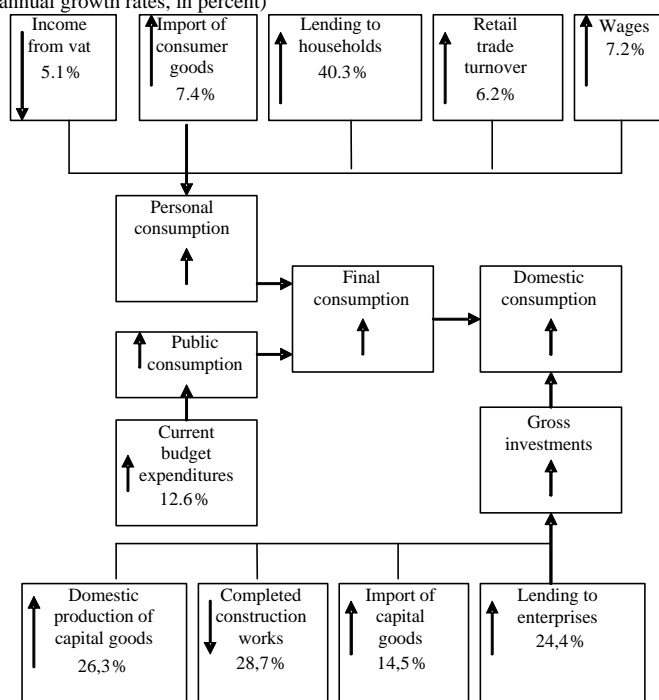
⁶ Last available data of the SSO.

Figure 8
Movements of the domestic consumption in the third quarter of 2006
(annual growth rates, in percent)



In line with the accomplished movements of the indicators which explained the movement of *personal* and *public consumption*, in the fourth quarter of 2006, one may expect an increase in the households and government spending. Also, investment activity indicators send positive signals.

Figure 9
Movements of the domestic consumption in the fourth quarter of 2006
(annual growth rates, in percent)



Thus, the movements in the real, monetary and foreign trade sectors in 2006 point to an increased final and investment consumption, thus pointing to a potential inflationary influence on the domestic consumption in the forthcoming

period. It is difficult to quantify the effect of the import prices on the inflation rate, but it is possible to expect the lower prices of crude oil on the world markets to influence the domestic prices of oil and oil derivatives.

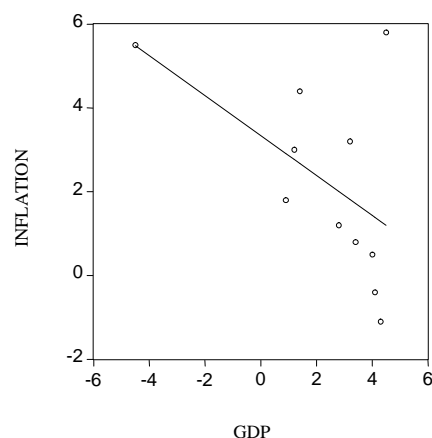
Annex 4

Aggregate demand in the Republic of Macedonia

Aggregate demand (AD) represents the total demand of the residents and nonresidents for the goods and services produced in the economy at a given price level. The AD curve is downward sloping, which indicates that each price decline, with the money supply being unchanged, leads to an increase in the purchasing power of money (real money balances) thus influencing the increase of the consumers' wealth which in the end results in an increased personal consumption and growth of AD. In theory, this effect is known as Pigou's wealth effect. The second reason for the downward slope of the AD curve is known as Keynes' interest-rate effect. According to this approach, the decline in prices causes higher disposable consumers' income, hence higher savings within the banking system. This contributes to an increase in the credit supply and a decline in the interest rates, which increases investment consumption and AD. The third reason for the downward slope of the curve is known as Mundell-Fleming's exchange rate effect which argues that the price decline is followed by a tendency for reducing the real interest rates. If the interest rate level in the domestic economy is lower than the level of foreign interest rates, domestic investors, motivated by the higher yield, invest in the countries with higher interest rates. Under such circumstances, the real exchange rate depreciates and causes an increase in the net exports and in the AD.

Figure 10

Curve of the aggregate demand in the Republic of Macedonia (1996-2006*)



*GDP, preliminary data for 2005 and estimated data for 2006
Source: NBRM and State Statistical Office

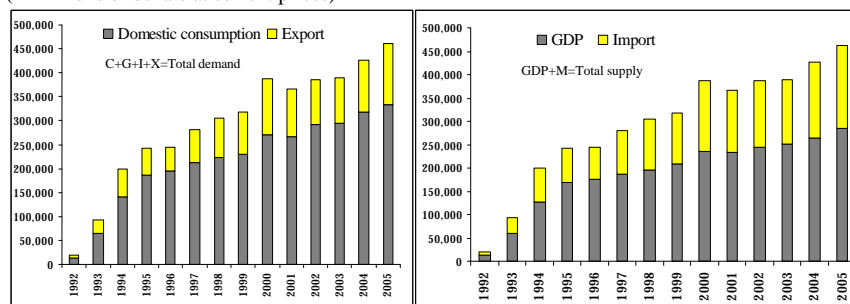
The AD concept may be considered from the viewpoint of the expenditure side of GDP. AD as a function of personal consumption (C), public consumption (G), investment consumption (I) and net exports (X-M) denotes final use of the GDP by residents (C+G+I=domestic consumption) and nonresidents (X).

$$GDP = C + G + I + (X - M)$$

The analysis of the expenditure components of GDP in Macedonia shows that the domestic consumption and foreign trade since the monetary independence until 1994 had been maintained at a relatively low level, while in the following period they registered faster nominal growth (Figure 11). Such a

behavior of economic agents fully corresponds with the price level, i.e. in circumstances of high inflation and significant prices distortion, in the beginning of the independence economic entities refrained from spending. With stabilization of the inflation, the expectations of the economic agents are relatively more stable (and they are basically under the influence of non-economic factors), which results in more intensive domestic demand. From the viewpoint of coverage of the domestic demand, in the period 1992-2005, GDP covered approximately 59%, while imports covered the rest of the domestic demand. The remaining portion of GDP (41% on average) is placed abroad, i.e. it represents external demand.

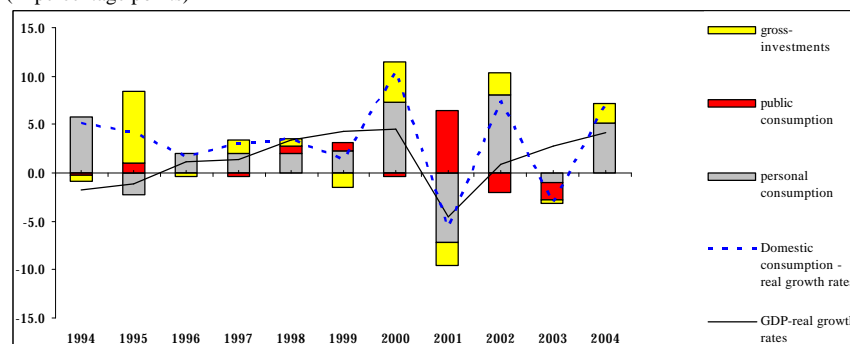
Figure 11
Domestic and external demand; GDP and import in the Republic of Macedonia
(in millions of denars at current prices)



Source: State Statistical Office

The analysis of the structure of domestic demand indicates dominant share of personal consumption (64% on average), as opposed to the equal share of public and investment consumption (18% on average). Thus, the analysis of the expenditure categories of GDP indicates that the largest portion of the income in Macedonia is used for purchasing consumer and durable goods by households, while investments of the private sector and the government in fixed assets and construction works are relatively low. Gross investments include also the operating capital, i.e. inventories of finished goods, which register gradual decline (analyzed from the viewpoint of their share in gross investments), which indicates improved realization of output. Public consumption, as a significant component of the economic policy with direct and indirect effect on the AD level is relatively stable and has been maintained on a low level, except for 2001, when it accelerated due to the internal security crisis.

Figure 12
Contribution of the components in the real growth of the domestic consumption
(1994-2004)
(in percentage points)



NBRM and State Statistical Office

The analysis of the correlation of the expenditure components of GDP indicates strong negative correlation between personal consumption and public consumption and strong positive correlation between personal consumption and

imports. This indicates that when public consumption is reduced, personal consumption is intensified, and vice versa, while the positive correlation between the personal consumption and imports indicates that a large part of the variations of imports are in line with the changes in the consumption of households. Moderate positive correlation is noticed also in the investment consumption and imports.

Table 2

Correlation matrix - real growth rates of expenditure components of GDP (1994-2004)

	Personal consumption	Public consumption	Gross-investments	Import	Export
Personal consumption	1.00	-0.74	0.25	0.67	0.47
Public consumption	-0.74	1.00	-0.33	-0.36	-0.33
Gross-investments	0.25	-0.33	1.00	0.55	0.29
Import	0.67	-0.36	0.55	1.00	0.83
Export	0.47	-0.33	0.29	0.83	1.00

2.

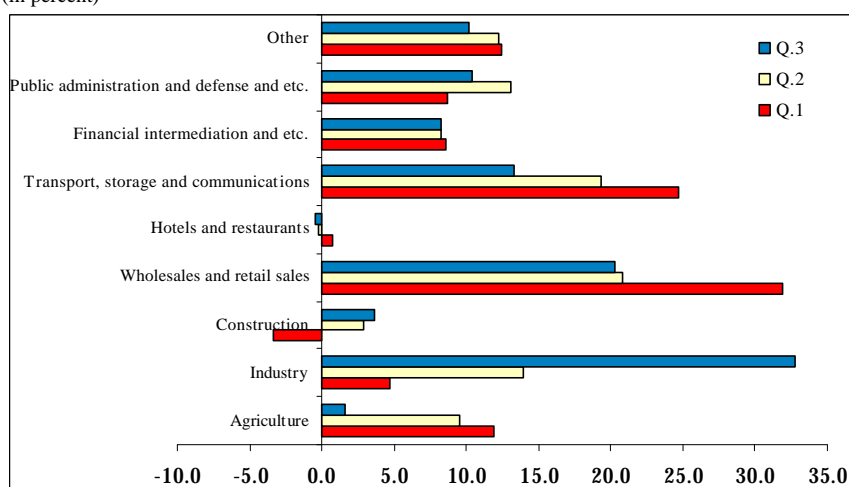
Economic activity

In the third quarter of 2006 annual rate of real economic growth of 3% was registered

In circumstances of accelerated industrial activity and positive achievements in the services sector, in the third quarter of 2006 real annual GDP growth was the highest since the beginning of the year and equaled 3% (2.5% and 2.6% in the first and the second quarter of the year). Services sector is still dominant, with largest contribution in the GDP growth (around 52%), while the industrial sector significantly increased its contribution in the GDP growth (contribution of 33%, as opposed to 5% and 14% in the first two quarters of the year). The increased contribution of the construction sector of 3.6% (3% in the preceding quarter), is a confirmation of gradual acceleration of the construction activity, while the agricultural sector retained the marginal share in the total GDP growth (around 2%). On the other hand, negative trends in the sector "hotels and restaurants" registered in the preceding quarter continued, with this sector registering negative contribution in the GDP growth (of 0.4%) in the analyzed quarter.

Figure 13

Contribution of individual sectors to the annual GDP growth by a quarter of 2006
(in percent)

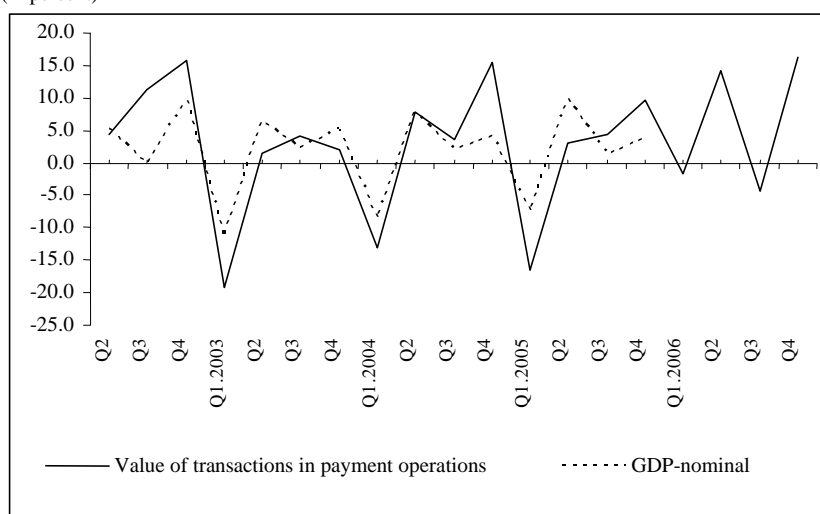


Movements in the real sector in the third quarter of the year indicate more intensive real annual GDP growth relative to the growth in the previous two quarters. Accelerated industrial activity and domestic trade, improved sale of

the agricultural products and gradual normalization of the activity in the construction indicate improved economic activity in the third quarter. In line with the projections for 2006, in the third quarter of 2006, real annual GDP growth of 4.8% is expected.

Economic activity in the Republic of Macedonia could also be observed through the volume of transactions in payment operations. Quarterly changes in the volume of transactions in the payment operations are closely related to the quarterly changes in the nominal GDP⁷, i.e. between these two categories there is a positive correlation of 0.8. In the last quarter of the year, the value of the executed transactions in the payment operations registered fast quarterly growth of 16.2%, which could indicate increased economic activity in the fourth quarter of the year, relative to the preceding quarter.

Figure 14
Quarterly dynamics of the volume of transactions in the payment operations and the nominal GDP
(in percent)

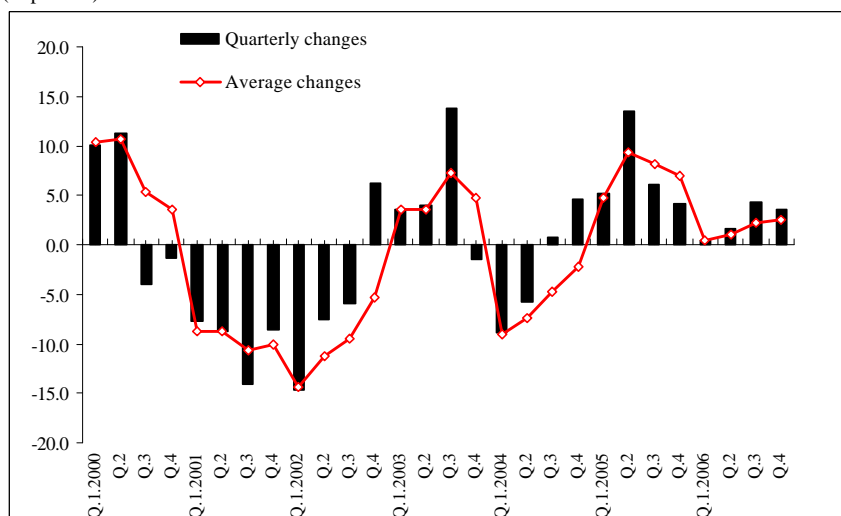


Given the accelerated production activity in a large part of the manufacturing branches, the actual volume of the industrial output registered an annual increase of 3.5% in the fourth quarter of the year. Thus, the cumulative growth of industrial output has accelerated and it reached 2.5% (2.2% in the first nine months of the year). Driving forces of the average growth in 2006 are the manufacturing and mining sectors (positive contribution of 2 and 0.6 percentage points, respectively), while the negative developments in the energy sector had a minimum negative contribution (of 0.1 percentage point). Observed by sector, the production in the manufacturing, as the dominant industrial sector, registered an average increase of 2.4%, reflecting the rise in the production of 13 out of 20 manufacturing branches (which comprise around 76% of the total output in the manufacturing industry). Within the manufacturing industry, the largest contribution to the overall production growth is that of the production of other non-metallic mineral products, basic metals, oil derivatives, fabricated metal products and tobacco products. The average growth in the mining sector equaled 28% and it was almost entirely due to the increased production in the category "mining and quarrying".

Average growth of the industrial output of 2,5% in 2006

⁷ The value of nominal GDP is derived in the Research Department on the basis of data obtained from the State Statistical Office.

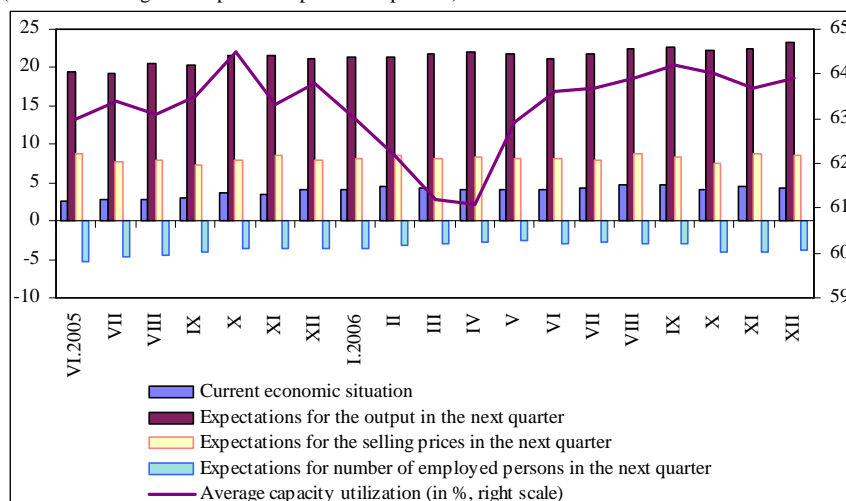
Figure 15
Quarterly - annual and average change in the industrial output
(in percent)



Source: State Statistical Office

Business tendencies and expectations of the economic entities from the manufacturing industry could be observed through the Business Tendency Survey in the manufacturing industry, which has a monthly dynamics. On the basis of the qualitative responses in the Survey carried out in December 2006, the assessment of the enterprises regarding their current economic condition is positive and more favorable than in December 2005, which corresponds with the positive assessment of the volume of production in the past few months and the increased level of utilization of the production capacities (63.9%, as opposed to 63.8% in December 2005). According to the economic agents, main restrictive factors for the increase in the output are still the insufficient domestic and foreign demand, financial problems, uncertain economic environment and competition from the imported products. On the basis of the estimations for the following quarter, despite the expectations for increase in the input prices, economic agents expect an increase in the volume of production, decline in the selling prices and increase in the number of employees.

Figure 16
Business tendencies in the manufacturing
(balances of weighted responses expressed in percent)

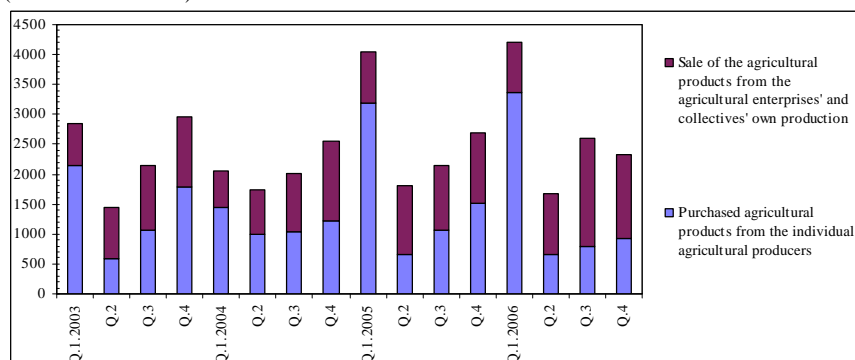


Source: State Statistical Office

Annual decline in the value of the total purchase of agricultural products...

In the fourth quarter of 2006, the value of the total purchase of the agricultural products from the individual agricultural producers and from agricultural companies' own production was lower by 13% compared with the same period of 2005 and stood at Denar 2,336 million. The decline was entirely due to the reduced purchase of agricultural products from individual producers, which comprise 40% of the value of the total purchase of agricultural products.

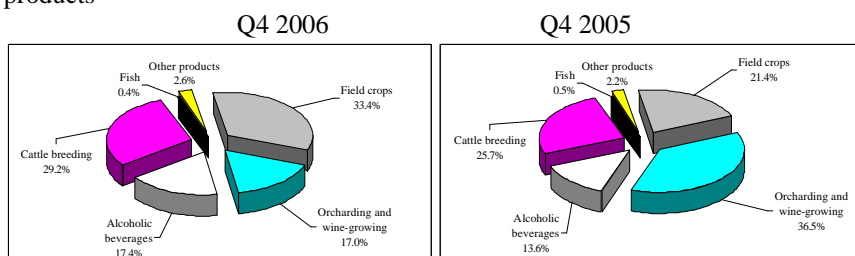
Figure 17
Purchase of agricultural products
(in millions of denars)



Source: State Statistical Office

Observed by individual groups of products, the reduced purchase of grapes has the largest negative contribution, whose effect was partially offset with the higher purchase of garden and industrial plants, and cereals, and with the increase in the alcoholic beverages⁸.

Figure 18
Share of the purchase by individual product in the total purchase of agricultural products

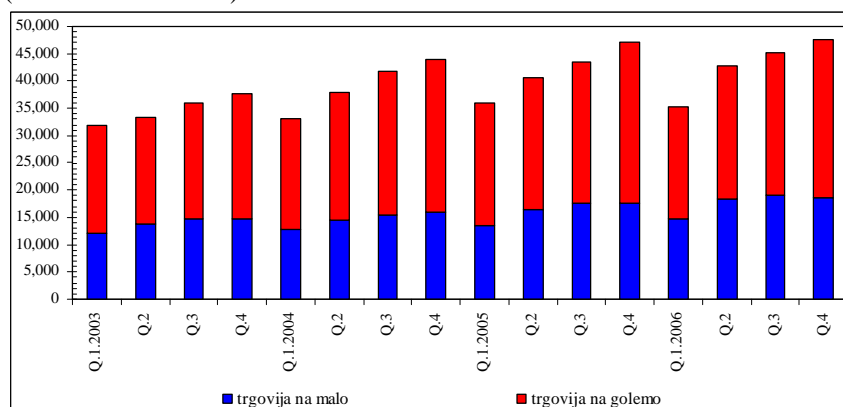


Source: State Statistical Office

The continuous increase in the domestic trade since the beginning of 2006 continued in the last quarter of the year, when the overall trade turnover reached Denar 47,509 million, which is an increment of 5% on a quarterly basis. The turnover in the wholesales still generates larger portion (61%) of the growth in the total trade turnover. Analyzed on annual basis (fourth quarter of 2006 / fourth quarter of 2005) the total trade turnover registered a minimum increase of 0.9%, entirely due to the annual growth in the retail trade turnover (of 6.2%), with registered decline in the wholesales (of 2.3%).

⁸ Alcoholic beverages are included in the structure of products of the agricultural companies and cooperatives.

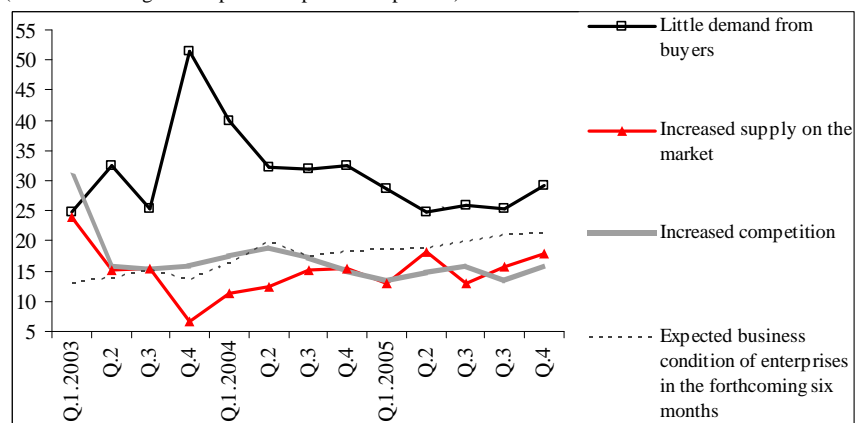
Figure 19
Trade turnover
(in millions of denars)



Source: State Statistical Office

The Survey on Business Tendencies in Retail Trade⁹ is a qualitative research for identifying the restrictive factors of the business activity of retailers, as well as their expectations for the forthcoming period. According to the Survey for the fourth quarter of 2006, the insufficient demand, increased supply on the market and the increased competition, are the main restrictive factors for improvement of the current business condition. However, compared with the same quarter of the preceding year, economic agents estimated that the influence of the competition as a restrictive factor is gradually declining. Their assessments point to improved financial condition and higher level of selling prices on annual level. The expected business condition and the number of employees in the forthcoming period are more optimistic relative to the fourth quarter of 2005.

Figure 20
Business tendencies in retail trade
(balances of weighted responses expressed in percent)



Source: State Statistical Office

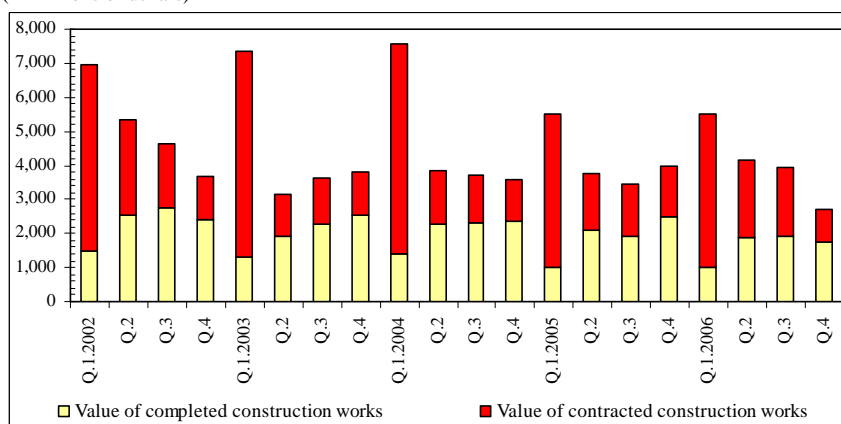
Decline in the construction activity

Unlike the favorable developments in trade, the indicators for the construction activity in the country point to unfavorable developments in this sector since the beginning of 2006, which continued in the last quarter. The total value of completed construction works in the fourth quarter of the year stood at Denar 1,769 million, which is a decline of 8.8% relative to the preceding quarter, and significant 28.7% relative to the same period of the preceding year. The value of the construction works contracted in the fourth quarter of 2006 equaled

⁹ The Survey on Business Tendencies in Retail Trade has been conducted by the SSO on a quarterly basis starting from 2002.

Denar 956 million and it was twice lower compared with the preceding quarter, with a simultaneous annual decline of 35.6%.

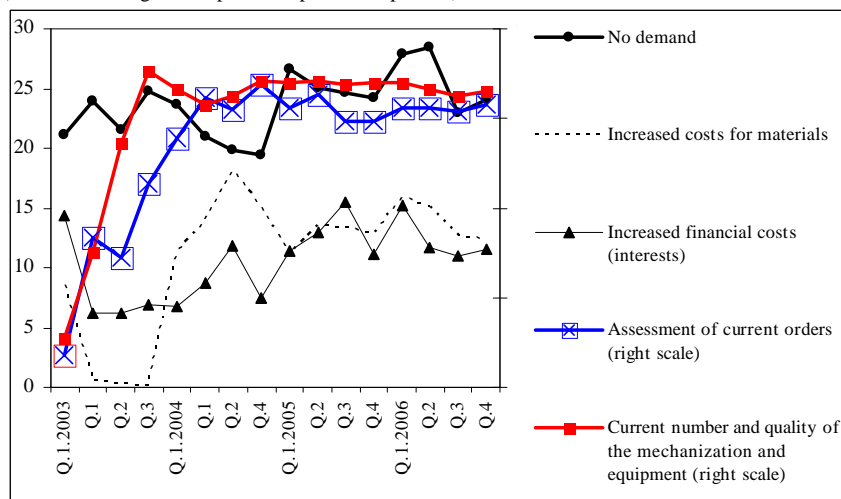
Figure 21
Contracted and completed construction works
(in millions of denars)



Source: State Statistical Office

According to the Survey on Business Tendencies in Construction¹⁰ for the fourth quarter of 2006, economic agents still emphasize the following factors as being most restrictive in the realization of the construction works: insufficient demand, costs for materials, price of financing (interest), and lack of qualified labor force. Here, economic agents still negatively assess the current situation with the orders (domestic and foreign), as well as the current number and quality of the mechanization and equipment they have at their disposal. As for the expectations about the following quarter with respect to orders and selling prices, they are more pessimistic relative to the fourth quarter of 2005.

Figure 22
Business tendencies in construction
(balances of weighted responses expressed in percent)



Source: State Statistical Office

¹⁰ The Survey on Business Tendencies in Construction has been conducted by the SSO on a quarterly basis starting from April 2002.

3.

Employment and wages

According to the Labor Force Survey¹¹, in the fourth quarter of 2006 the total number of employed persons was 578,810, which is an increment of 4.1% relative to the same period of the preceding year. Hence, the registered employment rate increased by 1.2 percentage points and reached 35.7%. At the same time, in the fourth quarter of 2006 increased number of unemployed persons was registered, and it equaled 324,766 persons (annual growth of 1.4%). The higher number of employed and unemployed persons resulted in an annual increase of the active population (labor force) of 3.1%. The faster growth rate of labor force relative to the growth of the number of unemployed persons caused lower rate of unemployment by 0.6 percentage points relative to the same period of the preceding year, which was reduced to 35.9%.

Figure 23
Rates of employment and unemployment
(in percent)

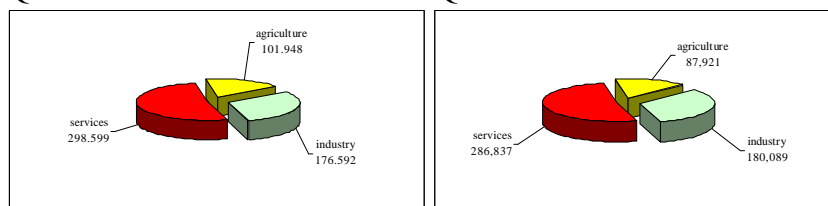


Source: Labor Force Survey, State Statistical Office

Observed by sector, the growth of employment is a result of the increased number of employed persons in the agricultural and services sectors, while the number of employed persons in the industrial sector dropped. Thus, the number of employed persons in the agricultural sector went up by 16%, which is a result of the increase in the number of unpaid family workers and self-employed. More moderate increase (of 4.1%) in the number of employed persons was registered in the services sector, as a result of the increased number of employed persons in the larger part of the activities of this sector (primarily financial intermediation and real estate, business, and renting activities). On the other hand, employment in the industrial sector dropped by 1.9%, which is a result of the reduced number of persons employed in the energy sector.

¹¹The 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 has been conducted continuously during the year, and the results are being processed quarterly.

Figure 24
(number of employed persons by activity)
Q4. 2006

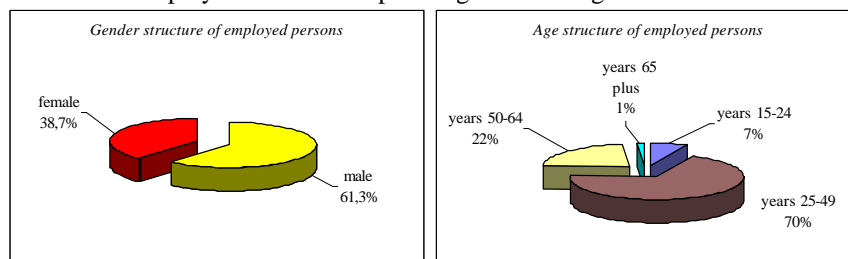


Source: Labor Force Survey, State Statistical Office

Favorable developments were registered also on quarterly basis (fourth quarter of 2006 / third quarter of 2006), so that the number of employed persons and the rate of employment went up (from 0.3% and 0.1 percentage point, respectively), with a simultaneous increase in the number of unemployed persons (of 0.6%), while the unemployment rate remained unchanged. In circumstances of reduced number of employed persons in the agricultural and industrial sectors (by 18.7% and 5.9%, respectively), the moderate increase in employment arises from the changes in the services sector, where the number of employees increased by 13.8%.

From the viewpoint of the gender structure, in the fourth quarter of 2006 male employed persons are still dominant, who registered higher rate of employment (43.7%) and lower rate of unemployment (35.1%) compared with the female population (27.6% and 37.2%, respectively).

Figure 25
Structure of employees with the respect to gender and age



Source: Labor Force Survey, State Statistical Office

With respect to the age of employed and unemployed persons, in the fourth quarter of 2006 no significant changes were registered, so that the population aged between twenty-five and forty-nine still registers the highest employment rate, while the population aged between fifteen and twenty-four registered the highest unemployment rate.

The average number of employed persons in the fourth quarter of 2006 was 260,146¹² persons and it registered a decline of 1.2% relative to the preceding quarter, which is a result of the decline in the number of employed persons in all sectors of the economy (industry, construction, agriculture and services). Analyzed on annual basis (fourth quarter of 2006 / fourth quarter of 2005) the number of employed persons went up by 7.2%¹³, which was entirely

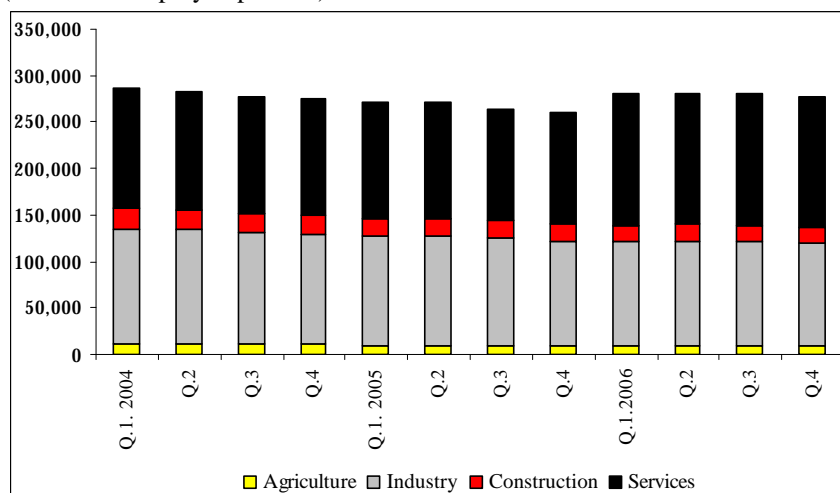
Increment in the number of employees on annual basis

¹² Source: State Statistical Office. Data are based on monthly reports of the private business entities or those with social, state, cooperative and mixed ownership, dealing with various activities in the Republic of Macedonia. Employed persons are those employed by the business entity (full-time or part-time), for full working hours or for a time longer or shorter than the full working hours. Records do not include workers on short-term contracts, self-employed and persons they employ, and individual farmers.

¹³ Because of the changes in the sample, it is impossible to compare adequately the number of employees in 2006 and in other years. In order to obtain comparable data and for the purpose of calculating the changes compared to 2005, the NBRM made adjustments in the data on the activity "public administration and defense", the services sector, and the total number of employees.

due to the increased employment in the services sector (by 17.6%), having a reduced number of employees in industry, agriculture and construction (by 2.9%, 4.8% and 4.1%, respectively, on annual basis). Annual growth of the employed persons was registered in almost all service activities, while the largest portion of the decline in the employment in the industrial sector was a result of the lower number of employed persons in the manufacturing, as the most important industrial branch, and in the mining sector (by 2.5% and 2.2%, respectively).

Figure 26
Employment by sector
(number of employed persons)



Source: State Statistical Office The increase in the first quarter of 2006 includes methodological changes.

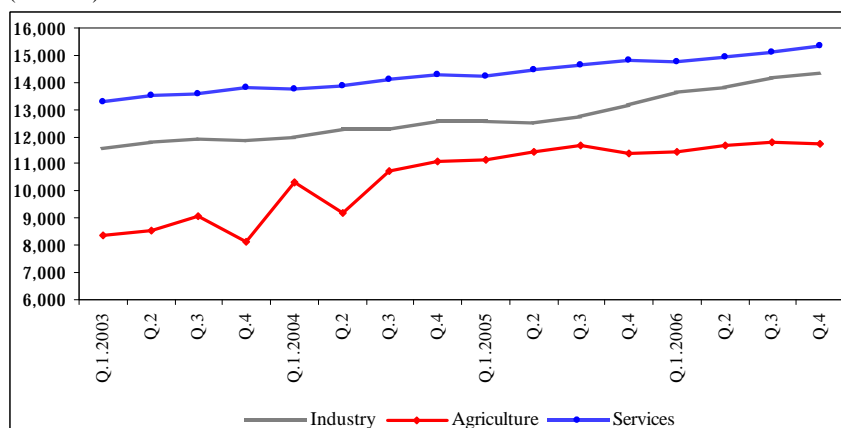
Minimum increase in the nominal average gross and net-paid wage per employee in the fourth quarter of 2006

In the fourth quarter of the year, the average gross wage¹⁴ in the Republic of Macedonia stood at Denar 23,451, which is a nominal increase of 7.1%, relative to the same period of the preceding year. The average net-wage paid per worker amounts to Denar 13,854 and registered a nominal growth of 7.2%. Having in mind the higher annual inflation rate in the fourth quarter of the year (of 3.1%), the real increase in the net-wage was lower and amounted to 4.1%. Analyzed by sector, faster nominal annual increase in the net-wage was registered in the industrial sector (8.7%), mainly due to the increased wages in the "electricity, gas and water supply" and "mining and quarrying" (by 14.5% and 10.4%, respectively). In the other sectors of the economy, services sector, construction and agriculture, the annual nominal increase in the wages was more moderate (3.4%, 2.8% and 2.1%, respectively). Within the services sector, increase in the wages was registered in almost all service activities, with more significant growth rates being registered in the public sector, i.e. in "education" and "health and social work" (of 11.9% and 3.4% on annual basis), which is in line with the gradual process of decompression of wages of civil servants (and due to the statistical scope of the data in this sector¹⁵). More significant increment in the wages was registered in "transport, storage and communication" and financial intermediation (of 5.2% and 3.5%, respectively on annual basis).

¹⁴ Source: State Statistical Office. The total paid gross-wages encompass: net-paid wages for the reporting month, paid personal income tax and paid contributions (for pension and disability insurance, for health insurance, for employment, for professional illness and for water supply).

¹⁵Source: State Statistical Office. Since January 2006, the number of employees in the activity "public administration and defense" for the first time includes the data about the Ministry of Internal Affairs and Ministry of Defense.

Figure 27
Average monthly net-paid wage per worker by sector
(in denars)

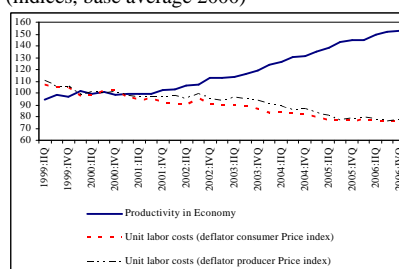


Source: State Statistical Office

The percentage of employed persons who did not receive wages in the fourth quarter of 2006 averaged 13.8% and relative to the same quarter of the preceding year it was lower by 2.4 percentage points.

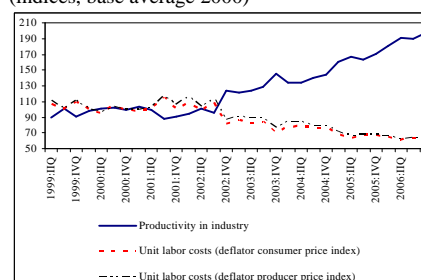
The upward trend in the efficiency of the Macedonian economy continued in the third quarter of 2006¹⁶. Productivity went up by 5.5% relative to the same period of 2005, under the influence of the increased newly-established value in conditions of a reduced number of employees. The faster growth of productivity relative to the increase in the real gross-wage in the economy, contributed to the reduction of the unit labor costs by 0.7%, i.e. 0.4% (depending on whether gross-wage is deflated with the production price index or the consumer price index, respectively).¹⁷

Figure 28
Productivity and unit labor costs in the Maconian economy
(indices, base average 2000)



Source: State Statistical Office, calculations and analyses of the NBRM

Figure 29
Productivity and unit labor costs in industry
(indices, base average 2000)



Source: State Statistical Office, calculations and analyses of the NBRM

In the absence of data on the GDP for the last quarter of 2006, productivity in economy is assessed on the basis of the achieved productivity in industry, as a sector with which comprises approximately one fourth of the GDP. In the fourth quarter of 2006, industrial sector registered high productivity growth rate of 14.9% with respect to the same quarter of 2005, as a result of the increased volume of industrial output, with a simultaneous decline in number of employed persons in industry. Accordingly, in the last quarter, increased productivity of the economy as a whole may be expected. The increased

¹⁶ Last available data.

¹⁷ The productivity index and the unit labor costs index for the whole economy are calculated on the basis of data on GDP, total number of employees and real gross-wage. The indices take year 2000 as a cut off base.

productivity in industry in conditions of more moderate real growth of the gross-wage in industry led to a decline in the unit labor costs in this sector. On annual basis, unit labor costs registered a decline of 6.9% and 7.8%, respectively (depending on whether gross-wage is deflated with the producer price index or the consumer price index)¹⁸.

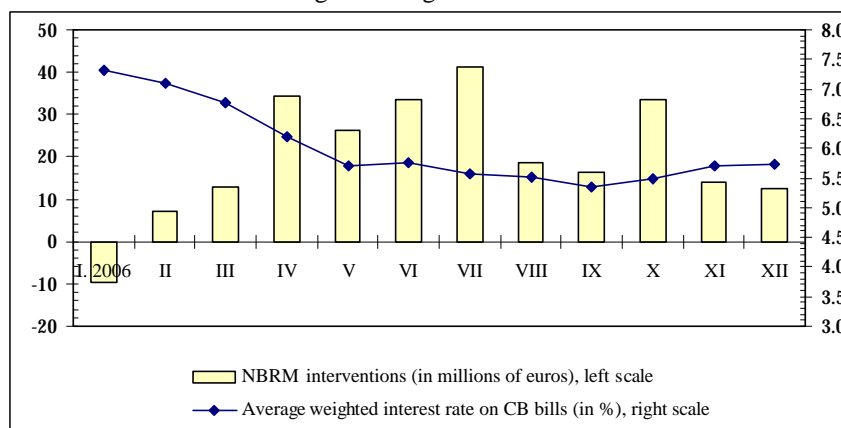
4.

Monetary policy

Movements in the external sector, intensified economic activity, significant increase in budget spending, and the influence of certain common seasonal factors, are the main characteristics of the environment in which the monetary policy has been conducted in the last quarter of 2006. Also in this quarter, NBRM's interventions on the foreign exchange market were aimed at net-purchase of foreign exchange, which contributed to subdue the pressures for appreciation and maintain stable level of the nominal exchange rate of the Denar against the Euro, and hence of the price stability. The effects of the liquidity created through the foreign exchange transactions, as well as through the extremely high budget spending (concentrated in the last month of the year), were partially offset through the monetary instruments and the seasonal increase in the demand for cash in the last month of the year.

Figure 30

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



Source: National Bank of the Republic of Macedonia

On net-basis autonomous factors represented a flow of liquidity creation

The analysis of the autonomous factors which influence the liquidity in the banking sector reveals liquidity creation through the NBRM foreign exchange transactions. During the fourth quarter, the upward trend in the foreign exchange inflows in the domestic economy continued (mainly on the basis of the currency exchange operations), which enabled net purchase of foreign exchange on the foreign exchange market. At the same time, for the purpose of realization of the budget expenditures envisaged in the supplementary budget, in this period increased government spending was registered which led to creating additional liquidity in the banking sector. On quarterly basis, currency in circulation acted toward liquidity withdrawal, which was entirely due to the increased volume of executed cash transactions in the last month of the year. In December 2006, currency in circulation registered faster monthly increase compared to the common seasonal dynamics, which could be explained with the overlapping of the holiday of Kurban Bajram with the New Year and Christmas holidays, and with the payment of subsidies by the Ministry of Agriculture.

¹⁸ The productivity index and the unit labor costs index in industry were calculated with the year 2000 as a cut off base, with the number of employees and the real gross-wage pertaining to the industrial sector except construction.



Table 3
Liquidity creation and withdrawal*
(in millions of denars)

	30.09.2006	Monthly changes			Total	31.12.2006
		October	November	December		
Liquidity of the banks	6,548	884	976	277	2,137	8,685
Liquidity creation					3,533	
1. Net foreign assets	82,064	1,980	865	207	3,052	85,116
2. Net domestic assets	-60,706	-1,110	-384	1,975	481	-60,225
of which:						
CB bills	-7,422	-141	-456	-1,437	-2,034	-9,456
Government Denar deposits with NBRM	-18,728	-873	1	4,274	3,402	-15,326
of which: Treasury bills for monetary policy purposes	-4,656	-470	116	437	83	-4,573
Government foreign currency deposits with NBRM	-18,409	-113	163	728	778	-17,631
Other items, net	-19,167	17	-92	-871	-946	-20,113
Liquidity withdrawal					-1,396	
1. Currency in circulation	14,810	14	495	-1,905	-1,396	16,206

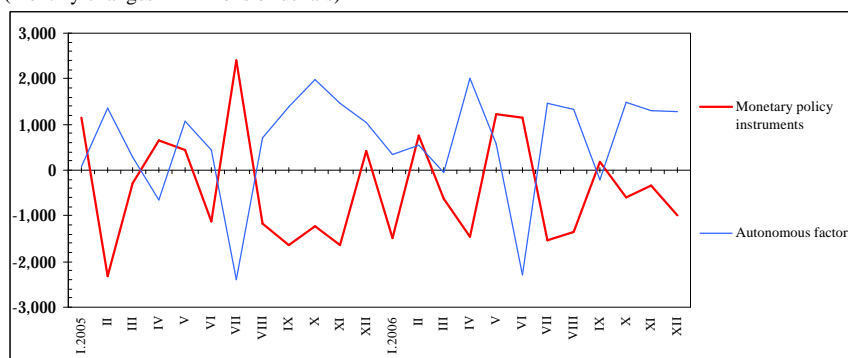
*Liquidity includes banks' account with the NBRM and cash in the vaults of the banks.

Source: National Bank of the Republic of Macedonia

*Withdrawal of liquidity
through monetary
instruments*

In the fourth quarter of 2006, monetary instruments (CB bills and Treasury bills for monetary policy purposes¹⁹) on net-basis acted towards withdrawing liquidity, registering divergent movements in their structure. In this period, the uncertainty regarding the payment of the dividend by one larger enterprise imposed the need for more careful liquidity management, and hence refraining of banks from investments in financial instruments with longer maturity. Treasury bills for monetary policy purposes represented a flow of liquidity creation, with a simultaneous liquidity withdrawal through CB bills auctions. At the CB bills auctions held in the fourth quarter, in circumstances of almost balanced average demand and supply, the average interest rate equaled 5.6% (5.5% in the preceding quarter), while the interest rate on the Treasury bills for monetary policy purposes went up by 0.2 percentage points on a quarterly basis, and averaged 6.2%.

Figure 31
Monetary policy instruments and autonomous factors of liquidity creation and withdrawal*
(monthly changes in millions of denars)



*Positive change - liquidity creation; negative change - liquidity withdrawal.

Source: National Bank of the Republic of Macedonia

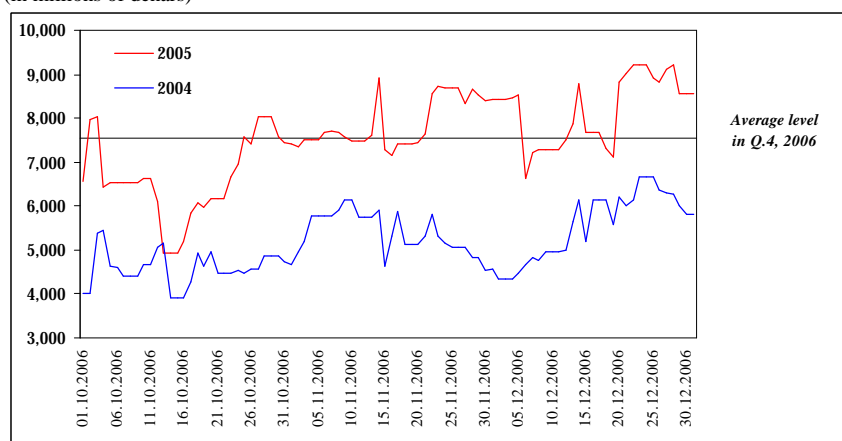
*Higher average daily
liquidity of the banks in the
fourth quarter of 2006*

The average daily liquidity of the banking system²⁰ in the fourth quarter of 2006 totaled Denar 7.559.9 million, which is a quarterly increase of 12.9%. NBRM's foreign exchange transactions of the NBRM had a dominant contribution to the banks' average daily liquidity, whereas liquidity was withdrawn through the monetary instruments and the higher average amount of government Denar deposits with the NBRM.

¹⁹ On March 7, 2006, the NBRM in cooperation with the Ministry of Finance started issuing three-month Treasury bills for monetary policy purposes.

²⁰ The liquidity includes account of the banks with the NBRM and cash in the vaults of the banks.

Figure 32
Daily dynamics of banks' liquidity*
(in millions of denars)



*Liquidity includes banks' account with the NBRM and cash in the vaults of the banks.
Source: National Bank of the Republic of Macedonia

The higher liquidity level in the fourth quarter corresponds with the higher amount of allocated liquid funds over the reserve requirement (in Denars)²¹. Thus, in the fourth quarter of 2006, the banks allocated 15.8% over the reserve requirement, on average, which is by 8.7 percentage points more relative to the average of the preceding quarter. Such a conservative liquidity management in the fourth quarter mainly mirrors the banks' preparation for possible payment of dividend by one large enterprise. Thus, in October, the excess liquidity was under the average for the quarter (5.9% over the requirement), while in November and in December (in line with the expectations for payment of dividend), the allocated excess liquidity was over the average and equaled 22.2% and 19.3%, respectively.

The relatively high level of liquidity in the banking sector adequately reflected on the movements on the interbank money market²² through decline in the volume of executed transactions. Thus, in the fourth quarter, an average monthly turnover of Denar 702 million was registered, which is a decline of 22.5% on a quarterly basis. The average weighted interest rate on the interbank money market registered an insignificant quarterly fall of 0.1 percentage point, and averaged 4.8% in the last quarter of 2006.

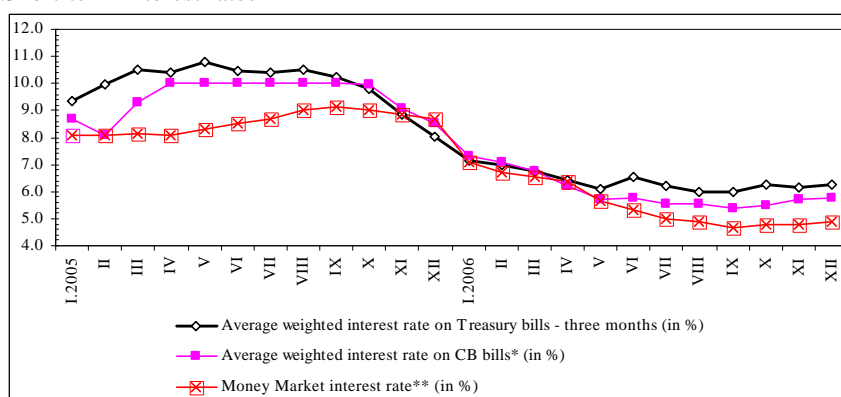
Decelerated activity on the interbank money market

²¹ The period for maintaining (fulfilling) the banks' reserve requirement covers the period from the 11th in the current month to the 10th in the following month. The excess refers to the excess allocated funds on the banks' accounts with the NBRM over the reserve requirement.

²² On May 15, 2006, the General Meeting of Shareholders adopted a Decision on cessation of the Money and Short-Term Securities Market ("Official Gazette of the Republic of Macedonia" no.74/2006). On May 8, 2006, the electronic system for interbank trade in deposits and securities (TENFORE) was put in operation.



Figure 33
Short-term interest rates



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

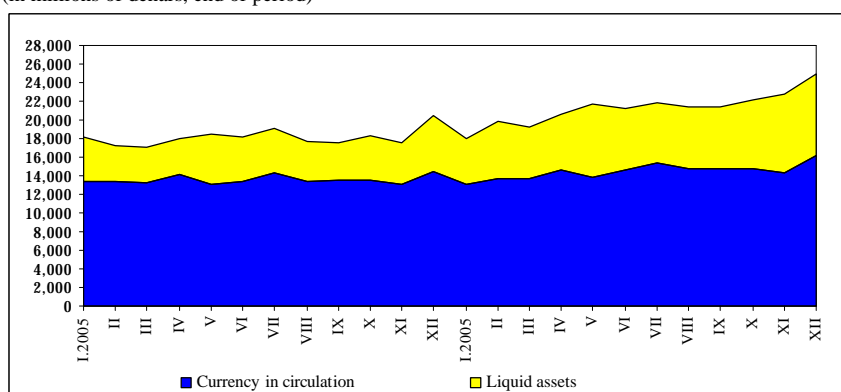
** Average weighted interest rate on the interbank money market.

Source: NBRM and Ministry of Finance.

*Higher reserve money
relative to the preceding
quarter*

In the fourth quarter of 2006, the increased demand for currency in circulation and the higher liquidity of the banks caused fast quarterly growth of the reserve money of 16.5%. On annual basis (December 2006 / December 2005) reserve money went up by 21.8%.

Figure 34
Reserve money
(in millions of denars, end of period)



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

Source: National Bank of the Republic of Macedonia

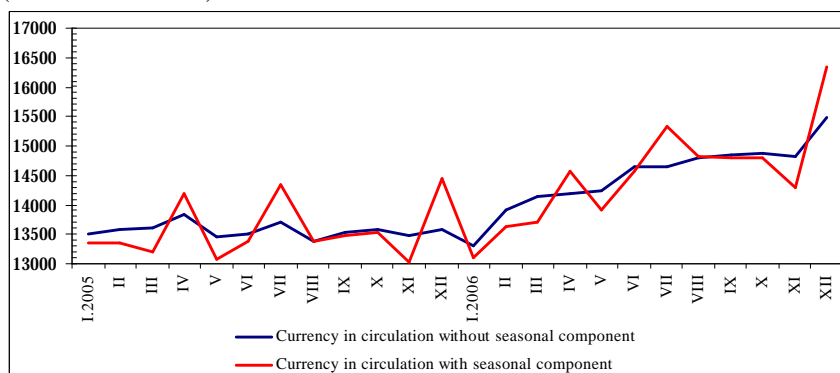
5.

Money supply

In the fourth quarter of 2006, the increased demand for currency in circulation caused by seasonal factors, the higher level of transaction deposits, as well as the increased saving in the banking system resulted in a quarterly increase in the currency in circulation.



Figure 35
Currency in circulation with and without seasonal component
(in millions of denars)



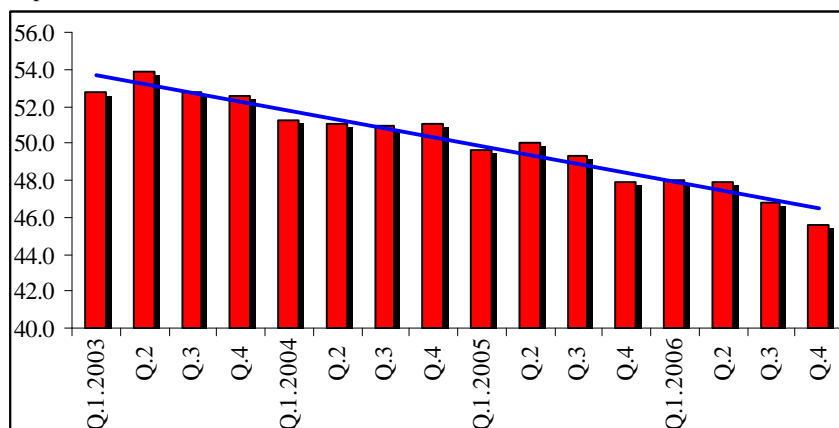
Source: National Bank of the Republic of Macedonia

*Quarterly increase in the
money supply M1...*

At the end of the last quarter of 2006, currency in circulation went up by 9.4%, relative to the end of September 2006. The quarterly increase in the currency in circulation is a result of the common seasonal increase in the demand for currency in circulation in December (fast monthly growth of 13.3%), as a result of the higher preferences of the households for holding cash prior to the New Year and Christmas holidays. Additional factors of growth in the currency in circulation are the overlapping of the holiday of Kurban Bajram with these holidays, as well as the payment of subsidies by the Ministry of Agriculture.

Despite the quarterly increase in the level of currency in circulation, their structural share in the monetary aggregate M1 registered further downward trend (45.6% on average in the fourth quarter of 2006, as opposed to 46.8% in the preceding quarter). Such movements indicate gradual decline in the relative significance of the cash transactions at the expense of the use of cashless payment instrument. Faster quarterly increment in currency in circulation compared with that in money supply M1 (of 16.5% and 8.2%, respectively), slowed down the process of monetary multiplication, so that in December 2006 the monetary multiplication of the money supply M1 equaled 1.40 (1.50 in September 2006 and 1.45 in December 2005). From a viewpoint of the annual dynamics (December 2006 / December 2005), under circumstances of a simultaneous increase in the currency in circulation and demand deposits (by 12.2% and 21.7%, respectively), the growth rate of the monetary aggregate M1 equaled 17.1%.

Figure 36
Share of currency in circulation in the money supply M1 and trend line
(in percent)



Source: National Bank of the Republic of Macedonia

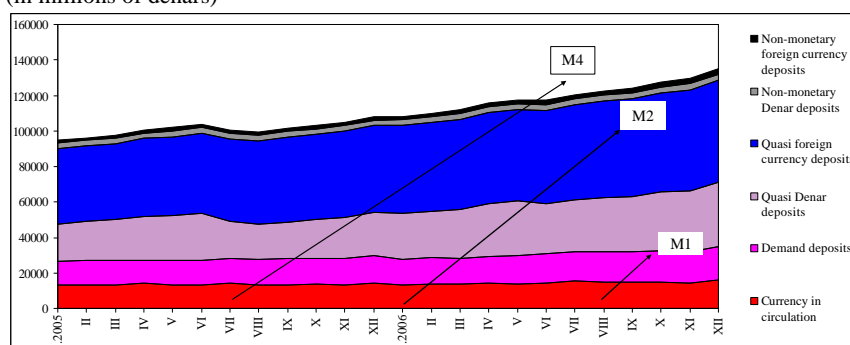


... and in the broader
monetary aggregates

In the last quarter of 2006, the increment in money supply M1 and in the banks' total deposit potential caused positive quarterly change in the broader monetary aggregates. Thus, at the end of December 2006, the broadest monetary aggregate M4 was by 9.1% higher compared with the end of September 2006. Almost identical growth rate was registered in the narrower monetary aggregate M2 (of 8.9%), which confirms the significant role of the short-term deposits in creating the overall money supply in the economy. Short-term deposits, as a dominant category of the monetary aggregate M2 explain 70.1% of the increase in the money supply M4 (76.3% in the preceding quarter). The remaining 23.5% are a result of the increase in its most liquid component (monetary aggregate M1), while the share and the contribution of the long-term deposits is still insignificant. The faster quarterly growth of reserve money relative to the increase in the monetary aggregate M4 slowed down the monetary multiplication of the monetary aggregate M4 (the average monetary multiplier equaled 5.63 in the fourth quarter, as opposed to 5.68 in the preceding quarter). On annual basis (December 2006 / December 2005) broader monetary aggregates M2 and M4 went up by 24.6% and 24.9%, respectively. However, if banks' deposit base is adjusted for the unpaid dividend of the government and a foreign investor from one larger company in 2006 (such payment was made in 2005), the increase in the money supply M2 and M4 in 2006 equaled 18.8% and 19.4%, respectively.

Figure 37

Components of the monetary aggregates
(in millions of denars)



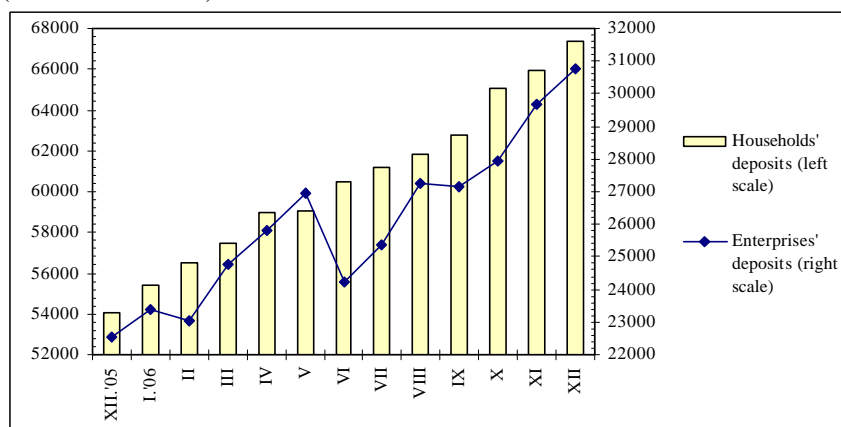
Source: National Bank of the Republic of Macedonia

5.1. Deposits with banks

The total banks' deposit
potential went up by 9.4%
on quarterly basis

Banks' deposit potential continued to grow at fast pace also in the last quarter of 2006. Thus, at the end of December 2006, total deposits with banks increased by 9.4% compared to end September 2006. The continuous growth of deposits in the banking sector characterized the whole year (increase on a quarterly basis in the first, the second and in the third quarter of 6.9%, 3.1% and 6%, respectively). Analyzed on annual basis (December 2006 / December 2005), total deposits with banks picked up by 27.9%. Significant inflows of deposits in the banking system indicate strengthened economic activity and higher income for the entities, and represent a basis for further deepening of the financial intermediation.

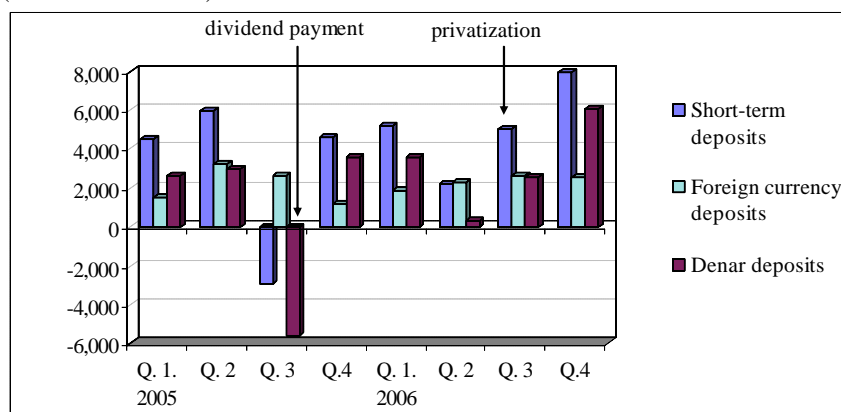
Figure 38
Household and enterprise deposits
(in millions of denars)



Source: National Bank of the Republic of Macedonia

Observed from the viewpoint of the currency of denomination structure, the contribution of the Denar deposits in creating the increase in the total deposit base in the fourth quarter of 2006 was significant and equaled 70.5%. At the same time, in circumstances of a significant quarterly rise in Denar deposits (of 17.9%), their share in the banks' total deposit potential went up and reached 39.8% (36.9% in the third quarter). From the viewpoint of the maturity structure, in the fourth quarter no significant changes were registered, i.e. short-term deposits still create the largest part of the increase in the total deposit potential (91.6%).

Figure 39
Quarterly changes in certain components of the total deposits
(in millions of denars)



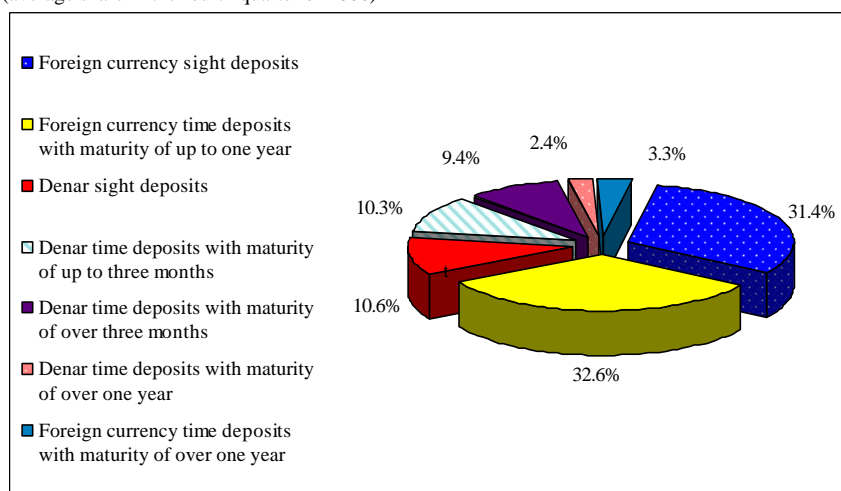
Source: National Bank of the Republic of Macedonia

Quarterly increase in household deposits...

In the fourth quarter of the year, the total deposits of the households continued to grow and at the end of December 2006 they were by 7.3% higher relative to end September 2006. Household deposits account for 53.3% of the increase in the total deposit potential in the banks in the fourth quarter of 2006. The largest portion of the quarterly growth of total household deposits is a result of the higher level of Denar time deposits up to three months (37.4%). Time deposits up to one year, in foreign currency, Denar time deposits over three months and Denar sight deposits also have a significant contribution (of 19.6%, 18.3% and 16.5%, respectively). From the viewpoint of the currency of denomination structure, in the last quarter of 2006 the new saving of the households is mainly in domestic currency (contributing with 75.6% in the quarterly increase in the total household deposits). At the same time, positive

quarterly change was registered also in the household deposits in foreign currency, which explain 24.4% of the increase in the total household deposits. Observed on annual basis (December 2006 / December 2005), total deposits of the households picked up by 24.5%.

Figure 40
Household deposit structure
(average share in the fourth quarter of 2006)

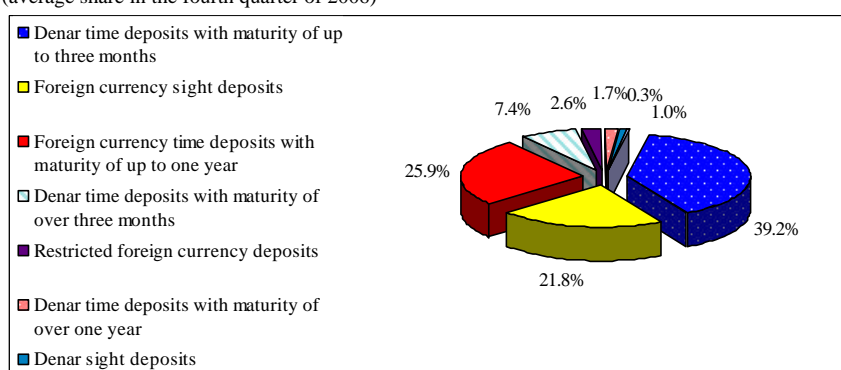


Source: National Bank of the Republic of Macedonia

...with a simultaneous increase in corporate deposits

Corporate deposits registered quarterly rise of 13.3%, contributing with 42% to the growth in the total deposits in the fourth quarter. The analysis of the maturity and currency of denomination structure of corporate deposits points to strong preferences of the corporate sector for saving in domestic currency and in a short run. Thus, Denar deposits with up to three-month maturity explain 59% of the quarterly change in the total corporate deposits, with a simultaneous drop in the long-term time deposits. On annual basis (December 2006 / December 2005) total corporate deposits were higher by 36.4% (with adjusted effect from the unpaid dividend these deposits picked up by 9.8%).

Figure 41
Corporate deposit structure
(average share in the fourth quarter of 2006)



Source: National Bank of the Republic of Macedonia

6.

Bank placements and interest rates

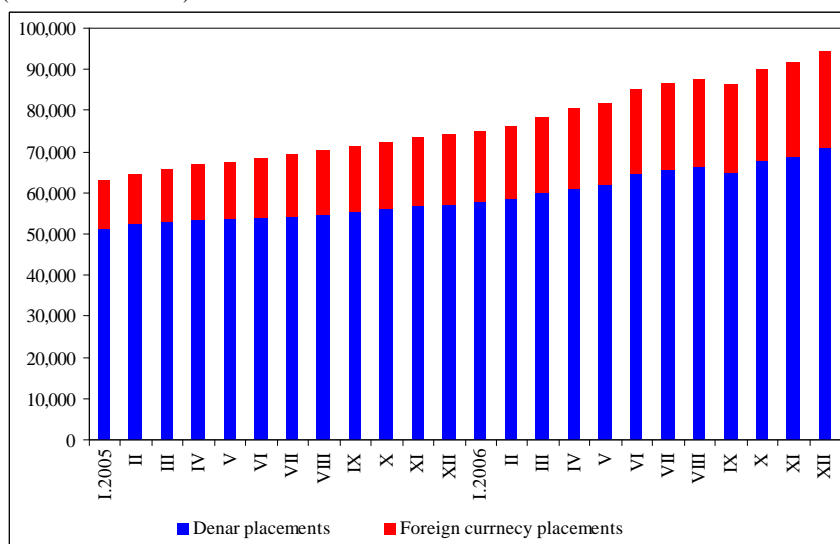
In the fourth quarter of 2006, banks' lending activity continued with a fast pace. Thus, at the end of December 2006, banks' total placements with the private sector were by 9.4% higher relative to the preceding quarter (3.2% in the



Fast increase in the total banks' placements in the fourth quarter of 9.4%

third quarter)²³. Long-term placements have the largest share in the growth of loans in this quarter (75.2% in the growth of total loans). Such movements correspond with the results of the Survey²⁴, which show partial easing of credit requirements, especially for approving long-term loans. On annual basis (December 2006 / December 2005), banks' total placements to the private sector went up by 30.5%.

Figure 42
Banks' placements by currency
(in millions of denars)



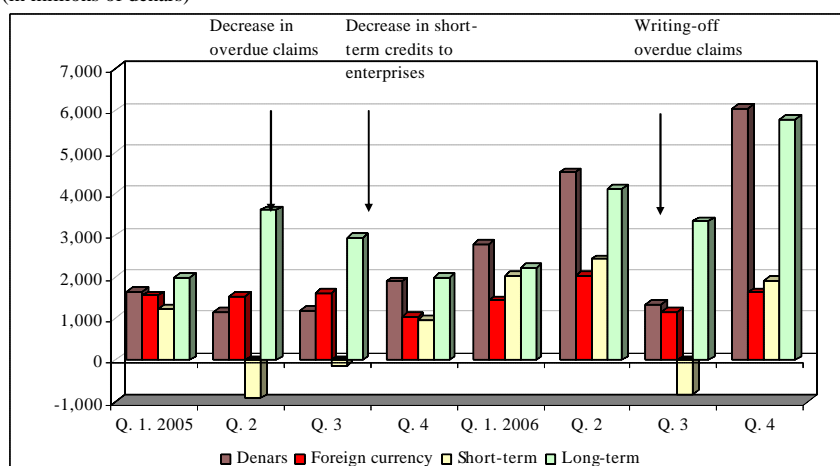
Source: National Bank of the Republic of Macedonia

The accelerated activity of the banks' credit market is a result of the influence of a number of factors. Thus, the continuous broadening of the deposit base, as well as the increased utilization of the external sources of financing create financial support for the accelerated credit activity. At the same time, increased competition pressures, as well as the positive perceptions of the banks of the overall economic activity act toward easing of the lending requirement, which contributes to the further increase of the supply of and the demand for loans.

²³The high growth rate was partially a result of the low comparison basis, i.e. the write-off of overdue claims at the end of the third quarter. If an adjustment is made for this effect, growth rates in the third and in the fourth quarter equaled 4.3% and 8.1%, respectively.

²⁴According to the results from the Bank Credit Activity Survey for January 2007.

Figure 43
Quarterly changes in certain components of the total credits
(in millions of denars)

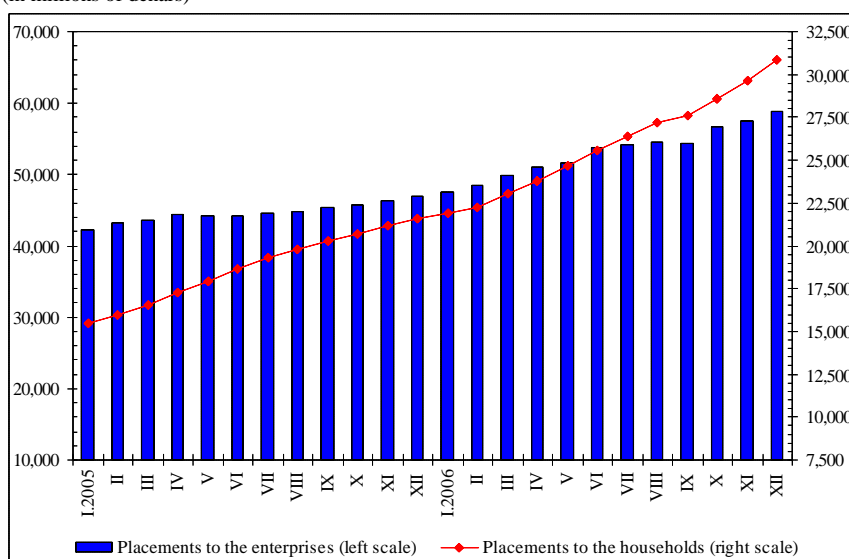


Source: National Bank of the Republic of Macedonia

Simultaneous increment in the long-term and in the short-term loans

In the fourth quarter, Denar²⁵ and foreign currency loans registered quarterly rise of 10.1% and 7.5% (as opposed to 2.3% and 5.7% in the preceding quarter). Lending in domestic currency contributes with 78.8% to the total credit growth, with almost identical contribution of Denar loans of households and of enterprises. The higher volume of foreign currency placements in the fourth quarter is a result of the increased lending for the corporate sector (corporate foreign currency loans participate with 88.9% in the increase of the total foreign currency loans). With respect to the maturity structure, in the fourth quarter long-term lending accelerated, which caused a quarterly rise in long-term credits of 12.2%, with a simultaneous growth also of the short-term loans by 5.5%. In the fourth quarter, banks extended long-term loans mainly to enterprises (long-term placements with enterprises participate with 61.5% in the increase in the total long-term credits).

Figure 44
Banks' placements by sector
(in millions of denars)



Source: National Bank of the Republic of Macedonia

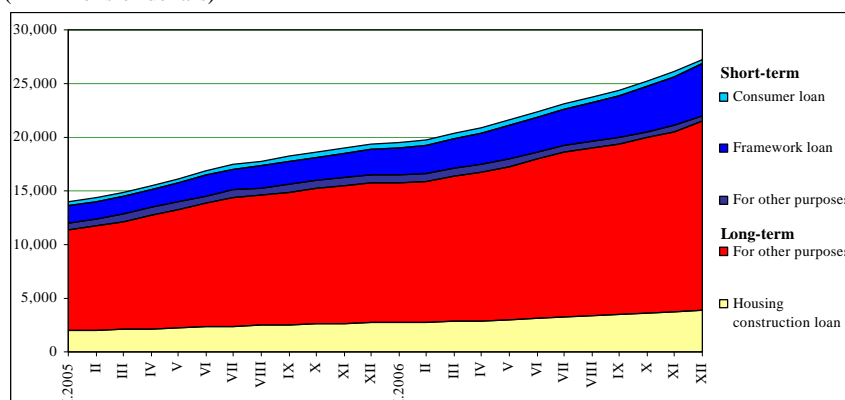
²⁵ Includes foreign currency indexed placements.



*Quarterly rise in the loans
to households of 11.7%*

Total placements to households registered quarterly rise of 11.7%, where the analysis of the currency of denomination and maturity structures show the dominance of long-term lending to households in domestic currency, which was confirmed by the contribution of the long-term Denar loans of 63.1% to the increase in the total loans to households. The main component of the rise in long-term loans to households are the loans for other purposes²⁶, which contribute with 51.3% to the increment in the total loans to households. On the other hand, the quarterly rise in the short-term loans to households is mostly a result of the intensive quarterly increase in the framework loans²⁷ (of 23.4%), whose share in the growth of the total loans to households was 28.3%. On annual basis (December 2006 / December 2005) total placements to households registered an increase of 42.7%.

Figure 45
Distribution of Denar loans to households by an individual type of loan
(in millions of denars)



Source: National Bank of the Republic of Macedonia

*Fast growth of the loans to
households of 8.2%*

At the end of December 2006 the total placements to enterprises registered an increase of 8.2% relative to the preceding quarter (0.9% in the third quarter), which was mostly a result of the long-term loans to households (with a share of 80.2% in the increase in the total loans to households). Such movements point to the orientation of the corporate sector toward long-term borrowing for financing investments in fixed assets²⁸. Short-term loans to enterprises went up by 3.2% (decline of 4.2% in the preceding quarter). The annual growth rate of total placements to enterprises equaled 25.2%.

*Reduction in the interest
rates*

In the area of banks' interest rate policy, in the fourth quarter of 2006 the downward trend in the interest rates on Denar loans and deposits continued. In December, the average weighted lending interest on Denar loans in any maturity and sector equaled 10.7%, which is a decline of 0.3 percentage points relative to September 2006. Within Denar loans extended to households, more significant decline of 0.5 percentage points was registered in the long-term non-indexed loans and in the short-term indexed loans. Denar long-term indexed and non-indexed loans to enterprises dropped by 0.2 percentage points. In December 2006, the average weighted interest rate on Denar deposits in any maturity and sector equaled 4.4%, which was a decline of 0.2 percentage points on quarterly basis. The fastest decline was registered in the interest rates on Denar indexed and non-indexed corporate deposits of 1.1 percentage point compared with the preceding quarter (mainly pertains to short-term time deposits). The narrowing of the interest rate spread continued in the fourth quarter, when it equaled 6.3 percentage points on average (6.5 percentage points in the preceding quarter). In December 2006, the average weighted lending and deposit interest rates on

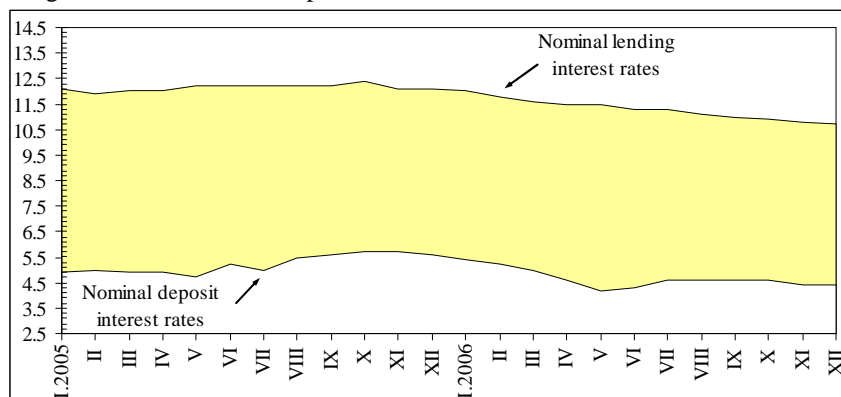
²⁶ Credits for other purposes include consumption credits, housing credits, automobile credits, schooling credits and other purposes.

²⁷ Current account overdrafts.

²⁸ According to the results from the Bank Credit Activity Survey for January 2007.

foreign currency loans and deposits in any maturity, sector and currency equaled 8.5% and 1.8%, respectively, and registered a quarterly increase of 0.3 and 0.2 percentage points, respectively.

Figure 46
Weighted interest rates and spreads of the banks*



Pertain to Denar loans and deposits in any maturity and sector, including Denar indexed loans and deposits.

Source: National Bank of the Republic of Macedonia

Annex 5

Summary of the results of the Credit Activity Survey from January 2007²⁹

I. Lending to enterprises

The results of the Credit Activity Survey in the fourth quarter of 2006 indicate continuation of the trend of *partial loosening of the lending terms to the corporate sector*, largely under the influence of the competition of other banks, the bank's access to market financing, liquidity position of the bank and the expectations for the perspective of the branch housing the company. Typical for this quarter is the fast increase in the percentage of banks that point to the partial loosening of the terms for long-term lending (85.4%, compared to 61.1% in the preceding quarter). *With respect to the specific lending terms* in this quarter, most banks (85.3%) again points to the interest rate as a requirement that is partially, i.e. considerably loosened. Same as in the preceding quarter, only 25.3% of the banks find the monetary policy to be a factor that influenced the banks' interest rate policy, which could be accounted for the slight changes in the monetary policy in this quarter. Most of the banks-respondents find *the demand for credits by the corporate sector* partially higher, compared to the preceding quarter, when most banks found the demand for credits unchanged. Most banks *expect* the lending terms in the first quarter of 2007 to remain unchanged and the demand for credits to increase partially.

II. Lending to households

Observing the lending to households, the last quarter of 2006 witnesses shift in the responses of the banks from principally unchanged lending terms to partial, i.e. significant loosening of the terms for approving housing and consumer loans, respectively. *Analyzing the housing credits*, most of half of the banks point to the credit price and fees as factors that are partially loosened (most banks found the fees to be unchanged in the preceding quarter). The competition of other banks and the perceptions for the overall economic activity are still dominant factors for the accelerated activity in the housing credit market. The demand for housing credits in the last quarter is found to be virtually

²⁹ Credit activity survey was conducted in July 2006 for the first time. The Survey conducted in January covered 15 banks, and answers were given by 14 banks

unchanged.³⁰ As to the consumer loans, the credit price and the non-interest bearing income are indicated as factors that are partially or considerably loosened, whereas most banks regard the competition of other banks and the expectations for the overall economic activity as factors that contribute to loosening the lending terms. Same as in the preceding quarter, most of the banks find the demand for consumer loans to be partially loosened, with the needs for financing the consumption of durable goods and the trust of the consumers being indicated as factors that contribute to the higher demand. Most of the banks expect the terms for lending to the households to remain unchanged and the demand for credits to this segment to increase partially in the first quarter of 2007.

7.

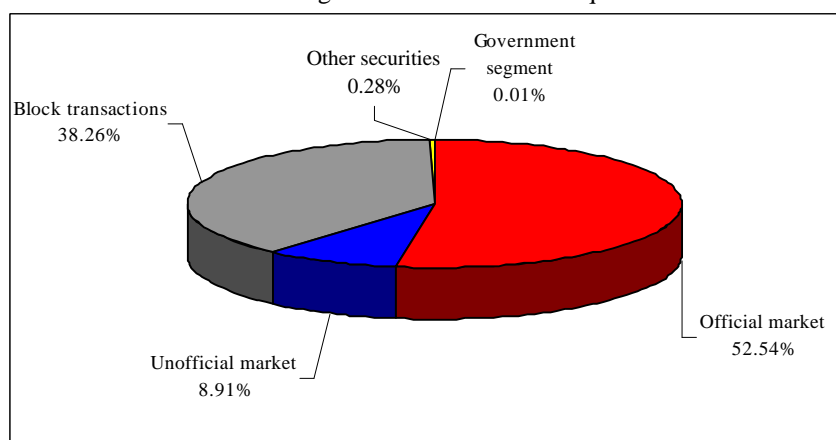
Financial markets

7.1. Stock Exchange

Significant increase in the total Stock Exchange turnover in the fourth quarter of 2006

The total Stock Exchange turnover (including block transactions and government segment) in the fourth quarter of 2006 reached Denar 5,409.7 million, thus increasing by 53.7% relative to the preceding quarter. 79% of the turnover growth results from the higher volume of trade through block-transactions, with the classical stock trading contributing with 20.2%. Also, there was a trade on the government segment of the Stock Exchange³¹ and on the segment of trade in other securities (certificates), unlike the third quarter, when these two segments registered no trade.

Figure 47
Structure of the Stock Exchange turnover in the fourth quarter of 2006



Source: Macedonian Stock Exchange AD Skopje.

Increase in the turnover through classical stock trade

The turnover through the classical stock trade (without block-transactions) in the last quarter of 2006 was valued at Denar 3,324.5 million, which is an increase of 13% compared to the preceding quarter, with the average daily Stock Exchange turnover totaling Denar 85 million, with 283 transactions being executed daily, on average.

³⁰Although the banks do not come out for decreasing the supply of housing credits, roughly 40% of the banks points to the perspectives of the housing construction market as a factor that partially contributes to decreasing the demand, unlike the previous two quarters when it acted in inverse direction. Such change partially indicates the sensitivity of this market to the problems in the real estate market that emerged in the previous quarter.

³¹On December 29, 2006, the 89th public exchange bid was held at which common shares held by the Ministry of Finance were offered to three banks. One transaction was executed in 89 common shares of Makedonska Banka AD Skopje, in the total amount of Denar 331,500.00.



*Recapitalization through
new issues of shares in the
Stock Exchange*

The higher turnover on the official Stock Exchange segment primarily results from the higher demand of the investors for shares of the banks listed on this Stock Exchange segment, after the announcement of investments of some distinguished foreign banks in the domestic banks. Also, in this quarter, the Securities and Exchange Committee of the Republic of Macedonia passed several decisions related to the Stock Exchange activity of the banks listed on the Stock Exchange, primarily directed towards approving new issues of securities, i.e. market recapitalization³².

To make the Stock Exchange stable, the Board of Directors of the Macedonian Stock Exchange AD Skopje, at the meeting held on November 8, 2006 made a decision on cutting the allowed statistical daily price fluctuation in the trade in securities relative to the official average price of the preceding trading day from +/-10% to +/-5%. Such decision partially results from the negative implications of the failed sale of one of the larger commercial banks through public bid of a foreign strategic investor, in order to prevent future significant price fluctuations. Also, on November 9, 2006, a decision was made on temporary termination of the trade in common and preference shares of this bank, as a measure for prevention from rapid price cut and protection of the investors against major losses. On November 21, 2006, the Board of Directors of the Macedonian Stock Exchange AD Skopje decided to reestablish the old price restrictions of +/-10%.

Analyzing the foreign investors, as of December 31, 2006, they accounted for 18.15% of the total capital of the listed companies and the total nominal value of the listed bonds³³ (compared to 16.3% at the end of September 2006), 15.68% of which held by foreign legal entities, and the remaining 2.47% held by foreign natural persons. The average share of the foreign investors in the total turnover on the Stock Exchange³⁴ in the fourth quarter of 2006 equals 41.88% on the purchase side and 11.11% on the sale side. December 2006 witnessed the highest share of foreign investors in the total turnover on the Stock Exchange in 2006, making up 66.27% on the purchase side and 17.55% on the sale side.

At the end of December 2006, 43 joint stock companies were listed on the official market segment of the Stock Exchange, which is by three less compared to September 30, 2006.

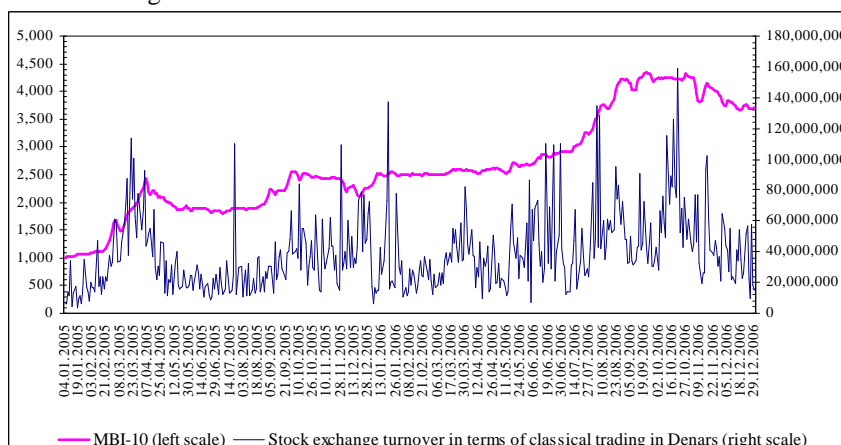
³²At the session held on October 13, 2006, the Securities and Exchange Committee approved the second issue of TTK Banka AD Skopje of 226,972 common shares in the total amount of Denar 227 million intended for EBOR which became a holder of 25% of the equity. At the session held on October 19, 2006, the Securities and Exchange Committee approved the seventeenth issue of shares of Investbanka AD Skopje in total amount of Denar 15.1 million, resulting in issuance of 5,662 common shares in nominal value of Denar 2,670 per share, in order to acquire Makedonska Stedilnica AD Skopje to Investbanka AD Skopje. At the session held on October 24, 2006, the Securities and Exchange Committee approved Komercijalna Banka AD Skopje to sell 31,513 common shares at a public bid in the total amount of Denar 220.591 million.

³³ According to data from the Central Securities Depository.

³⁴ Average derived from the stocks in the last day of the months constituting the quarter, and pertains to the share of foreign investors in the total turnover on the Stock Exchange.

Figure 48

Macedonian Stock Exchange Index (MBI-10) and Stock Exchange turnover realized through classical stock trade³⁵



Source: Macedonian Stock Exchange AD Skopje.

Downtrend of the Stock Exchange Index MBI-10

In the fourth quarter of 2006, the Macedonian Stock Exchange Index MBI-10³⁶ registered a downtrend with major fluctuations in its level, particularly in November, primarily caused by the failed sale of one commercial bank. The trend of rapid drop in the index value that started in November, continued in a faster pace in the first half of December, when the value of five out of ten shares that constitute the MBI-10 also went down.³⁷ Thus, the index value at the end of the year equaled 3,702.4 index points, reflecting an average fall of 12.5% in the prices of shares of the ten companies that make up the index, compared to September 30, 2006. Moreover, the market capitalization of the ten most liquid companies listed on the official market segment reduced by 12.1% in the fourth quarter of 2006 compared to the end of the preceding quarter, totaling Denar 37,195.3 million.

7.2. Government securities market

In the last quarter of 2006, *government bond* in the amount of Denar 353.6 million were traded on the official Stock Exchange market, which is by 5% less compared to the amount traded in the preceding quarter. The prices of the government bonds ranged from 78% (Denationalization Bond of the fourth issue) to 87.2% of the nominal value³⁸ (Bond for the old foreign currency savings). No sale and purchase transactions were executed in the Continuous bond no.2 in 2005, the Continuous bond no.1 in 2006, and the old government bonds³⁹ (which started being traded on the Stock Exchange on June 28, 2006).

³⁵ The figure showing the daily Stock Exchange turnover through classical stock trade, except for block transactions, also excludes the transactions on the government segment and transactions in other securities (deposit certificates issued for the failed savings houses).

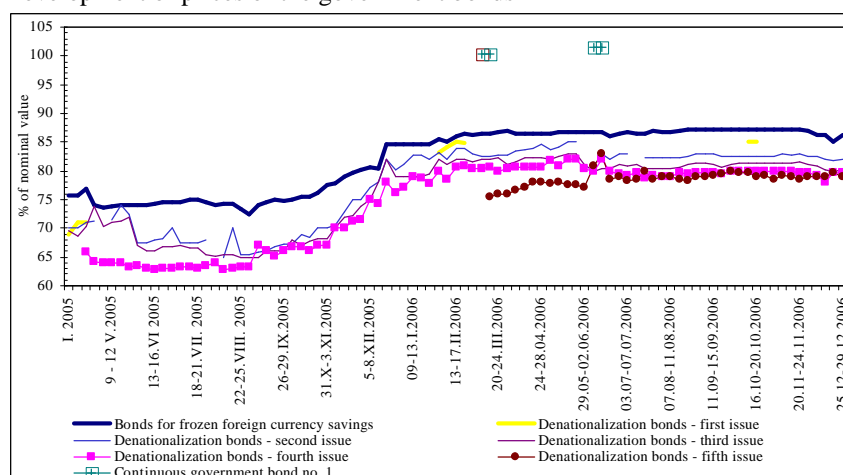
³⁶ Price index weighted by market capitalization, constructed on the basis of common shares of ten companies listed on the official market.

³⁷ The prices of Granit AD Skopje, Makpetrol AD Skopje, Stopanska Banka AD Bitola, Ohridska Banka AD Ohrid and Beton AD Skopje dropped. Since December 16, 2006, Beton AD Skopje, and Makstil AD Skopje constitute a part of MBI-10, thus becoming a part of the Index structure as a replacement of the shares of Fersped AD Skopje and Makedonija Turist AD Skopje.

³⁸ The interval has been set in accordance with the latest weekly prices of trade in bonds within the quarter under observation.

³⁹ Bonds for rehabilitation of Stopanska Banka AD Skopje and Bonds for compensating selective credits of the NBRM, issued by the Republic of Macedonia in 1995.

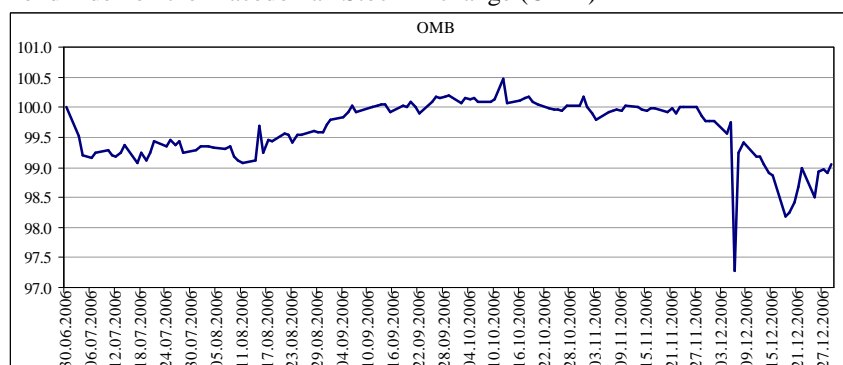
Figure 49
Development of prices of the government bonds



Source: Macedonian Stock Exchange AD Skopje.

In most of the fourth quarter of 2006, the OMB⁴⁰ index gravitates around the initial value, with a higher volatility and general downtrend of the Index value being registered from December 6, 2006 to the end of December. The Index value at the end of 2006 was positioned at 99.06 index points, which is a fall of 1.1% compared to the value at the end of September 2006.

Figure 50
Bond index on the Macedonian Stock Exchange (OMB)



Source: Macedonian Stock Exchange AD Skopje.

At the auction held on October 26, 2006, the Ministry of Finance of the Republic of Macedonia issued a two-year Continuous government bond no.2 in 2006 with a nominal value of Denar 300 million and coupon interest of 9% p.a., paid once a year. Compared to the realized Denar 300 million, the demand for the two-year government bond at the auction reached Denar 552.55 million. The nominal value falls due on October 30, 2008. The banks account for 70%, and the non-bank entities for 30% of the ownership structure of the two-year Continuous government bond no.2 in 2006.

On November 23, 2006, the Ministry of Finance of the Republic of Macedonia issued three-year government bond for the first time. Denar 300 million was offered at the auction, and the demanded amount of Denar 290.8 million was fully realized. The coupon interest on three-year government bond

⁴⁰ The OMB index is composed of bonds for old foreign currency savings and denationalization bonds of the 1st, 2nd, 3rd, 4th and 5th issue, with the initial value of the OMB being 100. The OMB is a price index weighted by the turnover, with a restriction according to which the share of none of the bonds within the index structure is not allowed to exceed 30%.



equals 9% p.a. and will be paid once a year within 3 years. The banks make up 79% and the non-bank entities 21% of the ownership structure of the three-year government bond issued on November 23, 2006.

On December 29, 2006, the Ministry of Finance of the Republic of Macedonia made an advance purchase of the Continuous government bond no.2 in 2005, where the nominal amount of Denar 716 million, along with the due coupon interest of Denar 53 million were paid to the only owner - National Bank of the Republic of Macedonia. The advance purchase is in conformity with the Public Debt Law and the Prospectus for issuance of and trade in Continuous government bond no.2 in 2005, made in a period of favorable budget position, aimed at savings based on interest expense.

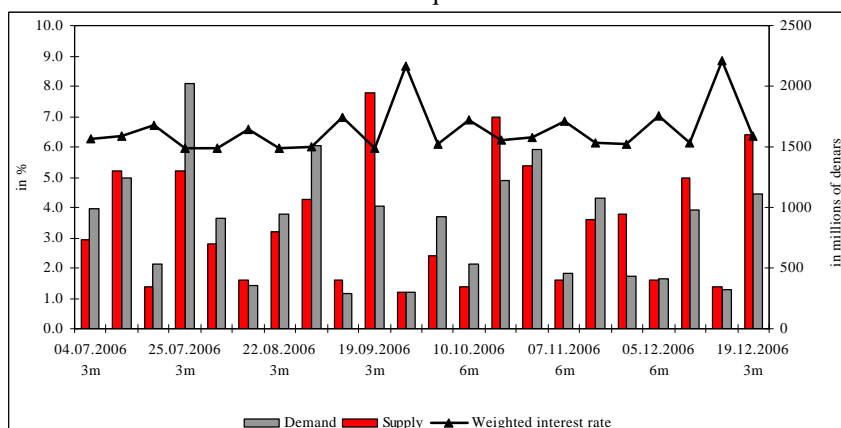
In the fourth quarter, the supply exceeds the demand for three-month treasury bills

In the last quarter of 2006, seven auctions of 3-month treasury bills were held in the primary government securities market. Although six auctions were announced to be held according to the pre-specified calendar⁴¹, on October 3, 2006 one, already held auction was reopened (on September 19, 2006), with the 3-month treasury bills of this auctions being fully intended for monetary purposes (Denar 600 million). At the auctions held within the quarter, the total offered amount of 3-month treasury bills⁴² equaled Denar 8,395 million, Denar 7,232.6 million was demanded, and total of Denar 6,595 million being realized (79.5% of the realization relates to treasury bills for monetary purposes). At the auctions held in the fourth quarter, the average weighted interest rate on 3-month treasury bills equaled 6.22%, compared to 6.07% in the preceding quarter of 2006.

In this quarter, the realized amount ranges from 87.5% of the demanded amount of 3-month government securities in October to 100% in December. At four, out of seven, auctions held in this quarter, the offered amount of 3-month treasury bills was not fully absorbed by the end investors.

Figure 51

Supply, demand and average weighted interest rate on treasury bills at the auctions held in the third and the fourth quarter of 2006



Source: Ministry of Finance of the Republic of Macedonia.

In the fourth quarter, the supplied amount of six-month treasury bills was fully realized

Three auctions of 6-month treasury bills were held in the last quarter of 2006. The total offered amount of Denar 1,150 million was fully absorbed, with roughly 20% of the demand remaining unrealized. The demand by the investors was the highest in October, when the demand exceeded the supply by 53.5%. The average weighted interest rate on 6-month treasury bills at the auctions held in the fourth quarter reached 6.91%, compared to 6.74% in the preceding quarter of 2006.

⁴¹ The calendar of government securities auctions is made public in advance for a period of six months, and the precise amount for each auction is made public four days prior to the auction.

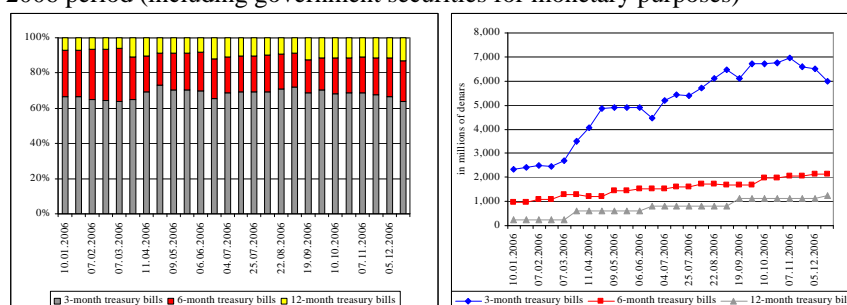
⁴² Including treasury bills for monetary purposes.

One auction of 12-month treasury bills was held in the fourth quarter of 2006. Treasury bills in the amount of Denar 350 million were offered at this auction, with Denar 324.1 million being realized, the amount of which corresponds with the demand. The average weighted interest rate on the auction equaled 8.86% (8.66% in the third quarter of 2006).

The total stock of issued, undue 3-month, 6-month and 12-month treasury bills at the end of 2006 is Denar 9,370.12 million, including 3-month treasury bills for monetary purposes⁴³. The 3-month treasury bills dominate, constituting 64%, 77.5% of which are treasury bills for monetary purposes.

Figure 52

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

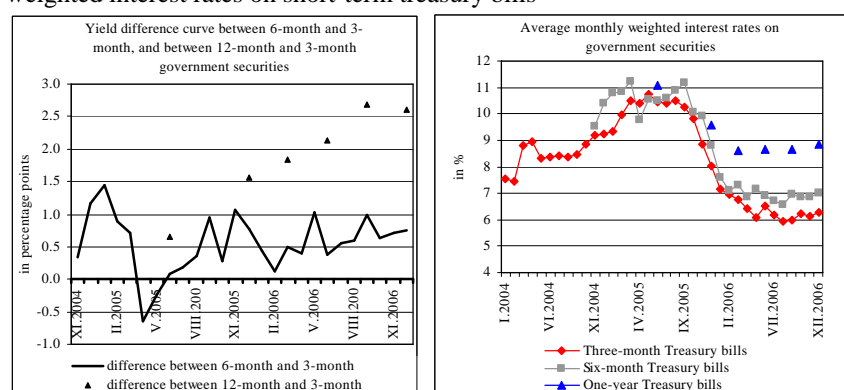


Source: Ministry of Finance of the Republic of Macedonia.

The interest rate on treasury bills is considered a basic or minimum interest rate, taking into account that it is a risk-free investment, where the government plays the role of issuer. The interest rates on treasury bills with various maturities generally move to a same direction, with possibility of some exceptions. The treasury bills with longer maturity bear higher interest, corresponding to the higher risk premium, taking into account the longer maturity period.

Figure 53

Curve of yield differences between the 3-month and 6-month and between 12-month and 3-month treasury bills and development of the average monthly weighted interest rates on short-term treasury bills

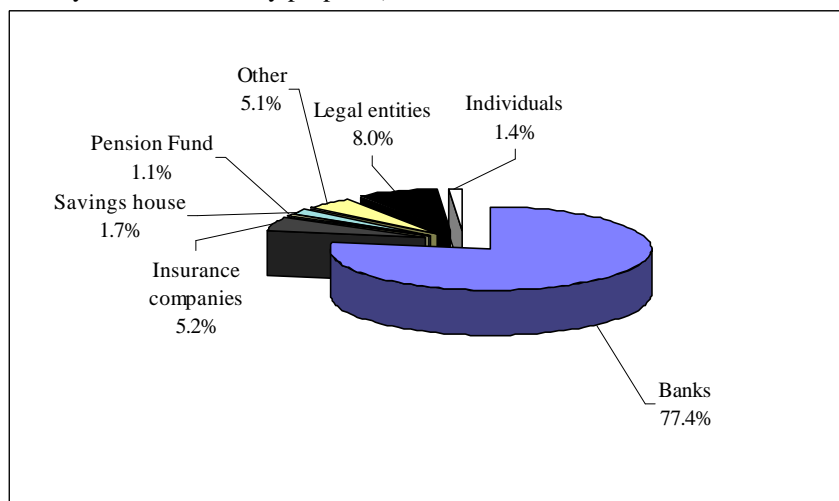


The ownership structure analysis shows dominant share of the banks (of 77.4%) in the total stock of 3-, 6- and 12-month treasury bills, followed by non-financial legal entities (8%) and insurance companies (5.2%).

⁴³ According to the Public Debt Law, the government securities for monetary purposes are not considered a part of the public debt, since issued for the purposes of monetary policy. Also, the government shall not be entitled to hold the withdrawn money by issuing treasury bills for monetary purposes.

Figure 54

Ownership structure of treasury bills (3-, 6- and 12-month bills including treasury bills for monetary purposes) on December 31, 2006



Source: Ministry of Finance of the Republic of Macedonia.

In the fourth quarter of 2006, the over the counter market⁴⁴ witnessed no purchase and sale transactions in treasury bills. In the fourth quarter of 2006, the total trade in long-term government securities in the over the counter market amounted to Denar 392.5 million, with more than half of the turnover (55%) resulting from government bonds with residual maturity of up to 3 years, and the remaining portion to government bonds with residual maturity of up to 2 years.

8.

Balance of payments⁴⁵

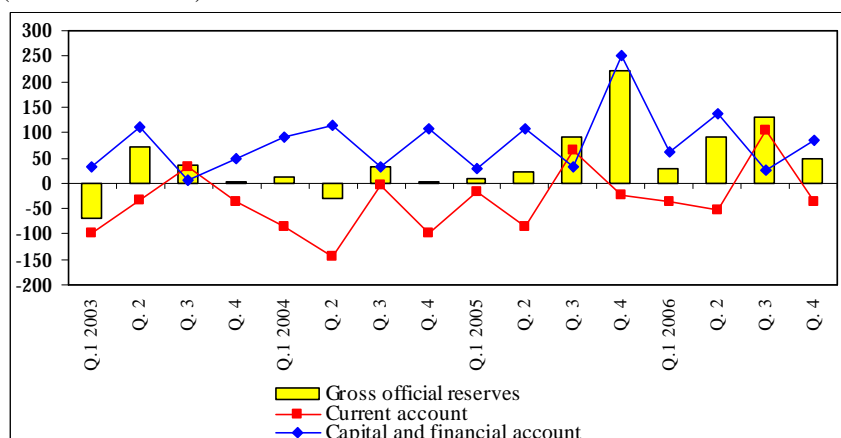
In the fourth quarter of 2006, the balance of payments current account registered negative balance, primarily owing to the further deepening of the negative gap in the trade in goods. The current account balance also deteriorated due to the reduction in the inflows from income. On the other hand, the deficit is still financed primarily by the foreign currency inflows from private transfers. Also, the trade in services registered a surplus balance, unlike the same period of 2005, when it registered a deficit. With respect to financing, the capital and the financial account in the fourth quarter of 2006 registered inflows from non-debt financing (direct and portfolio investments), and as to the debt financing, the long-term and short-term external debt decreased. Such developments made the gross foreign reserves higher in the last quarter of 2006.

⁴⁴ The over-the-counter market was officially commissioned on April 25, 2005, and the first transaction was concluded on May 18, 2005. The over the counter market serves for concluding purchase and sale transaction in securities outside the Stock Exchange. Till June 30, 2006, all short-term securities issued by the Republic of Macedonia were traded on the Market, and since July 1, 2006, in line with the amendments to the Rule for the manner and procedure for trade in and settlement of securities transaction ("Official Gazette of the Republic of Macedonia" no.71/2006), the NBRM extended the regulations governing the trade in government securities on the over the counter markets and on long-term government securities (other than bonds for the old foreign currency savings and denationalization bonds).

⁴⁵In December 2006, import data in the balance of payments statistics were changed due to the time adjustment of the import of electricity. The foreign trade data of the State Statistical Office remain unchanged, and hence the import data from these two sources do not match.



Figure 55
Current account, capital and financial account and gross official reserves
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

8.1. Current account

Euro 35.9 million of deficit in the balance of payments current account in the last quarter of the year

In the fourth quarter of 2006, the balance of payments current account registered a negative balance of Euro 35.9 million. Relative to the same period of 2005, the deficit increased by Euro 11.9 million, and compared to the fourth quarter of 2004, it dropped by Euro 64 million.

Table 4
Balance of payments current account /1
(in millions of Euros)

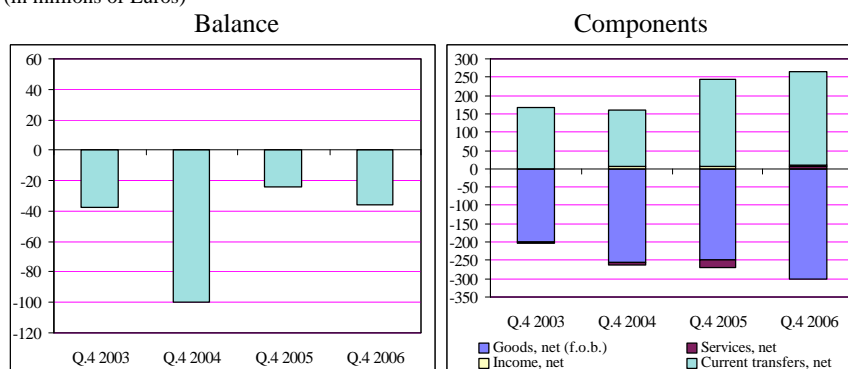
	2005				2006				2006-2005				2006-2005			
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4
									difference				changes in (%)			
Goods, net (f.o.b.)	-145.5	-272.0	-188.4	-247.4	-221.8	-292.9	-205.0	-301.0	-76.3	-20.9	-16.5	-53.5	52.5	7.7	8.8	21.6
Services, net	-2.9	-13.1	9.4	-20.7	-5.1	-4.4	23.6	5.6	-2.2	8.6	14.2	26.3	78.0	-66.2	151.6	-127.1
Income, net	0.5	-16.3	-36.8	8.2	5.1	-1.4	-9.4	3.9	4.6	14.9	27.4	-4.2	10.4	-91.3	-74.5	-51.8
Current transfers, net	131.9	214.6	280.7	236.0	185.3	247.2	295.8	255.5	53.3	32.5	15.1	19.6	40.4	15.1	5.4	8.3
Current account	-15.9	-86.8	64.8	-24.0	-36.6	-51.6	105.1	-35.9	-20.7	35.2	40.3	-11.9	130.1	-40.6	62.1	49.5

1/ Preliminary data.

Source: National Bank of the Republic of Macedonia.

The current account analysis with respect to the constituent components, points to the trade balance (net outflows higher by Euro 53.5 million) and the income balance (net inflows lower by Euro 4.2 million) as factors that act towards increasing the negative current account balance. On the other hand, the current account balance improved as a result of the service balance (surplus of Euro 5.6 million, compared to the deficit of Euro 20.7 million in the same period of 2005) and the current transfer balance (net inflows higher by Euro 19.6 million).

Figure 56
Balance and current account components
(in millions of Euros)



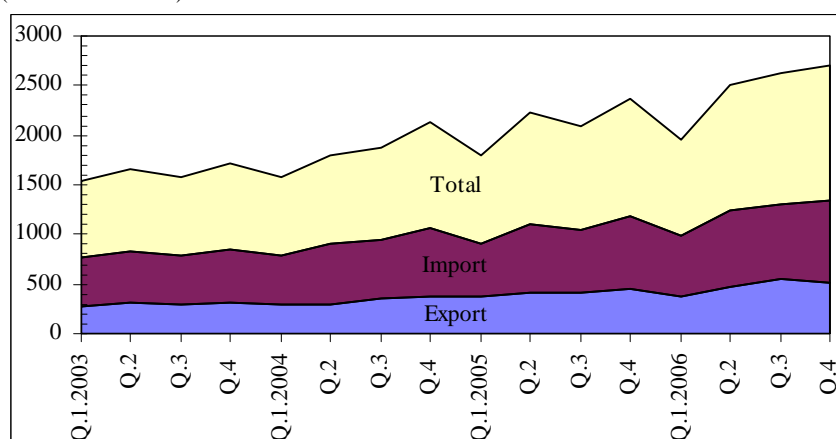
Source: National Bank of the Republic of Macedonia.

a) Foreign trade

14.3% annual increase in the total foreign trade in the fourth quarter of 2006

The total foreign trade of the Republic of Macedonia in the fourth quarter of 2006 compared to the same period of the previous year went up by 14.3% (annual increase in the exports and the imports by 13.4% and 14.9%, respectively), reaching Euro 1,349.8 million⁴⁶ which is the highest quarterly amount since the independence.

Figure 57
Foreign trade of the Republic of Macedonia
(in millions of Euros)



Source: State Statistical Office.

13.4% higher export of goods on annual basis...

In the last quarter of 2006, the export of goods is valued at Euro 513.4 million, which is a quarterly increase of 13.4%. Dividing the export into major groups of export products, all categories of goods contribute to the annual increase in the exports, except for the export of tobacco and the export of clothing and textile.

⁴⁶ Preliminary data of the State Statistical Office. The export of goods is presented on f.o.b. basis, while the import of goods on c.i.f. basis.

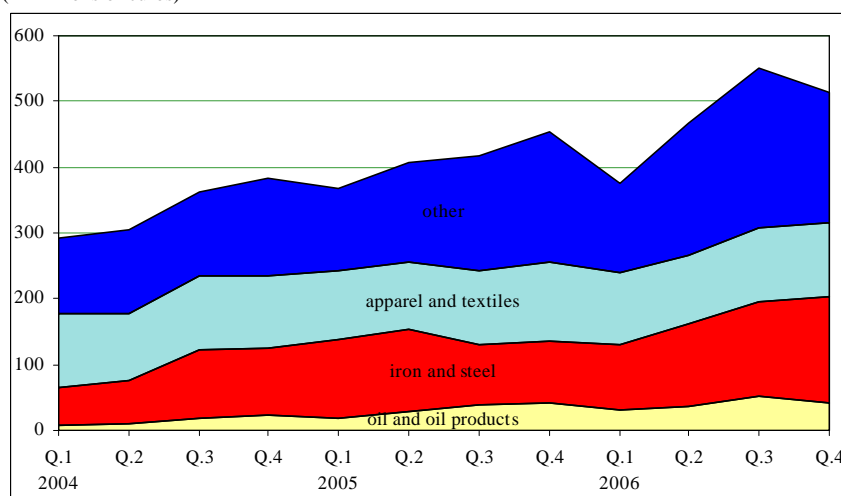
Table 5
Exports by group of products according to the SITC/⁴⁷
(in millions of euros)

groups of products	Q.4 2005	Q.4 2006	Q.4 2006- Q.4 2005 change in absolute amount	Q.4 2006/ Q.4 2005 rates of change in (%)	Q.4 2005	Q.4 2006	Contribution to the increase in Q.4 2006
	amount	amount	amount	in (%)	structure in %	structure in %	(%)
Total export of goods	452.8	513.4	60.5	13.4			
Fruits and vegetables	22.3	25.9	3.5	15.8	4.9	5.0	5.8
Beverages	13.7	13.9	0.2	1.5	3.0	2.7	0.3
Tobacco and products thereof	27.3	18.9	-8.4	-30.9	6.0	3.7	-13.9
Metal ore and waste	11.2	18.2	7.0	62.5	2.5	3.6	11.6
Clothing and textile	120.6	114.1	-6.5	-5.4	26.6	22.2	-10.7
Iron and steel	93.5	161.1	67.5	72.2	20.7	31.4	111.5
Oil and oil products	41.2	41.6	0.4	0.9	9.1	8.1	0.6

Source: State Statistical Office.

The export performances in the last quarter of 2006 primarily reflect the accelerated activity in the steel industry, the contribution of which to the increase in the exports in 2006 permanently intensifies. Thus, in the last quarter of 2006, the export of iron and steel is the largest contributor to the increase in the total exports, compared to the previous three quarters. The categories of metal ores and wastes and fruits and vegetables (11.6% and 5.8%, respectively) have a relatively significant contribution to the export activity in the fourth quarter. Typical for this quarter is the lower export of energy (compared to the previous three quarters), which, in environment of higher export prices, fully reflects the lower quantities.

Figure 58
Dynamics of exports by group of products
(in millions of euros)



Source: State Statistical Office.

..with simultaneous increase
in the import of goods of
14.9% on annual basis

In the last three months of 2006, the import of goods reached Euro 836.4 million, which is an annual growth of 14.9%, given the higher import of all categories of major import products. Such pace of the imports corresponds with the high import dependence of the Macedonian exports and the overall economy, where the accelerated economic activity implies higher import of goods.

⁴⁷ Standard International Trade Classification.

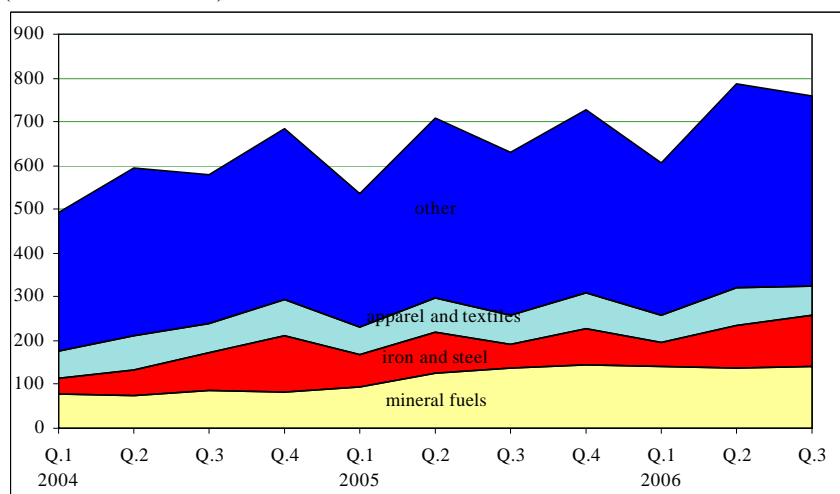
Table 6
Imports by group of products according to the SITC
(in millions of euros)

groups of products	Q.4 2005	Q.4 2006	Q.4 2006/Q.4 2005		Q.4 2005	Q.4 2006	Contribution to the increase in Q.4 2006 (%)
			change in absolute amount	rates of change in (%)			
	amount				structure in %		
Total import of goods	728.0	836.4	108.5	14.9			
Import of mineral fuels, lubricants, etc.	143.7	181.4	37.6	26.2	19.7	21.7	34.7
oil and oil products	121.9	154.5	32.6	26.8	16.7	18.5	30.1
gas - natural or industrial	7.6	8.3	0.7	9.3	1.0	1.0	0.6
electricity	8.4	12.4	4.0	47.9	1.2	1.5	3.7
Products sorted by material	210.3	245.0	34.7	16.5	28.9	29.3	32.0
Iron and steel	59.3	82.9	23.6	39.8	8.1	9.9	21.7
Textile yarn, etc.	75.0	76.8	1.8	2.4	10.3	9.2	1.7
Non-ferrous metals	12.0	14.3	2.3	18.8	1.7	1.7	2.1
Machinery and transport equipment	128.2	147.0	18.8	14.6	17.6	17.6	17.3
Special machinery for the industry	14.7	18.5	3.8	26.0	2.0	2.2	3.5
Industrial machines for general purposes	15.4	20.5	5.1	32.8	2.1	2.5	4.7
Electrical machinery, parts - n.e.c.	22.0	23.5	1.5	7.0	3.0	2.8	1.4
Road vehicles	34.1	38.9	4.8	14.0	4.7	4.7	4.4
Other transport equipment	0.1	0.6	0.5	320.2	0.0	0.1	0.4

Source: State Statistical Office.

The analysis of major import groups of products points to the higher import of mineral fuels as the largest contributor (34.7%) to the increase in the imports. Within this group, all types of energy sources acted towards increasing the imports, with the import of oil and petroleum products (30.1% of the total growth) being a dominant contributor, owing to the higher imported quantities in environment of virtually unchanged price. The category of products classified by materials has a remarkable contribution (32%) to the overall growth, with the higher import of iron and steel dominating (21.7% contribution to the total growth), as a result of the accelerated activity of this sector. The category of machines and transport equipment, the import of industrial machines for general consumption and road vehicles considerably contribute to the acceleration of the total import with 4.7% and 4.4%, respectively.

Figure 59
Dynamics of imports by group of products
(in millions of euros)



Source: State Statistical Office.

17.4% higher trade deficit on annual basis

In environment of faster increase in the imports relative to the exports, the trade deficit in the fourth quarter of 2006 went up by 17.4%, reaching Euro 323 million. Also, the export-import coverage ratio fell by 0.8 percentage points, reducing to 61.4%.

Annex 6

Structural export competitiveness of the Republic of Macedonia

The quantification of the comparative advantage of each industry provides a deeper insight in the potential of the foreign trade, and therefore in the overall development capacity of the national economy. The structural comparative advantage of each industry is perceived through the **CTB-Contribution to the trade balance**, derived through the following formula:

$$CTBi = \frac{2}{(X + M)} \left[(Xi - Mi) - \frac{(Xi + Mi)(X - M)}{(X + M)} \right]$$

Xi -industry export i ;

Mi -industry import i ;

X -total export of the country;

M -total import of the country.

Positive contribution to the trade balance is interpreted as a structural comparative advantage of the specific branch. The index value for a given period would be zero when the net industry export-to-total net export ratio equals the share of the foreign trade of the industry in the total foreign trade of the country, where the respective branch has neither structural comparative advantage nor comparative weakness. If any industry has neither comparative advantage nor comparative weakness, the total trade balance of the country (either surplus or deficit) should be distributed among the industrial branches according to their share in the total foreign trade.

$$CTBi=0 \text{ if } \frac{Xi - Mi}{X - M} = \frac{Xi + Mi}{X + M}.$$

The index value would be either positive or negative depending on whether the net export relatively exceeds or is below the "neutral value". It should taken into account that if the industrial branch has a low trade surplus, but its foreign trade has a significant share in the total foreign trade of the country, in environment of trade deficit of the country, such industrial branch, although showing surplus in the foreign trade, registers negative $CTBi$ index, which reflects the low trade surplus of the branch compared to its high share in the total foreign trade (vice versa also applies here). Consequently, in spite of the actual trade surplus, measured through the CTB Index, the branch faces structural deficit. In other words, $CTBi$ shows the structural contribution to the trade balance of the branch in the total trade balance of the country. Therefore, if $CTBi$ is a positive number and registers an uptrend, such branch is of increasing significance to the export; if it is a positive number and registers a downtrend, such branch is of decreasing significance to the export; if the $CTBi$ is a negative number and such negativity deepens, this branch has an increasing significance to the import; if it is a negative number and such negativity lowers, this branch has a decreasing significance to the import.

Table 7
CTBi Index

	2002	2003	2004	2005	2006
Meat and meat products	-1.2055	-1.1156	-1.7390	-1.8116	-1.1842
Grains	-0.7841	-0.7173	-1.5788	-0.9363	-0.2882
Beverages, alcohol and vinegar	2.1700	2.8132	3.2348	4.3690	2.7642
Tobacco and tobacco products	3.2112	4.0563	4.3892	7.6876	4.0749
Mineral fuels and distillates thereof	-6.5748	-6.0929	-9.9387	-15.0240	-10.2963
Pharmaceutical products	-0.2554	-0.4112	-0.4215	0.0607	-0.1721
Plastic and plastic products	-1.1187	-1.3148	-2.4327	-3.4817	-2.3681
Wood and wood products	-0.8228	-0.9677	-1.3905	-1.5563	-0.9075
Knitted or crocheted products	0.1941	0.2328	-0.1055	-0.8176	-0.5605
Garments and clothing accessories, knitted or crocheted	2.3357	3.3816	5.5248	5.2637	2.2247
Articles of apparel and clothing accessories, not knitted or crocheted	12.6955	18.2908	26.2829	32.0659	16.1107
Footwear	1.4630	2.0087	2.9126	3.9827	1.6947
Iron and steel	5.0269	9.8782	11.5670	24.9731	14.1739
Iron and steel products	0.8279	1.2970	3.6668	5.4621	3.3737
Copper and copper products	-0.3069	-0.1868	-0.4441	-0.4910	0.1306
Nickel and nickel products	-0.0018	-0.0009	-0.0048	-0.0034	-0.0040
Aluminum and aluminum products	0.1427	0.2824	-0.2723	-0.3230	-0.2781
Zinc and zinc products	1.8397	1.1066	-0.1797	-0.1960	-0.3707

Source: State Statistical Office and United Nations Database. The distinction of the foreign trade by industry has been made according to HS2002 Classification.

Table 1 shows the evolution of *CTBi* index in 18 most relevant industrial branches of the Macedonian economy, selected by their asset to the foreign trade. The analysis is focused on 2002-2006 period, i.e. the period after the admission of the Republic of Macedonia to WTO, considered to be a period in which the foreign trade starts more realistically revealing the comparative advantages of the economy, due to the fact that the trade liberalization and WTO membership imply considerably lower scope of artificial distortions to the trade (distortions such as government policies and interventions, e.g. import restrictions, export subventions and other policies of active protectionism which seriously disrupt the quantitative indicators for structural comparative advantage).

In the 2002-2005 period, the following industries were a great asset to the Macedonian exports, therefore having a higher positive structural contribution to the trade balance: industry for production of beverages, tobacco and tobacco products, garments and accessories, footwear, iron and steel and products thereof. Yet, in 2006 relative to 2005, the structural positive contribution of all these branches to the trade balance of the Republic of Macedonia reduced. In 2005, when the value of *CTBi* index for these industrial branches was at maximum (within the period under observation), compared to 2002, the manufacture of iron and steel products was the most significant to the export (by 6.6 times higher).

The following industries register a permanent increase in their significance to the Macedonian import in the 2002-2005 period: industry for production of meat and other meat products, industry for processing of mineral fuels and production of distillates thereof, industry for plastic and plastic products, wood industry and industry for production of copper and products thereof. The significance of these branches to the import in 2006 compared to 2005 lessened, when the industry for production of copper and products thereof switched in 2006, registering a positive structural contribution to the trade balance, i.e. significance on the export side (primarily owing to the restarting of a major mining facility in May 2005).

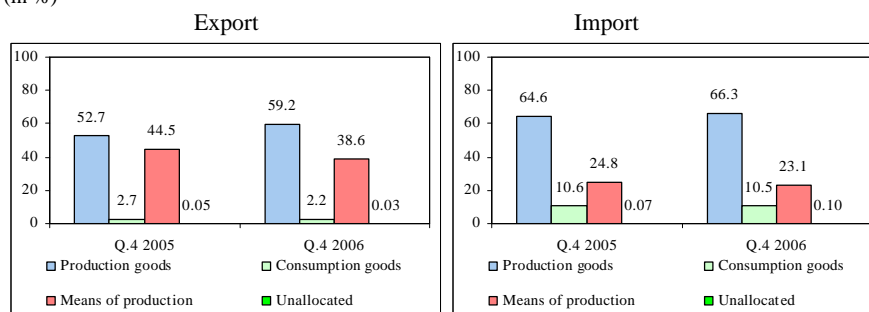
On the other hand, in 2004, the industries of production of aluminum and aluminum products, zinc and zinc products and production of plating materials lost their comparative advantage with respect to their positive structural contribution to the trade balance, and in 2005 and 2006 contribute to the import side. Among the analyzed branches, which in the 2002-2006 period permanently showed positive value of the *CTBi* index, the manufacture of

footwear and the branch for manufacture of clothing and clothing accessories register the lowest index values, primarily owing to their high import dependence.

*Production materials prevail
on both export and import side*

Observing the economic use of the products, the production materials⁴⁸ still dominate the foreign trade, accounting for 59.2% and 66.3%, respectively of the structure of the both export and import, while the joint consumption goods make up 38.6% and 23.1% of the exports and the imports, respectively. The analysis of the annual changes in the export structure shows higher share of the export of production materials (by 6.5 percentage points), and lower share of the joint consumption goods and the means of operation (by 5.9 percentage points and 0.5 percentage points, respectively). The import structure shows higher share of the production materials and lower share of the joint consumption goods (by 1.6 percentage points). Such changes reflect the accelerated activity of the branches the operations of which involve processed materials.

Figure 60
Foreign trade of the Republic of Macedonia by economic use of the goods
(in %)



Source: State Statistical Office.

*The European Union -
major trade partner*

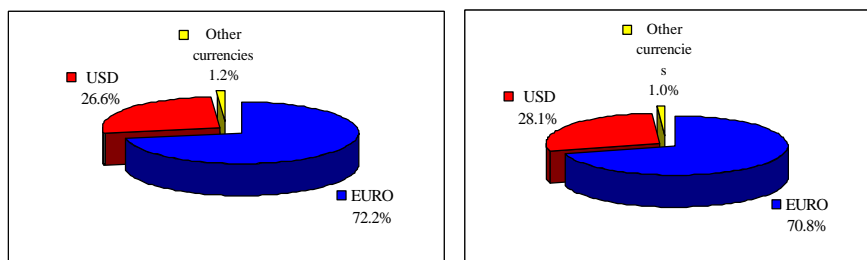
Over the last three months of 2006, the export of goods from the Republic of Macedonia was also primarily targeted to two groups, the European Union constituting 55.6% of the total exports (also registering 4.7 percentage points higher annual structural share) and the former SFRY republics (30.7% of the total exports). Additionally, most of the goods (43%) are imported by our major trade partner - the European Union and the Central and East European countries (28.7% of the total import).

In the fourth quarter of 2006, Serbia, Germany and Russia are the major trading partners of the Republic of Macedonia accounting for 36.2% of the total exports. A change relative to the same period of the previous year is the admission of Russia to the group of the three most important trade partners, at the expense of Greece. The highest export-import coverage ratio was registered in the trade with Serbia of 172.6%, as a result of the higher export of petroleum products, whereas the lowest export-import coverage ratio was registered in the trade with Russia of 2.6%, resulting from the higher import of oil and petroleum products.

In 2006, the Euro dominates the currency of denomination structure of the foreign trade on the side of both imports and exports (73.7% and 69%, respectively). Still, there has been some changes relative to the same period of the previous year, i.e. lower structural share of the Euro and other foreign trade currencies (by 1.4 percentage points and by 0.2 percentage points, respectively) and higher structural share of the US Dollar (by 1.6 percentage points).

⁴⁸ Production materials include raw materials and intermediary products, machine fuel and finished production materials.

Figure 61
Currency structure of the foreign trade of the Republic of Macedonia
I-XII 2005 I-XII 2006



Source: State Statistical Office.

Annex 7

Fulfillment of the export and import projection for 2006 and projection for 2007

For the purposes of making a projection of the balance of payments of the Republic of Macedonia, usually once to twice a year, the NBRM conducts a Survey on the business plans of the most relevant drivers of the foreign trade of the Republic of Macedonia. In 2006, this survey was conducted in February, May and October. It should be noted that in February and May the survey covered few companies, primarily in the area of metallurgy and energy, the business plans of which partially changed under the influence of the price fluctuations in the international exchanges.

The survey conducted in October 2006 had a remarkably greater scope, considering the changes and the extension of the list of foreign trade companies, thus companies from the service sector being subject to the survey for the first time. The survey conducted in October covered total of 94 companies, as follows: textile (9 companies), iron and steel (8), food (4), beverages (4), tobacco (7), electrical machines and parts (7), vehicles and parts (4), equipment (3), footwear (7), medicines (4), cement, marble (4), gypsum (2), aluminum (3), ceramic products (5), copper (1), ores, slag and ashes (1), oil, petroleum products and other energy sources (6) and service companies (15).

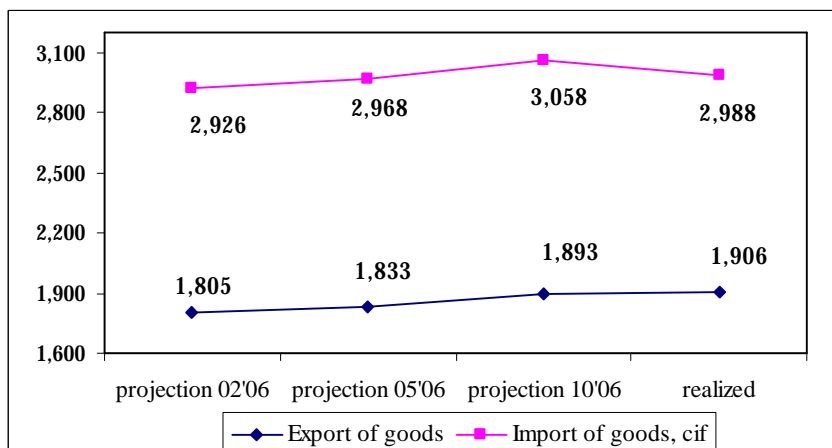
84 companies or 89.4% of the respondents provided answers the questionnaire. Companies that gave their responses constitute 53% of the total export of goods (in the first half of 2006) indicating a higher degree of usability of the data from the survey, for projecting purposes.

In 2006, the initial projection made in February was officially revised in May and October. The revision on the export side was directed towards its increasing, primarily owing to the intensive production and export activity of one large company in the area of metallurgy. The changes on the import side were caused by the high import dependence of the Macedonian exporters, and by the fluctuations in the energy price (lower oil price and higher electricity price).

The comparisons between the foreign trade realization and the projection for February 2006⁴⁹, shows that the export side surpassed the projection by Euro 101 million (due to the higher export of iron and steel, tobacco, food, ores, electrical machines and equipment), whereas the surpass on the import side is lower, valued at Euro 62 million (primarily higher import of iron and steel). Hence, in environment of a higher surpass of the exports relative to the imports, the trade deficit was by Euro 39 million lower compared to the projection from February.

⁴⁹ The revisions made in May and October include current performances.

Figure 62
Projection and realization of the export and import of goods in 2006
(in millions of euros)



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

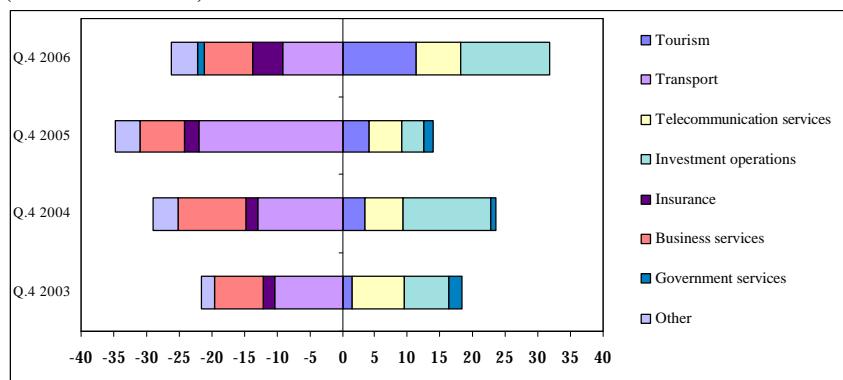
According to the projection of each component of the foreign trade of the Republic of Macedonia (based on the responses of the companies - respondents, the projected increase in the gross domestic product of the Republic of Macedonia and of the developed countries - major foreign trade partners, and the projections for other macroeconomic variables), the trade account deficit is expected to go up moderately in 2007, measured as a percentage of GDP (from 19.3% in 2006, to 20.4% in 2007). It is a result of the high import dependence of the export companies, and the expected higher import of equipment for the newly announced foreign direct investments. The deficit from the trade in energy would remain the same as in 2006 (8% of GDP) in environment of slight fall in the oil price, on the one hand and higher energy prices, on the other. Consequently, the export and import of goods is expected to surge by 9.8% and 10.9%, respectively, on annual basis.

b) Other current account components

Positive service balance...

In the last quarter of 2006, the service trade balance was valued at Euro 5.6 million, i.e. a positive balance of Euro 20.7 million was registered relative to the deficit in the fourth quarter of 2005. The lower net outflows based on provided international transport services (by 12.8 Euro million) are dominant contributors (48.6%) to the surplus generated over the last three months, resulting from the higher export of goods and accordingly, higher income from transport of goods. The contribution of the transactions based on international investment operations (construction works abroad) is also significant (38.9%). The net inflows were valued at Euro 13.7 million, which is by Euro 10.2 million more. The net inflows from tourism make up 27.6% of the total increase, i.e. the annual increase was valued at Euro 7.3 million, due to the higher inflow from games of chance and higher turnover based on payment cards.

Figure 63
Balance of each service categories
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

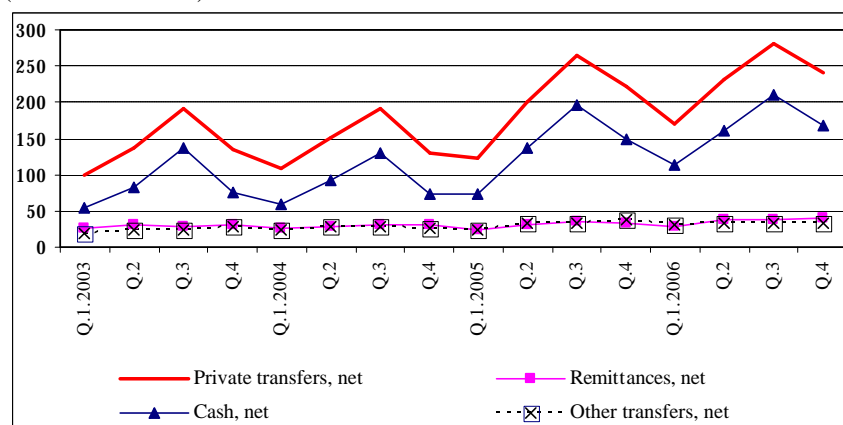
...and lower positive balance in the income sub-balance

Over the last three months of 2006, the income balance registered a surplus of Euro 3.9 million, which is by Euro 4.2 million less compared to the same period of 2005, when the surplus amounted to Euro 8.2 million. Major factor for the reduction in the positive balance are the higher net outflows (by Euro 7 million) registered in the investment income, of which the portfolio investments registering the highest net outflows (Euro 6.1 million), as a result of the payment of interest on Eurobonds in December 2006. On the other hand, the net inflows from received wages and other compensations for employees - residents registered an annual growth of Euro 2.8 million, standing at Euro 15.4 million.

Higher net inflows of current transfers

The current transfers in the October-December 2006 period amount to Euro 255.5 million which is by Euro 19.6 million more on annual basis. Major generator of the increase (share of 95.9% in the overall growth) in the current transfers is the net inflow from private transfers in the amount of Euro 240.6 million. Observing the constituent components, the private transfers show divergent movements. Thus, the currency exchange (cash) operations in the amount of Euro 167.7 million (95.1% contribution to the overall growth) and the remittances worth Euro 39.3 million (share of 27%) act towards increase, whereas other transfers in the amount of Euro 33.6 million act towards decrease (Euro 5.1 million). The net inflows from official transfers (Euro 14.9 million) registered a marginal annual growth of Euro 0.8 million.

Figure 64
Dynamics of private transfers by component, net
(in millions of euros)

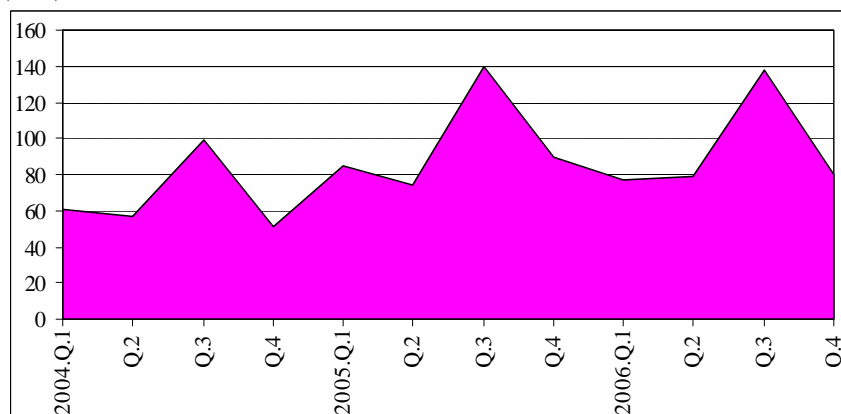


Source: National Bank of the Republic of Macedonia.



As a result of the faster annual growth in the trade deficit compared to the increase in the private transfers, the trade deficit - net private transfers coverage ratio equals 79.9% in the fourth quarter of 2006 (reduction of 9.7 percentage points relative to the last quarter of 2005, and increase of 29.2 percentage points relative to the fourth quarter of 2004).

Figure 65
Coverage of trade deficit with private transfers
(in %)



Source: National Bank of the Republic of Macedonia.

8.2. Capital and financial account

*Lower foreign currency inflows
in the capital and financial
account*

In the fourth quarter of 2006, the foreign financial inflows in the capital and financial account of the balance of payments reduced by Euro 166.7 million compared to the last quarter of the previous year. If the effect of Eurobonds in the portfolio investments is corrected (Euro 149.2 million) in 2005, the financial inflows are by Euro 17.5 million lower on annual basis.

Table 8
Capital and financial account of the balance of payments /1
(in millions of Euros)

	2005				2006				2006-2005				2006-2005			
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4
									difference				rates of change in (%)			
<i>Capital account, net</i>	0.0	-0.2	0.2	-1.8	0.4	-0.4	-0.2	-0.6	0.4	-0.3	-0.4	1.2	7532.3	181.8	-199.0	-67.5
<i>Financial account, net</i>	30.1	107.8	30.3	253.3	61.3	137.3	24.8	85.4	31.2	29.4	-5.5	-167.9	103.7	27.3	-18.2	-66.3
Direct investments, net	27.7	26.6	14.1	8.7	239.4	17.2	9.4	20.0	211.7	-9.4	-4.7	11.3	764.9	-35.4	-33.5	128.8
Portfolio investments, net*	12.5	3.8	14.4	167.3	11.8	24.8	7.0	21.9	-0.7	21.0	-7.4	-145.4	-5.8	559.0	-51.2	-86.9
Trade credits, net	-45.7	66.4	-32.1	32.5	5.8	32.0	-45.3	39.0	51.6	-34.4	-13.2	6.5	-112.8	-51.8	41.0	19.8
Loans, net	14.3	64.8	4.7	41.2	-133.8	56.8	24.7	30.9	-148.1	-8.0	20.0	-10.2	-9.3 pati	-12.3	4.7 pati	-24.9
Currencies and deposits, net**	17.9	-57.9	24.4	-5.2	-66.8	-3.2	22.6	-36.4	-84.7	54.7	-1.8	-31.2	-3.8 pati	-94.4	-7.3	603.1
Other, net***	3.4	4.2	4.7	8.8	4.9	9.6	6.2	10.0	1.5	5.5	1.5	1.2	43.2	130.1	31.3	13.7
Capital and financial account	30.1	107.7	30.5	251.6	61.7	136.8	24.6	84.8	31.6	29.1	-5.9	-166.7	104.9	27.1	-19.3	-66.3

1/ Preliminary data.

* in Q.4 2005 with the Eurobonds.

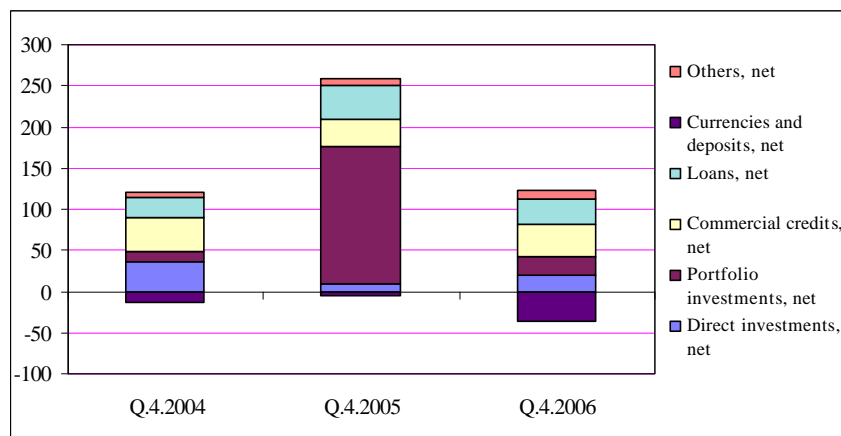
**(-) denotes increase.

*** Overdue liabilities

Source: National Bank of the Republic of Macedonia.

Observing the constituent components of the financial account, the fourth quarter of 2006 witnessed foreign currency inflows in the amount of Euro 41.9 million from direct and portfolio investments, which, with a corrected effect from the Eurobonds from the previous year, means an annual increase of Euro 15 million. Also, the foreign currency inflows register an annual increase in the categories of commercial credits and currencies and deposits of Euro 6.5 million and Euro 31.2 million, respectively. On the other hand, observing the debt based on using long-term and short-term loans and credits, lower net inflows from abroad has been registered (by Euro 10.2 million compared to the last quarter of 2005).

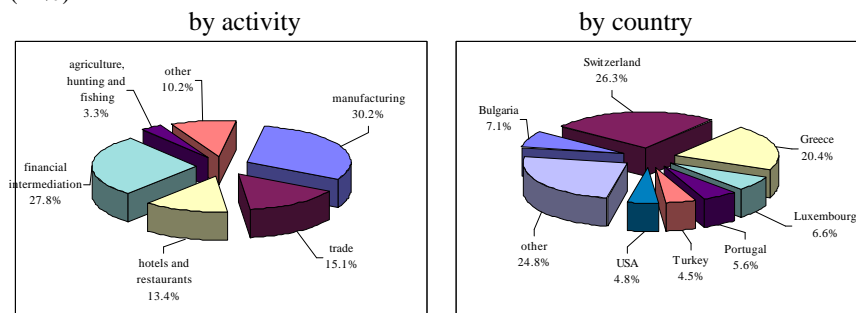
Figure 66
Financial account components
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

Over the last three months of 2006 the net inflows from foreign direct investments were valued at Euro 20.2 million, which is an annual growth of 2.1 times, indicating the higher interest of the foreign investors to invest in the country. Observing the activities, the analysis shows that the manufacturing sector, with most of the investments being in the metal industry, and the financial intermediation are the most attractive for investing. The remaining foreign direct investments are directed towards the trade - wholesales in particular, the hotels and the restaurants. Observing the countries of origin of the foreign direct investments, the analysis points to Switzerland, Greece, Bulgaria, Luxemburg and Portugal as major investors in the last quarter of 2006.

Figure 67
Foreign direct investments in the Republic of Macedonia in the fourth quarter of 2006
(in %)



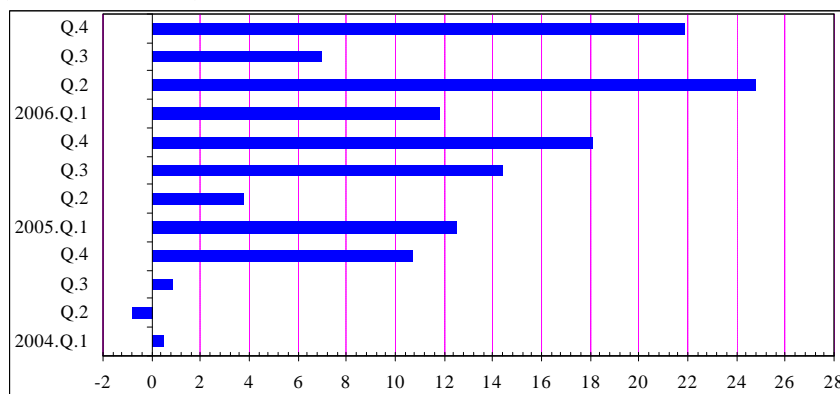
Source: National Bank of the Republic of Macedonia.

In the fourth quarter of 2006, the domestic investors invested Euro 0.2 million abroad, which is an annual fall of Euro 0.9 million. Most of the investments are in the area of construction and real estate, and located in Serbia and Slovenia.

The portfolio investments in the fourth quarter of 2006 stand at Euro 21.9 million, registering an annual fall of 86.9% (owing to the issue of Eurobonds in December 2005). If the one-time effect of the Eurobond issue is corrected, the net inflows would be by Euro 3.8 million higher on annual basis. Furthermore, 95.1% of the investments result from the sale of equity securities by domestic companies to non-residents.

Figure 68

Dynamics of the investment portfolio in the Republic of Macedonia /*
(in millions of euros)



* In the Q.4 2005 excluding the inflows from Eurobonds.

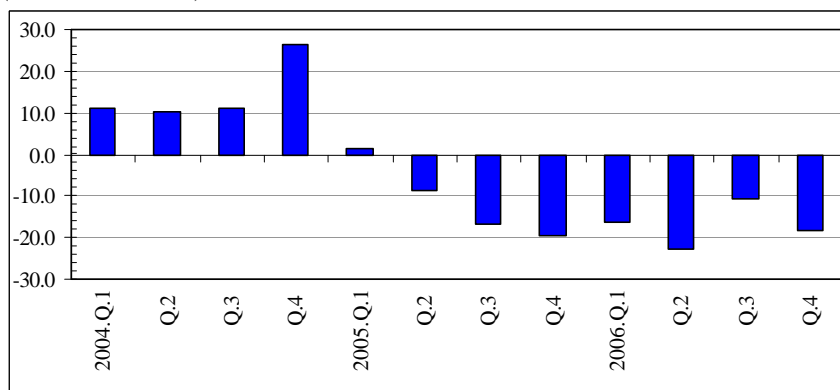
Source: National Bank of the Republic of Macedonia.

The commercial credits registered a surplus of Euro 39 million, which is an increase of Euro 6.5 million compared to the same quarter of the previous year. The increase in the commercial credits corresponds to the import growth.

In the last quarter of 2006, the category of currencies and deposits also registered an increase of Euro 36.4 million. This increase primarily results from the Euro 18.3 million higher net inflows in the commercial banks. In addition, the other sectors registered an increase of Euro 18 million in the cash foreign currency outside the banking system, Euro 18.1 million of which held by the households (Euro 19.4 million in the last quarter of 2005), due primarily to the higher amount of withdrawn cash based on money transfer.

Figure 69

Dynamics of the net foreign currency of the households
(in millions of euros)



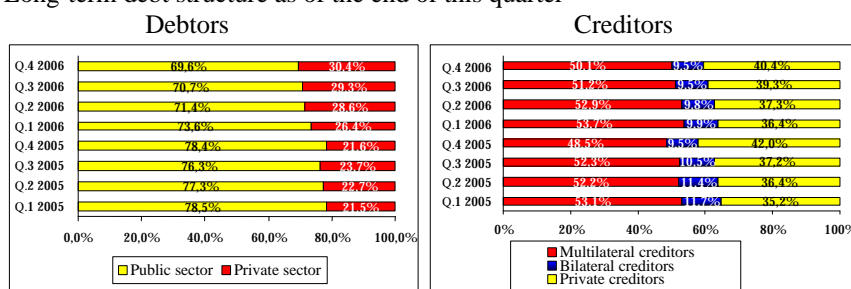
Source: National Bank of the Republic of Macedonia.

On December 31, 2006, **the total external debt** of the Republic of Macedonia stands at Euro 1,848.7 million, which is a quarterly growth of Euro 37.5 million, or 2.1%, whereas on annual basis it dropped by Euro 79.6 million, (due to the full repayment of the debt to the London Club of Creditors).

As of December 31, 2006, the external long-term debt totals Euro 1,758.4 million, which is an increase of 1.9% compared to the preceding quarter. Such quarterly increase in the long-term debt results from the higher amount of used funds from paid principal, mainly owing to the increase in the banks' debt (making up 77.8% of the growth in the total long-term debt).

*Quarterly increase in the
external long-term debt of
1.9%*

Figure 70
Long-term debt structure as of the end of this quarter*



*Preliminary data.

Source: National Bank of the Republic of Macedonia.

The changes in the external debt structure from the viewpoint of debtors and creditors are in line with the higher liberalization of the credit transactions. Thus with respect to debtors, the share of the private sector debt gradually, but steadily goes up, reaching 30.4% in the fourth quarter. With respect to creditors, the structure of private creditors registered inconsiderable developments, the share of which (40.4%) increases, with the proportional decrease registered in the share of the multilateral creditors (50.1%).

At the end of 2006, the short-term debt (solely a private sector debt) was valued at Euro 90.2 million, which is a quarterly growth of 5.5%.

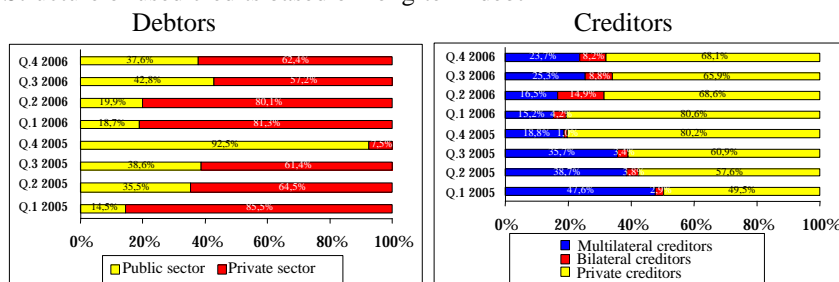
Euro 88 million were withdrawn in the fourth quarter of 2006 based on long-term credits and loans...

The inflows from borrowings of residents from foreign creditors based on long-term credits and loans total Euro 88 million⁵⁰ in the fourth quarter of 2006, which is a quarterly growth of 27.6%.

Observing the *creditors*, the increase in the funds used on quarterly basis arises primarily from the higher amount of funds withdrawn from private creditors, i.e. foreign banks (76.1% share in the total quarterly growth). The analysis of the withdrawals structure indicates a dominant share (68.1%) of the private creditors, while the multilateral and bilateral creditors jointly constitute 31.9%, (i.e. 23.7% and 8.2%, respectively).

Observing the *debtors*, the quarterly growth primarily results from the higher usages by the banking sector (91.4% share in the total growth of used funds). The usage structure shows dominant share (62.4%) of the private sector borrowings, of which banks and non-banking sector account for 35.7% and 26.7%, respectively. The funds withdrawn by the public sector make up 37.6% of the total withdrawals, with most of the funds (66.1%) being withdrawn by public enterprises (the funds withdrawn from the European Council Development Bank and the European Investment bank dominate).

Figure 71
Structure of used credits based on long-term debt*



* Preliminary data.

Source: National Bank of the Republic of Macedonia.

⁵⁰Preliminary NBRM data.

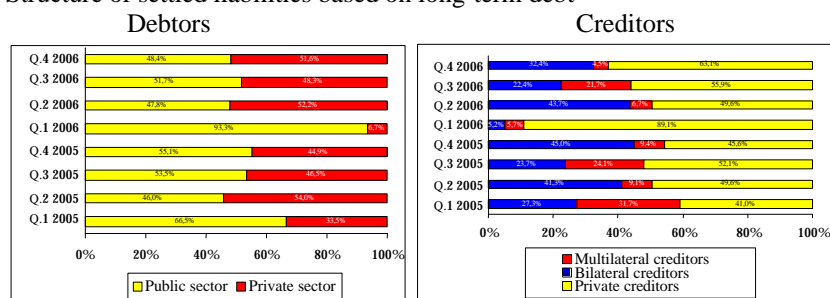


...and Euro 60.6 million of liabilities were settled

In the October-December 2006 period, the total *repaid liabilities* to foreign creditors based on *used long-term credits and loans* stand at Euro 60.6 million (Euro 40.8 million of principal and Euro 19.7 million of interest), registering a minor quarterly fall of 0.3%. *The creditor analysis* shows certain developments in the repaid liabilities structure. The structural share (63.1%) of the private creditors relative to the preceding quarter went up, whereas the share (36.9%) of the official creditors reduced by 7.2 percentage points.

The structural allocation of repaid liabilities from the *debtor perspective* shows that most of the liabilities (51.6%) are serviced by the private sector, most of which being repaid by the non-banking private sector. The remaining 48.4% of the repaid liabilities are of the public sector, with the central government contributing the most.

Figure 72
Structure of settled liabilities based on long-term debt*



* Preliminary data.

Source: National Bank of the Republic of Macedonia.

The credits concluded in the fourth quarter of 2006, solely of the private sector, register a substantial growth of 3.8 times, totaling Euro 133.8 million. In the structural allocation, most of it refers to private banks (65.4%), and the remaining portion (34.6%) is credits concluded with the non-banking private sector.

Used short-term credits in the amount of Euro 8.5 million, and Euro 6.1 million of settled liabilities

The funds used on the basis of approved short-term credits in the last three months of 2006 total Euro 8.5 million, solely a debt of the non-banking private sector. The repaid liabilities based on short-term credits in the fourth quarter of 2006 total Euro 6.1 million, solely referring to the non-banking private sector.

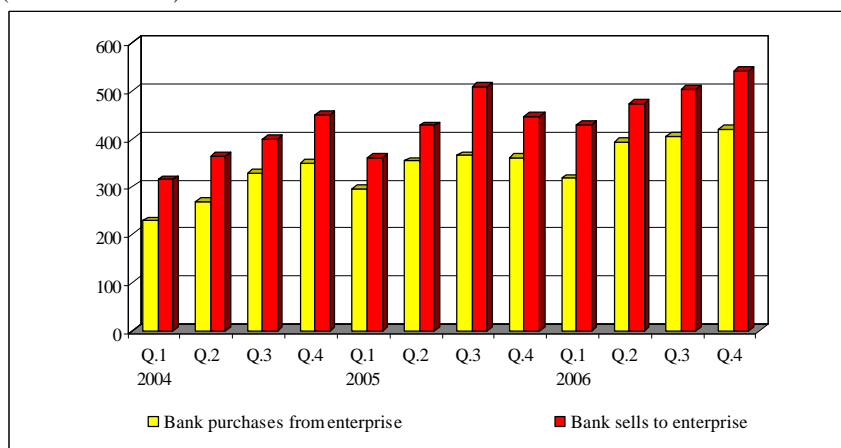
9.

Foreign exchange developments

23.3% annual growth in the turnover on the foreign exchange market

In the fourth quarter of 2006, the turnover on the *foreign exchange market* totals Euro 1,155.5 million, which is an annual growth of 23.3%. Having a deepened trade deficit in the fourth quarter of 2006, compared to the same quarter of the previous year, the discrepancy between the demand and the supply of foreign currency by the enterprises at the banks-enterprises market segment surged by Euro 35 million on annual basis. In line with the faster growth pace of the import relative to export of goods in the fourth quarter of 2006 compared to the same period of the previous year, the demand for foreign currency by the enterprises registered a faster growth relative to the supply of foreign currencies (annual increase of 21.5% and 16.9%, respectively), and therefore the commercial banks made a 40.9% higher net sale of foreign currencies on annual basis.

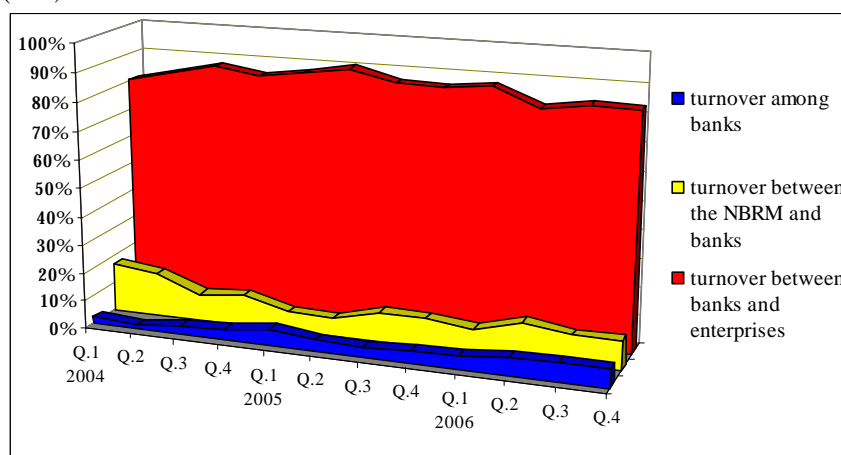
Figure 73
Transactions among banks and enterprises
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

The analysis of the structure of the foreign exchange market segments indicates a dominant structural share of the turnover on the banks-enterprises market segment of 83.2% (annual fall of 2.7 percentage points). On the other hand, the structural share of the turnover between the NBRM and the banks surged relative to the fourth quarter of 2005 (by 0.4 percentage points), reaching 10.4%, and the share of the turnover among the banks (6.4%) has been the highest since 2004 (2.3 percentage points higher share on annual basis).

Figure 74
Share of segments in the total turnover in the foreign exchange market
(in %)



Source: National Bank of the Republic of Macedonia.

*Stable exchange rate of the
Denar against the Euro...*

In the fourth quarter of 2006, the high amount of private transfers, and the increase in the investment portfolio and the private sector debt relative to the preceding quarter, created pressures for appreciation of the domestic currency in the foreign exchange market. The foreign exchange market developments were stabilized through the NBRM transactions by a net purchase of foreign currencies (Euro 60.2 million). Thus, the exchange rate of the Denar relative to the Euro in the fourth quarter of 2006 amounted to Denar 61.19 on average per one Euro, which is virtually the same compared to the preceding quarter, and compared to the same quarter of the previous year.

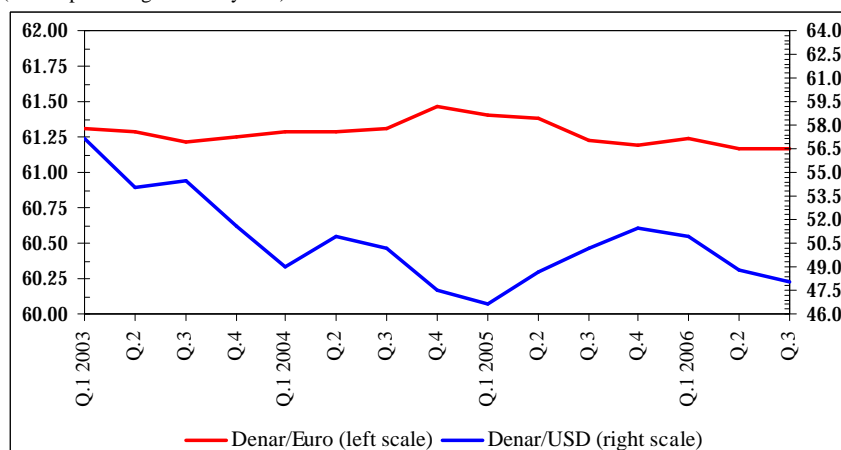


..whereas the exchange rate of
the Denar against the US
Dollar appreciated by 1.1%

The development in the exchange rate of the Euro against the US Dollar in the international markets was primarily triggered by the sheer economic growth of the Eurozone, compared to the moderate growth of the US economy, which contributed to strengthening of the value of the Euro against the US Dollar in the fourth quarter of 2006. Hence, in this period, the Denar also appreciated relative to the US Dollar (1.1% compared to the third quarter of 2006), with Denar 47.48 being exchanged on average, compared to Denar 48.01 per one US Dollar in the preceding quarter.

Figure 75

Average exchange rate of the Denar against the Euro and the US Dollar in the foreign exchange market
(denars per foreign currency unit)



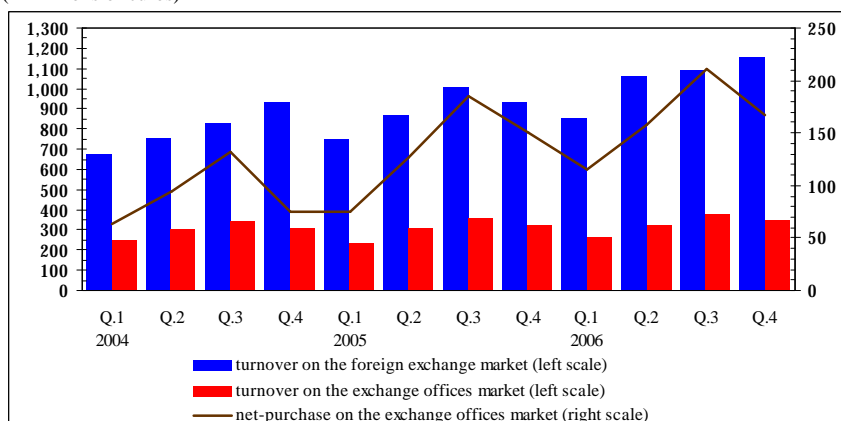
Source: National Bank of the Republic of Macedonia.

11.2% higher net purchase
in the currency exchange
market on annual basis

In the fourth quarter of 2006, the turnover in the *currency exchange market* totaled Euro 352.3 million, increasing by 10% compared to the same quarter of 2005. Given the faster growth in the supply relative to the demand for foreign currency (of 10.3% and 8.9%, respectively), the net purchase in the currency exchange market in the fourth quarter of 2006 surged by 11.2% relative to the fourth quarter of 2005, totaling Euro 166.5 million.

Figure 76

Development of the total turnover in the foreign exchange and currency exchange market
(in millions of euros)

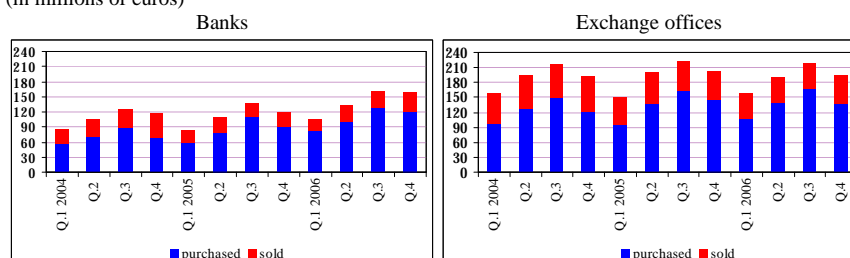


Source: National Bank of the Republic of Macedonia.

The structural analysis shows that in the fourth quarter of 2006, the exchange offices and the banks constitute 55.3% and 44.7%, respectively, of the total turnover in the currency exchange market. The structural share of the

turnover from the currency exchange operations made through the commercial banks went up by 7.5 percentage points compared to the same period of 2005.

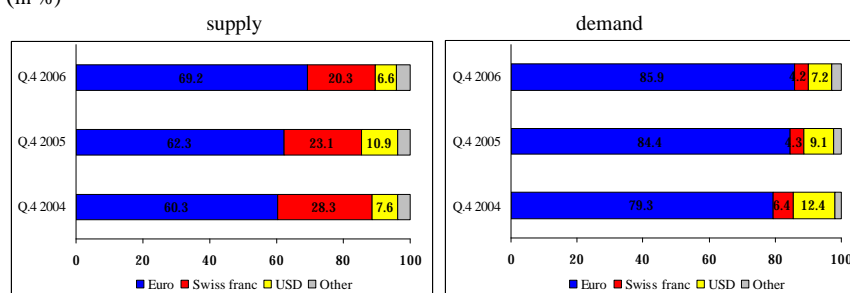
Figure 77
Development of the turnover in the currency exchange market
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

Analyzing the currency of denomination structure of the turnover in the currency exchange market, the Euro dominate on the side of both supply and demand in the fourth quarter of 2006, the share of which rose on annual basis (by 6.9 percentage points and 1.4 percentage points, respectively) equaling 69.2% and 85.9%, respectively. On the other hand, the Swiss franc and the US Dollar, as the second most used currencies, reduced their share on the both sides of the exchange.

Figure 78
Currency structure of the turnover in the currency exchange market
(in %)



Source: National Bank of the Republic of Macedonia.

The exchange rates on the currency exchange market followed the developments of the exchange rates on the foreign exchange market. Thus in the fourth quarter of 2006, the average exchange rate of the Denar against the Euro on the currency exchange market amounted to Denar 61.40 per one Euro, which is virtually unchanged compared to the preceding quarter. The US Dollar was exchanged for Denar 47.55 on average, and compared to the third quarter of 2006, the Denar appreciated by 1%.

In the fourth quarter of 2006, the Denar real effective exchange rate index (REER) estimated by the consumer price index appreciated relative to the fourth quarter of 2005, and estimated by the producer price index it depreciated. In the fourth quarter of 2006, the average Denar REER index, estimated by the consumer price index, slightly appreciated by 0.2% relative to the same quarter of the previous year. Such change in the Denar REER is due to the 0.1% appreciation of the Denar nominal effective exchange rate (NEER) (primarily due to the appreciation of the Denar against the US Dollar) and the fall in the relative prices (inconsiderable faster growth in the domestic relative to the foreign consumer prices⁵¹, by 3.2% and 3.1%, respectively). On the other hand, the average Denar REER index estimated by the producer price index in the

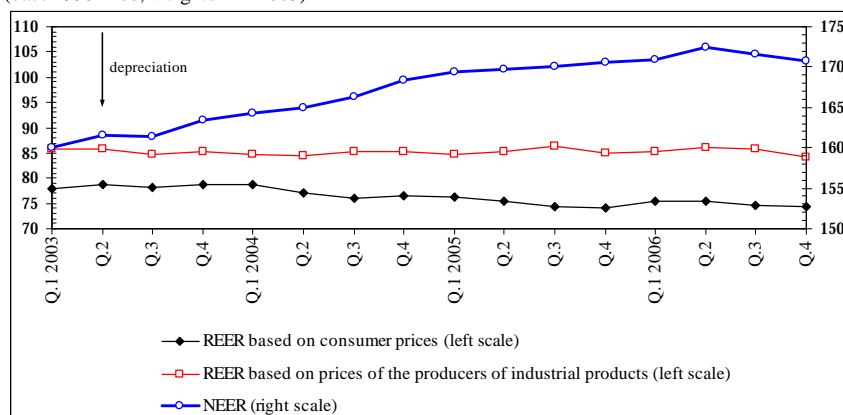
⁵¹ Refers to the change in the current quarter versus the same quarter of the preceding year, with a base average 1995.



...and depreciation of the Denar
REER calculated according to
the producer price index

fourth quarter of 2006, compared to the same quarter of the previous year, depreciated by 1%, due to the annual growth in the relative prices of 1.2% (faster growth in the foreign relative to the domestic producer prices of 3.4% and 2.2%¹, respectively).

Figure 79
Denar REER* and NEER Index
(base 1995=100, weights FT=2003)



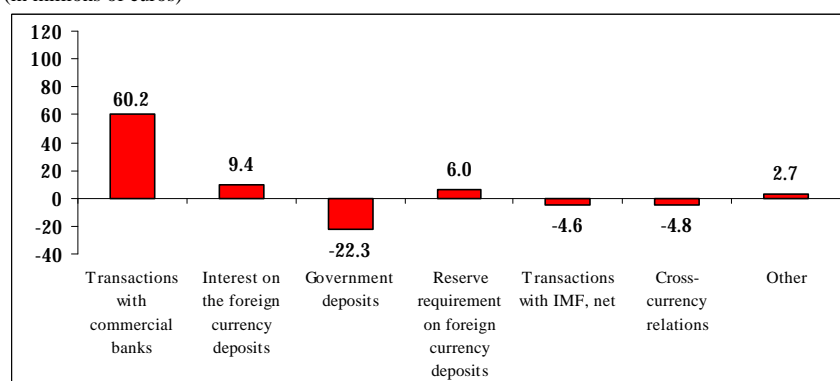
*Index below 100 denotes higher export competitiveness.

Source: National Bank of the Republic of Macedonia.

Euro 46.6 million higher gross
foreign reserves compared to the
preceding quarter

At the end of December 2006, the gross foreign reserves reached the record level of Euro 1,416.7 million, and compared to the end of the preceding quarter they surged by Euro 46.6 million. The positive change in the gross foreign reserves results primarily from the net purchase made by NBRM in the foreign exchange market.

Figure 80
Factors of change in the gross foreign reserves in the fourth quarter of 2006
(in millions of euros)



Source: National Bank of the Republic of Macedonia.

Compared to the end of 2005 (without the effect of the sale of Eurobonds), the gross foreign reserves went up by Euro 442.9 million. Thus, at the end of 2006, the foreign reserves ensured 4.6 monthly coverage of the import of goods (f.o.b.) and the outflow of services in the next year⁵².

⁵²According to the balance of payments projection prepared during the last IMF mission in February 2007.



Unlike the previous two quarters when the budget balance registered a surplus, in the fourth quarter of 2006, the budget expenditures considerably surpassed the budget revenues creating a budget deficit of Denar 2,366 million. Typical for this quarter is the high concentration of budget spending in the last month of the year (partially due to the late revision of the Budget for 2006), thus fast increase being registered in the costs of goods and services and in the transfers. The deficit financing structure in the last quarter of the year is dominated by the domestic financing, i.e. the outflows from the government account with the NBRM and at lower extent, the net indebtedness through the issuance of new treasury bills for fiscal purposes. The inflows from the privatization and the net external financing in the last quarter of 2006 participated insignificantly in the financing of the budget deficit.

The total public revenues in the fourth quarter reached Denar 28,505 million, which is an annual growth of 7.1%. Analyzing the public revenue structure, major determinants of the annual growth in the public revenues are the higher amount of tax revenues and contribution revenues, and the higher amount of capital revenues, whereas the inflow from non-tax revenues and foreign donations went down. The tax revenues, as a dominant component in the total public revenue structure (share of 57.4%) rose by 6.8%, annually. Most of the tax categories registered an uptrend, except for the value added tax revenues and customs duties revenues, which plunged (by 5.1% and 0.3%, respectively), notwithstanding the higher import of goods and services. Major contributor to the increase in the tax revenues is the profit tax (of 56%). Essential contributors to the increase in the tax revenues (of 43.5%) are the excise revenues (corresponding to the higher import of vehicles and alcoholic beverages). Additionally, other contributors to the annual growth in the tax revenues (of 30.3%) are the other taxes that registered fast growth (by 2.8 times), due to the amendments to the regulations⁵⁴ that included additional taxes for cigarette production. The personal income tax is a relatively significant contributor (9.4%) to the increase in the tax revenues. The contribution revenues also contributed to the increase in the public revenues, registering an annual growth of 9.7%, caused by the higher contributions for pension, health and unemployment insurance. The capital revenues surged by 2.1 times.

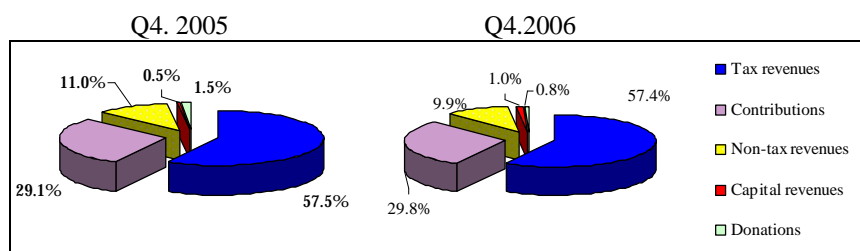
On the other hand, the annual fall in the non-tax revenues is primarily caused by the lower inflow from participation revenues and administrative fees and compensations. Within the non-tax revenues, however, this effect is partially offset by the higher inflow from the profit of the public and financial institutions and by the increase in other non-tax revenues (by 85.6% and 77.5% on annual basis, respectively). The inflows from foreign donations dropped by 43.8%, on annual basis.

Annual growth in the public revenues of 7.1%...

⁵³ The part pertaining to the public finance refers to the revenues and the expenditures of the Central Government budget, which according to the new definition applied since 2005, consolidates the central budget and the budgets of the extra budgetary funds (Pension and Disability Insurance Fund, Health Fund, Road Fund, Employment Agency of RM).

⁵⁴ Since January 01, 2006, compensation is calculated and paid for production, or import of tobacco products, in conformity with the Law on Amendment to the Health Law (Official Gazette of RM, No. 111/2005) and the Decision on determining the products for which compensation for trade, import/export is paid (Official Gazette of RM, No. 75/2005), originating from the Environment Law and since April 01, 2006, in conformity with the Law on Tobacco (Official Gazette of RM, No. 24/2006).

Figure 81
Share of revenue categories in the total public revenues

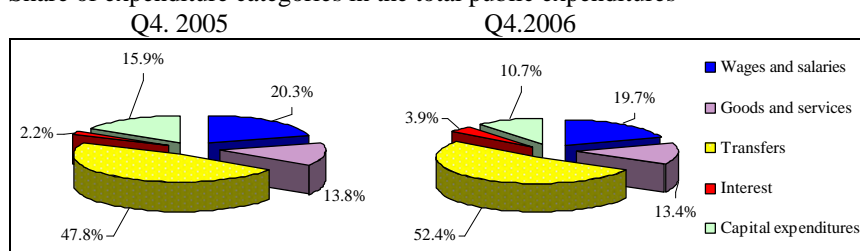


Source: Ministry of Finance of the Republic of Macedonia .

...and annual growth in the public expenditures of 6.1%

On the other hand, the public expenditures in the fourth quarter of 2006 registered an annual upsurge (by 6.1%), solely due to higher current government spending (by 12.6%), in environment of substantially lower capital spending (by 28.4%). The increase in the current expenses (making up 89.3% of the total public expenditures) is caused by the higher expenses in all categories. The higher transfers and interest expenses are the major contributors to the increase in the current expenses (contribution of 73% and 17.7%, respectively), primarily owing to the higher interest expenditures for foreign debt. Moreover, the increase in the wage and salary expenses (annual growth of 3.2%) also contributes to the increase in the total public expenditures.

Figure 82
Share of expenditure categories in the total public expenditures



Source: Ministry of Finance of the Republic of Macedonia.

Observing the quarterly dynamics, in the fourth quarter of 2006 compared to the third quarter of the year, the total public revenues surged by 8.7%, due to the higher revenues in all major categories. The capital revenues registered the fastest increase (of 90.2%), with steep quarterly increase also being registered in the foreign donations (of 39.2%). The tax revenues also contribute to the increase in the total revenues, registering a quarterly growth (of 7.8%), with almost all taxes, other than excises, registering higher revenues. The profit tax and the income tax are the major contributors to the increase in the tax revenues (quarterly growth of 17.8% and 16.4%, respectively). The contribution revenues and non-tax revenues, registering a quarterly growth of 12% and 4.1%, respectively, also contributed to increasing the public revenues.

In the fourth quarter of the year, the public expenditures registered a faster quarterly growth compared to the public revenues (of 23.1%). The increase derives from the higher level of current expenses (by 23.4%, with all its expense categories registering an uptrend), along with the increase in the capital expenditures (of 20%) resulting from the higher investment in fixed assets and higher transfers in the Road Fund.



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

- ❖ *On October 2, INCEBO doo became the first official body for certification of HACCP and EUREPGAP food safety standards in the country, which will issue both nationally and internationally accredited certificates.*
- ❖ *On October 4, Skopje hosted the symposium "Importance of the Statistical Data in the Process of Creating Domestic Policy and the Accession to EU" organized by the State Statistical Office of the Republic of Macedonia in cooperation with the Swedish Statistical Office. The main objective of this symposium was to emphasize the role of impartial statistical data in the market economies, as well as in the process of integration into the EU.*
- ❖ *On October 4, European Bank for Reconstruction and Development (EBRD) became an owner of 25% of TTK Bank (established by a merger between Teteks-Kreditna Banka and Tetovska Banka), with an agreement worth Euro 3.7 million being signed.*
- ❖ *On October 5, a cornerstone for construction of an automobile electronics plant was laid in the free economic zone Bunardzik, an investment of the American company Johnson Controls, the production process of which is to commence in a year.*
- ❖ *On October 20, agreements on completing the second stage of the Rural Development Project were signed at the Ministry of Agriculture, Forestry and Water Supply, which is a preparation for exploitation of the funds from the European Union pre-accession assistance.*
- ❖ *On October 27, an agreement was signed on construction of the second stage of the Program for Watering the South Valley of Vardar, worth roughly Euro 300 million.*
- ❖ *On October 31, the "Clean Food Group" from Sweden became the owner of an industrial construction land in Skopje, where on December 27, started the construction of a new modern dairy plant "Swedmilk Makedonija".*
- ❖ *On November 2, the Public Revenue Office and the Chamber of Commerce of Macedonia promoted the Large Taxpayers Office and the method of its functioning to representatives of over 100 companies - large taxpayers. The Office started operating in July 2006 with the aim to improve the tax collection and the investment climate in the Republic of Macedonia.*
- ❖ *November 16-17, the Euro-Infocenter, in cooperation with the consulting firm "Europartners", organized a training in Skopje "EU funds and EU projects" supported by the Ministry of Economy. The training discussed the EU's methods of financing, the financial instruments used by EU to assist the Southeast European countries and the possibilities for using the funds of the Union.*
- ❖ *On November 17, the Ministry of Economy of the Republic of Macedonia hosted the Summit of the Council of Ministers of the Energy Community of SEE, which is a first meeting after the effectiveness of the Agreement on Establishing Energy Community of SEE.*
- ❖ *On November 21-22, Skopje hosted the Conference on Regulatory Governance of the Balkans, organized by the Civil Servant Agency, financially supported by the EU in cooperation with the Organization of Economic Cooperation and Development (OECD). The Conference was organized in order to improve the regional cooperation in the public administration, strengthening of the administrative capacity necessary for the Euro integration processes and human resources development in line with the European principles.*
- ❖ *On November 23, the National Bank of the Republic of Macedonia organized workshop "Energy consumption in Macedonian and its effect on the balance of payments", where the participants presented measures for improving the energy sector.*
- ❖ *On December 1, the second Ministerial Conference on development of the transportation network in the South East Europe was held under the auspices of the European Commission, at which the Ministers of*

Transport of the SEE countries signed a Resolution on development of the main regional transportation network in the SEE and a Declaration of the Ministers of Railway Transport.

- ❖ *On December 8, an Agreement on avoiding double taxation was signed between Macedonia and Latvia in Riga, which is expected to contribute to the strengthening of the economic cooperation between the two countries and to encourage signing of other bilateral agreements from other areas of mutual interest.*
- ❖ *On December 13, the National Employment Strategy 2010 and the National Employment Action Plan 2006-2008 were introduced at the Conference on Employment Policies organized by the Ministry of Labor in cooperation with the KARDS project "Employment Policy 2", which was held in Skopje.*
- ❖ *On December 19, in Bucharest, the representatives of Macedonia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Albania, Moldova, Romania, Bulgaria and UNMIK (Kosovo) adopted the mutual Declaration on expansion of CEFTA - Central European Free Trade Agreement, which will intensify the trade among the countries in the region, assist in attracting foreign investments and facilitate the fulfillment of the requirements for accession to the European Union.*
- ❖ *On December 19, the Government adopted the report on the project "Support in the preparation of the National Strategy for sustainable development in the Republic of Macedonia" implemented by a financial support of the Government of the Kingdom of Sweden and the Swedish International Cooperation and Development Agency (SIDA).*
- ❖ *On December 22, the World Bank approved the implementation of the Sustainable Energy Project for Macedonia in the amount of USD 5.5 million funded by a grant from the GEF Trust Fund. The objective of this project is to develop a sustainable market for energy efficient and renewable energy, which will help to make the Macedonian economy more competitive and reduce its dependence on energy imports.*
- ❖ *In the fourth quarter of 2006, the Regulatory Energy Committee adopted the following decisions on setting the highest prices of certain petroleum products, determined according to the Methodology:*
 - *on October 2, decision on decreasing the retail and refinery prices of petroleum products by 3.69% and 5.19%, respectively, on average ("Official Gazette of the Republic of Macedonia" no. 103/2006);*
 - *on October 16, decision on decreasing the retail and refinery prices of petroleum products by 1.04% and 1.58%, respectively, on average ("Official Gazette of the Republic of Macedonia" no. 107/2006);*
 - *on October 30, decision on increasing the refinery prices of petroleum products by 0.75%, on average, whereas the retail prices remained unchanged ("Official Gazette of the Republic of Macedonia" no. 112/2006);*
 - *on November 13, decision on decreasing the retail and refinery prices of petroleum products by 1.35% and 2.34%, respectively, on average ("Official Gazette of the Republic of Macedonia" no. 117/2006);*
 - *on November 27, decision on increasing the retail and refinery prices of petroleum products by 0.74% and 1.19%, respectively, on average ("Official Gazette of the Republic of Macedonia" no. 123/2006);*
 - *on December 11, decision on increasing the retail and refinery prices of petroleum products by 2.31% and 3.72%, respectively, on average ("Official Gazette of the Republic of Macedonia" no. 129/2006);*
 - *on December 25, decision on decreasing the retail and refinery prices of petroleum products by 0.47% and 0.58%, respectively, on average ("Official Gazette of the Republic of Macedonia" no. 134/2006).*
- ❖ *New regulations:*
 - *Decision on approving new tariff rates for delivery of thermal energy to the tariff consumers connected to the hot-water network of Skopje Sever - AD, Skopje, for the period from September 15, 2006 to December 31, 2006 ("Official Gazette of RM" NO. 105/2006);*
 - *Decision on approving tariff rates for delivery of thermal energy to the tariff consumers connected to the hot-water network of Toplifikacija Bitola - DOO Skopje, for the period from September 15, 2006 to December 31, 2006 period ("Official Gazette of RM" NO. 105/2006);*
 - *These decisions made the price of thermal energy distributed from both hot-water networks Skopje Sever - AD Skopje and Toplifikacija Bitola DOO Skopje higher since October, by approximately 48% and 30%, respectively.*
 - *Law on Amendment to the Law on Census of the Agriculture in the Republic of Macedonia, 2006 ("Official Gazette of the Republic of Macedonia" no. 113/2006);*
 - *Amendments to the Budget of the Republic of Macedonia for 2006 - budget revision for 2006 ("Official Gazette of the Republic of Macedonia" no. 120/2006);*



- *Decision on harmonization and amendment to the Customs Tariff for 2007 ("Official Gazette of the Republic of Macedonia" no. 125/2006);*
- *Decision on issuing coins in denominations of 10 and 50 denars ("Official Gazette of RM" No. 128/2006);*
- *Law on amending the Law on the National Bank of the Republic of Macedonia ("Official Gazette of RM. No. 129/2006). The amendments emphasize the significance of ensuring safe and stable banking system. Changes were made towards greater transparency and efficiency of the NBRM and in the part of allocation of the net gain and covering the loss;*
- *Decision on introducing Regulatory Guillotine ("Official Gazette of RM" No. 129/2006), for the purpose of their simplification, i.e. minimization of the formalities and administrative obstacles, imposing unnecessary obligations for legal and natural persons;*
- *Decision on amending Decision No. 02-1868/I on the average price of production, distribution and supply of thermal energy for a regulated period of Skopje Sever AD - Skopje ("Official Gazette of RM" No. 134/2006). According to this decision, in the regulated period from September 15 to December 31, 2006, the heating plant Skopje Sever AD - Skopje will apply the price of thermal energy applied in the period prior to September 15, 2006;*
- *Decision on adopting the Energy balance of the Republic of Macedonia for 2007 ("Official Gazette of RM" No. 136/2006);*
- *Macroeconomic policy of the Republic of Macedonia for 2007 ("Official Gazette of RM" No. 136/2006);*
- *Decision on the monetary policy objectives for 2007 ("Official Gazette of RM" No. 138/2006);*
- *Financial plan of the National Bank of the Republic of Macedonia for 2007 ("Official Gazette of RM" No. 138/2006);*
- *Budget of the Republic of Macedonia for 2007 ("Official Gazette of RM" No. 139/2006);*
- *Law on amending the Law on Personal Income Tax ("Official Gazette of RM. No. 139/2006). According to this Law, the personal income tax rate will equal 12% instead of 15%, 18% and 24%, valid so far;*
- *Law on amending the Law on Profit Tax ("Official Gazette of RM. No. 139/2006). According to this Law, the profit tax rate will equal 12% instead of 15% valid so far.*



Statistical appendix

1. Prices

Table 1

Costs of living and retail prices

	XII.2006	XII.2006	I-XII.2006
	XI.2006	XII.2005	I-XII.2005
	in %		
Costs of living	-0.1	2.9	3.2
Food	0.1	2.0	2.2
Tobacco and beverages	0.0	18.0	17.8
Clothing and footwear	0.1	0.8	0.2
Housing	-1.2	3.4	2.0
Flat (rent, water, services)	0.1	-2.1	-0.7
Fuel and lighting	-2.0	6.6	3.7
Hygiene	0.0	2.6	2.0
Culture and entertainment	-0.7	4.4	6.4
Transport, communications, services	0.4	-0.8	1.8
<i>Goods</i>	<i>0.1</i>	<i>3.7</i>	<i>3.7</i>
<i>Services</i>	<i>-1.0</i>	<i>-0.5</i>	<i>1.3</i>
Retail prices	-0.1	2.9	3.9
Agricultural products	2.1	1.3	4.8
Non-food industrial products	0.3	5.0	5.5
Processed food products	-0.4	1.7	0.8
Beverages	0.0	0.1	-0.4
<i>Goods</i>	<i>0.2</i>	<i>3.7</i>	<i>4.0</i>
<i>Services</i>	<i>-0.6</i>	<i>1.7</i>	<i>3.7</i>

Source: State Statistical Office



Table 2
Prices of producers of industrial products

	XII.2006 XI.2006	XII.2006 XII.2005	I-XII.2006 I-XII.2005
	in %		
Prices of producers of industrial products	0.6	3.2	4.5
Energy	2.3	4.7	10.2
Intermediary goods (except Energy)	0.2	2.4	-0.2
Capital goods	0.0	6.0	4.9
Durable consumer goods	0.0	0.6	2.7
Non durable consumer goods	0.0	2.8	4.5
<i>Mining and quarrying</i>	<i>0.3</i>	<i>2.9</i>	<i>3.3</i>
<i>Manufacturing industry</i>	<i>0.9</i>	<i>2.4</i>	<i>4.8</i>
Manufacture of food products and beverages	0.3	-0.5	0.5
Manufacture of tobacco products	-0.1	22.9	21.6
Manufacture of textiles	0.0	-0.3	0.2
Manufacture of wearing apparel; dressing and dyeing of fur	0.0	-2.1	-2.5
Publishing, printing and reproduction of recorded media	0.0	-1.0	0.7
Manufacture of coke, refined petroleum products and nuclear fuel	5.6	1.1	16.7
Manufacture of chemicals and chemical products	0.0	-0.2	-0.2
Manufacture of rubber and plastic products	0.0	5.1	1.9
Manufacture of other non-metallic mineral products	-0.3	3.8	3.2
Manufacture of basic metals	0.0	6.0	-1.8
Manufacture of fabricated metal products, except machinery and equipment	0.0	10.5	8.7
Manufacture of electrical machinery and apparatus n.e.c.	0.0	8.7	7.6
<i>Electricity, gas and water supply</i>	<i>-1.4</i>	<i>9.4</i>	<i>2.1</i>

Source: Preliminary data of the State Statistical Office



Table 3
Consumers' basket for food and beverages*

	2006			
	Q.1	Q.2	Q.3	Q.4
	in Denar			
Total	10,323	10,476	10,081	10,232
Bread and cereals	1,782	1,760	1,756	1,766
Meat	2,252	2,270	2,279	2,283
Fish	220	223	225	229
Milk and dairy products and eggs	1,763	1,768	1,756	1,773
Oils and fats	450	449	443	438
Fruit	420	441	528	434
Vegetables	1,489	1,586	1,113	1,327
Sugar, chocolate and confectionery	419	449	452	449
Other food products	308	315	315	313
Coffee, tea	316	317	317	320
Non-alcoholic beverages	439	434	432	435
Alcoholic beverages	462	464	464	464

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

Source: State Statistical Office

Table 4
Expenditure aggregates of GDP
(nominal growth rates)

	2005					2006			nominal changes 2006/2005 in %		
	Q.1	Q.2	Q.3	Q.4	Total 2005	Q.1	Q.2	Q.3	Q.1/Q.1	Q.2/Q.2	Q.3/Q.3
Public consumption	14,127	14,252	14,142	16,402	58,923	14,682	16,202	14,557	3.9	13.7	2.9
Investments in machinery and equipment	3,983	5,341	3,975	4,902	18,200	4,350	6,626	4,942	9.2	24.1	24.4
Export of goods and services	27,071	30,624	32,674	33,577	123,788	29,006	35,236	41,682	7.1	15.1	27.6
<i>goods (F.O.B.)</i>	22,546	24,964	25,447	27,676	100,538	22,928	28,473	33,473	1.7	14.1	31.5
<i>services</i>	4,525	5,660	7,227	5,901	23,250	6,075	6,763	8,209	34.3	19.5	13.6
Import of goods and services	36,168	48,149	43,643	49,957	177,582	41,932	53,092	51,350	15.9	10.3	17.7
<i>goods (F.O.B.)</i>	31,469	41,662	36,987	42,793	152,663	35,542	46,065	44,588	12.9	10.6	20.5
<i>services</i>	4,699	6,487	6,656	7,164	24,920	6,390	7,036	6,762	36.0	8.5	1.6

Source: Preliminary data of the State Statistical Office



2. Economic activity

Table 5
Production side of GDP

at current prices, in Denars since 1997	2006 in millions of Denars			Real changes 2006/2005 in %			Contribution to the change in %		
	Q.1	Q.2	Q.3	Q.1/Q.1	Q.2/Q.2	Q.3/Q.3	Q.1	Q.2	Q.3
Total	52,589	57,943	58,877	2.5	2.6	3.0	100	100	100
<i>Agriculture, hunting, forestry and fishing</i>	5,113	5,297	5,373	0.9	0.8	0.5	3.5	2.9	1.6
<i>Mining and quarrying; Manufacturing and electricity, gas and water supply</i>	11,610	13,644	13,887	0.5	1.6	4.2	4.8	14.3	32.7
<i>Construction</i>	1,856	3,213	3,560	-2.4	1.4	1.8	-3.4	3.0	3.6
<i>Wholesales and retail sales, repair of motor vehicles, motorcycles and personal and household items</i>	6,773	7,475	7,383	6.9	4.6	4.8	35.9	23.0	20.3
<i>Hotels and restaurants</i>	776	875	1,029	1.0	-1.6	-0.8	0.6	-0.9	-0.4
<i>Transport, storage and communications</i>	4,170	4,491	4,581	8.4	7.2	5.1	26.7	21.2	13.3
<i>Financial intermediation; Real estate activities, renting and business activities</i>	7,169	7,222	7,260	1.4	1.7	2.0	7.9	8.1	8.3
<i>Public administration and defense, obligatory social security, Education, Health and social work</i>	7,937	8,027	8,033	1.1	2.4	2.3	6.5	12.7	10.4

Source: Preliminary data of the State Statistical Office



Table 6
Industrial output

	Structure	XII.2006 XI.2006	XII.2006 XII.2005	I-XII.2006 I-XII.2005
	in %	in %		
Total	100.0	4.0	-2.2	2.5
Energy	21.9	15.8	14.0	1.5
Intermediary goods (except Energy)	33.8	0.4	2.7	7.3
Capital goods	4.8	-15.5	0.0	8.2
Durable consumer goods	1.4	22.6	-4.3	-5.0
Non durable consumer goods	38.1	2.0	-15.0	-2.2
Mining and quarrying	1.8	8.2	-3.8	28.0
Manufacturing industry	79.4	1.2	-4.5	2.4
Manufacture of food products and beverages	20.0	8.9	-17.1	0.1
Manufacture of tobacco products	3.9	-41.3	-29.8	5.5
Manufacture of textiles	2.5	4.4	11.4	6.7
Manufacture of wearing apparel; dressing and dyeing of fur	8.6	-9.1	-6.2	-3.7
Publishing, printing and reproduction of recorded media	3.9	20.7	-12.0	-17.9
Manufacture of coke, refined petroleum products and nuclear fuel	3.0	15.2	42.6	12.3
Manufacture of chemicals and chemical products	5.9	3.0	-11.6	1.4
Manufacture of rubber and plastic products	2.6	-3.7	32.3	-5.9
Manufacture of other non-metallic mineral products	8.2	-6.5	-1.7	14.0
Manufacture of basic metals	6.0	11.9	23.3	11.8
Manufacture of fabricated metal products, except machinery and equipment	3.8	-14.6	37.1	5.7
Manufacture of electrical machinery and apparatus n.e.c.	3.2	-5.6	-23.4	3.7
Electricity, gas and water supply	18.8	16.0	8.3	-0.6

Source: Preliminary data of the State Statistical Office



Table 7
Industrial output - cumulative growth rates

Structure	Structure	cumulative changes in %											
		I-2006 I-2005	I-II.06 I-II.05	I-III.06 I-III.05	I-IV.06 I-IV.05	I-V.06 I-V.05	I-VI.06 I-VI.05	I-VII.06 I-VII.05	I-VIII.06 I-VIII.05	I-IX.06 I-IX.05	I-X.06 I-X.05	I-XI.06 I-XI.05	I-XII.06 I-XII.05
Total	100.0	1.8	-0.3	0.5	-0.9	0.5	1.1	1.9	2.8	2.2	2.8	3.0	2.5
Energy	21.9	9.0	1.7	3.0	-1.4	0.5	-0.2	0.7	2.5	-0.2	-0.3	0.1	1.5
Intermediary goods (except Energy)	33.8	4.8	6.2	5.6	3.7	4.6	5.3	6.6	7.3	7.6	8.4	7.7	7.3
Capital goods	4.8	-4.0	-19.3	-5.6	4.0	4.4	6.1	2.1	2.0	3.4	6.0	9.1	8.2
Durable consumer goods	1.4	-23.1	5.8	10.8	8.4	-6.2	-2.7	0.7	-0.6	-1.6	-3.3	-5.1	-5.0
Non durable consumer goods	38.1	-6.2	-5.8	-6.1	-5.9	-4.1	-2.8	-2.2	-1.5	-2.1	-1.3	-0.6	-2.2
Mining and quarrying	1.8	2,4 times	2,3 times	2 times	2 times	85,4	63,7	49,1	42,3	39,9	35,2	32,5	28,0
Manufacturing industry	79,4	-1,4	-2,2	-0,8	-2,1	-0,6	0,4	1,4	2,1	2,0	2,9	3,2	2,4
Manufacture of food products and beverages	20.0	-5.0	-0.8	-1.1	0.5	2.8	2.4	2.3	1.7	0.1	1.8	2.6	0.1
Manufacture of tobacco products	3.9	-27.2	-23.4	-14.6	-1.0	-1.6	2.0	1.6	5.4	7.6	7.1	7.6	5.5
Manufacture of textiles	2.5	7.8	-9.1	2.8	4.3	11.8	12.4	12.1	9.2	7.3	7.3	6.3	6.7
Manufacture of wearing apparel; dressing and dyeing of fur	8.6	-11.8	-4.6	-4.9	-8.4	-9.1	-6.8	-4.9	-2.6	-3.2	-3.8	-3.4	-3.7
Publishing, printing and reproduction of recorded media	3.9	12.1	-11.6	-22.5	-24.6	-23.1	-22.8	-23.2	-22.8	-21.6	-20.5	-18.6	-17.9
Manufacture of coke, refined petroleum products and nuclear fuel	3.0	39.3	15.8	32.6	9.6	14.5	8.8	9.1	8.8	7.0	5.7	8.9	12.3
Manufacture of chemicals and chemical products	5.9	9.1	4.5	-5.9	-3.5	-1.5	-3.2	-1.8	-2.7	-0.5	2.2	2.9	1.4
Manufacture of rubber and plastic products	2.6	-19.0	-18.9	-25.5	-19.1	-14.1	-10.6	-12.6	-13.1	-14.3	-11.1	-8.7	-5.9
Manufacture of other non-metallic mineral products	8.1	53.0	58.5	43.7	27.3	24.7	26.8	26.9	25.5	21.8	18.9	15.3	14.0
Manufacture of basic metals	6.0	-21.8	-21.1	-17.4	-16.8	-14.4	-8.4	-1.2	3.1	7.8	11.8	10.7	11.8
Manufacture of fabricated metal products, except machinery and equipment	3.8	-21.8	-19.5	-8.7	-6.5	-3.5	-1.7	-4.7	-5.4	-2.5	1.1	3.4	5.7
Manufacture of electrical machinery and apparatus n.e.c.	3.2	118.5	39.6	42.4	25.2	20.8	7.4	-0.2	4.0	3.1	5.6	7.1	3.7
Electricity, gas and water supply	18,8	5,2	-0,3	-0,8	-3,0	-1,5	-1,7	-0,8	1,4	-1,6	-1,5	-1,6	-0,6

Source: Preliminary data of the State Statistical Office

Table 8
Purchase of agricultural products

	X.2006	XI.2006	XII.2006	Q. IV 2006		Q. IV 2006	Q. IV 2006
						Q. III 2006	Q. IV 2005
	in 000 Denars			amount	share	change in %	
Total	615,999	751,678	968,493	2,336,170	100.0	-10.1	-13.0
Purchase from individual agricultural producers	162,064	245,191	509,743	916,998	39.3	17.0	-39.7
Sale from own production	453,935	506,487	458,750	1,419,172	60.7	-21.8	21.9
Agriculture	183,275	135,456	462,083	780,814	33.4	-52.3	35.8
Corn	87,205	78,044	113,930	279,179	12.0	-59.2	53.5
Industrial plants	57,666	16,661	328,349	402,676	17.2	1028.7	21.6
Garden plants	36,627	38,162	18,659	93,448	4.0	-89.7	68.1
Fodder crops	1,777	2,589	1,145	5,511	0.2	-49.1	-12.0
Orcharding and wine-growing	132,263	118,136	145,783	396,182	17.0	343.7	-59.6
Fruits	19,253	725	3,869	23,847	1.0	0.1	109.5
Grapes	113,010	117,411	141,914	372,335	15.9	468.9	-61.6
Alcoholic products	116,882	119,739	169,689	406,310	17.4	48.9	10.8
Cattle breeding	179,539	318,675	183,858	682,072	29.2	22.9	-1.3
Livestock	43,574	29,355	30,751	103,680	4.4	-6.9	-20.5
Poultry and eggs	14,966	12,960	21,591	49,517	2.1	27.4	39.7
Milk	115,211	267,181	123,201	505,593	21.6	29.8	0.3
Dairy products	5,752	8,999	8,312	23,063	1.0	52.0	10.7
Leather and wool	36	180	3	219	0.0	776.0	1268.8
Fish	1,757	4,465	3,253	9,475	0.4	146.0	-26.3
Other products	2,283	55,207	3,827	61,317	2.6	47.0	2.7

Source: State Statistical Office



Table 9
Trade turnover

	Amounts				Changes		
	X.2006	XI.2006	XII.2006	Q.4.2006	<u>Q.4.2006</u> Q.3.2006	<u>Q.4.2006</u> Q.4.2005	<u>I-XII.2006</u> I-XII.2005
	in Denar million				in %		
Trade turnover - total*	15,068	14,967	17,474	47,509	3.2	0.9	2.2
Retail sales*	6,148	5,877	6,647	18,672	-6.2	6.2	8.7
Whole sales*	8,921	9,090	10,826	28,837	10.3	-2.3	-2.0

* Estimated

Source: State Statistical Office

Table 10
Contracted and completed construction works

	Amounts				Changes		
	X.2006	XI.2006	XII.2006	Q.4.2006	<u>Q.4.2006</u> Q.3.2006	<u>Q.4.2006</u> Q.4.2005	<u>I-XII.2006</u> I-XII.2005
	in Denar million				in %		
Value of contracted construction works	314	394	247	956	-51.6	-35.6	5.7
Value of completed construction works	502	500	766	1,769	-8.8	-28.7	-12.3

Source: State Statistical Office



3. Wages and employment

Table 11
Employees by activities

	Number of employed				Changes in %	
	X.2006	XI.2006	XII.2006	Q.4.2006	IV Q. 2006	IV Q. 2006
					III Q. 2006	IV Q. 2005
Total	260,556	260,120	259,762	260,146	-1.2	7.2
Agriculture	9,363	9,259	9,190	9,271	-5.4	-4.8
Agriculture, hunting and forestry	9,207	9,107	9,044	9,119	-5.4	-4.9
Fishing	156	152	146	151	-10.3	0.2
Industry	109,632	109,224	108,808	109,221	-2.1	-2.9
Minerals and stone mining	2,092	2,088	2,080	2,087	-2.2	-5.1
Manufacturing	76,395	76,063	75,805	76,088	-2.5	-3.1
Electricity, gas and water supply	14,070	14,051	14,094	14,072	-0.1	-0.4
Construction	17,075	17,022	16,829	16,975	-1.6	-4.1
Services	141,561	141,637	141,764	141,654	-0.2	17.6
Wholesales and retail sales, mending of motor vehicles, motorbikes and personal consumption items	12,092	12,060	12,115	12,089	-1.4	-1.3
Hotels and restaurants	3,831	3,817	3,824	3,824	-0.3	-2.0
Transport, storage and communications	13,860	13,772	13,742	13,791	-1.3	-8.0
Financial intermediation	5,827	5,851	5,857	5,845	1.0	5.8
Real estate and business activities	6,650	6,715	6,689	6,685	-0.2	1.8
Public authorities and defense, compulsory social welfare	36,812	36,855	37,042	36,903	0.3	140.2
Education	30,319	30,430	30,488	30,412	1.4	2.0
Health and social work	23,794	23,749	23,669	23,737	-1.4	0.5
Other public utility services, general and personal services	8,376	8,388	8,338	8,367	-1.3	-1.3

Source: State Statistical Office

Table 12
Average net wages

	Amounts				Changes		
	X.2006	XI.2006	XII.2006	X-XII.2006	Q.4.2006	Q.4.2006	I-XII.2006
					Q.3.2006	Q.4.2005	I-XII.2005
	in Denar million				in %		
Nominal average net wage per worker	13,812	13,895	13,854	13,854	2.0	7.2	7.3
Costs of living	0.1	0.9	-0.1				
Real average net wage per worker	1.4	-0.3	-0.2				
Nominal average net wage by sectors							
Agriculture	11,819	12,120	11,198	11,712	-0.6	2.8	2.1
Industry	14,484	14,217	14,262	14,321	1.0	8.7	9.8
Services	15,189	15,423	15,440	15,351	1.5	3.4	3.3

Source: State Statistical Office



4. Monetary policy

Table 13

Reserve money
(in Denar million)

	30.09.2006	Monthly changes			Total	31.12.2006
		October	November	December		
Reserve money	21,358	870	481	2,182	3,533	24,891
Currency in circulation	14,810	-14	-495	1,905	1,396	16,206
Banks liquidity	6,548	884	976	277	2,137	8,685

Source: National Bank of the Republic of Macedonia

5. Banking sector

Table 14

Money supply M1 and its components
(in Denar million)

	30.09.2006	Monthly changes			Total	31.12.2006
		October	November	December		
Money supply M1	32,090	497	-573	2,719	2,643	34,733
Currency in circulation	14,810	-14	-495	1,905	1,396	16,206
Demand deposits	17,280	511	-78	814	1,247	18,527
- Demand deposits of households	3,318	218	-163	329	384	3,702
- Demand deposits of enterprises	11,550	168	326	807	1,301	12,851

Source: National Bank of the Republic of Macedonia

Table 15

Broader monetary aggregates and their components
(in Denar million)

	30.09.2006	Monthly changes			Total	31.12.2006
		October	November	December		
Money supply M1	32,090	497	-573	2,719	2,643	34,733
Denar short - term deposits	30,638	2,277	1,416	1,985	5,678	36,316
Monetary aggregate M2 - denar component	62,728	2,774	843	4,704	8,321	71,049
Foreign currency short - term deposits	55,224	621	1,076	509	2,206	57,430
Monetary aggregate M2	117,952	3,395	1,919	5,213	10,527	128,479
Non - monetary deposits	5,917	196	496	29	721	6,638
- In Denar	3,243	75	305	7	387	3,630
- In foreign currency	2,674	121	191	22	334	3,008
Monetary aggregate M4	123,869	3,591	2,415	5,242	11,248	135,117

Source: National Bank of the Republic of Macedonia



Table 16

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

	30.09.2006	Monthly changes			Total	31.12.2006
		October	November	December		
Total deposits	90,833	3,086	2,653	2,469	8,208	99,041
1. According to maturity						
- short-term	85,862	2,898	2,492	2,494	7,884	93,746
- long-term	4,971	188	161	-25	324	5,295
2. According to currency of denomination						
- In denar	32,935	2,344	1,386	1,938	5,668	38,603
- In foreign currency	57,898	742	1,267	531	2,540	60,438

Source: National Bank of the Republic of Macedonia

Table 17

Households and enterprises deposits
(in Denar million)

	30.09.2006	Monthly changes			Total	31.12.2006
		October	November	December		
Total households deposits	62,767	2,305	890	1,390	4,585	67,352
1. According to maturity						
- short-term	59,233	2,184	797	1,244	4,225	63,458
- long-term	3,534	121	93	146	360	3,894
2. According to currency of denomination						
- In denar	18,978	1,942	619	907	3,468	22,446
- In foreign currency	43,789	363	271	483	1,117	44,906
Total enterprises deposits	27,161	799	1,706	1,108	3,613	30,774
1. According to maturity						
- short-term	25,782	733	1,638	1,285	3,656	29,438
- long-term	1,379	66	68	-177	-43	1,336
2. According to currency of denomination						
- In denar	13,380	393	696	1,046	2,135	15,515
- In foreign currency	13,781	406	1,010	62	1,478	15,259

Source: National Bank of the Republic of Macedonia

Table 18

Banks' placements and overdue claims
(in Denar million)

	30.09.2006	Monthly changes			Total	31.12.2006
		October	November	December		
Total banks' placements	82,084	3,340	1,790	2,566	7,696	89,780
<i>Denar placements</i>	<i>60,349</i>	<i>2,698</i>	<i>1,088</i>	<i>2,278</i>	<i>6,064</i>	<i>66,413</i>
<i>Foreign currency placements</i>	<i>21,735</i>	<i>642</i>	<i>702</i>	<i>288</i>	<i>1,632</i>	<i>23,367</i>

Source: National Bank of the Republic of Macedonia



Table 19

Structure of total placements
(in Denar million)

	30.09.2006	Monthly changes			Total	31.12.2006
		October	November	December		
Maturity structure						
- short-term	34,552	1,654	-358	611	1,907	36,459
- long-term	47,532	1,686	2,148	1,955	5,789	53,321
Structure of currency of denomination						
- Denar	60,349	2,698	1,088	2,278	6,064	66,413
- Foreign currency	21,735	642	702	288	1,632	23,367
Structure by sectors						
- enterprises	54,380	2,311	846	1,283	4,440	58,820
- households	27,623	1,002	985	1,245	3,232	30,855
- other	81	27	-41	38	24	105

Source: National Bank of the Republic of Macedonia

Table 20

Maturity and sector structure of Denar and foreign currency placements

	31.12.2006	Quarterly change	Annual change
	(in %)	(in percentage points)	
Denar placements			
maturity structure			
- short-term	46.2	-1.5	-4.9
- long-term	53.8	1.5	4.9
structure by sectors			
- enterprises	56.0	-0.6	-3.3
- households	43.9	0.7	3.5
- other	0.2	0.1	-0.1
Foreign currency placements			
maturity structure			
- short-term	24.8	-1.8	-1.5
- long-term	75.2	1.8	1.5
structure by sectors			
- enterprises	92.7	-0.3	88.4
- households	7.3	0.3	7.2
- other	0.0	0.0	-0.1

Source: National Bank of the Republic of Macedonia



6. Financial markets

Table 21

Stock exchange indicators

	July-September 2006	October-December 2006	change in %
Turnover (denars)			
Trading in BEST	2,942,499,861	3,324,483,715	12.98
Shares	2,570,336,537	2,970,841,034	15.58
Bonds	372,163,325	353,642,680	-4.98
Average daily turnover (denars)	46,383,978	85,008,166	83.27
Average daily number of transactions	255	283	10.98
Block transactions	577,314,543	2,069,914,099	258.54
Government segment	-	331,500	
Shares	-	331,500	
Stakes	-	-	
Other securities		14,921,940	
Total	3,519,814,404	5,409,651,253	53.69
Market capitalization (denars)^{1/}			
Market capitalization of shares - quoted companies	56,797,160,083	86,482,150,528	52.26
Market capitalization of bonds	24,194,747,949	22,436,317,815	-7.27
Mbi/mbi-10^{1/}	4,231	3,703	-12.49
Number of quoted companies^{1/}	46	43	-6.52

^{1/} End of period

Source: Macedonian Stock Exchange

Table 22

Turnover structure

Market segment	Turnover (denars)	Turnover (euros)	%	Number of transactions
Official market	2,842,259,768	46,455,201	52.54	15,267
Unofficial market	482,223,946	7,881,730	8.91	2,799
Block transactions	2,069,914,099	33,828,991	38.26	85
Other securities	14,921,940	243,903	0.28	1
Government segment	331,500	5,417	0.01	1
Total	5,409,651,253	88,415,242	100.00	18,153



Table 23

Supply, demand and interest rate of Treasury bills

Three-month Treasury bills	Supply	Demand	Realization	Average weighted interest rate
	(in Denars)			
X.2006	3,695,000,000	3,626,060,000	3,171,210,000	6.24
XI.2006	1,850,000,000	1,515,530,000	1,332,730,000	6.13
XII.2006	2,850,000,000	2,091,040,000	2,091,040,000	6.26
Total for the quarter:	8,395,000,000	7,232,630,000	6,594,980,000	6.22

Six-month Treasury bills	Supply	Demand	Realization	Average weighted interest rate
	(in Denars)			
X.2006	350,000,000	536,600,000	350,000,000	6.88
XI.2006	400,000,000	455,370,000	400,000,000	6.84
XII.2006	400,000,000	413,460,000	400,000,000	7.02
Total for the quarter:	1,150,000,000	1,405,430,000	1,150,000,000	6.91

One-year Treasury bills	Supply	Demand	Realization	Average weighted interest rate
	(in Denars)			
XII.2006	350,000,000	324,160,000	324,160,000	8.86
Total for the quarter:	350,000,000	324,160,000	324,160,000	8.86

Source: Ministry of Finance of the Republic of Macedonia



7. Balance of payments

Table 24

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

	2005				2005	2006				2006
	Q.1	Q.2	Q.3	Q.4		Q.1	Q.2	Q.3	Q.4	
I. Current Account	-15.89	-86.76	64.85	-23.99	-61.80	-36.56	-51.57	105.10	-35.87	-18.90
GOODS, net	-145.48	-272.04	-188.45	-247.44	-853.41	-221.82	-292.90	-204.97	-300.95	-1,020.63
Exports, f.o.b.	367	407	416	452	1642	374.30	466.29	549.40	512.65	1,902.65
Imports, f.o.b. /2	-513	-679	-604	-700	-2496	-596.12	-759.19	-754.36	-813.60	-2,923.28
SERVICES, net	-2.87	-13.06	9.40	-20.69	-27.23	-5.11	-4.41	23.64	5.61	19.72
INCOME, net	0.52	-16.30	-36.78	8.18	-44.38	5.11	-1.41	-9.36	3.95	-1.71
o/w: Interest, net	-7.61	-3.70	-8.70	-0.67	-20.68	-7.62	-2.90	-5.27	-3.58	-19.36
CURRENT TRANSFERS, net	131.95	214.64	280.68	235.95	863.22	185.26	247.15	295.80	255.52	983.72
Official	8.99	12.71	16.65	14.13	52.48	14.06	15.79	13.96	14.93	58.73
Private	122.96	201.92	264.03	221.82	810.74	171.20	231.37	281.83	240.59	924.99
II. Capital & Financial Account	19.52	83.88	-61.85	30.37	71.93	33.14	46.98	-106.54	36.75	10.33
CAPITAL ACCOUNT, net	0.00	-0.15	0.19	-1.78	-1.73	0.37	-0.43	-0.19	-0.58	-0.82
Capital transfers, net	0.00	-0.15	0.19	-1.78	-1.73	0.37	-0.43	-0.19	-0.58	-0.82
Official	0	0	0	0	0	0.00	0.00	0.00	0.00	0.00
Other	0	0	0	-2	-2	0.37	-0.43	-0.19	-0.58	-0.82
Acquisition/disposal of non-produced, non-fin. Assets	0	0	0	0	0	0.00	0.00	0.00	0.00	0.00
FINANCIAL ACCOUNT, net	19.52	84.04	-62.04	32.14	73.66	32.76	47.40	-106.35	37.33	11.15
Direct investment, net	27.67	26.60	14.11	8.74	77.12	239.36	17.18	9.38	20.00	285.93
Portfolio investment, net	12.52	3.76	14.39	167.30	197.98	11.80	24.80	7.03	21.88	65.51
Other investment, net	-10.09	77.49	1.76	77.29	146.45	-189.83	95.28	8.34	43.52	-42.69
Trade credits, net	-46	66	-32	33	21	5.85	32.03	-45.26	39.01	31.63
Loans, net	14	65	5	41	125	-133.81	56.84	24.75	30.92	-21.31
Currency and deposits, net	18	-58	24	-5	-21	-66.79	-3.24	22.65	-36.36	-83.74
o/w: Monetary Authorities, net	0	0	0	0	0	-56.75	-0.02	51.07	-0.05	-5.74
o/w: Commercial Banks, net	16	-49	41	14	22	6.12	19.35	-17.60	-18.29	-10.42
o/w: Individuals, net	2	-9	-17	-19	-43	-16.17	-22.57	-10.83	-18.01	-67.59
Other, net	3	4	5	9	21	4.93	9.65	6.21	9.95	30.73
Gross official reserve assets, (- = increase) /4	-10.59	-23.81	-92.31	-221.19	-347.90	-28.56	-89.86	-131.10	-48.08	-297.60
III. Errors & Omissions	-3.63	2.88	-3.00	-6.37	-10.13	3.42	4.59	1.44	-0.88	8.57

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%.

For 2006, time adjustment for the import of electricity was made.

3/ Changes in the methodology: The balance of payments data for 2006 include new source of data:

Monthly reports on the balances and the turnover on the residents' accounts abroad and recording accounts

4/ Excluding monetary gold and exchange rate differences

Source: National Bank of the Republic of Macedonia

Table 25

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

in EUR million				
	Q.4 2005	Q.4 2006	Q.4 2006	
			Q.4 2005	
	Amount		Amount	%
Foreign trade	1,180.8	1,349.8	169.0	14.3
Exports	452.8	513.4	60.5	13.4
Imports	728.0	836.4	108.5	14.9
Balance	-275.1	-323.0	-47.9	17.4

Source: State Statistical Office of the Republic of Macedonia



Table 26

Geographic distribution of the foreign trade of the Republic of Macedonia

	Export		Total trade	Trade balance	Export - import coverage	Export		Total trade	Trade balance	Export - import coverage
	Export	Import				Export	Import			
	Q.4.2005					Q.4.2006				
	in millions of Euros					in %				
						in millions of Euros				
						in %				
European Union	230.3	336.8	567.1	-106.4	68.4	285.4	359.9	645.3	-74.5	79.3
Germany	72.8	76.9	149.8	-4.1	94.7	76.9	82.5	159.3	-5.6	93.2
Greece	64.6	66.6	131.1	-2.0	97.0	64.1	71.0	135.2	-6.9	90.3
Italy	33.9	43.8	77.7	-9.9	77.4	50.4	51.8	102.2	-1.3	97.4
Other	59.0	149.5	208.5	-90.5	39.5	93.9	154.6	248.5	-60.7	60.7
Central and Eastern European countries and former countries of USSR	36.9	187.6	224.5	-150.7	19.7	50.1	239.8	289.9	-189.8	20.9
Russia	4.8	107.9	112.7	-103.1	4.5	3.7	141.4	145.1	-137.6	2.6
Bulgaria	21.3	47.8	69.1	-26.4	44.7	32.7	51.9	84.7	-19.2	63.0
Romania	1.2	12.8	13.9	-11.6	9.1	3.8	23.3	27.1	-19.5	16.2
Other	9.6	19.2	28.8	-9.6	49.9	9.9	23.2	33.1	-13.4	42.5
Former countries of SFRY	141.3	80.1	221.4	61.2	176.4	157.5	90.7	248.2	66.8	173.6
Serbia and Montenegro	111.1	56.5	167.6	54.7	196.8	116.9	67.7	184.6	49.2	172.6
Other	30.2	23.6	53.8	6.5	127.7	40.6	23.0	63.5	17.6	176.7
Other countries	44.3	123.5	167.8	-79.1	35.9	20.5	146.0	166.5	-125.5	14.0
China	0.1	26.0	26.1	-25.9	0.4	0.0	31.0	31.0	-30.9	0.1
Other	44.2	97.5	141.7	-53.2	45.4	20.4	115.0	135.5	-94.6	17.8
TOTAL	452.8	728.0	1,180.8	-275.1	62.2	513.4	836.4	1,349.8	-323.0	61.4

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

Table 27

Ten most important trading partners of the Republic of Macedonia, IX-XII, 2006

	Foreign trade	Share	Exports	Share	Imports	Share	Import-export coverage ratio
	Amount	(in %)	Amount	(in %)	Amount	(in %)	(in %)
Republic of MACEDONIA	1,349.8	100.0	513.4	100.0	836.4	100.0	61.4
out of which:							
Serbia and Montenegro	184.6	13.7	116.9	22.8	67.7	8.1	172.6
Germany	159.3	11.8	76.9	15.0	82.5	9.9	93.2
Russia	145.1	10.7	3.7	0.7	141.4	16.9	2.6
Greece	135.2	10.0	64.1	12.5	71.0	8.5	90.3
Italy	102.2	7.6	50.4	9.8	51.8	6.2	97.4
Bulgaria	84.7	6.3	32.7	6.4	51.9	6.2	63.0
Croatia	42.1	3.1	24.8	4.8	17.3	2.1	143.7
Turkey	40.9	3.0	11.4	2.2	29.4	3.5	38.9
Slovenia	35.0	2.6	8.1	1.6	26.9	3.2	30.0
Belgium	34.1	2.5	27.7	5.4	6.4	0.8	432.6
Total (10 largest trading partners)	963.1	71.4	416.8	81.2	546.3	65.3	76.3

Source: State Statistical Office of the Republic of Macedonia

Table 28

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

	Export		Import		Export		Import	
	Q.4 2005	Q.4 2006	Q.4 2005	Q.4 2006	Q.4 2005	Q.4 2006	Q.4 2005	Q.4 2006
	in millions of euros				structure in %			
Total	452.8	513.4	728.0	836.4	100.0	100.0	100.0	100.0
Production goods	238.7	303.9	470.4	554.2	52.7	59.2	64.6	66.3
Means of production	12.2	11.2	76.8	87.9	2.7	2.2	10.6	10.5
Consumption goods	201.6	198.1	180.2	193.5	44.5	38.6	24.8	23.1
Unallocated	0.2	0.2	0.5	0.8	0.0	0.0	0.1	0.1

Source: State Statistical Office of the Republic of Macedonia



Table 29

Stock of the external long-term debt*

As of:				Changes		Share in the total debt
31.12.2005	30.09.2006	31.12.2006	Quarterly	Annual		
in millions of euros				%		
From the aspect of the debtors:						
Public sector	1,441.2	1,219.8	1,223.0	0.3	-15.1	69.6
Private sector	407.9	505.8	535.4	5.9	31.3	30.4
From the aspect of the creditors:						
Multilateral creditors	891.7	883.7	881.6	-0.2	-1.1	50.1
Bilateral creditors	174.0	164.3	166.4	1.3	-4.4	9.5
Private creditors	783.3	677.5	710.4	4.8	-9.3	40.4
Total:	1,849.1	1,725.6	1,758.4	1.9	-4.9	100.0

* Previous data

Source: National Bank of the Republic of Macedonia

Table 30

Used funds and paid liabilities based on long-term debt*

	Used funds				Paid liabilities		Changes	
	Changes		Principal	Interest	Q. 4 2006	Q. 4 2006	Q. 4 2006	Q. 4 2006
	Q. 4 2006	Quarterly						
in millions of euros								
From the aspect of the debtors:								
Public sector	33.1	3.6	-155.1	15.5	13.9	29.3	-2.1	12.0
Private sector	54.9	15.5	30.7	25.4	5.9	31.2	1.9	15.4
From the aspect of the creditors:								
Multilateral creditors	20.9	3.4	-17.3	13.1	6.5	19.6	6.0	5.4
Bilateral creditors	7.2	1.1	5.1	2.3	0.4	2.7	-10.5	-0.2
Private creditors	59.9	14.5	-112.3	25.5	12.8	38.2	4.3	22.3
Total:	88.0	19.0	-124.5	40.8	19.7	60.6	-0.2	27.4

* Previous data

Source: National Bank of the Republic of Macedonia



Table 31

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

	Debt outstanding			Used credits			Paid liabilities		
	31.10.2006	30.11.2006	31.12.2006	X-2006	XI-2006	XII-2006	X-2006	XI-2006	XII-2006
Official creditors	1,052.2	1,045.9	1,048.0	11.2	8.1	8.8	7.3	5.8	9.2
out of which:									
Multilateral	884.1	879.6	881.6	6.7	7.1	7.1	6.8	5.4	7.4
MMF	46.1	43.6	42.4	0.0	0.0	0.0	1.1	2.2	1.3
IBRD	203.5	201.3	200.3	0.2	1.2	0.5	0.4	1.6	2.7
IFC	3.3	3.2	3.2	0.0	0.0	0.0	0.6	0.0	0.0
IDA	296.5	292.1	291.9	0.3	0.1	0.0	1.3	0.1	0.4
EIB	119.7	122.4	125.1	0.0	3.5	2.8	3.2	1.2	0.2
EUROFIMA	6.1	6.1	5.0	0.0	0.0	0.0	0.0	0.0	1.2
Council of EDB	23.4	23.2	22.9	5.0	0.0	0.0	0.1	0.2	0.3
EBRD	83.4	85.6	88.3	1.2	2.2	3.3	0.0	0.0	0.8
EU	90.0	90.0	90.0	0.0	0.0	0.0	0.0	0.0	0.5
IFAD	12.2	12.0	12.5	0.0	0.0	0.5	0.1	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	168.1	166.2	166.4	4.4	1.0	1.8	0.5	0.4	1.8
Paris club (rescheduled 1995)	80.2	78.7	78.5	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	81.3	80.9	81.2	4.4	1.0	1.8	0.4	0.4	1.8
Private creditors	677.4	682.2	710.4	7.9	15.2	36.8	13.8	6.0	18.4
out of which:									
London Club of Creditors	0.0	0.0	0.0				0.0	0.0	0.0
Other private creditors	150.0	150.0	150.0	0.0	0.0	0.0	0.0	0.0	6.9
Other	527.4	532.2	560.4	7.9	15.2	36.8	13.8	6.0	11.4
Banks and financial institutions	249.0	258.9	284.5	2.8	14.7	31.0	5.8	1.9	6.1
Non-financial private sector	278.4	273.3	275.8	5.2	0.5	5.8	8.0	4.2	5.4
TOTAL	1,729.6	1,728.1	1,758.4	19.1	23.3	45.6	21.2	11.8	27.6

Source: State Statistical Office



8. Public finances

Table 32
Central Government Budget

	Q.3 2006	Q.3 2006/ Q.3 2005 (in %)	Q.3 2006/ Q.2 2005 (in %)	Q.4 2006	Q.4 2006/ Q.4 2005 (in %)	Q.4 2006/ Q.3 2006 (in %)
Total budget revenues	23,080	8.4	1.3	24,888	7.5	7.8
Revenues based on taxes and contributions	15,459	9.6	2.4	16,360	6.8	5.8
<i>Tax revenues (SRA):</i>	2,025	3.8	-3.5	2,358	4.3	16.4
<i>Tax revenues:</i>	950	52.5	3.9	1,119	109.6	17.8
- personal income tax	7,155	7.6	-2.5	7,514	-5.1	5.0
- profit tax	3,373	-0.4	18.8	3,419	15.3	1.4
- value added tax	1,474	10.4	-1.3	1,459	-0.3	-1.0
- excises	482	3 times	17.6	491	180.6	1.9
- custom duties	7,586	6.7	-0.6	8,493	9.7	12.0
- other						
<i>Contributions</i>	2,715	-49.5	-3.6	2,826	-3.5	4.1
<i>Non-tax revenues:</i>	56	-98.0	-86.2	258	85.6	360.7
- non-tax revenues (SRA)	308	-14.0	-27.7	364	-19.6	18.2
- inflows from state property dividends	65	-5.8	-13.3	22	-81.0	-66.2
- administrative taxes and fees	38	-19.1	-25.5	26	-36.6	-31.6
- revenues based on participation	209	294.3	19.4	126	77.5	-39.7
- other administrative taxes	434	-6.3	-3.8	374	-13.2	-13.8
- other non-tax revenues						
- road toll	143	-75.6	-63.3	272	114.2	90.2
<i>Capital revenues</i>	166	-75.3	-44.5	231	-43.8	39.2
<i>Donations (from abroad)</i>	25,085	2.5	-4.5	30,871	6.1	23.1
Total budget expenditures	22,334	2.9	-7.5	27,569	12.6	23.4
<i>Current expenditures</i>	2,655	1.3	-18.7	4,128	2.5	55.5
- wages and salaries	13,167	2.9	-7.7	16,163	16.2	22.8
- goods and services	418	-42.5	-43.2	1,193	84.1	185.4
- transfers						
- interest	2,751	-0.9	29.8	3,301	-28.4	20.0
<i>Capital expenditures</i>						
Budget balance	-1,131			2,366		
Financing	-368			49		
External financing, net	43			1,070		
Financing from domestic sources, net	2			0		
- sale of Treasury bills	0			0		
Sale of government shares	24			2		
Revenues based on privatization	13,928			0		

Source: Ministry of Finance

Table 33
NBRM Balance sheet on December 31, 2006
(in million Denars)

Assets	Amount	Liabilities	Amount
Foreign assets	87,761	Reserve money	24,891
Claims on Government	2,854	NBRM instruments	9,456
Claims on banks and other financial institutions	1,352	Restricted deposits	493
Other assets	4,404	Foreign liabilities	2,645
		Government deposits	35,177
		Capital accounts	11,819
		Other liabilities	11,890
Total	96,371	Total	96,371

Source: National Bank of the Republic of Macedonia