

## ECONOMIC CRITERIA

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## **I. MACROECONOMIC DATA**

**1. Please provide the key data requested in the attached tables 1-7 for the period indicated (The tables cover the period 1996-2004. Please ensure consistency of the data in the tables with data used in the text.). The tables cover data on:**

- a) average real GDP growth and its breakdown by expenditures;**
- b) inflation (including core inflation);**
- c) general government deficit and debt and its breakdown by government level;**
- d) general government expenditure and revenue and its breakdown by categories;**
- e) selection of monetary and financial indicators;**
- f) exchange rates vis-à-vis the USD and the ECU/EUR;**
- g) balance of payments, including trade and current account, capital and financial account and financing of the balance of payments.**

The requested data are given in the attached tables.

## II. SOCIO-ECONOMIC DATA

### 1. Please provide the following data:

- a) GDP per capita in Power Purchasing Standards (PPS, in % of the EU average) including a regional breakdown;**
- b) population by sex, age and regional distribution;**
- c) labour market indicators: economic activity rates, employment rates and unemployment rates, training including by sex, age and regional divergences.**

#### **a)**

GDP per capita in Power Purchasing Standards (PPS) is calculated every third year, based on OECD and Eurostat methodology. According to last calculations, prepared in 1999 by the State Statistical Office in cooperation with OECD, the GDP per capita by purchasing power parity of the Republic of Macedonia is USD 6.137, which is 26,7% of the EU average (for 15 member states the average in 1999 was USD 23.005). Regional breakdown of GDP per capita can not be provided since the State Statistical Office of Macedonia, as of now, is not calculating regional GDPs.

#### **b)**

The answer is provided in the following Table

## Chapter II Economic criteria

Population by Gender and Age, at NUTS 3 level (condition 30.06.2003)

Age	Total R. of Macedonia			Pelagonia region			Vardar region			North-east region			South-west region			Skopje region			South-east region			Poloq region			East region		
	All	Male	Female	All	Male	Female	All	Male	Female	All	Male	Female	All	Male	Female	All	Male	Female	All	Male	Female	All	Male	Female	All	Male	Female
Total	2.026.773	1.017.274	1.009.499	237.653	119.114	118.539	133.177	67.506	65.671	172.925	87.770	85.155	220.114	110.437	109.677	580.498	287.624	292.874	171.603	87.083	84.520	307.451	154.467	152.984	203.352	103.273	100.079
0-4	121.513	62.754	58.759	12.018	6.163	5.855	7.163	3.721	3.442	11.408	5.987	5.421	13.488	6.965	6.523	36.092	18.528	17.564	9.723	4.906	4.817	21.173	11.156	10.017	10.448	5.328	5.120
5-9	140.128	72.247	67.881	13.721	7.030	6.691	8.098	4.172	3.926	12.990	6.742	6.248	17.019	8.748	8.271	38.592	19.837	18.755	11.054	5.641	5.413	26.887	14.043	12.844	11.767	6.034	5.733
10-14	158.288	81.420	76.868	15.983	8.268	7.715	9.424	4.900	4.524	14.186	7.311	6.875	19.598	10.083	9.515	41.722	21.450	20.272	12.611	6.389	6.222	30.338	15.710	14.628	14.426	7.309	7.117
15-19	165.648	84.987	80.661	17.849	9.194	8.655	10.586	5.469	5.117	14.232	7.286	6.946	19.791	10.118	9.673	44.070	22.486	21.584	13.956	7.169	6.787	29.125	14.919	14.206	16.039	8.346	7.693
20-24	163.141	84.142	78.999	17.579	9.027	8.552	10.629	5.461	5.168	13.902	7.215	6.687	18.452	9.553	8.899	46.387	23.548	22.839	13.725	7.213	6.512	26.554	13.876	12.678	15.913	8.249	7.664
25-29	154.565	79.065	75.500	16.114	8.243	7.871	9.608	5.024	4.584	13.372	6.950	6.422	16.707	8.514	8.193	46.250	23.182	23.068	12.875	6.773	6.102	24.737	12.534	12.203	14.902	7.845	7.057
30-34	148.291	75.257	73.034	15.235	7.817	7.418	9.457	4.946	4.511	12.457	6.391	6.066	16.011	7.999	8.012	44.422	22.154	22.268	12.283	6.511	5.772	24.397	12.057	12.340	14.029	7.382	6.647
35-39	150.520	76.515	74.005	16.790	8.625	8.165	9.904	5.162	4.742	12.770	6.548	6.222	16.153	8.203	7.950	42.464	21.202	21.262	13.112	6.935	6.177	24.063	11.852	12.211	15.264	7.988	7.276
40-44	146.666	74.728	71.938	17.463	9.040	8.423	10.188	5.271	4.917	12.330	6.456	5.874	16.133	8.218	7.915	39.451	19.566	19.885	13.112	6.846	6.266	21.872	10.934	10.938	16.117	8.397	7.720
45-49	143.306	73.287	70.019	18.530	9.871	8.659	10.151	5.254	4.897	11.977	6.209	5.768	14.630	7.650	6.980	41.045	20.105	20.940	13.060	6.836	6.224	17.807	8.861	8.946	16.106	8.501	7.605
50-54	128.995	64.003	64.992	16.272	8.252	8.020	9.254	4.755	4.499	10.326	5.231	5.095	12.227	6.006	6.221	40.938	19.758	21.180	11.152	5.662	5.490	14.276	6.898	7.378	14.550	7.441	7.109
55-59	99.308	48.400	50.908	12.230	6.061	6.169	6.945	3.466	3.479	7.917	3.952	3.965	8.948	4.305	4.643	32.034	15.451	16.583	8.673	4.251	4.422	11.379	5.349	6.030	11.182	5.565	5.617
60-64	89.667	43.146	46.521	12.062	5.769	6.293	6.603	3.140	3.463	7.298	3.524	3.774	8.634	4.091	4.543	27.257	13.338	13.919	7.820	3.770	4.050	10.492	5.026	5.466	9.501	4.488	5.013
65-69	83.402	39.144	44.258	12.734	5.797	6.937	6.169	2.869	3.300	6.844	3.255	3.589	8.067	3.734	4.333	24.008	11.464	12.544	6.934	3.187	3.747	9.551	4.601	4.950	9.095	4.237	4.858
70-74	63.761	28.763	34.998	10.621	4.810	5.811	4.492	1.986	2.506	5.202	2.318	2.884	6.704	3.004	3.700	17.123	7.620	9.503	5.540	2.504	3.036	7.391	3.489	3.902	6.688	3.032	3.656
75-79	40.643	17.415	23.228	7.383	3.067	4.316	2.713	1.145	1.568	3.203	1.357	1.846	4.437	1.930	2.507	10.986	4.727	6.259	3.580	1.488	2.092	4.190	1.909	2.281	4.151	1.792	2.359
80-84	20.128	8.472	11.656	3.763	1.551	2.212	1.311	553	758	1.721	734	987	2.210	917	1.293	5.273	2.257	3.016	1.686	698	988	1.987	846	1.141	2.177	916	1.261
85-89	5.304	2.285	3.019	795	337	458	341	150	191	454	209	245	536	249	287	1.466	599	867	440	196	244	587	244	343	685	301	384
90 and over	2.362	950	1.412	406	168	238	125	60	65	195	62	133	283	129	154	610	255	355	187	82	105	298	87	211	258	107	151
Unknown age	1.137	294	843	105	24	81	16	2	14	141	33	108	86	21	65	308	97	211	80	26	54	347	76	271	54	15	39

Source: Population Assessment on 30.06.2003

## c)

Labour market Indicators from the Labour Force Survey are the following:

Activity rates for the population above 15 years of age, by gender

	1996	1997	1998	1999	2000	2001	2002	2003
Total	54,9	53,7	54,8	53,1	52,9	55,5	52,6	54,5
Male	67,0	66,5	67,4	65,5	64,4	65,6	63,7	65,6
Female	42,9	41,2	42,2	40,8	41,7	45,5	41,5	43,4
Source: State Statistical Office								

Employment rates for population above 15 years of age, by gender

	1996	1997	1998	1999	2000	2001	2002	2003
Total	37,4	34,4	35,9	35,9	35,8	38,6	35,8	34,5
Male	47,5	44,6	45,4	44,6	44,7	46,3	43,5	41,3
Female	27,4	24,4	26,3	27,2	27,1	30,9	28,1	27,7
Source: State Statistical Office								

Unemployment rates for the population above 15 years of age, by gender

	1996	1997	1998	1999	2000	2001	2002	2003
Total	31,9	36,0	34,5	32,4	32,2	30,5	31,9	36,7
male	29,1	33,0	32,5	31,9	30,5	29,5	31,7	37,0
female	36,2	40,8	37,6	33,3	34,9	32,0	32,3	36,3
Source: State Statistical Office								

Employees that attend training<sup>1</sup>, by age and gender

Age	Gender	2001	2002	2003
	<b>Total</b>	<b>5.895</b>	<b>9.327</b>	<b>5.594</b>
	Male	2.537	4.459	2.985
	Female	3.358	4.868	2.609
15-19	Total	136	71	-
	Male	136	71	-
	Female	-	-	-
20-24	Total	882	841	164
	Male	399	372	164
	Female	484	469	-
25-29	Total	1.118	1.538	1.140
	Male	483	685	753
	Female	635	854	387
30-34	Total	792	1.317	1.114
	Male	91	420	699
	Female	702	897	415
35-39	Total	918	1.663	885
	Male	529	907	79
	Female	388	756	806
40-44	Total	793	1.487	770
	Male	457	867	380
	Female	337	620	390

<sup>1</sup> Training includes professional courses and re-training

45-49	Total	560	1.042	603
	Male	273	595	367
	Female	287	447	237
50-54	Total	223	823	397
	Male	77	82	323
	Female	146	741	74
55-59	Total	473	318	369
	Male	93	234	67
	Female	380	85	301
60-64	Total	-	226	152
	Male	-	226	152
	Female	-	-	-
Source: Labour Force Survey, State Statistics Office				

### III. STRUCTURAL INDICATORS

1. Please provide information on the following (1996 up to the most recent year for which data estimates are available):

- a) sectoral economic structure (share of GDP and employment);
- b) structure of ownership including an estimate of the capital stock, with a split between public and private capital;
- c) unit labour costs;
- d) the percentage of the working population which received higher secondary education;
- e) number of pupils in primary, lower secondary, higher secondary and tertiary education;
- f) percentage of employed persons receiving training;
- g) past and present number of students abroad.

a)

NACE Section	Description	1997	1998	1999	2000	2001	2002	2003
A	Agriculture, hunting and forestry	10,9	11,4	11,0	10,0	9,8	10,0	11,7
B	Fishing	0,0	0,0	0,0	0,0	0,0	0,0	0,0
C	Mining and quarrying	1,0	0,8	0,8	0,8	0,6	0,4	0,4
D	Manufacturing	18,9	18,1	17,6	17,3	16,9	15,5	15,6
E	Electricity, gas and water supply	4,5	4,5	4,4	4,4	4,3	3,7	4,6
F	Construction	5,3	5,8	5,2	5,7	5,0	4,9	5,3
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	11,4	11,2	10,7	10,7	11,2	11,2	11,5
H	Hotels and restaurants	1,5	1,6	1,9	1,5	1,5	1,7	1,8
I	Transport, storage and communication	6,1	7,3	8,2	9,0	9,3	8,4	8,3
J	Financial intermediation	3,4	3,7	3,3	3,1	3,2	3,0	2,4
K	Real estate, renting and business activities	3,0	2,7	2,8	3,2	3,6	3,3	3,3
L	Public administration and defence; compulsory social security	6,1	6,2	6,9	6,1	6,2	6,6	6,7
M	Education	4,2	4,1	4,2	3,5	3,4	3,6	3,7
N	Health and social work	4,3	4,3	4,1	3,8	3,7	3,8	3,9
O	Other community, social and personal service activities	2,8	2,5	2,4	2,2	2,4	2,3	2,2
P	Private households with employed persons	-	-	-	-	-	-	-
Q	Extra-territorial organisations and bodies	-	-	0	0,0	0,0	-	-
	Imputed rents	4,8	4,6	4,6	4,4	4,5	4,4	5,4
	Minus: Imputed banking services	2,4	2,6	2,4	2,2	2,0	1,7	1,5
	Other net taxes on production	-	-	-	-	-	-	-
	<b>A. Value added</b>	<b>85,9</b>	<b>86,3</b>	<b>85,8</b>	<b>83,5</b>	<b>83,5</b>	<b>81,4</b>	<b>85,6</b>
	B. Turnover tax	11,2	10,2	10,2	13,2	13,9	15,9	11,9
	C. Import duties	3,0	3,5	4,0	3,3	2,6	2,7	2,5
	D. Minus: Subsidies on products	0,1	0,0	-	-	-	-	0
	<b>GROSS DOMESTIC PRODUCT (A+B+C-D)</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
Source: State Statistical Office								

## Share of employment

NACE Section	Description	1997	1998	1999	2000	2001	2002	2003
A	Agriculture, hunting and forestry	11,5	11,7	10,6	11,6	11,3	12,1	10,4
B	Fishing	0,1	0,1	0,1	0,1	0,1	0,1	0,1
C	Mining and quarrying	1,5	1,5	1,4	1,4	1,2	1,0	0,5
D	Manufacturing	27,9	28,9	29,5	28,3	27,7	26,3	25
E	Electricity, gas and water supply	3,1	3,0	3,0	3,0	3,2	3,3	3,3
F	Construction	7,8	6,9	6,7	6,7	6,4	6,6	7,4
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	12,9	13,0	12,9	12,7	13,5	13,9	14,7
H	Hotels and restaurants	2,6	2,8	2,9	3,0	3,0	2,9	3,0
I	Transport, storage and communication	6,5	6,6	6,8	7,0	7,3	6,7	6,8
J	Financial intermediation	1,1	1,1	1,1	1,1	1,2	1,4	1,4
K	Real estate, renting and business activities	2,2	2,2	2,3	2,4	2,6	2,6	2,8
L	Public administration and defence; compulsory social security	6,6	6,4	6,7	6,8	6,8	7,2	8,1
M	Education	7,0	6,9	7,0	6,9	6,6	6,8	7,1
N	Health and social work	6,1	5,9	5,9	5,8	5,7	5,9	6,1
O	Other community, social and personal service activities	3,1	3,0	3,1	3,2	3,4	3,2	3,4
	Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Source: State Statistical Office



## b)

Table 1b Value added 1997-2002 by type of capital							
NACE Section	Type of capital	1997	1998	1999	2000	2001	2002
A	1	20.359.477	22.220.196	23.092.875	23.692.720	22.795.505	24.330.222
A	2	-1.799	-2.492	810	21.153	79.495	106.624
A	3	3.771	6.549	44	42.049	57.922	72.261
B	1	50.728	51.932	29.082	14.125	24.114	44.704
B	2						3.186
C	1	1.889.526	1.579.257	1.613.365	1.845.300	1.008.357	401.454
C	2	619	3.468		1.475	1.426	4.518
C	3	2.412	1.520	6.713	9.051	302.201	554.496
D	1	33.158.915	32.289.583	34.036.762	36.806.532	34.655.980	33.419.689
D	2	271.646	463.787	382.647	432.505	686.727	885.324
D	3	1.648.374	2.448.195	2.344.535	3.686.623	4.244.080	3.620.176
E	1	8.345.717	8.868.157	9.203.167	10.381.213	10.041.427	9.146.367
F	1	9.817.165	11.161.090	9.852.589	11.654.904	11.633.878	11.483.856
F	2	11.393	57.156	996.168	1.645.017	89.347	327.478
F	3	38.248	49.000	30.983	60.768	77.631	81.716
G	1	19.347.434	19.799.422	19.911.183	22.228.239	21.396.130	22.402.712
G	2	826.303	1.064.360	1.393.637	1.809.010	2.835.005	2.914.325
G	3	1.123.588	1.050.096	1.078.582	1.364.480	1.844.376	2.120.538
H	1	2.680.876	2.893.429	3.539.244	3.108.645	3.262.206	3.818.315
H	2	13.115	9.109	21.640	136.035	65.616	128.237
H	3	124.615	160.812	423.231	218.431	82.386	141.396
I	1	11.015.045	13.706.674	16.356.572	20.800.225	9.815.332	7.935.552
I	2	63.459	53.360	-28.789	206.692	282.127	189.101
I	3	293.145	549.019	904.837	254.001	11.596.665	12.485.168
J	1	6.255.660	7.233.181	6.200.073	6.502.344	5.760.672	6.131.547
J	2		-9.690	47.486	118.275	146.309	272.616
J	3	3.600	5.102	729.206	721.584	1.512.904	1.022.794
K	1	5.350.438	5.036.823	5.677.415	6.647.203	7.097.151	7.151.254
K	2	80.900	99.433	118.139	682.657	968.618	506.483
K	3	58.966	69.942	94.715	136.136	238.073	510.534
L	0		1.594				
L	1	11.325.997	12.065.422	14.350.824	14.332.999	14.444.593	16.145.105
M	1	7.737.908	8.029.022	8.767.880	8.264.113	8.045.653	8.687.270
M	2	662	787	956	1.557	1.522	1.181
M	3	268	456	388	276	337	-150
N	1	7.998.480	8.303.067	8.581.356	8.980.663	8.661.630	9.351.711
N	2	604	2.982	6.445	453	699	2.305
N	3	3.458	4.049	4.559	6.000	27.956	7.217
O	0		135				
O	1	4.772.039	4.451.194	4.629.176	4.857.071	5.212.626	5.162.529
O	2	37.961	22.929	44.093	72.550	47.569	95.037
O	3	485.405	412.754	293.810	287.076	287.930	295.526
Q	2			35	1.750	3.863	

Source: Ministry of Economy

Table 1b Number of employees 1997-2002 by type of capital

NACE Section	Type of capital	1997	1998	1999	2000	2001	2002
A	1	54.523	57.750	51.893	56.653	54.103	57.596
A	2	2	4	2	279	307	373
A	3	22	25	29	138	263	263
B	1	490	469	439	395	312	260
C	1	7.109	7.376	6.982	6.767	5.153	4.321
C	2	0	9	1		1	2
C	3	17	20	21	26	643	642
D	1	124.544	130.731	131.860	124.552	116.739	109.713
D	2	986	2.085	2.291	2.496	3.399	4.132
D	3	7.315	9.277	9.946	11.821	13.568	12.356
E	1	14.646	14.610	14.892	14.929	15.316	15.849
F	1	37.184	33.591	31.527	31.191	30.655	31.358
F	2	19	282	1.315	1.298	71	60
F	3	163	163	176	159	229	224
G	1	58.885	61.236	60.224	59.519	60.270	61.017
G	2	1.084	1.199	1.361	1.522	3.302	3.479
G	3	1.327	1.333	1.290	1.326	1.652	2.031
H	1	11.922	13.294	13.327	13.956	13.654	13.331
H	2	59	59	51	236	280	375
H	3	546	472	572	473	328	359
I	1	29.803	31.166	31.757	33.373	30.363	27.201
I	2	158	166	242	309	314	375
I	3	1.222	1.051	1.070	687	4.572	4.513
J	1	5.208	5.227	4.755	4.863	3.396	3.939
J	2		4	17	18	96	176
J	3	13	11	540	522	2.252	2.481
K	1	10.278	10.718	10.797	11.381	11.433	11.134
K	2	170	142	156	238	352	371
K	3	157	177	238	277	576	1.172
L	0		5				
L	1	31.221	31.549	32.986	33.492	32.722	34.747
M	1	33.500	34.212	34.412	34.001	32.021	32.400
M	2	5	2	5	9	12	18
M	3	4	3	3	3	2	
N	1	28.813	28.944	28.653	28.423	27.662	28.081
N	2	2	22	22	2	3	9
N	3	13	16	18	20	77	23
O	1	14.273	14.507	14.950	15.083	16.117	15.152
O	2	71	50	88	53	59	85
O	3	389	393	361	349	322	328
Q	2			0	0	3	

Source: Ministry of Economy

Table 1b Value Added 1997-2002 by Type of Ownership

NACE Section	Type of ownership	1997	1998	1999	2000	2001	2002
A	1	17.721.246	18.346.322	19.762.316	19.727.299	19.992.101	21.754.044
A	2	181.140	216.890	277.260	398.179	591.267	599.271

## Chapter II Economic criteria

A	3	158.712	187.657	119.829	152.389	123.644	71.503
A	4	2.289.440	2.643.883	2.035.224	2.259.758	1.594.112	1.486.138
A	5	1.169	814.956	892.375	1.197.792	622.538	580.683
A	9	9.742	14.545	6.724	20.505	9.260	17.468
B	2	8.217	10.327	105	11.737	12.443	36.319
B	3	184	532	902	185	516	718
B	4	42.326	41.073	28.074	2.203	11.155	10.853
C	1	194.764	193.445	93.891	102.538	-4.631	421
C	2	460.629	231.208	259.722	264.668	228.012	167.614
C	4	1.235.556	1.155.389	1.256.106	1.474.948	1.067.924	767.271
C	5	1.609	3.693	10.114	13.446	20.678	25.163
C	9		509	246	226		
D	1	1.428.074	517.052	1.475.593	958.003	517.870	696.480
D	2	12.407.946	13.673.748	15.280.353	18.617.146	21.834.063	24.173.642
D	3	70.494	41.866	55.069	70.000	59.559	66.551
D	4	19.977.403	19.975.555	19.049.807	20.179.037	16.361.215	12.753.887
D	5	89.978	144.086	149.524	197.671	466.908	217.475
D	9	1.105.039	849.258	753.599	903.803	347.172	17.153
E	1	1.478.556	1.571.442	1.515.663	1.714.095	884.644	746.115
E	2	5.338	2.476	726	-1.527	544	1.381
E	3	-381	-134	-2.200	-1.640	-317	
E	4	365.174	440.116	401.720	279.413	386.349	401.079
E	5	6.355.158	6.705.158	6.993.943	8.080.719	7.796.936	6.945.416
E	9	141.872	149.099	293.315	310.154	973.272	1.052.375
F	1	2.628.148	2.747.819	2.713.090	2.792.319	2.851.004	3.175.177
F	2	2.227.507	1.967.698	2.966.743	5.075.006	3.783.932	3.684.497
F	3	120.077	102.124	-16.043	59.625	52.291	12.275
F	4	4.154.424	5.859.167	4.638.949	4.768.786	4.359.631	3.807.692
F	5	436.231	506.853	488.517	578.297	636.294	1.093.034
F	9	300.420	83.585	88.484	86.658	117.704	120.375
G	1	98.786	365.202	487.979	269.337	212.808	206.676
G	2	15.670.922	16.845.275	18.695.837	22.588.811	24.447.219	26.215.190
G	3	26.595	47.691	67.995	38.511	24.400	5.671
G	4	2.874.285	2.619.775	1.850.390	1.766.917	1.021.487	726.179
G	5	3.330	2.486	7.238	4.667	5.510	6.296
G	9	2.623.409	2.033.450	1.273.965	733.486	364.088	277.563
H	1	232.309	282.978	342.096	238.086	89.786	127.419
H	2	756.619	936.319	1.823.813	2.333.982	2.866.724	3.462.131
H	3	438	2.223	4.891	2.510	1.906	1.916
H	4	691.278	895.247	1.254.455	661.197	352.799	456.215
H	5				75.481	27.176	37.379
H	9	1.137.963	946.583	558.860	151.855	71.817	2.889
I	1	6.117.444	2.897.081	3.475.459	3.993.381	1.817.562	1.358.962
I	2	2.099.889	2.594.077	3.356.082	4.979.082	4.655.014	4.155.880
I	3	11.233	11.563	19.478	46.853	12.475	24.984
I	4	1.466.672	1.570.523	1.537.593	1.564.938	12.335.202	12.873.626
I	5		6.437.388	8.635.099	10.607.261	2.228.296	1.614.344
I	9	1.676.412	798.420	208.910	69.403	645.575	582.026
J	1			2.013.715	26.717	3.923	2.132
J	2	10.747	5.932	173.516	294.284	387.592	415.612
J	3			0	-48		
J	4	1.297.506	1.346.201	4.191.769	6.098.107	6.322.599	6.284.637
J	5		-1.815	594.805	920.443	667.354	589.899
J	9	4.951.007	5.878.275	2.961	2.700	38.416	134.677

K	1	1.687.489	1.725.315	1.721.927	1.717.007	2.000.463	1.975.686
K	2	1.419.070	1.525.206	2.323.867	2.854.002	4.256.673	5.039.581
K	3	2.557	4.945	3.170	50.465	102.544	49.346
K	4	695.782	577.256	604.760	1.149.430	1.002.037	713.352
K	5	412.280	458.341	531.878	627.168	561.794	267.024
K	9	1.273.125	915.136	704.667	1.067.923	380.332	123.281
L	0		1.594				
L	1	162.536	207.847	260.395	175.856	56.390	49.797
L	2		7	4.721	6.607		
L	5	10.483.214	11.104.087	13.257.431	12.267.340	13.351.216	15.029.293
L	9	680.247	753.481	828.276	1.883.196	1.036.987	1.066.015
M	1	6.007.637	6.248.559	6.746.859	5.930.905	5.523.544	5.361.928
M	2	85.015	90.645	133.029	140.393	155.542	179.065
M	4	4.398	4.514	5.820	2.725	3.025	7.605
M	5	1.563.926	1.632.031	1.793.715	1.755.252	2.282.804	3.080.765
M	9	77.863	54.516	89.801	436.670	82.597	58.939
N	1	2.795.281	2.955.353	2.973.385	2.560.466	2.103.737	2.206.144
N	2	260.406	282.210	331.628	369.249	654.084	581.289
N	4	16.642	20.502	10.625	51.845	48.520	96.411
N	5	484.094	506.938	531.972	1.027.871	1.185.940	1.287.959
N	9	4.446.119	4.545.097	4.744.751	4.977.686	4.698.004	5.189.429
O	0		135				
O	1	3.127.310	3.025.882	2.943.309	2.346.184	2.117.302	2.046.199
O	2	172.204	195.906	334.888	693.468	1.315.202	1.334.013
O	3	104.272	109.562	115.849	33.819	21.114	6.254
O	4	542.027	468.201	351.836	355.812	363.788	383.478
O	5	24.559	55.596	152.028	349.042	334.494	372.949
O	9	1.325.034	1.031.731	1.069.169	1.438.371	1.396.225	1.410.200
Q	9			35	1.750	3.863	

Source: Ministry of Economy

Table 1b Number of Employees 1997-2002 by Type of Ownership

NACE Section	Type of ownership	1997	1998	1999	2000	2001	2002
A	1	39.718	39.545	33.448	39.896	37.891	44.510
A	2	1.452	1.591	1.834	2.130	2.860	2.797
A	3	1.608	1.435	1.364	1.315	896	703
A	4	11.728	11.591	11.502	10.412	9.468	6.506
A	5	4	3.563	3.731	3.280	3.091	3.230
A	9	37	54	45	37	467	486
B	2	50	53	50	49	60	40
B	3	0	4	5	4	6	6
B	4	440	412	384	342	246	214
C	1	788	1.040	845	664	583	5
C	2	1.836	1.848	1.640	1.632	841	614
C	4	4.491	4.504	4.495	4.434	4.278	4.248
C	5	11	11	22	63	95	98
C	9		2	1	1		
D	1	8.472	8.289	8.656	5.828	2.939	2.933
D	2	36.457	45.942	49.313	51.359	61.847	67.785
D	3	359	200	217	328	294	249
D	4	84.054	83.957	82.779	77.823	66.202	54.286
D	5	294	335	349	368	1.418	877

D	9	3.210	3.369	2.782	3.162	1.006	72
E	1	5.192	4.968	4.714	4.462	3.168	2.847
E	2	19	13	4	3	2	2
E	3	2	2	2	2	2	
E	4	686	652	648	613	493	489
E	5	8.073	8.320	8.459	8.498	9.079	9.744
E	9	674	655	1.065	1.351	2.572	2.767
F	1	2.346	3.257	3.267	3.461	1.968	3.280
F	2	7.675	7.502	9.145	9.926	9.902	10.578
F	3	596	507	373	331	258	256
F	4	24.204	21.051	18.469	17.093	16.608	15.392
F	5	1.356	1.406	1.487	1.583	1.818	1.801
F	9	1.190	312	277	254	400	335
G	1	731	2.044	2.618	1.909	1.583	1.418
G	2	38.080	41.101	46.563	51.443	57.789	61.780
G	3	261	441	413	312	237	152
G	4	8.562	6.988	6.070	5.019	4.221	2.802
G	5	24	23	23	69	32	32
G	9	13.640	13.171	7.187	3.617	1.363	343
H	1	959	851	1.001	559	86	12
H	2	3.976	4.757	6.994	9.922	11.333	11.730
H	3	5	22	34	17	14	10
H	4	3.579	3.979	3.541	2.909	2.314	2.043
H	5				391	226	204
H	9	4.008	4.216	2.378	868	289	66
I	1	13.014	9.965	10.432	10.342	5.644	4.303
I	2	7.585	8.383	10.554	11.943	12.724	12.475
I	3	59	53	90	71	47	118
I	4	5.528	5.758	5.136	5.526	8.488	7.100
I	5		5.659	6.125	6.211	6.577	6.402
I	9	4.998	2.564	732	276	1.770	1.691
J	1			1.535	46	4	4
J	2	17	26	158	177	224	297
J	3			1	1		
J	4	1.071	1.103	3.317	4.825	5.115	5.652
J	5		6	296	348	350	520
J	9	4.133	4.107	5	6	51	123
K	1	1.944	1.851	1.897	1.868	1.732	1.761
K	2	3.634	3.834	4.450	4.700	6.192	8.332
K	3	9	11	10	20	104	30
K	4	2.242	2.335	2.120	2.102	2.390	1.860
K	5	1.233	1.374	1.374	1.600	1.349	491
K	9	1.544	1.634	1.340	1.606	595	202
L	0		5				
L	1	387	291	282	270	146	109
L	2		1	10	13		
L	5	29.832	30.069	31.419	31.637	30.758	32.824
L	9	1.002	1.188	1.275	1.572	1.818	1.814
M	1	25.461	25.982	25.828	24.969	20.728	19.166
M	2	587	636	752	721	802	854
M	4	30	29	30	17	19	19
M	5	7.152	7.258	7.498	8.017	10.229	12.199
M	9	279	312	312	289	257	180
N	1	10.236	10.221	9.995	8.004	7.424	7.073

N	2	1.079	1.281	1.470	1.578	2.327	2.103
N	4	84	87	88	196	187	381
N	5	1.641	1.637	1.662	3.387	3.544	3.727
N	9	15.788	15.756	15.478	15.280	14.261	14.829
O	1	8.774	9.916	10.152	8.168	7.426	6.158
O	2	828	970	1.282	1.584	3.570	4.033
O	3	56	48	47	44	10	7
O	4	627	632	605	583	577	567
O	5	101	118	164	1.787	1.953	1.869
O	9	4.346	3.267	3.150	3.320	2.960	2.932
Q	9			0	0	3	
		476.145	492.346	489.266	490.839	482.599	479.944

Source: Ministry of Economy

## Chapter II Economic criteria

Table 1b Gross Value Added 1997-2002 by Institutional Subsectors

NACE Section	Institutional subsectors	1997	1998	1999	2000	2001	2002
A	S.11001	195.223	975.895	1.046.437	1.336.916	707.500	716.196
A	S.11002	3.767.722	3.482.463	2.933.931	3.203.081	2.260.423	2.056.972
A	S.11003	-1.799	-1.641	1.212	9.716	79.495	106.624
A	S.1311	33.752	36.762	4.242			
A	S.140	16.366.551	17.730.775	19.107.908	19.206.208	19.885.504	21.629.315
B	S.11002	50.728	51.932	29.082	14.125	24.114	44.704
B	S.11003						3.186
C	S.11001	1.609	3.693	10.114	13.446	20.678	25.163
C	S.11002	1.890.329	1.576.574	1.609.718	1.840.679	1.289.880	930.366
C	S.11003	619	3.468		1.475	1.426	4.518
C	S.140		509	246	226		421
D	S.11001	82.150	133.085	145.965	270.687	233.798	210.841
D	S.11002	33.172.126	33.056.369	34.086.430	33.399.576	31.088.110	28.144.771
D	S.11003	697.360	924.625	1.317.422	5.801.865	6.013.826	5.931.985
D	S.1311	21.039	22.585	22.687	21.166	19.713	19.524
D	S.140	1.105.039	1.064.358	1.190.929	1.431.881	2.231.047	3.618.068
D	S.150	1.221	544	511	486	291	
E	S.11001	7.972.562	8.421.155	8.799.740	10.104.968	9.661.688	8.749.189
E	S.11002	373.156	447.003	403.427	276.246	379.739	396.486
E	S.140						692
F	S.11001	691.177	743.380	722.946	802.302	753.804	1.194.736
F	S.11002	6.715.655	8.121.015	6.808.359	8.500.586	8.098.204	7.110.271
F	S.11003	12.628	67.246	1.000.173	1.645.017	89.347	327.478
F	S.1311				2.408		
F	S.140	2.447.347	2.335.604	2.348.262	2.410.376	2.859.501	3.260.565
G	S.11001	96.465	115.764	121.271	122.189	126.816	210.466
G	S.11002	17.769.346	18.453.820	18.506.692	21.462.938	20.818.773	22.040.007
G	S.11003	894.073	1.163.226	1.367.686	1.790.703	2.835.876	2.919.166
G	S.140	2.537.442	2.181.068	2.387.754	2.025.900	2.292.514	2.264.814
G	S.150			0	0	1.531	3.121
H	S.11001		453	14.003	1.202	12.528	-2.643
H	S.11002	1.652.645	1.989.284	2.792.518	2.276.116	1.818.774	2.342.203

## Chapter II Economic criteria

H	S.11003	27.999	22.529	55.323	136.035	65.616	128.237
H	S.140	1.137.963	1.051.083	1.122.271	1.049.758	1.513.289	1.620.151
I	S.11001	5.882.757	8.354.026	11.054.399	13.817.681	3.454.627	2.685.583
I	S.11002	3.684.212	4.229.805	4.365.140	5.563.293	6.222.209	8.952.815
I	S.11003	128.269	128.605	45.285	225.762	9.709.705	7.495.263
I	S.140	1.676.412	1.596.617	1.767.796	1.654.182	2.307.584	1.476.159
J	S.11001		-1.815	3.628	5.305	1.008	1.676
J	S.11002	1.159	2.295	3.382	14.228	33.067	25.983
J	S.11003		-9.690	451	-1.441	633	-1.814
J	S.121	773.927	775.828	566.790	814.813	670.378	485.220
J	S.122	4.145.116	5.075.691	5.062.608	4.816.644	3.989.714	3.124.021
J	S.12203						1.081.439
J	S.124	7.142	23.396	20.947	41.332	72.459	164.559
J	S.125	1.331.916	1.359.528	1.312.125	1.648.606	2.635.693	2.371.744
J	S.1311		0	0		1.345	78.091
J	S.140		3.360	6.416	2.479	1.417	1.695
J	S.150			419	238	14.171	94.345
K	S.11001	765.407	647.197	692.360	508.011	270.429	578.907
K	S.11002	2.088.823	2.107.602	2.694.971	3.099.685	3.036.195	3.445.640
K	S.11003	80.485	99.536	144.285	702.238	1.040.533	552.089
K	S.12301	382.562	390.944	440.304	481.095	483.279	
K	S.1311	350.610	349.976	372.175	353.003	379.739	511.384
K	S.1314	120.997	124.914	136.568	162.312	149.319	175.236
K	S.140	1.700.323	1.485.392	1.406.578	2.105.407	2.923.079	2.884.443
K	S.150	1.097	636	3.028	54.245	21.270	20.571
L	S.11002		7	-13	-3		
L	S.1311	10.054.743	10.641.816	12.875.530	12.891.428	12.930.545	13.056.868
L	S.1313	791.001	920.869	960.824	917.057	949.718	2.465.623
L	S.1314	480.212	504.267	514.483	521.120	561.447	620.766
L	S.150	41	57	0	3.397	2.884	1.848
M	S.11002	134.876	125.690	145.553	173.497	227.121	241.109
M	S.11003	-73	173	10.296	1.557	1.522	1.181
M	S.1311	7.584.924	7.846.326	8.588.555	8.060.926	7.790.230	8.412.228
M	S.1313		0		1.830		
M	S.140		4.178	6.507	8.522	13.041	12.283
M	S.150	19.112	53.899	18.313	19.613	15.597	21.501
N	S.11001	83.365	84.921	96.160	86.344	90.402	75.638



## Chapter II    Economic criteria

N	S.11002	345.784	380.533	361.321	429.670	405.200	527.698
N	S.11003	604	2.982	6.445	453	699	764
N	S.1311	515.151	568.892	480.644	676.107	475.577	540.761
N	S.1314	6.720.301	6.990.189	7.344.524	7.453.038	7.280.524	8.033.100
N	S.140	287.286	231.809	243.601	270.710	338.132	90.253
N	S.150	50.052	50.773	59.665	70.795	99.750	93.018
O	S.11001	1.798.539	1.165.713	1.372.045	1.190.469	1.201.421	1.319.341
O	S.11002	1.167.337	1.463.304	1.050.567	1.266.712	1.225.053	1.248.710
O	S.11003	37.901	22.945	39.125	62.956	36.119	74.560
O	S.1311	779.771	719.582	899.005	839.140	736.713	809.003
O	S.1313			305		4.920	9.661
O	S.140	851.661	752.333	788.266	940.199	1.309.819	1.015.836
O	S.150	660.196	763.136	817.767	917.220	1.034.080	1.075.982
Q	S.150			35	1.750	3.863	

Source: Ministry of Economy

Table 1b Number of Employees in 1997-2002 by Institutional Subsectors

NACE Section	Institutional subsectors	1997	1998	1999	2000	2001	2002
A	S.11001	1.156	4.764	4.691	4.262	4.080	4.369
A	S.11002	21.233	16.599	16.905	15.065	13.200	9.802
A	S.11003	2	5	3	214	307	373
A	S.1311	151	153	33			
A	S.140	32.005	36.258	30.292	37.529	37.086	43.688
B	S.11002	490	469	439	395	312	260
C	S.11001	11	11	22	63	95	98
C	S.11002	7.115	7.383	6.980	6.729	5.701	4.864
C	S.11003	0	9	1		1	2
C	S.140		2	1	1		1
D	S.11001	271	278	317	655	695	762
D	S.11002	126.286	133.255	134.039	125.614	118.768	106.029
D	S.11003	2.980	4.371	5.403	7.385	8.037	8.864
D	S.1311	92	88	91	79	73	53
D	S.140	3.210	4.097	4.243	5.131	6.133	10.493
D	S.150	7	2	3	3	0	
E	S.11001	13.928	13.931	14.226	14.311	14.866	15.409
E	S.11002	718	679	666	618	450	438
E	S.140						2
F	S.11001	2.510	2.571	2.651	2.729	2.596	2.424
F	S.11002	33.668	29.936	27.778	27.134	26.885	26.154
F	S.11003	22	290	1.319	1.298	71	60
F	S.140	1.166	1.238	1.270	1.487	1.403	3.004
G	S.11001	385	384	368	379	334	322
G	S.11002	46.477	47.953	46.511	45.429	44.681	44.786
G	S.11003	1.118	1.273	1.475	1.522	3.323	3.512
G	S.140	13.316	14.157	14.521	15.038	16.881	17.901
G	S.150			0	0	6	6
H	S.11001		5	52	51	78	52
H	S.11002	8.346	9.407	9.356	9.540	8.683	8.128
H	S.11003	173	169	189	236	280	375
H	S.140	4.008	4.244	4.351	4.838	5.220	5.510
I	S.11001	12.099	12.092	13.103	13.380	8.993	8.799
I	S.11002	13.488	14.595	14.090	15.149	14.813	14.190
I	S.11003	599	387	430	334	3.892	3.739
I	S.140	4.998	5.308	5.446	5.505	7.552	5.361
J	S.11001		6	8	8	8	10
J	S.11002	9	13	17	27	28	42
J	S.11003		4	8	1	2	1
J	S.121	200	229	252	270	288	386
J	S.122	3.918	3.851	3.867	3.918	4.109	2.816
J	S.12203						1.873
J	S.124	9	20	26	31	92	117
J	S.125	1.085	1.112	1.126	1.143	1.161	1.157
J	S.1311		0	0	8		78
J	S.140		7	7	5	2	2
J	S.150			1	0	46	114
K	S.11001	893	914	902	980	879	911
K	S.11002	5.912	6.311	6.337	6.395	6.757	7.540
K	S.11003	172	144	180	279	425	446

K	S.12301	1.122	1.128	1.120	1.122	1.050	
K	S.1311	715	634	682	602	586	706
K	S.1314	425	427	442	483	490	508
K	S.140	1.362	1.476	1.512	1.951	2.144	2.541
K	S.150	4	3	16	84	31	24
L	S.11002		1	1	1		
L	S.1311	28.886	29.050	30.390	30.825	29.930	31.672
L	S.1313	1.204	1.372	1.439	1.468	1.588	1.815
L	S.1314	1.131	1.131	1.156	1.182	1.189	1.250
L	S.150	0	0	0	16	15	10
M	S.11002	735	686	749	796	938	966
M	S.11003	7	27	54	9	12	18
M	S.1311	32.697	33.307	33.548	33.095	30.992	31.321
M	S.1313		0	31			
M	S.140		11	17	28	34	41
M	S.150	70	186	52	54	59	72
N	S.11001	337	336	316	284	393	341
N	S.11002	1.441	1.654	1.671	1.828	1.799	2.026
N	S.11003	2	22	22	2	3	3
N	S.1311	1.401	1.352	1.378	1.364	1.343	1.663
N	S.1314	24.835	24.780	24.454	24.013	23.153	23.646
N	S.140	653	693	712	815	879	249
N	S.150	159	145	140	139	172	185
O	S.11001	4.458	3.630	4.195	4.174	4.367	4.323
O	S.11002	2.295	3.282	2.587	2.728	2.678	3.172
O	S.11003	73	52	62	25	23	25
O	S.1311	3.188	2.560	3.204	3.064	2.599	2.451
O	S.1313			2		8	17
O	S.140	3.170	3.311	3.401	3.439	4.645	3.515
O	S.150	1.550	2.116	1.949	2.055	2.177	2.062
Q	S.150			0	0	3	

Source: Ministry of Economy

## c) Unit Labour Costs

Description	1997	1998	1999	2000	2001	2002
A. Agriculture, hunting and forestry	0,21	0,20	0,20	0,19	0,17	0,13
B. Fishing	1,33	1,21	2,03	5,14	2,25	1,00
C. Mining and quarrying	0,75	1,03	0,98	0,88	1,10	1,24
D. Manufacturing	0,82	0,90	0,87	0,78	0,77	0,77
E. Electricity, gas and water supply	0,48	0,48	0,51	0,47	0,49	0,60
F. Construction	0,65	0,55	0,66	0,61	0,59	0,61
G. Trade	0,46	0,47	0,48	0,44	0,43	0,40
H. Hotels and restaurants	0,72	0,75	0,67	0,73	0,74	0,61
I. Transport, storage and communication	0,64	0,51	0,44	0,41	0,43	0,43
J. Financial intermediation	0,35	0,34	0,35	0,38	0,41	0,48
K. Real estate, renting and business activities	0,51	0,58	0,59	0,53	0,54	0,52
L. Public administration and defence; compulsory social security	0,82	0,82	0,84	0,81	0,77	0,77
M. Education	0,93	0,93	0,93	0,91	0,90	0,91
N. Health and social work	0,84	0,84	0,84	0,81	0,79	0,80

O. Other community, social and personal service activities	0,58	0,67	0,72	0,73	0,64	0,68
Source: Ministry of Economy						

**Unit Labour Costs***Annual changes in %*

Description	1998	1999	2000	2001	2002
A. Agriculture, hunting and forestry	-6,9	3,1	-7,6	-6,7	-24,2
B. Fishing	-9,1	67,9	152,8	-56,3	-55,6
C. Mining and quarrying	36,4	-4,9	-9,7	24,2	13,2
D. Manufacturing	10,5	-3,6	-10,5	-1,5	0,6
E. Electricity, gas and water supply	0,3	6,4	-6,9	4,1	21,0
F. Construction	-14,9	20,4	-8,2	-3,2	3,3
G. Trade	2,9	2,9	-9,3	-1,4	-6,5
H. Hotels and restaurants	4,3	-9,8	8,6	1,6	-18,2
I. Transport, storage and communication	-20,6	-12,7	-6,4	4,8	-0,6
J. Financial intermediation	-3,2	1,2	8,0	9,5	15,6
K. Real estate, renting and business activities	13,8	1,8	-10,3	1,8	-2,8
L. Public administration and defence; compulsory social security	-0,1	2,1	-3,3	-4,6	-0,4
M. Education	-0,2	-0,2	-1,8	-0,6	0,3
N. Health and social work	0,1	-0,8	-3,7	-1,8	1,0
O. Other community, social and personal service activities	14,9	6,8	1,5	-11,3	5,2
Source: Ministry of Economy					

**d) Labour Force with higher secondary education**

	1996	1997	1998	1999	2000	2001	2002	2003
Total Labour Force	789.081	800.513	823.826	806.674	811.557	862.504	824.824	860.976
Labour Force with higher secondary education	358.851	368.840	400.260	399.553	405.398	434.215	409.315	435.370
Percentage of total labour force	45,5	46,1	48,6	49,5	50,0	50,3	49,6	50,6
Source: State Statistical Office								

**e) Enrolled students by levels of Education**

School/Academic year <sup>2</sup>	Primary (ISCED 1)	Lower secondary (ISCED 2)	Upper secondary (ISCED 3)			Tertiary education (ISCED 5)
	Total	Total	Total	General/ Vocational on 4 year programme	Vocational on 3 year programme	Total
1999/2000	126.606	129.674	92.287	78.729	13.558	36.922
2000/2001	123.661	128.283	93.798	81.575	12.223	40.246
2001/2002	121.109	125.664	93.170	82.214	10.956	44.710

2002/2003	116.635	122.699	95.950	85.535	10.415	45.624
2003/2004	113.521	119.919	96.230	86.659	9.571	46.637
Source: State Statistical Office						

<sup>1)</sup> Situation at the beginning of the school year

Notes:

- ISCED 1 includes students in regular primary education, special primary and primary education for adults, 1-4 grades
- ISCED 2 includes students in regular primary education, special primary and primary education for adults, 5-8 grades
- ISCED 3 includes students in regular upper secondary education, special upper secondary schools and religious upper secondary schools
- ISCED 5 includes all enrolled students in tertiary education on Higher Vocational Schools and Faculties/Academies

#### f) Percentage of employed persons receiving training

Distribution: %

	2001	2002	2003
Total	1,0	1,7	1,0
Male	0,7	1,3	0,9
Female	1,4	2,2	1,2
The percentage of employees receiving training of total number of employees			
The training includes professional courses and retraining			
Source: Labour Force Survey, State Statistical Office			

g) There is no official data on number of students who attain their education completely or partially abroad. This is due to lack of legal obligation for such persons to report such absence from the country. Therefore, for this purpose, data is obtained from various sources.

The only official data is on the number of students granted scholarships for studying abroad, as part of bilateral cooperation programmes of the Republic of Macedonia with other countries.

Overview of exchange of students on undergraduate and graduate (masters and doctoral) studies supported by bilateral or other Educational Cooperation Programs for Granting Scholarships for the 1996 – 2004.

No	Country	Agreement	Number of persons
1	Republic of Albania	Agreement between the Government of R. Macedonia and the Government of R. Albania in the area of Education and Science	5
2	Republic of Bulgaria	Agreement between the Ministry of Education and Science of R. Macedonia and the Ministry of Education and Science of R. Bulgaria in the Area of Science, Technologies and Innovations, for 2002-2005	4
3	Republic of Germany	Agreement between the Government of R. Macedonia and the Government of R. Germany for Cultural Cooperation	27
4	Egypt	Agreement between Government of R. Macedonia and Egyptian Government for Scientific and Technological Cooperation	2
5	Israel	Agreement between the Government of R. Macedonia and the Government of State of Israel for Cooperation in the Field of Culture, Education and Science	1
6	Republic of Italy	Agreement for Cooperation in the Area of Culture, Education and Science between the Government of R. Macedonia and the Government of the Italian Republic	6

7	People's Republic of China	Agreement for Scientific and Technical Cooperation between the Government of R. Macedonia and the Government of the People's Republic of China	4
8	Slovenia	Agreement for International Scientific and Technological Cooperation between the Government of R. Macedonia and the Government of R. Slovenia	2
9	Russian Federation	Agreement between the Government of R. Macedonia and the Government of the Russian Federation for Cooperation in the Field of Culture, Education and Science	15
10	Republic of Turkey	Agreed Minutes between the Republic of Macedonia and the Republic of Turkey	1
11	Slovak Republic	There is no signed agreement	3
12	Czech Republic	There is no signed agreement	7
13	Switzerland	There is no signed agreement	12
14	Other EU member states	Programme for Awarding Scholarships to Students from the Republic of Macedonia for 2003-2004	20
Total 1996-2004			109
Source: Ministry of Science and Education			

Overview of scholarships granted to undergraduate and graduate students for studying abroad (on areas of studies which are of interest to the Republic of Macedonia, being deficient in the country), awarded by the Ministry of Education and Science for the 1996 - 2004 period

Year	Total
1996/97	64
1997/98	43
1998/99	39
1999/2000	120
2000/2001	271
2001/2002	305
2002/2003	134
2003/2004	58
Total	1.034
Source: Ministry of Science and Education	

Overview of scholarships granted to undergraduate and graduate students for studying abroad – by country (on areas of studies which are of interest to the Republic of Macedonia being deficient in the country), awarded by the Ministry of Education and Science for the 1996 - 2003 period.

Num	Country	Year of realisation (number of persons)							
		1996	1997	1998	1999	2000	2001	2002	2003
1	Austria	-	-	-	-	1	-	-	-
2	England	-	1	-	-	-	-	-	1
3	Bulgaria	-	1	1	2	-	2	5	8
4	Bosnia and Herzegovina	-	-	-	-	-	-	1	-
5	Germany	-	1	-	1	1	-	-	-
6	Greece	-	-	-	-	-	-	2	-
7	Denmark	-	-	-	-	-	-	-	3
8	Italy	-	1	-	-	-	1	-	-
9	Canada	-	-	-	-	-	-	1	-
10	Poland	-	1	-	-	-	-	-	-
11	Romania	-	-	-	-	-	-	-	1
12	Russia	-	-	-	-	-	1	-	-
13	USA	-	1	1	1	-	1	5	1
14	Serbia and Montenegro	-	4	-	-	-	3	3	8
15	Slovenia	-	-	-	-	-	-	1	-
16	France	-	-	-	-	-	1	1	-
17	Netherlands	-	-	-	-	1	-	-	-
18	Croatia	-	1	-	-	-	-	-	-
19	Sweden	-	-	-	-	-	-	2	-
Total		-	11	2	4	3	9	21	22
Source: Ministry of Education and Science									

Additional overview of number of students attending undergraduate, masters and doctoral studies abroad, according to the database of the “Brain Drain Programme” of the Foundation Open Society Institute Macedonia.

Num	Country	Number of Students
1	Australia	14
2	Austria	15
3	Belgium	3
4	Bosnia and Herzegovina	4
5	Bulgaria	62
6	Great Britain	28
7	Germany	19
8	Greece	19
9	Denmark	4
10	Iceland	2
11	Italy	15
12	Jamaica	1
13	Japan	5
14	Canada	5
15	New Zealand	2
16	Norway	1
17	Poland	5
18	Portugal	2
19	Romania	7
20	Russia	6
21	USA	72
22	Slovenia	4
23	Serbia and Montenegro	4
24	Turkey	2
25	Taiwan	1
26	Hungary	12
27	France	7
28	Netherlands	21
29	Croatia	2
30	Czech Republic	4
31	Switzerland	3
32	Sweden	4
33	Spain	3
TOTAL		358
Source: Open Society Institute Foundation – Macedonia		

## IV. THE WAGE BARGAINING PROCESS AND THE SOCIAL SECURITY SYSTEM

1. Please provide quantitative and/or qualitative information as appropriate on the following:

- development of the average gross and net wages;
- the determination of government wages and employment;
- the share of taxes in the total wage bill, including social contributions paid by employers and employees, and the bracket structure of income taxes;
- the pass on of labour productivity improvements to the compensation of employees.

### a) Development of the average gross and net salaries

The State Statistical Office calculates (and publishes) data on average salary per employee in the Republic of Macedonia. Until 1999 only data on net salary was calculated, and from 1999 the State Statistical Office calculates and publishes data on gross salary data as well. Hence, according to the State Statistical Office the current situation regarding average gross and net salaries is as follows:

	1996	1997	1998	1999	2000	2001	2002	2003	VIII/2004	I-VIII/2004
Average monthly gross salary (in MKD)	/	/	/	16.939	17.952	17.886	19.025	19.950	21.036	20.645
Average monthly net salary (in MKD)	8.817	9.063	9.394	9.664	10.193	10.552	11.279	11.824	12.443	12.222
Source: State Statistical Office										

### b) the determination of government wages and employment

The Constitution of the Republic of Macedonia stipulates that execution of employees' rights and their status is to be regulated by law and collective agreements. Article 69 of the Labour Relations Laws ("Official Gazette of RM" No. 80/1993) also stipulates that salaries should be calculated according to criteria determined by law and collective agreements. One part of the employees in public (government) institutions has a civil servants status with salaries calculated according to the Law on Civil Servants.

The Law on Civil Servants ("Official Gazette of RM" No. 59/2000, 112/2000, 34/2001, 103/2001, 43/2002, 98/2002, 17/2003, 40/2003, 85/2003 and 17/2004) also regulates the status, rights, duties and responsibilities of civil servants, as well as the system of calculation of salaries and remuneration for the civil servants.

Civil servants are employed on the basis of a public advertisement pursuant to the Law on Civil Servants. All other employees in public (government) authorities are employed pursuant to the Labour Relations Laws ("Official Gazette of RM" No. 80/2003 – consolidated version) on the basis of public advertisement, unless otherwise specified by this or another law.

Pursuant to this law civil servants, are persons employed in state administration institutions and the professional staff of: the Assembly of the Republic of Macedonia, the President of the Republic of Macedonia, the Government of the Republic of Macedonia, the Constitutional Court of the Republic of Macedonia, the Supreme Court of the Republic of Macedonia, the courts, the State Judicial Council, the Ombudsman Office and the Public Prosecutor's Office.

The provisions of the Law on Civil Servants do not apply to military and civil persons in the service of the Army of the Republic of Macedonia, the uniformed staff in the Ministry of Interior, penitentiary and



correction institutions, the forest police, the court police, the financial police and the Customs Administration, the persons with special duties and authorisations employed in the Ministry of Interior, Intelligence Agency, Customs Administration, the authorised state auditors and the persons performing state audit tasks in the State Audit Office, as well as the aviation and expert staff in the Civil Aviation Authority who perform duties and tasks related to air transport safety.

The law defines the components of the salary, which comprises of:

- Basic component and
- Additional component.

The basic component consists of:

- Basic net salary related to the degree of education based on the determined number of points;
- Occupation related salary supplement (each occupation brings certain number of points);
- Career related salary supplement, which depends on fulfilment of certain conditions by each employee, such as minimal tenure in the civil service and positive performance, in accordance with the criteria determined by Law.

The additional component consists of:

- Salary supplement related to special work conditions (night work, shift work, high risk work, work during weekends and work during national holidays and
- Additional wage allowance (overtime).

The law also stipulates a valuation of the working experience of the civil servant, in the amount of 0,5% of the part of the basic salary related to the degree of education, for each started year of work tenure, but not more than 20% in total.

Thus, pursuant to the Law on Civil Servants the amount of the net salary is determined depending on the job position occupied by the civil servant and the value of the points. The value of the point is determined by the Government of the Republic of Macedonia. Payment of salaries pursuant to the Law on Civil Servants started in April 2004, and full harmonisation shall be carried out in a period of 24 months.

Salaries of the military and non-military (civil) persons in the service of the Army of the Republic of Macedonia are regulated by the Law on Military Service in the Army of the Republic of Macedonia in the Republic of Macedonia ("Official Gazette of RM" No. 62/2002, 98/2002, 25/2003, 71/2003). Pursuant to this law, the salary comprises a basic salary and supplements to the basic salary. The basic salary of the professional soldiers and military officials is determined according to the rank and duty, whereby certain numbers of points are awarded. The basic salary for the civil persons is determined according to the degree of education related to the job position of the employee, the duty, the working experience, army supplement and career supplement. The Law stipulates that the army supplement is 30% of the basic salary according to rank and duty, where as for the civil persons this supplement is 20% and is calculated on the basis of the basic salary related to degree of education. The working experience is valued by 0,5% of the part of the basic salary according to rank and duty for each started year of working tenure, up to 25 years of working tenure, and 0,75% after the 25<sup>th</sup> year, but not exceeding 20% in total. The salary supplement related to working tenure for civil persons in the service of the army is calculated by 0,5% for each year of working tenure, but not exceeding 20% in total.

The value of points, pursuant to the Law on Military Service in the Army of the Republic of Macedonia, is determined by the funds for salaries and benefits allocated in the Budget of the Republic of Macedonia and the number of points for salaries and benefits.

Payment of the salaries of the elected and appointed persons in the Government bodies is done pursuant to the Law on Payment of Salaries in the Republic of Macedonia and Other Benefits of

Members of Parliament of the Republic of Macedonia and Other Elected and Appointed Persons in Republic of Macedonia ("Official Gazette of RM" No. 36/1990, 44/1990, 11/1991, 38/1991 and 23/1997). The amount of the salary is determined by multiplying the principal with coefficient determined for each position and this amount is increased by a percentage related to working experience (0.5% for each year of working tenure, but not more than 20% in total). The principal for the calculation of the salary is the average wage per employee in the Republic of Macedonia. However, due to implementation of the Law on Payment of Salaries in the Republic of Macedonia ("Official Gazette of RM" No. 70/1994, 62/1995, 33/1997, 50/2001, 26/2002 and 46/2002) the value of the principal in the past has become lower than the average wage per employee in the Republic of Macedonia and has not changed, i.e. the salaries of the elected and appointed persons have been frozen.

In governmental bodies where neither the Law on Civil Servants nor the Law on Military Service in the Army of the Republic of Macedonia applies, the salaries are paid in the frames determined by the Law on Payment of Salaries in the Republic of Macedonia, with limits on the right for increasing the average wage per employee. Pursuant to this law, salaries in the past 10 years were not allowed to be increased, except for a certain correction in 2002. According to the Law on Payment of Salaries in the Republic of Macedonia, the maximal possible salary per employee is determined according to collective agreements or internal regulations for allocation of salaries, depending on complexity of duties and tasks of individual employee. Funds from the Budget for all employees that do not have the status of civil servants are provided on the basis of unified criteria, depending on the degree of education. Each entity allocates the provided funds on the basis of collective agreements or internal regulations for allocation of salaries.

In addition to the right to salary, the employees in the governmental agencies (civil servants, military and civil persons in the service of Army and all other employees which do not have the status of civil servants), have the right on:

- Food bonus
- Bonus for vacations;
- Severance payment for retirement;
- Financial assistance in case of death of the employee, members of closest family of employees, or severe natural disasters;
- Travel to/from work expenses supplement;
- Per-diems for business trips in the country and abroad;
- Field-work supplement and for supplement for living and working outside of home environment;
- Expenses for using private car for business (official) purposes.

Due to the limitations when planning the Budget of the Republic of Macedonia, the bonus for holidays has not been stipulated and therefore has not been paid in the last several years.

During the negotiations with the Trade Unions Association (TUA), it has been proposed that the aforementioned rights, related to the salaries of the employees, should no longer be an obligation of the Budget of the Republic of Macedonia.

The funds for salaries in the Budget of Republic of Macedonia are planned on annual basis, taking into account the legal regulations for salaries and the economic situation in the country. Due to projected downsizing of the number of employees, paid within the Budget, a 4% decrease of funds for gross salaries in 2004 was stipulated.

Projection of gross salaries of these categories of employees is based on projection of macroeconomic indicators provided in the Macroeconomic Policy and the Fiscal Strategy documents, enacted by the Government. The Fiscal Strategy for 2005 - 2007 incorporates current economic trends and execution of the Budget for 2004; the macroeconomic policy and macroeconomic indicators for 2005, 2006 and 2007; budget revenues; budget expenditures, as well as the budget deficit.

Funds for gross salaries for employees in the government institutions in 2003 has increased due to implementation of the provisions of the Framework Agreement related to the employment of about 1.890 persons in the Ministry of Defence and the Ministry of Interior.

The total number of employees in government institutions and other budget beneficiaries (legislative branch, judicial branch, education, child protection, social protection, science and culture), at the beginning of 2004, was 71.624 persons. This number does not comprise employees of (paid by) the Pension and Disability Insurance Fund, the Employment Agency and the Health Insurance Fund. As a result of the implemented reforms, in August 2004, this number was reduced to 70.138.

Out of the total expenditures, planned in the Rebalance of the Budget for 2004 (MKD 65.708.297.000), MKD 10.501.857.000 are net salaries for all budget beneficiaries, MKD 7.887.318.000 social contributions, MKD 2.351.241.000 benefits and other supplements (food, transportation, separate living, per-diems) and MKD 538.633.000 are salary supplements (night shift, overtime, work during state holidays) – all totalling MKD 21.279.049.000.

Projected gross salaries and benefits for the 2004 - 2006 period do not provide for increase of salaries, except for civil servants, due to the effect of the implementation of decompression of salaries and Public Administration Reform. Additional funds have been projected for the decompression of civil servants salaries as follows:

Year	Amount (in MKD)
2004	81.213.000
2005	392.530.000
2006	203.033.000
TOTAL:	676.776.000
Source: Ministry of Finance	

### **c) The share of taxes in the total wage bill, including social contributions paid by the employer and the employees and the bracket structure of personal taxes**

Personal income tax is calculated in accordance to the Personal Income Tax Law ("Official Gazette of RM" No. 80/1993, 3/1994, 70/1994, 71/1996, 28/1997, 8/2001, 50/2001, 52/2001, 2/2002, 44/2002 and 95/2004). The tax is calculated using a tax progression with three tax rates (15%, 18% and 24%) applied on a predetermined tax principal.

The monthly tax base is determined by reducing the gross salary by the mandatory social contributions (21,2% for pension and disablement insurance, 9,2% for health insurance, 1,6% employment contributions) and personal tax exemption. The latter is revalued at the beginning of each year by the planned increase of the net salaries of employees in the Republic of Macedonia (for 2004 the annual personal exemption was MKD 2.770 and for 2005 it is MKD 2.880).

The tax rates are then applied on the determined monthly tax base:

For a monthly base	Per rate
Less than MKD 30.000	15%
30.000 to 60.000 MKD	4.500 MKD + 18% for the part of the income between MKD 30.000 and 60.000
Above 60.000 MKD	9.900 MKD + 24% for the part above 60.000 MKD
Source: Ministry of Finance	

In the structure of the average monthly salary paid in the Republic of Macedonia in 2003, the taxes are as follows:

Structure of taxes on the salaries calculated for an average net salary paid in RM in 2003	In MKD	in %
Gross salary	19.762	
Contributions for pension and handicapped insurance – for pillar 1, 65% of the total amount – for pillar 2, 35% of the total amount	2.723 1.467	21,2%
<b>Contributions for mandatory health insurance</b>	1.818	9,2%
Contributions for employment	316	1,6%
Monthly personal exemptions	2.680	
Personal income tax	1.614	8,2%
Net salary	11.824	
Net salary / expenditure of the employer		59,8%
Contributions and taxes / expenditure of the employer		40,2%
Source: Ministry of Finance		

In addition to the taxes and social contributions, the following contributions are applied to the gross salary as expenses to employers: contribution for water supply with a rate of 0,20% (this contribution is applied only to institutions and bodies where salaries are provided by the Budget of the Republic of Macedonia), and the additional contribution for injury at work or occupational disease at a rate of 0,50%.

The taxes and all contributions are calculated by the salary payer, at the time of payment of salary. The revenues from the personal income tax are revenues of the Budget of the Republic of Macedonia until the end of 2004. Starting 01.01.2005, 3% of these revenues shall be revenues of the local self-government units, where the employee has permanent residence. The revenues from the social contributions paid from the salaries are revenues of the respective social (extra-budgetary) funds.

In 2003, according to the data from the budget accounts receivable, a total of MKD 6.059.706.140 have been collected from income taxes.

Description	Amount in MKD	Structure
Income taxes of employees in public administration that are beneficiaries of the Budget of RM, units of local self government and the extra budgetary funds determined by law	1.903.609.207	31,4
Income taxes of employees in companies, public enterprises and other legal entities and individuals	4.105.605.513	67,8
Income tax for incomes earned abroad	49.779.422	0,8
Total income taxes	6.058.994.142	100,0
Source: Ministry of Finance		

**d) Influence of the increase of labour productivity on the benefits of the employees.**

## VALUE ADDED PER EMPLOYEE

in million denars

NACE Section	Description	1997	1998	1999	2000	2001	2002	2003
A	Agriculture, hunting and forestry	0,37	0,36	0,41	0,37	0,35	0,32	0,40
B	Fishing	0,10	0,15	0,21	0,23	0,46	0,60	0,64
C	Mining and quarrying	0,27	0,27	0,29	0,35	0,40	0,41	0,93
D	Manufacturing	0,26	0,25	0,25	0,29	0,28	0,30	0,35
E	Electricity, gas and water supply	0,57	0,60	0,58	0,60	0,55	0,51	0,59
F	Construction	0,26	0,31	0,36	0,37	0,33	0,33	0,34
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	0,35	0,34	0,35	0,36	0,35	0,36	0,36
H	Hotels and restaurants	0,23	0,22	0,27	0,23	0,22	0,26	0,28
I	Transport, storage and communication	0,36	0,44	0,51	0,53	0,48	0,51	0,52
J	Financial intermediation	1,20	1,35	1,27	1,21	1,10	0,92	0,89
K	Real estate, renting and business activities	0,52	0,46	0,52	0,58	0,60	0,56	0,55
L	Public administration and defense; compulsory social security	0,36	0,36	0,38	0,38	0,38	0,38	0,38
M	Education	0,23	0,23	0,23	0,23	0,23	0,23	0,23
N	Health and social work	0,28	0,28	0,28	0,28	0,29	0,29	0,29
O+Q	Other community, social and personal service activities and Extra-territorial organizations and bodies	0,36	0,32	0,32	0,31	0,30	0,31	0,29
	<b>Total</b>	<b>0,33</b>	<b>0,33</b>	<b>0,34</b>	<b>0,36</b>	<b>0,35</b>	<b>0,35</b>	<b>0,38</b>

## **V. ECONOMIC AND STRUCTURAL DEVELOPMENTS AND REFORMS**

### **1. How has domestic consensus on the fundamentals of economic policies been secured? To what extent are social partners involved in the decision-making process? Are there consultative bodies involved in the co-ordination of economic policies?**

The consensus on fundamentals of the economic policy is achieved at several levels, one being the political consensus among participants in the Government, supplemented by the social consensus at a tri-partite level between the Government of the Republic of Macedonia, the Association of Trade Unions and the Chamber of Commerce.

In the process of formulating the fundamentals of the economic policy the Government of the Republic of Macedonia ensures social consensus through the Economic and Social Council. The Economic and Social Council was established by the Government of the Republic of Macedonia, the Association of Trade Unions of Macedonia and the Chamber of Commerce of Macedonia, with the purpose of achieving the basic values of the Constitution with respect to the democratic and social state, more harmonious development of social processes, promotion of social dialogue, tri-partite system and implementation of international conventions and recommendations.

The Council has an advisory role in the social dialogue, but it also has a negotiating role for the economic and social issues of interest to the Republic of Macedonia. In addition, the Council elaborates certain issues and provides opinions, proposals and recommendations on certain issues in the areas of:

- Economic policy and measures for economic and social stability and development;
- Prices and salaries policy;
- Labour and social security;
- Collective bargaining and collective agreements;
- Living standard;
- Employment;
- Working conditions and protection at work;
- Education, culture and professional training;
- Financial, credit and tax policy;
- Pension and disability insurance etc.

In addition to the members nominated from Government, Trade Union Association and the Chamber of Commerce, the Council itself nominates several experts as its members. Experts or representatives of other institutions (depending on the topic of discussion) can be also invited to attend Councils sessions. For certain issues the Council constitutes permanent or ad-hoc working bodies.

Pursuant to Article 28 of its Rules of Procedure ("Official Gazette of RM" No.38/2001, 98/2002, 9/2003, 47/2003, 64/2003 and 67/2003), the Government of the Republic of Macedonia has also set up a special Economic Council as a consultative body which, upon request from the Government, or on its own initiative, considers issues from the domain of economic policy. The Economic Council consists of members of the Government, as well as experts and prominent businessmen. The role of the Council is to provide consensus on the fundamentals of the economic policy, thus contributing to its successful implementation.

### **2. How has the co-ordination between line ministries, the Ministry of Finance and/or the central bank for the formulation of economic policy (including the macroeconomic policy-mix) and its implementation been carried out?**

The coordination of activities between line ministries is provided in the Government of the Republic of Macedonia i.e. on the State Secretaries Collegium (General Collegium) sessions. This Collegium consists of the State Secretaries of all ministries. All papers and documents prepared by line ministries, which should be reviewed and adopted by the Government, are, at initial instance, reviewed and coordinated by services in the Government. Final coordination is made on the General Collegium sessions, as last instance in the harmonisation process.

The cooperation between the ministries proceeds in process of preparation of the Macroeconomic policy of the Government. This document outlines the short term economic program of the Government stating the main priorities of its activity in the economy. The Macroeconomic policy includes a consistent macroeconomic framework and defined set of macroeconomic policies. By October each year, the line ministries are obligated to submit to the Ministry of Finance an overview of their planned policies, measures and activities. In next two months the process progresses towards harmonisation and coordination of the activities and the priorities among the line ministries, with a final document completed by the end of the year.

Fiscal and Monetary Policy Coordination Committee facilitates the coordination among the Government of the Republic of Macedonia (the Ministry of Finance) and the National Bank of the Republic of Macedonia. This Committee has been established to provide efficient implementation of Government's Macroeconomic policy and the NBRM Decision on the Goals of Monetary and Foreign Exchange Policy. It comprises of 6 members, three of which are representatives from the Ministry of Finance (the Deputy Minister, the State Secretary and the Head of the Treasury), and three Vice-Governors of NBRM. The Committee meets at least once a month to analyse and discuss the main economic trends in the country.

The coordination between the Ministry of Finance and NBRM proceeds also at lower level in (1) the Budget Liquidity Commission of the Republic of Macedonia (established in Ministry of Finance) which comprises of representatives from the Ministry of Finance, NBRM, Public Revenue Office and Customs Administration and (2) NBRM's Commissions - Denar Liquidity Planning Commission and Foreign Exchange Liquidity Planning Commission, both including representatives from the Ministry of Finance.

**3. How is co-ordination of the main producers of statistical data (Statistical office, Central bank, Ministry of Finance) carried out? What are the plans to enhance the reliability and mutual compliance of statistical data? (see also chapter 12 – Statistics)**

**PRESENT SITUATION**

Pursuant to the Law on State Statistics ("Official Gazette of RM" No. 54/1997) the implementation of the statistical system of the Republic of Macedonia involves:

- The State Statistical Office as a coordinator of the production of the official statistics in Republic of Macedonia;
- The authorised providers which, within their competences, conduct statistical research surveys determined by the Statistical Research Programme;
- The Statistical Council of Republic of Macedonia, established as an expert advisory body for state statistics.

The State Statistical Office is a coordinator of the official statistics in the Republic of Macedonia and conducts most of the research determined by the Programme. The currently effective Statistical Research Programme ("Official Gazette of RM" No. 69/2003) refers to the 2003 - 2007 period.

The authorised data providers in the state statistical system of Republic of Macedonia are presented below and they conduct statistical research specified in the five-year Statistical Research Programme.

Authorised data providers in line with the Statistical Research Programme are:

- National Bank of the Republic of Macedonia;

- State Health Protection Institute;
- Ministry of Interior;
- Hydro-Meteorological Directorate;
- Pension and Disablement Insurance Fund of the Republic of Macedonia;
- Employment Agency of the Republic of Macedonia; and
- Ministry of Justice.

The State Statistical Office (SSO) cooperates with the authorised providers in order to provide unified and harmonised statistical production system through:

- Preparation of a five year Statistical Research Programme;
- Preparation of the Programme Implementation Annual Report;
- Preparation of statistical standards of common interest;
- Preparation of statistical regulations;

This cooperation is coordinated by the SSO.

In the process of preparation of programmes, data providers and data users, as well as line ministries (Ministry of Finance and Ministry of Economy) are invited to participate on various round tables.

When certain statistical issues are of interest to a number of institutions joint inter-institutional groups are established with the purpose of exchanging ideas and resolving open issues. This model has been especially proven useful when discussing application of uniform standards in foreign trade, industry classifications and macroeconomic indicators between State Statistical Office, Ministry of Finance, National Bank of the Republic of Macedonia and other institutions (Ministry of Economy, Ministry of Labour and Social Policy etc.)

Depending on the needs and (in certain cases) financial resources, joint projects are launched involving SSO and other institutions - e.g. SSO, MI and MoLSP for migrations, SSO and MoLSP for improvement of poverty monitoring, measuring and analysis, where the WB is also involved, etc. The specific projects are currently being implemented and the results are in line with expectations.

In order to reduce the workload of the reporting units and to have cost efficient approach in the official statistics, SSO and authorised data providers enable mutual access to data collected for statistical purposes and specified in the Statistical Research Programme. For data exchange, State Statistical Office signs agreements with the authorised providers, which specify the data to be exchanged or provided, the purposes of use of the data and the protection requirements (such agreements are concluded with the National Bank of the Republic of Macedonia, the Pension and Disablement Insurance Fund of the Republic of Macedonia, the Ministry of Interior).

Competent bodies, possessing administrative data bases, allow SSO to access the data, which they collect on the basis of other regulations, for the purpose of implementation of the Programme for Maintaining Statistical Registries. SSO signs contracts with the data providers for the use of the data. These contracts specify the data being provided, the purposes of use and requirements for protection. SSO may compile these data with other data collected for statistical purposes and store them in separate data bases.

In order to provide integrated approach in production of results, authorised data providers submit their results to SSO for publishing in integral publications (such as the Statistical Yearbook etc.).

### **Statistical Council of the Republic of Macedonia**

The Statistical Council of the Republic of Macedonia is an expert advisory body in the area of the state statistics. The Council comprises of president and 12 members appointed by the Assembly the Republic of Macedonia with four-year term, selected from distinguished experts in the areas of statistics, economy, social sciences and political system. The director of the State Statistical Office attends the sessions of the Council ex officio, without membership status.



The Council submits an annual report on its activities to the Assembly of the Republic of Macedonia.

The experiences from Council's work as an advisory body in state statistics have been positive. The Council has provided essential contribution to the development and promotion of the state statistics in the Republic of Macedonia, by discussions and amendments to Statistical Research Programmes and other strategic documents prepared by the State Statistical Office, as well as by providing various proposals, guidelines and opinions.

### **Working groups/commissions**

The Director of the State Statistical Office establishes expert working groups for providing opinions on the statistical system e.g. when preparing legislative projects, provision of expert assistance in the development of statistical methodologies, classifications, standards etc.

### **Steps taken for compliance with the requirements**

Inter-Institutional cooperation will be intensified by establishing joint committees and other forms of cooperation in function of providing a transparent statistical production system of good quality, fully compliant with the EU requirements. See the more detailed description in [Chapter 12 - Statistics](#)

**4. Public finances: How has the system of public finances been developed including extra-budgetary funds? How have government revenue and expenditure developed over time in terms of categories as well as total? What were the main sources for the expenditure growth and ensuing budget deficits?**

### **The system of public finances in the years after independence**

Since the Republic of Macedonia gained its independence, the system of public finances underwent significant reforms that reflected the political and the economic changes – the sovereignty of the country and the introduction of market economy. The outline of the system of public finances was initially set with the 1991 Law on the System of Financing General and Common Needs ("Official Gazette of RM". No. 36/1991, 55/1991, 21/1992, 1/1993 and 19/1993), by which the system of financing the so-called general social needs in Republic of Macedonia and the common needs in the municipalities was regulated. The system of financing the Funds (the Pension and Disability Insurance Fund, the Health Insurance Fund of the Republic of Macedonia, the Employment Bureau of the Republic of Macedonia and the Road Fund) was regulated by separate laws in the respective areas.

The Law stipulates that the term general social needs - financed on state level – understands: functions of the Assembly of the Republic of Macedonia and national bodies; defence; education, science and research activities, culture; physical and technical education, health care, social protection, nature and environment protection; investments in infrastructure and development etc.

The common needs financed at municipal level were, basically, the following: financing the operations of the municipal assembly and the other municipal bodies, as well as other responsibilities of the municipality, i.e. the City, stipulated by law.

Revenues for carrying out the listed functions of state and municipalities were provided from the following sources:

**A. Taxes:** Income tax, i.e. profit tax, personal income tax of the employees, tax on revenues from international transport, tax on revenues from lottery prizes, products and services sales tax, tax on revenues from agricultural activity, tax on revenues from copyrights, patents and technical innovations, inheritance and gift tax and tax for environmental protection.

**B. Fees:** Administrative and court fees.

**C. Other revenues** set under the law.

**D. Customs fees** and other import duties.

Municipalities were entitled to the following revenues: tax on transfer of real estate and rights, property tax, property revenue tax and utility fees.

The Law on the System of Financing General and Common Needs regulated, *inter alia*, the issues of preparation, adoption and execution of the Budget of the Republic of Macedonia and the municipal budgets.

**Public finance system reforms since 1994**

As a result of the existing need for adjustment and harmonization of the system of public finances to existing in EU countries, in 1993, the Ministry of Finance, in cooperation with the IMF technical mission, began preparing new Budget Law, which was adopted in December 1993 and came into force on 01.01.1994.

The Budget Law ("Official Gazette of RM". No. 79/1993, 3/1994, 71/1996, 46/2000, 11/2001, 35/2001, 93/2001, 46/2002, 61/2002, 24/2003, 85/2003 and 96/2004) regulates the procedure of preparation, adoption and execution of the Budget of the Republic of Macedonia, the budgets of local self-government units and the budgets of the Funds. According to this Law, the Budget is an annual plan for financing the functions and responsibilities of the Republic of Macedonia, of the local self-government units and the Funds, and consists of an annual projection of revenues and expenditures classified by their purpose.

The annual projection refers to a 12-month fiscal year, beginning on 01.01 and ending on 31.12 of each calendar year, and applies only for the fiscal year for which it was adopted.

The Budget of the Republic of Macedonia comprises of funds of the budget beneficiaries, as well as the budgets of the Pension and Disability Insurance Fund; the Health Insurance Fund; the Road Fund and the Employment Agency of the Republic of Macedonia.

In terms of this Law, the budget beneficiaries are those recipients of funds from the Budget of the Republic of Macedonia that are a part of the legislative, executive and judicial authorities. On the other hand, the institutions in the area of education and science, culture, child care, social protection, judiciary and prosecution, financed through the budget beneficiary in the respective area are called expenditure units.

According to the provisions of the Law, all revenues of the budget beneficiaries and their expenditure units, the local government units and the Funds are presented in their budgets. Liabilities and expenditures are executed in accordance with the regulations governing their execution, and within the projected expenditures presented in their budgets.

The budgets of the local self-government units and of the Funds cannot present budget deficit.

Budget document in terms of this Law means: the Balance of revenues and expenditures; Functional classification of expenditures and Balance by organizational classification codes. The budget separately lists beneficiaries and purposes for use of the funds (economic and program classification), explanation on the budgets and sources for covering the budget deficit, the funds necessary for the next 2 years and regulations for budget execution.

The Ministry of Finance opens and keeps a treasury account with the holder of payment operations in the Republic of Macedonia for the financial resources of the Budget of the Republic of Macedonia, for the financial resources of the budget beneficiaries and the expenditure units (agency-collected revenues, revenues from self-financing activities, from donations and credits) and for all other financial resources.

The revenues of the Budget of the Republic of Macedonia are provided from the following sources:

**A. Taxes** (profit tax, personal income tax, value added tax and excise and other taxes set by law)

**B. Customs** and other duties (taxes in international trade and transactions)

**C. Fees** (administrative and court fees)

**D. Non-tax revenues** (revenues from dividends of state-owned companies, fines, interest revenues from granted loans, interest revenues on bank deposits, revenues on surplus above the expenditures of National Bank of the Republic of Macedonia and other public levies stipulated by law)

**E. Revenues from domestic and foreign donations** (in kind and money)

**F. Other revenues** to the Budget of the Republic of Macedonia from various sources in accordance with the law.

Key features of 1994 reform and afterwards:

1. The radical reform in the area of direct taxes, through the adoption of the Personal Income Tax Law ("Official Gazette of RM" No. 30/1993, 3/1994, 70/1994, 71/1996, 28/1997, 8/2001, 2/2002, 44/2002 and 96/2004) and the Profit Tax Law ("Official Gazette of RM" No. 30/1993, 33/1995, 43/1995, 71/1996, 5/1997, 28/1998, 11/2001, 2/2002, 44/2002, 51/2003).

Major reform was carried out in these two types of taxes in 2001, when, by redefining these forms of tax, the profit tax was fully distinguished from the personal income tax. These changes included a definition of the taxpayers under both grounds and in this manner, profit tax was introduced for all legal entities established or headquartered on the territory of the Republic of Macedonia, for the profit they earn in the country or abroad.

2. On 01.04.2000 Republic of Macedonia introduced the value added tax, thus building tax structure in accordance with the European legal model. The Value Added Tax Law ("Official Gazette of RM" No. 44/1999, 59/1999, 86/1999, 11/2000, 8/2001, 21/2003 and 19/2004) is in accordance with the Sixth Directive of the European Union and is compatible with the European model of this Law.

3. The new Law on Excises ("Official Gazette of RM" No. 32/2001, 50/2001, 52/2001, 45/2002, 98/2002, 24/2003 and 96/2004), in force as of 01.07.2001, is harmonized with the Directive 92/12/EEC of the European Union on excises, as well as with its accompanying structural directives for each type of goods subject to excise i.e. on mineral oils, tobacco products, vehicles and alcohol and alcoholic beverages.

**4. An important element in the regulation of the overall public revenue system is the introduction of the new customs tariff in 1996. Thus, this system could be considered as compatible with the public revenue systems of the developed countries.**

As of 2000, the Ministry of Finance started implementing significant reforms with the aim of improving the state budget execution process, strengthening the control over the use of budget funds and enhancing the transparency in the utilization of public revenues via introduction of the so-called public finance treasury system.

The reforms were implemented in two phases.

**The first steps** were made in 2000, when the Treasury Department was established within the Ministry of Finance. **The second phase** of the reform was carried out in 2001 and 2002, when the concept of "Single Treasury Account" was fully implemented, in accordance with the treasury system models of the developed countries.

In 2002 Treasury Department fully overtook the function of holder of payment operations for the Budget and the budget beneficiaries.

Treasury operation reforms continued in 2003 and 2004 and the main changes introduced include:

- Introduction of accounting for commitment;
- Issuance of treasury bills;
- Further improvement of cash management.

In 2004, the extra-budgetary funds were fully integrated within the single treasury system. According to the plan, in second half of 2005, the local government units will have their own accounts within the Single Treasury Account.

### **Extra-budgetary funds**

By the end of 2003, seven extra-budgetary funds operated in the Republic of Macedonia: The Pension and Disability Insurance Fund, the Employment Bureau (later Employment Agency), the Health Insurance Fund; the National and Regional Road Fund, the Water Fund, the Environment Fund and the Agriculture Fund.

The modifications and amendments to the Budget Law in 2000 ("Official Gazette of RM" No. 46/2000) introduced a provision according to which the Budget of the Republic of Macedonia incorporates the funds of the budget beneficiaries, as well as the budgets of the Funds established by law. As of 2001, the budgets of the aforementioned Funds are contained in the Budget of the Republic of Macedonia, as its integral parts.

On the basis of legal regulations (adopted in 2003 and 2004), the Agriculture Fund, the Water Fund and the Environment Fund ceased operating, whereby their revenues were transformed into revenues of the Budget of the Republic of Macedonia and their activities were merged into the existing programs of the Ministry of Environment and the Ministry of Agriculture, Forestry and Water Management.

**The Agriculture Fund** was established in 2002, with the aim of supporting the development of agriculture by granting financial assistance, enabling the development and improvement of the production structure in agriculture, proposing new technologies, improving the quality of agricultural products, supporting the development of the domestic market and searching for external markets for agricultural products .

In 2003, the utilization of the Fund's sources of financing was limited, in order to ensure rational and purposeful utilization of the resources, thereby becoming Budget revenues, and the Fund was financed by transfers from the Budget of the Republic of Macedonia. The Fund ceased operating on 31.12.2003.

**The Environment Fund** commenced operating in 1997 as a body within the Ministry of Environment, having status of legal entity with the purpose of providing financial resources for promotion of preventive and rehabilitation measures for environmental protection and promotion and preservation of the nature.

In 2000, the Fund lost its status of a body within the Ministry of Environment and Physical Planning and continued operating as an independent Environment Fund, the organization and operations of which were to be regulated with special law.

Due to the negative implications on the Fund's financial operations deriving from the unresolved status of the Fund (financial transfers with the Ministry of Environment and Physical Planning), with the legislation amendments and modifications from 2004, the Fund's revenues were incorporated into the Budget of the Republic of Macedonia, the Fund ceased to exist as an independent entity, and its program activities were merged into the existing programs of the Ministry of Environment and Physical Planning.

In 2003, according to annual statement, Fund's total revenues amounted MKD 67,3 million and expenditures MKD 51,4 million.

**The Water Fund** was established in 1998 for the purpose of performing activities in the area of water protection, participation in the construction and maintenance of water management facilities, staff training in the area of water management, preparation of studies and plans, etc.

To provide a more rational and purposeful utilization of resources, the 2004 Budget of the Republic of Macedonia incorporated the Fund's revenues as Budget revenues, and the Fund's activities were merged into the existing programs of the Ministry of Environment and Physical Planning.

**The Employment Agency of the Republic of Macedonia** (former Employment Bureau) is a public institution established by the Labour Relations Law and Insurance in case of unemployment ("Official Gazette of RM" No. 37/1997). This Law regulates the issues related to labour exchange, the rights and obligations of the employers, the unemployed and the state with regard to employment and unemployment insurance and other issues related to employment.

During the last decade, the Agency began full modernization of the employment service and reorganization of departments, with the purpose of promoting activities for intermediation in employment, activities for training and re-qualification of the unemployed, as well as activities related to research, statistical monitoring and information support to the pro-active labour market policies.

Main source of financing the activities of Employment Agency of the Republic of Macedonia is employment contribution amounting to 1.6% of the gross salary of each employed person. The Assembly of the Republic of Macedonia adopts the budget of the Employment Agency, as an integral part of the Budget of the Republic of Macedonia.

Total revenues of the Employment Agency of the Republic of Macedonia for 2004 were set at the level of MKD 7.806.879.000 - 16,26% of which were revenues from employment contribution, 80,93% were transfers from the Budget, 2,48% were surplus revenues from previous fiscal year and 0,32% were other revenues. The resources for provision of assistance during unemployment, including financing of pro-active employment policies in 2004 were set at MKD 7.566.494.000 i.e. 96.92% of total expenditures.

The current system of pension and disability insurance of the Republic of Macedonia is based on the Law on Pension and Disability Insurance ("Official Gazette of the RM" No. 80/1993, 3/1994, 14/1995, 71/1996, 32/1997, 49/1997, 24/2000, 96/2000, 50/2001, 85/2003, 50/2004 and 4/2005). According to this Law, the pension and disability insurance is mandatory and it includes all the employed people and persons individually performing economic activities. It is a system of defined pensions paid under the pay-as-you-go principle, according to which current pensions are financed from the current contributions from the salaries of the employed persons. **The Pension and Disability Insurance Fund of the Republic of Macedonia**, established with this Law, performs the activities related to pension and disability insurance.

The transition period and the reforms the Republic of Macedonia underwent during the past decade resulted in dramatic deterioration of the ratio between the number of active insurees and pension beneficiaries. This led to deficit in the Fund's financing and this difference is covered with transfer of funds from the Budget of the Republic of Macedonia.

Although the parametric reforms in the pensions system i.e. its rationalization, as well as all the other measures undertaken in the period 1993 - 2002 resulted in positive effects with regard to the Fund's financial consolidation, the share of Budget transfers in its financing continuously increased from 17,5% in 1997 to 27,9% in 2003.

In order to ensure long-term sustainability of the pensions system in the country, the ongoing reform should lead to creation of a new pensions system based on three pillars:

- compulsory pension and disability insurance on the basis of generational solidarity - first pillar;
- mandatory capital funded pension insurance - second pillar, and
- voluntary capital funded pension insurance - third pillar.

Pursuant to the Health Insurance Law ("Official Gazette of RM" No. 25/2000, 34/2000, 96/2000, 50/2001, 11/2002 and 31/2003), the mandatory health insurance in the Republic of Macedonia is implemented by the **Health Insurance Fund of the Republic of Macedonia**. The resources for financing the mandatory health insurance are provided from contributions on gross salaries of the employed persons, from pensions and other employment-related personal income, co-payment by insurees, from the Budget of the Republic of Macedonia, dividends, donations and other sources.

Individual participation of the insured persons in the price of the health services and pharmaceuticals (co-payment) accounts for 3% to 4% in the total financing of the health care system.

Funding from the Budget of the Republic of Macedonia is allocated to the health care for implementation of special programs for preventive health care, protection from special diseases considered as social problem, treatment of persons not covered by the mandatory health insurance and health care of special population groups. These funds account for less than 1% in the total health care revenues.

The health care institutions acquire additional revenues directly from the individual uninsured beneficiaries of health services, from insured persons using health care services not included in the basic package of services or higher-standard health services, from contracts with enterprises for the provision of special health services to their employees, as well as other health services not covered by the Fund.

On the expenditure side, the major part of the Health Insurance Fund expenditures are made for hospital health care, followed by expenditures for specialist and consultative health care, primary health care, pharmaceuticals, etc.

**The National and Regional Road Fund** was established in 1996 for the purpose of performing activities of planning, financing, construction, reconstruction, maintenance and protection of the national and regional roads in the Republic of Macedonia. The operations of the Road Fund in the field of the development and maintenance of the national and regional roads are defined in its Programs.

The financial resources for construction, reconstruction, maintenance and protection of public roads are provided from transfers from the Budget of the Republic of Macedonia (share of excise on oil derivatives), road tolls, loans and other revenues.

By 1993, the so-called road contribution, being an integral part of the fuel retail price was paid directly to Fund's account. As of 01.01.1994, an excise tax on oil derivatives was introduced as budget revenue and later transferred from the Budget to the Fund.

The Fund's resources are allocated to finance the Program for construction, reconstruction, maintenance and protection of roads, for repayment of foreign credits, studies and projects, as well as maintenance of local roads and streets.

As of 2001, the National and Regional Road Fund prepare its own budget, adopted together with the Budget of the Republic of Macedonia, as its integral part. As of 05.07.2004, the Road Fund transferred its bank account to the Single Treasury Account.

### **Trends in the budget revenues and expenditures by years**

In the period 1997-2003, the total budget revenues grew by 34%, while the expenditure grew by approximately 35%, in nominal terms. Expressed in EUR, their amount in this period grew by

approximately 23%. However, in relation to the GDP, their share is almost unaltered and remains on the level of around 34%; this also applies to their value expressed in USD.

### **A. Budget revenues by category**

Indirect taxes are traditionally most significant source of budget revenues. Their share during the observed period ranges between 40% and 45% of the total budget revenues in the consolidated budget. Within this group, the value added tax gains increasing importance. The revenues from this tax almost doubled in its initial year (2000) in relation to previous revenues from sales tax. In 2003, its share in the total budget revenues was 24,4%.

On the other hand, the share of revenues based on excise taxes and customs duties shows continuous decline, from 26,7% (for both) to 20%, as a result of abolishing and reduction of some of these taxes, especially after the accession in the World Trade Organization.

Direct taxes are traditionally weak source of revenues in the Budget of the Republic of Macedonia. Regarding the profit tax, this is a result of, on one hand, low rate of 15%, and on the other, of low level of profitability of companies. As a result, the share of this tax in the total budget revenues is only 3,77%.

As a result of the reduction of tax rates, revenues from personal income tax declined by 33% in 2001 compared to the previous year. In the period that followed, they were almost constant, so that expectations for reduction of evasion and increase of revenues after lowering tax rates have still not been met.

The share of social insurance contributions declines continuously, and from 35% in 1997, it dropped to 31,4% in 2003.

From the remaining revenues, one should mention the tax on financial transactions, introduced in 2001 (internal conflict), intended to cover portion of the budget deficit in 2001 and 2002. The evidence of its effectiveness could be found in the fact that revenues generated in 2001 from this tax were equal to aggregate revenues from customs and import duties, and almost triple the amount of revenues from profit tax.

In 1999 and 2000, the level of foreign donations, mostly from the European Union, increased, intended for cover the expenses related to the refugee crisis caused by the war in FR Yugoslavia.

Non-tax revenues usually are at the level of 7% of the total revenues, while the share of capital revenues is negligible.

### **B. Budget expenditures by category**

On the expenditure side, total budget expenditures, after undergoing a stable trend, experienced a significant growth in the year 2001 and the subsequent year as a result of the conflict and the rehabilitation of its consequences. In 2003 already, stabilization in this area can be noted.

By category, the current expenditures of the government administration prevailed (salaries, procurements and reserves), accounting for about 1/3 of the total budget expenditures.

In aggregate terms, the transfers from the Budget (for extra-budgetary funds, structural reforms, public administration reforms and refugees-related costs) represented an even larger portion than the aforementioned one. Their amount almost doubled in 2003 in relation to 1997.

After 2000, as a result of the implemented reforms and the introduction of the treasury system, the accounting records became more accurate, resulting with complete removal of unclassified current expenditures from the Budget.

In 1999 and 2000, as a result of the NATO military campaign in FR Yugoslavia and the subsequent refugee crisis, the item covering refugee-related costs increased the expenditure side,.

In recent years, capital expenditures continue to decline, and in 2003, it was reduced by 30% in relation to 2001.

More detailed data on the Budget of the Republic of Macedonia are shown in the tables Macroeconomic data, attached to II\_I\_1. .

### **The fiscal policy in the observed period**

The Republic of Macedonia fully adheres to the arrangements concluded with the IMF and the World Bank, which have been defining the framework for monetary and fiscal policy in the country for longer period. Such discipline has resulted in low levels of budget deficit, as well as a surplus (1,8 % of GDP in 1999 and 2000). An exception to this trend is 2001, when a budget deficit of 7% of GDP incurred, as a result of higher expenditures caused by the internal conflict. Because of that, current procurements expenditures was an budget item with significant increase, whose growth almost equaling total growth in budget expenditures. It is also the year when the revenues from the personal income tax declined, thus additionally contributing to occurrence of budget deficit. The deficit in 2002 declined to 5,5% of GDP, and in 2003 a balanced budget was re-established.

Initially, the deficit was covered mainly by borrowing in the country and abroad. In 2001 (during the internal crisis) significant portion of the proceeds from the privatization of JSC Macedonian Telecommunications were used for this purpose, as well as a more intensive domestic borrowing that continued during the next few years. During the years with the highest budget deficit (2001 and 2002), the tax on financial transactions was introduced, as an instrument used for deficit reduction.

The fiscal balance achieved in 2003 and 2004 is expected to be maintained in the future, so that the problem of covering budget deficits is not expected to be as notable as in previous years.

### **5. Fiscal decentralisation (current): What is the relationship between central government and local municipalities? What is the current situation as regards revenues and expenditures of local municipalities?**

Pursuant to the Constitution of the Republic of Macedonia and the Law on Local Self-Government ("Official Gazette of RM" No. 5/2002) the units of local self-government have the right to local self-governance through direct participation of citizens in decisions about common matters. Units of local self-government can perform the rights determined by the Constitution and by law independently. In order to do that the units of local self-government have the right to use funds from own sources of revenues determined by law, as well funds provided by the Budget of the Republic of Macedonia.

The revenues of the units of local self-government are provided from:

- a) taxes
  - property tax,
  - inheritance and gift tax;
  - sales tax on real estate and rights;
- b) fees
  - communal fees
- c) additional revenues from the Budget of the Republic of Macedonia determined by special laws;
- d) revenues from domestic and foreign grants (monetary or in kind);
- e) other revenues transferred on various bases to the budgets of units of local self-government, in accordance with the law; and
- f) revenues in form of loans from the Budget of the Republic of Macedonia.

The revenues shall be administered and collected by the Public Revenue Office.

The revenues from taxes and fees shall be allocated to municipalities by using the following ratios:



- 80% by share in total number of inhabitants at the level of municipalities from which they have been obtained;
- 10% by share in total number of settlements at the level of municipalities from which they have been obtained; and
- 10% by share in total area at the level of municipalities from which they have been obtained.

An exemption from the above criteria is the distribution of revenues for the City of Skopje and the units of the local self-government within its administrative boundaries, which will be allocated as follows:

- The genuine revenues of the City of Skopje, as a separate unit of local self-government, shall amount to 38,5% from the revenues from taxes and fees collected within the City administrative boundaries.
- The genuine revenues of the units of the local self-government in the City administrative boundaries shall be determined on the basis of the share in the total number of inhabitants at the level of municipalities from which they have been obtained.

The expenditures of the budgets of the units of local self-government shall comprise:

- Current expenditures (salaries and employees' benefits, procurement of goods and services, current transfers and interest payments);
- Capital expenditures (purchasing of capital assets and capital transfers);
- Re-payments of loans

In the annual budget circular, the minister of finance provides guidelines for preparation of municipal's budgets, stating the main parameters for flow of revenues and the limitations to expenditures. The units of the local self-government prepare a single budget, containing the funds allocated to the Council, the Mayor and the administrative bodies, the communal regulation programme, street illumination programme, road programme, green areas programme, forestation programme and other programmes. The single budget and programmed planning principles will provide better monitoring and proper use of municipal revenues and expenditures.

Pursuant to the Law on Limiting the Original Revenues for Financing Public Works ("Official Gazette of RM" No. 85/2003) the limits on genuine revenues (taxes and fees) for each municipality are specified. Excess revenues are allocated in a special account within the treasury account of the Republic of Macedonia. The funds collected on this account are allocated to municipalities by decision of the Government of the Republic of Macedonia (usually, twice a year), on the basis of the Methodology for Allocation of Excess Revenues above the Allowed Level of Expenditures in the Units of Local Self-government, where funds are returned to municipalities.

The annual flow of municipal revenues and expenditures is as follows:

Year	2001	2002	2003
REVENUES (in MKD)	2.594.945.000	3.396.585.000	4.254.457.000
Tax revenues	2.152.378.000	2.454.440.000	2.888.337.000
-Property tax	540.295.000	625.445.000	651.546.000
-Communal fees	123.473.000	126.468.800	504.898.000
-Charges	1.488.610.000	1.702.527.000	1.731.893.000
Non-tax revenues	442.567.000	942.145.000	366.120.000
-Non-tax revenues	183.849.000	751.945.000	1.156.189.000
-Excess revenues	258.718.000	190.200.000	209.931.000
EXPENDITURES (in MKD)	2.533.898.000	3.321.300.000	4.100.559.000
Current expenditures	1.890.190.000	2.125.500.000	2.284.532.000
-Salaries and remuneration	455.824.000	499.600.000	545.235.000
-Goods and services	1.214.595.000	1.266.000.000	1.459.991.000
-Current transfers	219.771.000	359.900.000	279.306.000
Capital expenditures	643.708.000	1.195.800.000	1.816.027.000
-Purchasing of capital goods	575.290.000	1.157.800.000	1.787.879.000
-Capital transfers	68.418.000	30.000.000	28.148.000
Source: Ministry of Finance			

The share of municipal revenues in the GDP is as follows:

2001		Budget of RM (in MKD)	Municipalities (in MKD)	% share
	Central Budget (CB) and fund	83.025.162.000	4.042.297.556	4,87
	Total revenues of CB	71.231.074.000	4.042.297.556	5,67
	Genuine revenues of CB	64.334.443.000	4.042.297.556	6,28
		233.841.000.000	83.025.162.000	35,50
	GDP (corrected)	233.841.000.000	4.042.297.556	1,73
2002	CB and fund	86.747.093.000	4.696.317.000	5,41
	Total revenues of CB	57.314.374.000	4.696.317.000	8,19
	Genuine of CB	56.854.374.000	4.696.317.000	8,26
		238.764.000.000	86.747.093.000	36,33
	GDP (corrected)	238.764.000.000	4.696.317.006	1,97
2003	CB and fund	83.916.494.000	6.716.333.175	8,00
	Total revenues of CB	55.146.067.000	6.716.333.175	12,18
	Genuine revenues of CB	54.546.067.000	6.716.333.175	12,31
		252.242.000.000	83.916.494.000	33,27
	GDP (corrected)	252.242.000.000	6.716.333.175	2,66

Source: Ministry of Finance

Pursuant to Article 46 of the Law on Financing the Local Self-Government Units in the Republic of Macedonia ("Official Gazette of RM No. 61/2004 and 96/2004) the Ministry of Finance, in cooperation with the Association of Local Self-Government Units (ZELS) and the European Agency for Reconstruction (EAR), has prepared a preliminary assessment of the municipal debt arrears. Based on the questionnaires sent to the municipalities and providers of goods and services. It has been estimated that the debts in this sector amount to around MKD 2,6 billion. With public invitation to all creditors (October 2004 – Mac Decentralisation Work Project/USAID), the registered claims amounted to about MKD 3,2 billion. In order to resolve the debt, a Debt Resolution Plan is currently being prepared, as a precondition for the fiscal decentralisation.

**6. Fiscal decentralisation (reform): What is the status of the reform on fiscal decentralisation? Please provide a short summary concerning the main features of this reform. Which fiscal competencies and powers are expected to be transferred from the central to local government? Is there an estimate of overall revenue and expenditure of local municipalities once the reform is fully implemented? Is the forthcoming reform ensuring an adequate flow of revenue for local municipalities in order to finance their competencies? Is there a mechanism of redistribution of resources among the municipalities? Is the central budget expected to finance local municipalities? If so, according to which criteria?**

The fiscal decentralisation reform, from a legislative point of view, was finalized with the adoption of all laws providing for changes in the system of local financing. The Assembly of the Republic of Macedonia adopted the Law on Financing the Units of Local Self-Government ("Official Gazette of RM" No. 61/2004 and 96/2004) (see [II Annex 02](#)), Law on Property Tax ("Official Gazette of RM", No. 61/2004), Law on Utility Fees ("Official Gazette of RM", No. 61/2004), Law on Modifications and Amendments to the Law on Administrative Fees ("Official Gazette of RM", No. 61/2004), Law on the City of Skopje ("Official Gazette of RM, No. 55/2004) regulating the financing of the City of Skopje and the municipalities within the City, as well as a number of special laws pertaining to the transfer of competencies to the municipalities. For the purpose of realization of the set of laws related to the financing, a number of bylaws will be adopted, arising from and aimed at determining the procedures for implementation of mentioned laws. These bylaws will be adopted by the time the laws begin implementation, i.e. by the time the municipal councils are constituted and the mayors are elected at the next local elections (13.03.2005). The Ministry of Finance will propose to the Government of the Republic of Macedonia to adopt seven bylaws, which are in preparatory stage. The Ministry of Culture, the Ministry of Labour and Social Policy and the Ministry of Education and Science will propose to the Government of the Republic of Macedonia a Decree on Methodology for Allocation of Earmarked Grants. The Ministry of Transport and Communications, the Ministry of Environment and Physical Planning, the Bureau for Economically Underdeveloped Regions and the Regional and

National Road Fund will propose to the Government of the Republic of Macedonia a Decree on Methodology for Allocation of Capital Grants.

Main features of the local self-government reform:

1. Defined scope of competencies, distinguished from the ones of the state and new type of mutual relations between the local authorities and the state bodies;
2. New system of financing, assuring financial independence and quality performance of the competencies of the local self-government units;
3. Legal guarantees for non-interference by other authorities when performing the competencies;
4. Clear determination of the status, property and relations of the local self-government units and public institutions;
5. Establishment of new system of local public property, corresponding to the new competencies and responsibilities of the local self-government units;
6. Freedom of association of local authorities;
7. Establishment of mechanisms for monitoring and control of operations of the bodies of local self-government units;
8. Small, professional and efficient local administration.

Municipalities are financed from their own revenue sources, stipulated by law, including local taxes and fees. New fiscal competencies of the municipalities include adoption of decisions about the level of property tax rates and utility fees. Thus, the local authority acquire significantly higher level of independence from the central government, from a financial point of view, with precisely determined own sources of financing and their management. The Law regulates the intervals within which the rates, i.e. the amounts should range, while the particular rates and amounts are determined with a decision by the municipal council, the Council of the municipalities within City of Skopje, i.e. the Council of the City of Skopje. Within these frames, current rates are considered as bottom level. The independence of the municipalities is also manifested by granted right to determine higher level of rates, i.e. amounts for particular revenues, within the limits stipulated by law. Thus, the municipality determines the amount of its own revenues.

Activities related to determining and collecting of municipalities' genuine revenues are carried out by municipal administration. The transfer of competence from the public revenue authority to the municipal administration, the administration of the municipalities within the City of Skopje, i.e. administration of the City of Skopje, refers to collection of taxes or fees in the administrative boundary of the municipality where the property or the tax/fee payer is located, while if the property is located within administrative boundaries of two or more municipalities, the tax or fee is determined by the municipal administration for the value of the property located or the fee collected within the administrative boundary of the respective municipality. When movable property is inherited, i.e. received as a gift, the tax is determined by the municipal administration in the place of residence of the taxpayer.

The decision for determine the tax liability is adopted by the Mayor of the municipality, the Mayor of the municipalities within the City of Skopje i.e. the Mayor of the City of Skopje.

For the purpose of full monitoring of the situation with the real estate, the municipal administration, administration of the municipalities within the City of Skopje, i.e. the administration of the City of Skopje, keeps real estate registry and regularly reconciles its records in with the real estate registry of State Authority for Geodetic Works.

With the purpose of implementation and application of the regulations related to property taxes and utility fees by the taxpayers, the municipality performs inspection supervision, including inspection of condition and value of the real estate and movable property subject to taxation.

The municipality carries out the procedure of enforced collection, procedure and method of securing tax arrears payment, complaint procedure, overdue tax default interest payment, refunds paid excess tax or incorrectly paid tax, and implements expiry and guarantee and penalty provisions.

At taxpayer's request, the Mayor may allow for deferred payment of overdue liabilities or payment in instalments. This, up to the moment when a decision upon the complaint is reached, which is to be approved only if the taxpayer secures the payment of the tax arrears by a bank guarantee or cash deposit. The former should be appropriate to the amount of the tax arrears, i.e. the tax liability and latter to amount of ½ of the tax arrears, i.e. tax liability.

The complaint can be filed against the decision by the Mayor to the Ministry of Finance within 15 days from the day of receipt of the decision.

Regarding the taxpayer who failed to pay the due tax arrears, fines and interest within the stipulated period, an enforced collection will be carried out, by appraisal and sale of his property via public auction.

Provisions from the Property Tax Law apply when determining and collecting utility fees, carrying out inspection supervision, postponing the execution, charging interest, undertaking a complaint procedure, enforced collection and refund of fee paid in excess or incorrectly paid fee.

In order to ensure regular payment of property taxes and utility fees, deadlines for payment have been stipulated, as well as appropriate charges for the legal entity or individual that avoids paying the determined fee amount, failed to submit application for the incurred fee liability, etc.

Projections of the total revenues and expenditures have been prepared pursuant to the expenditure execution transferred within the competence of the municipality in 2002. Projections of total revenues and expenditures are presented in Table 1.

Table 1. PROJECTION OF REVENUES AND EXPENDITURES PURSUANT TO THE LAW ON LOCAL FINANCING								
		2002 REALIZATION		ESTIMATE - FISCAL (OLD LAW)		TYPE OF FINANCING	FINANCING PURSUANT TO THE NEW LAW	
	Taxes	MKD million	%	MKD million	%			
<b>REVENUES</b>		3.619,4	100,0	5.359,0	100,0		13.471,4	100,0
1 Municipality's own revenues		2.483,1	68,6	3.525,7	65,8		3.550,0	26,4
1.1. Local taxes		2.257,4		1.600,0			1.600,0	
1.2. Local fees		225,7		225,7			250,0	
1.2.1. Utility fees								
1.2.2. Administrative fees								
1.3. Local charges				1.700,0			1.700,0	
1.4. Ownership revenues								
1.5. Revenues from self-contribution								
1.6. Revenue from fines stipulated by law								
1.7. Revenues from donations								
1.8. Other revenues stipulated by law								
2 Tax revenues		0,0	0,0	918,0	17,1		918,0	6,8
2.1. Revenues from personal income tax	3,0%	0,0		198,0			198,0	
2.3. Revenues from value added tax	3,0%	0,0		720,0			720,0	
3 Grants		931,7	25,7	915,3	17,1		8.953,4	66,5
3.1. Block grants							7.984,0	
3.2. Earmarked grants							939,4	
3.3. Capital grants							30,0	
3.4. Grants for delegated competencies								
Actual grants		931,7		915,3				

1 Budget		314,0		305,3			
2 Funds		617,7		610,0			
3 Donations		23,1		0,0			
<b>4 Borrowing</b>		<b>157,6</b>	<b>4,4</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>
4.1. Domestic		157,6		0,0			
4.2. External							
<b>5 Other sources of revenues</b>		<b>47,0</b>	<b>1,3</b>	<b>0,0</b>	<b>0,0</b>	<b>50,0</b>	<b>0,4</b>
<b>EXPENDITURES</b>		<b>3.358,7</b>	<b>100,0</b>	<b>12.974,7</b>		<b>13.261,4</b>	<b>100,0</b>
<b>1 Current expenditures</b>		<b>2.125,5</b>	<b>63,3</b>	<b>2.125,5</b>		<b>2.160,0</b>	<b>16,3</b>
1.1. Wages and salaries		499,6		499,6	OR*	500,0	
1.2. Goods and services		1.266,0		1.266,0	OR*	1.300,0	
1.3. Current transfers and Grants		359,9		359,9	OR*	360,0	
<b>2 Capital expenditures</b>		<b>1.195,8</b>	<b>35,6</b>	<b>1.195,8</b>		<b>1.188,0</b>	<b>9,0</b>
2.1. Purchase of capital assets		1.157,8		1.157,8	OR*	1.150,0	
2.2. Capital transfers		38,0		38,0	OR*	38,0	
<b>3 Debt servicing</b>		<b>34,2</b>	<b>1,0</b>	<b>0,0</b>		<b>0,0</b>	<b>0,0</b>
3.1. Principal		24,2		0,0		0,0	
3.2. Interest		10,0		0,0		0,0	
<b>4 Other expenditures</b>		<b>3,2</b>	<b>0,1</b>	<b>0,0</b>		<b>0,0</b>	<b>0,0</b>
<b>New competencies transferred by decentralisation</b>				<b>9.653,4</b>		<b>9.913,4</b>	<b>74,8</b>
5.1. Urban (urban and rural) planning				100,0	OR*	100,0	
5.2. Environment and nature protection				30,0	CG*** and OR	60,0	
5.3. Local economic development				30,0	EG**	30,0	
5.4. Utility activities				760,0	EG and OR	960,0	
5.5. Culture				185,0	BG****	185,0	
5.6. Sports and recreation				30,0	EG and OR	60,0	
5.7. Social welfare and child protection				910,0	BG	910,0	
5.7a. Social programs (socially disadvantaged families) and child allowance				0,0			
5.8. Education				6.889,0	BG	6.889,0	
5.9. Health care				0,0			
5.9a. Primary health care				0,0			
5.10. Protection and rescue of citizens from natural and other disasters				119,4	EG	119,4	
5.11. Fire protection				270,0	OR	270,0	
5.12. Surveillance of the activities carried out under its competence				100,0	OR	100,0	
5.13. Transfer of the personnel from the Ministry of Finance to Public Revenue Office regional offices				230,0	OR	230,0	

Surplus (Deficit)		260,7		-7.615,7			210,0
OR* - own revenues; EG** - earmarked grants; CG*** - capital grants; BG**** - block grants; Source: Ministry of Finance							

The reforms, determined by the Law on Local Financing, ensure appropriate flow of municipal revenues. Municipalities are financed from own revenue sources, government grants and other sources of revenues pursuant to the Law.

**Own types of revenues:** (1) local taxes, (2) local fees, (3) local charges, (4) ownership revenues (rent, interest, sale of nonessential property), (5) revenues from donations, (6) revenues from fines stipulated by law, (7) revenues from self-contribution and (8) other revenues stipulated by law.

**Revenues from personal income tax:**

- 3 % of the personal income tax on the salaries of employed people, collected in the municipality in which they are registered as having permanent place of residence, and
- 100% of the personal income tax from individuals dealing with craftsmanship, registered pursuant to the Law on Craftsmanship ("Official Gazette of RM" No. 62/2004), on the territory of the municipality in which they are registered to perform activity.

**Various subsidies (grants)** from the Budget of the Republic of Macedonia and the budgets of the Funds, through which the central government provides additional revenues for proper implementation of competences stipulated by law, are regarded as additional source of revenues.

The following types of grants are allocated from the Budget of the Republic of Macedonia and the budgets of the Funds:

- revenues from value added tax (general grant),
- block grants,
- earmarked grants,
- capital grants,
- grants for delegated competencies.

The provisions on type, amount and allocation of grants per municipality are an integral part of the Budget of the Republic of Macedonia and the budgets of the Funds. The competent ministries and Funds announce the determined criteria, procedures and deadlines for allocation of earmarked and capital grants by 30.04 in the current year, at the latest.

**Revenues from the value added tax** (in a form of general grant) are provided in the amount of 3 % of the total collected value added tax realized in the previous fiscal year.

The allocation of the revenues from value added tax is done at least 50% by the per capita criterion and other criteria provided with the Decree on Methodology for Allocation of Revenues from Value Added Tax that is adopted by the Government. The Government of the Republic of Macedonia adopts the Decree upon proposal by the Minister of Finance and upon a prior consent by the Commission for Monitoring the Development of the System of Local Financing, by 30.06 in the current year at the latest, for the next year.

With this methodology, special criteria are determined for the City of Skopje in order to level significant differences between the City and other municipalities. The municipality decides autonomously about the utilization of revenues from the value added tax.

**Block grants** are used for financing the competencies in the area of culture, social welfare and child protection, education and health protection through concrete programs. Competent ministries and Funds prepare methodology for determining the criteria for allocation of block grants, based on a formula with appropriate indicators of the needs for each program. The Government of the Republic of Macedonia, upon a proposal by the competent Ministry, and upon a prior consent by the Ministry

of Finance and the Commission for Monitoring the Development of Local Financing System, adopts the Decree on the Methodology for Determining the Criteria for Allocation of Block Grants.

**Earmarked grants** are used for financing concrete activity. The competent ministries and Funds submit to the Ministry of Finance a proposal concerning allocation of earmarked grants per municipality, project and institution and/or programme with a budget calculation for the next fiscal year, in compliance with the Decree on Methodology for Allocation of Earmarked Grants that is adopted by the Government. The competent ministries and Funds monitor the utilization of the earmarked grants. When irregularities in utilization of grants are detected, the competent ministries and Funds halt the payment of funds and inform the Ministry of Finance thereof.

**Capital grants** are used for financing investment projects on the basis of a program determined by the Government of the Republic of Macedonia. When allocating capital grants, the competent ministries and Funds assign priority to projects with completed financial frame. The competent ministries and Funds allocate the resources pursuant to the Decree on Methodology for Allocation of Capital Grants that is adopted by the Government and monitor the utilization of capital grants. When irregularities in utilization of grants are detected, competent ministries and Funds halt the payment of funds and inform the Ministry of Finance thereof. When non-earmarked spending of funds is ascertained, financing of capital investments can be stopped.

**Grants for delegated competencies** are used for financing the competencies delegated by state administration body to the Mayor of the municipality. Funds for delegated competences are provided from the allocated amount for the competent state administration body in the Budget of the Republic of Macedonia. Grants for delegated competences are transferred in a manner which provides a timely realization of the delegated duties. The Minister in charge of the state administration body and the Mayor of the municipality conclude an agreement for regulation of the mutual relations pertaining to the grants for delegated competencies. If the Mayor of the municipality fails to carry out the delegated competence, he/she is obliged to return the funds allocated for financing the respective competence into the Budget of the Republic of Macedonia within 30 days from the day the performing of delegated competence was supposed to commence, in line with the agreement, except in cases when objective impediments emerge.

There is no existing mechanism for redistribution of resources among the municipalities at state level. There is a mechanism for redistribution of resources among municipalities within the City of Skopje where Joint Fund for the City of Skopje and the municipalities within the City of Skopje will be established for the purpose of ensuring equal conditions for functioning of municipalities in the City of Skopje. The Fund is to be established with the revenues collected from the personal income tax, utility fees for placing company signs and utility fees for utilization of streets with passenger, cargo and trailer vehicles. The allocation is carried out pursuant to the Methodology for Distribution of Funds from the Joint Fund, adopted on 17.11.2004 (Official Gazette of RM No. 83/04).

**7. Budgetary policy: Please describe the features of the planning, programming and execution process of the government budget. Please indicate main policy objectives, developments and achievements as regards budgetary policy.**

#### **Planning, programming and adoption of the state Budget**

The methodology for preparation, adoption and execution of the Budget of the Republic of Macedonia (including the budgets of the extra-budgetary funds) and the budgets of the local self-government units is regulated by the Budget Law ("Official Gazette of RM" No. 79/1993, 3/1994, 71/1996, 46/2000, 11/2001, 93/2001, 46/2002, 24/2003, 85/2003 and 96/2004).

Pursuant to the Law, the budget process starts with the preparation of *medium-term fiscal strategy*, based on the planned macroeconomic policy and the determined strategic priorities of the Government of the Republic of Macedonia for the following year. The Fiscal strategy, as a medium-term document, defines the fiscal framework for a period of three years, i.e. the preliminary

projections of budget revenues and expenditures, as well as pre-conditions and risks determined thereof.

On the basis of the adopted fiscal strategy, the Ministry of Finance prepares guidelines for preparation of a *draft budget request – Circular*. It contains the main guidelines and the methodology for preparation of a *draft budget* (including the basic parameters, the procedure and the deadline for preparation) and it is submitted to the budget beneficiaries, the Funds and the local self-government units.

The Ministry of Finance determines the maximum level of expenditures for the next year. Starting from 2004, the maximum levels of expenditure are being determined under the functional principle, ensuring larger independence of the budget beneficiaries when determining the funds necessary for the realization of planned activities. It actually means that the Ministry, i.e. the holder of the particular function is responsible for the process of harmonization of planned amounts of separate budget beneficiaries within the respective function.

The budget beneficiary, within the determined maximum amounts of expenditure, prepares its *draft budget request*, and submits it to the Ministry of Finance. The 2005 draft budget request contains the:

- integrated strategic plans of budget beneficiaries within the functional analysis of particular budget beneficiary;
- introduction of on-going government programs, as a reflection of the government policy;
- on-going activities that the budget beneficiary will implement in the course of the fiscal year, presented by programs and sub-programs;
- estimates of the expenditures for the fiscal year (by expenditure items and sub-items) and projections for the next two years (by categories and items), according to the new economic classification in line with the international standards;
- estimates of capital expenditures, presented by individual projects, and
- definition of performance indicators and evaluation of the program results.

The Ministry of Finance evaluates the received draft budget requests from the perspective of their efficiency, priority and rationality, and reconciles them with the budget beneficiaries.

On the basis of the reconciliations with the budget beneficiaries, the Ministry of Finance prepares *Draft Budget of the Republic of Macedonia*, and submits it to the Government of the Republic of Macedonia.

The Government adopts the Draft Budget and submits it to the Assembly of the Republic of Macedonia for its adoption.

Deadlines for preparation and adoption of the Budget of the Republic of Macedonia are determined by the Budget Law as follows:

Activity	Deadline
Preparation of the Fiscal Strategy of the Republic of Macedonia for the next medium term	April
Guidelines for preparation of Draft Budget Request – Budget Circular, to be submitted to the budget beneficiaries	End-April
Draft Budget Request prepared by the budget beneficiary and submitted to the Ministry of Finance	15 <sup>th</sup> June
Ministry of Finance submits the Draft Budget to the Government of the Republic of Macedonia	Beginning of October
The Government adopts the Draft Budget and submits it to the Assembly of the Republic of Macedonia for its adoption	mid-November



The Assembly debates on the Draft Budget	Not prior to 20 days from the day of its submission
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### Reforms in the field of execution of the Budget of the Republic of Macedonia

As of 2000, the Ministry of Finance commenced implementing significant reforms aimed at improvement of the process of Budget execution, strengthening the control over utilization of budget funds, increasing transparency when using public revenues, which led to a more efficient management of state finances.

For this purpose, in 2000, the Treasury Department was established within the Ministry of Finance to implement and perform these functions.

In terms of its organizational structure, the Treasury Department consists of 7 units:

- Budget Execution
- Revenue Collection Monitoring
- Budget Accounting
- Reports and Analysis
- Public Debt Management
- Planning and Cash Management
- Regional Treasury Operations

The implemented reforms can be structured in two stages.

**The first steps** were taken in 2000, with the adoption of a Decision on Establishment of the Treasury Department within the Ministry of Finance, followed by the adoption of a strategic development plan for the Treasury Department and recruitment and training of its staff.

The main changes in 2001 included:

- Change in structure of the accounts of budget beneficiaries, ensuring greater transparency and control over all types of revenues the budget beneficiaries realize
- Inclusion of donations and loans in the treasury system
- More detailed analytical monitoring of budget revenues and expenditures
- Changes in the procedures for execution of payments
- Greater flexibility for the budget beneficiaries in spending the approved budget (three-digit account)
- Elimination of idle cash balances on the operating accounts
- Providing records for the actual expenditures

The legal framework for all these reforms consists of several laws, such as the Budget Law, the Law on Budget Execution for 2001 and 2002, the Law on Transformation of the Payment Operations Bureau, the Law on Payment Operations, as well as number of instructions and rulebooks in the area of treasury operations.

**The second step** in implementing the reforms commenced at the beginning of 2001 and was fully implemented on 01.01.2002. The main objective of the changes was to completely implement the concept of "Single Treasury Account", following the treasury system model of the developed countries.

In 2002, the Treasury Department fully undertook the function of holder of payment operations for the Budget and the budget beneficiaries from the Payment Operations Bureau. As a result, a Single Treasury Account (STA) was opened in the National Bank of the Republic of Macedonia and previous accounts of the budget beneficiaries were closed, as well as all other special accounts of the state and the accounts for collecting public revenues. Due to closing of accounts where some of

the genuine revenues of the local self-government units were paid, the Treasury Department has also undertaken the function of collecting, recording and allocating the revenues to those local government units. The Treasury Department actually acts as “quasi bank” with approximately 3.000 accounts (in the Ledger) of the budget beneficiaries, accounts for collecting public revenues and other earmarked accounts of the state, providing for direct collection of public revenues and centralized execution of expenditures.

Treasury operations reforms continued in 2003 and 2004 as well with main changes being the following:

- Introduction of accounting for the assumed liabilities;
- Issuance of treasury bills;
- Further improvement of the cash management;

The project for inclusion of extra-budgetary funds within the STA, was completed at the end of 2004. In addition, in the second half of 2005, local self-government units will have their own accounts within the STA. Another ongoing activity is the one for e-connection of the budget beneficiaries with the Treasury, i.e. WEB Treasury Project which is under preparation, with the purpose of enabling access to the Treasury via Internet.

### **Budget Execution Process (after the reforms)**

The budget execution is carried out pursuant to the Budget Law, the Law on Budget Execution for the current year (2005 – “Official Gazette of RM No. 96/2004) (see [II Annex 01](#)) and the bylaws for budget execution.

The budget execution process encompasses the following steps:

1. Following the adoption of the Budget of the Republic of Macedonia for the current year, the budget beneficiaries, within 25 days, are supposed to submit to the Ministry of Finance, an annual financial plan by quarters, for utilization of funds by accounts, programs and expenditure items, except for the items pertaining to salaries and allowances.

The budget beneficiaries having expenditure units, within 5 days from the adoption of the Budget, submit a statement of the annual financial plan to each expenditure unit, containing information on the funds earmarked for the particular expenditure unit. On the basis of the statement, the expenditure units prepare their annual financial plans and submit them to the line ministry, while the line ministry submits the consolidated annual financial plan to the Ministry of Finance within 25 days following the adoption of the Budget.

The amount of projected funds for current needs within the annual financial plan, for one quarter, should be  $\frac{1}{4}$  of the annual Budget, with exception of specific cases.

2. Throughout the year, the budget beneficiaries, on the basis of the annual financial plan, prepare draft quarterly financial plans (by months) for utilization of funds per accounts, programs and items (except for the items pertaining to salaries and allowances) and submit it to the Ministry of Finance for approval, at least 5 days prior to beginning of respective quarter.

The quarterly financial plan by months is an estimate of the expenditures of the budget beneficiary for a given period and its adoption denotes an approval of the right to execute the funds for the given months of the corresponding quarter i.e. the subsequent period if the right to execute is not exercised.

3. Following the approval of the financial plans, the Ministry of Finance informs the budget beneficiaries and, budget beneficiaries that have own spending units, inform them thereof.

In the course of the year and during a given quarter, the budget beneficiary can submit a request for a change of the annual or quarterly financial plan, only for expenditures that could not be projected

on time. In that sense, it is necessary for the budget user to submit explanation, along with revised annual financial plan and a quarterly financial plan.

If there is re-allocation of funds among budget beneficiaries, i.e. re-allocation among items and programs within the budget of one budget beneficiary, request for change of both annual financial plan and quarterly financial plan should be submitted.

In certain cases, when the projected dynamics of expenditure performance in the central government budget significantly deviates from the collection of budget revenues, the Ministry of Finance can revise and approve such annual and quarterly financial plans of the budget beneficiaries that will follow the projected dynamics of collection of budget revenues.

#### 4. Budget beneficiaries report their assumed liabilities

Budget beneficiaries report their assumed liabilities based on concluded contracts, orders, business trip orders and other documents that can lead to occurrence of payment liability in a given future period, when exceeding EUR 3.000 in MKD equivalent for precisely determined types of expenditures.

Reporting of assumed liabilities is made within 10 working days from the day of their incurrence, by submitting the standard O1-form to the treasury offices, thereby assigning a number to the liability.

According to the territorial distribution of the budget beneficiaries, there are 16 treasury offices, receiving and, from a formal point of view (filling all the necessary elements) processing all payment requests

#### 5. Budget beneficiaries submit payment requests.

Budget beneficiaries submit payment requests one day prior to the execution of payment for the purpose of carrying out control by the Treasury, except in the cases of foreign currency payments, where requests are submitted and executed the same day, with the purpose of applying the same exchange rate.

#### 6. After carrying out all the controls by the Treasury Department, the payment is executed.

When approving the payment request, the Treasury Department checks the following: the approved annual budget (the appropriations), the remaining right to spend (monthly financial plan), whether the liability has been previously declared, as well as the balance on the appropriate account in the case of a special revenue account). If all the requirements are met, the payment request is executed. Payments are executed through MIPS i.e. RTGS system, managed by the National Bank of the Republic of Macedonia.

#### 7. Following the payment execution, the transaction is recorded in the treasury ledger.

The cycle ends with the execution of the payment and the recording of the expenditures in the treasury ledger i.e. in all registers such as expenditure specification, analytical cards, registers of executed transactions, etc.

Regarding the Budget execution, account statements are prepared on a daily, monthly, semi-annual and annual basis. The right of the budget beneficiaries to spend the budget funds is terminated on 31.12 in the current calendar year. They are obliged to return all remaining (not utilized) funds in the Budget by 05.01 of following year, at the latest.

### **Objectives, outcomes and future development of the budget policy**

The main feature of the fiscal policy in the past period is the restrictive budget spending, for the purpose of maintaining the macroeconomic stability and promotion of economic growth in the medium term.

Such defined fiscal policy will continue in the next medium-term period, and its objective is to ensure:

- Fiscal consolidation in the medium term, loosening of monetary policy and reduction of the bank interest rates;
- Maintaining of low level budget deficit and provision of full, timely and non-inflationary financing of public expenditures and servicing of liabilities arising from both domestic and foreign debt;
- Support to the development and development programs;
- Transparency in spending per programs;
- Relation between the spending by budget funds and monitoring of results from the set tasks of the budget beneficiaries, in line with the priorities of the Government of the Republic of Macedonia.
- Rationalization of expenditures and their earmarked utilization and consistent planning in line with the commitment to reduce public expenditures;
- Efficient and responsible public debt management, i.e. achieving a sustainable level of debt (maintaining at 37% of GDP).

Central government budget was basically stabilization-, social- and reform-oriented, underpinning the objectives of the monetary policy for maintaining exchange rate and price stability in high trade deficit environment.

Following the modern developments in the fiscal sphere, a new Budget Law in being prepared (adoption in 2005) that will provide for programmed planning of the public expenditures. This method of planning ensures proper information flow to legislative and executive authorities, as well as to the public, on operative plans of individual state institutions, reflecting planned utilization of budget funds and implementation of programs. The new Budget Law stipulates specific rules, procedures and control of the overall budget relations among the central government, the extra-budgetary funds, the local self-government and the public sector. This Law will fully regulate the budget process in accordance with the international standards in the field of public finance and the international statistical standards.

#### **8. Budget management: How has the relation and interaction between the central and the sub-central government levels evolved? How far is the fiscal management integrated (e.g. state play of the Single Treasury Account)?**

With the abolishment of the Payment Operations Bureau in 2002, pursuant to the Law on Transformation of the Payment Operations Bureau, a Single Treasury Account was opened with the National Bank of the Republic of Macedonia (NBRM), thus fully implementing the treasury system model from the developed countries.

This way, a progress was achieved in the process of Budget execution in the part pertaining to the collection of revenues, execution of payments, as well as an increased level of control over the funds of the budget beneficiaries was attained.

The treasury account structure includes the account of the Budget of the Republic of Macedonia, the accounts of the budget beneficiaries, the accounts for recording and collecting public revenues in the Budget and the genuine revenues of the local self-government units, and other earmarked accounts of the state.

The inflow of funds as public revenues into the Budget and the genuine revenues of the local government units in the Single treasury Account is carried out pursuant to the Guidelines on the Manner of Recording and Allocating Public Revenues ("Official Gazette of RM", No. 3/2004 and 74/2004) (see [II Annex 03](#)) thus ensuring a fully centralized collection of the stated revenues.

The centralized collection of the public revenues through Treasury Account meant overcoming the time discrepancies that existed in the previous period between the moment of payment of public revenues and the moment of their transfer to the Budget account.

With the introduction of this concept, the collection of genuine revenues of the local self-government units became centralized and all their revenues realized on that basis are transferred from the Treasury Account to the accounts of the local self-government units, which, pursuant to the legal regulations, are opened with the commercial banks.

The allocation of the collected genuine revenues per local government unit is made on the basis of the defined criteria for allocation, pursuant to the legal regulations (Law on Limitation of Genuine Revenues for Financing Public Needs – “Official Gazette of RM” No. 96/2004). For more details, see [II V 5](#).

In addition, the stated Law regulates the limitations on the genuine revenues of the local self-government units, i.e. the revenues at disposal of each local self-government unit in the current year. Revenues exceeding these limits are paid onto special account, from which they are allocated to local self-government units, upon decision of the Government of the Republic of Macedonia.

In addition to the own revenues, the Law on Financing the Local Self-Government Units (“Official Gazette of RM” No. 61/2004 and 96/2004) envisages following grants, that are provided from the Budget of the Republic of Macedonia to the municipal budgets:

- revenues from value added tax (general grants),
- block grants,
- earmarked grants,
- capital grants,
- grants for delegated competencies.

The execution of payments from the accounts of the budget beneficiaries to the final beneficiaries is also centralized, and all payments are made through the Single Treasury Accounts, in accordance with the type of expenditure.

The fact that the financial resources of all budget institutions, including the second-line budget beneficiaries are held within the treasury account, rather than on separate accounts with the commercial banks, as well as the fact that the payment operations for the budget institutions are fully performed through the treasury account, confirms that all pre-conditions are successfully met and strengthened control on public expenditures is already exercised.

The central treasury carries out all controls of the budget and treasury operations of all the institutions. This control is performed over all the revenues these institutions realize, regardless of whether they come from the Budget, from self-financing activities, donations, credits, etc.

Thus, higher level of transparency was provided with regard to utilization of all funds of the budget institutions.

The Government of the Republic of Macedonia established a Commission for monitoring of the development of the system of financing the municipalities, with the following competencies:

- monitoring the application of criteria for allocation of grants,
- proposing measures for improvement of the system,
- monitoring the transparency of the procedures, etc.

The Mayor of the municipality submits quarterly reports to the Minister of Finance about the execution of the municipal budget, and annual statement at the end of the fiscal year.

In addition, in cases of borrowing from abroad, the municipality should provide prior consent of the Government of the Republic of Macedonia. The Government can also guarantee for liabilities arising from long-term loans utilized by the municipality.

**9. Extra-budgetary Funds: Please list and provide information on extra-budgetary funds. What is the relationship between the budget and the extra-budgetary funds? Which steps are being taken to integrate the extra-budgetary funds in the government budget? Please describe major activities to improve the management of extra-budgetary funds and, in particular, the Health Insurance Fund.**

At present, there are four extra-budgetary funds in the Republic of Macedonia: Pension and Disability Insurance Fund, Health Insurance Fund, Employment Agency and Regional and National Road Fund. These funds are established as institutions performing activities of public interest and publicly authorised institutions determined by law. The main reason for the existence of the first three extra-budgetary funds is the relationship between the allowances the beneficiaries pay for the services into the accounts of the extra-budgetary funds and the benefits they receive, i.e. clear definition of the social function of the extra-budgetary funds. The reason for the existence of the Regional and National Road Fund is the need to provide funds for construction and maintenance of public roads, since the same could not be ensured under market principles.

In addition to the above-mentioned funds, during the last decade, the Environment Fund, the Agricultural Fund and the Water Fund were established and have been operating for a certain period of time. Since 2004, as a result of implemented reforms, these funds were abolished and their budgets were included in the state budget.

Revenues in the extra-budgetary funds are provided from various sources: contributions, fees, budget transfers (from central and budgets of other extra-budgetary funds), revenues from donations, other revenues pursuant to law, as well as foreign loans (Regional and National Road Fund). The total revenues of the extra-budgetary funds are determined by the economic situation in the country, the defined macroeconomic policy and its priorities, the effective collection of genuine revenues, as well as the obligations arising from the legal regulations in the respective areas. Financing of the extra-budgetary funds with transfers from the central government budget is aimed at covering the legal obligations the state is committed to, including covering of current account deficit, in order to maintain fiscal balance between the revenues they collect and the funds required to cover the obligations fixed by law. The Law on Limitation of Genuine Revenues for Financing Public Needs (adopted as a mandatory document with the annual budget of the Republic of Macedonia) limits the public spending, including the spending by extra-budgetary funds, maintaining it within the available financial possibilities.

### **Pension and Disability Insurance Fund of Macedonia**

Following the independence of the country, in January 1994, the application of new Law on Pension and Disability Insurance ("Official Gazette of RM" No. 80/1993, 3/1994, 14/1995, 71/1996, 32/1997, 49/1997, 24/2000, 96/2000, 50/2001, 85/2003, 50/2004 and 4/2005) began, pursuant to which, the relations with and the rights to pension and disability insurance have been regulated, for the first time, in an autonomous manner for the first time. Pursuant to the Law, pension and disability insurance is mandatory and it covers all employees and individuals performing an economic activity. It is a system with defined pensions paid under the pay-as-you-go principle, according to which current pensions are financed, i.e. provided from the current contributions. The activities related to pension and disability insurance is performed by the Pension and Disability Insurance Fund of Macedonia, established pursuant to the same Law.

In the last ten years, Republic of Macedonia is undergoing a process of social, economic and structural reforms. The unfavourable trends in the economy and the transitional changes towards market economy led to an increase in the number of loss-making enterprises, bankruptcy procedures and redundant workers. These conditions caused a reduction in the number of active insurees on one hand and increase of the number of pension beneficiaries on the other, leading to a decrease in the ratio between the insurees and pension beneficiaries. This is an important factor for maintaining the solvency of the pay-as-you-go pension system, based upon the intergenerational solidarity. In fact, in 1991, the ratio between the number of employees per a pension beneficiary was 3:1, while

the same, at the end of 2003, was only 1,3. Positive effects were achieved with respect to the financial consolidation of the Fund with the implemented parametric reforms of the pension system, i.e. its rationalization, as well as all the other measures undertaken in the period 1993 – 2002.

The number of pension beneficiaries in 1991 amounted to 180.794, while at the end of 2003 - 254.267 beneficiaries, which is an increase of 40,6%. In the last decade, there was a stabilized inflow of new pension beneficiaries, as a result of a series of restrictive measures implemented in the past period, thus the annual rate of increase of 7,5% before 1993, was reduced to around 2%.

Pension and disability insurance contribution rate has not been changed since 1994. The increase from 20% to 21% made in 2001 was only an accounting change as a result of the reduction of the personal income tax, i.e. the gross base and it did not lead to an increase in the contributors' commitments.

The total revenues of the Fund in 2003 amounted to MKD 28.191 million and compared to the total revenues in 1996, they increased by 51,3%. The total expenditures (MKD 27.740 million in 2003) increased by 46,7%, i.e. in the period from 1996 to 2003, a balance was achieved between the total revenues and the total expenditures. The share of the total expenditures of the Fund in the gross domestic product in 2003 amounted 10,9% and it remained almost unchanged compared to 1996.

Most of the revenues of the Fund consist of revenues from the employees' contributions. In absolute figures, these revenues increased from MKD 12.877 million in 1996 to MKD 16.879 million in 2003. However, in relative terms, their share in the total Fund's revenues decreased from 70,3% to 60,9%. This drop is mainly a result of the reduction in the number of employees that pay contributions, the difficult financial situation of the contributors, payment of contributions on (very often) minimum basis, which amounts to 65% of the average salary in the country, as well as lack of discipline in payment of contributions.

The decrease in the share of the contribution from the salaries in the total revenues was offset by increase in the share of the Budget of the Republic of Macedonia in the financing of the pension and disability insurance. In fact, the share of the Budget of the Republic of Macedonia in the total financing of the Fund in 1997 amounted MKD 3.516 million (17,5%), and in 2003, it amounted MKD 7.741 million (27,9%).

Most of the transfers from the Budget to Pension and Disability Insurance Fund (87,8%), are used to cover the expenditures based on *more favourable rights* (veteran pensions, pensions for personnel of Ministry of Interior, military pensions, agricultural pensions, 8% retroactive pension payment pursuant to the Decision by the Constitutional Court of the Republic of Macedonia, pensions under the two laws for early retirement of employees in the public administration). Remaining portion is intended to cover Fund's deficit.

In 2003, Law on Pension and Disability Insurance was modified and amended in the part regarding pension indexation. According to latest amendments, pension indexation is carried out in a combined manner, i.e. taking into account the changes in the consumer price index and the changes in the average net salary paid to all employees in the country. The application of this indexation began as of 01.07.2004 and it has contributed to cut the costs related to the payment of pensions compared to the previous solution for more than 70%.

The budget of the Fund is determined by the Management Board of the Fund, and it is adopted by the Assembly of the Republic of Macedonia, as an integral part of the state Budget.

As a result of the perceived conditions of volatility in the pension system in the long run, legislation on a new three-pillar pension system was adopted, supported by actuarial projections for the future revenues and expenditures, on the basis of the demographic and economic trends. For more detail please see [II VI E 4](#).

### Health Insurance Fund of Macedonia



Pursuant to the Law on Health Insurance ("Official Gazette of RM" No. 25/2000, 34/2000, 96/2000, 50/2001, 11/2002 and 31/2003), mandatory health insurance in the Republic of Macedonia is managed by the **Health Insurance Fund of Macedonia**. Funds to finance mandatory health insurance are provided from the following sources:

- 1) contributions from:
  - gross salaries and compensations of the employees,
  - pensions and pension and disability insurance contributions,
  - income of persons performing independent activity;
  - unemployment benefits and
  - funds from other contributors;
- 2) additional contribution in case of injury at work and occupational disease;
- 3) participation by insurees;
- 4) the Budget of the Republic of Macedonia;
- 5) interest and dividends;
- 6) presents, endowments and
- 7) other revenues.

Contribution rates per categories of insurees are stipulated in the Decree on Rates, Bases and Amount of Contributions for Mandatory Health Insurance ("Official Gazette of RM", No. 4/2001 and 50/2001). Thereby, common rate of 9,2% of the gross salary is applied for employed persons, persons appointed to public functions, individuals performing economic activity, while in the case of people engaged in agriculture, the same rate is applied on the net salary. For pension beneficiaries, the rate is 14,694% of the amount of the pension, while for other categories of beneficiaries, different contribution rates are applied.

The participation of insurees in the price of health services and pharmaceuticals (co-payment) accounts for 3% to 4% of the total financing of the health care in Republic of Macedonia.

With respect to health care, funds are also provided from the Budget for the implementation of special programs for preventive health care, protection against special diseases treated as social problems, health care of uninsured persons and health care for special population groups. The share of these funds in the total revenues of the health care protection is less than 1%.

Revenues in health care also include funds paid by the enterprises and other organisations based on contracts for provision of health services not covered by primary health care to their workers, specific health care of workers working under special conditions, performing strenuous jobs and duties or in the cases when health institutions are requested to offer health care services under favourable conditions for the employees of certain companies.

The health care institutions provide additional revenues directly from the individual uninsured beneficiaries of health services, from insured persons using health care services not included in the basic package of services or when they use higher-standard health services, from contracts with enterprises for the provision of special health services to their employees, as well as other health services not covered by the Fund.

In addition, citizens pay full price for part of health services in the private health institutions. It especially refers to dental health care, as well as part of services in the private polyclinics and specialized private hospitals, that do not have contracts with the Fund. In addition, the patients pay for some health services directly (pharmaceuticals not covered by the health insurance, etc). However, no reliable data on the financial amount the patients pay in this respect is available at present.

Additional revenues in the health institutions are collected from international assistance, donations by humanitarian organisations, donations and contributions by organizations and individuals from the country and abroad. There are no precise data about the amount of these revenues as well.



Total revenues of the Health Insurance Fund in 2003 amounted MKD 14.698 million. Revenues from health insurance contributions from employed persons amounted MKD 8.418 million or 57,27% of the total revenues. Revenues for health insurance of retired persons and unemployed persons (provided as transfers from the Employment Agency and the Pension and Disability Insurance Fund) amounted MKD 5.033 million or 34,2% of the total revenues.

For persons receiving social assistance, health insurance is provided through transfers from the Ministry of Labour and Social Policy. Ministry of Finance provides funds (through transfers) on the basis of mandatory health-related programs. Revenues from co-payment by beneficiaries of health services account for around 4% of the total revenues. The Fund also collects other revenues (from interest, conventions, etc.), which account for less than 1% of the total revenues.

Total expenditures of the Health Insurance Fund in 2003 amounted MKD 14.678 million and were used for the following purposes:

- outpatient costs – primary, specialized and consultative health care (MKD 5.132 million);
- hospital health care (MKD 5.038 million);
- pharmaceuticals covered by the Fund (MKD 1.868 million);
- hospital health care (MKD 150 million);
- treatment abroad (MKD 221 million);
- allowances for sick leaves covered by the Fund (MKD 968 million);
- administration costs (MKD 309 million) and
- other expenditures (MKD 992 million).

### **Regional and National Road Fund**

The main function of the Regional and National Road Fund is the management of public roads, i.e. performing activities related to planning, financing, construction, reconstruction, maintenance and protection of regional and national roads in the Republic of Macedonia. The Road Fund acquired the status of a legal entity pursuant to the Law on Public Roads ("Official Gazette of RM" No. 26/1996, 40/1999, 96/2000, 29/2002 and 68/2004). For the purpose of performing its activities, the Road Fund prepares programs defining its activities related to the development and maintenance of regional and national roads.

The financial resources used for construction, reconstruction, maintenance and protection of public roads are provided from:

1. Transfers from the Budget of the Republic of Macedonia (part of the excise tax for oil derivatives);
2. Fee for utilization of public roads (road fee) for motor vehicles and trailers, paid at registration of the vehicles;
3. Fee for utilization of public roads (road fee) for motor vehicles and trailers, paid by foreign transporters at the border crossings;
4. Toll pay for utilization of motorway or national road;
5. Loans and credits;
6. Other revenues.

The part of excise taxes from oil derivatives, which the Road Fund receives as a transfer from the Budget of the Republic of Macedonia, was genuine revenue of the Road Fund until 01.01.1994 and was paid directly in the account of the Fund. By adopting the Excise Tax Law, all fees and taxes which were a part of the oil retail price, including the road fee, were abolished, and the excise tax was introduced instead. After introducing the excise tax, the road fee, as a part of the excise on oil derivatives, is being transferred through the Budget of the Republic of Macedonia.

Pursuant to the laws, the Road Fund can utilize loans (with state guarantees) to finance road infrastructure.

The Fund allocates its revenues for financing the Program for construction, reconstruction, maintenance and protection of roads, repayment of foreign credits, studies and projects, and a part is allocated for maintenance of local roads and streets.

The total revenues of the Regional and Road Fund in 2003 amounted MKD 3.668 million. Most of these revenues - MKD 1.603 million (43,7%) refer to transfers from the state Budget, followed by the annual fee paid when registering motor vehicles - MKD 797 million (21,7%), pay toll - MKD 728 million (19,8%), foreign credits - MKD 418 million (11,3%), etc.

The total expenditures of MKD 3.661 million were mainly used for: investments - MKD 1.107 million (30,23%), road maintenance - MKD 1.063 million (29%), funds used for local roads - MKD 666 million (18%), etc.

From a dynamic perspective, the total revenues of the Fund increased from MKD 2.660 million in 1998 to MKD 3.668 million in 2003, while the expenditures moved almost in parallel with the revenues, in same amounts. Regarding revenue structure, from 1998 until today, the Budget generated share increased the most, while the share of credits has been declining from 2001 onwards. Regarding expenditure side, investments were stable, with road maintenance as item with highest increase.

Since 2001, the Regional and National Road Fund prepares its own Budget, which is adopted together with the Budget of the Republic of Macedonia, as its integral part. Since 05.07.2004, the Road Fund has transferred its bank account from the commercial banks in the single treasury account.

### **Employment Agency of the Republic of Macedonia**

The Employment Agency of the Republic of Macedonia (former Employment Bureau – renamed in June 2004) is a public institution established pursuant to the Labour Relations Law (“Official Gazette of RM” No. 37/1997, 25/2000, 101/2000, 50/2001, 25/2003, 37/2004 and 4/2005)

This Law regulates issues related to exchange of labour, rights and obligations of employers, unemployed persons and state related to employment and unemployment insurance, as well as other issues referring to employment. Although the primary source for financing the activities of Employment Agency is the contribution for employment, which amounts to 1,6% of the gross salary, the major part of the financing of this institution is provided as a transfer from the Budget.

The Budget of the Employment Agency is adopted by the Assembly of the Republic of Macedonia, as an integral part of the state Budget.

The total revenues of the Employment Agency in 2003 amounted MKD 6.241 million. Revenues from the employment contribution amounted MKD 1.224 million and their share in the structure of total revenues was 19,6%. Transfers from the Budget amounted MKD 5.002 million and they accounted for 80,1% of the total revenues. The total expenditures of the Employment Agency in 2003 amounted MKD 6.214 million. The largest expenditure item of Employment Agency is the payment of unemployment benefit in the amount of MKD 2.377 million or 38,25% of total expenditures, followed by payment of health, pension and disability insurance contributions for the unemployed persons in the amount of about MKD 3.406 million, etc.

By observing the period 1998 - 2003, it can be concluded that annual revenues and expenditures of the Employment Agency increased by almost 50%. With regard to this increase, on the revenue side, the share of subsidies (grants) from the Budget of the Republic of Macedonia is dominant, surging by 53%. On the expenditure side, the increase was highest at the health, pension and disability insurance contributions for the unemployed persons, increasing by 41%.

### **Integration of extra-budgetary funds in the state Budget**

Pursuant to the Budget Law ("Official Gazette of RM" No. 79/1993, 3/1994, 71/1996, 46/2000, 11/2001, 35/2001, 93/2001, 46/2002, 61/2002, 24/2003, 85/2003 and 96/2004), starting from 2001, the Budget of the Republic of Macedonia consists of funds of the budget beneficiaries, as well as the budgets of the Pension and Disability Insurance Fund of Macedonia, the Health Insurance Fund of Macedonia, the Employment Agency of Macedonia and the Regional and National Road Fund. These modifications have led to strengthening of the control and responsibility in the adoption and execution of the budgets of the extra-budgetary funds, so that they are prepared within the deadlines and in accordance with the procedure stipulated by the Budget Law. The same are adopted by the Assembly of the Republic of Macedonia, upon proposal by the Government of the Republic of Macedonia, as an integral part of the state Budget.

Extra-budgetary funds have the status of legal entity, managed by management board and director. Pursuant to the laws under which they are established, the line Ministry performs control over their operations. Also, extra-budgetary funds are obliged, once a year, to submit to the Government of the Republic of Macedonia, a report on their operations. Extra-budgetary funds are subject to audit by the State Audit Office, as well as the Department for Central Internal Audit within the Ministry of Finance. In 2004, separate internal audit services were established within the extra-budgetary funds. Extra-budgetary funds have a monthly obligation to inform the Ministry of Finance regarding the revenue and expenditure performance, arrears, as well as to submit other information upon request by the Ministry.

Until 2004, extra-budgetary funds had separate bank accounts in commercial banks, when they were transferred as sub-accounts into the single treasury account. This also arises from the modifications and amendments to the Budget Law, pursuant to which the accounts of the extra-budgetary funds are kept within the single treasury account (a provision stipulates that this will apply after the migration of these accounts in the ledger by 31.12.2004, at the latest).

Transfer of accounts was carried out with the following agenda:

- in July 2004, the account of the Regional and National Road Fund was transferred,
- in October 2004, the account of the Pension and Disability Insurance Fund was transferred,
- in November 2004, the account of the Health Insurance Fund was transferred,
- at the end of 2004, the account of the Employment Agency was also transferred.

The purpose of transferring the accounts of the extra-budgetary from the commercial banks to the single treasury account is to achieve more efficient public finance management, increase the transparency of the operations, use the extra-budgetary account balances for the purpose of liquidity, improve the process of planning of revenue collection and expenditure performance, reduce the risk of keeping funds on accounts in the banking system etc.

The extra-budgetary funds are obliged to keep the accounting, the business books, to recognize the revenues and expenditures, to process data, to prepare financial reports and resolve other issues in accordance with the Law on Accounting for Budget and Budget Beneficiaries ("Official Gazette of RM" No. 61/2002 and 98/2002).

### **Activities aimed at improvement of management with extra-budgetary fund**

Special activities have been undertaken for improving the management of the **Health Insurance Fund**. Systemic audit of the Fund was carried out by Ernst & Young from Luxembourg (in cooperation with the World Bank). The audit report was adopted by Fund's Management board in October 2004. Based on the recommendations given in the Report, an Action Plan is in a process of preparation (again with the assistance of the foreign auditor), that will include measures for improvement of the procedures in the Fund, the Ministry of Health and other health institutions. Following its preparation, it will be submitted to the Government for adoption.

In addition, since September 2004, the Health Sector Management project commenced, and a Loan Agreement concerning its realization was signed with the World Bank in July 2004. The project will last until June 2009. During the preparatory stage of the project, a social evaluation of the health

sector in the country was carried out, enabling adequate focusing and modelling of the project activities in accordance with the needs of the beneficiaries and the providers of the services. In this context, a Policy Analyses Unit was established within the Ministry of Health, as a pre-condition for project realization. The project is mainly aimed at strengthening the capacity of the Ministry of Health and the Health Insurance Fund, as well as the restructuring of hospital services, emphasizing the daily care and the primary health care.

**The Employment Agency of the Republic of Macedonia** uses funds within the CARDS Program (2002 – EUR 1.5 million and 2003 – EUR 1 million), intended for transformation and capacity strengthening of the Employment Agency and the network of employment offices. The same will be achieved by promotion of the overall restructuring and modernization of the institutional status and the services offered by the Employment Agency, which are to be adjusted to new conditions imposed by the transition from passive into active employment policies.

The restructuring of the Employment Agency includes complete modernization and reorganization of the sector with the aim of active promotion of three types of services:

- Services for intermediation in employment via the operations of the job clubs and the development of functional and harmonized instruments for assistance in integration and re-integration of the unemployed persons (interview and individual action plan);
- Expansion of training and re-qualification and intermediation measures thereof for different types of target groups (including training for self-employment and entrepreneurship and basic training for unemployed persons, laid-off workers and long-term unemployed persons);
- Development of services related to research, statistical monitoring and information support for the active labour market policies.

**10. Tax policy: Which are the authorities of the different government levels to generate revenues? How has the tax regime changed (amendments of tax rates, introduction of new taxes and contributions etc)? (For detailed questions on the tax system see chapter 10 – Taxation)**

### **Government levels generating revenues**

Besides the central government, in accordance with the decentralization principles, local self-government units represent another level of entities with the authority to collect fiscal revenues. With regard to this, the country has undergone a certain development path.

Although the administrative decentralisation in the Republic of Macedonia was carried out in mid-1990s, almost nothing was done in the area of the fiscal decentralisation. Although the municipalities were transferred certain competences, from the point of view of their financing, they were entitled only to the revenues from tax on transfer of real-estate and rights, property tax, property revenue tax and utility fees. In the fiscal environment of the Republic of Macedonia, these items do not represent significant revenue source, due to which local self-government units financing was significantly supported by transfers from the state budget.

Because of that, in addition to the new decentralisation concept, new Law on Financing the Local Self-Government Units was adopted (Official Gazette of RM No. 61/2004 and 96/2004). According to this Law, the municipality is funded from its own revenue sources, grants from the Budget of the Republic of Macedonia, the budgets of the Funds and by borrowing.

In order to achieve a full implementation of fiscal decentralization process, the calculation and collection of property taxes, utility fees and a part of administrative fees will become a competence of the municipal administration that will set the level of tax rates and the amount of fees within the frameworks set by corresponding laws.

### **Evolution of the tax system**

The bases of the public finance system were initially set with the 1991 Law on the System of Financing General Social and Common Needs.

The revenues needed to perform the functions of the state and municipalities were provided from the following sources:

**A. Taxes:** Income tax i.e. profit tax, personal income tax on the employees salaries, tax on revenues from international transport, tax on revenues from lottery prizes, sales tax for commodities and services, tax on revenues from agricultural activity, tax on revenues from copyrights, patents and technical innovations, inheritance and gift tax and tax for preservation of the nature.

**B. Fees:** Administrative fees and court fees.

**C. Other revenues** set under the law.

**D. Customs fees** and other import duties.

The municipality was also entitled to the following revenues: tax on transfer of real estate and rights, property tax, property revenue tax and utility fees.

During 1993, a radical reform was carried out in the tax system in the Republic of Macedonia since the existing tax system was assessed as incompatible with the tax system model of developed countries with market economy, inefficient, unstable and unattractive for foreign investments.

Under the tax system reform, new laws were adopted, such as the Personal Income Tax Law, Profit Tax Law, Law on Property Tax and Law on Excisess and (than existing) Law on Sales Tax for Goods and Services was fully revised.

1. The Personal Income Tax Law ("Official Gazette of RM" No. 80/1993, 70/1994, 71/1996, 28/1997, 8/2001, 50/2001, 2/2002, 44/2002 and 96/2004), replaced the previous taxation system (calculation and payment of tax on each type of revenue) with a single tax paid annually on the total revenues earned by an individual, in the country and abroad, regardless of the source.

The personal income tax was paid at progressive rates of 23%, 27% and 35%, which were reduced in 2001 to 15% and 18%. In 2004, in addition to the existing two, new tax rate of 24% was introduced.

2. The Profit Tax Law ("Official Gazette of RM" No. 80/1993, 33/1995, 43/1995, 71/1996, 5/1997, 28/1998, 11/2001, 2/2002, 44/2002 and 51/2003), defined the taxpayers as all the profit earning legal entities, as well as individuals performing registered economic activity, for the profit earned in the country or abroad. During its application, many amendments and modifications were made, with most significant one in 1997 when tax rate was reduced from 30% to 15%.

These two types of taxes were largely revised in 2001. By redefining them, the profit tax was fully separated from the personal income tax, with clear definition of taxpayers as all legal entities established or seated within the territory of the Republic of Macedonia, on the profit they earn in the country and abroad.

Although the amendments and modifications to these laws provided a harmonisation with tax systems of developed market economies, a commitment remains to follow the modern European legislation and harmonize the legal system of the Republic of Macedonia with the legal system of the European Union in this field.

3. The taxation of sales of goods and services in the Republic of Macedonia, until the introduction of the value added tax, was regulated with the Law on Sales Tax for Goods and Services ("Official Gazette of RM" No. 34/1992, 62/1992, 63/1992, 3/1993, 4/1993, 80/1993, 42/1995, 4/1996, 71/1996, 5/1997, 10/1997, 28/1997, 13/1998 and 39/1999). The sales tax was paid at proportional rates, set

as a percentage on the tax base and in accordance with the sales tax tariff. The sales tax on goods was paid according to three tariff numbers – at a general rate of 25%, preferential 5% tax rate and 0% tax rate, and the tax on services was paid according to one tariff number at a general rate of 13%.

On 01.04.2000, Republic of Macedonia introduced the value added tax (“Official Gazette of RM” No. 44/1999, 59/1999, 86/1999, 11/2000, 8/2001, 31/2001, 21/2003 and 19/2004), thus building a tax structure according to the model of the European law. The Value Added Tax Law is in accordance with the Sixth Directive of the European Union and is compatible with the European model of this law.

The value added tax is calculated by applying the following proportional tax rates - 19% (now 18%) as a general tax rate and 5% preferential tax rate.

4. The excise tax is a special type of tax on sales of goods, collected according to Excise Tax Law (“Official Gazette of RM” No. 32/2001, 50/2001, 52/2001, 45/2002, 95/2002, 98/2002, 24/2003 and 96/2004) on: oil derivatives, processed tobacco products, alcoholic beverages, beer, passenger vehicles and luxury goods. Previously, the excise tax was paid on coffee as well – 70 MKD/kg for raw coffee, 85 MKD/kg for roasted coffee and 90 MKD/kg for grinded coffee and coffee extracts.

The excise ape paid on the sales (import) of goods, according to the following tariff rate list:

- Tariff number 1 – on sales of oil derivates, the rate ranges between 0% and 20%, and between 3,136 MKD/liter and 24,396 MKD/liter.
- Tariff number 2 – on the sales of processed tobacco products on all types of imported: cigarettes, cut hand-rolling tobacco of all types and quality, cigarillos, black cigarettes, pipe tobacco, chewing tobacco and snuff, excise is paid in the amount of 1,350 MKD/kg and on all types of domestic processed tobacco products, at 40% rate. (changed in 2004, see below)
- Tariff number 3 - on sales of alcoholic beverages – 3 MKD % vol. of alcohol per liter and on beer – 15 MKD per liter.
- Tariff number 4 - on sales of passenger vehicles, on the engine volume of up to 2 liters, the rate is 25%, and the rate on vehicles with engine volume above 2 liters is 55%. (changed in 2004, see below)
- Tariff number 5 - sales of luxury goods, the rate ranges between 5% and 50%.

4.1. The Excise Tax Law is harmonised with the EU Directive 92/12/EEC on excise duty, as well as its accompanying structural directives separately for each type of goods subject to excise, particularly mineral oils, tobacco goods and alcohol and alcoholic beverages.

Excise tax rates used for the calculation of excise taxes on mineral oils, alcohol and alcoholic beverages and on tobacco goods are given in Chapter 10 – Taxation.

One of the basic objectives of the future development of the excise policy is equalizing of the excise taxes on domestic and imported tobacco products. In order to avoid the negative consequences for the domestic tobacco industry by radically equalizing the excise duty, the reduction of the excise tax will be done in phases, until its final equalization on 01.01.2007.

With latest amendments to Law on Excises (“Official Gazette of RM” No. 96/2004) excise tax on vehicles was re-introduced. In addition, corrections were made in tobacco products section – see [10 II C 2](#) and [10 II C 3](#).

5. Administrative fees are paid for provision of administrative documents and services in the government administration bodies and other government bodies, as well as in the diplomatic and consular representative offices of Republic of Macedonia abroad. This issue is regulated with Law on Administrative Fees (“Official Gazette of RM” No. 17/1993, 20/1996, 7/1998, 13/2001, 24/2003, 19/2004 and 61/2004). The level of fee by tariff numbers is provided in Administrative Fee Tariff, as an integral part of the Law.

6. The Law on Property Tax ("Official Gazette of RM" No. 61/2004), regulates all property taxes based on property ownership and on the basis of property transfer – sale and purchase, substitution of real estate, inheritance, gift, etc.

The following taxes belong to this category: property tax; inheritance and gift tax and tax on transfer of real estate and rights.

a) The property tax is paid on the basis of ownership of real estate and movable property with a proportional rate of 0,10%.

b) Inheritance and gift tax is paid on inherited real estate and movable property, and property received as a gift, at 3%, i.e. 5% rate.

c) Tax on transfer of real estate and rights is paid on the transfer of real estate and rights on the determined market value of the property and rights at a 3% rate.

7. From the remaining revenues, one should mention the financial transactions tax, which was introduced in 2001 and paid at the rate of 0,5% of the value of all financial payments among the economic and non-economic entities. The purpose of its introduction was to cover a part of the 2001 and 2002 budget deficit. With reduction of need for further large budgetary deficit, determined by the internal crisis in 2001, the obligation for payment of this tax was terminated on 01.01.2003.

**11. Public debt stock: How have the budget deficits been financed since independence (main instruments etc.)? Please provide detailed information on the present stock of public debt (foreign/domestic creditors, currency, instruments, etc.), guarantees and arrears.**

The debt policy of the Republic of Macedonia in the past decade was determined by the situation with the Budget and Balance of payments, arrangements with the international financial institutions, limitations on domestic and international capital market, foreign exchange rate regime, foreign exchange policy, quality of macroeconomic policies, country risk, quality of structural reforms, etc.

Public debt in the period 1990-2004 reveals a trend of continuous growth, both in absolute numbers and relative terms. The level and growth of the debt of the Republic of Macedonia was a result of the following factors:

- assumption of part of the external debt of former SFRY in a process of succession of liabilities without parallel succession of assets;
- issuance of government bonds for rehabilitation of the banking system;
- issuance of government bonds for solving the problem of so-called "old foreign currency deposits" inherited from the SFRY;
- negative external shocks: military actions in the countries of former SFR Yugoslavia (1991-1995), Greek embargo on the Republic of Macedonia (1992-1995) and Kosovo crisis (1999);
- internal security crisis in the Republic of Macedonia (2001);
- financing of budget and balance-of-payment deficits; and
- changes in the level of debt due to the exchange rate differences and the inter-currency relations.<sup>3</sup>

In relative terms, the increase of public debt-to-GDP ratio, beside indicated factors, was also determined by deep recession of national economy, experienced in the period 1991-1995, when GDP, in cumulative terms, declined by over 25%. The period 1996-2000 characterized with positive growth rates. Still, average GDP growth in this period was lower than the level of real interest rates,

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<sup>3</sup> It encompasses the loss of value of MKD in relation to other currencies in the past ten years, including one-off 16% devaluation in 1997.

which, in conditions of persistent budget deficit, results with an additional growth of the debt-to-GDP ratio.<sup>4</sup>

**Table 1: The public debt of Republic of Macedonia per debt category**

		US\$ million				
		1999	2000	2001	2002	2003 30/06/04
Internal debt	<b>1. State securities and credits</b>	<b>80</b>	<b>664</b>	<b>607</b>	<b>647</b>	<b>729</b>
	Long-term loan from the National Bank of the Republic of Macedonia	0,6	0,4	0,3	0,2	0,1
	Stopanska Banka rehabilitation bond	59	50	42	44	45
	Small bond	4	2	0	0	0
	Selective loan bond	17	16	15	17	20
	Stopanska Banka privatization bond	0	112	98	106	115
	Old foreign exchange saving bonds	0	484	452	478	500
	Denationalization bonds (I, II and III issue)	0	0	0	2	49
<b>Total domestic debt</b>		<b>80</b>	<b>664</b>	<b>607</b>	<b>647</b>	<b>729</b>
External debt	<b>2. Public sector</b>	<b>1.295</b>	<b>1.342</b>	<b>1.229</b>	<b>1.321</b>	<b>1.486</b>
	General government	1.029	1.073	1.050	1.135	1.256
	Central government	976	1.024	1.008	1.095	1.215
	Public funds	53	49	42	40	41
	National Bank of the Republic of Macedonia	102	96	71	67	68
	State enterprises	164	173	108	119	162
	<b>3. Private sector</b>	<b>206</b>	<b>205</b>	<b>265</b>	<b>314</b>	<b>339</b>
	Private banks	101	83	87	110	86
	Non-banking private sector	105	122	178	204	240
<b>Total external debt</b>		<b>1.501</b>	<b>1.547</b>	<b>1.494</b>	<b>1.635</b>	<b>1.812</b>
<b>Public debt (1+2)</b>		<b>1.375</b>	<b>2.006</b>	<b>1.836</b>	<b>1.968</b>	<b>2.215</b>
<b>Total debt (1+2+3)</b>		<b>1.581</b>	<b>2.211</b>	<b>2.101</b>	<b>2.282</b>	<b>2.502</b>
Domestic debt as % of GDP		2,2	18,5	17,7	17,2	15,7
External debt of the public sector as % of GDP		35,2	37,4	35,8	35,0	32,1
External debt of the private sector as % of GDP		5,6	5,7	7,7	8,3	7,0
Total external debt as % of GDP		40,9	43,1	43,5	43,4	39,1
Public debt as % of GDP		37,4	55,9	53,4	52,2	47,8
Total debt as % of GDP		43,0	61,6	61,1	60,5	54,8

Source: Ministry of Finance of the Republic of Macedonia

A major part of the debt of Republic of Macedonia is a result of the debt assumed from the former SFR Yugoslavia. By assuming liabilities towards bilateral creditors (the Paris Club), undergoing since 1993 and assumption of part of the debt towards commercial creditors (the London Club) in 1997, the process of regulation of external liabilities is practically over, with Republic of Macedonia having no remaining non-regulated liabilities towards foreign creditors.

The second factor affecting the level of public debt is macroeconomic situation during past decade. It is characterized by successful achievement and maintenance of price stability, but also by existence of budget deficit, particularly high in initial years of economic independence. The budget deficit, as well as the policy of borrowing from abroad in order to increase the level of foreign exchange reserves in conditions of unfavorable trends on the current account of Balance of payments, caused accumulation of significant amount of public debt.<sup>5</sup>

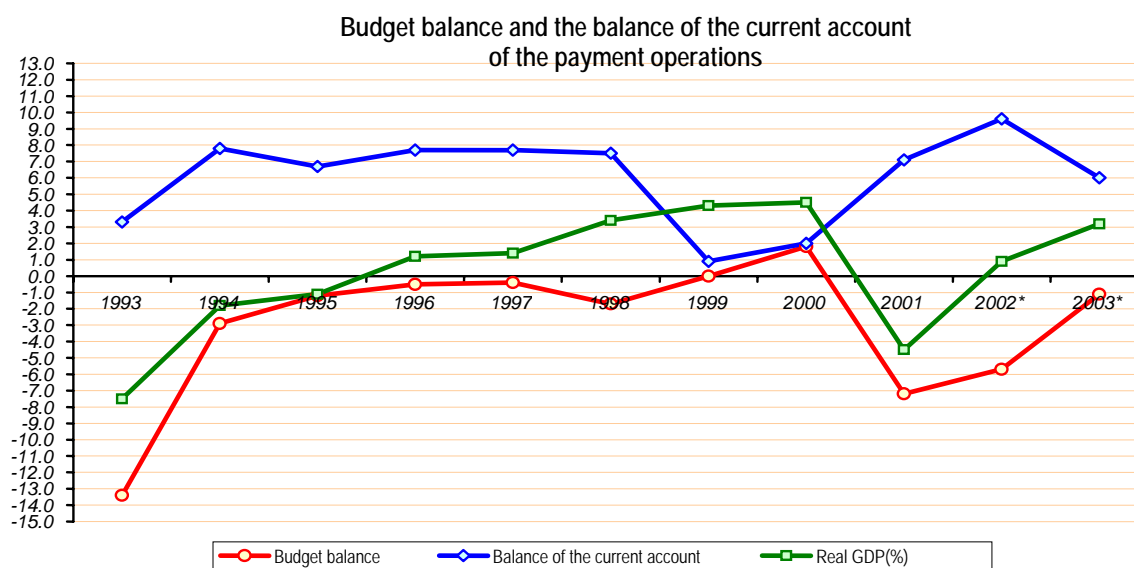
Thus, the current account deficit in the Balance of payments remained at a high level of 7% to almost 8% of GDP throughout the whole transition period. The current account deficit was at a low level only in 1993 – 3,3% of GDP, in 1999 – 0,9% and in 2000 - 2% of GDP.

<sup>4</sup> The year 2000 is an exception to this, having high GDP growth rate of 4,5%, with 1,8% budget surplus and moderate increase of indebtedness.

<sup>5</sup> Additional unfavorable condition was the fact that double deficits were realized in conditions of decline of domestic saving, with the exception of 2000.



The fiscal deficit was soon reduced from its initial level of 13% of GDP (1992-1993), declining within the next five years to an annual level of 0 - 2% of GDP. 2000 and 2001 are an exception from this trend, having opposite figures. Namely, in 2000, the intensification of the tax reforms and implementation of measures to increase savings of the state resulted in achievement of a positive budget balance of 1,8% of GDP. However, the internal conflict in 2001 changed the fiscal position due to, both reduced revenues (as result of declined economic activity) and high costs for financing the defense and security of the country. Because of that, the 2001 budget deficit reached a level of 7% of GDP. At the same time, deteriorated security situation, high budget costs and lack of possibility to respond to obligations towards foreign partners caused surge of Balance of payments' current account deficit again to 7,1% of GDP in 2001, and to 9,6% in 2002. As of 2003, the deficit already dropped to 6% of GDP, with fiscal deficit also reduced to 1% of the GDP due to implemented measures for reviving economic activity in the same year.



## FINANCING OF BUDGET DEFICIT

Although the budget deficits in Republic of Macedonia in the past ten years have not been significant, their financing in different time periods was carried out in several ways.

*Monetization and financial repression* (setting low interest rates of government bonds, high level of bank reserve requirements, ceilings on interest rates etc.), were applied in the initial stages of transition period, until 1995.

Basic and most frequently applied method of financing deficits in recent period was *borrowing from abroad*, which was forced option for Republic of Macedonia, taking into account underdevelopment of domestic financial markets, lack of domestic capital and low Inflow of foreign investments.<sup>6</sup>

*Issuance of government securities* i.e. government bonds, as a form of financing internal debt, was applied in the process of rehabilitation of banking system in 1995 and 2000, as well as in resolution of "old foreign currency deposits" problem in 2000. In 2004, issuance of treasury bills began, as method of financing budget deficits due to substitute foreign borrowing.

*The proceeds from privatization*, although not very high, were, to a certain extent, used for financing the budget deficit. This was especially notable in 2001, as year with the highest budget deficit, when

<sup>6</sup> As an exception, in certain years (1998, 2000 and 2001), there were high inflows of capital as foreign direct investments, as higher-quality form of financing the current account deficit.

revenues from privatization of JSC Macedonian Telecommunications were utilized for the mentioned purpose.

### INTERNAL DEBT

The largest share in the structure of the internal debt of Republic of Macedonia, measured by initial amounts of issued bonds, belongs to debt based on state liabilities on “frozen/old foreign currency deposits” – 60,7%. It is followed by the assumed debt with regard to the privatization of Stopanska Banka – 13,4%, and the debt resulting from rehabilitation (sanation) of Stopanska Banka - 8.3%.

**Table 2: Domestic debt - instruments and issuing conditions**

EUR million									
Purpose for bond issuance	Year of issuance	Amount <sup>7</sup>	Year of payment of the first instalment	Year of payment of the last instalment	Period of repayment in years	Interest rate	Date of payment of the principal	Date of payment of the interest	Outstanding debt balance as of June 30, 2004
Long-term loan from the NBRM	1993	1,07	1994	2004	10	5%	01.01 and 01.07	01.01 and 01.07	-
Stopanska Banka rehabilitation bond	1996	75	1996	2010	15	National Bank discount rate	01.04	monthly	39
Small bond	1996	52	1997	2000	5	no interest	01.01 and 01.07	-	-
Selective loans bond	1996	17,03	-	2020	25	no interest	-	-	20
Old foreign exchange saving bonds	2000	546,5	01.04.2002	01.10.2011	10	2% annually	01.04 and 01.10	01.04 and 01.10	464
Stopanska Banka privatization bond	2001	120,1	31.03.2002	31.12.2014	14	Euribor + 1 percentage point	31.03, 30.06, 30.09 and 31.12	31.03, 30.06, 30.09 and 31.12	109
First issue of denationalization bonds	2002	2,5	01.06.2003	01.06.2012	10	2% annually	01.06	01.06	1,1
Second issue of denationalization bonds	2003	39	01.06.2004	01.06.2013	10	2% annually	01.06	01.06	28,6
Third issue of denationalization bonds	2004	47	01.06.2005	01.06.2014	10	2% annually	01.06	01.06	40,2
<b>TOTAL</b>		<b>900,2</b>							<b>701,9</b>

Source: Ministry of Finance of the Republic of Macedonia

<sup>7</sup> The amounts in which certain instruments of domestic debt were issued in the years prior to the introduction of the euro are expressed using the main exchange rate of the euro quoted by the National Bank of the Republic of Macedonia on 01.01.2002.

During 1992, the state received **long-term loan** in the amount of MKD 64,3 million from National Bank of the Republic of Macedonia with the purpose of regulating liabilities related to reimbursement of “frozen/old foreign currency deposits” to citizens. The loan was approved at a 5% interest rate and 10 years repayment period, commencing on 01.01.1994. The last instalment was paid in January 2004, thus completely settling all liabilities thereof.

The sanation of bank process was carried out by implementing several measures. One of them was removal of amount of foreign currency deposits and foreign exchange accounts of the citizens, guaranteed by the Republic of Macedonia, from banks' balances. The second measure revision of the legal basis of reimbursements on foreign currency deposits that were removed from banks' balances covered with their own funds. In that respect, in order to determine the precise amount of banks' claims from the state, on the basis of remaining foreign currency deposits, kept in banks' balances, Republic of Macedonia issued interest-free bonds (**Small bond**), in the amount of EUR 52 million. The repayment period of the bond was 5 years, but due to early redemption of Small bond, the repayment was fully completed in 2000.

Until 1995, **Stopanska Banka**, as a state-owned bank, dominated the financial market with a market share of about 70%. Still, due to its increasingly poor financial position and low liquidity, it became an obstacle to the development of the banking system. Acknowledging that, the government enforced measures for sanation of Stopanska Banka, both in 1995 and 2000. The first phase was implemented within the process of restructuring of loss-making enterprises, with taking over by state of all non-performing MKD loans of the Bank, amounting to EUR 75 million. Five years later, the government recapitalised Stopanska Banka for the second time before selling it to foreign investors. Eurobonds were issued in exchange for non-performing loans of the Bank from the four largest loss-making enterprises, totalling EUR 120,1 million.

Pursuant to Law on Issuance of Denationalization Bonds by the Republic of Macedonia (“Official Gazette of RM” No. 37/2002), 6 issues of denationalization bonds are envisaged within the next 6 years. Until 30.06.2004, 3 issues of denationalization bonds were completed each based on separate decision by the Government of Republic of Macedonia.

All domestic bonds were issued for the purpose of settling particular state liabilities, i.e. their issuance was conditioned by the need of resolving structural problems. Thus, their features do not match the requirements of potential investors (above all, long maturity periods).

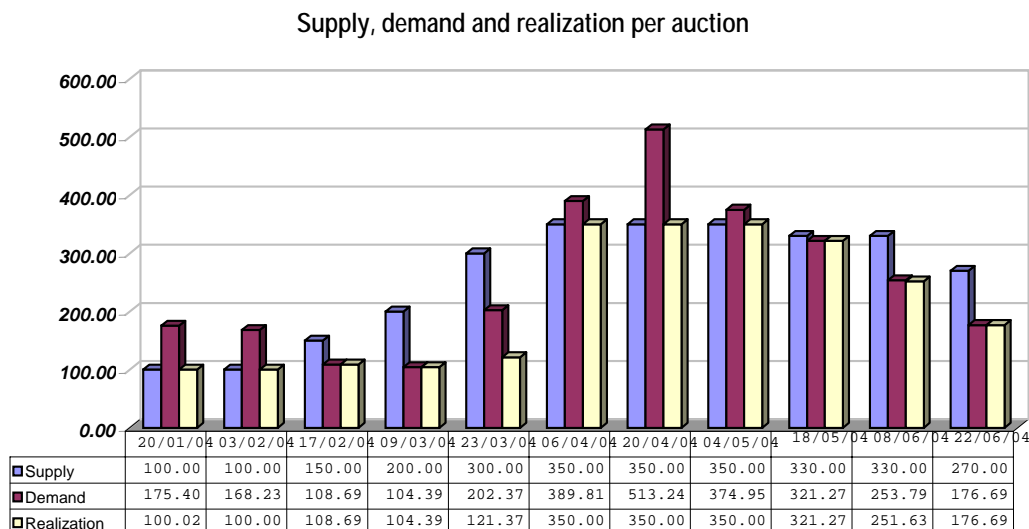
Certain (smaller) portion of these securities is relatively liquid on secondary market (on the Macedonian Stock Exchange) and their trading is stimulated by the Government through granting certain favourable conditions. For example, according to the law, citizens can use bonds issued for repayment (reimbursement) of “old foreign currency deposits”, as well as denationalisation bonds for purchasing and repayment of state property, for redemption of receivables from the Asset Management Agency, for payment of concession fees and lease of state property.

**Treasury bills** – In January 2004, Ministry of Finance, on behalf of Republic of Macedonia and on the basis of decision adopted by the Government (29.12.2003), began with continuous issue of short-term government securities i.e. treasury bills.

The treasury bills are risk-free financial instrument, whose repayment is guaranteed by the state. The National Bank of the Republic of Macedonia acts as an agent of the Government with regard to the issue of treasury bills. The time schedule of issuance of treasury bills is set in the Calendar of Auctions, covering a period of two quarters. The Calendar sets the date of each auction, where the amount of each auction is published in the Treasury Bills Auction Prospectus, 4 working days prior to auction. The Calendar and Prospectus are published on the website of the Ministry of Finance.

The treasury bills are sold via an auction, where direct participants are banks settled in the Republic of Macedonia. Other interested parties indirectly participate in the auction, submitting bids via banks.

The following chart provides a comparison of the supply, demand and the turnover at each auction of treasury bills, held by June 2004.

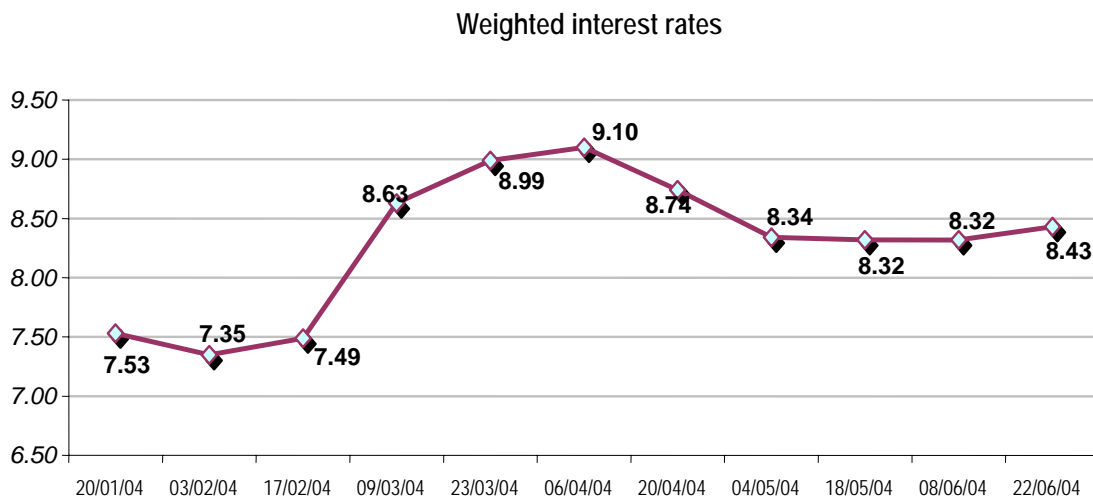


\*English Number format is used for this chart

Source: Ministry of Finance of the Republic of Macedonia

The nominal value of one Treasury bill is MKD 10.000,00. The maturity period of the treasury bills is three months. The treasury bills are issued and paid-off at nominal, and paid-in at discounted value. All domestic and foreign individuals and legal entities are allowed to buy treasury bills. As of 30.06.2004, the ownership structure of treasury bills was the following: - 49% are owned by banks and 51% are owned by their clients (legal entities and individuals).

The interest rate on the treasury bills is determined on the market, depending on inter-relation between supply and demand. The interest rate achieved on the auctions held so far, indicates that treasury bills, besides being risk-free, are also very attractive financial instruments from the perspective of the yield they bring for a period of three months.



Source: Ministry of Finance of the Republic of Macedonia

Achieved success with the issues of three-months treasury bills, as well as the big interest of investors for this type of risk-free financial instruments, with payment (reimbursement) guaranteed by the Government, determines soon introduction of six-month and one-year treasury bills.

**Guarantees towards domestic creditors** – The issuance of guarantees is regulated by the Budget Law. The Rulebook on the Method and Procedure for Issuance of Guarantees, adopted by the Minister of Finance, stipulates in more detail the method and procedure for issuance of guarantees for liabilities of state-owned enterprises and companies with dominant state capital based on loans taken in the country or abroad.

In accordance with the Budget Law ("Official Gazette of RM" No. 79/1993, 3/1994, 71/1996, 46/2000, 11/2001, 93/2001, 46/2002, 24/2003, 85/2003 and 96/2004), the Government of the Republic of Macedonia, in the past years, issued guarantees in favour of the legal entities, mainly tobacco companies (in 2000), that used credits from domestic commercial banks.

The total claims by the state on the basis of realized guarantees towards domestic creditors amount MKD 913.392.791,50. With the aim of their collection, a court procedure was initiated against each of the debtors i.e. the claims were registered in the bankruptcy proceedings of the debtor-enterprises.

There is a commitment to avoid future issuing of guarantees in favour of legal entities for the utilization of domestic loans, with borrowers using other instruments to secure their loans (for example: mortgage, collateral, drafts, etc.).

### Domestic debt servicing

In the period 01.01.2001 - 30.06.2004, funds in the amount of MKD 12.519 million were paid from the Budget as repayment of liabilities related to **internal debt resulting from issued government bonds**. Of this amount, MKD 8.870,3 million was repayment of principal and MKD 3.648,9 million was payment of interest. Table 3 shows annual dynamics of servicing of domestic debt resulting from the issued government bonds.

**Table 3: Dynamics of repayment of the internal debt in the period 2001-2004**

US\$ million

Internal debt	2001		2002		2003		Until June 30, 2004		total	
	principal	interest	Principal	interest	principal	interest	principal	interest	principal	interest
Big bond	0,0	257,9	325,6	277,0	325,6	180,1	325,6	68,6	976,9	783,5
New bond	0,0	340,5	523,5	293,7	525,6	211,0	263,1	87,6	1.312,2	932,8
Old foreign exchange	0,0	468,8	1.627,7	606,4	3.141,9	549,8	1.566,4	250,6	6.336,0	1.875,7

saving bond											
Denationalisation bond	0,0	0,0	0,0	0,0	9,6	1,8	209,4	41,7	219,0	43,5	
Treasury bills	0,0	0,0	0,0	0,0	0,0	0,0	0,0	10,6	0,0	10,6	
Long-term loan from the National Bank	7,0	1,2	7,4	0,9	7,8	0,5	4,0	0,1	26,2	2,7	
<b>TOTAL</b>	<b>7,0</b>	<b>1.068,4</b>	<b>2.484,2</b>	<b>1.178,0</b>	<b>4.010,5</b>	<b>943,3</b>	<b>2.368,5</b>	<b>459,2</b>	<b>8.870,3</b>	<b>3.648,9</b>	

Source: Ministry of Finance of the Republic of Macedonia

The funds for settlement of liabilities resulting on issued government bonds are provided mainly from the Budget of the Republic of Macedonia, and partly from the privatisation of the enterprises with socially (state) - owned capital.

The Assembly of the Republic of Macedonia, upon proposal by the Government, adopts Annual Programme for utilization of proceeds from the privatization of enterprises with socially (state) - owned capital. The 2001, 2002, 2003, and 2004 Programmes envisaged utilization of part of planned privatization proceeds for repayment of debt deriving from "old foreign currency deposits" bonds. The allocated amounts for this purpose, per year, were: MKD 840.000.000 (2001); MKD 488.097.122,5 (2002) and MKD 827.000.000 (2003).

2004 Program envisaged privatisation proceeds in the amount of MKD 300 million. As of 30.06, a total of MKD 20 million were paid in the Budget on this basis. Table 4 presents the amortisation (repayment) schedule for internal debt from issued government bonds until final maturity.

**Table 4: Repayment schedule for the internal debt liabilities**

EUR million

Purpose of issuance of the bonds	Amount	Balance of debt as of 30.06.2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Stopanska Banka rehabilitation bond	75	39	7,04	6,74	6,44	6,09	5,76	5,42	0,00	0,00	0,00	0,00
Selective credit bond	17,03	20	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Old foreign exchange saving bonds	546,5	464	57,90	56,90	55,90	54,90	53,90	52,80	51,86	0,00	0,00	0,00
Stopanska Banka privatisation bond	120,1	109	12,10	11,70	11,40	11,00	10,60	10,20	9,90	9,50	9,10	8,70
First issue of denationalization bonds	2,5	1,1	0,15	0,14	0,14	0,14	0,14	0,14	0,14	0,13	0,00	0,00
Second issue of denationalization bonds	39	28,6	3,79	3,72	3,65	3,59	3,52	3,46	3,39	3,33	3,26	0,00
Third issue of denationalization bonds	47	40,2	4,45	4,37	4,30	4,22	4,15	4,07	4,00	3,93	3,85	3,77
<b>TOTAL</b>	<b>847,13</b>	<b>701,9</b>	<b>85,43</b>	<b>83,57</b>	<b>81,83</b>	<b>79,94</b>	<b>78,07</b>	<b>76,09</b>	<b>69,29</b>	<b>16,89</b>	<b>16,21</b>	<b>12,47</b>

Source: Ministry of Finance of the Republic of Macedonia

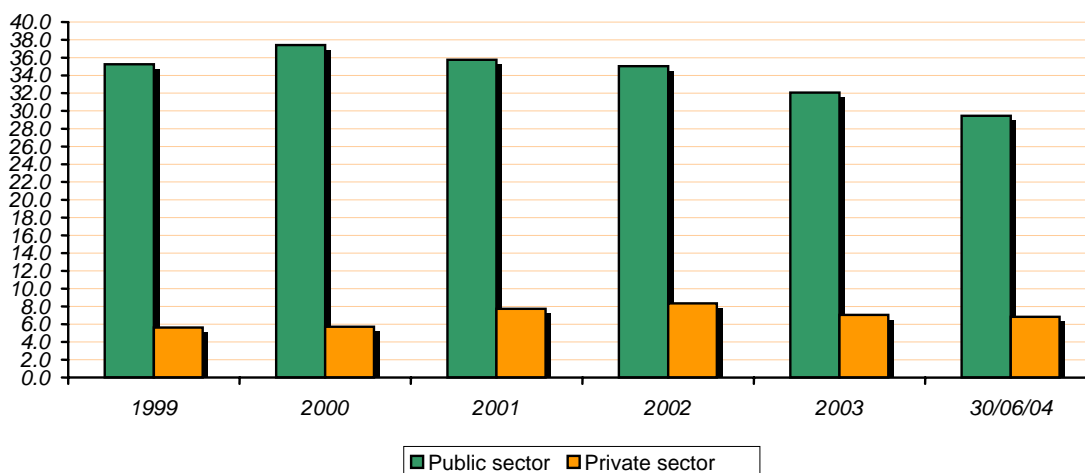
With regard to the **internal debt from issued treasury bills**, as of 30.06.2004, treasury bills were issued in the total nominal amount of MKD 2.334.060.000. By June 2004, upon maturity, a total amount of MKD 534.470.000 was repaid, with MKD 523.832.246 as principal and MKD 10.637.754 as interest. As of 30.06.2004, the outstanding balance of debt from issued treasury bills was MKD 1.799.590.000, with MKD 1.761.380.779 as principal and MKD 38.209.221 as interest. The interest amount, as net Budget expenditure, is projected during its preparation. In 2004 Budget, amount of MKD 120 million was allocated as interest on treasury bills.

The **contingent internal debt on the basis of issued guarantees towards domestic creditors** as of 30.06.2004 amounts MKD 70 million and it refers to only one guarantee issued to a domestic commercial bank in favour of tobacco company. Every year, an amount of funds deemed necessary for covering the risks of calling-up guarantees towards domestic creditors is also allocated in the Budget. Amount of MKD 130 million was allocated for this purpose in the 2004 Budget.

## EXTERNAL DEBT

The total external debt of the Republic of Macedonia is consolidated debt of the public sector (central government, Funds, public enterprises and central bank) and of the private sector (banks and non-banking private sector) towards abroad. As of 30.06.2004, it amounts to US\$ 1.801 million or 36,5% of the projected 2004 GDP (see table 1).

External debt of the public and the private sector as % of GDP



The total external debt of the Republic of Macedonia comprises of liabilities of its residents upon concluded long-term and short-term credit arrangements with multilateral, bilateral and private creditors.

Table 5: External debt by maturity and creditors, 1999 – 30.06.2004

(US\$ million)	1999	2000	2001	2002	2003	30.06.2004
<b>Long-term debt</b>	1.447	1.495	1.429	1.571	1.771	1.763
Multilateral creditors	702	720	689	757	921	941
IMF	102	82	71	67	68	55
IBRD	116	123	124	145	181	193
IDA	222	250	255	296	358	363
IFC	57	57	33	18	17	15
EIB	68	69	75	102	116	120
EBRD	72	74	62	32	34	51
EUROFIMA	17	17	14	12	8	7
CEDB	5	7	6	14	17	17
EU	41	37	44	65	112	110
IFAD	2	3	4	5	7	9
EAR	0	1	1	1	2	1
Bilateral creditors	320	332	284	277	273	248
Private creditors	425	443	456	537	577	573
London Club	245	253	262	254	243	238
Other	180	191	194	283	334	335
<b>Short-term debt</b>	55	53	65	64	42	38
<b>Total external debt</b>	<b>1.502</b>	<b>1.548</b>	<b>1.494</b>	<b>1.635</b>	<b>1.813</b>	<b>1.801</b>
Long-term debt – structure per type of creditor – in percentage						
Multilateral creditors	48,5	48,1	48,2	48,2	52,0	53,4
Bilateral creditors	22,1	22,2	19,9	17,6	15,4	14,1
Commercial creditors	29,4	29,7	31,9	34,2	32,6	32,5

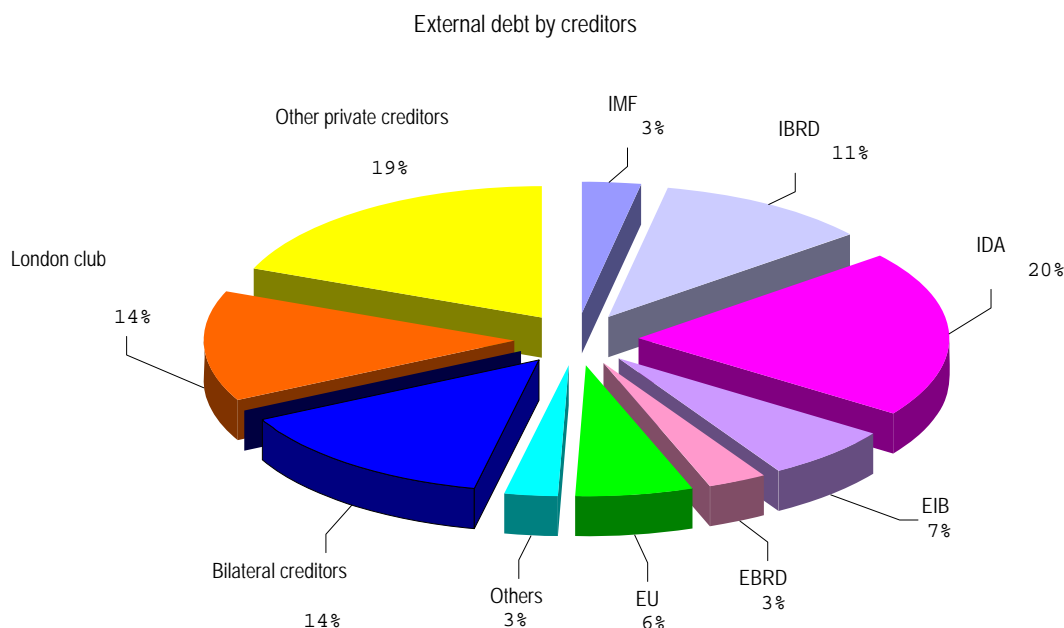
Source: National Bank of the Republic of Macedonia

In terms of maturity, as of 30.06.2004, the long-term debt prevails in the structure of the external debt with a 98% share. The short-term external debt has insignificant share of 2% in the total external debt and as a whole, it constitutes a debt of the private sector in the economy, i.e., the debt of the private

commercial banks and enterprises, since the public sector does not have short-term debt towards non-residents.

By creditors, most of the long-term debt of the Republic of Macedonia towards abroad consists of liabilities towards multilateral creditors (51,9% as of 30.06.2004) and towards bilateral creditors (13,7%), while liabilities towards private (commercial) creditors of 32,4% of total long-term external debt.

By multilateral creditors, the liabilities towards the International Development Association - IDA, the International Bank for Reconstruction and Development – IBRD, the European Investment Bank – EIB, the European Union, the European Bank for Reconstruction and Development – EBRD and the International Monetary Fund – IMF prevail.



The large share of multilateral creditors can be explained through an analysis of the public sector debt by purpose of borrowing. As of 30.06.2004, the public sector debt largely resulted from credits and loans used to support the balance of payments and the structural reforms – US\$ 604,91 million or 41,4%; loans and credits used for infrastructure projects create a public sector debt in the amount of US\$ 331,65 million or 22,7%; the share of loans and credits used for promotion of economic development is US\$ 97,45 million or 6,67%; debt upon borrowings intended for public consumption amounts US\$ 11,24 million or 0,77% of the public debt; the remaining debt arises from rescheduled liabilities of Republic of Macedonia towards Paris Club of Creditors (bilateral creditors) and London Club of Creditors (private or commercial creditors), in the amount of US\$ 415,97 million or 28,47%.

With regard to Paris Club of Creditors, Republic of Macedonia assumed debt in the total amount of US\$ 396,88 million, with US\$ 324,5 million (as of 02.12.1982) rescheduled in 1995. Thereby, the arrears incurred before this date, were rescheduled to 15,5 years, with four-year grace period. The debt incurred after 02.12.1982 was rescheduled with 6,5 years repayment period. The remaining debt in the amount of US\$ 72,38 million was not covered by the rescheduling, i.e. it was agreed to be repaid under the existing conditions. In 1999, due to the influence of the Kosovo crisis on national economy, the Paris Club of Creditors accepted a moratorium of the liabilities that fell due within the period 31.03.1999 – 31.03. 2000.

In 1997, an agreement was reached with the London Club of Creditors for payment of assumed debt in the amount of US\$ 228,73 million to be made during 15 years with 4-year grace period. For this purpose, Republic of Macedonia issued a C-bond, denominated in US\$ and listed on the Luxembourg Stock Exchange. The nominal value of the principal is in the amount of US\$ 228.727.000, issued with no interest coupon. The payments are made semi-annually. The instalments for repayment of the principal progressively increase. The percentage of repayment is



precisely determined with the instalments repayment schedule, defined by a law. According to the plan, the repayment of the principal will be carried out in a period of 11 years i.e. in 22 semi-annual instalments, with following progressive repayment rate: 1-2 instalment 1,50%, 3-8 instalment 2%, 9-12 instalment 3%, 13-14 instalment 4,5%, 15-18 instalment 7%, 19-22 instalment 9%. The last instalment of the bond falls due on 02.07.2012. The difference between the interest rate calculated on the total debt (LIBOR, increased by 13/16 on an annual level) and the Interest rates in the grace period (3,5% for 1998 - 2000 and 3,5% for 2000 - 2002), was capitalised and the principal of the debt is increased by that amount. After capitalization of the interest in the period 1998-2000, the nominal value of the bonds reached amount of US\$ 261,62 million, whereby initial nominal value of US\$ 228,73 million (at moment of issuance) increased by US\$ 32,89 million. The first repayment of principal was made in January 2002, ever since liabilities are serviced on regular basis.

**Table 6: Currency structure of the external debt 1999 – 30.06. 2004**

% of total debt	1999	2000	2001	2002	2003	30.06.2004
Total external debt	100,0	100,0	100,0	100,0	100,0	100,0
US\$	48,0	49,1	48,3	41,3	35,7	34,5
SDR	21,7	22,6	22,7	22,8	24,2	24,1
EUR	6,7	11,9	17,1	33,6	38,7	39,3
Other	23,6	16,4	11,9	2,2	1,4	2,1
DEM	16,4	10,8	7,3	0,0	0,0	0,0
CHF	2,3	2,2	1,8	1,6	1,0	1,7
GBP	0,3	0,3	0,3	0,1	0,1	0,1
JPS	0,5	0,5	0,4	0,4	0,2	0,2
Other	4,1	2,7	2,1	0,2	0,1	0,1

Source: National Bank of the Republic of Macedonia

By currencies of borrowing, three can be distinguished as being most significant in the external debt, with EUR at 39,3%, USD at 34,5% and Special Drawing Rights (SDR) at 24,1%. The share of other currencies is minor. This situation determined increase of the external debt in 2002 and 2003, on the basis of positive exchange rate differences as result of inter-currency exchange rate variations of US\$ in relation to value of other currencies in which debt is denominated.

**Box 1**

For 2003, under the IBRD methodology, following indicators of the level of indebtedness of the Republic of Macedonia were determined:

- the total external debt in relation to the average GDP in the last three years is 45,8%, and under this criterion, Republic of Macedonia falls within the group of moderately indebted countries;
- the total external debt in relation to the average annual amount of export of goods and services in the last three years is 122,18%, and under this criterion, Republic of Macedonia falls within the group of less indebted countries;
- the total servicing of the debt in relation to the average annual export of goods and services in the last three years is 16,12%, and under this criterion, Republic of Macedonia falls within the group of less indebted countries; and
- the total repayment of interest in relation to the average export of goods and services in the last three years is 3,55%, and under this criterion, Republic of Macedonia falls within the group of less indebted countries.

In 2003, on the basis of the determined indicators, it could be concluded that the Republic of Macedonia joins the group of less indebted countries with medium income, with three out of four indicators classify it within this category.

**Servicing of the external debt**

The resources for servicing the liabilities upon external debt – the central government debt, are provided from the Budget of the Republic of Macedonia, largely via foreign credits and donations intended for macro-financial assistance. As for domestic sources, fiscal revenues in Budget of the Republic of Macedonia, as well as privatisation proceeds (allocated in the Annual Plan for this purpose) should be mentioned. Resources for repayment of liabilities are precisely stated on the expenditure side of the Budget.

In the next period, Government plans to raise necessary funds by issuing bonds with maturities longer than 2, but shorter than 10 years. These binds will, initially, be issued only on the domestic market (second half of 2005). After 2006, if proven necessary, the Government will begin preparations for issuance of long-term bonds on international market.

**Table 7: Plan of repayment of principal of the external debt per debtor**

(US\$ million)	As of 30.06.2004	By end- 2004	2005	2006	2007	2008	2009	2010	Remaining years
Total external debt	1.801	102	141	129	138	139	155	138	787
Public sector	1.461	43	81	93	100	112	125	125	781
General government	1.248	32	65	64	66	83	106	108	724
Central government	1.208	30	60	60	61	77	103	105	713
Public Funds	40	2	4	5	5	6	4	3	12
National Bank	55	8	10	10	16	9	1	1	0
Public enterprises	158	3	7	19	18	19	18	17	57
Public sector	340	59	59	36	38	27	30	13	5
Private banks	64	11	16	9	5	8	5	0	0
Non-banking private sector	276	48	43	27	33	19	26	13	5

Source: National Bank of the Republic of Macedonia

## Guarantees to foreign creditors

The situation in terms of the publicly guaranteed external debt is presented in Table 8.

**Table 8: Debt of public enterprises, Funds and private debt – publicly guaranteed**

	Debtor	Debt as of 30.06. 2004		
		Principal	Interest	Total
I	<b>Debt of public enterprises – publicly guaranteed</b>	<b>142.833.336</b>	<b>0</b>	<b>142.833.336</b>
1	ESM – Project for the energy sector	9.138.415	0	9.138.415
2	ESM – Project Kozjak	3.507.662	0	3.507.662
3	ESM - Project Kozjak	23.450.003	0	23.450.003
4	ESM - Project Kozjak	59.885.372	0	59.885.372
5	ESM – Energy System Improvement Project	30.236.538	0	30.236.538
6	Central registry - Loan for procurement of equipment	1.177.585	0	1.177.585
7	Central registry - Loan for procurement of equipment	523.531	0	523.531
8	MBDP - Loan for small and medium-size enterprises (EUR 15 million)	13.771.037	0	13.771.037
9	Komunalec Kavadarci – Loan for small hydro power plants	1.036.352	0	1.036.352
10	Standard Debar - Loan for small hydro power plants	106.841	0	106.841
I	<b>Debt of public Funds - publicly guaranteed</b>	<b>0</b>	<b>0</b>	<b>0</b>
I	<b>Private debt – publicly guaranteed</b>	<b>3.939.994</b>	<b>4.048.149</b>	<b>7.988.143</b>
I				
1	Central depository - Loan for procurement of equipment	1.007.513	0	1.007.513
2	API loans	2.689.530	3.712.767	6.402.297
3	API loans	242.951	335.382	578.333

Source: National Bank of the Republic of Macedonia

In the practice, main debtors have regularly serviced their liabilities towards foreign creditors, providing for no liabilities for the state incurred for payment based on issued guarantees. This practice is expected to continue in the future.

The Government of Republic of Macedonia established a trend of regular and timely servicing of debt liabilities, both domestic and external. This trend will continue in the future, even more since this commitment is one of the most important criteria incorporated in the economic programs supported by arrangements with the International Monetary Fund.

### 12. Price regime: How has the price regime been liberalised over time and in what sectors are prices still administered or regulated? Please indicate the broad categories of prices which are administered/regulated and the share of administered/regulated prices in total.

The prices of goods and services in the economy of the Republic of Macedonia are created freely, according to the market conditions. Only in certain activities where no competitive market conditions exist and in order to prevent monopolistic behavior, prices are being kept under administrative control by applying the measure of determining the highest prices of certain products and services.

Pursuant to the Decision for determining the highest prices of certain products and services enacted by the Government of the Republic of Macedonia in 2004 ("Official Gazette of RM No. 65/2004), the following prices are administratively controlled: prices in the production of water for supply to the population and the economy, production and distribution of potable water, wastewater treatment and draining (except for collectors), sanitation maintenance in the city and residential areas (waste removal and deposition), funeral services and services for obligatory insurance of motor vehicles.

With the enactment of the Law of Energy ("Official Gazette of RM" No. 47/1997, 18/1999, 40/1999, 98/2000, 94/2002 and 38/2003) and Telecommunications Law ("Official Gazette of RM" No. 33/1996,

17/1998, 28/2000, 04/2002, 37/2004), and other regulations, as well as with the start of the work of the Energy Regulatory Commission of the Republic of Macedonia at the beginning of 2004, the prices of certain products and services in these activities are no longer under administrative control, but are subject to regulation by the Energy Regulatory Commission, i.e. the Telecommunication Authority.

The Energy Regulatory Commission, pursuant to the Energy Law performs several tasks including the enactment of the Methodology for determining the price of certain energy types and the enactment of decisions for the price levels of certain energy types in accordance to the Methodology, while the Telecommunication Authority determines the public telecommunication services which prices are regulated pursuant to the provisions of the Telecommunication Law.

The prices of products and services of certain activities in the field of transport (postal services, railroad transport, airport services), as well as in the activity of growing and exploitation of forests are created by the Management Boards of those enterprises, where pursuant to Article 11 of the Public Enterprises Law ("Official Gazette of RM" No. 38/1996, 9/1997, 6/2002, 6/2003 and 40/2003) they are obliged to ask for a consent for the Prices Act from the Government.

With the enacted Law on Trade in 2004 ("Official Gazette of RM" No. 16/2004), as well as with the enactment of further legal and other regulations, conditions have been created and would continue to be created in the direction of further price liberalisation.

In the process of transition to a market economy, the total share of retail prices under administrative control has been gradually reduced, so that the share of prices with defined maximum levels was reduced from 20% in 1992 to about 11% on average in the period 2001-2003.

In 2004 with the start of the work of the Energy Regulatory Commission in the field of price regulation, and the transfer of the prices of certain energy types under the competencies of the Energy Regulatory Commission, the total percentage of prices under administrative control has been significantly reduced and is about 2%.

### **13. Labour Market (see also chapter 13 – Social Policy and Employment):**

**a) Unemployment: How has unemployment developed over time and sectors? What are the main causes of unemployment?**

**b) Employment: How is the division of employment between the public, the privatised and the private sector? What have been the main sectors of job creation? How do you assess the relationship between economic growth and employment?**

**c) Describe the government policy concerning the labour market. What are the main steps taken/to be taken to improve the unemployment situation and/or the mismatch between labour supply and demand?**

**a)**

The process of economic transition in the Republic of Macedonia was carried out in especially unfavourable economic environment characterised by loss of the traditional markets, trade blockades and closed borders towards the neighbouring countries, as well as instability throughout the whole region. All this, supplemented with the necessary restructuring of the economy, resulted in decline in the number of employed and low capacity for absorption of the inflow of new workforce on the labour market.

In addition to the effect of the significant decline in the economic activity and the very low level of investment, one must emphasize the fact that the high unemployment rate in the Republic of Macedonia dates even from the pre-transition period, when open unemployment also existed. Namely, the registered unemployment in the Republic of Macedonia has been rising since the early 1960s, stabilising at around 25% at the period of gaining independence and with a more significant intensification of unemployment rise in the mid-1990s.

Hence, one can conclude that the unemployment in the Republic of Macedonia is not due primarily and exclusively to the restructuring of the economy in the period of transition and the reduced economic activity, but, above all, it is a result of the long-term insufficient demand for labour force.

It is also important to mention that a part of the rise in the registered unemployment in the country is also due to the fact that the unemployed persons provide their health insurance via the public employment services. That led to the situation where numerous unemployed persons register themselves as unemployed in order to acquire the right to a health insurance, although they do not fulfil the criteria to be treated as unemployed, i.e. they do not actively seek jobs or are already employed in the informal sector.

As of 1996, the State Statistics Office began conducting Labour Force Surveys (LFS), in order to provide additional data and information on the labour market and on the situation regarding employment and unemployment in the country.

The 2003 data from the Labour Force Survey (LFS) showed an unemployment rate of 36,7%, indicating a significant increase in relation to previous years, when this figure was around 32%. In 2003, the Labour Force Survey showed that 30,000 persons lost their jobs in the previous year. Several reasons are clear, whereby the lay-offs due to restructuring are the main reasons for the rise in unemployment<sup>8</sup>. There is no major difference between the unemployment rates among men and women, although the unemployment among women previously showed a declining trend. Unemployment is even higher among younger age groups and the less educated persons.

The labour force and unemployment data are given in Table 1.

**Table 1. Key labour market indicators**

Description	1996	2002	2003
Share of the labour force at 15-65 years of age	60,6	59,8	61,3
Share of the labour force (15+) (%)	54,9	52,6	54,5
Share of the female labour force (15+) (%)	42,9	41,5	43,4
Employment rate (%)	37,4	35,8	34,5
Employment rate, women (%)	27,4	28,1	27,7
Unemployment rate (%)	31,9	31,9	36,7
Unemployment rate, women (%)	36,2	32,3	36,3
Share of the long-term unemployment in the total unemployment (> 1 year)	80,7	84,6	85,1
Unemployed, primary education or less (%)	38,7	38,5	
Employment in the agriculture (% of the total employment)	18,6	24,0	22,0
Employment in the industry (% of the total employment)	37,8	33,4	33,9
Employment in the service sector (% of the total employment)	43,6	42,3	44,1
Employees (% of the total employment)	78,9	70,7	72,7
Employers (% of the total employment)	2,9	6,8	7,6
Self-employed (% of the total employment)	11,2	10,3	8,2
Unpaid family workers (% of the total employment)	7,0	12,2	11,4
Non-agricultural registered employment/employment according to LFS (%)	79,3	68,0	66,1

Source: State Statistics Office, LFS 1996, 2002, 2003

According to LFS data, the share of persons being unemployed longer than one year is 85% of the total number of unemployed in 2003. Similar data were obtained on the basis of the figures from the

<sup>8</sup> The aforementioned reasons include the following: loss of jobs due to liquidation of companies and completion of temporary/seasonal work.

Employment Bureau. In the period before April 2003, 70% of the registered unemployed persons were registered as unemployed longer than 2 years. Only a small portion of these unemployed persons was a result of the (mass) lay-offs or the structural reforms. If we consider the unemployed people registered only for the purpose of obtaining a health insurance, the share of this group was 19% in May 2003 (opposite to 16% in January 2000).

There is a clear difference between the officially registered employment and the employment recorded in various labour force research efforts. Besides the administrative and methodological reasons, this major difference reflects the employment of workers not registered by their employers or workers in unregistered firms (informal sector). These differences are especially large in agriculture, trade, tourism and private services.

## b)

According to the Labour Force Survey, in 2002, around 47,6% of the employed persons worked in the government sector, while 52,4% of the employed persons worked in the private sector (Table 2).

In the period between 1998 and 2002, the employment in the public sector significantly decreased, while the employment in the private sector increased. Employment in the private sector comprised approximately half of the employed, one quarter of the employers and another quarter of the unpaid family workers.

**Table 2. Employment in the public and private sector by gender, 1998-2002 (%)**

Description	1998	1999	2000	2001	2002
Public, mixed, social, collective	62,7	58,4	56,1	49,1	47,6
Private	37,3	41,6	43,9	50,9	52,4
Total	100,0	100,0	100,0	100,0	100,0
<b>Men:</b>					
Public, mixed, social, collective	62,2	58,4	56,6	51,2	48,4
Private	37,8	41,6	43,4	48,8	51,6
Men, total:	100,0	100,0	100,0	100,0	100,0
<b>Women:</b>					
Public, mixed, social, collective	63,5	58,4	55,2	46,0	46,4
Private	36,5	41,6	44,8	54,0	53,6
Women, total:	100,0	100,0	100,0	100,0	100,0

Source: State Statistics Office

The rise in employment in the private sector (by 15,1% in the period between 1998 and 2002) is almost equally distributed between men and women. Actually, the share of female workers in the private sector employment rises faster than the share of the male workers, implying that there is a higher probability for women to find a job in the private sector, such as the ones falling within younger age groups.

Employment is characterised by a high share of the processing industry (24,1% in 2003) and a relatively low share of services (44,16%)<sup>2</sup>. Significant trend in recent years is the decline of the share of agriculture in the total employment (22,0% in 2003).

Table 3. Employed per sector (2001-2003)

Activity	2001	2002	2003
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
Agriculture, hunting and forestry	24,9	23,8	22,0
Fishery	0,1	0,1	0,0
Ore and rock excavation	1,6	1,2	0,5
Processing industry	24,9	23,6	24,1
Electricity, gas and water supply	2,8	2,6	2,8

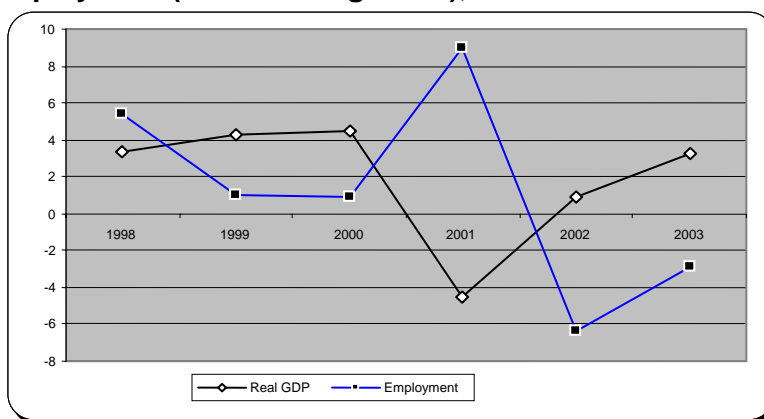
<sup>2</sup> Trade, tourism, transport, financial sectors, personal services, education, healthcare, administration.

Civil engineering	5,9	5,8	6,6
Wholesale and retail trade, reparation of motor vehicles, motorcycles and items for personal and household usage	11,1	11,5	11,5
Hotels and restaurants	2,1	2,0	2,3
Transport, warehousing and communications	5,5	5,8	5,6
Financial intermediation	1,5	1,5	1,3
Activities with regard to real estate, rental and business activities	1,7	2,1	2,0
Public administration and defence, mandatory social protection	5,6	5,9	6,4
Education	4,5	6,0	5,9
Healthcare and social work	4,5	4,6	5,5
Other utility, cultural, general and personal service activities	3,1	3,1	3,3
Exterritorial organizations and bodies	0,2	0,2	0,3

Source: State Statistics Office, Labour Force Survey

The relation between economic growth and employment is presented in Chart 1, where employment does not follow the trend of the GDP. In early 1990s, the decline in the real GDP was greater than the decline in employment since enterprises avoided restructuring and workforce lay-offs. The GDP growth in the period between 1998 and 2000 is attributed primarily to the overall productivity factor, although it was under the negative influence of the insignificant reduction of the fixed assets. The biggest discrepancy was noted in 2001, when GDP significantly declined, while the employment increased due to additional engagement in the security forces of the Republic of Macedonia as a result of the internal crisis in the country.

**Chart 1. GDP and Employment (rate of change in %), 1998-2002**



Source: State Statistics Office

c)

The Government policy in the area of labour market was defined in the 2004-2005 National Employment Action Plan (NEAP). It was prepared in accordance with the ten Employment Guidelines encompassed in the EU Employment Strategy and adjusted to the conditions, specificities and characteristics of the labour market in the Republic of Macedonia.

The NEAP defines the national strategies on employment increase and labour market flexibility, poverty reduction, vocational education, trainings, re-qualification and additional qualification, enhancement of measures for employment encouragement, as well as the provision of efficiency of active employment policies.

The social partners and other entities competent in the fields of employment and labour market were involved in the preparation of this document and its implementation.

Active labour market policies promoted by the Government are focused, *inter alia*, on the following: support to the job provision (information, intermediation and counselling), organization of training

programs (re-qualification and additional qualification) and creating conditions and support to the direct job creation. Active labour market policies fully adhere to the principle of gender equality.

The measures contained in this document, together with the determined policy, activities, measures, as well as projects and programs contained in the macroeconomic policy, are aimed at the improvement of the situation with regard to unemployment and the matching of labour force supply and demand.

As part of the policies designed for reduction of unemployment, certain national strategies were adopted, focusing on defined critical groups. One of these documents is the Strategy for Improvement of the Condition of the Roma in the Republic of Macedonia, harmonized with the Agenda 2000 of the European Union.

For more details, see [Chapter 13 - Social policy and employment](#).

**14. Privatisation: (see also chapter 15 – Industrial Policy):**

- a) What have been the main methods of privatisation? How many enterprises have been privatised/liquidated/sent into bankruptcy procedures? Please provide information on the size, employment and activity of these enterprises. What are the plans for the future? Have any enterprises been re-nationalised after their initial privatisation? What is the current status and portfolio of the Privatisation Agency? What are the prospects for further divestment and termination of activities of the Agency?**
- b) How did the authorities use the revenue of privatisation? How will the future funds resulting from privatisation be used?**
- c) Has the corporate governance improved as a consequence of privatisation?**

**a)**

The pluralism of ownership in the Republic of Macedonia started by the end of 1980s with the enactment of several laws in former Yugoslavia (now, out of force): the Law on Enterprises (“Official Gazette of SFRY”, No. 77/1888 and 61/1990), Law on Payment of Salaries in the Republic of Macedonia and Law on Transformation of Socially-Owned Capital (“Official Gazette of RM” No. 38/1993, 48/1993, 21/1998, 25/1999, 39/1999, 81/1999, 49/2000, 6/2002, 31/2003 and 38/2004). These laws enabled establishment of private companies, joint stock companies and limited liability companies, as well as commencement of privatisation process of socially-owned capital. The latter was enabled by issuing internal shares for the purpose of raising additional capital (internal shares had been later, under certain conditions, transformed in ordinary shares), by sale of company or part thereof, debt-to-equity conversion and joint ventures).

In June 1993, the Assembly of the Republic of Macedonia adopted the Law on Transformation of Socially Owned Enterprises (“Official Gazette of RM”, No. 38/1993), which promoted a new privatisation concept. Key element in realisation of that concept was to provide continuity in transformation of socially-owned capital by converting internal shares into ordinary ones, upon control on financial statements carried by competent institution.

Basic objectives of the privatisation concept were:

- Increasing the efficiency of the economy by providing dominant private ownership of the capital thus promoting a new form of corporate governance;
- Stabilising economic trends in the country in the interest of economic development;
- Attracting foreign capital in the Republic of Macedonia;
- Creating conditions for improved implementation of other market-oriented reforms;
- Supporting repayment of external and domestic debt of the state;
- Supporting development of the capital market.



The Law on Transformation of the Socially-owned Enterprises stipulates different models of transformation, depending on the enterprise size. Pursuant to the Law, at least two of the three conditions should be fulfilled in order for an enterprise to be classified in one of the three categories:

- Small enterprise: under 50 employees, total annual turnover below 8.000 average monthly salaries and book value of total assets below 6.000 average monthly salaries;
- Medium-size enterprise: between 50 and 250 employees, total annual turnover below 40.000 average monthly salaries and book value of total assets below 30.000 average monthly salaries;
- Large enterprise: over 250 employees, total annual turnover above 40.000 average monthly salaries and book value of total assets value above 30.000 average monthly salaries.

1. The following transformation models were defined for small enterprises:

- o Employee buy-out.
- o Sale of ideal stake of the enterprise.

2. For medium-size enterprise:

- o Sale of ideal stake of the enterprise.
- o Buy-out of the enterprise.
- o Sale to persons taking over management of the enterprise.
- o Issuance of shares for raising additional capital.
- o Debt-to-equity conversion.

3. For large enterprise:

Large enterprises apply the same models as medium-size, with only difference being that the first installment for sale to persons taking over its management is 10% (instead of 20% for medium-size) and for additional investment, 15% (instead of 30% for medium-size) of the appraised enterprise value.

The Law also defines the models that may be applied in all enterprises, regardless of their size:

- Leasing with a right-to-purchase option;
- Sale of all enterprise assets;
- Enterprise transformation in bankruptcy procedure.

In addition to the given models, the Law also stipulates possibility for buying shares, i.e. stakes under favourable conditions, whereby maximum 30% of value of shares i.e. stakes issued by transforming enterprise, can be bought under these terms. Purchase under favourable conditions is provided for: (1) employees, employed at least two years before the adoption of the transformation decisions, (2) persons whose employment was terminated in the transforming enterprise and who worked there for two years continuously and (3) retired employees who worked in the transforming enterprise for two years continuously. The right to purchase under favourable conditions could be exercised as one-off deal and only in one company.

The rights of the employees in transforming enterprises covered: (1) initial discount of 30% + 1% for each year of service in the enterprise and (2) purchase of shares or stake with discount not exceeding DEM 25.000 (EUR 13.000). The majority of enterprises were privatised (transformed) with employee buy-out model, determined for small enterprises. This outcome derives from the fact that small enterprises were the most numerous entities in the economic structure of the country.

Second most often applied model for medium-size and large enterprises, according to the number of privatised enterprises, is the model of sale to persons taking over management (leveraged buy-out). This model is dominant by number of employees and by appraised value of enterprises.

Remaining capitals, as well as capital not repaid in timely manner and in accordance with concluded contracts, are transferred to the portfolio of Privatisation Agency of the Republic of Macedonia in a form of shares or stocks. The same are later offered on the JSC Macedonian Stock Exchange (MSE).

In 1999, a direct sale privatisation method (via MSE) was introduced. Due to inherent lack of transparency of this method, its application was terminated the following year, 2000.

After the adoption of the Law on Modifications and Amendments of the Law on Transformation of Socially-Owned Enterprises in May 2003 ("Official Gazette of RM", No. 31/2003) the priority task of the Privatisation Agency of the Republic of Macedonia was to accelerate the privatisation process by selling stocks and shares via public stock exchange auction. This was carried out in accordance with procedures for trading with stocks and shares, adopted by JSC Macedonian Stock Exchange on the basis of previously obtained opinion from the Agency, whereby the minimal initial selling price was 10% of the nominal value of stocks/shares. The determined minimal initial price was not obligatory in cases when analysis of economic parameters of the company or when market conditions on organised securities market indicated potential higher or lower market price.

At the same time, the sale of shares, i.e. stocks may also be carried out on the basis of previously announced public tender, for companies set by act of the Government, which are of special importance for the national economy and where opportunities and expressed interest by investors for expansion and reactivation of the business activities exists.

As of 30.06.2004, privatisation procedure was completed in 1.688 enterprises, and their appraised value amounted EUR 2,209 billion. The transformation procedure has not been completed only in 82 enterprises, subject to privatisation, due to the following: (1) initiated bankruptcy procedure, (2) implementation of transformation procedure in bankruptcy or (3) transformation documentation has been still processed.

Pursuant to the Law, the social and state owned capital that was not sold by the end of 2004 will be transferred to the Pension and Disability Insurance Fund. As of 30.09.2004, according to State Statistics Office's Register on Legal Entities (in all ownership sectors):

- 1.087 companies have been liquidated;
- 189 companies are in a bankruptcy procedure;
- 82 companies are in the process of liquidation.

An analysis of the sample of enterprises and their financial statements for the period 1996-2003 suggests that the number of employees (in the sample) has been reduced for more than 12%. Total revenues have been increased by 33% and the profit by 282%, while the total generated losses of the observed enterprises have been reduced by 92% in the observed period.

These results may derive from implemented restructuring in these enterprises, although the size of the analysed sample requires prudence when drawing conclusions.

## Data from the annual statements for 1996 and 2003 for certain number of entities

In MKD

No.	Enterprise/company name	Head Office	1996 No. of employees	1996 Total income	1996 Profit	1996 Losses	2003 No. of employees	2003 Total Income	2003 Profit	2003 Losses
1	AGROPLD RESEN	RESEN	649	1.017.613.287	10.569.413		624	1.000.551.441	206.665	
2	FOOD INDUSTRY "VITAMINKA"	PRILEP	377	815.862.477	30.314.612		387	1.024.428.913	57.988.748	
3	DIMCE BANJAROT PRILEP	PRILEP	307	82.459.684		36.018.462	230	70.309.894	362.573	
4	JELAK	TETOVO	444	190.328.055	155.034		91	47.288.722		8.708.497
5	FORTIRKA-KOMPANI	DELCEVO	384	152.197.942		68.582.405	469	222.998.938	397.980	
6	MODA	SVETI NIKOLE	494	151.520.050	96.482		604	225.380.405	22.153.473	
7	BARGALA STIP	STIP	496	136.596.131	170.457		968	247.213.168	338.106	
8	USJE SKOPJE	SKOPJE-KISELA VODA	1.114	2.139.268.133	170.213.951		603	3.568.941.604	1.092.352.501	
9	KOMUNA	SKOPJE-GAZI BABA	843	50.615.4505		8.713.238	443	678.632.533	23.617.039	
10	ALKALOID	SKOPJE-GAZI BABA	1.896	2.915.449.217	115.134.891		1.232	3.311.980.311	387.411.135	

## Chapter II Economic criteria

11	PIVARA SKOPJE	SKOPJE - GAZI BABA	468	2.043.214.393	216.586.864		416	4.319.293.325	631.328.477	
12	EVROPA	SKOPJE – GAZI BABA	656	1.143.423.820	60.054.025		538	738.986.566	4.445.097	
13	JSC TONDAH-MAKEDONIJA	VINICA	333	137.018.659	172.645		195	207.191.016	11.774.657	
14	TRESKA-30 AVGUST	VINICA	218	118.901.859	7.882		139	102.609.329		9.778.687
15	METALEC	PRILEP	68	52.468.142		0	207	169.321.982	130.534	
16	JAKA 80	RADOVIS	268	114.103.561		12.764.621	357	1.024.430.041	276.429.869	
17	JSC FOR PRODUCTION OF HOME APPLIANCES "METALEC BITOLA"-PROTECTED ENTERPRISE	BITOLA	100	53.952.677		6.096.184	153	166.915.070	3.870.436	
18	ALGRETA RESEN	RESEN	93	66.706.206	294.041		81	93.789.216		18.190.141
19	KIRO D. DANDARO-BITOLA	BITOLA	227	318.908.137	57.453.213		147	424.802.202	5.421.284	
20	HEPOS	SKOPJE-GAZI BABA	468	251.104.245	1.698.998		405	291.550.475		41.127.701
21	DAIRY DOLNO ORIZARI BITOLA	DOLNO ORIZARI	103	698.198.618	59.193.151		170	1.854.160.817	166.725.891	

## Chapter II Economic criteria

22	SAFETY BELTS	BELCISTA	80	212.560.714		333.657	86	305.037.934	22.144.621	
23	MAKSTIL SKOPE data from AA/97	SKOPJE-GAZI BABA	882	3.930.801.731		831.747.387	856	3.394.560.013	29.369.137	
24	NEGOTINO Data from AA/97	NEGOTINO	806	1.900.700.488	839.280		733	1.429.979.001	16.807.830	
25	AMAK SP OHRID First registration on 18.02.2002	OHRID					205	475.080.944	6.200.022	

Source: Privatisation Agency of the Republic of Macedonia

The main outcome of the privatisation, from the aspect of proceeds and number of enterprises are presented in the Table below:

Year	Proceeds (EUR)	%	Number of enterprises	%
1994	7.265.242	2,1%	106	6,2%
1995	23.620.700	6,7%	430	25,3%
1996	54.503.800	15,6%	378	22,3%
1997	34.613.170	9,9%	218	12,8%
1998	57.284.186	16,3%	303	17,8%
1999	46.794.467	13,4%	53	3,1%
2000	45.695.135	13,0%	128	7,5%
2001	33.375.539	9,5%	62	3,7%
2002	24.316.211	6,9%	10	0,6%
2003	23.000.000	6,6%	10	0,6%
Total	350.468.450	100,0%	1,698	100,0%

Source: Privatisation Agency of the Republic of Macedonia

In order to assess the qualitative aspects of privatisation, in terms of its effects on the operations of the enterprises, a more detailed and longer-term analysis is necessary. Certain information may be obtained from the initial data for the years 1995, 1996, 1997, 1998 and 1999. Analyses have been made on performances of enterprises with different ownership type: genuine private enterprises, privatised enterprises and other enterprises that have not been subject to privatisation process. Unfortunately, the analysis cannot be supplemented with latest data, since the published analysis of financial results in the national economy does not include (since recently) disaggregating of results by ownership sector.

The basic indicators are presented in Charts 1-3 below, illustrating productivity (total income per employee - Picture 1), cost-efficiency (coverage of total expenditures by income - Picture 2) and profitability (gross profit as compared to the companies' equity). An initial tendency of improvement of these indicators for the overall economy can be noticed. Genuine private companies have the leading role, demonstrating, as expected, highest productivity and profitability. On the other hand, the transformed enterprises are the most unstable category and they would be in the focus of interest of analysts in future. The situation in the remaining group companies is not as good as compared to other two. Still, significant improvement of performances was noticeable in last two years within this group as well.

Chart 1  
Total income per employee (in thousand MKD)

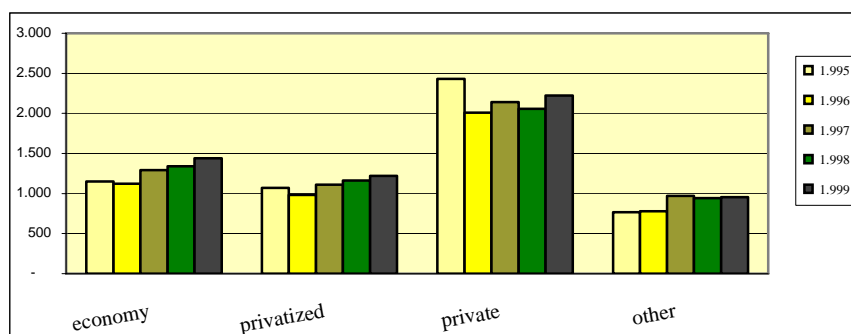


Chart 2  
Total income as compared to total costs

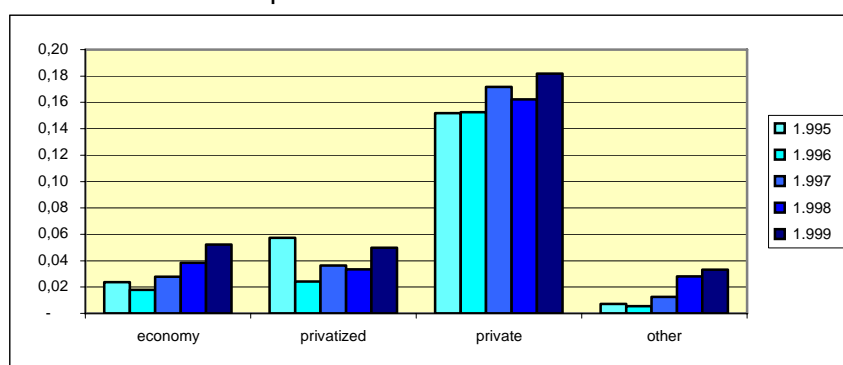
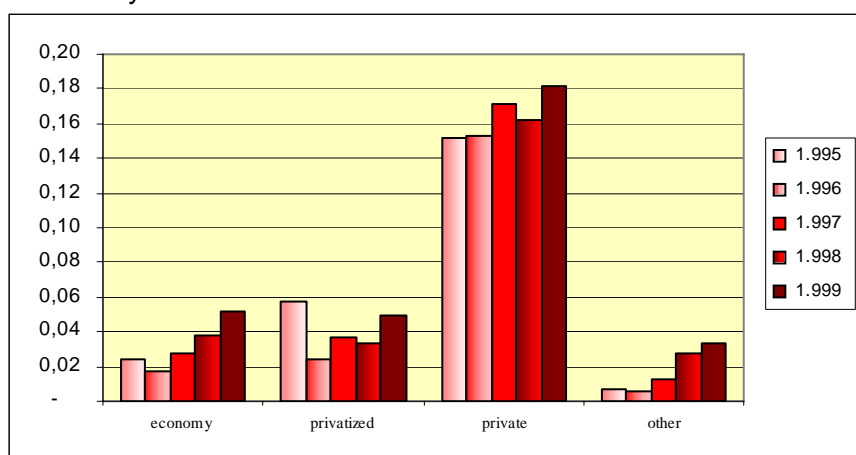


Chart 3  
Profitability ratio



Source: Calculated on the basis of data from the Payment Operations Bureau: Information on realised financial results in the economy of the Republic of Macedonia in the corresponding years

The transformation of the socially-owned capital according to the models of: (1) Employees buy-out, (2) Purchase by persons taking over management of the enterprise and (3) Sale of ideal stake of the enterprise, is performed by conclusion of Purchase Agreement. As of 31.12.2003, 793 agreements have been concluded of which due to delayed payment of matured instalments or cancellation to fulfil the obligations, 220 were terminated.

However, termination of agreements does not mean re-nationalisation i.e. re-acquiring of the capital by the state, since the Privatisation Agency of the Republic of Macedonia, pursuant to the Law, permanently offers these stocks and shares for sale. As of 31.12.2003, the Privatization Agency,

through JSC Macedonian Stock Exchange and by concluding agreements for sale of stocks, already sold its shares and stocks in 155 companies out of aforementioned 220.

The portfolio of the residual shares of the Privatisation Agency of the Republic of Macedonia, as of 31.12.2004, included 86 enterprises with a total nominal capital value of EUR 53,7 million. Out of these enterprises, the Agency:

- owns 100% of shares in two enterprises, with total nominal capital value of EUR 9,2 million
- has majority capital, over 50% but less than 100%, in 17 enterprises, with total nominal capital value of EUR 33,5 million
- has significant minority capital, with more than 20%, but less than 50%, in 17 enterprises with total nominal capital value of EUR 33,5 million
- have stocks or shares, which account for less than 20%, in the remaining 50 enterprises with total nominal value of EUR 7,7 million.

A partial inconsistency has been registered between the records of the Agency and the position the companies have reported, through their shareholders' books, to the Central Securities Depository, which, at the moment, hinders their prompt sale. Privatisation Agency of the Republic of Macedonia, the companies, the Central Securities Depository and the Securities Exchange Commission have been working on clarifying and unifying the records, thus enabling prompt sale of these stocks/shares.

As of 3.12.2004, the state-owned capital, expressed in shares acquired by different legal bases, in nominal terms, amounts EUR 929 million. Following table presents the number of companies in which the Government, its institutions and enterprises have ownership presented in stocks or shares.

### Review of the state ownership in companies

Ownership percentage	Government/Ministries	Funds	Pension and Disability Fund	Institutions	Public corporations	Privatization Agency	Total
<b>Up to 20%</b>							
Capital Value (MKD)	105.630.922	16.334.293	4.409.681.196	101.796.447	40.823.861	672.154.670	5.346.421.389
Capital Value (EUR)	1.721.935	266.272	71.884.123	1.659.428	665.487	10.957.084	87.154.330
Number of companies	21	11	324	75	22	53	506
<b>20%-50%</b>							
Capital value (MKD)	4.648.532.837	0	125.699.091	0	78.733.604	3.177.933.711	8,030,899.244
Capital Value (EUR)	75.777.747	0	2.049.075	0	1.283.471	51/804.874	130.915.166
Number of companies	6	0	3	0	1	18	28
<b>50%-100%</b>							
Capital Value (MKD)	3.614.717	0	0	0	0	177.124.583	180.739.300
Capital Value (EUR)	58.925	0	0	0	0	2.887.385	2.946.310
Number of companies	1	0	0	0	0	5	6
<b>100%</b>							
Capital Value (MKD)	43.400.483.920	0	0	0	0	0	43.400.483.920



Capital value (EUR)	707.490.083	0	0	0	0	0	707.490.083
Number of companies	3	0	0	0	0	0	3
Total							
Capital Value (MKD)	48.158.262.396	16.334.293	4.535.380.287	101.796.447	119.557.466	4.027.212.964	56.958.543.853
Capital Value (EUR)	785.048.691	266.272	73.933.198	1.659.428	1.948.958	65.649.343	928.505.890
Number of companies	31	11	327	75	23	76	543

Source: Calculated on the basis of data from the Central Securities Depository.

Pursuant to existing legislative, the Privatisation Agency of the Republic of Macedonia has performed its activities, including the reduction of its portfolio, by 31.12.2004. The remaining capital, pursuant to same legal solution, is to be transferred to Pension and Disability Insurance Fund, and the competencies the Agency taken by the Ministry of Economy, the Ministry of Finance and Public Enterprise for Management of Housing and Business Premises.

## b)

The privatisation proceeds are used pursuant to Law on Transformation of Socially-Owned Enterprises ("Official Gazette of RM", No. 38/1993, Article 93), with more detailed provisions stipulated in special annual programmes, adopted by the Assembly of the Republic of Macedonia, upon proposal by the Government.

According to these programmes, the privatisation proceeds collected by the Agency have been transferred to a special account and are earmarked for:

- repayment of domestic and external debts of the Republic of Macedonia, particularly debt deriving from "old foreign currency deposits" of the citizens;
- ensuring the employees' rights and creating possibilities for re-employment of workers laid off due to the ownership transformation;
- indemnification of persons with ownership rights pursuant to denationalisation regulations, that could not be indemnified by shares, i.e. stocks;
- payment of 8% retroactive pensions for the purpose of pension indexation and
- development programmes and projects, with emphasis on public and utility infrastructure (water supply, education and health facilities, local road network etc.).

Future privatisation proceeds will be also aiming at supporting these activities, whereby the focus would be placed on development programmes and projects, which would lead to improvement of living conditions of citizens and to creation of conditions for economic growth.

## c)

Although most of the privatisation models have provided for public and open invitations for bids by domestic and foreign individuals and legal entities, in most cases, bids were submitted only from insiders – present employees and management of enterprises. Hence, the centralisation of the management rights in the hands of insiders is considered as one of the features of privatisation in the Republic of Macedonia.

Contrary to the fact that wide ownership structure does not lead to successful corporate governance, significant number of companies have lot of shareholders, each of them owning relatively small share of company's capital. Most of these shareholders are also employees in the same company, thus having conflicting interests for the company – on one hand owners and, on other, as employees. The management, in conditions of poorly enforced policy of corporate governance, might be in position to impose its personal objectives above those of the company.

There are several independent researches about how the privatisation in the Republic of Macedonia improved the corporate governance, with some of the findings thereof presented:

1. Enterprises privatised in 1996 and 1997 were more productive than those not privatised, where initial productivity of the companies privatised at a later stage was lower than of those earlier entering the process. After levelling statistical bias, the conclusion might be that there is no significant statistical proof that the privatisation has (so far) led to significant improvement of enterprises' performances.
2. Enterprises in the Republic of Macedonia experienced difficult environment, characterised by stabilisation measures of economic policy and unfavourable external surrounding during the most of 1990s. Productivity of production factors has been declining during the period, and the lack of corporate governance remains to be crucial issue in the analysed period.
3. Enterprises purchased by outsiders show better performance than those owned by insiders and seem to be more inclined to implement the necessary restructuring.

For additional information, please see [04 I 8](#), [15 IV 1](#), [15 IV 2](#), [15 IV 6](#).

**15. Public sector: Which share and sectors of the economy are still controlled and/or owned by the state and to what extent? Please outline the government plans as regards the still state-owned enterprises (see also question 13).**

Economic activities of public interest are those by which the public interest, in the following fields, is being provided: energy, railroad transport and public transport of passengers, maintenance of road network, air transport, system of radio and TV communications, pipeline transport of oil and gas, management of forests, waters, pastures and other types of natural wealth, planning and organization of the space, communal activities, veterinary and sport as well as in other economic activities determined in the Law on Public Enterprises ("Official Gazette of RM" No. 38/1996, 9/1997, 6/2002 and 40/2003).

The Assembly, the Government and the units of local self-government are the subjects authorised to establish public enterprises on behalf of the Republic of Macedonia. The following table gives an overview of the structure in the public sector.

Table 1. Public Sector						
	Name of the enterprises	Type of cooperation	Type of ownership	Capital	NACE	Sector
1	03.1- Telecommunication and Communication					
2	JSC Macedonian Telecommunications	031	4	3	64200	S.11
3	JSC Macedonian Post	031	5	1	64110	S.11
	03.3- Transport					
4	Fund for Local Roads and Streets of Municipality of Kocani	033	9	1	75112	S.13
5	POLET	033	9	1	60210	S.11
6	"SKOPJE" Public Transport Enterprise	033	9	1	60210	S.11
7	PE Makedonja Pat	033	5	1	45212	S.11
8	PE ULICI I PATISTA	033	9	1	45230	S.11
9	ESTETIKA 2002	033	9	1	45230	S.11
10	POLET	033	9	1	60210	S.11
11	"SKOPJE" Public Transport Enterprise	033	9	1	60210	S.11

12	PE Macedonija Railways	033	5	1	60100	S.11
13	<b>03.4 Communal activities</b>					
	PE TETOVO	034	1	1	41000	S.15
14	BREGALNICA	034	9	1	41000	S.11
15	PE PARKOVI I ZELENILLO	034	9	1	01412	S.11
16	IZVOR	034	9	1	01412	S.11
17	PE LAKAVICA	034	9	1	01412	S.11
18	GEVGELISKO VALANDOVSKO POLE	034	5	1	01411	S.11
19	ILINDEN 2001	034	9	1	37100	S.11
20	PE GA-MA	034	5	1	40200	S.11
21	KOMUNALEC	034	1	1	41000	S.11
22	KOMUNALEC	034	1	1	41000	S.11
23	PE KOMUNALEC	034	9	1	41000	S.11
24	PE VODOVOD	034	1	1	41000	S.11
25	VODOVOD	034	1	1	41000	S.11
26	MAVROVO	034	9	1	41000	S.11
27	PE TETOVO	034	1	1	41000	S.11
28	BREGALNICA	034	9	1	41000	S.11
29	EDINSTVO	034	9	1	41000	S.11
30	KOMUNALEC	034	9	1	41000	S.11
31	KOMUNALEC-POLIN	034	1	1	41000	S.11
32	BOSAVA	034	1	1	41000	S.11
33	MIRAVCI	034	1	1	41000	S.11
34	VODOVOD I KANALIZACIJA	034	9	1	41000	S.11
35	KOMUNA	034	9	1	41000	S.11
36	PE ISAR	034	9	1	41000	S.11
37	PLACKOVICA	034	9	1	41000	S.11
38	KOMUNA	034	9	1	41000	S.11
39	KOMUNALEC	034	1	1	41000	S.11
40	LOZOVO	034	9	1	41000	S.11
41	KALE	034	9	1	41000	S.11
42	OBLESEVO	034	9	1	41000	S.11
43	VARDAR	034	9	1	41000	S.11
44	KALE	034	9	1	41000	S.11
45	PENDA	034	9	1	41000	S.11
46	SATESKA	034	9	1	41000	S.11
47	PASTERTIJA	034	9	1	41000	S.11
48	PROAKVA	034	9	1	41000	S.11
49	MUNICIPAL PE FOR COMMUNAL WORKS	034	9	1	41000	S.11
50	PE PLAVAJA	034	9	1	41000	S.11
51	PCE PETROVEC	034	9	1	41000	S.11
52	LIPA	034	9	1	41000	S.11

53	HIGIENA	034	9	1	41000	S.11
54	PCE HIGIENA	034	9	1	41000	S.11
55	TOPOLKA	034	9	1	41000	S.11
56	PCE EKOHIIGIENA	034	9	1	41000	S.11
57	BOSAVICA	034	9	1	41000	S.11
58	ZELENIKOVO	034	9	1	41000	S.11
59	PCE SKOPSKA CRNA GORA	034	9	1	41000	S.11
60	OGRAZDEN	034	9	1	41000	S.11
61	VODOVOD I KANALIZACIJA	034	9	1	41000	S.11
62	KAMENA REKA	034	9	1	41000	S.11
63	NIKOLA KAREV	034	9	1	41000	S.11
64	PCE KOMUNALEC	034	9	1	41000	S.11
65	KOZJAK	034	9	1	41000	S.11
66	NISKOGRADBA	034	9	1	45240	S.11
67	DOLNENI	034	9	1	45110	S.11
68	PE PAZARI	034	1	1	70200	S.11
69	KRIP INZENERING	034	9	1	74205	S.11
70	KOMUNALEC	034	1	1	90000	S.11
71	DERVEN	034	1	1	90000	S.11
72	CISTOTA I ZELENILO	034	9	1	90000	S.11
73	KOMUNALNA HIGIENA	034	9	1	90000	S.11
74	EREMJA	034	9	1	90000	S.11
75	HIGIENA	034	9	1	90000	S.11
76	MASALNICA	034	9	1	90000	S.11
77	ILINDEN	034	9	1	90000	S.11
78	SOPISTE	034	9	1	90000	S.11
79	PASTERTIA	034	9	1	90000	S.11
80	PISA	034	9	1	90000	S.11
81	ILINDEN	034	9	1	90000	S.11
82	PCE CESME	034	9	1	90000	S.11
83	KOMUNALEC	034	9	1	90000	S.11
84	TURIJA	034	9	1	90000	S.11
85	BABUNA	034	9	1	90000	S.11
86	DEBRCA	034	9	1	90000	S.11
87	ZABELI	034	9	1	90000	S.11
88	16-Dekemvri	034	9	1	90000	S.11
89	PCE VARDAR	034	9	1	90000	S.11
90	ROSOMAN	034	9	1	90000	S.11
91	PCE SARAJ	034	9	1	90000	S.11
92	SARI	034	9	1	90000	S.11
93	AMBIENTI	034	9	1	90000	S.11
94	DOMING	034	9	1	93050	S.11

	03.5- Urbanism, Residential Relations and Construction Land Planning					
95	GEOINZENERING	035	5	1	45110	S.11
	GEOINZENERING	035	5	1	45110	S.11
96	PSE KOCANI	035	1	1	45110	S.11
97	STIP-PROEKT	035	9	1	45110	S.11
98	PE FOR SPACIAL AND URBAN PLANS C.O.	035	5	1	74201	S.11
	03.9- Other non mentioned					
99	MACEDONIAN INFORMATION AGENCY	039	5	1	92400	S.13
100	TIKVESKO POLE	039	5	1	01411	S.11
	WATER MANAGEMENT OF MACEDONIA	039	5	1	01411	S.11
101	PUBLIC ENTERPRISE FOR PASTURES MANAGEMENT	039	5	1	01413	S.11
102	LISICE Public Enterprise for Water Management	039	5	1	01411	S.11
103	DOJRANSKO EZERO	039	5	1	01411	S.11
104	PE MACEDONIAN FORESTS	039	5	1	02010	S.11
105	OFFICIAL GAZETTE OF RM	039	5	1	22120	S.11
106	ZLETOVICA HS	039	5	1	41000	S.11
107	STUDENCICA	039	5	1	41000	S.11
108	STREZEVO	039	5	1	41000	S.11
109	STRUGATURS	039	9	1	63300	S.11
110	PE MACEDONIAN BORADCASTING	039	5	1	64200	S.11
111	AGRO-BERZA	039	5	1	67110	S.11
112	PAZARISTA	039	1	1	70200	S.11
113	PE MACEDONIAN RADIO-TELEVISION	039	5	1	92200	S.11
114	PE for Management of Sports Facilities Mito Hadzivasilev	039	9	1	92610	S.11

Source: State Statistics Office

See NACE classification at the end of this chapter.

**Plans for restructuring of the energy sector (ESM privatization)** – For more details, please see [14 I](#) and [14 II B](#).

**Transformation of the PE Macedonian Railways** - For more details see [9 II B 1](#).

**Reforms in the field of air transport-** A part of the existing Civil Aviation Authority would be transformed into a joint stock company owned by the state, responsible to control the air transport. It is envisaged to establish a company for air services that would operate in accordance to ICAO and EUROCONTROL.

**Infrastructure modernisation** in the above-mentioned sectors

A. Air transport – The feasibility study for modernisation of the Airport Skopje (financed within the regional CARDS 2001), envisaged enlargement, reconstruction and improvement of management. According to the plan, the existing area of the terminal should be enlarged from the existing 5,000 m<sup>2</sup> to more than 11,500 m<sup>2</sup>, the number of windows should be doubled, and new luggage sorting devices should be installed, the existing arrival and departure waiting rooms should be reconstructed, the existing zones for customs and passport control should be extended and the existing parking capacities enlarged. The total funds necessary for the realisation of the aforementioned activities are

in the amount of 21.23 million Euros. Regarding the management, the model of renting the facility under concession was accepted.

B. Road network - A Study for development of a mid-term strategy for road infrastructure is currently being prepared under the EBRD loan. The Study proceeds from the strategic orientation of the Republic of Macedonia to complete the construction of the two Pan-European transport corridors, passing through its territory. Within this framework, in accordance with the Recommendations of the High Group of the European Commission, the so called Guidelines for the Trans-European Transport Network (including a list of priority projects) are expected to be harmonized in line with the evolution of the relations between the Republic of Macedonia and EU.

The Government of the Republic of Macedonia, as a part of the Public Investments Programme, envisages the construction of (1) E75, Demir Kapija - Udovo Section; (2) M5 Bitola-Medzitlija, which is a part of the European Corridor X; (3) Tabanovce-Kumanovo, also a part of Corridor X; (4) Udovo-Smokvica; (5) construction of roads, each of them with two lanes for each direction for those sections of Corridor VIII whose construction has not started yet, as well as (6) ring road around Skopje Phase I and II.

C. Border Crossings. With interest of improvement of road infrastructure and connection to infrastructure of the neighbouring countries and the EU, the Public Investments Programme stipulates the modernisation of (1) the border crossing to Republic of Albania "Kafasan" - construction, (2) the border crossing to Republic of Greece "Star Dojran" - upgrading of functioning and construction of a new customs control terminal for vehicles, (3) the border crossing to Republic of Bulgaria "Novo Selo" - improving the working conditions, (4) the border crossing to Serbia and Montenegro (on the part of Kosovo) "Blace" - improving the electricity supply, (5) border crossing to Republic of Greece "Medzitlija" infrastructure construction.

D. Broadcasting. On 14.12.2004 the PE Macedonian Radio and Television put into use the first digital earth TV transmitter (DVB -T). The digitalisation process continues in 2005 (according to the plans, 3-5 new digital transmitters). In cooperation with the French corporation Teles and Deutche Welle, a digital radio transmitter on medium waves has been put in a test use.

**16. Protected sectors (utilities, transport, housing...): Which sectors are subject to specific protection (market entry, price setting...). Please describe recent developments in this respect, such as specific measures of liberalisation or deregulation. Which sectors will remain under special protection? Are there provisions of preferred treatment in particular as regards former socially owned enterprises? (see also chapter 6 – Competition)**

Securing the continuous performing of economic activity of public interest, as significant part the normal living, work of legal entities and state institutions, is the basic reason and justification for granting exclusive rights.

Based on the fact that the public enterprises are the only holders of certain activity of public interest on the territory of the whole country or the local self-government units, they are granted an exclusive right for performing these activities. Having in mind the necessity for complete harmonisation of the national legislation to the Acquis in this field (obligations of the SAA), a Law on Public Enterprises is currently in the process of preparation.

The subject and the scope of exclusive or special rights are regulated by special laws that also regulate the method and conditions for performing certain activities. The duration of these rights is usually unlimited in time. The only exception in relation to ownership status and limited duration of certain exclusive right is JSC Macedonian Telecommunications, where the dominant owner is a foreign company. In the case of this company, exclusive rights in the fixed telephony have been granted on the basis of a separate agreement that expired on 31.12.2004.

The above-mentioned special Laws, regulating certain sectors (activities), as a rule, also specify the entities that are being granted the exclusive right for performing these activities.

**The Telecommunication Law** ("Official Gazette of RM", No. 33/1996, 17/1998, 4/2002 and 37/2004) regulates the conditions and the ways of performing the activities in the field of telecommunications,

the construction, maintenance and use of telecommunication networks and assets, the relations between the providers and the users of telecommunication services, the competition in the telecommunication field, the provision of universal services, the granting of concessions and performing telecommunication services based on concessions, the management, use and control of the radiofrequency spectrum, the production, import, sale, use and maintenance of radio stations, terminal equipment and other issues related to telecommunications.

The public telecommunication services and the use of the radiofrequency spectrum are issues of public interest for the Republic of Macedonia.

The Ministry of Transport and Communications and the Telecommunication Authority are competent for regulating the issues in the telecommunication field determined by this Law.

**The Communal Activities Law** ("Official Gazette of RM", No. 45/1997, 23/1999, 45/2002 and 16/2004) regulates the general conditions and the way of performing the communal activities, the defining, financing of communal activities and other relevant issues in this field. The performing of communal activities is a matter of public interest.

The communal activity may be performed by establishing a public enterprise for communal activity, by granting concession for performing communal activity in a manner determined by law and by issuing a licence for performing a communal activity.

Pursuant to the **Law on Forests** ("Official Gazette of RM" No. 47/1997, 7/2000 and 89/2004) the Government of the Republic of Macedonia has established a public enterprise for management of state owned forests for economic purposes. The Law regulates the following: growing, use and protection of forests as an activity of public interest. The Assembly of the Republic of Macedonia enacts a General Plan for Management of Forests for a period of 20 years, which covers the management of state as well as privately owned forests, regardless of their purpose of use.

**The Law on Establishing the Public Enterprise Macedonian Radio-Television** ("Official Gazette of RM", No. 6/1998, 98/2000 and 78/2004) regulates the establishment, the activity and the organisation of the public enterprise Macedonian Radio-Television. The public enterprise performs an activity of public interest. It performs its activity under conditions and in a way determined by the Broadcasting Law, the Telecommunications Law, the Law on Public Enterprises and other laws. The activity of MRT, among the others, is as follows:

- Creating and broadcasting radio and TV programmes within the guaranteed rights and freedoms of citizens with informative, educational, cultural, scientific, sports, music, entertainment and other content in Macedonian and the languages of the ethnicities living in the Republic of Macedonia and
- Creating and broadcasting special programmes informing about and protecting the cultural and historic traditions and programs for maintenance and promotion of the relations with the expatriates and other citizens from the Republic of Macedonia that live in the neighbouring countries, Europe and other continents.

Pursuant to the provisions of the Broadcasting Law, the Broadcasting Council supervises the work of the public enterprise.

**The Energy Law** ("Official Gazette of RM", No. 47/1997, 40/1999, 98/2000 and 38/03) regulates the conditions and the way of performing activities in the field of energy, protection of the energy facilities, units and plants, protection of environment and nature from harmful influences caused by the work of the energy facilities, units and plants and supervision.

Activities in the energy field as defined by this Law are the following:

- generation, transmission and distribution of electricity;

- production and processing of coal;
- production, processing and transport of oil and oil derivatives;
- production, transport and distribution of natural gas;
- production, transport and distribution of heat and geothermal energy
- production of other energy types.

The activities of generation, transmission and distribution of electricity, international transport of crude oil through pipelines, production, transport and distribution of natural gas and production, transfer and distribution of heat and geothermal energy, except for private purposes, are considered activities of public interest.

For performing these activities, a public enterprise could be established or appropriate licenses could be issued to other entities.

An Energy Regulatory Commission of the Republic of Macedonia has been established with the purpose of providing secure and safe energy supply to the consumers in the Republic of Macedonia, protection of the environment and the nature, introduction and protection of a competitive energy market based on the principles of objectivity, transparency and non-discrimination.

For performing the works in the field of water management, the Government of the Republic of Macedonia has established a Public Water Management Company.

The Law on Waters ("Official Gazette of RM", No. 4/1998, 18/1999, 19/2000 and 51/2003) regulates the conditions and ways of utilizing waters, their protection from adverse influences, their protection from exhaustion and pollution, management of waters, springs and the way of financing the water management activities, conditions and ways of performing water management activities, providing water for use by granting approvals (concessions), international waters and other issues important for providing a unique regime for waters in the Republic of Macedonia.

The water management activity of public interest in terms of this Law comprises of: construction, maintenance and utilisation of water management facilities and plants related to providing water for water supply, irrigation and land drainage; determining the protected zones; protection from adverse influences on waters; protection of the beds and coasts of the watercourses and lakes; protection from floods, protection from erosion and torrents; extraction of sand, gravel and stone for protection purposes and improving the waters regime; providing water reserves that provide unique regime of the river basin or part of a basin and preparation of project documentation and studies in relation the improvement of the water regime.

**The Law on Macedonian Railways** ("Official Gazette of RM", No.9/1998), regulates the railway transport, the construction, reconstruction, repair, maintenance and protection of the railroad infrastructure and the issues of safety and financing. These activities of public interest are performed by the public enterprise Macedonian Railways. The railway infrastructure may also be used by other legal entities under the conditions and in the way determined by this Law and international agreements.

**The Law on Postal Services** ("Official Gazette of RM", No.55/2002) regulates the conditions and the ways of performing postal services in the domestic and international postal traffic, the provision of access for all beneficiaries to a universal postal service on the territory of the Republic of Macedonia, the introduction of competition in performing postal services, the mutual relations between the recipients and the providers of postal services, the issuance of stamps and letters of value, as well as other issues related to the postal services. Pursuant to Article 9 of this Law, within the universal postal service, only the Basic Postal Operator (PE Makedonski Posti/Macedonian Post) performs reserved postal services that include receiving, sorting, transfer and delivery of postal delivery, including also the direct mail, both in domestic and international postal traffic provided that the weight of these packages is less than 350 grams.



Performing postal services and issuing stamps and letters of value are activities of public interest. The inspection supervision for provisions of this Law, the regulations enacted on the basis of this Law, the enforcement of concession agreements, as well the licences issued pursuant to this Law is conducted by the State Transport Inspectorate through inspectors for postal traffic.

**Existing state monopolies** - Characteristic state monopolies are the following: PE Macedonian Railways, JSC Energy Company of Macedonia, PE Macedonian Forests, PE Water management, PE for Road Maintenance – “Makedonija Pat” and PE for Airport Services “Makedonija”.

**Reform projects** – The processes which are underway include the preparation of a new Law on Public Enterprises, as well the transformation/restructuring of the existing monopolies, out of which, due to their importance, the following should be mentioned - JSC ESM (see [14 I](#) and [14 II B](#)) and PE Macedonian Railways (see [9 II B 1](#)). The key objective of these processes is separation of the competitive parts from the so-called natural monopoly, thus contributing to increase in the efficiency in performing these activities.

The process of institutional restructuring of the water management sector began in 2004, as a result of the enhanced reform activities. This sector was generating continuous losses caused by the long-term miss-management. This has been the reason for the liquidation of 8 water management companies from three regions (Tikves, Bregalnica and Polog) and new water management companies were created, but now with modified roles, in order to strengthen, above all, the responsibility of the farmers themselves organised in water communities in the process of management and maintenance of the irrigation systems. The activities in this field would continue in 2005 and would extend to the whole territory of the Republic of Macedonia, which involves the inclusion of the remaining twenty water management companies and their complete restructuring. The reforms in this field would be assisted by the Project for Irrigation Repair and Restructuring financed by a World Bank Loan and grant funds from the Royal Dutch Government.

Similar processes have also been planned for the local public enterprises (amendments of the regulation are underway), where those activities which are competitive by nature will be separated (communal sanitation, transport, management of open markets etc.) in order to expose them to competition and participation of the private sector.

**17. Enterprise restructuring: How many state-owned, or formerly state-owned, enterprises have been restructured so far? How many enterprises are currently being restructured or envisaged to be restructured? Please identify the remaining sectors and state-owned enterprises in particular need of restructuring. (see also chapter 15 – Industrial Policy) Please give information about annual aggregate profits/loss of state-owned enterprises from 1996 to 2003.**

The restructuring of state-owned enterprises was/is conducted by the Privatisation Agency of the Republic of Macedonia and the Ministry of Economy.

The privatisation/restructuring of the largest number of enterprises has been done through the Privatisation Agency:

Sector	Number of privatized/restructured enterprises
Industry	495
Agriculture	429
Construction	123
Trade	354
Transport and communications	52
Finances and services	116
Handicrafts	55
Tourism	63
Total	1.678
Source: Ministry of Economy	

while the following enterprises are still in the process of privatisation/restructuring:

Sector	Privatisation/restructuring underway
Industry	24
Agriculture	15
Construction	5
Trade	21
Transport and traffic	1
Finances and services	9
Handicrafts	1
Tourism	3
Total	79
Source: Ministry of Economy	

At the beginning of the privatisation process in the Republic of Macedonia there was an intensive debate whether it was necessary to restructure enterprises and if yes, whether this should be done before or after their privatisation. At initial stage, it was considered better to speed up the privatisation and to sell the enterprises as they were, since restructuring was expensive and it was considered that new owner should be left to decide about the direction of restructuring. However, it was soon realized that some of the companies could not be privatised if they had not been previously restructured. This mainly referred to the big loss making enterprises. The idea was to make an effort in the pre-privatisation phase, in order to facilitate the post-privatisation adjustment. As a result of these considerations, the first restructuring programme and the first Restructuring Law of 1995 (no longer in force), were enacted. The World Bank intensively supported the Government in the implementation of the restructuring programmes.

The Law on Restructuring of the Loss Making Enterprises of 1995 referred to the 25 enterprises that generated the largest losses in the country. They produced 13% of the gross domestic product, but also accounted for 80% of the losses in the enterprise sector. They owed 60% of non-performing loans in the banking system and employed 55 thousand persons. Among those were the Electricity Power Company of Macedonia and the public enterprise Macedonian Railways.

Some of the basic provisions of the Restructuring Law covered the following:

- isolation of these enterprises from the banking system,
- conversion of their debts to the state and to the banks into capital,
- reduction of their costs, mainly through the reduction of the number of employees who would get certain assistance from the state for severance payment,
- stimulating their fast privatisation - completely or partially, and if some of those parts could not be privatised - then to liquidate them as soon as possible.

As a result of that activity, 160 smaller enterprises were established out of 25, most of which were privatised, about 10 of them were liquidated in the first 2-3 years of the implementation of the Law, and some that could not be then restructured and became subject to later programmes.

In 2000, began the second wave of restructuring of so-called loss-making companies, which were included in a special Action Plan of the Government of the Republic of Macedonia. This Plan was realised within the process of privatisation/sale or bankruptcy/liquidation - processes defined by the FESAL 2 Arrangement. On the basis of this Arrangement, the Government committed itself to sell/restructure the largest state owned loss-making companies by the end of 2003, at latest. Some of the enterprises were sold to strategic investors, and some were liquidated through bankruptcy procedures and their assets were sold or are still being sold by way of international tenders. This process is performed pursuant to the Bankruptcy Law ("Official Gazette of RM", No. 55/1997, 53/2000, 37/2002 and 17/2004), by enactment of decisions by the creditors board (most often the biggest creditor in these enterprises is the state). In the meantime, pursuant to the existing legislation, the Privatisation Agency of the Republic of Macedonia, cannot manage and decide for the capital of these enterprises in the course of the bankruptcy/liquidation procedure, although it owns the majority shares.

As an integral part of the obligations for the abovementioned Arrangement, the Government has selected 40 largest loss-making companies, which employed 10,4% of the total number of employees in the enterprise sector and generated total losses in amount of USD 95 million in 1999, i.e. about 4,5% of the GDP. In order to meet the FESAL conditions, i.e. to utilize three financial instalments by the Bank, the Government was obliged, by the end of 2003, to find a solution for 30 of the 40 nominated enterprises, in the industry sector, by privatising/selling or liquidating them.

In November 2000 the Government has met the conditions for withdrawal of the first instalment of the Arrangement by selling the enterprise FENI to a foreign investor. In the middle of 2003 the Republic of Macedonia withdrew the second instalment of FESAL 2 by selling other 5 loss-making companies (Jugohrom, Porcelanka, Zletovo Baterii, Goteks and Godel). By the end of 2003 the Government has found adequate solutions for the remaining 25 enterprises thus meeting the condition for the third instalment. The second instalment was fully released at the end of July 2003, and the third instalment was fully released on 06.01.2004.

The strategy applied in order to implement the restructuring of the loss-making companies covered the following activities:

- Independent economic and financial analysis (cost-benefit analysis) for determining the most favourable option or whether to privatise or liquidate the company;
- Detailed procedure for publishing international tenders, in line with the best international practices, with maximum transparency of the request, identification and qualification of a strategic investor;
- Sale of the stocks/shares of the loss-making companies by an international tender and by a maximally transparent procedure;
- Sale of the assets of the liquidated companies, on the basis of bankruptcy - without any conditioning of the buyer, except for the payment of the sale and purchase price according to the agreed terms;
- Additional engagement of an external consultant that would assist the bankruptcy trustees of the enterprises, in order to ensure a transparent sale of their assets;
- Constituting a Coordinative Body of state creditors for the purpose of having common and coordinated position at the bankruptcy hearings in court, and taking control over the bankruptcy procedure, based on the majority state claims in the loss-making companies, using the position of a dominant creditor with a decisive voting right in the Board of Creditors;
- Direct and indirect Governmental support for the socially/politically sensitive enterprises;
- Restructuring of the state receivables in the loss-making enterprises.

In the last several years, in addition to the process of restructuring of the loss-making companies, the process of restructuring of some other enterprises as a pre-privatisation activity was also initiated. In that sense, the restructuring of the agricultural enterprises acquires special attention. At the beginning of the privatisation, the agricultural enterprises were completely exempted from the process, in order to be treated by special law. In 1996, Law on Transformation of the Enterprises and Cooperatives with Social Capital that Manage Agriculture Land ("Official Gazette of RM" No. 38/1993, 48/1993, 21/1998, 25/1999, 39/1999, 81/1999, 49/2000, 6/2002, 31/2003 and 38/2004) was adopted. Complex agricultural companies, as well as enterprises that had vast portion land on their disposal, were due to restructure before privatisation, i.e. sold on pieces by separate activities they perform. The ratio behind this type of privatisation and restructuring was the need for increasing efficiency and competitiveness (due to better specialisation) by sale of units with simple activities. In addition, 15% of the land managed by the agricultural companies were dispossessed and offered for a free sale to private farmers.

The Government of the Republic of Macedonia has identified the need for restructuring of ESM, PE Macedonian Railways, PE Macedonian Post, PE Macedonian Radio and Television, Public Enterprise for Airport Services, PE for Management of Residential and Business Areas, PE Macedonian Forests and PE Water Management of Macedonia. The restructuring programmes for the largest number of these enterprises are in the process of preparation. The restructuring of ESM (see [14 II B](#)) and PE Macedonian Railways (see [09 II B 1](#)) is already underway.

The total (aggregate) annual profits and losses of the enterprises that are not privately owned, according to their annual statements, are given in the following table:

Year	Profit	Loss
1996	2.259.607.449	14.527.521.028
1997	4.815.739.107	8.969.987.132
1998	3.968.896.837	8.751.633.187
1999	3.098.651.075	8.689.714.749
2000	2.767.082.641	6.906.673.034
2001	2.237.869.624	9.022.980.136
2002	2.785.617.923	9.016.574.827
2003	2.368.938.905	5.923.516.014

Source: Central Registry of the Republic of Macedonia

**18. Please describe the basic features of market entry in the corporate sector (business register, licensing procedures, number of separate administrative procedures, average amount of time for incorporation) and of market exit (bankruptcy procedures)? (see also chapter 15 – Industrial Policy and chapter 16 - SMEs)**

With the Company Law, (CL), enacted on 30.04.2004 (“Official Gazette of RM” No. 28/2004), (see [05 Annex 01](#)), new approach in registration of companies has been introduced. It envisages simplified provisions for entry in the trade register and introduction (by September 2005) of one-stop-shop system for company registration in the Republic of Macedonia.

It is also planned to introduce a single trade register of the Republic of Macedonia (as of 01.03.2005) which, would provide recording of the companies’ registration documents in an electronic form in addition to records in a written form (as of 01.07.2005) Hence, the electronic form trade registry would be a part of the central information base of the Central Registry.

The entry procedure in the trade registry is regulated by the CL (Articles 82-109), with Courts of First Instance “Skopje I” in Skopje, “Bitola” in Bitola and “Stip” in Stip entitled for the procedure. The procedure for entry into the trade registry is urgent and is implemented in line with the rules for non-litigation procedure.

Registration procedure for a company comprises (market entry, with a time schedule from existing practice):

1. Submitting registration documents to the competent court:

- Statement/ contract of the founder/ the founders verified by a notary public;
- Authorisation of the company manager;
- Appraisal of the initial capital (if there is such), or payment of the initial capital into a private temporary bank account of the founder of the company (min. of EUR 5.000);
- Court decision for entry;
- Published company registration in the Official Gazette.

If all documents have been properly filled in, the court decision for entry may be obtained in 8 days.

2. Obtaining an identification number of the legal entity in the State Statistical Office (Records of legal entities).

- The State Statistical Office issues the following documents:
- Decision for distribution of the business entity according to the dominant activity,
- Decision for changes in the status of a business entity
- Decision for deleting a business entity from the registry.

The average time for registering a trading company in the Records of legal entities kept at State Statistical Office is 5 hours.

3. Registration of a company in the Public Revenue Office for obtaining a unique tax number.

The average time for obtaining the unique tax number is three to five days.

4. (Optional) Obtaining a customs reference number from the Customs Administration, if the company plans to deal with foreign trade.

The average time for obtaining customs number is one day.

5. Opening an account in a commercial bank.

The average time necessary for opening an account in a commercial bank is 2 days. .

6. (Optional) Providing working visas/residence visas, if some of the founders, managers or employees are foreign citizens.

7. Registering the employees in the Employment Agency Registry, as well as in the Health Fund and the Pension Fund.

Average time necessary for this activity is 1-2 days.

8. (Optional) Providing special licences (e.g. a licence for technical conditions, a sanitation licence as well as a licence for protection during work and alike) from the competent institutions.

Company Liquidation - Unless a bankruptcy procedure for the company is initiated, after enacting a decision for termination of the company a liquidation procedure is carried out.

Unless the provisions of this Law state something else or the objective of liquidation determines a different approach, until the completion of the liquidation, the provisions of this Law apply to the companies that have not been terminated.

The regulation of bankruptcy procedures in the Republic of Macedonia is carried out pursuant to the Bankruptcy Law ("Official Gazette of RM", No. 55/1997, 53/2000, 37/2002 and 17/2004). The latest amendments of the Bankruptcy Law contain provisions for accelerating the bankruptcy procedure and achieving greater efficiency and quality of the bankruptcies (for more details see [II VI B 8](#)).

The liquidation of companies that are not viable may be carried out by initiating a bankruptcy procedure pursuant to the provisions of the Bankruptcy Law, due to illiquidity and insolvency.

As of 30.09.2004, 1.087 companies have been deleted from the Register of legal entities, 189 companies are undergoing bankruptcy procedures and 82 companies are undergoing a process of liquidation.

**19. State aid: How have subsidies and public guarantees developed over time? According to what economic criteria is state aid granted? Is there a medium-term target on scaling public guarantees down? (see also chapter 6 – Competition)**

Republic of Macedonia does not use subsidies, including export subsidies, covered by the definition of prohibited subsidies within Article 3 of the Agreement of Subsidies and Countervailing Measures.

The state aid in the Republic of Macedonia is awarded pursuant to the Law on State Aid ("Official Gazette of RM", No. 24/2003) and the following decrees: Decree on the method and procedure for submitting a report to the State Aid Commission and for estimation of the state aid, Decree on determining the conditions and the procedure for awarding aid for assistance and reconstruction of the companies facing difficulties and Decree on determining the conditions and the procedure for awarding regional assistance ("Official Gazette of RM" No. 81/2003).

The following regulations have been implemented in the Macedonian legislation: Articles 87-89 of the Treaty for Establishing the European Communities, Commission Regulation No. 69/2001 and Regulation of the Council of the European Communities No. 659/1999.

The objectives (subject) of the mentioned Law have been defined in the following way:

- Any State aid, irrespectively whether it is granted under an aid schemes or as an individual aid award, which distorts or threatens to distort competition by favouring certain undertakings of certain products, is incompatible with the provisions of this Law if it may influence the trade between Republic of Macedonia and the European Community (hereinafter: Community)
- Aid granted contrary to the provisions of this Law shall be reimbursable.
- Export aid is not compatible with the provisions of this Law.

In this sense, several types of state aid have been determined, which are defined and awarded in accordance with the following criteria:

**A. Compatible Aid (Article 4)**

- a) Aid having a social character, granted to individual consumers, if it doesn't make discrimination related to the origin of the products,
- b) Aid to make good the damage caused by natural disasters or exceptional events including military activities.
- c) Aid granted outside the sectors of transport, agriculture and aquaculture, which is not linked to export-related activities and not conditional upon the use of domestic products over goods imported from the Community, if the amount of de minimis aid received by an aid recipient does not exceed 100.000 € over any period of three years, irrespectively of the form of aid or the objective pursued.

**B. Aid which may be compatible (Article 5)**

- a) Regional aid to promote the economic development of areas of the Republic of Macedonia, where the standard of living is abnormally low or where there is serious underemployment,
- b) Aid to remedy a serious disturbance in the national economy or to promote the execution of a project of significant economic interest for the Republic of Macedonia,
- c) Aid to facilitate the development of certain economic activities or of certain areas of the Republic of Macedonia, where it does not cause serious injury to the proper functioning of the agreements referred to in Art.1,

- d) Aid to promote culture and heritage conservation where such aid does not seriously affect trading conditions and competition.

C. Regional Aid (Article 6)

- (1) Aid for regional development may be granted in the form of grants, soft loans, State guarantees or tax incentives.
- (2) The aid intensity may be up to 50 % of the investment amount or of the wage costs of employees on newly created jobs over a period of two years.
- (3) The investment and the new jobs created must be maintained for at least five years.
- (4) Conditions and procedure for regional aid are established by the Government of the Republic of Macedonia.
- (5) The aid ceiling of paragraph 2 of this Article is subject to revision four years after the entry into force of the Interim Agreement on Trade and trade-related matters between the Republic of Macedonia and the European Community.

D. Aid for small and medium-sized enterprises (Article 7)

- (1) Aid aiming at promoting the activities of small and medium-sized enterprises by supporting investment in tangible and intangible assets up to 30% of the eligible investment cost or the wage cost over a period of two years may be compatible, provided that the total aid intensity does not exceed 75 % of the investment cost.
- (2) Aid aiming at providing consultancy, which is not a continuous activity, and aid supporting the first participation of an undertaking in fairs and exhibitions may be compatible up to 50 % of the participation cost.

E. Aid for rescue and reconstruction (Article 8)

- (1) Aid for rescuing to the amount indispensable may be compatible in the form of a State loan or State guarantee at market costs for a period of 6 months, during which a restructuring plan is prepared.
- (2) Restructuring aid may be compatible if it is based on a restructuring plan containing measures of restructuring which will guarantee the long-term viability of the undertaking, and which is approved under the provisions of this law.
- (3) Conditions and procedure for granting rescue and restructuring aid are established by the Government of the Republic of Macedonia.

With the accession of the Republic of Macedonia to the WTO, on 04.04.2003, Macedonia has committed itself to remove, and as of the day of accession not to introduce any subsidies covered by the definition of prohibited subsidies within the meaning of Article 3 of the Agreement on Subsidies and Countervailing Measures, and therefore Republic of Macedonia did not ask for a transition period for abolishment of those measures. Each future subsidies programme would be administered in accordance to the Agreement on Subsidies and Countervailing Measures and notified to the Subsidies and Countervailing Committee, pursuant to Article 35 of the Agreement, for the programmes that need to be notified. (Law on Ratification of the Protocol for Accession of the Republic of Macedonia to the World Trade Organisation ("Official Gazette of RM" No.7/2003).

One of the basic objectives in the development documents of the Republic of Macedonia on mid- and



long-term basis is the gradual reduction of the state intervention in the market and creating conditions for further improvement of functioning of the market economy. Here, it is anticipated that the role of the state is expressed in prescribing general rules for market behaviour and in the efficient control over the implementation of the prescribed rules of behaviour of the business and other entities.

This role of the state is realised by leading consistent macroeconomic policy and by corrections of the permanent market deviations in line with the measures and criteria applied in the developed market-oriented economies. For the realisation of these objectives it is anticipated that more emphasis is given to the economic (monetary, credit, fiscal, balance of payment and alike) measures of the macroeconomic and development policy, while the administrative measures (prohibitions, licences, quotas, stimulations and alike) should be reduced and brought to minimum frames accepted by the World Trade Organisation and practiced in the developed market economies.

**20. Please indicate what you consider the main priorities in the areas of macroeconomic policy, and structural/microeconomic reform?**

The economic reforms, implemented by the Government of the Republic of Macedonia, are directed towards realization of the key macroeconomic objectives:

1. Increasing the mid-term economic growth rate, mainly through intensification of the structural reforms;
2. Reducing the rate of unemployment, and to that end, reducing poverty; and
3. Improving the business climate and acceleration of integration of the Republic of Macedonia in the EU.

(1) The intensification of the economic growth and acceleration of process of EU integration are complementary to the commitments of the Government of the Republic of Macedonia to intensify the structural reforms as a part of the medium-term macroeconomic policy of the country.

The structural reforms are focused on the real sector, the business environment, the judiciary, the labour force market, the public sector, the water management, the pension system, the corporate governance, the transformation and restructuring of certain enterprises in state ownership and the banking sector.

*Real sector* – During the past year, the intensification of the structural reforms resulted in successful completion of the process of privatisation of the loss-making companies where the state was a significant or predominant creditor, and which were covered by the FESAL 2 arrangement, practically meaning a completion of the privatization process. Hence, these enterprises are expected to restart their operations in 2005, thus entailing positive effects on the overall economy.

*Reform in the business environment and improvement of the business climate in the country* – improvement of the business climate is one of the basic priorities of the Government policy in 2005 and encompasses the following:

- Judiciary system reforms – for more details, please see [I D](#);
- Labour market reforms – for more detail, please see [Chapter 13 - Social Policy and Employment](#);
- Pension system reforms – for more details, please see [II VI E 4](#);
- Improvement of the business regulation and corporate governance and financial sector management;
- Reforms in the public sector and water management - for more details, please see [II V 15](#), [II V 16](#) and [II V 17](#);
- Privatization of the state-owned construction land - in 2005, the privatisation processes in this area, i.e. the privatization and other forms of transformation of the state-owned construction land, will be intensified

*Development of the banking sector* – A basic precondition for mobilisation and efficient allocation of the financial resources, for enhancing saving and investment, as well as for creating an optimal interest rate structure is definitely the sound and competitive banking system. Accordingly, modifications and amendments to the Banking Law are envisaged in 2005, that will be aimed at: a/



precise definition and additional regulation of the procedure and the measures towards the banks facing problems in their operations; b/ establishment of a legal basis for market risk regulation and management; c/ elimination of the bank restrictions for investments in financial institutions; d/ increase in the minimal amount of capital required for establishment of a bank to EUR 5 million; and e/ redefinition of the financial activities the banks may perform. In addition, the modifications and amendments to the Banking Law will contribute to the further regulating of the status of the current savings houses, which are to be transformed into savings banks.

With respect to the remaining activities, in 2005, the necessity to adopt a regulation on non-banking institutions will be analysed, with a special emphasis on the services to be subject to this regulation, above all, factoring, crediting and cash cards.

With a background of intensifying economic activity, entailing up to 6-7% growth in industrial production, the real GDP growth is expected at 3,8%. According to the projections, these macroeconomic policies would lead to a sustainable economic growth, price stability expressed by a low average annual inflation of from 0,6% up to 1,5%, low deficit of the central government budget at a level of 1% of the GDP, reduction of the consolidated budget deficit, projected up to 2% and continuous reduction of the Balance of Payments (BOP) current account deficit to a level below 5,5%.

(2) Within these frameworks, the employment policy, as one of the main pillars of the macroeconomic policy will be focused on establishing mechanisms needed to urgently put an end to the rise of unemployment and to restore the distorted functions of the labour market. The basic elements of the employment policy will be the active measures for promotion of investments and employment, labour market reforms and creation of a climate for greater flexibility and competitiveness.

At the same time, activities regarding harmonisation and adjustment of the labour legislation with the EU legislation will continue, with the aim of implementing the Stabilisation and Association Agreement of the Republic of Macedonia, as a condition for accession into the EU. The tripartite dialogue between the representatives of the Trade Union, the Economic Chambers and the Government of the Republic of Macedonia will be a platform for revision and upgrading of the existing labour legislation. In addition to the social agreement concluded with the Association of the Trade Unions of the Republic of Macedonia, the Government will offer an appropriate agreement to the employers, without whose active participation, consent and support, the employment policy, especially the necessary greater flexibility of the labour market would be impossible to achieve.

(3) Intensification of the structural and institutional reforms, as well as the creation of favourable business environment, will play a crucial role in the process of integration of Republic of Macedonia into the EU, by attracting more foreign direct investments and expansion of the private sector as a driving force of the development. These objectives will be achieved through various types of measures and specific policies.

- Intensive and dynamic international cooperation as a core of the future export-oriented economic development concept - Republic of Macedonia will continue the harmonisation of the trade regulations with the ones of the EU, as well as with further foreign trade liberalisation under the auspices of the WTO. With the objective of successfully competing on the international market, the development concept of the Republic of Macedonia will be based on the improvement of the competitiveness of the business sector. Thus, the basic medium- and long-term objectives of the foreign trade policy of Republic of Macedonia are the following: increase of the share of export in the structure of GDP, improvement of the condition with the balance of payments, stimulation of the inflow of FDI, strengthening the regional economic cooperation, strengthening the existing and creating new competitive advantages based on technological modernization of the economy and on the improvement of the quality of education, governance and management skills.
- 
- Further price liberalisation, in parallel with the protection of competition - Fundamental objective of the price policy (price liberalisation) and the protection of competition is the creation of conditions for a proper and efficient allocation of resources. The Government

committed itself to establishing transparent regulatory and institutional mechanisms that would enable open and fair competition, including the public service sector. To the end of efficient implementation of the market competition protection policy, the existence of an efficient legal system and appropriate institutional infrastructure is necessary. In this area, the harmonization of the national legislation with the one of the EU is underway.

- Full operationalisation of the regulatory framework for supporting the market economy – The private sector in the Republic of Macedonia often faces a number of obstacles, mostly due to certain deficiencies in the legislative and regulatory framework. On the other hand, this requires improvements in the area of the accounting standards and their application, the definition of the tax base, the procedures for registration of enterprises, as well as the development of regulation for security of the claims.
- Promotion of human capital – Human capital development in the Republic of Macedonia is focused on enhancing its quality and employment. Lack of management skills is also one of the main problems hindering the faster restructuring of the business sector. Regarding the policy of improvement of human resources and the labour market, among the priority objectives are: stimulation of the job creation, stimulation of the continuous investment in human capital via provision of appropriate network of public and private education, elimination of the remaining institutional inflexibility on the labour market and social protection, greater mobility of labour and reduction of informal sector employment.
- Continuation of the business sector reforms (enterprise sector) – The policies in this area will be focused on the structural changes and improvement of the competitiveness of the enterprises and will be closely related to the policy of technological development, entrepreneurship promotion and establishment of new enterprises. The improvement of the investment climate will remain a fundamental objective of the Government, enterprises will also be stimulated to structurally adjust to the variable competitive conditions and to improve their market operations.
- 
- Public finance system reform – The reforms in this area refer, above all, to harmonization of the tax and customs regulations and procedures with the EU standards, fiscal decentralization, improvement of the financial sustainability through accountability and transparency as a basis of the budget and tax reforms, further improvement of the treasury system, public administration reform and improvement of the public procurement system.
- Continuation of the financial sector reforms – focused on further strengthening of the financial system stability, strengthening of the competition in the sector and improvement of the regulation of and supervision over the financial institutions. At the same time, banking system reforms will be carried out via further strengthening of the banking system stability and security and adjustment towards the international Basel standards and EU directives.
- Improvement of infrastructure and institutional arrangements for public utility services – The measures are focused mainly on establishing commercial orientation and management with public enterprises via commercialisation and appropriate price policy based on coverage of total costs, legislation amendments and establishment of independent regulatory bodies and systems for monitoring and evaluation of the effect on the final beneficiaries of the services rendered by the public sector, enhancing market competition and further price liberalisation and increase of domestic and foreign investments in transport, telecommunications and energy.
- Stimulation and promotion of local economic development – The main orientation in this area is the achievement of sustainable development of municipalities (local self-government units). With regard to the territorial organisation and building local self-government, the territorial organization was redefined by creating smaller number of units, existing deficiencies in the functioning of municipalities were corrected and conditions were created for enhancing their capacity to create sustainable local economic development by using their own revenues. The new legal solutions establish municipalities that will be capable to perform their functions, to prepare and realize plans for local economic development and to act as partners in the European Structural Funds in the cross-border regional cooperation.
- Environmental protection – The main objectives of Macedonia in the area of environmental protection encompass the following: achievement of ecologically sustainable economic development, greater competitiveness and integrative approach towards environmental

issues, gradual harmonisation of the national legislation in this area with the EU environmental legislation and active participation in the international efforts for resolving global pollution and environmental degradation, protection of biodiversity and habitats, active involvement in the international systems for environmental protection and sustainable management of natural resources and their protection.

In 2005, the Macroeconomic policy will continue to focus on:

- Maintenance of macroeconomic stability
- Stabilization of the budget deficit at a sustainable level (within the Maastricht criteria) and
- Creation of favourable environment for interest rates reduction with the aim of stimulating the investment cycle

To that end, careful coordination is envisaged of the monetary, fiscal and income policy, focused on achieving fiscal and external sustainability while maintaining low level of inflation. The monetary policy will continue to contribute towards the maintenance of macroeconomic stability by achieving the ultimate goal – price stability. From the aspect of exchange rate policy, in the orientation for integration into the European Union, Republic of Macedonia will follow the path of accepting the commitments for accession into the European Monetary Union.

In the next period, the Republic of Macedonia will continue the liberalisation of capital flows in accordance with the time schedule envisaged in the SAA. The EU rules on capital flows will be gradually implemented and the full capital flow liberalisation should be expected by the moment of accession into the EU at the latest. The capital transaction liberalisation process in the Republic of Macedonia was completed when the new Law on Foreign Exchange Operations came into force ("Official Gazette of RM", No.31/2001, 49/2001, 51/2003), when direct investments became fully liberalised, thus equalising the foreign investors with the domestic ones, i.e. granting them national treatment. At the same time, full liberalisation was made to all commercial and financial credits (short-term, medium-term and long-term).

**21. How has the sectoral economic structure changed over time (in terms of value added to GDP and employment)? What sectors have been most dynamic in growth and/or job creation?**

The analysis of the sectoral structure of the economy of the Republic of Macedonia for the period between 1997 and 2002, in terms of the share of value added in the GDP and the number of employees, reveals the following dynamics:

- During the observed period, according to the National Classification of Activities, the most dynamic development is noted in the Transport, Storage and Communication sector. This development shows an increase of the share from 6,1% in 1997 to 9,3% in 2001, and then decline in 2002 on 8,4%. From the point of view of the share of this sector in terms of the number of employees, during this period, the same tendency may be noted, i.e. an increase from 6,5% on 1997 to 7,3% in 2001, as well as a reduction of 6,7% in 2002;
- 
- An increase of the share in the number of employees according to the National Classification of Activities has been noted in the following sectors: Electricity, Gas and Water Supply from 3,1% in 1997 to 3,3% in 2002; Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles and Personal and Household Goods from 12,9% in 1997 to 13,9% in 2002; Hotels and Restaurants from 2,6% to 3% in 2002; Financial Intermediation from 1, 1% in 1997 to 1, 4% in 2002; Real Estate, Renting and Business Activities from 2,2% in 1997 to 2,6% in 2002; and Public Administration and Defence, Compulsory Social Security from 6,6% in 1997 to 7,2% in 2002. Typical for these sectors, in the observed period, is that in spite of increasing share in total employees, a reduction in the share of value added in the GDP may be noted;
- 
- Although, during the observed period, the Processing Industry, according to National Classification of Activities, features the highest share of value added in the GDP, an annual

reverse trend of that share from 18,9% in 1997 to 15,5% in 2002, can be noted. From the point of view of share in total employees, oscillations may be observed during the period from 1997 to 2002, i.e. an increasing trend in 2000, with continuous decrease beginning from 2001.

## 22. How has the size of firms developed? Please describe the main impediments to growth and job creation for local companies. )? (see also chapter 16 - SMEs)

As a result of the economic and ownership restructuring that was mostly implemented through the process of privatization of the companies and the opening of new ones, the Macedonian economy has undergone significant changes. Firstly, the number of companies has rapidly increased, most of which are newly opened small companies. As a result of this process, the small companies now have a dominant share in the structure of the companies. An additional indication of this trend is the continuous reduction in the average number of employees in the companies (this number has been reduced from an average of 215,8 employees per company in 1989, to 8,4 employees in 1997 and 6,8 in 2003).

The number of craftsmen, registered as natural persons was 7.500 persons in 2003, which denotes a high presence of small economic entities in the economic structure of the Republic of Macedonia.

The definition of an active company in the tables that follow is taken from the banking practice (dynamics of inflow/ outflow of funds from the bank account).

### Active companies

Year	Number of companies	Number of employees
1989	2.003	432.400
1997	33.455	283.142
2003	39.199	262.728

Source: According to the data from the Payment Operations Bureau (1989 and 1997) and the Central Registry (2003)

### Active companies 2001

Companies by size	Number	Percentage of the total	Employees	Share of employees in the total
Small companies	34.113	98,3	119.565	40,9
Medium-sized	484	1.4%	72.565	24,8
Large	119	0,3%	100.526	34,3
Total	34.716	100.0	292.656	100.0

Source: Central Registry of RM

### Active companies 2002

Companies by size	Number	Percentage of the total	Employees	Share of employees in the total
Small companies	35.858	98,3	122.046	44,0
Medium-sized and large	608	1,7	155.214	56,0
Total	36.466	100	277.260	100,0

Source: Central Registry

### Active companies 2003

Companies by size	Number	Percentage of the total	Employees	Share of employees in the total
Small companies	38.581	98,5	110.373	42,0
Medium-sized and large	618	1,5	152.355	58,0
Total	39.199	100,0	262.728	100,0

Source: Central Registry

According to this, the number of active small economic entities continuously increases, but the total employment in the economy is reduced. The growth of new companies is not followed by appropriate

increase in employment, which is due to the liquidation of numerous companies, especially non-privatised and loss-making companies.

The main barriers for accelerated development of the new small private economic entities and for development of the entrepreneurship are located in several fields:

- Absence of relatively easy access to capital for start-up companies and SME's, especially due to the rigid banking criteria for granting funds, especially the high demand for collateral (1:2), and, certainly, high interest rates. There are insufficient credit-guarantee funds (only 2, financed by donors and with insufficient amount of funds) especially at the local level, as well as other supporting instruments (programs for establishment of new companies by young and well-educated people, potential women entrepreneurs, entrepreneurs in the rural areas etc.)
- The insufficient institutional support in function of the assistance and support of entrepreneurs in all fields of business, providing advice, business information, continuous training, assistance in export, for promotion of quality, technological support etc.

**23. Describe how the level (in % of GDP), structure (type and quality of investment, economic sector) and source (public/private) of gross fixed capital formation has developed in the last years. Please indicate the share related to post-war reconstruction and infrastructure investment including changes in roads, rail and telephony lines. Please also make a particular reference to R&D expenditure in this context. Please provide a synthetic assessment on the quality of major infrastructures (transport, telecommunication, energy), indicating areas where investment needs are more important.**

The data on the level of investment (as a percentage of the GDP) and the structure (type and quality of investments) as well as the sources of investment funding (public and private) have been provided in Table 4 – GDP according to expenditure categories (see [II.1.1](#)).

The investment data according to their purpose are shown in the following Table:

### Gross fixed capital formation by purpose of investment

In million MKD - current prices

NACE sector	Description	2000	2001	2002	2003
	Total	38.332,26	34.716,08	40.447,60	42.109,86
A	Agriculture, hunting and forestry	1.795,36	1.113,33	1.234,82	1.375,28
B	Fishing	0,13	1,21	2,02	3,39
C	Mining and quarrying	120,06	314,36	306,70	114,57
D	Manufacturing	5.095,50	5.450,42	7.291,97	7.684,43
E	Electricity, gas and water supply	3.562,43	3.141,39	3.306,42	4.178,81
F	Construction	13.037,68	8.977,07	9.848,20	11.413,10
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	1.601,43	1.137,09	1.913,77	2.291,34
H	Hotels and restaurants	672,96	916,02	1.213,55	897,03
I	Transport, storage and communication	7.999,69	7.824,35	8.501,45	8.925,27
J	Financial intermediation	905,36	1.190,68	2.062,26	1.594,78
K	Real estate, renting and business activities	404,07	466,90	348,94	427,62
L	Public administration and defence; compulsory social security	1.337,87	2.630,86	2.285,04	1.233,38
M	Education	427,54	338,22	378,27	433,17

N	Health and social work	920,87	790,50	1.475,50	1.148,32
O	Other community, social and personal service activities	451,33	423,69	278,67	389,36

Source: State Statistical Office

The data on investments in infrastructure (roads and railroads), please see attachment to [09 III A2 2](#).

The investments in the area of telecommunications are presented in the following table:

### Investment in telecommunication

NACE class	Description	In million MKD- current prices			
		2000	2001	2002	2003
6420	Telecommunication	4.371,16	5.673,70	5.450,77	7.209,17

Source: State Statistical Office

The expenditures for research and development are presented in the following Table.

### Total expenditures for R&D by sector of performance and by type of expenditures

In million MKD- current prices

	Total	Type of expenditures						
		current expenditures			capital expenditures			
		total	salaries	other current expenditures	total	construction and land	instruments and equipment	other
				2000				
Total	1.041,52	948,34	520,90	427,45	93,18	22,96	59,46	10,75
Business Sector	59,45	56,46	27,84	28,62	2,99	0,00	1,97	1,02
Government sector	982,07	891,89	493,06	398,83	90,19	22,96	57,49	9,73
				2001				
Total	739,76	673,54	416,31	257,23	66,22	6,23	54,49	5,51
Business Sector	45,56	43,54	26,74	16,80	2,02	0,00	1,29	0,73
Government sector	694,20	630,00	389,57	240,43	64,20	6,23	53,20	4,78
				2002				
Total	632,52	598,23	376,97	221,25	34,29	6,78	21,35	6,16
Business Sector	16,45	16,45	12,76	3,69	0,00	0,00	0,00	0,00
Government sector	616,07	581,78	364,22	217,56	34,29	6,78	21,35	6,16
				2003				
Total	565,98	513,71	299,45	214,26	52,27	31,24	20,15	0,88
Business Sector	7,29	7,29	6,20	1,10	-	-	-	-
Government sector	558,69	506,42	293,25	213,17	52,27	31,24	20,15	0,88

Source: State Statistical Office

*Priorities* - The Government of the Republic of Macedonia, having in mind the considerable needs in the public sector and the limited resources available, gives particular attention to rational use and planning of funds allocated for investments in the public infrastructure. The Government of the Republic of Macedonia adopts and implements a mid-term Public Investment Programme as a continuous planning instrument.

The Public Investment Programme includes investment projects according to the priority needs in the following areas:

- Energy
- Transport
- Water Supply
- Irrigation
- Environment
- Health and Education

The timeframe of the Programme is three years, where the first year is always the fiscal (current) year and the next two years include the assessed or planned needs for funding (expenditures).

The Programme is revised every year, considering that the changes must be recorded with respect to the realised public investments as well as with respect to the newly planned activities.

The current Public Investment Programme covers the period between 2004 and 2006.

Overview of planned investments in the public sector in the period between 2004 and 2006				In million EUR
Sector	2004	2005	2006	Total
Total	270,04	300,80	258,94	829,78*
Energy	63,43	44,75	36,22	144,40
Transport	94,64	98,68	92,71	286,03
Water economy	18,33	26,17	22,85	67,35
Communal Services& Housing	36,31	41,85	13,71	91,87
Environment	11,60	13,73	13,24	38,57
Other Sectors of Economy	5,03	5,06	5,09	15,18
Education and Science	8,39	34,95	34,46	77,80
Health	3,26	1,93	1,93	7,12
Non Economy Sectors	29,05	33,68	38,73	101,46

\* The data have been taken from the Public Investment Programme in the Republic of Macedonia for 2004 – 2006.

Currently, the Programme for 2005 - 2007 is being prepared. The Programme, in addition to the capital investment funds from the Budget of the Republic of Macedonia will also include the funds provided by the international community, the European Union, bilateral donors, as well as funds provided through direct foreign investments, joint ventures and concessions.

The Programme presents the current situation as well as the planned future activities in transparent manner.

#### **24. Describe the initiatives taken to enhance the business environment and the results achieved so far. (see also chapter 16 - SMEs)**

In the past several years, many significant initiatives were realized aiming at improvement of the business climate for SMEs. Most of the laws were revised and adopted, by harmonizing the national with EU legislation.

Thus, in 2004, a new Company Law was adopted ("Official Gazette of RM", No. 28/2004), regulating the performance of commercial activities by both individuals and legal entities. The Law envisages a framework that significantly increases the transparency in terms of publishing data and documents related to the operations and the financial conditions of the companies. The Law also envisages a higher level of protection of the minority shareholders, as well as a protection of the interests of the creditors and third parties. In addition, the new Law introduces, for the first time, a definition of the micro-enterprises, as a small-scope commercial activity.

In the course of 2004, a new Law on Trade was adopted ("Official Gazette of RM", No. 16/2004), regulating the domestic and foreign trade. The Law is in line with the provisions and requirements deriving from EU and WTO agreements and it introduces the legal basis for promotion and development of modern commercial activities. The Law defines the manners of trading and establishes clear and equal terms and conditions for performing trading activities. The Law enables decentralisation of the commercial activities and their supervision, thereby giving greater competences to the local authorities. In addition, the Law envisages liberalization in terms of issuance of licences for commencing commercial activity.

The Law on Establishment of Entrepreneurship Agency was adopted in 2003 ("Official Gazette of RM", No. 60/2003), thereby determining the main task of newly established Agency, as realization of program of measures and activities for support of entrepreneurship and creation of competitiveness among small businesses in RM, as well as implementation of the European Charter for Small Enterprises. The Agency is responsible for coordination and development of a network of institutions for support of the development of the entrepreneurship and the small business, as well as for supporting the application of innovations and introduction of modern technologies in the small businesses. The Agency commenced operating in May 2004.

The Law on Leasing, adopted in 2002 ("Official Gazette of RM", No. 4/2002) and its amendments adopted in 2003 ("Official Gazette of RM", No. 49/2003) contain numerous incentives for entrepreneurs and small and medium-size enterprises, and offer opportunities for acquiring and replenishment of production equipment under more flexible terms, without using their own funds and without any security (collateral) instruments.

In 2004, the following laws were adopted: Law on Artisanry ("Official Gazette of RM", No. 62/2004), Law on Tourism ("Official Gazette of RM", No. 62/2004) and Law on Catering ("Official Gazette of RM", No. 62/2004), setting the bases, the terms and conditions and the manners of performing the activities related to artisanry, tourism and catering.

The Consumer Protection Law, adopted in 2004 ("Official Gazette of RM", No. 38/2004) envisages a greater consumer protection by imposing an obligation for the producers to provide clear and comprehensive data and information on the products and services, as well as instructions for their use. The Law contains provisions for enhanced supervision and monitoring of the producers' compliance with the standards prescribed in the legal regulations, and thereby it also envisages strict provisions for initiating legal actions in cases of violation and disrespect of the consumers' rights.

In 2002, the following laws were adopted: Law on Standardization ("Official Gazette of RM", No. 54/2002), Law on Accreditation ("Official Gazette of RM", No. 54/2002), Law on Metrology ("Official Gazette of RM", No. 55/2002) and Law on Stipulating the Technical Requirements for Products and Conformity Assessment ("Official Gazette of RM", No. 54/2002). These laws play an important role for the enterprises and contribute to quality assurance and competitiveness of national products and services.

In addition to the amendments and the adoption of legislation on business environment, two additional initiatives were also implemented in the past period. In order foster economic development in Republic of Macedonia, various measures have recently commenced, aiming at attracting foreign investors. Thereby, foreign citizens, intending to register a firm or to invest in Republic of Macedonia, are exempt from paying profit tax during the first three years, as well as from paying value added tax for the (physical) items they invest as initial capital.



These activities are also listed in the FIAS/World Bank Project Report, which also indicates the activities for improvement of the business climate, as well as the assessment of implementation of reforms. In 2003, FIAS prepared a Study of Administrative Barriers to Investments. Both the Government and the private sector accepted the findings and the recommendations in this report. The Report determines five priorities, considered by all institutions in parallel, aimed at creating more favourable investment climate. According to the Study, most urgent reforms are needed in the field of:

- Registration of companies;
- Labour legislation (working permits);
- Access to land;
- Construction permits;
- Customs administration.

In that sense, in December 2002, the Government established a Steering Committee, as a main inter-ministerial body, including representatives from the private sector. In April 2003, the Ministry of Economy decided to merge the FIAS program with the Investment Compact Action Plan of the Stability Pact for SEE. In August 2003, the Government approved the Programme for Stimulating Investment in Republic of Macedonia, (see [II Annex 05](#)), prepared in cooperation with UNDP Country Office in Macedonia.

The Programme for Stimulating Investment in Republic of Macedonia focuses on the aforementioned five most urgent priorities, but it has also identified other priorities requiring urgent realization, such as:

- Reduction of the corruption, bribe and grey economy (State Anti-Corruption Commission, 2003);
- Increase of both the transparency and the consistency of the public administration;
- Improvement of the communication with the private sector;
- Improvement of the judiciary system;
- Improvement of the banking system;
- Improvement of corporate governance;
- Reduction of labour market rigidities;
- Improvement of the Public Revenue Office;
- Improvement of the inspection services;
- Improvement of competition.

A Foreign Direct Investment (FDI) Interim team was also established within the Programme, in order to fill in the time gap until the establishment of the Foreign Investment Agency of Republic of Macedonia (FIARM).

The Law on Establishment of Foreign Investment Agency, adopted in September 2004 ("Official Gazette of RM", No. 37/2004), regulates the establishment, the organizational structure and the operations of the Agency, the main objective of which is to ensure greater inflow of foreign direct investments, thus fostering economic development. The main competencies of the Agency are development, updating and implementation of investment promotion strategies for the purpose of attracting foreign direct investments, as well as ensuring high-quality professional services to investors in the process of pre-investment, investment and re-investment.

In that context, Euro Info Correspondent Centre commenced its operations in mid-2004.

With respect to the initiatives in the area of export promotion, increasing attention is paid to the realization of the following objectives:

- Promotion of Macedonian products in the country and abroad through marketing and promotional campaigns, participation at fairs, etc.;

- Transfer of experience from other countries to the Republic of Macedonia (through business meetings, forums, etc.);
- Opening of Macedonian Economic Offices in other countries, within the embassies, with the goal of promoting Macedonian products and attracting foreign direct investments;
- Implementation of the initiative via MCA – Macedonian Competitiveness Activity.

The Government supports the application of fiscal and the financial incentives when attracting FDIs.

Although the existing incentives are attractive, the Government resumes activities for improvement of economic environment and harmonising the business climate with modern economies'. All these activities should lead to a greater competitiveness of the Macedonian products outside the country, increased export, consistent application of the standards on quality, and reduction of unemployment and the grey economy.

**25. Trade:**

**a) Please provide information on main trading partners (for both merchandise imports and exports) and overall structure of trade by sector.**

**b) How has the trade integration with the EU developed over time? What are the main EU trading partners and products? How concentrated are the main export products to (parts of) EU markets? How has the export structure changed? Are there indications of a shift from resource- or labour-intensive to capital- or technology-intensive products?**

**c) How do you explain the relatively low growth in merchandise exports in the past years?**

**d) Which shares of exports and imports are denominated in euro, in US\$ and which in other currencies?**

**a)**

Data on the major trade partners to the Republic of Macedonia are presented in the following tables:

**Table a1 - Major trade partners of the Republic of Macedonia (export)**

	2000		2001		2002		2003		January-September 2004	
	amount in US\$	amount in EUR	amount in US\$	amount in EUR	amount in US\$	amount in EUR	amount in US\$	amount in EUR	amount in US\$	amount in EUR
<b>Total RM</b>	<b>1.322.617.030</b>	<b>1.436.444.975</b>	<b>1.157.506.515</b>	<b>1.293.301.630</b>	<b>1.115.526.926</b>	<b>1.178.349.577</b>	<b>1.363.251.751</b>	<b>1.203.812.612</b>	<b>1.026.579.726</b>	<b>837.979.473</b>
<b>Total</b>	<b>1.204.633.922</b>	<b>1.307.240.947</b>	<b>1.081.932.709</b>	<b>1.208.966.215</b>	<b>1.040.271.892</b>	<b>1.098.942.652</b>	<b>1.260.815.024</b>	<b>1.113.345.091</b>	<b>959.692.318</b>	<b>783.510.755</b>
<b>Greece</b>	<b>84.106.817</b>	<b>91.605.398</b>	<b>101.131.920</b>	<b>112.951.757</b>	<b>116.949.561</b>	<b>123.281.510</b>	<b>179.813.465</b>	<b>158.739.851</b>	<b>142.712.248</b>	<b>116.585.285</b>
industry	71.808.547	77.792.841	93.851.167	104.786.854	107.518.787	113.468.306	165.991.207	146.608.364	136.689.324	111.659.310
agriculture	12.085.623	13.580.122	6.760.516	7.584.456	9.105.784	9.466.219	13.586.967	11.926.531	5.549.878	4.541.955
other	212.647	232.434	520.237	580.447	324.991	346.985	235.291	204.956	473.047	384.020
<b>Spain</b>	<b>13.241.788</b>	<b>14.481.498</b>	<b>21.450.641</b>	<b>24.150.034</b>	<b>14.576.033</b>	<b>15.787.202</b>	<b>21.275.456</b>	<b>18.802.154</b>	<b>6.562.505</b>	<b>5.295.607</b>
industry	12.539.406	13.732.937	20.402.700	22.981.287	13.451.264	14.567.605	19.535.979	17.229.710	5.344.570	4.323.293
agriculture	700.882	746.858	1.012.324	1.129.375	1.123.176	1.218.041	886.035	818.362	1.066.854	848.115
other	1.500	1.703	35.617	39.372	1.593	1.556	853.442	754.083	151.081	124.199
<b>Switzerland</b>	<b>35.167.300</b>	<b>37.915.000</b>	<b>35.835.566</b>	<b>39.795.094</b>	<b>26.957.594</b>	<b>28.370.948</b>	<b>19.284.888</b>	<b>17.395.295</b>	<b>3.837.440</b>	<b>3.118.054</b>
industry	33.913.946	36.570.722	27.979.801	31.073.347	24.654.866	25.989.311	17.541.751	15.808.580	3.325.035	2.707.725
agriculture	1.231.695	1.319.875	7.807.582	8.667.822	2.254.320	2.331.563	1.713.512	1.560.814	408.894	326.451
other	21.659	24.404	48.184	53.925	48.407	50.074	29.625	25.901	103.511	83.878
<b>Bosnia and Herzegovina</b>	<b>23.197.298</b>	<b>25.243.643</b>	<b>16.282.858</b>	<b>18.138.452</b>	<b>18.309.760</b>	<b>19.240.194</b>	<b>23.748.237</b>	<b>20.905.735</b>	<b>18.398.476</b>	<b>15.048.585</b>
industry	20.806.329	22.641.439	14.262.666	15.896.798	16.715.412	17.606.049	20.279.704	17.839.225	17.282.534	14.134.077
agriculture	2.381.819	2.591.666	2.010.975	2.231.349	1.588.362	1.627.741	3.452.473	3.051.998	1.114.392	913.229
other	9.149	10.538	9.216	10.305	5.986	6.404	16.060	14.512	1.550	1.278
<b>Bulgaria</b>	<b>26.941.287</b>	<b>29.249.195</b>	<b>20.800.704</b>	<b>23.255.422</b>	<b>21.782.023</b>	<b>22.956.556</b>	<b>25.826.394</b>	<b>22.802.017</b>	<b>30.679.218</b>	<b>24.971.237</b>
industry	26.064.926	28.268.889	19.280.448	21.567.814	20.607.929	21.744.284	23.648.459	20.879.528	22.867.893	18.703.842
agriculture	853.420	956.677	1.490.490	1.653.752	1.162.314	1.199.924	2.157.808	1.904.336	7.792.707	6.252.583
other	22.942	23.630	29.766	33.855	11.780	12.348	20.127	18.153	18.618	14.811
<b>France</b>	<b>14.942.038</b>	<b>16.188.126</b>	<b>15.964.107</b>	<b>17.945.807</b>	<b>24.788.707</b>	<b>25.537.642</b>	<b>54.725.094</b>	<b>48.363.945</b>	<b>49.755.498</b>	<b>40.493.612</b>
industry	13.168.081	14.240.170	15.427.823	17.340.908	23.426.578	24.095.982	52.241.086	46.114.133	48.173.958	39.217.141
agriculture	1.752.988	1.926.016	502.330	567.147	1.326.375	1.404.361	2.420.348	2.194.697	1.551.873	1.252.019
other	20.968	21.939	33.954	37.752	35.754	37.298	63.661	55.115	29.668	24.452
<b>Germany</b>	<b>257.490.825</b>	<b>278.994.527</b>	<b>238.735.961</b>	<b>266.448.138</b>	<b>234.000.770</b>	<b>248.095.088</b>	<b>278.353.699</b>	<b>246.288.949</b>	<b>201.595.472</b>	<b>164.353.601</b>
industry	251.134.756	272.201.412	234.669.095	261.973.369	225.442.438	238.796.215	271.101.576	239.910.121	199.059.056	162.293.543
agriculture	5.565.663	6.201.460	3.766.736	4.143.633	8.025.648	8.747.311	6.907.135	6.077.410	1.643.435	1.321.495
other	790.406	591.654	300.129	331.136	532.684	551.562	344.988	301.418	892.981	738.563
<b>The Netherlands</b>	<b>36.013.513</b>	<b>39.017.249</b>	<b>45.406.865</b>	<b>50.779.818</b>	<b>44.711.542</b>	<b>47.490.801</b>	<b>46.788.456</b>	<b>41.408.075</b>	<b>30.827.942</b>	<b>25.100.216</b>
industry	35.929.392	38.926.771	44.537.003	49.809.535	42.225.873	44.767.325	40.892.477	36.183.510	27.845.019	22.700.421
agriculture	49.586	53.370	824.666	920.576	2.469.273	2.706.584	5.855.641	5.189.689	2.876.226	2.312.663
other	34.535	37.108	45.196	49.707	16.396	16.892	40.339	34.876	106.697	87.133
<b>Croatia</b>	<b>47.688.797</b>	<b>52.507.204</b>	<b>58.487.729</b>	<b>65.429.082</b>	<b>59.077.986</b>	<b>62.165.587</b>	<b>66.096.104</b>	<b>58.318.132</b>	<b>50.463.861</b>	<b>41.294.925</b>
industry	42.367.103	46.417.055	56.663.946	63.380.831	54.120.341	56.963.734	60.720.459	53.638.493	48.546.759	39.718.346

## Chapter II Economic criteria

agriculture	5.308.131	6.074.866	1.799.512	2.021.036	4.818.760	5.054.898	5.328.763	4.639.572	1.905.906	1.567.310
other	13.562	15.284	24.272	27.214	138.885	146.955	46.882	40.067	11.196	9.269
<b>Italy</b>	<b>90.769.829</b>	<b>98.025.143</b>	<b>91.195.834</b>	<b>101.875.592</b>	<b>81.874.503</b>	<b>87.456.668</b>	<b>95.365.580</b>	<b>84.828.608</b>	<b>80.046.053</b>	<b>65.374.681</b>
industry	89.197.621	96.324.004	88.304.233	98.653.622	76.670.706	81.954.726	92.060.996	81.928.926	78.412.508	64.037.661
agriculture	1.524.357	1.651.036	2.633.601	2.933.040	4.913.926	5.206.180	3.082.955	2.704.777	1.560.279	1.277.086
other	47.852	50.103	258.001	288.930	289.870	295.762	221.629	194.905	73.267	59.934
<b>Russia</b>	<b>10.350.853</b>	<b>11.276.852</b>	<b>13.940.596</b>	<b>15.593.173</b>	<b>14.432.132</b>	<b>15.318.828</b>	<b>13.743.717</b>	<b>12.120.531</b>	<b>12.356.569</b>	<b>10.094.546</b>
industry	9.538.723	10.373.531	13.032.630	14.580.761	13.628.765	14.440.857	12.601.110	11.134.352	11.998.307	9.801.893
agriculture	812.130	903.322	907.966	1.012.413	803.368	877.971	1.142.607	986.179	342.269	279.579
	0	0	0	0	0	0	0	0	15.992	13.075
<b>USA</b>	<b>165.652.690</b>	<b>178.083.153</b>	<b>99.435.419</b>	<b>111.029.372</b>	<b>77.398.697</b>	<b>81.539.190</b>	<b>72.792.873</b>	<b>63.746.907</b>	<b>42.960.968</b>	<b>34.995.272</b>
industry	156.876.742	168.451.797	86.264.001	96.411.245	61.239.448	64.599.605	52.555.142	46.527.858	40.058.446	32.705.962
agriculture	8.583.194	9.421.590	13.004.807	14.432.957	15.732.621	16.501.605	20.170.410	17.159.852	2.771.399	2.182.646
other	192.754	209.766	166.611	185.170	426.628	437.980	67.321	59.197	131.123	106.664
<b>Slovenia</b>	<b>26.416.417</b>	<b>28.729.935</b>	<b>20.975.797</b>	<b>23.424.524</b>	<b>21.656.216</b>	<b>22.822.085</b>	<b>21.292.537</b>	<b>18.769.465</b>	<b>17.996.854</b>	<b>14.700.964</b>
industry	23.265.346	25.317.972	19.120.053	21.370.803	20.245.280	21.373.543	18.546.838	16.382.651	17.284.489	14.118.107
agriculture	3.134.458	3.393.540	1.847.398	2.044.407	1.370.971	1.407.402	2.733.534	2.376.008	709.656	580.662
other	16.612	18.424	8.346	9.314	39.964	41.140	12.165	10.807	2.709	2.195
<b>Serbia and Montenegro</b>	<b>335.103.087</b>	<b>365.272.529</b>	<b>267.012.516</b>	<b>298.627.794</b>	<b>246.384.262</b>	<b>259.691.257</b>	<b>273.802.507</b>	<b>241.096.480</b>	<b>207.575.616</b>	<b>169.919.274</b>
industry	312.230.681	340.592.644	249.961.473	279.439.835	230.020.911	242.461.632	255.972.697	225.401.836	190.817.156	156.113.314
agriculture	19.899.655	21.671.013	16.835.130	18.945.843	15.014.814	15.876.404	17.611.925	15.498.438	16.705.005	13.761.925
other	2.972.751	3.008.872	215.914	242.116	1.348.537	1.353.220	217.885	196.206	53.455	44.036
<b>Turkey</b>	<b>10.311.507</b>	<b>11.253.546</b>	<b>8.589.674</b>	<b>9.651.630</b>	<b>8.462.384</b>	<b>8.982.056</b>	<b>32.808.932</b>	<b>28.912.493</b>	<b>37.590.946</b>	<b>30.619.567</b>
industry	10.295.569	11.236.275	8.541.208	9.595.747	8.330.207	8.847.584	30.925.038	27.175.437	37.549.336	30.585.690
agriculture	13.548	14.796	45.276	52.344	39.339	40.050	1.871.251	1.725.931	15.099	12.125
other	2.390	2.476	3.190	3.539	92.839	94.422	12.643	11.126	26.510	21.753
<b>Great Britain</b>	<b>27.239.876</b>	<b>29.397.950</b>	<b>26.686.521</b>	<b>29.870.527</b>	<b>28.909.720</b>	<b>30.207.040</b>	<b>35.097.084</b>	<b>30.846.454</b>	<b>26.332.652</b>	<b>21.545.331</b>
industry	26.738.628	28.840.119	26.422.249	29.579.964	28.707.849	30.001.914	35.050.035	30.804.931	26.307.566	21.524.926
agriculture	438.395	490.531	218.589	239.865	12.261	12.559	2.746	2.472	1.543	1.243
other	62.853	67.299	45.684	50.698	189.610	192.567	44.302	39.051	23.543	19.162

**Table a2 – Major trade partners of the Republic of Macedonia (import)**

	2000		2001		2002		2003		2003 final	
Countries	amount in US\$	amount in EUR	amount in US\$	amount in EUR	amount in US\$	amount in EUR	amount in US\$	amount in EUR	amount in US\$	amount in EUR
<b>Total</b>	<b>1.637.328.885</b>	<b>1.778.722.064</b>	<b>1.401.501.382</b>	<b>1.566.501.448</b>	<b>1.660.835.528</b>	<b>1.751.998.651</b>	<b>1.908.924.082</b>	<b>1.686.063.131</b>	<b>1.914.343.324</b>	<b>1.690.786.959</b>
<b>Bosnia and Herzegovina</b>	<b>5.336.880</b>	<b>5.801.424</b>	<b>4.149.964</b>	<b>4.638.277</b>	<b>14.298.722</b>	<b>15.101.979</b>	<b>11.753.421</b>	<b>10.354.467</b>	<b>11.753.188</b>	<b>10.354.280</b>
Industry	5.167.642	5.607.800	3.615.854	4.038.362	13.408.585	14.172.058	11.325.771	9.971.991	11.325.538	9.971.804
Agriculture	50.315	56.360	467.201	521.691	834.353	872.253	383.815	343.407	383.815	343.407
Other	118.922	137.265	66.909	78.224	55.785	57.668	43.835	39.070	43.835	39.070
<b>Bulgaria</b>	<b>97.639.424</b>	<b>106.289.767</b>	<b>103.333.675</b>	<b>115.423.089</b>	<b>128.475.454</b>	<b>136.118.998</b>	<b>148.979.828</b>	<b>131.848.651</b>	<b>149.214.784</b>	<b>132.050.574</b>
Industry	94.208.361	102.543.820	99.392.220	111.013.275	122.088.633	129.270.699	144.215.689	127.550.220	144.439.157	127.742.907
Agriculture	1.850.003	2.031.708	2.619.716	2.927.983	5.480.304	5.891.902	3.895.794	3.528.088	3.895.673	3.527.977
Other	1.581.060	1.714.239	1.321.739	1.481.831	906.517	956.397	868.345	770.343	879.953	779.690
<b>Croatia</b>	<b>57.858.076</b>	<b>62.685.429</b>	<b>46.391.019</b>	<b>51.946.937</b>	<b>55.229.152</b>	<b>57.999.400</b>	<b>63.543.097</b>	<b>55.969.425</b>	<b>63.549.978</b>	<b>55.975.711</b>
Industry	56.189.576	60.843.635	45.778.404	51.273.087	55.026.337	57.777.201	63.236.825	55.701.382	63.243.797	55.707.742
Agriculture	1.657.493	1.830.240	612.159	673.345	142.906	154.250	292.352	255.895	292.261	255.821
Other	11.007	11.554	455	505	59.909	67.949	13.920	12.148	13.920	12.148
<b>Romania</b>	<b>14.039.387</b>	<b>15.293.128</b>	<b>13.193.135</b>	<b>14.711.991</b>	<b>9.749.435</b>	<b>10.162.308</b>	<b>14.373.439</b>	<b>12.599.968</b>	<b>14.377.921</b>	<b>12.604.057</b>
Industry	14.004.469	15.255.417	13.104.837	14.613.150	9.557.357	9.956.845	14.226.830	12.470.117	14.231.312	12.474.206
Agriculture	34.918	37.711	86.991	97.384	192.077	205.463	146.609	129.851	146.609	129.851
Other	0	0	1.307	1.456	0	0	0	0	0	0
<b>Russia</b>	<b>191.875.986</b>	<b>208.619.212</b>	<b>139.712.072</b>	<b>155.469.133</b>	<b>125.365.471</b>	<b>132.590.230</b>	<b>177.827.868</b>	<b>155.877.099</b>	<b>178.973.140</b>	<b>156.824.836</b>
Industry	189.826.843	206.526.408	139.671.276	155.423.951	122.967.333	130.072.076	174.817.392	153.268.905	175.866.412	154.125.200
Agriculture	2.014.638	2.055.632	0	0	2.302.418	2.415.928	2.961.383	2.566.529	3.057.635	2.657.971
Other	34.505	37.172	40.796	45.182	95.720	102.226	49.093	41.665	49.093	41.665
<b>USA</b>	<b>83.080.862</b>	<b>91.240.953</b>	<b>51.606.585</b>	<b>57.604.847</b>	<b>58.707.539</b>	<b>62.509.654</b>	<b>56.264.416</b>	<b>49.814.109</b>	<b>56.550.576</b>	<b>50.060.936</b>
Industry	80.204.468	88.323.947	50.858.624	56.765.886	57.782.010	61.539.470	55.439.667	49.088.691	55.725.499	49.335.218
Agriculture	2.368.983	2.392.292	573.761	641.986	580.607	620.198	417.336	370.735	417.664	371.036
Other	507.411	524.714	174.200	196.975	344.922	349.986	407.413	354.682	407.413	354.682
<b>Slovenia</b>	<b>144.176.870</b>	<b>156.435.419</b>	<b>118.908.065</b>	<b>132.736.341</b>	<b>129.672.827</b>	<b>136.500.708</b>	<b>138.941.549</b>	<b>122.339.588</b>	<b>139.074.918</b>	<b>122.455.196</b>
Industry	138.512.696	150.435.930	117.812.152	131.527.370	129.479.899	136.283.727	138.677.946	122.096.367	138.811.315	122.211.975
Agriculture	5.626.688	5.956.880	1.092.920	1.205.624	170.139	192.033	231.579	213.442	231.579	213.442
Other	37.486	42.610	2.993	3.346	22.789	24.949	32.024	29.778	32.024	29.778
<b>Serbia and Montenegro</b>	<b>190.361.830</b>	<b>206.829.295</b>	<b>158.020.457</b>	<b>176.726.881</b>	<b>185.190.644</b>	<b>195.494.221</b>	<b>212.630.741</b>	<b>187.942.443</b>	<b>212.798.639</b>	<b>188.085.788</b>

## Chapter II Economic criteria

Industry	180.228.919	195.937.721	150.510.968	168.305.411	167.980.573	177.211.108	199.304.373	176.074.979	199.431.254	176.183.527
Agriculture	9.235.614	9.903.631	5.749.116	6.389.941	15.976.498	16.963.906	12.896.891	11.485.803	12.937.908	11.520.598
Other	897.297	987.943	1.760.373	2.031.529	1.233.574	1.319.207	429.476	381.662	429.476	381.662
<b>Turkey</b>	<b>52.425.969</b>	<b>57.035.145</b>	<b>46.613.103</b>	<b>52.088.267</b>	<b>59.259.045</b>	<b>62.157.814</b>	<b>78.787.420</b>	<b>69.796.608</b>	<b>78.824.034</b>	<b>69.827.198</b>
Industry	50.862.458	55.323.170	43.483.590	48.576.478	55.006.313	57.641.450	72.077.554	63.781.278	72.114.168	63.811.868
Agriculture	1.541.387	1.688.694	3.129.245	3.511.480	4.018.779	4.281.841	6.704.428	6.010.945	6.704.428	6.010.945
Other	22.125	23.282	269	309	233.953	234.524	5.438	4.384	5.438	4.384
<b>Spain</b>	<b>11.273.853</b>	<b>12.140.859</b>	<b>9.908.514</b>	<b>11.080.856</b>	<b>12.666.222</b>	<b>13.350.889</b>	<b>24.538.676</b>	<b>21.508.857</b>	<b>24.609.375</b>	<b>21.569.153</b>
Industry	11.065.716	11.906.760	9.555.737	10.683.385	12.314.653	12.992.571	24.150.692	21.162.132	24.221.391	21.222.427
Agriculture	208.087	234.045	352.776	397.469	237.529	240.347	367.206	327.777	367.206	327.777
Other	50	54	1	1	114.041	117.971	20.778	18.949	20.778	18.949
<b>Sweden</b>	<b>31.680.507</b>	<b>34.320.887</b>	<b>18.815.556</b>	<b>20.898.053</b>	<b>17.707.130</b>	<b>18.677.655</b>	<b>20.175.215</b>	<b>17.791.017</b>	<b>20.179.228</b>	<b>17.794.412</b>
Industry	31.669.261	34.308.767	18.809.688	20.891.488	17.690.598	18.660.808	20.031.267	17.673.368	20.035.281	17.676.764
Agriculture	0	0	252	285	0	0	141.875	115.804	141.875	115.804
Other	11.247	12.119	5.616	6.280	16.532	16.847	2.073	1.845	2.073	1.845
<b>Austria</b>	<b>41.709.745</b>	<b>45.499.028</b>	<b>43.878.841</b>	<b>49.083.174</b>	<b>53.308.895</b>	<b>55.849.978</b>	<b>56.181.976</b>	<b>49.393.462</b>	<b>56.197.109</b>	<b>49.406.509</b>
Industry	41.237.921	44.995.109	43.198.510	48.328.652	52.639.490	55.136.963	55.828.565	49.086.341	55.843.698	49.099.389
Agriculture	366.700	389.576	562.909	622.445	436.626	456.714	316.950	275.438	316.950	275.438
Other	105.124	114.342	117.422	132.077	232.780	256.301	36.461	31.683	36.461	31.683
<b>Belgium</b>	<b>13.531.041</b>	<b>14.516.013</b>	<b>14.405.591</b>	<b>16.267.563</b>	<b>15.736.582</b>	<b>16.562.316</b>	<b>16.641.207</b>	<b>14.592.216</b>	<b>16.701.574</b>	<b>14.647.961</b>
Industry	13.513.552	14.496.670	14.389.425	16.249.442	15.723.823	16.549.213	16.611.831	14.566.618	16.672.198	14.622.362
Agriculture	17.489	19.343	3.349	3.740	1.187	1.265	16.714	14.707	16.714	14.707
Other	0	0	12.818	14.381	11.572	11.839	12.662	10.892	12.662	10.892
<b>Denmark</b>	<b>8.394.411</b>	<b>9.145.550</b>	<b>9.052.067</b>	<b>10.069.827</b>	<b>7.255.418</b>	<b>7.627.748</b>	<b>11.242.334</b>	<b>9.977.634</b>	<b>11.299.317</b>	<b>10.027.884</b>
Industry	8.372.631	9.120.951	9.050.892	10.068.525	7.234.854	7.605.798	11.242.334	9.977.634	11.299.317	10.027.884
Agriculture	0	0	0	0	9.082	10.400	0	0	0	0
Other	21.780	24.599	1.175	1.301	11.482	11.551	0	0	0	0
<b>Finland</b>	<b>2.290.747</b>	<b>2.383.649</b>	<b>2.700.007</b>	<b>3.064.071</b>	<b>3.155.756</b>	<b>3.327.725</b>	<b>4.803.229</b>	<b>4.212.912</b>	<b>4.803.078</b>	<b>4.212.763</b>
Industry	2.290.747	2.383.649	2.700.007	3.064.071	3.155.756	3.327.725	4.800.153	4.210.019	4.800.001	4.209.870
Agriculture	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	3.076	2.893	3.076	2.893
<b>France</b>	<b>38.606.644</b>	<b>41.223.995</b>	<b>30.304.215</b>	<b>33.830.682</b>	<b>53.055.788</b>	<b>56.139.173</b>	<b>51.464.381</b>	<b>45.504.305</b>	<b>51.506.220</b>	<b>45.540.271</b>
Industry	38.511.178	41.121.507	30.073.869	33.570.753	52.928.959	56.003.013	51.274.050	45.337.786	51.315.889	45.373.752
Agriculture	75.650	80.733	80.345	89.633	80.302	88.374	187.689	164.123	187.689	164.123
Other	19.816	21.755	150.001	170.296	46.527	47.787	2.642	2.396	2.642	2.396
<b>Germany</b>	<b>253.277.366</b>	<b>273.998.478</b>	<b>214.964.635</b>	<b>240.595.485</b>	<b>284.734.302</b>	<b>299.879.554</b>	<b>303.872.527</b>	<b>267.932.089</b>	<b>304.773.130</b>	<b>268.736.316</b>
Industry	251.408.912	272.028.417	211.296.236	236.427.224	283.901.165	299.002.806	303.117.544	267.265.724	304.017.172	268.069.112

## Chapter II Economic criteria

Agriculture	669.521	716.505	3.131.560	3.572.186	710.695	749.542	722.875	637.773	722.967	637.847
Other	1.198.933	1.253.556	536.839	596.075	122.442	127.206	32.108	28.593	32.991	29.357
<b>Greece</b>	<b>201.600.104</b>	<b>220.953.856</b>	<b>184.634.043</b>	<b>206.522.454</b>	<b>237.883.452</b>	<b>250.732.880</b>	<b>300.205.654</b>	<b>267.919.100</b>	<b>300.576.271</b>	<b>268.248.871</b>
Industry	193.368.487	212.107.162	177.300.263	198.329.871	231.856.426	244.323.898	291.903.527	260.581.807	292.289.012	260.924.372
Agriculture	8.049.764	8.647.698	7.283.458	8.135.381	5.872.005	6.246.342	8.099.485	7.153.621	8.084.617	7.140.828
Other	181.852	198.996	50.322	57.202	155.021	162.640	202.642	183.671	202.642	183.671
<b>The Netherlands</b>	<b>45.327.566</b>	<b>49.099.240</b>	<b>45.752.246</b>	<b>51.167.249</b>	<b>51.855.072</b>	<b>54.843.711</b>	<b>49.133.824</b>	<b>43.341.432</b>	<b>49.604.218</b>	<b>43.760.948</b>
Industry	39.882.384	43.241.941	42.750.412	47.839.887	48.066.866	50.769.420	45.464.918	40.090.442	45.934.241	40.509.058
Agriculture	5.414.748	5.824.874	3.000.965	3.326.396	3.737.375	4.022.156	3.668.782	3.250.877	3.669.852	3.251.777
Other	30.434	32.426	870	966	50.832	52.135	124	113	124	113
<b>Ireland</b>	<b>8.633.779</b>	<b>9.374.579</b>	<b>9.333.290</b>	<b>10.426.878</b>	<b>5.348.541</b>	<b>5.643.891</b>	<b>5.192.993</b>	<b>4.538.297</b>	<b>5.192.993</b>	<b>4.538.297</b>
Industry	8.633.779	9.374.579	9.333.290	10.426.878	5.348.541	5.643.891	5.192.993	4.538.297	5.192.993	4.538.297
Agriculture	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
<b>Italy</b>	<b>111.117.441</b>	<b>120.201.708</b>	<b>107.829.256</b>	<b>120.839.870</b>	<b>118.586.191</b>	<b>125.360.576</b>	<b>122.572.931</b>	<b>107.687.936</b>	<b>123.129.946</b>	<b>108.175.481</b>
Industry	110.264.218	119.276.739	106.861.399	119.764.247	116.956.807	123.644.032	121.141.797	106.398.517	121.694.520	106.882.134
Agriculture	659.860	721.700	920.484	1.022.495	1.511.300	1.598.839	1.342.975	1.212.382	1.347.267	1.216.311
Other	193.364	203.269	47.372	53.128	118.084	117.705	88.159	77.036	88.159	77.036
<b>Luxembourg</b>	<b>270.487</b>	<b>293.413</b>	<b>500.414</b>	<b>554.951</b>	<b>569.540</b>	<b>596.872</b>	<b>715.984</b>	<b>629.008</b>	<b>715.984</b>	<b>629.008</b>
Industry	270.487	293.413	500.307	554.826	569.540	596.872	715.984	629.008	715.984	629.008
Agriculture	0	0	0	0	0	0	0	0	0	0
Other	0	0	107	125	0	0	0	0	0	0
<b>Portugal</b>	<b>780.127</b>	<b>876.847</b>	<b>1.244.199</b>	<b>1.380.400</b>	<b>246.511</b>	<b>257.539</b>	<b>460.233</b>	<b>405.833</b>	<b>460.233</b>	<b>405.833</b>
Industry	780.057	876.772	1.244.199	1.380.400	246.511	257.539	460.233	405.833	460.233	405.833
Agriculture	0	0	0	0	0	0	0	0	0	0
Other	70	74	0	0	0	0	0	0	0	0
<b>Great Britain</b>	<b>32.039.784</b>	<b>34.464.192</b>	<b>26.250.433</b>	<b>29.374.171</b>	<b>32.777.839</b>	<b>34.512.828</b>	<b>38.621.138</b>	<b>34.086.675</b>	<b>39.477.469</b>	<b>34.854.673</b>
Industry	30.923.873	33.323.175	26.200.077	29.316.494	32.773.126	34.507.972	38.617.917	34.083.782	39.474.248	34.851.780
Agriculture	1.109.692	1.134.113	8.207	9.164	0	0	0	0	0	0
Other	6.218	6.904	42.149	48.513	4.713	4.856	3.221	2.893	3.221	2.893

**b)** The European Union, traditionally, is the most important foreign trade partner of Republic of Macedonia, with share in the total foreign trade in the period 1996 – 2003 ranged between 37,4% and 47,8%. Thereby, the share of the export to the EU countries ranged between 42,8% and 54,7%, and the import from EU was between 38,2% and 44,9%.

Analysed data point out to the fact that the share of EU in the total foreign trade of the Republic of Macedonia in the period 1996 - 2003 was stable. By EU member states, the most important trade partners of the Republic of Macedonia are: Germany, Greece, Italy, France, the Netherlands and Great Britain.

In the period 1999 - 2003, foreign trade realized between the Republic of Macedonia and the EU was as follows:

#### **Export from Republic of Macedonia to EU (000 USD)**

		1999	2000	2001	2002	2003
Total	Total	1.191.266	1.322.617	1.157.507	1.115.527	1.363.252
	EU	539.494	565.648	566.493	570.230	745.132
	% EU	45,3	42,8	48,9	51,1	54,7
Industrial products	Total	1.046.507	1.202.782	1.041.035	983.141	1.198.107
	EU	490.649	523.008	520.248	508.921	668.277
	% EU	46,9	43,5	50,0	51,8	55,8
Agricultural products	Total	105.525	74.241	70.589	85.009	106.923
	EU	28.048	22.032	16.272	28.552	36.096
	% EU	26,6	29,7	23,1	33,6	33,8

Source: Ministry of Economy

#### **Import from EU to Republic of Macedonia (000 USD)**

		1999	2000	2001	2002	2003
Total	Total	1.776.151	2.093.872	1.693.601	1.995.156	2.299.921
	EU	722.591	800.534	719.573	894.887	1.005.822
	% EU	40,7	38,2	42,5	44,9	43,7
Industrial products	Total	1.693.368	2.015.435	1.629.802	1.911.624	2.211.181
	EU	706.899	780.236	700.675	878.659	986.896
	% EU	41,7	38,7	43,0	46,0	44,6
Agricultural products	Total	67.740	64.368	50.000	66.669	70.174
	EU	11.662	16.341	15.128	12.340	14.519
	% EU	17,2	25,4	30,3	18,5	20,7

Source: Ministry of Economy

In the period 2000 - 2004, products most frequently traded between the Republic of Macedonia and the EU were the following: goods for production of textile products, textile products, Ferro-nickel, Ferro-silicon, non-alloyed zinc, hot-rolled and flat-rolled products made of iron or non-alloyed zinc, electrical conductors, welded pipes, raw and non-processed tobacco, wine, motor vehicles, oil and oil products, gas, etc.



The following products are most important, i.e. most frequent in the import from the EU to the Republic of Macedonia: goods for production of textile products and footwear, motor vehicles, oil and oil products, oil liquid gases, transmitters with embedded receiver, etc.

With respect to the export from Macedonia to the EU, traditionally, the most exported products are the following: textile products (46,4%), Ferro-nickel (3,7%), Ferro-silicon (1,9%), non-alloyed zinc (3,3%), hot-rolled and flat-rolled products made of iron or non-alloyed zinc (15,1%), electric conductors (2,03%), welded pipes (1,14%), raw tobacco (2,8%), wine (2,5%) and lamb (1,6%).

The Republic of Macedonia and the EU concluded Interim Agreement on Trade and Trade-Related Matters in April 2001, applied as of 01.06.2001. The Interim Agreement is an integral part of the Stabilisation and Association Agreement between the Republic of Macedonia and the European Union. Thus, the Interim Agreement enabled for the overall Macedonian export of industrial and agricultural products (excluding three: beef, fish and wine, within annual quotas) to be customs- and customs duties-exempt on the markets of the EU member states. Customs-free treatment of Macedonian products commenced on 01.06.2001, when the Interim Agreement entered into force.

Import of industrial and agricultural products from the EU is regulated under special annexes and protocols, for which reduced customs rate compared to basic is applied, with transition period of 10 years. There is gradual reduction of the customs rate only for steel products during a transition period of 5 years. Such preferential treatment for import from EU imports started applying as of 01.06.2002 (six months later than for exports) and would be terminated by 31.12.2010. As of 01.01.2011, the overall industrial sector and over 75% of the agricultural sector products import from EU would be customs-free.

The Stabilisation and Association Agreement came into force on 01.04.2004.

The increase of foreign trade with EU, expressed in percentage, with 2001 by 5,2% higher than 2000, 2002 by 2% higher than 2001 and 2003 by 0.7% higher than 2002, only confirms the fact that customs-free trading or trading under reduced customs rate is the basic condition for intensification of mutual cooperation. In that line, 2,7% increase in 2003 compared to 2001 (when Interim Agreement began implementing) speaks in favour of aforementioned conclusion.

Having in mind the previous, a conclusion can be reached that trade of the Republic of Macedonia is mainly oriented towards the European market. The percentage of share of the trade of the Republic of Macedonia with the EU in the total foreign trade in 2000 was 39,9%, with 45,1% in 2001, 47,1% in 2002, 47,8% in 2003 and 38,4% in the first eight months of 2004.

Macedonian export in 2001, being the initial year of application of the Interim Agreement, slightly increased by 1,1%, while import from the EU dropped by 10,4% compared to 2000. In fact, Macedonian export significantly increased in the second half of 2001, i.e. after 01.06.2001, by 8% (US\$ 294.883.000) compared to the first half of 2001 (US\$ 271.610.000), when the export was carried out under the treatment of most-favoured nation. Compared to the second half of 2000 (US\$ 281.978.000), Macedonian export increased by 4.6% only in the second half of 2001 (US\$ 294.883.000).

On the other hand, Macedonian export in the first half of 2001 (US\$ 271.610.000), prior to the application of the Interim Agreement, declined by 4,3% compared to the first half of 2000 (US\$ 283.670.000).

Foreign trade in 2002 (US\$ 1.465.117.000), when the EU countries started applying the preferential treatment when importing to the Republic of Macedonia, increased by 13,9% compared to 2001 (US\$ 1.286.066.000), whereby the import from the EU only in 2002 (US\$ 894.887.000) increased by 24,7% compared to 2001 (US\$ 717.573.000).

In 2003, there was a significant increase in the Macedonian export to and import from the EU by 19,5%, whereby the export increased by 30,7% compared to the one in 2002, and the import increased by 12,4% compared to the one in 2002.

Export of Macedonian products in the EU member states in 2003, compared to the export in 1994, increased twice (index 204), an indicator pointing out to the strategic orientation of the Macedonian exporters towards the EU market. What significantly influenced such export trend and the favourable climate for foreign trade with the EU is the concluded 1997 Cooperation Agreement between the European Community and the Republic of Macedonia, Transport Agreement and other Agreements in the field of textile, steel industry, and the Interim Agreement on Trade and Trade-Related Matters, i.e. the Stabilisation and Association Agreement.

Major trading partners of the Republic of Macedonia from the EU member states in 2003/2002 were Germany with 41,7%, Greece with 26,9%, Italy with 14,35% and the Netherlands with 7,01%. Data on the foreign trade structure and trends with the EU member states – major trade partners are presented in the following supplementary documents (Source: State Statistical Office):

## Supplementary document 1

## Total

## MOST SIGNIFICANT TRADE PARTNERS OF THE REPUBLIC OF MACEDONIA REGARDING IMPORT FROM THE EU

2000	quantity, kg	amount, US\$	eur
Germany	63.978.158	253.277.366	273.998.478
Greece	525.438.152	201.600.104	220.953.856
Italy	43.408.391	111.117.441	120.201.708
Holandija	15.737.238	45.327.566	49.099.240
Austria	36.421.956	41.709.745	45.499.028

2001	quantity, kg	amount, US\$	eur
Germany	68.289.725	214.964.635	240.595.485
Greece	536.854.512	184.634.043	206.522.454
Italy	46.772.450	107.829.256	120.839.870
Netherlands	13.005.736	45.752.246	51.167.249
Austria	39.439.676	43.878.841	49.083.174

2002	quantity, kg	amount, US\$	eur
Germany	92.915.248	284.734.302	299.879.554
Greece	668.158.857	237.883.452	250.732.880
Italy	77.978.002	118.586.191	125.360.576
Austria	45.087.043	53.308.895	55.849.978
France	11.863.851	53.055.788	56.139.173

2003	quantity, kg	amount, US\$	eur
Germany	71.253.866	303.872.527	267.932.089
Greece	689.910.466	300.205.654	267.919.100
Italy	42.736.868	122.572.931	107.687.936
Austria	41.165.278	56.181.976	49.393.462
France	11.809.077	51.464.381	45.504.305

January-August 2004	quantity, kg	amount, US\$	eur
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Germany	64.650.570	229.680.876	187.428.761
Greece	317.835.647	181.366.539	148.189.680
Italy	29.619.603	106.097.248	86.827.652
France	23.912.185	42.112.294	34.409.867
Austria	30.642.421	41.580.054	34.018.690

Supplementary document 1	Import from the most significant trade partners from the EU, by products, in 2000			
tariff	name	kg	US\$	EUR
	<b>Austria Total</b>	<b>36.421.956</b>	<b>41.709.745</b>	<b>45.499.028</b>
4819209000	Folding cartons, of non-corrugated paper with a weight of the paper/paperboard of 600g/m2 or more	960.266	2.697.312	2.997.942
0201203000	Meat of bovine animals, fresh or chilled Other cuts with bone in Unseparated or separated forequarters	1.664.406	2.172.806	2.359.259
1701991000	White sugar	8.931.350	2.112.058	2.345.365
8604000000	Railway or tramway maintenance or service vehicles, whether or not self-propelled (for example, workshops, cranes, ballast tampers, trackliners, testing coaches and track inspection vehicles)	50.174	1.087.728	1.281.816
8443191000	Offset printing machinery, Other, Sheet fed, Used	123.855	1.104.851	1.261.446
0206290000	Edible offal of bovine animals, frozen, other	866.287	789.172	881.521
0203295500	Meat of swine, fresh, chilled or frozen Frozen Other Of domestic swine Other Boneless	365.528	759.374	845.286
9801500000	Goods for further processing	181.518	782.874	844.448
7010940000	Other containers of glass, < 0,15 l	630.036	699.850	758.767
0202309000	Meat of bovine animals, frozen Boneless Other	541.945	697.294	755.910
	<b>Germany Total</b>	<b>63.978.158</b>	<b>253.277.366</b>	<b>273.998.478</b>
9801510000	Goods for further processing-textile	6.490.024	79.281.778	87.780.189
9801500000	Goods for further processing	6.781.608	28.638.779	29.870.405
8701209000	Road tractors for semi-trailers, Used	1.761.581	6.630.843	6.887.976
8703321011	Passanger cars, diesel or semi-diesel, assembled, capac.>1500cm3 - 2000cm3, new	643.154	5.526.014	5.732.349
8703329010	Used vehicles, diesel or semi-diesel, capac. > 1500 cm3 - 2000 cm3	1.165.302	3.071.280	3.365.373
8705909000	Special purpose motor vehicles, other	1.610.313	2.825.628	3.139.012
8716398000	Other trailers and semi-trailers for the transport of goods, Other, Used	1.510.584	2.446.046	2.553.958
8703231011	Passanger cars, assembled, with spark-ignition, piston engine, >1500cm3-2000cm3, built-in cathalisator, new	221.224	2.342.280	2.484.111
9801520000	Goods for further processing-footware	310.856	2.163.247	2.342.681
8716393000	Other trailers and semi-trailers for the transport of goods, Other, New, Semi-trailers	448.681	1.906.659	1.944.128
	<b>Greece Total</b>	<b>525.438.152</b>	<b>201.600.104</b>	<b>220.953.856</b>

2710000031	Gas oils: Diesel fuels	67.399.263	20.264.840	22.584.743
9801510000	Goods for further processing-textile	4.543.838	19.307.381	21.464.864
2710000011	Motor spirits, unleaded	46.982.336	15.408.601	17.112.221
9801500000	Goods for further processing	8.117.252	13.200.743	13.837.322
2710000022	Jet fuel	36.178.763	10.926.825	11.813.281
2711130010	Mixtures Of butane and Propane, Containing from 50% - 65% of butane	30.219.523	10.605.501	11.490.476
2709009010	Oil, crude	47.024.380	9.515.348	10.588.534
2710000039	Other gas oils	29.886.534	9.288.022	10.525.769
7304103000	Line pipe of a kind used for oil or gas pipelines, of iron (other than cast iron) or steel, Of an external diameter exceeding 168,3 mm, but not exceeding 406,4 mm	10.636.085	6.094.125	6.697.254
2309900019	Other complete food and superconcentrates for animal	20.023.223	4.281.600	4.707.715
	<b>Italy Total</b>	<b>43.408.391</b>	<b>111.117.441</b>	<b>120.201.708</b>
9801520000	Goods for further processing-footware	1.138.137	12.074.814	13.314.093
9801510000	Goods for further processing-textile	724.573	7.537.234	8.225.035
9801500000	Goods for further processing	1.149.904	6.250.123	6.492.856
3926909020	Preforms for making plastic bottles	3.069.817	4.250.122	4.621.131
8703221011	Passanger cars, > 1000 cm3 -1500 cm3, with spark-ignit. piston engine, built- in cathalisator, assembled, new	683.580	3.773.728	3.959.886
8529908000	Other spare parts for aparatus from tariff number 8525 to 8528	14.325	2.973.086	3.359.449
8526109000	Radar apparatus, Other	17.776	3.105.504	3.255.928
8438600000	Machinery for the preparation of fruits, nuts or vegetables	386.994	2.928.253	3.082.031
3920200010	Other plates,sheets,film,of polymers of ethylene:for use in food industry as a material for packing	655.449	1.289.097	1.401.025
8701902100	Agricultural and forestry tractors, wheeled, new, with power > 25 kW - 37 kW	191.380	1.263.907	1.331.208
	<b>Netherlands Total</b>	<b>15.737.238</b>	<b>45.327.566</b>	<b>49.099.240</b>
9801510000	Goods for further processing-textile	1.474.546	12.143.561	13.447.516
9801500000	Goods for further processing	821.565	7.683.980	8.040.174
0102103000	Cows, pure-bred breeding	1.254.562	2.406.809	2.632.722
9801520000	Goods for further processing-footware	358.992	2.270.600	2.521.267
0207140000	Meat and edible cuts and offals of hen, frozen	1.603.422	1.674.751	1.807.257
1209910000	Vegetable seeds for sowing	28.390	1.043.063	1.134.106
8701201000	Road tractors for semi-trailers, New	93.300	1.104.437	1.088.540
0701100000	Potatoes, fresh or chilled Seed	1.952.975	1.043.621	1.083.078
9032899000	Other automatic regulating or controlling instruments and apparatus	771	724.286	855.493
2710000087	Motor oils	499.499	604.624	654.447

Supplementary document 1	Import from the most significant trade partners from the EU, by products, in 2001			
tariff	name	kg	US\$	EUR
	<b>Austria Total</b>	<b>18.275.418</b>	<b>18.398.435</b>	<b>20.591.209</b>
9406009000	Prefabricated buildings, Of other materials	1.974.962	5.002.348	5.623.804
1701991000	White sugar	11.572.750	3.780.557	4.270.291

0201203000	Meat of bovine animals, fresh or chilled Other cuts with bone in Unseparated or separated forequarters	1.992.216	2.696.194	2.999.288
4819209010	Folding cartons, boxes and cases, of non- corrugated paper or paperboard, With a weight of the paper or the paperboard of 600 g/m2 or more, Complex packing (combibloc, pure pack, tetra pack and alike products)	761.765	2.223.751	2.501.364
8474909000	Parts of machinery for sorting,screening,separating,washing,crushing,grinding,mixing or kneading earth,stone,ores or other mineral substances,in solid(including powder or paste)form;machinery for agglomerating,shaping or moulding solid mineral fuels,Other	578.314	1.012.218	1.132.873
8517509000	Other apparatus, for carrier-current line systems or for digital line systems, Other	6.551	920.320	973.747
0201205000	Meat of bovine animals, fresh or chilled Other cuts with bone in Unseparated or separated hindquarters	518.378	847.392	942.171
8443191000	Offset printing machinery, Other, Sheet fed, Used	29.120	735.003	824.827
3002109100	Haemoglobin, blood globulins and serum globulins	2.959	673.829	757.524
4801009000	Newsprint, in rolls or sheets	838.404	506.822	565.319
	<b>Germany Total</b>	<b>34.145.223</b>	<b>128.336.091</b>	<b>143.746.121</b>
9801510000	Goods for further processing-textile	8.459.686	100.343.371	112.273.250
9801500000	Goods for further processing	7.396.858	13.297.327	14.947.112
1001909900	Wheat and meslin:Other:Other spelt, common wheat and meslin:Other	14.406.390	2.571.818	2.950.151
8703321011	Passanger cars, diesel or semi-diesel, assembled, capac.>1500cm3-2000cm3, new	262.742	2.274.175	2.548.511
8701209000	Road tractors for semi-trailers, Used	846.735	2.241.571	2.493.901
9801520000	Goods for further processing-footware	240.851	1.796.806	2.030.730
2917320000	Dioctyl orthophthalates	2.215.190	1.631.232	1.825.393
8525209100	Transmission apparatus incorporating reception apparatus, Other, For cellular networks (mobile telephones)	20.326	1.459.273	1.603.385
8438400000	Brewery machinery	169.562	1.386.760	1.584.269
8703231011	Passanger cars,assembled, with spark-ignition, piston engine, >1500cm3-2000cm3, built-in cathalisator,new	126.882	1.333.756	1.489.418
	<b>Greece Total</b>	<b>304.880.947</b>	<b>96.594.011</b>	<b>108.294.123</b>
9801510000	Goods for further processing-textile	7.894.335	35.485.279	39.605.813
2710006700		113.051.480	26.439.607	29.847.761
2710002700		25.338.307	6.824.645	7.620.276
9801500000	Goods for further processing	6.189.604	6.105.715	6.829.583
2713110000	Petroleum coke, Not calcined	85.290.470	4.846.585	5.499.178
2710003400		17.665.868	4.333.372	4.842.406
1701991000	White sugar	12.270.715	3.394.352	3.823.918
2710006600		14.530.210	3.357.389	3.730.271
2309909700	Preparations of a kind used in animal feeding, other, other, other, other, other	11.647.794	2.953.754	3.323.910
2304000000	Oil-cake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of soya-bean oil	11.002.164	2.853.313	3.171.007
	<b>Italy Total</b>	<b>9.664.136</b>	<b>43.576.924</b>	<b>48.952.545</b>
9801520000	Goods for further processing-footware	1.460.476	15.830.558	17.877.972

9801510000	Goods for further processing-textile	876.353	9.915.187	11.175.058
9801500000	Goods for further processing	4.689.973	3.777.645	4.183.769
3923301000	Carboys, bottles, flasks and similar articles, of plastics, Of a capacity not exceeding two litres	2.119.408	2.989.422	3.365.336
9018908500	Instruments and appliances used in medical, surgical, dental or veterinary sciences, including scintigraphic apparatus, other electro-medical apparatus and sight-testing instruments, other	36.294	2.215.909	2.471.491
8524910000	Records, tapes and other recorded media for sound or other similarly recorded phenomena, including matrices and masters for the production of records, but excluding products of Chapter 37, other, For reproducing phenomena other than sound or image	470	2.157.130	2.429.245
8704229100	Motor vehicles for the transport of goods, Other, with compression-ignition internal combustion piston engine (diesel or semi-diesel), Of a gross vehicle weight exceeding 5 tonnes but not exceeding 20 tonnes, Other, New	275.368	2.067.282	2.293.983
8438200000	Machinery for the manufacture of confectionery, cocoa or chocolate	60.110	1.762.966	1.944.309
8454900000	Parts of machinery of a kind used in metallurgy or in metal foundries	140.048	1.537.243	1.711.839
8517509000	Other apparatus, for carrier-current line systems or for digital line systems, Other	5.635	1.323.583	1.499.544
	<b>Netherlands Total</b>	<b>6.459.071</b>	<b>33.074.376</b>	<b>37.021.134</b>
9801510000	Goods for further processing-textile	2.724.387	24.638.694	27.573.997
9801520000	Goods for further processing-footware	524.252	3.428.743	3.858.031
5903909900	Textile fabrics impregnated, coated, covered or laminated with plastics, other than those of heading No 5902, Other, Coated, covered or laminated, Other	39.091	1.397.438	1.581.750
0701100000	Potatoes, fresh or chilled Seed	1.664.550	873.516	948.576
9801500000	Goods for further processing	444.342	758.587	827.417
0207146000	Meat and edible offal, of fowls of the species Gallus domesticus Cuts and offal, frozen Cuts With bone in Legs and cuts thereof	568.490	553.773	627.686
1209919010	Seeds, fruit and spores, of a kind used for sowing:Other:Vegetable seeds:Other:Tomato seed	73	407.653	457.211
0602903000	Other live plants (including their roots), cuttings and slips; mushroom spawn Other Vegetable and strawberry plants	162.163	357.919	416.201
8421219000	Filtering or purifying machinery and apparatus for liquids, For filtering or purifying water, Other	3.834	336.501	369.535
4002190000	Styrene-butadiene rubber (SBR); carboxylated styrene-butadiene rubber (XSBR), Other	327.888	321.553	360.731

Supplementary document 1	Import from the most significant trade partners from the EU, by products, in 2002			
tariff	name	kg	US\$	EUR
	<b>Austria Total</b>	<b>45.087.043</b>	<b>53.308.895</b>	<b>55.849.978</b>

4819209010	Folding cartons, boxes and cases, of non-corrugated paper or paperboard, With a weight of the paper or the paperboard of 600 g/m2 or more, Complex packing (combibloc, pure pack, tetra pack and alike products)	1.070.946	3.266.311	3.462.232
1701991000	White sugar	11.479.950	3.190.328	3.412.806
0201203000	Meat of bovine animals, fresh or chilled Other cuts with bone in Unseparated or separated forequarters	2.538.800	3.172.604	3.234.884
0201202000	Meat of bovine animals, fresh or chilled Other cuts with bone in "Compensated" quarters	1.307.108	2.626.152	2.672.311
9801500000	Goods for further processing	2.801.451	2.174.873	2.283.017
6810919000	Articles of cement, of concrete or of artificial stone, whether or not reinforced, Other articles, Prefabricated structural components for building or civil engineering, Other	441.100	1.695.301	1.706.118
4801000000	Newsprint, in rolls or sheets	2.078.897	1.154.104	1.219.244
8421393000	Filtering or purifying machinery and apparatus, Other, Other, Machinery and apparatus for filtering or purifying	81.970	993.474	1.015.292
8443193500	Offset printing machinery, Other, Sheet fed, New, taking sheets of a size, Exceeding 52 × 74 cm but not exceeding 74 × 107 cm	46.158	857.744	920.325
1806310000	Chocolate and other food preparations containing cocoa:Other, in blocks, slabs or bars:Filled	210.589	818.863	854.302
	<b>France Total</b>	<b>11.863.851</b>	<b>53.055.788</b>	<b>56.139.173</b>
8703321900	Other vehicles, with compression-ignition internal combustion piston engine (diesel or semi-diesel), Of a cylinder capacity exceeding 1 500 cm3 but not exceeding 2 500 cm3, New, Other	803.767	5.448.820	5.881.297
3302102900	Preparations containing all flavouring agents characterizing a beverage, Other, Other	313.670	4.619.181	4.845.681
8517300000	Telephonic or telegraphic switching apparatus	38.981	4.352.787	4.653.308
8525209100	Transmission apparatus incorporating reception apparatus, Other, For cellular networks (mobile telephones)	18.086	2.964.685	3.257.550
8703221000	Other vehicles, with spark-ignition internal combustion reciprocating piston engine, Of a cylinder capacity exceeding 1 000 cm3 but not exceeding 1 500 cm3, New	458.133	2.815.498	2.996.517
2106909200	Food preparations not elsewhere specified or included:Other:Other:Containing no milkfats, sucrose, isoglucose, glucose or starch or containing by weight less than 1,5 % milkfat, 5 % sucrose or isoglucose, 5 % glucose or starch	211.479	1.668.819	1.763.413
8525209900	Transmission apparatus incorporating reception apparatus, Other, Other	31.186	1.538.650	1.718.960
8703231900	Other vehicles, with spark-ignition internal combustion reciprocating piston engine, Of a cylinder capacity not exceeding 1 000 cm3, Of a cylinder capacity exceeding 1 500 cm3 but not exceeding 3 000 cm3, New, Other	191.456	1.560.052	1.677.165

8703329000	Other vehicles, with compression-ignition internal combustion piston engine (diesel or semi-diesel), Of a cylinder capacity exceeding 1 500 cm <sup>3</sup> but not exceeding 2 500 cm <sup>3</sup> , Used	1.379.869	1.507.786	1.579.016
8703329000	Other vehicles, with spark-ignition internal combustion reciprocating piston engine, Of a cylinder capacity not exceeding 1 000 cm <sup>3</sup> , Of a cylinder capacity exceeding 1 500 cm <sup>3</sup> but not exceeding 3 000 cm <sup>3</sup> , Used	1.120.099	1.241.803	1.284.719
	<b>Germany Total</b>	<b>92.915.248</b>	<b>284.734.302</b>	<b>299.879.554</b>
9801510000	Goods for further processing-textile	8.069.665	101.526.846	106.970.917
8703329000	Other vehicles, with compression-ignition internal combustion piston engine (diesel or semi-diesel), Of a cylinder capacity exceeding 1 500 cm <sup>3</sup> but not exceeding 2 500 cm <sup>3</sup> , Used	19.518.746	25.917.195	27.430.675
8703329000	Other vehicles, with spark-ignition internal combustion reciprocating piston engine, Of a cylinder capacity not exceeding 1 000 cm <sup>3</sup> , Of a cylinder capacity exceeding 1 500 cm <sup>3</sup> but not exceeding 3 000 cm <sup>3</sup> , Used	8.905.557	12.233.795	12.829.503
7408110000	Copper wire, Of refined copper, Of which the maximum cross-sectional dimension exceeds 6 mm	3.300.022	5.895.341	6.071.345
8703321900	Other vehicles, with compression-ignition internal combustion piston engine (diesel or semi-diesel), Of a cylinder capacity exceeding 1 500 cm <sup>3</sup> but not exceeding 2 500 cm <sup>3</sup> , New, Other	384.460	3.747.969	3.996.064
9801500000	Goods for further processing	1.382.278	3.297.030	3.431.196
8701209000	Road tractors for semi-trailers, Used	1.159.385	2.832.337	3.015.969
8705909000	Special purpose motor vehicles, other	521.965	2.717.134	2.720.460
8703229000	Other vehicles, with spark-ignition internal combustion reciprocating piston engine, Of a cylinder capacity exceeding 1 000 cm <sup>3</sup> but not exceeding 1 500 cm <sup>3</sup> , Used	2.285.738	2.473.523	2.568.054
9801520000	Goods for further processing-footwear	243.900	2.255.231	2.324.733
	<b>Greece Total</b>	<b>668.158.857</b>	<b>237.883.452</b>	<b>250.732.880</b>
9801510000	Goods for further processing-textile	10.211.147	45.055.473	47.727.725
2710114500	Motor spirit, Other, with a lead content, Not exceeding 0,013 g per litre, With an octane number (RON) of 95 or more but less than 98	70.396.625	19.497.564	20.107.553
2710194500	Heavy oils, Gas oils, For other purposes, With a sulphur content exceeding 0,05% by weight but not exceeding 0,2% by weight	77.260.083	18.460.100	19.062.196
9801500000	Goods for further processing	24.600.578	11.321.545	11.977.880
2710196300	Heavy oils, Fuel oils, For other purposes, With a sulphur content exceeding 1% by weight but not exceeding 2% by weight	47.633.986	7.373.432	7.638.817
2710194900	Heavy oils, Gas oils, For other purposes, With a sulphur content exceeding 0,2% by weight	29.013.839	7.044.585	7.347.299
2710115900	Motor spirit, Other, with a lead content, Exceeding 0,013 g per litre, With an octane number (RON) of 98 or more	17.377.634	5.187.991	5.325.433
2711139700	Liquefied, Butanes, For other purposes, Other	16.424.728	4.872.424	5.115.058



2710196500	Heavy oils, Fuel oils, For other purposes, With a sulphur content exceeding 2% by weight but not exceeding 2,8% by weight	26.603.400	3.371.506	3.873.368
1701991000	White sugar	11.591.935	3.515.140	3.691.388
	<b>Italy Total</b>	<b>77.978.002</b>	<b>118.586.191</b>	<b>125.360.576</b>
9801520000	Goods for further processing-footware	1.875.713	21.611.052	22.745.701
9801510000	Goods for further processing-textile	719.411	7.745.938	8.155.491
2710194500	Heavy oils, Gas oils, For other purposes, With a sulphur content exceeding 0,05% by weight but not exceeding 0,2% by weight	14.605.664	3.132.129	3.492.413
9801500000	Goods for further processing	3.836.363	3.001.060	3.219.889
2710194100	Heavy oils, Gas oils, For other purposes, With a sulphur content not exceeding 0,05% by weight	11.159.622	2.270.730	2.540.860
3923301000	Carboys, bottles, flasks and similar articles, of plastics, Of a capacity not exceeding two litres	1.247.418	1.767.514	1.888.965
3920202100	Other plates,sheets,film,foil and strip,of plastics,non-cellular and not reinforced,laminated,supported or similarly combined with other materials,Of polymers of propylene,Of a thickness not exceeding 0,10 mm,Biaxially oriented	715.459	1.541.813	1.630.566
8703221000	Other vehicles, with spark-ignition internal combustion reciprocating piston engine, Of a cylinder capacity exceeding 1 000 cm3 but not exceeding 1 500 cm3, New	250.540	1.461.243	1.567.998
2710114500	Motor spirit, Other, with a lead content, Not exceeding 0,013 g per litre, With an octane number (RON) of 95 or more but less than 98	4.638.533	1.515.326	1.543.505
8450111100	Machines, each of a dry linen capacity not exceeding 10 kg, Fully-automatic machines, Each of a dry linen capacity not exceeding 6kg, Front-loading machines	662.256	1.227.994	1.289.299

Supplementary document 1	Import from the most important trade partners from the EU, by products, in 2003			
tariff	name	kg	US\$	EUR
	<b>Austria Total</b>	<b>41.165.278</b>	<b>56.181.976</b>	<b>49.393.462</b>
0201203000	Meat of bovine animals, fresh or chilled Other cuts with bone in Unseparated or separated forequarters	3.181.601	4.551.847	4.004.965
8474801000	Machinery for agglomerating,shaping or moulding solid mineral fuels,Machinery for agglomerating,shaping or moulding ceramic paste	199.240	3.508.337	3.028.153
1701991000	White sugar	12.700.000	3.416.713	3.008.995
4819209010	Folding cartons, boxes and cases, of non- corrugated paper or paperboard, With a weight of the paper or the paperboard of 600 g/m2 or more, Complex packing (combibloc, pure pack, tetra pack and alike products)	827.349	2.901.276	2.560.862
8422300000	Machinery for filling, closing, sealing, or labelling bottles, cans, boxes, bags or other containers; machinery for capsuling bottles, jars, tubes and similar containers; machinery for aerating beverages	25.028	1.727.854	1.480.483
9801510000	Goods for further processing-textile	103.876	1.581.536	1.373.474
4801000000	Newsprint, in rolls or sheets	2.382.385	1.420.379	1.246.526
8705909000	Special purpose motor vehicles,other	140.050	1.230.000	1.114.175
9801500000	Goods for further processing	483.078	1.176.784	1.035.323
0201202000	Meat of bovine animals, fresh or chilled Other cuts with bone in "Compensated" quarters	444.900	1.007.912	869.485
	<b>France Total</b>	<b>11.809.077</b>	<b>51.464.381</b>	<b>45.504.305</b>
3302102900	Preparations containing all flavouring agents characterizing a beverage, Other, Other	436.325	8.436.901	7.437.106
8703221000	Other vehicles, with spark-ignition internal combustion reciprocating piston engine, Of a cylinder capacity exceeding 1 000 cm3 but not exceeding 1 500 cm3, New	398.831	3.092.591	2.744.584
2106909200	Food preparations not elsewhere specified or included:Other:Other:Containing no milkfats, sucrose, isoglucose, glucose or starch or containing by weight less than 1,5 % milkfat, 5 % sucrose or isoglucose, 5 % glucose or starch	216.395	2.707.411	2.413.072
8703321900	Other vehicles, with compression-ignition internal combustion piston engine (dieselor semi-diesel), Of a cylinder capacity exceeding 1 500 cm3 but not exceeding 2 500 cm3, New, Other	296.514	2.695.137	2.398.840
8525209100	Transmission apparatus incorporating reception apparatus, Other, For cellular networks (mobile telephones)	13.059	2.293.394	2.042.412

8703311000	Other vehicles, with compression-ignition internal combustion piston engine (dieselor semi-diesel), Of a cylinder capacity not exceeding 1 500 cm3, New	257.099	2.272.871	1.991.019
8703231900	Other vehicles, with spark-ignition internal combustion reciprocating piston engine, Of a cylinder capacity not exceeding 1 000 cm3 , Of a cylinder capacity exceeding 1 500 cm3 but not exceeding 3 000 cm3, New, Other	136.529	1.441.301	1.271.373
8704219100	Motor vehicles for the transport of goods,Other,with compression-ignition internal combustion piston engine(diesel or semi-diesel),Of a gross vehicle weight not exceeding 5 tonnes,Other,With engines of a cylinder capacity not exceeding 2500 cm3, New	157.169	1.164.001	1.015.928
8703321100	Other vehicles, with compression-ignition internal combustion piston engine (dieselor semi-diesel), Of a cylinder capacity exceeding 1 500 cm3 but not exceeding 2 500 cm3, New, Motor caravans	134.424	1.063.006	946.530
8517300000	Telephonic or telegraphic switching apparatus	4.959	1.006.143	873.126
	<b>Germany Total</b>	<b>71.253.866</b>	<b>303.872.527</b>	<b>267.932.089</b>
9801510000	Goods for further processing-textile	9.101.020	137.727.444	121.177.127
8703329000	Other vehicles, with compression-ignition internal combustion piston engine (dieselor semi-diesel), Of a cylinder capacity exceeding 1 500 cm3 but not exceeding 2 500 cm3, Used	3.955.830	8.347.959	7.527.112
9801500000	Goods for further processing	3.332.627	7.415.226	6.604.853
8703239000	Other vehicles, with spark-ignition internal combustion reciprocating piston engine, Of a cylinder capacity not exceeding 1 000 cm3 , Of a cylinder capacity exceeding 1 500 cm3 but not exceeding 3 000 cm3, Used	2.044.652	3.942.396	3.570.151
8703321900	Other vehicles, with compression-ignition internal combustion piston engine (dieselor semi-diesel), Of a cylinder capacity exceeding 1 500 cm3 but not exceeding 2 500 cm3, New, Other	322.390	3.737.500	3.288.745
8525209100	Transmission apparatus incorporating reception apparatus, Other, For cellular networks (mobile telephones)	18.766	3.451.829	3.047.459
3916201000	Monofilament of which any cross-sectional dimension exceeds 1 mm, rods, sticks and profile shapes, whether or not surface-worked but not otherwise worked, of plastics, Of polymers of vinyl chloride, Of polyvinyl chloride	1.068.026	2.741.031	2.404.667
8701209000	Road tractors for semi-trailers, Used	1.032.040	2.722.772	2.388.298
8438400000	Brewery machinery	82.354	2.503.611	2.331.086
7408110000	Copper wire, Of refined copper, Of which the maximum cross-sectional dimension exceeds 6 mm	1.254.946	2.450.017	2.224.336
	<b>Greece Total</b>	<b>689.910.466</b>	<b>300.205.654</b>	<b>267.919.100</b>

9801510000	Goods for further processing-textile	11.378.071	63.384.166	56.012.038
2709009010	Oil, crude	194.853.659	42.446.480	39.954.735
8525209100	Transmission apparatus incorporating reception apparatus, Other, For cellular networks (mobile telephones)	1.840.485	18.072.938	15.590.330
9801500000	Goods for further processing	6.867.875	10.808.197	9.607.694
2711139700	Liquefied, Butanes, For other purposes, Other	18.718.326	6.874.636	6.068.818
8517300000	Telephonic or telegraphic switching apparatus	10.920	5.580.513	5.219.791
2710194500	Heavy oils, Gas oils, For other purposes, With a sulphur content exceeding 0,05% by weight but not exceeding 0,2% by weight	15.621.047	4.909.792	4.489.840
2702200000	Agglomerated lignite	83.613.132	4.887.723	4.354.492
2710115900	Motor spirit, Other, with a lead content, Exceeding 0,013 g per litre, With an octane number (RON) of 98 or more	11.654.235	4.362.166	4.041.325
2304000000	Oil-cake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of soya-bean oil	14.787.346	4.260.931	3.750.268
	<b>Italy Total</b>	<b>42.736.868</b>	<b>122.572.931</b>	<b>107.687.936</b>
9801520000	Goods for further processing-footware	1.516.224	23.902.516	20.945.224
9801510000	Goods for further processing-textile	671.679	9.556.799	8.319.690
8463300000	Machines for working wire for working metal or cermets, without removing material	93.900	2.064.351	1.775.636
8704229100	Motor vehicles for the transport of goods, Other, with compression-ignition internal combustion piston engine (diesel or semi-diesel), Of a gross vehicle weight exceeding 5 tonnes but not exceeding 20 tonnes, Other, New	154.106	1.853.118	1.564.022
3920202100	Other plates,sheets,film,foil and strip,of plastics,non-cellular and not reinforced,laminated,supported or similarly combined with other materials,Of polymers of propylene,Of a thickness not exceeding 0,10 mm,Biaxially oriented	735.602	1.656.904	1.464.169
8703221000	Other vehicles, with spark-ignition internal combustion reciprocating piston engine, Of a cylinder capacity exceeding 1 000 cm3 but not exceeding 1 500 cm3, New	224.851	1.616.685	1.419.707
8545110000	Carbon electrodes, Of a kind used for furnaces	556.017	1.440.044	1.288.464
8450111100	Machines, each of a dry linen capacity not exceeding 10 kg, Fully-automatic machines, Each of a dry linen capacity not exceeding 6kg, Front-loading machines	629.420	1.457.409	1.272.015
9801500000	Goods for further processing	507.927	1.054.876	902.379
3002101000	Antisera	79	1.010.400	891.357

Supplementary document 1	Most important trade partners from the EU regarding export from the Republic of Macedonia 01.08.2004			
tariff	name	kg	US\$	EUR
	<b>Austria Total</b>	<b>30.642.421</b>	<b>41.580.054</b>	<b>34.018.690</b>
0201203000	Meat of bovine animals, fresh or chilled Other cuts with bone in Unseparated or separated forequarters	2.136.705	3.549.630	2.907.811
1001909900	Wheat and meslin:Other:Other spelt, common wheat and meslin:Other	6.710.900	1.837.426	1.498.863
9801510000	Goods for further processing-textile	116.114	1.789.997	1.453.422
4819200010	Folding cartons, boxes and cases, of non- corrugated paper or paperboard, With a weight of the paper or the paperboard of less than 600 g/m2, Complex packing (combibloc, pure pack, tetra pack and alike products)	436.790	1.613.115	1.324.638
4801000000	Newsprint, in rolls or sheets	2.413.357	1.408.510	1.149.669
1701991000	White sugar	3.661.440	1.144.628	934.777
8474801000	Machinery for agglomerating,shaping or moulding solid mineral fuels,Machinery for agglomerating,shaping or moulding ceramic paste	42.527	1.123.958	911.693
9027101000	Gas or smoke analysis apparatus, Electronic	10.838	1.067.513	901.920
0201202000	Meat of bovine animals, fresh or chilled Other cuts with bone in "Compensated" quarters	469.997	1.074.833	876.075
2202901090	Wat,includ.miner.wat.and aerat.wat,contai.added sugar or oth.sweetening matt.or flavour,and oth.non alcoho.bever,not incl.fruit or veg.jui.of head.No 2009:Oth:Not cont.prod.of head.No 0401-0404 or fat obta.from products of head.No 0401-0404:Oth.	1.072.291	986.119	806.380
	<b>France Total</b>	<b>23.912.185</b>	<b>42.112.294</b>	<b>34.409.867</b>
8,70E+09	Other vehicles, with compression-ignition internal combustion piston engine (dieselor semi-diesel), Of a cylinder capacity not exceeding 1 500 cm3, New	454.225	4.391.721	3.591.231
8703221000	Other vehicles, with spark-ignition internal combustion reciprocating piston engine, Of a cylinder capacity exceeding 1 000 cm3 but not exceeding 1 500 cm3, New	475.117	4.060.960	3.311.575
1001909900	Wheat and meslin:Other:Other spelt, common wheat and meslin:Other	13.878.320	3.180.587	2.634.571
8703321900	Other vehicles, with compression-ignition internal combustion piston engine (dieselor semi-diesel), Of a cylinder capacity exceeding 1 500 cm3 but not exceeding 2 500 cm3, New, Other	297.314	2.927.092	2.392.259
2106909200	Food preparations not elsewhere specified or included:Other:Other:Containing no milkfats, sucrose, isoglucose, glucose or starch or containing by weight less than 1,5 % milkfat, 5 % sucrose or isoglucose, 5 % glucose	127.061	1.853.775	1.501.387

	or starch			
8703231900	Other vehicles, with spark-ignition internal combustion reciprocating piston engine, Of a cylinder capacity not exceeding 1 000 cm3 , Of a cylinder capacity exceeding 1 500 cm3 but not exceeding 3 000 cm3, New, Other	111.754	1.288.123	1.043.133
8704219100	Motor vehicles for the transport of goods, Other, with compression-ignition internal combustion piston engine (diesel or semi-diesel), Of a gross vehicle weight not exceeding 5 tonnes, Other, With engines of a cylinder capacity not exceeding 2500 cm3, New	143.346	1.136.330	926.683
8703321100	Other vehicles, with compression-ignition internal combustion piston engine (diesel or semi-diesel), Of a cylinder capacity exceeding 1 500 cm3 but not exceeding 2 500 cm3, New, Motor caravans	129.636	1.118.857	912.470
3305100000	Shampoos	243.065	883.280	726.016
9801500000	Goods for further processing	301.866	859.282	708.133
	<b>Germany Total</b>	<b>64.650.570</b>	<b>229.680.876</b>	<b>187.428.761</b>
9801510000	Goods for further processing-textile	6.227.986	98.610.358	80.474.844
8703329000	Other vehicles, with compression-ignition internal combustion piston engine (diesel or semi-diesel), Of a cylinder capacity exceeding 1 500 cm3 but not exceeding 2 500 cm3, Used	3.830.744	9.462.918	7.702.488
8703321900	Other vehicles, with compression-ignition internal combustion piston engine (diesel or semi-diesel), Of a cylinder capacity exceeding 1 500 cm3 but not exceeding 2 500 cm3, New, Other	331.053	4.658.956	3.801.949
1001909900	Wheat and meslin: Other: Other spelt, common wheat and meslin: Other	17.887.490	4.463.165	3.534.476
8703239000	Other vehicles, with spark-ignition internal combustion reciprocating piston engine, Of a cylinder capacity not exceeding 1 000 cm3 , Of a cylinder capacity exceeding 1 500 cm3 but not exceeding 3 000 cm3, Used	1.283.697	2.819.766	2.295.594
8703221000	Other vehicles, with spark-ignition internal combustion reciprocating piston engine, Of a cylinder capacity exceeding 1 000 cm3 but not exceeding 1 500 cm3, New	272.080	2.526.375	2.068.118
3916201000	Monofilament of which any cross-sectional dimension exceeds 1 mm, rods, sticks and profile shapes, whether or not surface-worked but not otherwise worked, of plastics, Of polymers of vinyl chloride, Of polyvinyl chloride	879.690	2.362.135	1.942.471

8703331900	Other vehicles, with compression-ignition internal combustion piston engine (dieselor semi-diesel), Of a cylinder capacity exceeding 2 500 cm3, New, Other	94.259	2.340.140	1.905.667
8525209100	Transmission apparatus incorporating reception apparatus, Other, For cellular networks (mobile telephones)	11.147	2.172.541	1.754.060
8701209000	Road tractors for semi-trailers, Used	770.650	2.059.151	1.680.698
	<b>Greece Total</b>	<b>317.835.647</b>	<b>181.366.539</b>	<b>148.189.680</b>
9801510000	Goods for further processing-textile	8.065.551	51.716.351	42.168.895
7214200000	Other bars and rods of iron or non-alloy steel,hot-rolled,hot-drawn or hot-extruded,but including those twisted after rolling,Containing indentations,ribs,grooves or other deformations produced during the rolling process or twisted after rolling	17.904.730	7.890.303	6.483.429
2713110000	Petroleum coke, Not calcined	85.652.360	7.795.129	6.452.770
9801500000	Goods for further processing	1.868.241	5.782.272	4.723.196
2711139700	Liquefied, Butanes, For other purposes, Other	13.408.785	5.344.850	4.366.626
8525209100	Transmission apparatus incorporating reception apparatus, Other, For cellular networks (mobile telephones)	272.257	4.502.444	3.678.830
2702200000	Agglomerated lignite	47.269.420	3.201.545	2.604.529
2304000000	Oil-cake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of soya-bean oil	6.428.756	2.432.015	1.986.366
7612909800	Aluminium casks,drums,cans,boxes and similar containers(including rigid or collapsible tubular containers),for any material(other than compressed or liquefied gas),of a capacity less than 50 litres	285.384	1.921.734	1.568.644
4818409000	Napkins and napkin liners for babies and similar sanitary articles, Other	823.765	1.816.688	1.483.903
	<b>Italy Total</b>	<b>29.619.603</b>	<b>106.097.248</b>	<b>86.827.652</b>
9801520000	Goods for further processing-footware	1.205.805	21.793.519	17.859.488
9801510000	Goods for further processing-textile	721.601	9.916.648	8.115.333
8422300000	Machinery for filling, closing, sealing, or labelling bottles, cans, boxes, bags or other containers; machinery for capsuling bottles, jars, tubes and similar containers; machinery for aerating beverages	122.373	3.417.110	2.782.704
8703221000	Other vehicles, with spark-ignition internal combustion reciprocating piston engine, Of a cylinder capacity exceeding 1 000 cm3 but not exceeding 1 500 cm3, New	241.124	2.011.815	1.639.367
8443300000	Flexographic printing machinery	50.704	1.177.137	955.948
3920202100	Other plates,sheets,film,foil and strip,of plastics,non-cellular and not reinforced,laminated,supported or similarly combined with other materials,Of polymers of propylene,Of a thickness not exceeding 0,10 mm,Biaxially oriented	475.248	1.140.041	930.088
8435100000	Presses, crushers and similar machinery used in the manufacture of wine, cider, fruit juices or similar beverages	85.994	1.099.874	897.054

8450111100	Machines, each of a dry linen capacity not exceeding 10 kg, Fully-automatic machines, Each of a dry linen capacity not exceeding 6kg, Front-loading machines	358.024	915.245	748.972
3923301000	Carboys, bottles, flasks and similar articles, of plastics, Of a capacity not exceeding two litres	556.228	913.066	748.722
8545110000	Carbon electrodes, Of a kind used for furnaces	309.730	912.678	740.255

**Most important trade partners from the EU  
regarding export from the Republic of Macedonia**

Country / group	Import 2000		Import 2001		Import 2002		Import 2003	
	US\$	share	US\$	share	US\$	share	US\$	share
<b>Total</b>	<b>565.647.813</b>		<b>566.492.577</b>		<b>570.230.230</b>		<b>745.132.103</b>	
<b>Spain</b>	<b>13.241.788</b>	<b>100.0</b>	<b>21.450.641</b>	<b>100.0</b>	<b>14.576.033</b>	<b>100.0</b>	<b>21.275.456</b>	<b>100.0</b>
industry	12.539.406	94.8	20.402.700	95.2	13.544.742	92.9	19.764.565	92.7
agriculture	700.882	5.2	1.012.324	4.7	1.029.698	7.1	657.450	3.2
other	1.500	0.0	35.617	0.2	1.593	0.0	853.442	4.0
<b>Sweden</b>	<b>2.554.103</b>	<b>100.0</b>	<b>2.765.119</b>	<b>100.0</b>	<b>3.595.420</b>	<b>100.0</b>	<b>5.645.693</b>	<b>100.0</b>
industry	2.528.964	99.0	2.734.491	98.9	3.551.341	98.8	5.549.554	98.3
agriculture	24.639	1.0	29.943	1.1	36.780	1.0	96.139	1.7
other	500	0.0	685	0.0	7.299	0.2		
<b>Austria</b>	<b>10.238.308</b>	<b>100.0</b>	<b>6.236.488</b>	<b>100.0</b>	<b>6.499.966</b>	<b>100.0</b>	<b>7.677.861</b>	<b>100.0</b>
industry	10.192.520	99.5	6.082.653	97.5	6.388.764	98.2	7.608.118	99.1
agriculture	45.788	0.5	149.890	2.4	62.109	1.0	50.836	0.7
other			3.945	0.1	49.093	0.7	18.907	0.2
<b>Belgium</b>	<b>23.878.307</b>	<b>100.0</b>	<b>7.492.605</b>	<b>100.0</b>	<b>10.364.130</b>	<b>100.0</b>	<b>9.641.446</b>	<b>100.0</b>
industry	23.756.070	99.5	6.746.179	90.0	7.938.188	77.4	5.865.668	61.4
agriculture	117.770	0.5	657.144	8.8	2.333.998	21.7	3.618.303	37.0
other	4.468	0.0	89.282	1.2	91.944	0.9	157.475	1.7
<b>Denmark</b>	<b>2.716.338</b>	<b>100.0</b>	<b>2.059.793</b>	<b>100.0</b>	<b>1.900.090</b>	<b>100.0</b>	<b>3.253.723</b>	<b>100.0</b>
industry	2.716.338	100.0	2.027.152	98.3	1.896.331	99.8	3.242.324	99.7
agriculture	-	-	-	-	3.759	0.2	6.717	0.2
other	-	-	32.641	1.7	-	-	4.681	0.1
<b>Finland</b>	<b>272.827</b>	<b>100.0</b>	<b>203.395</b>	<b>100.0</b>	<b>172.780</b>	<b>100.0</b>	<b>175.025</b>	<b>100.0</b>
industry	272.827	100.0	199.347	98.0	172.780	100.0	174.127	99.5
agriculture			4.049	2.0			897	0.5
other								
<b>France</b>	<b>14.942.038</b>	<b>100.0</b>	<b>15.964.107</b>	<b>100.0</b>	<b>24.788.707</b>	<b>100.0</b>	<b>54.725.094</b>	<b>100.0</b>
industry	13.223.462	88.3	15.441.135	96.7	23.629.015	95.2	52.812.184	96.4
agriculture	1.697.608	11.5	489.018	3.1	1.123.939	4.6	1.849.249	3.5
other	20.968	0.1	33.954	0.2	35.754	0.1	63.661	0.1
<b>Germany</b>	<b>257.490.825</b>	<b>100.0</b>	<b>238.735.961</b>	<b>100.0</b>	<b>234.000.770</b>	<b>100.0</b>	<b>278.353.699</b>	<b>100.0</b>
industry	251.134.756	97.6	234.669.095	98.3	225.442.438	96.3	271.135.349	97.4
agriculture	5.565.663	2.2	3.762.723	1.6	8.025.648	3.5	6.873.362	2.5
other	790.406	0.2	304.143	0.1	532.684	0.2	344.988	0.1
<b>Greece</b>	<b>84.106.817</b>	<b>100.0</b>	<b>101.131.920</b>	<b>100.0</b>	<b>116.949.561</b>	<b>100.0</b>	<b>179.813.465</b>	<b>100.0</b>
industry	71.820.243	84.9	94.318.024	93.2	107.832.796	92.3	166.691.830	92.7
agriculture	11.715.916	14.4	6.032.575	6.0	8.632.908	7.3	12.670.020	7.0
other	570.658	0.7	781.321	0.8	483.857	0.4	451.615	0.3
<b>Netherlands</b>	<b>36.013.513</b>	<b>100.0</b>	<b>45.406.865</b>	<b>100.0</b>	<b>44.711.542</b>	<b>100.0</b>	<b>46.788.456</b>	<b>100.0</b>
industry	35.935.020	99.8	44.556.955	98.1	42.231.982	94.3	40.899.027	87.4



agriculture	43.958	0.1	804.714	1.8	2.463.164	5.7	5.849.091	12.5
other	34.535	0.1	45.196	0.1	16.396	0.0	40.339	0.1
<b>Ireland</b>	<b>325.707</b>	<b>100.0</b>	<b>71.764</b>	<b>100.0</b>	<b>74.231</b>	<b>100.0</b>	<b>66.820</b>	<b>100.0</b>
industry	60.089	19.2	36.371	51.5	74.231	100.0	66.820	100.0
agriculture	265.618	80.8	-	-	-	-	-	-
other	-	-	35.393	48.5	-	-	-	-
<b>Italy</b>	<b>90.769.829</b>	<b>100.0</b>	<b>91.195.834</b>	<b>100.0</b>	<b>81.874.503</b>	<b>100.0</b>	<b>95.365.580</b>	<b>100.0</b>
industry	89.397.036	98.5	88.414.512	97.0	76.756.414	93.8	92.390.650	96.9
agriculture	1.324.942	1.5	2.523.321	2.8	4.828.219	5.8	2.753.301	2.8
other	47.852	0.1	258.001	0.3	289.870	0.3	221.629	0.2
<b>Portugal</b>	<b>1.857.536</b>	<b>100.0</b>	<b>4.517.980</b>	<b>100.0</b>	<b>1.593.297</b>	<b>100.0</b>	<b>6.633.696</b>	<b>100.0</b>
industry	1.766.378	95.3	3.929.032	87.0	1.593.297	100.0	4.965.742	75.0
agriculture	91.157	4.7	588.140	13.0	-	-	1.667.954	25.0
other	-	-	808	0.0	-	-	-	-
<b>Great Britain</b>	<b>27.239.876</b>	<b>100.0</b>	<b>26.686.521</b>	<b>100.0</b>	<b>28.909.720</b>	<b>100.0</b>	<b>35.097.084</b>	<b>100.0</b>
industry	26.738.628	98.1	26.422.249	99.0	28.707.849	99.3	35.050.035	99.9
agriculture	438.395	1.7	218.589	0.8	12.261	0.0	2.746	0.0
other	62.853	0.2	45.684	0.2	189.610	0.6	44.302	0.1
<b>Luxembourg</b>			<b>2.573.584</b>	<b>100.0</b>	<b>219.478</b>	<b>100.0</b>	<b>619.005</b>	<b>100.0</b>
industry			2.573.584	100.0	219.478	100.0	619.005	100.0
agriculture			-	-	-	-	-	-
other			-	-	-	-	-	-

## Supplementary Document No. 2

## Most significant products in the export from the Republic of Macedonia to Greece

EUR					
Tariff No.	Description	2000	2001	2002	2003
0204 10 00 00	Carcases and half-carcases of lamb, fresh or chilled		2.035.720	4.798.312	5.263.795
0307 60 00 00	Snails, other than sea snails	2.447.246			
0307 60 00 00	Snails, other than sea snails			3.983.294	4.745.068
0401 20 99 00	Milk and cream, not concentrated nor containing added sugar or other sweetening matter: Of a fat content, by weight, exceeding 1% but less than 6%: exceeding 3%: Other				1.227.137
0709 60 10 00	Sweet peppers of the genus Capsicum or of the genus Pimenta	869.605			
1206 00 99 00	Sunflower seeds, whether or not broken: Other: Other			1.179.378	
1701 99 10 00	White sugar				1.385.790
2401 10 10 00	Unmanufactured tobacco; tobacco refuse: Tobacco, not stemmed/stripped: Flue-cured Virginia type tobacco			1.667.374	
2401 10 60 00	Not stemmed sun-cured Oriental type tobacco	7.747.519			
2401 10 60 10	Unmanufactured tobacco; tobacco refuse: Tobacco, not stemmed/stripped: Sun-cured Oriental type tobacco: Prilep type				1.615.173
2401 10 60 20	Unmanufactured tobacco; tobacco refuse: Tobacco, not stemmed/stripped: Sun-cured Oriental type tobacco: Jaka type		1.469.855		2.095.569
2515 12 00 00	Marble and travertine, merely cut, by sawing or otherwise, into blocks or slabs of a rectangular (including square) shape	1.593.566	3.761.575		
2515 12 90 00	Marble and travertine: Merely cut, by sawing or otherwise, into blocks or slabs of a rectangular (including square) shape: Other		3.761.575	5.796.096	7.134.587
2710 19 63 00	Fuel oils: For other purposes: With a sulphur content exceeding 1% by weight but less than 2% by weight				19.365.787
4303 10 00 00	Articles of apparel, clothing accessories and other articles of fur skin	2.627.296			
4303 10 90 00	Articles of apparel, clothing accessories and other articles of furskins: Other		1.734.814	2.585.541	2.053.159
5205 13 00 00	Single yarn of uncombed fibers: Measuring less than 232.56 decitex but no less than 192.31(exceeding 43 but less than 52 metric number)			1.377.953	
5209 19 00 00	Woven fabrics of cotton containing 85% or more by weight of cotton, weighing more than 200g/m2: Unbleached: Other fabrics		1.987.527	2.018.824	2.103.504
5209 19 00 00	Woven fabrics of cotton containing 85% or more by weight of cotton, weighing more than 200g/m2: Unbleached: Other fabrics	1.938.291			
5210 11 90 00	Woven fabrics of cotton containing less than 85% by weight of cotton, mixed mainly or solely with man-made fabric, weighing not more than 200g/m2: Unbleached: Plain weave: Of a width not exceeding 165 cm			1.092.205	
6106 10 00 00	Women's or girls' blouses, shirts or shirt-blouses, knitted or crocheted, of cotton	3.326.657	5.159.950	8.591.560	13.456.421
6106 20 00 00	Women's or girls' blouses, shirts or shirt-blouses, knitted or crocheted: Of man-made fibres		1.254.276	2.829.627	4.224.708
6109 10 00 00	T-shirts, singlets and other vests knitted or crocheted, of cotton	6.543.168	5.989.008	6.227.554	8.626.514
6203 42 31 00	Trousers, bib and brace overalls, breeches and shorts: Of cotton: Trousers and breeches: Other of denim	2.047.710	1.281.536	1.944.676	1.959.418
6203 42 35 00	Trousers, bib and brace overalls, breeches and shorts: Of cotton: Trousers and breeches: Other		2.407.928		2.407.103
6203 42 35 00	Trousers, bib and brace overalls, breeches and shorts: Of cotton: Trousers and breeches: Other	1.503.058			2.407.103
6204 33 90 00	Jackets and blazers: for women and girls: Of man-made fibres: Other				1.140.305
6204 62 39 00	Trousers, bib and brace overalls, breeches and shorts: for women and girls: Of cotton: Trousers and breeches: Other: Other			1.099.744	1.363.277
6205 20 00 00	Men's or boys' shirts: Of cotton		2.514.164	3.006.363	3.463.668

## Chapter II Economic criteria

6205 20 00 00	Men's or boys' shirts of cotton	1.997.534			
6205 30 00 00	Men's or boys' shirts: Of man-made fibres	1.323.817			
6206 30 00 00	Women's or girls' blouses, shirts or shirt-blouses of cotton	3.421.509	7.804.431	10.930.623	14.463.640
6206 40 00 00	Women's or girls' blouses, shirts or shirt-blouses: Of man-made fibres	1.324.394	1.969.377		3.187.217
6304 19 10 00	Bed spreads: Other: Of cotton	3.299.969	4.982.525	5.175.804	5.944.892
6802 21 00 00	Other monumental and building stones and articles thereof, simply cut or sawn, with a flat or even surface: Marble, travertine and alabaster		1.034.697	1.089.256	
6802 91 90 00	Marble, travertine and alabaster: Other				2.500.804
7202 21 10 00	Ferro-silicon: containing by weight more than 55% of silicon but not more than 80% of silicon	5.189.452	5.345.941		2.934.630
7202 30 00 00	Ferro-silico-manganese	1.321.788			
7204 41 99 00	Turnings, shavings, chips, milling waste, sawdust and filings, including the ones in bundles: Trimmings and stampings etc: Other				1.169.840
7208 51 30 00	Hot-rolled products, of iron or non-alloy steel, of a width of 600 mm or more, not plated or coated: Other		1.398.983	2.838.471	2.502.853
7208 51 50 00	Hot-rolled flat-rolled products, of iron/non-alloy steel, of a width of 600 mm or more, not plated, not coated: Other, not in coils, not further worked than hot-rolled: Of a thickness exceeding 10 mm: Other, of a thickness: exceeding 15 mm but less than 20 mm			1.083.677	1.203.972
7208 51 90 00	Other iron and non-alloy steel, hot-rolled, in coils, of a width exceeding 600 mm, of thickness exceeding 10mm, other	3.565.250			
7209 16 00 00	Flat-rolled products of iron or non-alloy steel, in coils, cold-rolled: Of a thickness of 1-3 mm	2.054.945			
7209 17 00 00	Flat cold-rolled products of iron or non-alloy steel, in coils: Of a width exceeding 600 mm: Of a thickness of 0.5-1 mm	1.943.498			
7210 49 10 00	Flat hot-rolled products, of iron or non-alloy steel, of a width of 600 mm or more, plated or coated.		9.117.143	2.118.195	
7210 49 90 00	Flat-rolled products, of iron or non-alloy steel, of a width of 600 mm or more, plated or coated: Other plated or coated with zinc: Other				1.084.217
7308 20 00 00	Structures, of iron or steel: Towers and lattice masts		1.448.458		
7308 90 99 00	Structures, of iron or steel: Other			1.805.845	
7801 10 00 00	Unwrought lead: Refined lead		3.284.963		
7901 11 00 00	Zinc, non-alloyed: Containing by weight 99.99% or more of zinc	5.798.546	5.901.949	5.341.553	
7901 11 00 00	Zinc, non-alloyed: Containing by weight 99.99% or more of zinc		5.901.949	5.341.553	
8404 90 00 00	Auxiliary plant for use with boilers of heading 8402 or 8403 (for example, economisers, super-heaters, soot removers, gas recoverers); condensers or other vapour power units: parts	2.234.077			
9405 40 95 00	Other electric lamps and lighting fittings: Of other materials: Of a kind used with tubular fluorescent lamps				1.167.463
Total in the table		62.071.185	64.483.684	74.618.425	122.197.614
Total export to Greece		91.605.398	112.951.757	123.281.510	158.739.851
Share		67,80%	57,10%	60,50%	77,0 %
Total export to the EU					591.113.216
Share of Greece into the EU					26,90%

Supplementary Document No. 2

**MOST SIGNIFICANT PRODUCTS IN THE EXPORT FROM THE REPUBLIC OF MACEDONIA TO THE NETHERLANDS**

EUR					
Tariff No.	Description	2000	2001	2002	2003
0602 10 90 00	Other live plants (including their roots). cuttings and slips; mushroom spawn: Unrooted cuttings and slips: Other				1.512.180
2401 10 60 10	Unmanufactured tobacco; tobacco refuse: Tobacco. not stemmed/stripped: Sun-cured Oriental type tobacco: Prilep type			1.385.134	3.417.635
4101 10 10 00	Fresh and wet-salted skins of bovine	2.363.441			
6108 92 00 00	Women's or girls' slips. petticoats. briefs. panties. nightdresses. pyjamas. négligés. bathrobes. dressing gowns and similar articles. knitted or crocheted: Other: Of man-made fibres			1.003.295	
6110 30 10 00	Lightweight fine knitted jumpers and pullovers. with polo or turtle neck: Of man-made fibres		1.089.755		
6114 30 00 00	Other garments. knitted or crocheted: Of man-made fibres	1.308.829			
6203 32 10 00	Men's jackets and blazers: Industrial and occupational	1.197.849	1.310.025	1.073.026	
6203 33 10 00	Men's jackets and blazers: Of man-made fibres: Industrial and occupational	3.893.216	3.790.708	3.402.573	
6203 42 11 00	Trousers. bib and brace overalls. breeches and shorts: Of cotton: Trousers and breeches: Industrial and occupational	1.292.116	1.170.373	1.204.240	1.007.464
6203 42 51 00	Trousers. bib and brace overalls. breeches and shorts: Of cotton: bib and brace overalls: Industrial and occupational	2.361.686	1.901.142	1.202.516	
6203 43 11 00	Trousers. bib and brace overalls. breeches and shorts: Of man-made fibres: Trousers and breeches: Industrial and occupational	1.319.019	1.210.289	1.464.975	1.605.904
6205 20 00 00	Men's or boys' shirts of cotton	8.134.179	11.784.704	11.339.920	9.890.965
6205 30 00 00	Men's or boys' shirts: Of man-made fibres	1.451.606	1.289.185		
6206 30 00 00	Women's or girls' blouses. shirts and shirt-blouses of cotton		3.402.811	4.710.807	4.253.976
6206 40 00 00	Women's or girls' blouses. shirts and shirt-blouses: Of man-made fibres		1.042.684	1.025.039	1.424.479
6206 90 90 00	Women's or girls' blouses. shirts and shirt-blouses: Of other textile materials: Other			1.150.648	
6211 32 10 00	Other men's or boys' garments: Of cotton	1.857.303	1.828.452	1.643.459	1.400.831
6403 39 90 00	Other footwear	1.788.421			
6403 91 18 00	Other footwear: covering the ankle: Covering the ankle but no part of the calf. with in-soles of a length: Of 24 cm or more: For women		2.032.631	1.005.435	
6403 99 98 00	Other footwear: Other. with in-soles of a length: Of 24 cm or more: For women		2.384.856		
6405 10 90 00	With uppers of leather or composition leather: With soles of other materials		2.008.688	1.112.808	
7307 19 90 00	Tube or pipe fittings (for example couplings. elbows. sleeves). of iron or steel: Cast fittings: Other	1.036.554			
7307 19 90 00	Tube or pipe fittings (for example couplings. elbows. sleeves). of iron or steel: Cast fittings: Other		1.013.985		1.493.651
Total in the table		28.004.219	37.260.288	32.723.875	26.007.085
Total export of the Republic of Macedonia in the Netherlands		39.017.249	50.779.818	47.490.801	41.408.075
Share		71,80%	73,40%	68,90%	62,80%
Total export to the EU					591.113.216
Share of the Netherlands					7,01%

**SUPPLEMENTARU DOCUMENT NO. 2**  
**MOST SIGNIFICANT PRODUCTS IN THE EXPORT TO GERMANY**

Tariff No.	Description	EUR			
		2000	2001	2002	2003
2204 29 00 29	Quality wines	15.847.399	4.284.118		
2204 29 58 00	Other wine; grape must with fermentation prevented or arrested by the addition of alcohol		6.021.929	5.856.105	5.983.901
2204 29 75 00	Other wine; grape must with fermentation prevented or arrested by the addition of alcohol not exceeding 13 % vol.		4.595.795	8.694.479	5.728.262
2401 10 10 00	Unmanufactured tobacco; tobacco refuse; Flue-cured tobacco: Virginia type	1.826.402			
2401 10 60 00	Sun-cured Oriental type tobacco	3.611.906			
2401 10 60 10	Unmanufactured tobacco; tobacco refuse; Sun-cured Oriental type tobacco: Prilep type		1.267.987	3.592.551	3.445.901
2401 10 60 20	Unmanufactured tobacco; tobacco refuse; Sun-cured Oriental type tobacco: Jaka type		1.429.811	4.255.692	1.536.210
4303 90 00 00	Articles of apparel and other clothing accessories of furskins	1.282.084			
5207 10 00 00	Cotton yarn other than sewing thread put up for retail sale containing 85% or more cotton	1.690.381	1.049.044		
6104 33 00 00	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, trousers, knitted or crocheted of synthetic fibers	2.105.924			
6106 20 00 00	Women's or girls' blouses, shirts, knitted or crocheted of man-made fibres	2.072.794	2.190.755	2.029.266	1.151.175
6107 11 00 00	Underpants and briefs of cotton	1.100.710		1.038.609	
6107 12 00 00	Underpants and briefs of man-made fibres		2.226.801		
6109 10 00 00	T-shirts, singlets and other vests, knitted or crocheted of cotton	2.568.005	2.755.703		3.407.798
6109 90 30 00	T-shirts, singlets and other vests, knitted or crocheted of man-made fibres	1.787.548	2.346.920		3.261.300
6110 30 10 00	Lightweight fine knitted jumpers and pullovers, with polo or turtle neck of man-made fibres				1.001.900
6110 30 99 00	Women's or girls' jerseys, pullovers, cardigans, waistcoats and similar articles, knitted or crocheted, of man-made fibres	3.292.211	1.893.697	1.297.056	1.122.903
6112 20 00 00	Ski suits	2.007.391	2.142.250		
6201 11 00 00	Men's overcoats, raincoats, car-coats, and similar articles of wool or fine animal hair		1.568.575	1.580.628	2.857.312
6201 93 00 00	Men's or boys' overcoats, car-coats, wind-jackets and similar articles, other than those of heading 6203 of man-made fibres			1.279.422	1.221.712
6202 11 00 00	Men's overcoats, raincoats, car-coats, and similar articles of wool or fine animal hair			1.304.777	
6203 32 90 00	Men's jackets and blazers of cotton and similar articles		1.257.299		1.192.498
6203 33 90 00	Men's jackets and blazers of man-made fibres and similar articles	2.062.695	3.606.186	4.083.790	3.841.323
6203 42 11 00	Trousers, bib and brace overalls, breeches and shorts of artificial fibres: Industrial and occupational		1.632.713	1.375.160	1.726.821
6203 43 11 00	Trousers, bib and brace overalls, breeches and shorts of artificial fibres: Industrial and occupational	1.365.658	1.774.821		3.057.948
6203 43 19 00	Trousers, bib and brace overalls, breeches and shorts of artificial fibres: Other				1.297.160
6204 31 00 00	Women's or girls' jackets and blazers of wool or fine animal hair	2.231.168	1.666.406	1.589.190	1.202.844
6204 32 90 00	Women's or girls' jackets and blazers of cotton	1.039.853		2.032.205	3.749.378
6204 33 90 00	Women's or girls' jackets and blazers of synthetic fibres	4.636.710	4.270.679	3.178.447	2.884.458
6204 39 19 00	Women's or girls' jackets and blazers of cotton of other textile materials of artificial fibres	1.652.522	2.236.074	1.050.010	
6204 52 00 00	Women's or girls' skirts and divided skirts of				1.497.116

## Chapter II Economic criteria

	cotton				
6204 53 00 00	Women's or girls' skirts and divided skirts of synthetic fibres	2.356.760	1.923.792	1.324.827	1.439.903
6204 59 10 00	Women's or girls' skirts and divided skirts of artificial fibres	1.124.133	1.252.221		1.148.659
6204 62 39 00	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton	3.031.896	3.622.231	4.990.051	7.352.151
6204 63 18 00	Women's or girls' trousers, bib and brace overalls, breeches and shorts of synthetic fibres	4.722.856	6.293.923	5.461.306	3.396.385
6204 69 18 00	Women's or girls' trousers, bib and brace overalls, breeches and shorts of artificial fibres		2.109.791	2.036.921	1.455.500
6204 69 19 00	Other women's trousers and breeches of artificial fibres	2.233.483			
6205 20 00 00	Men's or boys' shirts of cotton	43.680.228	42.057.322	41.977.963	45.155.530
6205 30 00 00	Men's or boys' shirts of man-made fibres	5.661.747	5.020.256	3.778.295	3.483.697
6206 30 00 00	Women's or girls' blouses, shirts and shirt-blouses of cotton	4.080.982	5.841.146	8.749.201	7.675.439
6206 40 00 00	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres	27.716.879	33.164.104	30.250.829	35.033.474
6206 90 10 00	Women's or girls' blouses, shirts and shirt-blouses of other textile materials – of flax	1.374.059	1.396.252	1.426.320	1.017.151
6206 90 90 00	Women's or girls' blouses, shirts and shirt-blouses of other textile materials				2.190.904
6207 21 00 00	Men's or boys' nightshirts and pyjamas of cotton	1.092.344			
6208 92 00 00	Women's or girls' singlets and other vests, slips, petticoats, briefs, panties, nightdresses, pyjamas, negligés and similar articles of man-made fibres		1.085.371		
6210 40 00 00	Garments, made up of fabrics of heading 5602, 5603, 5903, 5906 or 5907: Other men's or boys' garments	1.010.179	1.094.682		1.357.637
6211 43 90 00	Women's or girls' track suits, ski suits and swimwear of man-made fibres	1.520.159	1.367.258	1.163.854	
6303 99 90 00	Curtains and drapes and interior blinds of other textile materials		1.933.562		
6403 99 00 00	Other footwear	3.784.125	1.119.091	1.192.277	1.120.324
7202 21 10 00	Ferro-silicon containing by weight more than 55 % of silicon but no more than 80% of silicon	3.367.487	1.418.709		3.014.077
7202 60 00 00	Ferro-nickel		6.836.924	13.654.616	
7208 51 30 00	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated: Of a thickness exceeding 10 mm		4.022.833	4.292.621	4.003.412
7208 51 50 00	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated: Of a thickness exceeding 15 mm but no more than 20 mm		3.154.571	2.964.304	2.363.084
7208 51 90 00	Other, products of iron or non-alloy steel, hot-rolled, not in coils, of a width exceeding 600 mm: Of a thickness exceeding 10 mm, other	14.321.456	6.545.581		
7208 51 91 00	Flat-rolled products of iron or non-alloy steel, hot-rolled, of a width of 600 mm or more, or not clad, plated or coated: Of a thickness exceeding 15 mm but no more than 20 mm and of a width of 2050 mm or more			4.484.786	3.524.940
7208 52 90 00	Not in coils, not further worked than hot-rolled, with patterns in relief and other of a width of 2050 mm or more	5.061.500	1.188.349		
7208 52 91 00	Flat-rolled products of iron or non-alloy steel, hot-rolled, of a width of 600 mm or not clad, plated or coated		3.569.950	3.051.378	3.689.922
7209 26 00 00	Flat-rolled products of iron or non-alloy steel, cold-rolled, not in coils, of a width of 600 mm: Of a thickness 1-3 mm	1.701.759			

## Chapter II Economic criteria

7210 49 10 00	Flat-rolled products of iron or non-alloy steel. of a width of 600 mm or more. clad. plated or coated: treated on surface only or merely cut in a shape other than rectangular	12.651.828	3.086.291		1.595.009
7210 49 90 00	Flat-rolled products of iron or non-alloy steel. of a width of 600 mm or more. clad. plated or coated: otherwise plated or coated with zinc				4.313.259
7305 31 00 00	Other tubes and pipes having circular cross-sections. the external diameter of which exceeds 406.4 mm. of iron or steel: Other. welded				1.642.827
7306 60 39 00	Other. welded. of non-circular cross-section. of rectangular (including square) cross-section. with a wall thickness exceeding 2 mm	3.337.562	4.471.409	3.702.041	3.145.346
7308 90 99 00	Structures of iron and steel: Other	1.027.369	1.478.237		
7408 11 00 00	Copper wire. of refined copper. of which the maximum cross-sectional dimension exceeds 6 mm	2.315.258			
7604 29 90 00	Aluminium bars. rods and profiles and aluminium alloys	1.802.845	1.244.478	2.618.105	2.651.097
7608 20 99 00	Aluminium tubes and pipes: Of aluminium alloys: Other			1.618.600	1.541.379
7901 11 00 00	Zinc. not alloyed. containing by weight 99.99 % or more of zinc	14.156.519	7.182.561		
7901 12 90 00	Zinc. non-alloyed. containing by weight less than 99.99 % of zinc. containing by weight 97.5 % or more but less than 98.5 % of zinc	4.177.496	1.302.429		
8534 00 11 00	Printed circuits: Consisting only of conductor elements and contacts: Multiple circuits		1.488.107	1.485.415	1.573.856
8544 51 00 00	Other electric conductors. for a voltage exceeding 80 volts but not exceeding 1000 volts. fitted with connectors	3.359.492	4.954.021	4.881.366	3.770.349
8544 59 10 00	Other electric conductors. for a voltage exceeding 80 volts but not exceeding 1000 volts: Wire and cables. with individual conductor wires of a diameter of 0.51 mm	4.287.710	9.605.665	7.195.059	7.216.128
8544 59 80 00	Other electric conductors. for a voltage exceeding 80 volts but not exceeding 1000 volts: For a voltage exceeding 80 volts but not exceeding 1000 volts	3.601.543			
Total in the table		230.741.015	221.048.680	196.537.522	207.039.359
Total export of the Republic of Macedonia in Germany		278.994.527	266.448.138	248.095.088	246.288.949
Total export of the Republic of Macedonia abroad					1.081.467.812
Share of Germany in the structure of total exports					22,80%
Total export of the Republic of Macedonia to the EU					591.113.216
Share of Germany in the structure of total exports to the EU					41,70%

**MOST SIGNIFICANT PRODUCTS IN THE EXPORT TO ITALY**

Tariff No.	Description	EUR			
		2000	2001	2002	2003
0204 10 00 00	Carcases and half-carcases of lamb, fresh or chilled	5.991.704	9.954.897	4.661.430	5.330.973
0712 30 00 00	Dried, but not further prepared mushrooms and truffles	1.121.693			
0712 31 00 00	Dried vegetables, whole, cut, sliced, broken or in powder, but not further prepared			1.110.009	
0712 39 00 00	Dried vegetables, whole, cut, sliced, broken or in powder, but not further prepared		1.215.393	1.062.844	
2401 10 60 10	Unmanufactured tobacco; tobacco refuse: Tobacco, not stemmed/stripped, sun-cured Prilep type			1.406.380	1.027.578
2515 12 90 00	Marble and travertine, merely cut, by sawing or otherwise, into blocks or slabs of a rectangular shape	1.733.376			1.310.944
4101 10 10 00	Fresh and wet-salted skins of bovine	1.298.242	1.288.920		
5801 35 00 00	Woven pile fabrics and chenille fabrics, other than fabrics of heading 5802 or 5806 of man-made fibres	1.338.042	1.172.087		
6205 20 00 00	Men's or boys' shirts of cotton		2.216.499	2.968.297	2.527.746
6403 51 19 00	Other footwear with outer soles of leather covering the ankle of a length of 24 cm or more, for women			1.838.756	2.928.390
6403 99 00 00	Other footwear	2.451.208			
6403 99 36 00	Other footwear with a vamp made of straps or which has one or several pieces cut out with in-soles of a length of 24 mm or more, for men		1.228.162		3.368.562
6403 99 36 00	Other footwear with a vamp made of straps or which has one or several pieces cut out with in-soles of a length of 24 mm or more, which cannot be identified as men's or women's footwear		1.457.768	1.302.011	
6405 10 90 00	Other footwear: With uppers of leather or composition leather; with outer soles of other materials		4.370.637	5.823.869	8.198.830
6406 10 11 00	Parts of footwear: Uppers and parts thereof, other than stiffeners of leather	4.269.343	6.167.493	7.226.763	11.877.276
7106 91 10 00	Silver (including silver plated with gold or platinum), unwrought or in semi-manufactured forms, of a fineness of not less than 999 parts per 1 000	1.683.040	1.886.123	2.773.761	
7202 21 10 00	Ferro-silicon containing by weight more than 55 % of silicon but no more than 80% of silicon	5.226.582	3.228.773		7.333.209
7202 30 00 00	Ferro-silico-manganese	4.707.770			
7202 60 00 00	Ferro-nickel		9.672.866	3.942.435	
7208 27 00 10	Other hot-rolled products of iron or non-alloy steel, in coils, of a width of 600 mm or more: Of a thickness of 3 mm, for tubes and pipes	2.548.072			
7208 27 00 90	Other hot-rolled products of iron or non-alloy steel, in coils, of a width of 600 mm or more: Of a thickness of 3 mm	2.211.404			
7208 37 90 00	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated, other in coils, of a thickness exceeding 4.75 mm but less than 10 mm	2.680.497			
7208 38 90 00	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated, other in coils, of a thickness of 3 mm or more but	2.328.326			



## Chapter II Economic criteria

	less than 4.75 mm				
7208 39 90 00	Flat-rolled products of iron or non-alloy steel. of a width of 600 mm or more. hot-rolled. not clad. plated or coated. other. in coils	6.835.716			
7208 51 30 00	Flat-rolled products of iron or non-alloy steel. of a width of 600 mm or more. hot-rolled. not clad. plated or coated; other. not in coils. not further worked than hot-rolled: Of a thickness exceeding 10 mm. but less than 20 mm		1.648.647	1.824.986	2.858.891
7208 51 50 00	Flat-rolled products of iron or non-alloy steel. of a width of 600 mm or more. hot-rolled. not clad. plated or coated; other. not in coils. not further worked than hot-rolled: Of a thickness exceeding 10 mm. exceeding 15 mm but less than 20 mm		2.288.843		1.396.470
7208 51 90 00	Other. products of iron or non-alloy steel. hot-rolled. not in coils. of a width exceeding 600 mm. of a thickness exceeding 10 mm	7.698.015	1.899.799		
7208 51 91 00	Flat-rolled products of iron or non-alloy steel. of a width of 600 mm or more. hot-rolled. not clad. plated or coated; other. not in coils. not further worked than hot-rolled: Of a thickness exceeding 10 mm. but less than 15 mm: with width of 2050 mm or more		3.540.058	2.115.891	2.053.039
7208 52 90 00	Not in coils. not further worked than hot-rolled. with patterns in relief of a width of 2050 mm or more	5.227.694	2.066.376		
7208 52 91 00	Flat-rolled products of iron or non-alloy steel. of a width of 600 mm or more. hot-rolled. not clad. plated or coated; other. not in coils. not further worked than hot-rolled. of a thickness of 4.75 mm or more. but not exceeding 10 mm. less than 15 mm: of a width of 2050 mm or more		3.336.195	2.938.165	3.021.478
7208 52 99 00	Flat-rolled products of iron or non-alloy steel. of a width of 600 mm or more. hot-rolled. not clad. plated or coated; other. not in coils. not further worked than hot-rolled of a thickness of 4.75 mm or more. but not exceeding 10 mm: of a width less than 2050 mm			1.862.771	1.241.044
7209 16 00 00	Flat-rolled products of iron or non-alloy steel. in coils. not further worked than cold-rolled. of a thickness of 1-3 mm	2.007.269			
7209 17 00 00	Flat-rolled products of iron or non-alloy steel. in coils. of a width exceeding 600 mm. of a thickness of 0.5-1 mm	2.115.655			
7211 19 20 00	Flat-rolled products of iron or non-alloy steel. of a width less than 600 mm. not clad. plated or coated. not further worked than hot-rolled. of a thickness exceeding 500 mm	1.577.803			
7306 60 39 00	Other tubes. pipes and hollow profiles welded. of non-circular cross-section. of stainless steel with a wall thickness not exceeding 2 mm			1.732.297	3.764.134
7308 90 99 00	Structures of iron and steel. other	1.069.187			
7801 10 00 00	Unwrought lead: Refined lead	1.997.752			
7901 11 00 00	Zinc. not alloyed. containing by weight 99.99 % or more of zinc	3.992.708	11.052.485	11.115.093	5.060.351
7901 12 90 00	Zinc. non-alloyed. containing by weight less than 99.99 % of zinc. containing by weight 97.5 % or more but less than 98.5 % of zinc	5.241.086	8.215.175		1.040.943
8607 21 90 00	Parts of railway or tramway locomotives or	1.418.684			

	rolling- stock. brakes and parts thereof				
8708 21 10 00	Safety seat belts for the industrial assembly of pedestrian-controlled tractors	1.685.539		1.065.907	
Total in the table		80.456.407	77.907.196	56.771.665	64.339.858
Total export of the Republic of Macedonia in Italy		98.025.143	101.875.592	87.456.668	84.828.608
Share in the structure of total exports in Italy		82,10%	76,47%	64,90%	75,80%
Total export of the Republic of Macedonia to the EU					591.113.215
Share of Italy in the structure of total exports in the EU in %					14,35%

c)

Relatively low growth of the export of goods in recent years is a result of the restructuring process of the national economy, followed by the decline in the economic activity (the production), as well as the inherited low labour productivity and obsolete technology, leading to high costs per unit of production output. By completing the economic reforms and promoting the economic sector where the country has comparative advantages, in a situation of existing legal mechanisms for foreign trade alleviation (free trade), in 2005 already, more significant positive movements in the export are expected.

d)

Data on this sub-item is presented in the following tables:

d1) Export and import of commodities:

Table 1

Export to the EU in 2000			2001		2002		2003		January-August 2004	
currency	US\$	EUR	US\$	EUR	US\$	EUR	US\$	EUR	US\$	EUR
ATS	121.997	135.974	214.172	242.203						
AUD	20.680	21.667	20.556	23.302	34.243	35.569	95.898	85.616	9.017	7.495
BEF	2.727.904	2.897.635	1.116.631	1.250.179						
CHF	390	419			41.876	44.359	134.264	115.327		
DEM	287.542.691	312.060.913	284.308.385	317.302.009						
DKK	1.961.308	2.072.955	681.588	763.913	383.460	429.789	1.189.407	1.053.644	306.508	253.569
ESP	258.255	293.319	149.249	167.271						
EUR	9.322.782	10.217.331	40.027.992	44.838.239	413.764.407	436.964.546	542.660.901	479.771.802	446.716.456	364.525.598
FRF	6.964.050	7.594.247	5.011.490	5.652.906						
GBP	11.948.342	13.035.844	9.870.689	11.050.794	14.053.436	14.718.509	16.085.339	14.151.760	15.554.456	12.717.706
GRD	2.304.264	2.508.086	4.503.525	5.058.082						
ITL	20.426.285	22.037.678	23.596.482	26.309.778						
MKD	248.590	0					5.648	5.144		
NLG	19.502.732	21.131.916	26.668.624	29.798.029						
SEK	74.316	79.759	321.057	359.675	420.013	454.107	602.492	526.726	393.026	330.590
USD	202.223.227	218.219.887	170.002.139	190.107.707	141.532.794	151.101.850	184.358.154	163.093.542	94.731.229	77.014.927
Total	565.647.813	612.307.629	566.492.577	632.924.088	570.230.230	603.748.730	745.132.103	658.803.561	557.710.692	454.849.885

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	Import from the EU in 2000		2001		2002		2003		January-August 2004	
	US\$	EUR	US\$	EUR	US\$	EUR	US\$	EUR	US\$	EUR
ATS	12.713.982	13.759.017	8.625.426	9.610.198						
AUD	46.026	47.949	62	68	13.554	14.100			12.948	10.701
BEF	3.404.087	3.660.280	1.958.821	2.195.296						
CHF	2.106.094	2.252.359	1.374.777	1.534.998	4.310.729	4.680.540	1.611.586	1.439.563	790.325	642.354
CAD					16.319	16.509			7.191	5.606
DEM	434.524.310	470.009.595	309.112.900	345.301.738						
DKK	5.106.598	5.532.239	5.346.743	5.973.947	3.757.251	3.906.701	6.683.534	5.970.713	4.041.520	3.283.743
ESP	1.701.948	1.834.169	764.125	843.818						
EUR	71.427.867	77.176.622	193.229.984	216.423.322	743.302.017	782.898.682	894.825.321	788.426.240	700.504.990	572.378.902
FIM	116.276	124.265	11.134	12.372						
FRF	5.662.494	6.123.489	3.031.853	3.397.460						
GBP	12.653.459	13.625.096	10.923.494	12.194.521	13.368.833	14.019.168	13.329.394	11.814.979	10.137.492	8.266.252
GRD	9.313.466	10.128.763	12.167.703	13.635.090						
IEP	1.196	1.292	5.619	6.486						
ITL	45.839.816	49.609.966	34.342.169	38.486.314						
JPY	2.781.220	2.808.503	1.548.454	1.797.501	541.335	551.835	108.387	89.680		
MKD	22.918	24.781	16.565	19.491	855	824	7.734	6.872	13.830	11.588
NLG	18.822.011	20.479.333	22.668.199	25.332.403						
NOK	657	780	30.875	34.611	13.986	13.952			31.239	25.893
SEK	1.886.453	2.056.194	1.314.632	1.471.191	1.362.969	1.439.088	1.189.398	1.044.604	668.824	547.133
USD	172.402.722	189.237.600	113.099.771	126.884.858	128.199.392	135.821.942	88.066.949	80.728.122	26.483.468	21.543.002
Total	800.533.601	868.492.293	719.573.308	805.155.684	894.887.239	943.363.338	1.005.822.303	889.520.773	742.691.826	606.715.173

d2)

Currency structure of the export of services

	1999	2000	2001	2002	2003
EUR	54,0	52,2	56,9	62,4	70,6
USD	35,0	35,1	30,3	25,7	16,6
CHF	2,4	1,9	1,2	1,1	1,0
GBP	0,5	0,3	0,4	0,6	0,5
Other	8,0	10,5	11,1	10,2	11,2
Total	100,0	100,0	100,0	100,0	100,0
<i>Source: NBRM</i>					

Currency structure of the import of services

	1999	2000	2001	2002	2003
EUR	56,9	55,6	57,7	66,9	69,9
USD	37,3	39,9	39,2	29,7	23,8
CHF	3,1	1,8	1,4	1,4	1,0
GBP	1,8	1,9	1,2	1,7	2,0
Other	0,9	0,9	0,4	0,3	3,3
Total	100,0	100,0	100,0	100,0	100,0
<i>Source: NBRM</i>					

**26. Please indicate the changes in labour productivity in economic sectors and provide indicators of international competitiveness (changes in relative unit labour costs, level and changes in average gross earnings, etc.).**

The productivity and the competitiveness of the Macedonian economy are strongly influenced by external shocks. The inflexibility of the regulation in the field of labour force also influences the slow adjustment of the companies to the changes in the market conditions. The reduced market demand immediately results with reduced labour productivity and increased costs for the labour force per product unit, which has a strong negative influence on the competitiveness and profitability of the Macedonian companies. This was especially obvious in 2001.

However, in the past 6 years (1997-2002) a mild improvement of the competitiveness has been noted. The best results were shown by the so called "non-tradable" sectors, i.e. market services. The processing industry, which is the biggest exporter, has an insignificant competitiveness improvement, mainly as a result of the closure or sale of the biggest loss-making companies in the six-year period.

**Labour Productivity**

*In thousand MKD – in 1997 prices*

Activities	1997	1998	1999	2000	2001	2002
A. Agriculture, Hunting and Forestry	373	364	408	375	348	320
B. Fishing	104	149	207	233	459	601
C. Mining and quarrying	266	268	289	353	404	405
D. Processing industry	264	248	251	286	284	303
E. Electricity, gas and water supply	570	598	578	600	553	512
F. Construction	264	312	355	369	339	328
G. Trade	347	335	350	364	345	357
H. Hotels and restaurants	225	219	270	228	224	265
I. Transport, storage and communications	365	444	510	532	475	513

J. Financial services	1.199	1.345	1.270	1.210	1.099	924
K. Activities related to real estates, renting and business activities	518	463	515	576	600	555
L. Public administration and defence; obligatory social protection	363	363	377	377	381	381
M. Education	231	231	231	231	233	233
N. Health and social work	278	278	283	283	286	286
O. Other communal, cultural, general and personal service activities	359	323	318	305	305	310

Source: Ministry of Economy

VALUE ADDED PER EMPLOYEE								
								in million denars
NACE Section	Description	1997	1998	1999	2000	2001	2002	2003
A	Agriculture, hunting and forestry	0,37	0,36	0,41	0,37	0,35	0,32	0,40
B	Fishing	0,10	0,15	0,21	0,23	0,46	0,60	0,64
C	Mining and quarrying	0,27	0,27	0,29	0,35	0,40	0,41	0,93
D	Manufacturing	0,26	0,25	0,25	0,29	0,28	0,30	0,35
E	Electricity, gas and water supply	0,57	0,60	0,58	0,60	0,55	0,51	0,59
F	Construction	0,26	0,31	0,36	0,37	0,33	0,33	0,34
G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	0,35	0,34	0,35	0,36	0,35	0,36	0,36
H	Hotels and restaurants	0,23	0,22	0,27	0,23	0,22	0,26	0,28
I	Transport, storage and communication	0,36	0,44	0,51	0,53	0,48	0,51	0,52
J	Financial intermediation	1,20	1,35	1,27	1,21	1,10	0,92	0,89
K	Real estate, renting and business activities	0,52	0,46	0,52	0,58	0,60	0,56	0,55
L	Public administration and defense; compulsory social security	0,36	0,36	0,38	0,38	0,38	0,38	0,38
M	Education	0,23	0,23	0,23	0,23	0,23	0,23	0,23
N	Health and social work	0,28	0,28	0,28	0,28	0,29	0,29	0,29
O+Q	Other community, social and personal service activities and Extra-territorial organizations and bodies	0,36	0,32	0,32	0,31	0,30	0,31	0,29
	<b>Total</b>	<b>0,33</b>	<b>0,33</b>	<b>0,34</b>	<b>0,36</b>	<b>0,35</b>	<b>0,35</b>	<b>0,38</b>

Please see classification of NACE Section at the end of the chapter

<b>Labour productivity</b>					
<i>Real annual change in %</i>					
<b>Activities</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
A. Agriculture, Hunting and Forestry	-2,6	12,2	-8,1	-7,2	-8,1
B. Fishing	43,8	38,9	13,0	96,7	30,9
C. Mining and quarrying	0,8	8,0	22,1	14,4	0,3
D. Processing industry	-6,1	1,0	14,3	-0,8	6,7
E. Electricity, gas and water supply	5,0	-3,4	3,7	-7,8	-7,3
F. Construction	18,2	13,8	3,8	-8,1	-3,3
G Trade	-3,5	4,5	3,9	-5,2	3,4
H. Hotels and restaurants	-2,8	23,6	-15,6	-1,8	18,3
I. Transport, storage and communication	21,8	14,7	4,4	-10,6	7,9
J. Financial services	12,2	-5,6	-4,7	-9,2	-15,9
K. Activities related to real estate, renting and business activities	-10,5	11,2	11,8	4,2	-7,5
L. Public administration and defence; obligatory social care	0,0	4,0	0,0	1,0	0,0
M. Education	0,0	0,0	0,0	1,0	0,0
N. Health and social work	0,0	2,0	0,0	1,0	0,0
O. Other communal cultural, general and personal service activities	-10,2	-1,6	-3,8	-0,2	1,8
Source: Ministry of Economy					

<b>Unit Labor Costs</b>						
<b>Activities</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
A. Agriculture, hunting and forestry	0,21	0,20	0,20	0,19	0,17	0,13
B. Fishing	1,33	1,21	2,03	5,14	2,25	1,00
C. Mining and quarrying	0,75	1,03	0,98	0,88	1,10	1,24
D. Processing industry	0,82	0,90	0,87	0,78	0,77	0,77
E. Electricity, gas and water supply	0,48	0,48	0,51	0,47	0,49	0,60
F. Construction	0,65	0,55	0,66	0,61	0,59	0,61
G. Trade	0,46	0,47	0,48	0,44	0,43	0,40
H. Hotels and restaurants	0,72	0,75	0,67	0,73	0,74	0,61
I. Transport, storage and communications	0,64	0,51	0,44	0,41	0,43	0,43
J. Financial services	0,35	0,34	0,35	0,38	0,41	0,48
K. Activities related to real estates, renting and business activities	0,51	0,58	0,59	0,53	0,54	0,52
L. Public administration and defence; obligatory social care	0,82	0,82	0,84	0,81	0,77	0,77
M. Education	0,93	0,93	0,93	0,91	0,90	0,91
N. Health and social work	0,84	0,84	0,84	0,81	0,79	0,80
O. Other communal, cultural, general and personal service activities	0,58	0,67	0,72	0,73	0,64	0,68
Source: Ministry of Economy						

Unit Labour Costs					
Annual change in %					
Activities	1998	1999	2000	2001	2002
A. Agriculture, Hunting and Forestry	-6,9	3,1	-7,6	-6,7	-24,2
B. Fishing	-9,1	67,9	152,8	-56,3	-55,6
C. Mining and quarrying	36,4	-4,9	-9,7	24,2	13,2
D. Processing industry	10,5	-3,6	-10,5	-1,5	0,6
E. Electricity, gas and water supply	0,3	6,4	-6,9	4,1	21,0
F. Construction	-14,9	20,4	-8,2	-3,2	3,3
G. Trade	2,9	2,9	-9,3	-1,4	-6,5
H. Hotels and restaurants	4,3	-9,8	8,6	1,6	-18,2
I. Transport, storage and communications	-20,6	-12,7	-6,4	4,8	-0,6
J. Financial services	-3,2	1,2	8,0	9,5	15,6
K. Activities related to real estates, renting and business activities	13,8	1,8	-10,3	1,8	-2,8
L. Public administration and defence; obligatory social care	-0,1	2,1	-3,3	-4,6	-0,4
M. Education	-0,2	-0,2	-1,8	-0,6	0,3
N. Health and social work	0,1	-0,8	-3,7	-1,8	1,0
O. Other communal, cultural, general and personal service activities	14,9	6,8	1,5	-11,3	5,2
Source: Ministry of Economy					

Employees' Funds						
In thousand MKD						
Activities	1997	1998	1999	2000	2001	2002
A. Agriculture, Hunting and Forestry	79	75	90	78	73	56
B. Fishing	139	134	134	182	173	185
C. Mining and quarrying	200	220	226	241	248	240
D. Processing industry	215	223	222	229	227	232
E. Electricity, gas and water supply	272	290	315	329	323	344
F. Construction	171	182	218	249	228	228
G. Trade	158	161	172	178	172	166
H. Hotels and restaurants	161	166	193	173	178	177
I. Transport, storage and communications	233	224	230	256	267	277
J. Financial services	425	473	456	510	531	535
K. Activities related to real estates, renting and business activities	263	272	309	331	360	336
L. Public administration and defence; obligatory social care	298	313	364	346	340	357
M. Education	214	218	236	221	227	243
N. Health and social work	234	242	251	255	248	266
O. Other communal, cultural, general and personal service activities	210	219	231	245	217	242
Source: Ministry of Economy						



Employees' Funds					
Annual change in %					
Activities	1998	1999	2000	2001	2002
A. Agriculture, Hunting and Forestry	-4,1	19,2	-13,5	-6,0	-23,9
B. Fishing	-3,2	0,1	35,6	-5,0	6,7
C. Mining and quarrying	9,9	2,8	6,7	2,9	-3,3
D. Processing industry	3,7	-0,7	3,3	-1,0	2,1
E. Electricity, gas and water supply	6,8	8,3	4,7	-1,9	6,5
F. Construction	6,7	19,9	14,0	-8,2	0,0
G. Trade	1,8	6,6	3,8	-3,2	-3,5
H. Hotels and restaurants	2,7	16,3	-10,2	2,8	-0,6
I. Transport, storage and communications	-3,8	2,9	11,1	4,2	3,8
J. Financial services	11,3	-3,6	11,8	4,1	0,8
K. Activities related to real estates, renting and business activities	3,7	13,6	7,0	9,0	-6,7
L. Public administration and defence; obligatory social care	5,3	16,1	-4,9	-1,6	4,9
M. Education	1,4	8,3	-6,3	2,8	7,0
N. Health and social work	3,4	3,6	1,6	-2,7	7,4
O. Other communal, cultural, general and personal service activities	4,5	5,4	6,0	-11,4	11,6
Source: Ministry of Economy					

## 27. What are in your view the particular challenges/priorities for economic policy faced by the Republic of Macedonia in the coming years and how do you intend to tackle them?

In the past period, as a result of the successful implementation of the Stabilisation Programme, Republic of Macedonia has achieved substantial results in the field of macroeconomic balance and stability. After the high, three-digit inflation rates in the years after the independence, a drastic reduction has been made, and the inflation has been reduced and maintained at a one-digit level, i.e. at the level of the countries with developed market economy. The country's gross domestic product, as one of the basic economic indicators, shows a small, but continuous growth (with the exception of 2001- the period of internal crisis), after which the economic flows were stabilised and dynamised. Simultaneously, the commitment of maintaining price stability determined firm dedication to implement disciplined fiscal policy, achieving positive results in practice (reduction of the budget deficit of 13,6% of GDP in 1993 to 1,1% in 2003).

The results in the field of macroeconomic stability are even more significant having in mind that their realisation and maintenance happened under conditions of strong external shocks (trade blockade at the beginning of the 90-ties, the Kosovo crisis in 1999 and the distorted political and security situation in 2001).

In the forthcoming period, the determination for maintaining macroeconomic stability remains, this time with even stronger emphasis on the development component in direction of realising more dynamic growth of the Macedonian economy. In the next phase, which has already started, the state would complete the key structural and institutional reforms that would provide strengthening of the economic stability, improvement of the business climate, employment growth and sustainable economic development. The macroeconomic stability and equilibrium of the Macedonian economy, as one of the basic conditions for providing sustainable development on a permanent basis, is a key priority and strong determination of the Government of the Republic of Macedonia.

For that purpose, Republic of Macedonia has prepared a mid-term economic strategy directed towards the preparation of a consistent set of measures focused on maintaining the macroeconomic stability in the Republic of Macedonia, at the same time creating conditions for sustainable economic

growth and increase in employment. The same measures have been included in the Economic and Social part of the National Strategy for European Integration of the Republic of Macedonia, based on four main and mutually dependent components, which are supplemented by a number of structural reforms for support.

The four components representing the base of the strategy are as follows:

- maintaining the macroeconomic stability;
- creating conditions for accelerating the economic growth and employment growth;
- providing adequate, but targeted social protection with the purpose of reducing the social consequences of the transition; and
- improving the implementation of the formally established regulatory and institutional framework, i.e. a reduction of the implementation gap.

Having in mind the given challenges, Republic of Macedonia in the future period would focus on consistent implementation of the following reform steps:

**Judiciary Reform** – The Government has already initiated amendments in the process laws (in Assembly procedure) and amendments of the execution procedure as a response to the numerous cases in effect that are not processed in the courts. It is expected that these amendments would help in overcoming the problems related to the speed, promptness and inefficiency of the court procedure, which would strengthen the exercise of the rights (claims) of the citizens and the legal entities. With the new Law on Execution, complete transformation of the court decisions' execution system would be done by separating the execution function from the courts.

**Public Administration Reform** – See detail description in Chapter I – Political Criteria.

**Economic Reforms** – The essence of the economic reforms implemented by the Republic of Macedonia is the principle of creating a market oriented economy by gradual reduction of the role of the state and inclusion of all economic participants in the creation of a stable economic environment. The process of approximation of the national legislation to the Acquis, as well as the implementation of the SAA were an obligation for introduction of the economic reforms in several areas. Among the recently enacted laws, we would point out the following:

- The Company Law ("Official Gazette of RM" No. 28/2004)- which simplifies the procedure for entry of new companies on the market
- The Law on Trade ("Official Gazette of RM" No. 16/2004), consistent legal frame that provides bigger transparency, security and discipline in the turnover of goods and the provision of services;
- The Consumer Protection Law ("Official Gazette of RM" No. 38/2004) ;
- Programme for Support of the Entrepreneurship and the Creation of Competitiveness in the economy of the Republic of Macedonia ("Official Gazette of RM" No. 12/2004);
- The Law on Catering ("Official Gazette of RM" No. 62/2004), The Law on Tourism ("Official Gazette of RM" No. 62/2004), Law on Crafts ("Official Gazette of RM" No. 62/2004).

Republic of Macedonia will continue with the harmonisation of the trade regulations with the EU standards in accordance to the SAA (see below), as well as with the further liberalisation of the foreign trade under WTO auspices. The Republic of Macedonia has applied for membership in CEFTA-Central Europe Free Trade Association and would enhance its trade cooperation with the other partners (EFTA). The Stabilisation and Association Agreement with the EU would enable an increased flow of goods and services by reducing the tariffs and other trade barriers.

**Employment Policy** – The National Action Plan for Employment of the Republic of Macedonia for the period 2004-2005 has been prepared in accordance to the employment directions of the EU Employment Strategy and has been adjusted to the conditions and the specific features of the labour market in the country. This Plan takes into consideration the wider social, economic and other factors that influence the employment sphere and define the shape of the national employment policy. The National Action Plan includes specific measures directed to increase employment and dealing with

the disharmony of the labour force and the social exclusion, as well as the specific preconditions and the time table for implementation.

The active policies of the labour market promoted by the Government of the Republic of Macedonia would, among else, concentrate on three types of measures:

- Support in providing jobs (information, mediation and counseling);
- Organising training programmes (qualification and pre-qualification), and
- Creating conditions and support for direct creation of new jobs.

**National Programme for Restructuring of the Steel Industry of the Republic of Macedonia –**

Pursuant to Article 23 of the Stabilisation and Association Agreement between the European Union and the Republic of Macedonia of April 2001, i.e. Article 10 of the Interim Agreement on Trade and Trade Issues between the European Union and the Republic of Macedonia, and on the basis of the provisions of Protocol 2 for Iron and Steel Products, the Government of the Republic of Macedonia has accepted the obligation for preparation of a National Programme for Restructuring the Industry for Steel Production. For the preparation of the National Programme, funds from CARDS 2001 Programme were used, as a support to a specific sector within the preparation of the National Plan for Economic Development.

**Small and Medium-Size Enterprises** – Respecting the provisions of the European Charter for Small Enterprises, the recommendations of the “Lisbon Strategy” and the findings of the “best practices” of certain examples in the EU member states, the key elements of this policy in Macedonia are as follows:

- Building an institutional infrastructure for promotion of the entrepreneurship and competitiveness;
- Establishing favorable economic environment in accordance with the achieved level of economic development;
- Entrepreneurship promotion through non-financial forms of support;
- Financial reforms for entrepreneurship support (the implementation of this policy is entrusted to the newly established Agency for Promotion of Entrepreneurship of the Republic of Macedonia).

In the same direction, the Government of the Republic of Macedonia has adopted a Programme of Measures and Activities for Entrepreneurship Support and Creating Competitiveness of the small and medium-sized businesses in the Republic of Macedonia. The Programme is valid for a period of four years and it realises the acceptance of the principles determined in the European Charter. An Agency for Promotion of Entrepreneurship of the Republic of Macedonia has been established and the realisation of projects determined in the Programme is underway, part of which is financed by the European Union.

By 2006, the mid-term activities and measures would be directed to:

- Strengthening the capacity of institutions;
- Designing Specific Programs for SMEs support and increasing the efficiency of the foreign and domestic funds;
- Establishing a SMEs Observatory within the Agency for Promotion of Entrepreneurship of the Republic of Macedonia .

The following measures and activities have been stipulated as mid-term priorities for improving the SMEs access to funds and non-financial services.

- Establishment of a Guarantee Fund;
- Establishment of an Association of Banks;
- Establishment of a Credit Rating Agency (Credit Bureau);
- Establishment of a Venture Capital Fund;
- Providing long-term credit lines and establishment of technology parks.

Priority objectives for Macedonia in the field of policy for promotion of the human resources and labour force market are as follows:

- Stimulating the creation of new jobs;
- Stimulating constant investment in human capital by providing adequate network for public and private education;
- Removal of the remnant institutional inflexibility of the labour force market and the social protection;
- Increase of the mobility of the labour force;
- Reduction of the employment in the informal sector.

The reform policies directed towards the reduction of the interest rates, as well as the measures for stimulating the growth of the domestic savings compose the primary dimension of the investment stimulation efforts. An integral part of this policy is the promotion of the Republic of Macedonia as a favorable place for foreign direct investments. The basic activities of this policy are defined in the Programme for Stimulating Investments in the Republic of Macedonia.

**Fiscal Reforms** - The reforms in the field of public consumption in future would be directed toward the creation of conditions for reduction and change of the structure of the overall budget consumption, promotion of the planning process and increasing the efficiency, transparency and accountability in using the public resources. Additionally, with respect to the public revenues, a Strategy for Development of the State Securities Market has been prepared. The basic objective of this Strategy is directed to the development of the primary and secondary securities' market that would enable more efficient financing of the budget needs in the short term (free current financing of the public expenditures) and in the long term (providing long-term financial resources for support of the economic development).

**Fiscal Decentralisation** - A special place is given to the realisation of the obligations from the Framework Agreement, which contains elements of the Agenda of the reform processes in the fiscal area. Within those frames the Government is dedicated to realise a more efficient local economic development through administrative and fiscal decentralisation, by which the local units would be provided with the necessary funds for realising their new functions and competencies.

**IT Development** - A general objective would be the preparation of the society in general for the digital era, as well as for attracting investments in this field. The IT sector in the Republic of Macedonia is one of the four industrial clusters that would obtain special support within the Macedonian Project for Increasing of Competitiveness. The IT Committee will prepare the National Strategy of the Republic of Macedonia for development of the information technology and harmonisation of the policy and the legislation in the IT field in accordance to the EU. A project called "e-Government" is under preparation, directed to the implementation of the information technology in the work of the Government.

According to the projections, in the future period it is expected that the planned macroeconomic policies would contribute to the realisation of a sustainable development at the level of 4% to 5% annually, stable inflation of about 2,5% at annual level, low budget deficit of the central government at a level lower than 1% of the GDP and even lower level of deficit on the current account of the balance of payment of 0,8% of GDP. The projected trends of the main macro-economic indicators should also contribute to a gradual reduction of the bank interest rates, which continue to be a burden for the business sector.

## VI. FINANCIAL MARKETS

### A. General

#### **1. Could you confirm that interest rates are generally market-determined? Are any rates administratively set? If so, which ones? If so, is there a timetable for full deregulation?**

Interest rates in the Republic of Macedonia are market based. Setting interest rates on market basis, as one of the basic principles of the market economy, is accepted and fully implemented in practice. Interest rates are an issue related to the business policy of the economic agents and they are subject to an agreement between the contracting parties. The legal grounds for setting interest rates on market basis arises from the provisions referred to in Article 388 of the Law on Contracts ("Official Gazette of RM", No. 18/2001, 4/2002 and 5/2003), pursuant to which determination of the level of interest rate is at the disposition of the contracting parties (natural persons and legal entities).

Only the default interest is determined on administrative basis, i.e. the interest the debtor pays in cases she or he is in default. This interest rate is regulated by the Law on the Amount of the Default Interest Rate ("Official Gazette of RM" No. 65/1992 and 70/1993). Pursuant to the Law, the level of default interest rate is pegged i.e. fixed as triple the level of the discount rate of the National Bank of the Republic of Macedonia (the central bank). The discount rate is an integral part of the instruments of the monetary policy of the central bank. The fact that the default interest rate is derived from the discount rate makes no difference in the decision-making about its changing. No deregulation is planned for this interest rate.

#### **2. Do quantitative ceilings exist on credit creation? What instruments are available to prevent too fast credit growth and potential exchange rate volatility from eroding the quality of lenders' portfolios?**

There is no quantitative ceiling on the credit growth in the banking sector. Credit limits to MKD credits were applied by the central bank, as a direct instrument of the monetary policy from the moment of acquiring monetary independence (April 1992) to April 2000.

Auction of central bank bills and the reserve requirement are the basic instruments that the National Bank of the Republic of Macedonia (NBRM) can use to prevent the rapid growth of credits and potential exchange rate volatility.

By changing the interest rate and the type of the tender of central bank bill auctions, the NBRM sends signal regarding the course of the monetary policy. At the same time, reserve requirement can also be used as an instrument to prevent rapid credit growth, by increasing the reserve requirement rate of the banks at the NBRM.

Clear example of the efficiency of the NBRM instruments in terms of preventing the pressure on the exchange rate is the crisis period in the Republic of Macedonia in 2001. In fact, in conditions of higher budget expenditures for security needs, withdrawal of the deposits from the banks by the citizens under the influence of psychological factors and the increase of the level of cash in circulation, the increased demand for foreign currency caused pressures for depreciation of the MKD exchange rate against the Deutsch mark. In such conditions, the NBRM intervened on two sides: on the supply side of the foreign exchange market – by selling foreign currency and on the side of demand for foreign currency by withdrawing MKD liquidity, mainly through auctions of central bank bills, the interest rates of which, for the purpose of greater attraction, were increased twofold (in a certain period, the interest rates reached 20%). Together with the other accompanying measures, among which the increase of the reserve requirement rates, the NBRM managed to maintain the MKD exchange rate stability, and the price stability, respectively.

These two instruments, the auction of the state treasury bills and the mandatory reserves are instruments of the monetary policy and are used in order to realize and fulfill the objectives of the monetary policy. Except of an indirect use (in cases of rapid credit growth and volatility of the exchange rate), they are not used to provide protection from potential erosion of banks' credit portfolio.

In this sense, the risk of erosion of the credit quality, and in general as a result of other factors such as the rapid credit growth and the volatility of the exchange rate, is in the range of the supervisory function that is carried out by the Central Bank of the Republic of Macedonia. This risk is considered from the level of dependency a certain bank has. In this context, the rapid credit growth is not considered a factor that leads to erosion of the credit quality on its own, but is seen only as a potential indicator that this can occur on a bank level. The risk of deterioration of the credit portfolio due to volatility of the exchange rate is known on the level of banking supervision, but at this moment, it has not been graded that the intensity of this risk asks for introduction of special instruments which will be able to control that risk or regulate it.

**3. Does the Republic of Macedonia have access to international financial markets? If so, could the authorities provide an assessment of access to the international financial markets by the state and by the private sector? On what financial terms? Please give examples.**

The government sector and the private sector have access to the international financial markets, but in general, the access is limited. Reasons for this are the crises in the region, as well as in the country, and the absence of credit rating of the Republic of Macedonia awarded by international credit rating agencies, that was only received in mid 2004. All that caused the foreign creditors to set certain preconditions if credits were to be extended to entities in the Republic of Macedonia, i.e. higher exposure premium expressed through higher interest rate, request for cash collateral or mainly concluding arrangement for a period up to one year, request for guarantees by third parties, etc. The government sector used the most borrowing from the international financial institutions, such as the IMF, IDA, IBRD, EBRD, EIB, as main source of foreign financing. The only appearance of the Republic of Macedonia on the international capital market was on 26.03.1997, when part of the debt of former SFRY that belonged to the Republic of Macedonia towards certain foreign commercial banks organized as London Club of Creditors, was exchanged for new bonds.

Two bonds were issued to the Republic of Macedonia for the amount of USD 228.727.000,00 with variable interest rate, one in the amount of US\$ 221.214.000,00, the so-called Global Bond issued under C Regulation, and the other was the so-called Limited Bond, issued at the request by US creditors, in the amount of US\$ 7.513.000,00. The Bonds are announced and listed on the Luxembourg Stock Exchange. The spread of these Bonds ranged between 311 to 670 basic points.

Dominant source of financing to the private sector in the Republic of Macedonia are the bank credits, mainly financed with foreign credits from international financial institutions, such as EBRD, IBRD and foreign commercial banks. No company from the Republic of Macedonia is listed on any foreign stock exchanges, nor there are other securities issued by Macedonian enterprises on the financial markets abroad.

In July 2004, the Republic of Macedonia acquired the first sovereign long-term credit rating BB, with positive prospects in the coming period, prepared by the international credit rating Agency Standard&Poor's. With the acquired credit rating, the Republic of Macedonia, as well as the private sector, is expected to have facilitated access to the international financial markets.

In the light of this context, worth mentioning is the syndicated loan approved to Tutunska Banka AD Skopje on 21.12.2004, in the total amount of EUR 20 million, in which in addition to EBRD's participation with EUR 7 million, several international banks, such as Erste Bank Austria, Raiffeisen Austria, BHV Germany and KBC Bank Belgium, etc., participate as well. The loan is approved on two years, with a possibility to be re-extended for one more year.

**4. What are the legal arrangements concerning central bank credit to the private sector? If so, how important are such credits in practice? Do the authorities envisage changes in any such arrangements?**

Pursuant to Article 83 of the Law on National Bank of the Republic of Macedonia ("Official Gazette of RM", No. 3/2002, 51/2003, 85/2003 and 40/2004), (see [11 Annex 01](#)), the National Bank of the Republic of Macedonia is prohibited to carry out commercial activities unrelated to the performance of its functions (listed in Article 10 of the Law on NBRM) and to give guarantees and other types of security for the liabilities of the private sector.

The National Bank, in order to fulfil the function of regulating the general liquidity in the banking system, can approve short-term credits to the banks, provided that the credit is secured with security instruments (Article 16, paragraph 1 of the Law on NBRM).

In this context, the National Bank of the Republic of Macedonia, depending on the level of liquidity in the banking system, carries out credit operations through auctions of credits (Decision on Carrying Out Auctions of Credits of the National Bank of the Republic of Macedonia ("Official Gazette of RM", No. 24/2000), and approves collateralized over-night loans to the banks (Decision on Loans on Collateral, "Official Gazette of RM", No. 11/2003).

In the past period, starting from mid-2000, as a result of the creation of excess of liquidity in the banking system, the National Bank of the Republic of Macedonia did not approve credits to the banks through auctions.

Due to the same reasons, collateralized loans are rarely applied instrument. Thus, in the past two years, the National Bank of the Republic of Macedonia approved collateralized over-night loans only six times. During 2005, it is envisaged to introduce repo-operations with government securities, through which the technique for securitization of the credit operations of the National Bank of the Republic of Macedonia will be simplified.

In addition, in June 2004, amendments were made to the Law on National Bank of the Republic of Macedonia, providing legal possibility for the National Bank (to the end of maintaining the financial system stability), to approve short-term liquidity credit to a bank (credit as last resort), provided it is collateralized with security instruments.(Article 16, paragraph 2, of the Law on National Bank of the Republic of Macedonia).

Both the procedure and the terms and conditions for approving these credits are regulated under the Decision on Short-term Liquidity Credits as Last Resort ("Official Gazette of RM", No. 84/2004).

**5. What are the main characteristics of the interbank clearing and settlement system? What has been the experience with these relatively new systems? Are there changes envisaged in the payments' system?**

The National Bank of the Republic of Macedonia (NBRM) owns and manages the Macedonian Interbank Payment System – MIPS. The system commenced its operations on 30.07.2001. MIPS is a Real Time Gross Settlement System (RTGS). It means that the payments among the participants are executed immediately (for less than 1 second) on gross basis. After the settlement in MIPS, payments are final.

Payment operations in the Republic of Macedonia are carried out fully through the banks, while the settlement among the banks is carried out in the settlement system at the NBRM –MIPS.

Participants in the MIPS are the following:

1. NBRM;

2. Payment operations performers (the banks);
3. Brokerage companies;
4. Central Securities Depository;
5. Clearing systems; and
6. Treasury system.

MIPS can also include other participants not making payments, but using the system for a safe electronic communication with the banks.

Participation in the MIPS is provided on the bases of the Agreement on Participation, according to which the participants accept the operational rules of the MIPS, stipulated by the NBRM. The operational rules regulate the following: participation, available accounts, procedures for log on and log off, the manner of forwarding messages, available messages and their form, message priorities and queues, fee paid by the participants, business days, time schedule, etc.

Participants can choose the manner in which they will exchange messages through the MIPS. NBRM offers the following manner, through which messages can be exchanged:

- FIN service of the SWIFT international network;
- Frame Relay Network of Macedonian Telecommunications; and
- Direct link to the system via local area network.

With regard to protection and authorization of messages forwarded through the abovementioned networks, PKI technology is used.

Main features of the MIPS are the following:

- operates on real-time gross settlement basis;
- carries out inter-bank payments;
- executes payments of the NBRM (via the MIPS, payments are executed between banks and the NBRM arising from foreign currency operations, central bank bills and other activities related to implementation of the monetary policy);
- payments are executed if there is enough coverage on the account of the participant (coverage on the account of the participant means account balance, increased by the allowed daily overdraft and reduced by the daily limits stipulated by the NBRM);
- daily approval of the daily overdraft of the banks on the basis of collateral; overdraft within a day is interest-free;
- carries out credit and debit transactions;
- settled payments are irrevocable;
- queues (payments that cannot be executed due to absence of coverage on the account of the payer are subject to queuing; when funds are received, payments are executed on the basis of priority, and within a same priority under the FIFO principle; MIPS has an incorporated option for gridlock resolution; If this option is activated, there is net settlement of the queued messages of all banks. The system incorporates possibility for many options: settlement according to priority, under FIFO, combination of FIFO + priority and priority + FIFO or under ascending/descending schedule according to the amount in the message, but according to the rules, only the option priority + FIFO is currently used);
- payments not settled at the end of the day are returned to the payer;
- the bank has a possibility to monitor the balance and the circulation on its account in the MIPS, as well as to manage the queues (change of priority and cancellation of payment);
- the system enables query of sent messages, reports on the balance of the account, etc;
- regarding communication among participants, standard inter-bank messages are used, in line with the international SWIFT standards;
- documents in electronic form – signed with electronic signature are used in the system;
- the system has options to keep several accounts of a single participant;
- the system has a possibility to operate with several networks, by implementing the “V” scheme;
- it is connected with the Central Securities Depository, and settlement of securities on the basis of “delivery versus payment” (DVP) is carried out through the MIPS;



- in average, 7,203 transactions with average daily value of MKD 2.640,07 million were settled through the MIPS in 2003.

The information system serving the MIPS is manufactured by the Hewlett Packard.

MIPS operates in accordance with the basic principles on systematically important payment systems, stipulated by the Committee on Payment and Settlement Systems at the Bank for International Settlement. During the last assessment made by the joint IMF and World Bank FSAP mission in September 2003, the following was determined:

- 4 principles are observed in the system;
- 4 principles are broadly observed in the system;
- 1 principle is partially observed in the system;
- there is no principle that is not observed, and
- one principle is not applicable to the system, having in mind that the MIPS is a RTGS system, and that principle refers only to net systems.

This means that the FSAP mission concluded that all principles on systematically important payment systems are applied in the MIPS.

In addition to the MIPS,, pursuant to the Law on Payment Operations, inter-bank payments can be also executed through clearing houses, which will ultimately be settled in the settlement system at the NBRM – the MIPS. Currently, the largest clearing house is the Clearing Interbank Systems, joint-stock company Skopje –KIBS. It was established by 16 banks and is a joint-stock company. Pursuant to the Law on Payment Operations, the NBRM is in charge of the supervision over the operations of the KIBS.

Participants in the clearing operations are performers of the payment operations (banks that acquired license to perform payment operations from the NBRM).

The features of the KIBS are the following:

- Ownership and management by 16 commercial banks;
- Settlement of large number of small-value inter-bank payments by participants that do not exceed the amount of 1.000.000 MKD (this amount is determined by the NBRM);
- Settlement of payment transactions is carried out under the multilateral net principle;
- Clearing operations are carried out in one cycle per day;
- Participants in the KIBS system have opened clearing accounts;
- Final settlement of net positions of the clearing accounts of the participants in the KIBS system is carried out on their settlement accounts at the NBRM through the MIPS, thus the payments become final;
- There is a procedure of “unwinding” (which has not been applied so far, due to the incorporated options for bank liquidity management in the MIPS);
- Information system for multilateral netting has been prepared by KIBS.

Taking into consideration the three-year experience, one can say that the MIPS have proven to be an efficient and safe system for payment and settlement. During 2003, there was 99, 8% availability of the system compared to the envisaged time.

Introduction of the new payment system has enabled:

- keeping the accounts of the banks at the NBRM;
- keeping the accounts of the legal entities at the commercial banks on competitive basis;
- several accounts at several banks upon choice by legal entities, thus providing for risk diversification at the legal entity;
- introduction of new services by the banks for their clients;
- execution of urgent payment at real time;
- facilitated liquidity management of the banks, having in mind that the banks are informed in real time about large-value payments;
- elimination of settlement-related risks for the NBRM;

- settlement of securities on DVP basis, etc.

With regard to further development of the payment systems in the Republic of Macedonia, pursuant to the regulations adopted by the NBRM for collection of data on payment operations, it is planned to systematically collect and disseminate data on payment operations, in line with the EU practice (the “Blue Book”). In addition, to the end of improvement of payment system efficiency and resolving the outstanding issues in terms of coordination, establishment of Payment System National Council of the Republic of Macedonia is underway, which should prepare strategic document for further development of payment systems in the country, in line with the EU Directives on payment systems.

## ***B. The banking sector (see also chapter 3 – Free Movement of Services)***

### **1. Please describe the current situation concerning access of private companies to bank credit and trend compared to previous years. To what extent have issues relating to property registration and enforcing bankruptcy hindered the access to credit?**

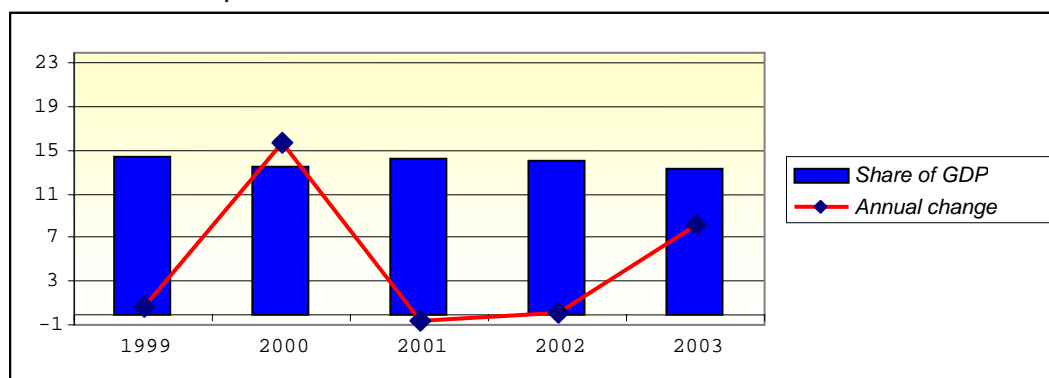
Pursuant to the current regulation in the Republic of Macedonia, private companies have equal access to bank credits. Terms and conditions under which bank credits are approved are determined by banks, with their business policy, thereby adhering to the stipulated supervisory standards and prudential management requirements.

Restructuring, competition and client-orientation of banks have facilitated the access of enterprises to the credit market. Thereby, establishment of micro-credit banks, and inclusion of micro-credits in the standard products of the large banks as well, led to better access by small enterprises to credits.

By the end of 2002, due to the low level of savings in the banks, restructuring of the real sector of the economy, restructuring and consolidation of banks, high lending interest rates, slow execution of collateral and uncertainty caused by several shocks of non-economic nature, the credit market in the Republic of Macedonia was relatively “anemic”. Gradual phase-out of the effects of these factors resulted in commencement of growth of credits to the private sector from the beginning of 2003. More intensive crediting to corporate sector was also recorded, although with significantly lower intensity compared to credits to citizens.

#### Chart

#### Credits to the corporate sector



Source: National Bank of the Republic of Macedonia

From the point of view of credits extended to enterprises, the Chart shows intensive annual growth of credits extended to enterprises in 2000 (15,7%), partly due to the abolishment of credit limits in April 2000 (the last direct monetary instrument). In 2001, as a result of the security crisis, credit contraction in the corporate sector was noticed (annual drop by 0,1%), and in 2002, the amount of credits

allocated in the enterprise sector recorded insignificant annual growth (0,1%). During this period, the significant increase of the deposit potential of the banks (due to the conversion of the 12 currencies into euro) did not result in stronger credit activity of the banks, which was due to the uncertainty regarding the volume and dynamics of re-withdrawal of these funds from the banks. Stabilization of the economy in 2003, in conditions of further increase in the deposit base of the banks, reduced credit costs, more active business policy of banks and liberalization of the foreign currency crediting, led to more intensive annual growth of credits to enterprises in 2003 by 8,1%. Still, in 2003, their share in GDP decreased (by 0,7 percentage points), reflecting greater orientation of the banks towards crediting the citizens. In the course of 2004, there was a continuous growth of credit allocated to the corporate sector, whereby the banks further strengthened their role in providing additional financial support for new investments. At the end of June 2004, compared to the end of the previous year, total credits extended to the enterprises increased by 7,7%. Thereby, such intensified credit activity was accompanied by gradual improvement of credit portfolio (evident in the reduced percentage of non-performing loans in the overall credit exposure).

Issues related to registration of ownership and conducting bankruptcy are important for the credits access of the companies. Although registration of collateral/mortgage is carried outside the courts (at notaries public), imposing mortgage depends on the possession of title deed. The procedure for acquiring title deed is very slow, and no real estate cadastre has yet been established in number of municipalities. Regarding collateral on movable property, huge progress has been achieved with the establishment of the Central Registry, where collateral on movable property is registered. In addition, the Central Depositary already operates and the ownership of securities is registered there.

Execution of collateral/mortgage is carried out in extra-judicial procedure, by sale of the mortgage/collateral through notary public. However, due to the absence of developed real estate market, sale of mortgage is slow. In addition, the existing legislation preserves certain rights to the debtors when the notary public sets the mortgage selling price.

General Provisions in the Bankruptcy Law ("Official Gazette of RM", No. 55/1997, 53/2000, 37/2002 and 17/2004) impose fast and efficient manner of carrying out bankruptcy procedures, so as to protect the interests of the creditors. However, in reality, due to relatively low liquidity on the market, as well as the insufficient efficiency of the courts, the process of determining and claims and executing the bankruptcy is prolonged.

As a result, and in order to overcome the existing weaknesses in the bankruptcy procedures in the Republic of Macedonia, procedure for modifications and amendments to the Bankruptcy Law is underway. Modifications and amendments are aimed at acceleration of the bankruptcy procedure, paying special attention to elimination of weaknesses in the work of the courts that conduct the bankruptcy procedures, harmonization with the European legislation and harmonization with the laws related to the Bankruptcy Law, which have already undergone the procedure for harmonization with the European legislation.

All previously stated factors significantly influence the design of credit policies of banks in terms of extending credits to solvent clients and investing funds at clients that have the capacity to provide collateral for which there is a liquid market.

**2. Please evaluate the degree of competition in the banking system (price competition, new products, changes in market share, other indicators). Are there any particular concerns on the share of market of the two largest banking groups?**

The banking system in the Republic of Macedonia is of universal nature. It consists of 21 banks and 15 savings houses.

Banking industry underwent comprehensive restructuring. In the period 1994 – 1999, there was a financial restructuring of the banks, which included conversion of part of the non-performing loans of the old banks into government bonds, and bankruptcy of the second largest bank at that time – Jugobanka Skopje. The second period (2000 – 2004), includes operational restructuring of the

banking industry, which included the following elements: introduction of new risk management policies and procedures, new information technologies, higher efficiency, launching new banking products, increasing client orientation of the banks, greater competition and introduction of transparency in the banks' operations.

According to the size of total assets of the banks in the Republic of Macedonia, they can be categorized in three groups as follows:

- large banks (with assets over MKD 15 billion);
- medium-size banks (with assets from MKD 2 to 15 billion); and
- small banks (with assets up to MKD 2 billion).

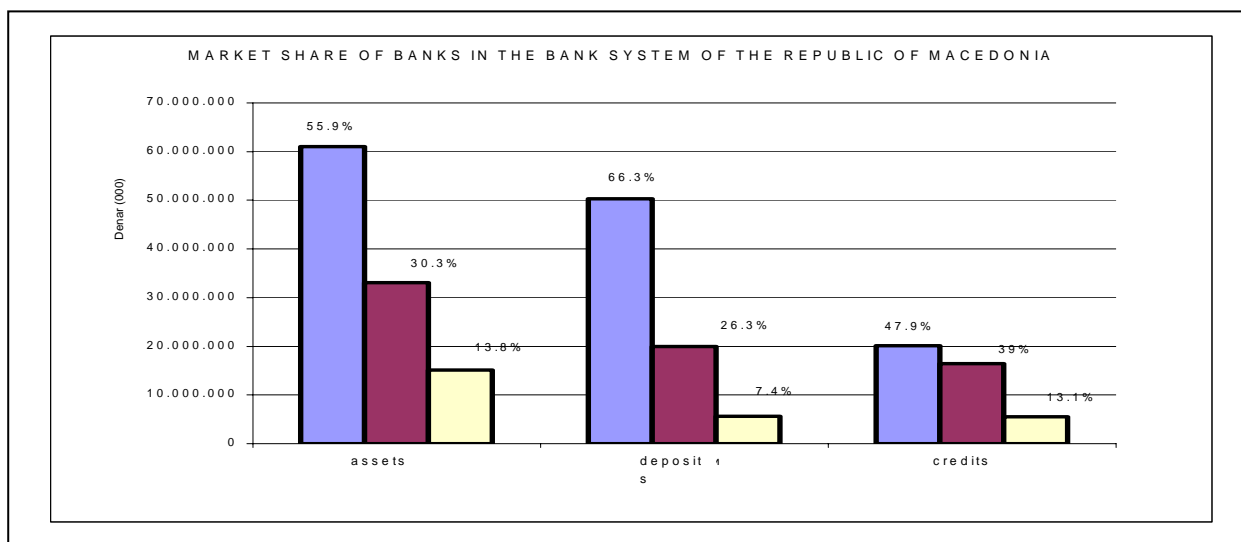
According to these criteria, the group of large banks comprises of 2 entities, the group of medium-size banks consists of 7, while 12 banks have total assets less than MKD 2 billion and fall within the group of small banks.

The concentration in the banking industry corresponds to the level of concentration for a small and open economy. The market share of the two largest banks accounts for 55,9%. The market share of the group of medium-size banks is 30,2%, while the share of the small banks is 13,9%.

Distribution of capital within the above defined groups of banks is more equally dispersed. The two largest banks participate with 30,7% in the total capital of the banking system, the share of the medium-size banks is 36,5%, while the share of the group of small banks is 32,8%.

Regarding distribution of the participation on the credit market and the deposit potential of the banks, the dominant share goes to the two largest banks; their share in the credit market is 47,9%, and 66,3% in the total deposit potential.

The Chart below shows the market share of separate groups of banks according to the following criteria: total assets, deposits and credits.



Source: National Bank of the Republic of Macedonia

Large banks	
Medium-size banks	
Small-size banks	

During the period of restructuring the banks, foreign bank groups (mainly from Greece, Slovenia, Austria, Turkey and Bulgaria) acquired the majority share in the equity capital of the banks. Foreign investors participate with 60% in the total equity capital of the banks (47.5% in the total assets).

Thus, the National Bank of Greece (NBG) bought the control package of shares in the Stopanska Banka AD Skopje, the NLB Group Ljubljana bought the control package of shares in the Tutunska Banka AD Skopje, the Alpha Bank Greece bought the control package of shares in the Kreditna Banka AD Skopje, and the TC Ziraat Bankasi Turkey established its affiliate in the Republic of Macedonia, the First Investment Bank bought the control package of shares in the Balkanska Banka, while the Bank of Austria opened a representative office.

In 2003, pursuant to the Law on Micro-finance Banks ("Official Gazette of RM", No. 61/2002), ProCredit Bank AD Skopje was established. Several international financial institutions for development support and micro-finance appear as shareholders in the Bank:

- EBRD - European Bank for Reconstruction and Development;
- IFC - International Financial Corporation;
- IMI - International Micro Investitionen AG;
- FMO - Nederlandshe Financierings Maatschappij voor Ontwikkelingslanden N.V.;
- KfW Bank.

Competition, market discipline and transparency are constantly promoted. The banks are obliged to publish their annual and semi-annual financial statements. Thereby, the banks constantly publish data on the operations on their websites. Competition is evident in three domains: gradual reduction of the interest margins (see more details in [II VI B 3](#)), permanent offer of new products and orientation of the banks towards the clients and aggressive promotion and marketing campaign. However, the competition in the banking industry did not lead to mergers and takeovers of banks.

Regarding the group of large banks, as well as banks with foreign strategic investors, is evident the trend of investments in new banking technologies and access to know-how of the parent banks for development of new banking products.

The banking market in the Republic of Macedonia is relatively small and concentrated. The concentration of the financial potential and the banking services offered by the top banks, not only that draws historical roots from the early establishment of the banking system in the previous stage, but it's a result of the lack of foreign banks present on the market today. At the moment, there are not any significant indications for any concerns regarding the stability of the banking system because of the size of the market share that the two big banks have. This is important, especially if one takes into considerations the stability of both financial institutions, where in one of the banks the international banking group NBG (National Bank of Greece) is founder, and in the other the EBRD is the major shareholder.

From the point of view of market competition and price creation of the banking service, and at the same time taking into consideration the concentration, the offer of financial services and the financial potential the banks possess, there are theoretical possibilities for creating a probable oligopolistic position on the market. On the other hand, the fragmented offer of financial services and relatively high criteria for granting credits, introduced by the larger banking subject present on the market, in circumstances of relatively low credit demand and other financial services from the solvency clients that can fulfill the criteria established by these banks, unables the creation of pre-conditions for such position on the market.

Market discipline, transparency and strict supervisory standards are in line with preventing the creation of monopolistic market structures. Along with the efficient corporate governance, they permanently strengthen the risk management and promote the reputation and stability of the leading banks and of the banking industry as a whole.

**3. What is the average interest rate spread (lending/deposit rates in domestic and foreign currency respectively) in banking over recent years? Please supply data on the profitability of banks during recent years and comment on developments.**

The Table and the Chart below show the movements of the interest rate spreads between credits and deposits expressed in MKD. Financial instruments denominated in domestic currency account for 44% of total assets of the banks. Average interest rate spreads (difference between average ponder interest rates of MKD credits, with maturity to one year and average ponder interest rates of MKD deposits with maturity of three months) of the MKD denominated financial instruments, up to 2003, were kept unchanged. The same were at high level, reflecting the influence of several limiting factors. They were significantly reduced in 2004. At the end of June 2004, interest rate spreads of MKD funds were reduced to 6,1%, from 8% at the end of 2003. Decline of the MKD interest rate spreads in the first half of 2004 was due to higher competitiveness in the banking sector, completion of the process of operational restructuring of banks and reduction of the share of interest-free and low-interest-bearing assets expressed in foreign currency in total assets, whose share at the end of 2003 was 45%.

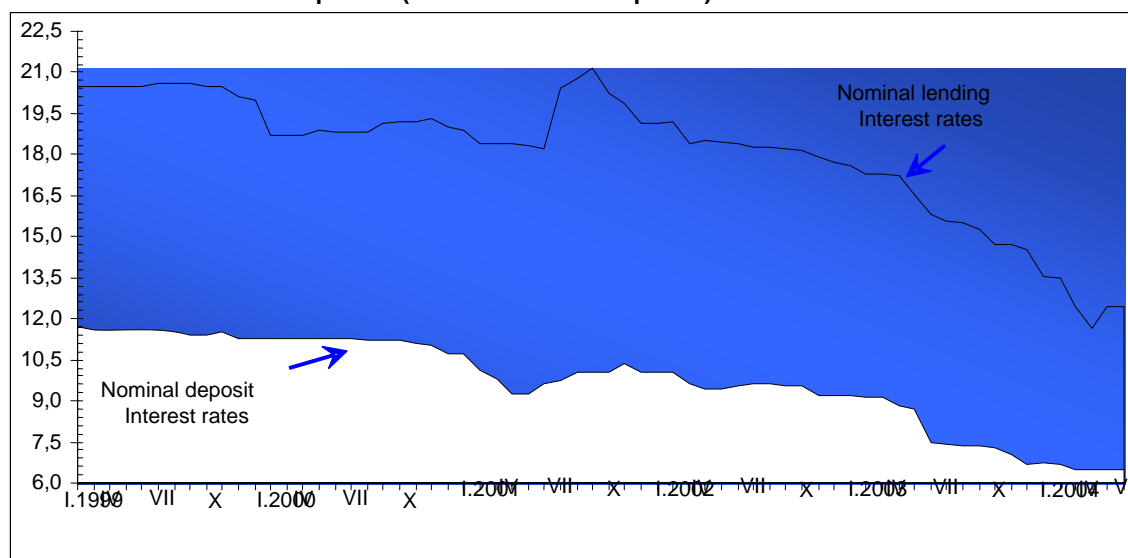
Important factors that have contributed in maintaining high interest spreads are the following: (1) low level of bank savings, (2) restructuring of real sector in the economy, with reduction of number of quality investment projects, (3) prudent policy of banks, with inherited and acquired bad credit portfolio, (4) restructuring and consolidation of banks, determining additional time for adoption of new credit policies and procedures, (6) inadequate legal frame, in the sense of enforcement of collateral, (7) uncertainty from the post-transitional period as well as from several non-economic external shocks.

**Table: Average interest rate spreads (in percentage points)**

Category/year	1999	2000	2001	2002	2003	first half of 2004
Average interest rate spread of MKD credits and deposits	8,9	7,8	9,4	8,8	8,0	6,1

Source: National Bank of the Republic of Macedonia

**Interest rates and interest spreads (MKD credits and deposits)**



Data processed by: National Bank of the Republic of Macedonia

The table presents a trend of gradual narrowing of the average interest spreads, with exception to 2001, due to the risk shock, when it resulted with significant expansion of the interest margin. After exceeding this stage, the gradual improvement of the banks efficiency, the stabilization of the whole

economy and the gradual comprehension of the above mentioned limiting factors, all contributed towards significant interest spread narrowing.

From the point of view of foreign exchange interest rates spreads, methodology is in the process of preparation, which will generate consistent inputs for their calculation.

The Table below shows the movement of the number of banks that have realized profit and loss in their operations in the period from 1999 to 2003. Thereby, data on 2002 and 2003 (in both Tables below) do not incorporate data for one bank, which, in January 2003, was under conservatorship, and bankruptcy procedure was initiated against it in March 2004.

**Table: Review on the movement of the number of banks that have realized profit and loss by years**

Realized profit in the banking system	1999	2000	2001	2002	2003
Total number of banks	23	22	21	20	21
Number of banks that realized profit	20	18	17	15	17
Total profit of the banks that realized profit (000 MKD)	894.768	1.032.667	900.367	971.728	1.420.300
Number of banks that realized loss	3	4	4	5	4
Total loss of the banks that realized loss (000 MKD)	(391.854)	(387.493)	(1.520.700)	(576.204)	(972.217)

Source: National Bank of the Republic of Macedonia

The next Table presents the trend of the return on assets and return on equity.

**Table: Review on the movement of the return on assets and the return on equity by years**

Year:	(ROA) – return on assets (%)	(ROE) – return on equity (%)
1999	0,8	3,5
2000	0,8	3,8
2001	-0,7	-3,2
2002	0,4	2,1
2003	0,5	2,3

Source: National Bank of the Republic of Macedonia  
Data processed by: National Bank of the Republic of Macedonia

The process of operational restructuring of banks in the period 2000 – 2004, which also included the removal of non-performing credits from the balance sheet of banks, was marked by concentration of high losses in some banks, and low profitability in the banking industry as a whole, except for 2001, when the whole banking industry suffered losses. Thereby, the effects from the operational restructuring of banks were aggravated by the effects from the internal conflict in 2001.

From the tables given above, one can see that the banking system in 2001 had an operating loss. This loss was as a result of the safety crises in 2001, which resulted with a significant deterioration of payments of due claim, i.e. the quality of the credit portfolios. The deteriorated quality of the credit portfolios contributed towards significant increase in the necessary amount of the special reserve for the credit risk that absorbed the existing frail revenues.

The lower profitability indicators presented through indicators of restitution of resources and equity in high interest rates surroundings, are result of the relatively high degree of credit risk in the banks portfolios, the high participation of the low interest placements in the total assets of the banking sector and the high operational inefficiency of the banks.

The relatively high level of credit risk in the banks portfolios, continuously imposes the need for allocation of additional reserves for credit risk, as a revenue burden.

The high level of non-interest and low-interest placements in the total assets of the banking system has an effect on the total quantum of interest revenues that the banks realize on their assets. At the end of 2003, these placements participated with, approximately, 45% of the total assets of the banking system.

The high operational inefficiency is expressed through the sum of net assets of the banking system per employee, who by the end of 2003 were MKD 22,8 million, while financial results per employee for the same period were MKD 0,098 million. By the end of 2003, from the total number of employees in the banking system, more than 50% are employed in the two largest banks.

Operational restructuring of the banks in this period was mainly expressed through qualitatively changes in the industry: efficient risk management policies, higher competition, launching new products, sound banking practices, introduction of new IT, greater efficiency etc. Thereby, banks became capable to respond to all challenges, which will accordingly be reflected (is already reflecting) in their profitability as well in the coming years.

#### **4. What is the average maturity of bank loans to the private sector over recent years? What is the share of loans with maturity of up to one year?**

Within the monetary statistics, maturity of credits is monitored according to the contractual maturity. Thus, distinction is made only between short-term credits (maturity period up to one year) and long-term credits (maturity period longer than one year). Thereby, when calculations are being made, the private sector does not include the central government, the extra-budgetary funds and the non-residents.

Analysis of maturity structure of the credits extended to the private sector shows stronger orientation of banks in the last two years toward extending long term credits.

**Table: Maturity structure of credits to the private sector**  
(share in the total credits in %, monthly average for the year)

Description	1999	2000	2001	2002	2003	first half of 2004
Short-term credits	62	66	69	70	63	59
Long-term credits	38	34	31	30	37	41

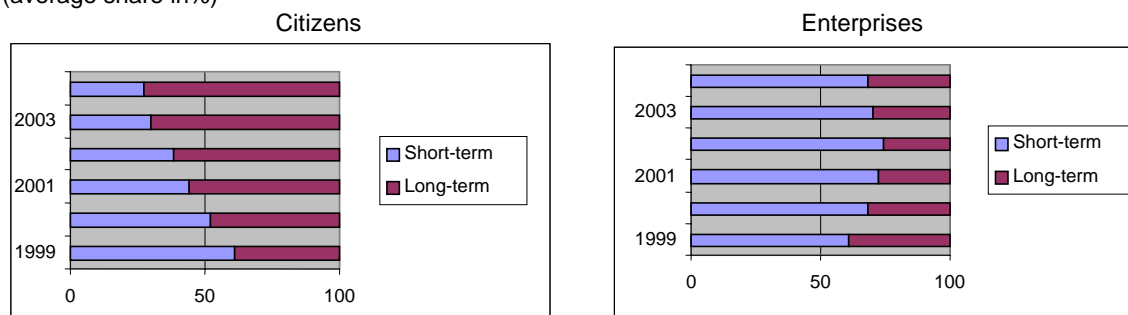
Source: National Bank of the Republic of Macedonia  
Data processed by: National Bank of the Republic of Macedonia

Thereby, the positive trend of increasing the share of long term credits compared to the short-term credits refers to both: the credits to the enterprise sector and the credits to the citizens (whereby, it is more evident at the citizens sector).



**Maturity structure of credits to citizens and enterprises**

(average share in%)



Source: National Bank of the Republic of Macedonia

According to the supervisory data, the Table below presents the residual agreed maturity of credits extended to the private sector:

**Table: Residual maturity of credits extended to the private sector as of 30.06.2004 (%)**

Description	up to 7 days	from 7 days up to 1 month	from 1 up to 3 months	3-6 months	6-12 months	over 12 months	Total
Credits at clients	7,23	4,33	9,61	13,80	21,00	44,04	100,00

Source: National Bank of the Republic of Macedonia

During 2004, the National Bank adopted Decision on the Methodology for Determining, Evaluating and Managing Liquidity Risk of the Banks ("Official Gazette of RM", No. 4/2004). Pursuant to this Decision, the National Bank monitors the residual maturity structure and the expected maturity structure of the assets and liabilities of the banks, broken down by separate balance positions. Monitoring the residual and the expected maturity structure and the results from analyses to be carried out on the basis of collected data should result in defining prudent limits for liquidity risk management within the legal framework during the next several years.

**5. What is the degree of euroisation/dollarisation of both assets and liabilities of the banking system? Please provide data on foreign currency denominated and foreign currency indexed deposits/loans. Are banks taking specific measures to hedge against currency risk?**

Euroisation of the Macedonian economy and of the financial system is extensive. The share of foreign currency liabilities in the total liabilities of the banks at the end of June 2004 was 59%. Thereby, the share of foreign currency deposits in the total deposits of banks was 52,92%, of which 70% is share of euro deposits in the total foreign currency deposits. Currency structure of banks assets is similar. Foreign currency assets participate with 55,89% in the total assets, whereby the share of foreign currency denominated credits (foreign currency credits and credits with foreign currency clause) in the total credits is 39,24%. Like in the case of deposits, the leading currency used in credits is the euro.

The Table below shows the data for the period from 1999 to 30.06.2004, including data on the level of euroisation of the banking system in the Republic of Macedonia.

**Level of euroisation of the banking system in the Republic of Macedonia**

	1999	2000	2001	2002	2003	30.06.2004
Total foreign currency credits	17.148.326	15.323.404	16.276.727	7.285.744	8.396.425	9.305.019
Total MKD credits with foreign currency clause	n.a.	n.a.	8.403.951	8.736.244	10.032.666	10.653.843
Total foreign currency assets	40.082.689	43.787.702	67.367.245	51.668.114	58.962.607	61.011.824

(000) MKD

Total credits	33.251.344	36.744.633	38.310.000	38.769.000	45.187.000	50.870.000
Total assets	72.279.359	81.999.326	105.632.888	93.213.138	104.875.355	109.159.536
Total foreign currency deposits	17.377.000	20.003.000	43.664.000	30.283.000	36.986.000	41.053.000
Total MKD deposits with foreign currency clause	n.a.	n.a.	3.817.837	3.033.176	2.723.184	2.860.122
Total foreign currency liabilities	28.640.960	33.676.641	56.058.739	40.924.634	48.008.748	52.520.565
Total deposits	40.786.571	46.644.384	69.995.491	60.828.543	70.188.465	77.573.000
Total liabilities	57.318.000	62.897.000	86.474.000	73.934.000	84.800.000	88.680.000
<b>Euroisation Indicators</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>30.06.2004</b>
Share of foreign currency assets in the total assets	55,46%	53,40%	63,77%	55,43%	56,22%	55,89%
Share of foreign currency liabilities in the total liabilities	49,97%	53,54%	64,83%	55,35%	56,61%	59,22%
Share of foreign currency credits in the total credits	51,57%	41,70%	42,49%	18,79%	18,58%	18,29%
Share of MKD credits with foreign currency clause in the total credits	n.a.	n.a.	21,94%	22,53%	22,20%	20,94%
Share of total foreign currency credits and credits with foreign currency clause in the total credits	51,57%	41,70%	64,42%	41,33%	40,78%	39,24%
Share of foreign currency deposits in the total deposits	42,60%	42,88%	62,38%	49,78%	52,70%	52,92%
Share of MKD deposits with foreign currency clause in the total deposits	n.a.	n.a.	5,45%	4,99%	3,88%	3,69%
Share of foreign currency deposits and MKD deposits with foreign currency clause in the total deposits	42,60%	42,88%	67,84%	54,77%	56,58%	56,61%

Source: National Bank of the Republic of Macedonia

In order to monitor, control and protect the banks to the foreign exchange risk, many prudential supervisory standards were set, defined in the Decision on Determining and Calculation of Open Foreign Currency Positions of the Banks ("Official Gazette of RM", No. 103/2001 – consolidated version). Thus, the open foreign currency (long) position by separate currency can amount to 20% of the guarantee capital at the most, except for the open foreign currency position of the euro, which can be up to 30% of the guarantee capital at the most. The open (short) foreign currency position by separate currency, like the open aggregate short foreign currency position, can show negative value of 10% of the guarantee capital of the bank. At the same time, the open aggregate (long) foreign currency position can amount to 50% of the guarantee capital of the bank at the most. Thus, the introduced quantitative restrictions provide partial prevention of larger foreign exchange rate fluctuations.

Protection against foreign exchange risk forces the banks to have balanced foreign currency positions. In the first half of 2004, banks had long total aggregate open foreign currency position. The long foreign currency position, compared to the total aggregated guarantee capital, amounts to 50,6%, while the long exposure to the euro, as the most dominant currency, compared to the aggregate guarantee capital, amounts to 38,8%. Thereby, when calculating the open foreign currency position, euro-denominated government bonds are also taken into consideration, owned by the banks as a result of their financial restructuring (conversion of part of the non-performing loans into euro-denominated government bonds).

Taking into account the insufficiently developed financial market and the absence of futures and options, the efficient management of open foreign currency position, i.e. balancing the foreign currency assets and foreign currency liabilities, is the only strategy enabling efficient foreign currency risk management.

**6. How do you assess the stability of the banking sector? What is the current situation concerning bad loans of banks(Please indicate the accounting rules concerning bad loans.)? Please provide an estimate of non-performing loans in state owned and in private banks (as an absolute amount, as a % of total assets, Please indicate the accounting rules concerning non-performing loans..) What has been the development over the past few years? Do you see an effect of the past rapid credit growth on the average quality of the loan portfolio?**

In general, the banking system can be evaluated as a stable. This statement can be supported by several indicators for performance of the banking system, such as the capital adequacy ratio, share of liquid assets in the total assets of the banking system, coverage of short-term liabilities with liquid assets, as well as the participation of non-performing loans and potential losses for credit risk in total credit exposure.

The average Capital adequacy ratio of the banking system as of 30.06.2004 is 25,7%, which is more than three-times higher compared to the minimum prescribed capital adequacy. At the same time, it points out to the low level of credit activity of banks in the past period and the high potential for more intensive credit expansion in the coming period.

The banking system shows relatively high liquidity, which is result of the efficient liquidity risk management of the banks. Despite the maturity transformation of the assets by banks, liquidity is constantly maintained within the prudential banking standards. Thus, the average share of highly-liquid assets in the total assets of the banking system is around 45%, which has negative implications on the banks' profitability. The largest parts of the liquid assets are kept as short-term deposits at the foreign banks, bearing low interest or being interest free. Another indicator, also showing the high banking system liquidity is the coverage of sight deposits and the short-term deposits with liquid assets. At the end of the first half of 2004, this indicator was 65%.

Maturity transformation carried out by the banks from short-term deposits into long-term loans in the course of 2003 and the first six months of 2004 resulted in residual maturity gap between assets and sources of funds on very short term (up to 7 days). Maturity gap in the first maturity period (with 7-day maturity period) is overcome in a period of over 12 months. Cumulative residual maturity gap between assets and sources of funds in the shortest maturity period up to 7 days, as of 30.06.2004 was negative and amounted to MKD 22,8 billion. The level of coverage of sight deposits up to 7 days with liquid assets with residual maturity up to 7 days is 47,4%. However, incorporation of short-term deposits being permanently kept with the banks results in matching maturity of both the assets and the liabilities on short term.

Comparative analysis per bank shows that the achieved residual maturity gap of the assets and the sources of funds of the banks is determined by the two largest banks and partly by the group of medium-size banks. Despite this, the group of medium-size banks achieves matching maturity in all maturity periods.

The Republic of Macedonia, unlike most of the countries in transition, which faced banking crises in the second half of the 90s, managed to avoid systemic banking crisis. The situation was similar in the years when the country was affected by sever non-economic shocks - the Kosovo crisis in 1999 and the crisis caused by the internal conflict in 2001.

Pursuant to the Decision on Determining the Methodology for Classification of Active Balance and Off-Balance Sheet Positions of the Banks According to Their Risk Level ("Official Gazette of RM", No. 21/2002 – cleared version), classification of credits and loans of the banks according to their risk level is carried out in five risk categories. The methodology for classification of bank claims incorporates the basic Basel standards on banking supervision. However, certain adjustments are necessary, in order to be fully harmonized with the international accounting standards (especially with the international accounting standard 39 – at the moment, the National Bank of the Republic of Macedonia applies much stricter criteria than IAS 39).

The operational restructuring of banks, strengthened banking supervision, greater market discipline and transparency, resulted in permanent reduction of the share of non-performing loans in the total loans of the banks. Thus, the share of non-performing credits of 33, 7% at the end of 2001 was reduced to 15, 1% at the end of 2003.

Credit exposure, subject to classification by banks, in terms of the provisions referred to in item 4 of the Decision on Determining the Methodology for Classification of Active Balance and Off-Balance Sheet Positions of the Banks According to Their Risk Level ("Official Gazette of RM", No. 21/2002 – cleared version) covers the following:

- Active balance sheet claims on the basis of: due and undue short-term and long-term credits, non-performing claims, claims from the Republic of Macedonia and the National Bank of the Republic of Macedonia, paid guarantees, letters of credit, securities and other balance sheet claims occurred on the basis of bank off-balance sheet exposure, other due claims, calculated interest, fees, commissions, deposits at domestic and foreign banks, investments in securities, capital investments at domestic and foreign banks and other legal entities, as well as other claims that can be distributed per individual debtors;
- Active off-balance sheet positions on the basis of: issued uncovered guarantees, opened uncovered letters of credit, securities, bank acceptances, uncovered performance guarantees, and other forms of off-balance sheet positions, constituting contingent liability of the bank.

In the first half of 2004, total credit exposure classified under risk categories C, D and E was 13,8% of the total credit exposure of the banking system, and 13,96% of the total assets of the banking system. Although credit risk exposure has relatively high share in the credit portfolios of the banks, if compared to the net value of credit risk exposure, meaning reduced by the amount of the provisions for potential losses for credit risk covered by the bank's profit with the aggregate guarantee capital at the level of the banking system, an indicator of 28,6% is obtained. This indicator also shows that even in the worst-case scenario, i.e. conversion of all risk credits, classified as C, D and E, into losses, the guarantee capital of the Macedonian banks will be able to absorb the losses and the solvency of the banking system as a whole will not be affected severely.

In the first half of 2004, total identified potential losses on the basis of credit risk amounted to 10, 1% of the total credit exposure of the banking system.

Accounting rules on the basis of which non-performing claims are registered are contained in the Decision on Determining the Methodology for Classification of Active Balance Sheet and Off-Balance Sheet Positions of the Banks According to Their Risk Level ("Official Gazette of RM", No. 21/2002 – consolidated version) and the Instruction on Implementation of the Decision on Determining the Methodology for Classification of Active Balance Sheet and Off-Balance Sheet Positions of the Banks According to Their Risk Level ("Official Gazette of RM", No. 65/2004 – consolidated version). Pursuant to item 15 of the aforementioned Decision, all credits classified in risk categories D and E or credits at which the interest has not been paid over 90 days after the day it falls due, the bank is obliged to record (together with the principal of the loan that refers to the client) the credits in a special account, as non-performing credits, while the interest is recorded in the account for non-performing interest. Credit of a client can be excluded from the category of non-performing credits only if all due claims under that credits are collected.

The Table below shows information on the movements of non-performing loans classified under risk categories C, D and E, as well as on the non-performing loans classified under risk categories D and E in absolute amounts and as a percentage of the total assets of the banks in the Republic of Macedonia in the period from 1999 to 30.06.2004. In addition to the data on the overall banking system, the data in the Table are also broken down depending on the ownership structure, as follows: banks in domestic private ownership, state-owned banks, and banks owned by foreign residents.

## REVIEW ON NON-PERFORMING LOANS BY TYPE OF FINANCIAL INSTITUTIONS

(000) MKD						
Year	Institutions	Total assets	Non-performing loans classified under C, D and E	Non-performing loans classified under C, D and E as % of total assets	Non-performing loans classified under D and E	Non-performing loans classified under D and E as % of total assets
1999	Total	72279.359	20.934.198	29,0%	12.716.296	17,6%
	domestic private	63.060.844	17.467.557	27,7%	11.130.023	17,6%
	domestic state-owned	904.765	-	0,0%	-	0,0%
	foreign owned	8.313.750	3.466.641	41,7%	1.586.273	19,1%
2000	Total	81.999.326	17.614.768	21,5%	11.493.561	14,0%
	domestic private	37.313.108	6.992.543	18,7%	4.805.795	12,9%
	domestic state-owned	932.669	-	0,0%	-	0,0%
	foreign owned	43.753.549	10.622.225	24,3%	6.687.766	15,3%
2001	Total	105.632.888	17.891.831	16,9%	10.000.512	9,5%
	domestic private	50.262.000	7.493.669	14,9%	3.752.124	7,5%
	domestic state-owned	1.409.245	2.322	0,2%	-	0,0%
	foreign owned	53.961.643	10.395.840	19,3%	6.248.388	11,6%
2002	Total	93.213.138	14.860.126	15,9%	8.590.820	9,2%
	domestic private	50.341.906	7.208.678	14,3%	4.081.284	8,1%
	domestic state-owned	1.851.138	134.267	7,3%	-	0,0%
	foreign owned	41.020.094	7.517.181	18,3%	4.509.536	11,0%
2003	Total	104.875.355	15.749.196	15,0%	11.147.623	10,6%
	domestic private	53.778.741	8.543.865	15,9%	5.616.067	10,4%
	domestic state-owned	1.851.359	131.515	7,1%	131.515	7,1%
	foreign owned	49.245.255	7.073.816	14,4%	5.400.041	11,0%
30.06.2004	Total	109.159.536	15.238.529	14,0%	10.920.586	10,0%
	domestic private	55.509.852	7.938.551	14,3%	5.412.141	9,7%
	domestic state-owned	1.817.440	130.620	7,2%	130.620	7,2%
	foreign owned	51.832.244	7.169.358	13,8%	5.377.825	10,4%

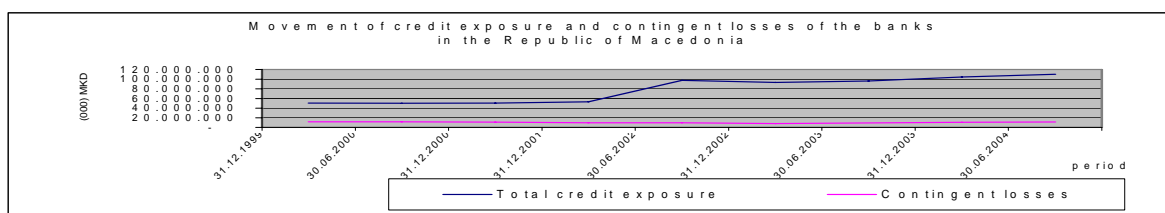
Source: National Bank of the Republic of Macedonia

There is only one state-owned bank in the Republic of Macedonia - JSC Macedonian Bank for Development Promotion. Total credit exposure of this bank under the risk categories C, D and E on 30.06.2004 was 7,19% of the total assets.

In the period from 1999 to June 2004, there was a constant rise in the total credit exposure of the banks, being most evident in the period from 31.12.2001 to 30.06.2002. This rise in credit exposure was mostly result of the change in the methodology of classification of active balance sheet and off-balance sheet positions, according to which the scope of the term “total credit exposure of the banks” was expanded. However, even when excluding the effect of the changed methodology, the conclusion of permanent (slight) growth of total credit exposure is still valid. Contrary to that, the identified potential losses for credit risk, together with potential losses for country risk, declined in the same period. Thus, indicator of the ratio between the potential losses and the total credit exposure of 22, 5% at the end of 1999 was reduced to 10, 3% at the end of 2003.

In the first half of 2004, total credit exposure of the banks recorded upward trend of 5, 7% compared to end-2003. During this period, claims classified under the risk categories C, D and E declined by 3,2%, while the performing claims classified under the risk categories A and B increased by 7,2%.

The Chart below shows the movement of the total credit exposure of the banking system in the Republic of Macedonia and the potential losses of the banks in the period from 1999 to 30.06.2004.



Source: National Bank of the Republic of Macedonia

## 7. What specific measures have been taken in order to limit the creation of new bad loans and improve the evaluation of credit risk? Are proper standards in relation to the recognition of bad debts and provisioning in place?

Credit operations and investments of banks, as well as the prudential supervisory standards related to operations of the banks are regulated in item 3 in Chapter III, named “Supervisory standards”, in Articles 34 to 39 of the Banking Law (“Official Gazette of RM”, No. 63/2000, 37/2002, 51/2003, 85/2003). They are more precisely elaborated in many bylaws of the National Bank of the Republic of Macedonia and instructions for their application, regulating in more detail the credit activity of banks, assessment of the credit risk, manner of determining the credit exposure, standards for determining related entities, manner of determining and setting credit exposure limits. In addition, there are specific instructions regarding designing the credit policies and procedures and the type and contents of the documents that should contain the credit files. The above-stated is regulated by the following bylaws of the National Bank of the Republic of Macedonia:

- Decision on Determining the Methodology for Classification of Active Balance Sheet and Off-Balance Sheet Positions of the Banks According to Their Risk Level (“Official Gazette of RM”, No. 21/2002 – cleared version);
- Decision on the Amount and the Manner of Setting Special Provisions for Potential losses of the Banks (“Official Gazette of RM”, No. 50/2001);
- Decision on the Supervisory Standards for Regulating Outstanding Claims of the Banks (“Official Gazette of RM”, No. 19/2003);
- Decision on Defining the Manner of Determining the Related Entities pursuant to the Banking Law (“Official Gazette of RM”, No. 28/2001);

- Decision on Credit Exposure Limits of the Banks (“Official Gazette of RM”, No. 1/2004 – consolidated version);
- Decision on the Methodology for Determining the Net Debtors to the Banks (“Official Gazette of RM” No. 28/2001);
- Decision on the Terms and Conditions and the Manner of Concluding Foreign Exchange Credit Operations between Residents (“Official Gazette of RM”, No. 66/2002); and
- Instructions on Keeping Credit Files, No. 2869 dated 4.09.2001 and No. 2479 dated 16.07.2003.

All the aforementioned legal provisions, and bylaws and instructions for their implementation, are directed to limit the occurrence of risky investments, as well as to limit undertaking excessive credit risk of banks, by defining and introducing high prudential standards and narrow exposure limits, to the highest standards possible.

The banks in the Republic of Macedonia are obliged to classify the active balance sheet and off-balance sheet positions into groups according to their risk level, as well as to estimate the amount of the contingent losses that can occur at these positions.

When making assessment of credit risk of a client, the bank is obliged to take the following into account:

- Assessment of the financial situation and the outlook of the client;
- Assessment of the probability to use funds in line with the agreed purpose, i.e. whether future cash inflows of the client, by volume and dynamics, will enable him/her to respond in the agreed manner of repayment of the credit liabilities;
- Assessment of the type and value of the collateral;
- Assessment of the credit background of the client;
- Status, economic and financial situation of the client;
- Credit exposure of the client to the banks in the Republic of Macedonia by conducting checks in the Central Credit Registry kept at the National Bank of the Republic of Macedonia.

According to the above-stated criteria, the banks in the Republic of Macedonia classify the clients under five risk categories – A, B, C, D and E, whereby clients with the lowest credit risk are classified under category A, and clients, i.e. credit exposure being 100% loss for the bank are classified under category E. Regarding the five-level system for classification of credit exposure, the National Bank of the Republic of Macedonia has determined appropriate rules for setting special reserves for identified potential credit losses, which amount 0% or 2% for A risk category, 10% for B, 25% for C, 50% for D and 100% for E risk category, respectively.

The banks inform the National Bank of the Republic of Macedonia on the quality of the portfolios on quarterly basis.

The NBRM has stipulated detailed rules which are referring to: the extension of the deadline of the maturity period of the demand, the restriction of the credit claims (capitalization of the interest), crediting the payment of previously approved credits, the method, the procedure and the conditions that need to be fulfilled in order to write off the credit claim.

The National Bank of the Republic of Macedonia has stipulated, with a special bylaw, the manner of defining and the rules of determining the related entities pursuant to the provisions in the Banking Law. Pursuant to this bylaw, related entities are defined as entities being a single credit risk to the banks, since one of them, directly or indirectly, controls the other entity or several other entities. It also defines the business connection among the entities, the criteria to be met for an entity to be considered as an entity related to the bank, the meaning of “control”, and the manner of their determination and reporting to the National Bank of the Republic of Macedonia.

The National Bank of the Republic of Macedonia, in order to limit the level of credit risk that the banks can undertake by investing funds at a client or group of related clients, defined a matrix for credit exposure limits for banks. For this purpose, the following limits are set:

- Credit exposure towards single client cannot exceed 25% of the guarantee capital of the bank;
- Credit exposure towards single shareholder of the bank, holder of voting shares, that exceed 5% of the total number of voting shares, and entities related to it, can not exceed 10% of the guarantee capital of the bank;
- Credit exposure towards single company in which the bank has participation in the share capital and entities related to it shall not exceed 10% of the guarantee capital of the bank;
- Credit exposure towards internal persons and entities related to them shall not exceed 3% of the guarantee capital of the bank;
- Total amount of the credit exposure towards the entities stated in the previous three indents shall not exceed the guarantee capital of the bank;
- Large credit exposure towards single entity is an exposure equal to or higher than 10% of the guarantee capital of the bank, while the total amount of Large exposure shall not be higher than eight-times the amount of the guarantee capital of the bank (800% of the guarantee capital);

In addition, corrective measures are also envisaged, to be undertaken towards the bank or its management, defined in the provisions in Chapter X, named "Measure to Improve the Conditions of a Bank" in the Banking Law (Articles 85 through 99), if the management bodies of the bank fail to adhere to the previously stated legal acts and bylaws (for instance: to prohibit any increase of the credit exposure to borrowers classified under risk categories C, D, and E; impose measures to improve the bank's procedures for collection of overdue claims towards the bank; prohibit the bank to extend credits and other forms of credit exposure to affiliated entities, except in cases when they are collateralised by securities issued or guaranteed by the Government of the Republic of Macedonia or the countries of the European Union, which are kept by an individual third party – a deposit institution, and the market value of which at all times exceeds 125% of the total amount of the credit, or other form of credit exposure; limiting the growth of investments).

Since 1998, the National Bank of the Republic of Macedonia is compiling a credit registry, containing data on the credit exposure of all banks in the Republic of Macedonia towards all business entities (domestic or foreign). This credit registry is updated on quarterly basis and is an important instrument when evaluating the credit risk, which, apart from the National Bank of the Republic of Macedonia, is actively used by the commercial banks as well, when evaluating the credit risk of their clients. The functioning of the credit registry within the NBRM is regulated by Act 10 and Act 41-a in the Law for National Bank of the Republic of Macedonia ("Official Gazette of RM", No. 3/2002, 51/2003, 85/2003 and 40/2004) and the Decision for the content and the manner in which the registry will function ("Official Gazette of RM", No. 61/2004). The credit registry is in a process of updating with data from other registries in the Republic of Macedonia, thus increasing the frequency of updating the data and including information on the credit exposure of the physical persons as well.

**8. What developments have taken place in bankruptcy legislation and what plans are envisaged? Could the authorities also comment on the practice as well as the legal framework? How easily can banks mobilise their claims through such proceedings?**

### **1. Legislation**

The Bankruptcy Law ("Official Gazette of RM", No. 55/1997, 53/2000, 20/2002 and 17/2004) regulates the objectives of bankruptcy procedure, the reasons for initiating bankruptcy procedure, the conducting of bankruptcy procedure, the legal consequences from initiating bankruptcy procedure, settlement of creditors' claims, as well as other issues of relevance to bankruptcy procedure, stipulated by the Law.

As it could be observed, the Bankruptcy Law was amended three times in order to promote legal solutions enabling larger concentration of procedural actions in bankruptcy procedure, as well as actions undertaken in relation to bankruptcy procedure. For the purpose of strengthening the legal safety in the legal traffic, the deadline, after the expiry of which the debtor is deemed unable to make payments, was shortened; the deadline within which the Bankruptcy Council is obliged to reach a



decision upon the proposal for initiating bankruptcy procedure was limited; the deadlines within which undertaking certain procedural actions in the bankruptcy procedure is mandatory were set; the legal framework regarding the terms and conditions to be met by the physical person, i.e. legal entity for acquiring licence to perform activities of bankruptcy trustee were extended; the right, the powers and the responsibilities of the bankruptcy trustee in the procedure were extended; more favourable legal possibilities for continuation of work of the bankruptcy debtor and the implementation of the reorganization plan were created; legal framework for the contents of the reorganization plan was designed; solutions for determining the manner of sale of property from the bankruptcy estate and the solutions for settlement of creditors' claims were improved, as well as the schedule for settlement of creditors' claims on the basis of claims related to pension and disability insurance; and other provisions of relevance to the bankruptcy procedure were envisaged.

Despite improvement of the legal solutions in the Bankruptcy Law, number of weakness have been identified in the Law, as a result of which the bankruptcy procedure is slow and the bankruptcy creditors are unable to collect their claims. On the other hand, legal and economically unfavourable conditions are prolonging for both the bankruptcy debtor himself and the employees at the bankruptcy debtor.

Due to all this, the Government of the Republic of Macedonia started the preparation of new Bankruptcy Law, which will ensure fast and efficient bankruptcy procedure in which the creditors, without any delays, will be able to collect their claims. Inter-ministerial working group, comprising representatives from the line ministries, representatives from the judiciary, scientific circles and foreign consultants works on the preparation of the new Bankruptcy Law. Pursuant to the European Partnership Action Plan, the adoption of the new Bankruptcy Law is envisaged for the second half of 2005.

In parallel with the commencement of activities related to the new legal solutions, additional observations are done regarding the solutions that failed to show the expected results in the existing Law and are obstacle to the fast and efficient conducting of the bankruptcy procedure. Accordingly, the new legal solutions will revise the competencies and the composition of the court in the bankruptcy procedure, depending on the value of bankruptcy, the solutions in terms of the manner of organization of the creditors in the bankruptcy procedure for the purpose of collecting their claims, realizing the procedural actions and other activities undertaken for that purpose; competencies and organization of bankruptcy trustees, the legal possibilities for reorganization in the operations of the bankruptcy debtor, and the deadlines, the separate stage and the remedies in the bankruptcy procedure will be re-evaluated.

The new Bankruptcy Law will incorporate solutions aimed at further implementation of the European Union regulations in the field of bankruptcy.

The existing legislation makes no distinction between banks and other creditors in terms of exercising their rights as bankruptcy creditors and mobilization of their claims via bankruptcy procedure. Accordingly, everything that is stated above regarding the general bankruptcy procedure also applies in the cases when the banks appear as bankruptcy creditors. In practice, the banks do not see the bankruptcy as an instrument to protect or collect their claims. It is mainly determined by the fact that bank claims are usually collateralized, and the banks do not see the bankruptcy as process to collect the unsecured claims (except in the cases when it is a matter of bankruptcy of banks, when the banks appear with uncollateralized inter-banking claims). Due to this, the main interest of banks in the bankruptcy procedure is the functioning of property title rights in terms of the set collateral. Experience of the banks shows that the property title right is efficiently applied in general, and the banks can efficiently collect their claims, although sometimes there are complaints on their side.

**9. Are there particular areas of difficulty in banking supervision? What is the degree of independence of the supervisory authorities and how has this changed in recent years? How efficient is co-ordination of supervisory authorities and institutions?**

During its ten years operation, the banking supervision has been experiencing continuous development, both from the aspect of methods and techniques applied, and from the aspect of additional staffing and training of professional staff.

One of the problems the banking supervision faces is the absence of legal possibility to revoke the prior issued consent for qualified holding in the bank capital by a shareholder that suffered significant changes regarding solvency and maintenance of fit-and-proper criteria. The Banking Law ("Official Gazette of RM", No. 63/2000, 37/2002, 51/2003 and 85/2003) stipulates a series of fit-and-proper criteria the fulfilment of which is a condition for issuance of prior approval for qualified holding in the bank capital, however, it lacks provisions giving authority to the National Bank of the Republic of Macedonia to revoke the prior issued approval for qualified holding in the bank capital by shareholder that suffered significant changes in these terms. The National Bank of the Republic of Macedonia and the Ministry of Finance prepare coordinated activities with the competent institutions in the country that would enable this problem to be solved.

Another major problem the banking supervision faces when performing its function is the following of applicative banking technology, taking into account that banking is one of the sectors where latest technologies arrive first. Although in 2003 the National Bank of the Republic of Macedonia began activities for regulation of security of banking information services with the adoption of the Decision on Defining Standards for Preparation and Implementation of Banking System Security ("Official Gazette of RM", No. 77/2003), still, there are important activities in terms of regulating and actively implementing IT supervision, coupled by lack of professional staff that would regularly perform IT supervision of banks.

The National Bank of the Republic of Macedonia is responsible for the supervision over the application of anti-money laundering measures and activities by banks and savings houses. An appropriate training of personnel in banking supervision is underway, and more comprehensive methodology on the manner and procedures for performing this type of supervision is under preparation.

The experience with regard to implementation of bank receivership in practice outlined significant problems and ambiguities in the legal solution on the manner of implementation of bank receivership in the Banking Law. This hinders, even disables, the implementation and full realization of bank receivership and bank rehabilitation procedures. The fundamental problem arises from the absence of legal mechanism that should prevent any obstruction to bank rehabilitation by the existing shareholders. In this respect, legal basis should be provided for implementation of assets sale mechanism, or for placing part of the bank assets under receivership, a mechanism yet unknown in the Macedonian practice.

According to the Law on the National Bank of the Republic of Macedonia ("Official Gazette of RM", No. 3/2002, 51/2003, 85/2003 and 40/2004), the National Bank of the Republic of Macedonia is an independent and autonomous institution in the performance of the functions assigned to it under this and other laws. The supervisory function of the National Bank of the Republic of Macedonia is carried out by separate organizational section not falling within any of the departments, but is rather reporting directly to the management, i.e. to the Governor of the National Bank.

According to the regulations, the Governor reports on his/her operations, including the performance of the supervisory function, to the Parliament of the Republic of Macedonia. On the basis of the evaluation of the degree of harmonization of the banking supervision of the National Bank with the 25 Basel Principles for Effective Banking Supervision, made by the joint IMF/World Bank team in 1999, recommendation was given for establishment of direct line of reporting and accountability between the Banking Supervision Department and the Governor, representing the National Bank, as the single institution competent for supervision of banks and savings houses. The expert IMF/World Bank team

concluded that the fulfilment of this recommendation would enhance the independence of the Banking Supervision Department, and at the same time, place responsibility for implementation of the supervisory function. The organizational structure of the National Bank and positioning the banking supervision under direct responsibility of the Governor enables full harmonization with the Basel Core Principle No.1 which also reflects the best international practices and experience for effective banking supervision. This conclusion was confirmed in 2003 in the IMF/World Bank joint FSAP Mission report.

Pursuant to Article 38, paragraph 1, of the Law on National Bank of the Republic of Macedonia, the National Bank of the Republic of Macedonia can exchange information with national supervisory bodies, as well as with bodies from other countries, regarding the supervision of internationally active banks.

So far, the National Bank has signed memorandum of cooperation regarding the performance of supervisory function with the central banks of the following countries: Republic of Slovenia, Republic of Bulgaria and the Russian Federation.

Within the performance of the supervisory function, the National Bank of the Republic of Macedonia successfully cooperates with the Securities Commission and the Money Laundering Prevention Directorate. With respect to this, the National Bank of the Republic of Macedonia is undergoing procedure for signing memorandum of cooperation with the Securities Commission of the Republic of Macedonia, and memorandums of cooperation are planned to be signed with other supervisory bodies, such as the Ministry of Finance (Money Laundering Prevention Directorate, Directorate for Supervision of Insurance Companies and the State Foreign Exchange Inspectorate) and the Pension Supervisory Agency.

The National Bank of the Republic of Macedonia, via special organizational section, carries out supervision over the foreign exchange operations of banks and exchange operations of exchange offices, as well as indirect supervision of other residents, according to the Law on Foreign Exchange Operations. Banking Supervision Department closely coordinates its activities and exchanges data on banking supervision with this organizational section.

Pursuant to Article 44 of the Law on Foreign Exchange Operations ("Official Gazette of RM", No. 34/2001, 49/2001, 103/2001, 54/2002 and 51/2003), supervisory bodies competent for its implementation, are obliged to cooperate and exchange all information and data regarding supervision performance.

Previously (mid-1990s), certain parts of the legislation lacked preciseness and caused dilemmas with regard to the actual competence of certain supervisory bodies related to certain issues (for example, collecting deposits by legal entities without banking license), as well as problems regarding their efficient coordination. These dilemmas were resolved with a series of legal amendments and modifications, which precisely placed the responsibilities of the supervisory bodies and other government bodies, thus significantly enhancing the efficiency of coordination.

### ***C. Capital market (see also chapter 3 – Free Movement of Services)***

#### **1. Please indicate the principal legislation adopted in this area and its implementation.**

The Securities Law was adopted by the Assembly of the Republic of Macedonia on 26.07. 2000 and it was published in the Official Gazette of the Republic of Macedonia, No. 63/2000. This Law stipulates the types of securities, the conditions and the manner of issuance, trading and registering, definition and settlement of transactions with securities, the manner and the conditions for

establishment and operations of the long-term securities market and the Central Securities Depository, as well as the status and the competences of the Securities and Exchange Commission.

After the adoption of the basic text of the Securities Law several modifications and amendments were made ("Official Gazette of RM", No. 63/2000, 103/2000, 3420/01, 4/2002, 37/2002, 31/2003 and 85/2003). (See [11 Annex 16](#))

There is an ongoing procedure for adoption of new Securities Law which, in accordance with the Operational Program of the Government of the Republic of Macedonia, is envisaged to be adopted in March 2005.

The Law on Taking Over Joint-Stock Companies was adopted by the Assembly of the Republic of Macedonia on 16.01.2002 and it was published in the "Official Gazette of RM" No. 4/2002. This Law stipulates the manner and conditions for purchasing shares of an issuing joint-stock company by a legal entity or a natural person that acquired or intends to acquire more than 25% of the securities with voting rights of that joint-stock company. After the adoption of the basic text of the Law on Taking Over Joint-Stock Companies one modification and amendment were made and published in the "Official Gazette of RM" No. 37/2002.

The Law on Investment Funds was adopted by the Assembly of the Republic of Macedonia on 4.02.2000 and it was published in the "Official Gazette of RM" No. 9/2000. This Law stipulates the conditions for establishing investment funds and investment funds management companies and the manner of their operations, the selection of depository bank (custodian bank) and the control of their operations.

On 30.04.2004 the Assembly of the Republic of Macedonia, adopted the Company Law ("Official Gazette of RM", No. 28/2004) and it is fully harmonized with the European legislation. The following bylaws of the Company Law are in adoption procedure:

- Rulebook on Trade Registry and the Manner of Entry into the Trade Registry. This Rulebook regulates the following: keeping the trade registry in hard copy and in electronic form, the manner of entry, the format, the content and the number of forms for entry into the trade registry and for the electronic entries, the connection with the Central Registry for keeping the trade registry by the Central Registry in electronic form and on the implementation of the one-stop-shop system; and
- The Rulebook on the Procedure for Implementation of the One-Stop-Shop System, which stipulates the manner and the procedure for provision of data stipulated under the Company Law and other laws, which the Central Registry of the Republic of Macedonia provides via its IT infrastructure, on behalf and for the account of the entities registered in the trade registry.

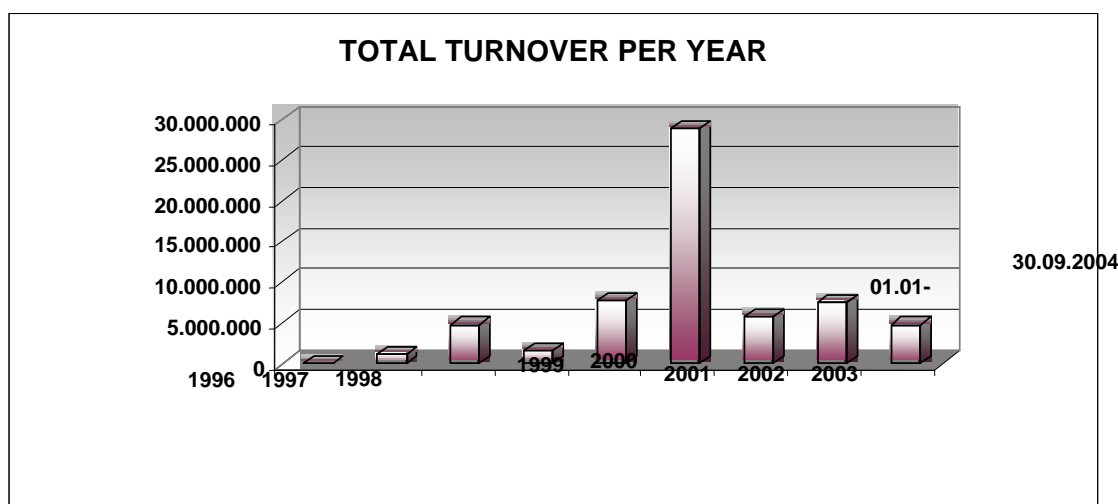
Regarding the implementation of the legal framework regulating the capital market, see the next question, ([II VI C 2](#)).

**2. How developed is the equity market? Does it provide, in practice, an alternative source of finance for enterprises? How much was raised on the market in recent years? Please provide data on a) market capitalisation (total and by categories of companies) b) number of listed shares and volume of trading c) development of the general share price index d) holding of foreign investors.**

The capital market in the Republic of Macedonia has noted significant growth since its establishment, and this trend is expected to continue for the future period.

YEAR	TURNOVER (000 MKD)
1996	34.798
1997	1.101.987
1998	4.764.168
1999	1.552.771
2000	7.780.523
2001	28.800.112
2002	5.743.416
2003	7.559.802
01.01 – 30.09. 2004	4.787.077

Source: Ministry of Finance



Source: Ministry of Finance

In the period 1999-2003, according to data from the Securities Commission, there were 128 new issues of securities in the Republic of Macedonia, with a total approved value of EUR 270 million. The percentage of actual realization of these issues is EUR 232 million (86%).

The trend of further development arises from the fact that the total number of issues and their total value refer to issues for additional capitalization of banks and to private investments for known buyers for the purpose of consolidation of ownership in the joint-stock companies. Thereby, out of 128 issues in the period under observation 71 issues (i.e. 55,5%) were made by banks, savings houses, brokerage firms and other institutions on the securities market, while the remaining 57 issues are made by joint-stock companies, all of which have been realized as investments for known buyers.

In the past period of the functioning of the securities market in the Republic of Macedonia it is noted that the underwriting and payment of securities on the primary market were carried out exclusively in the headquarters of the issuing joint-stock companies, while non of the public offers were realized via the stock-exchange, an investment bank or a bank syndicate (as underwriters of the new issue).

The amount of new issues of shares proves that the capital market in Macedonia is not yet a significant alternative source of financing of enterprises, since enterprises mostly use bank credits as sources of funds.

According to the data of the Securities Commission for the last five years the degree of funds mobilization on the capital market was as follows:

1999

approved **MKD 1.433.894.048 (EUR 23.655.153)**  
 realized **MKD 1.318.517.926 (EUR 21.751.873)**

2000

approved **MKD 5.434.562.770 (EUR 87.879.592)**  
 realized **MKD 5.052.471.849 (EUR 81.584.974)**

2001

approved **MKD 2.584.551.396 (EUR 42.371.323)**  
 realized **MKD 2.440.283.790 (EUR 40.004.528)**

2002

approved **MKD 4.832.090.172 (EUR 79.265.276)**  
 realized **MKD 3.454.488.006 (EUR 56.628.943)**

2003

approved **MKD 2.265.111.989 (EUR 37.048.528)**  
 realized **MKD 1.971.931.064 (EUR 32.258.720)**

The data presented below are according to the order stated in the question.

**a) market capitalisation (total and by categories of companies)**

Securities market capitalization is as follows:

- **Official market (69 listed companies) – MKD 17.603.810.254, i.e. EUR 286.2 million, with the following structure according to activity:**

Activity	Number
Industry	41
Construction	4
Agriculture	2
Transport	1
Trade	5
Catering	2
Services	6
Banking	8
Total	69

Source: Ministry of Finance

- Companies registered in SEC special register (112 companies) – MKD 15.100.439. 405 i.e. EUR 245.5 million,
- Bonds – MKD 21.675.223.621 i.e. EUR 352.4 million.

**b) number of registered shares and volume of trading**

With the status from 30.09.2004, 431 securities were traded on the JSC Macedonian Stock Exchange, out of which:

- Listed - 83 securities,
- Companies registered in SC special registry - 114 securities,
- Unlisted Market - 234 securities.

**c) development of the general share price index**

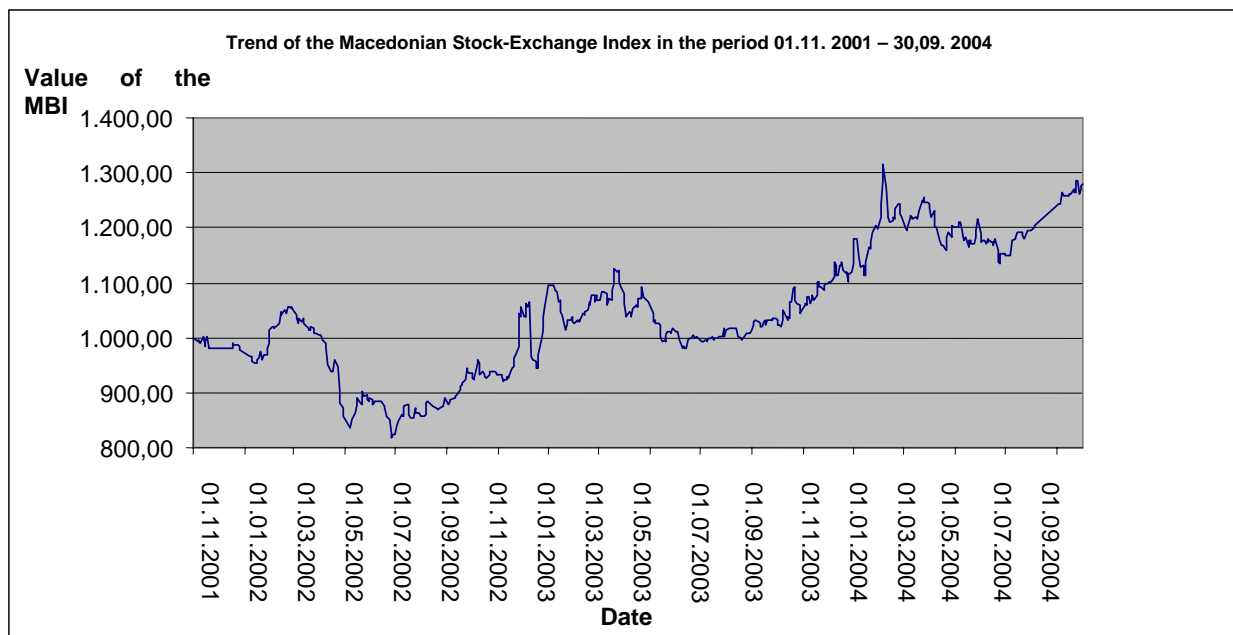
As of 01.11.2001, JSC Macedonian Stock Exchange began applying the non-weighted and price-related Stock Exchange Index called MBI (Macedonian Stock-Exchange Index), which comprised of the five most liquid shares on the Official Market.

The price changes of the five shares comprising the Macedonian Stock Exchange Index in the period from its introduction on 01.11.2001 until 30.09.2004 were as follows:

No.	Company	Average share price on 01.11.2001	Average share price on 30.09.2004	Percentage of change
1.	Alkaloid AD Skopje	1.372,37	1.895,86	+38,14%
2.	Evropa AD Skopje	1.301,00	770,00	-40,81%
3.	Komercijalna Banka AD Skopje	2.110,00	4.200,00	+99,05%
4.	Makpetrol AD Skopje	9.450,00	12.000,00	+26,98%
5.	Toplifikacija AD Skopje	1.600,00	1.370,00	-14,37%

Source: Ministry of Finance

The trend of the Macedonian Stock-Exchange Index in the period 01.11.2001 – 30.09.2004 was as follows:



Source: Ministry of Finance

As of 01.01.2005, JSC Macedonian Stock Exchange has introduced a new weighted price index, called MBI 10. The index incorporates at most 10 shares listed on the official market of the JSC Macedonian Stock Exchange, selected according to the following 5 criteria:

- market capitalization of the shares
- average daily turnover in the last six months
- average number of transactions within the last six months
- relative liquidity of shares (turnover/average market capitalisation)
- number of days of trading of the share relative to the number of trading

#### d) holdings of foreign investors

Description	Legal entities (number)	Natural persons (number)
Shares	182	1.339
Denationalization bonds	4	9
Old foreign exchange saving bonds	9	3.117

Source: Ministry of Finance

### **3. What percentage of business is carried out outside the stock exchange? Is the Over The Counter market regulated?**

At present the overall trading with securities in the Republic of Macedonia is centralised and is carried out through the only institutionalised and organised securities market - the Macedonian Long-Term Securities Stock Exchange.

Since beginning of the trading on Macedonian Stock Exchange (28.03.1996) until 15.09.2004, the overall turnover on the stock exchange amounted to USD 1.015.853.035.

The JSC Macedonian Stock Exchange was established in September 1995 and it began operating in March 1996. The 1997 Law on Issuance and Trading in Securities, besides the additional clarification of the conditions for establishing a long-term securities stock exchange in the Republic of Macedonia (establishment of multiple stock markets is not an excluded option), envisaged the establishment of "over-the-counter market", thereby stipulating that the Securities Commission would adopt special rules governing its manner of organization and operations. At the same time, the transitional provisions of this Law introduced an obligation for mandatory trading in all securities in the Republic of Macedonia on the Stock Exchange, listed or unlisted. This concept continued with the 2000 Securities Law (currently in force). The provision introducing mandatory trading on the Stock Exchange has been extended several times, bearing in mind the conclusion that such centralisation and transparency in securities trading is exceptionally positive in the present phase of development of the securities market for the market setting of securities prices.

The Securities Commission has not yet adopted the envisaged rules of organization and operations of the "over-the-counter market", due to the fact that in the past period the market participants have not raised any initiative for this segment on the Macedonian securities market.

The National Bank of the Republic of Macedonia, as the money market regulator, is currently focused on stimulating the securities trading. To that end, rules on trading and settlement in treasury bills on the OTC markets have been prepared, and are envisaged to begin being applied early 2005.

In the new Securities Law, scheduled to be adopted in 2005, it is envisaged to enable trading in securities in the Republic of Macedonia exclusively on the organized securities market – the authorised stock-exchange. Hence, a broader definition of an authorized stock - exchange is proposed, envisaging certain centralised alternative of the "over-the-counter market" as one of the trading modalities. According to the provisions envisaged in the new Law, the Securities Commission will continue to have the obligation to prepare special Rulebook that would regulate the OTC market.

### **4. To what extent did choices on the early methods of privatisation of state owned companies affect the development of the stock market? Are flotations on the market being considered in the future? Given the growth of institutional investors, do limitations on certain investment in real estate and prudential rules on investment in securities of one issuer, etc. mean that the assets of funds are channelled into government bonds?**

The overall assessment of the initial model of privatization in the Republic of Macedonia could be that it was not largely favourable for the development of the national securities market. The voucher system was not applied in any stage of the privatization process in the country, which resulted in the absence of privatization investment funds, which, in many countries, led to establishment of institutional investors industry. Therefore, today, there are still no active domestic investment funds of any type on the securities market. Furthermore, the privatization, due to a series of objective and subjective factors, was ultimately reduced to privatization dominated by managers and employees,



whereby in some companies, the government remained significant (less often dominant) owner for quite long period of time, and foreign portfolio investors have almost not appeared. In the first two years of the privatization, the privatization models were chosen by the companies themselves and the transformation was not carried out via sale of the state/socially-owned capital on the stock-exchange, but via public auction. The shares of the Macedonian joint-stock companies appeared on the stock-exchange later, in the phase subsequent to their transformation/corporatization.

The most significant consequences for the development of the Macedonian securities market arising from such privatization are the following: a) instead of being securities market (led by financial motives), the stock-exchange turned into almost exclusive market for gaining domination in ownership structure of the companies (led by the need for consolidation of ownership); b) privatized companies undergoing the ownership consolidation, as a rule, experienced information asymmetry, i.e. the buyers of shares (most frequently – the managers and employees in the firms) had no interest in disclosing the data on company operations to the public; c) the financing of the operations of the privatised companies was carried out exclusively via the banking sector, by way of extension of credits, rather than with new issues of securities.

With regard to the market flotation, in near future, as planed, one of the models for conducting the process of privatization in the health sector (state pharmacies) will be the capital market i.e. via public auctions on the stock-exchange.

The securities market in the Republic of Macedonia still lacks domestic investment funds of any type (open-ended or closed-ended investment funds, privatization investment funds or private pension funds), although the legislation covering the traditional investment funds does exist since 2000.

One of the possible reasons for the absence of institutional investors on the securities market, especially the traditional investment funds, is not the absence of legal possibility to invest in real estate, but rather the relative illiquid securities market, as well as the possibility to invest the resources of the funds in other type of securities for the purpose of diversification of the funds' portfolios.

Taking into account the mandatory nature of the capital funded pension insurance and the guarantee by the Government for the Pension Funds' assets, the development of this type of insurance is expected to stimulate the capital market development in Macedonia. The assets of the Pension Funds are to be invested on the basis of the following principles: security of the Pension Funds' assets, risk diversification of investment and maintenance of adequate liquidity. For more details, see [II VI E 4](#).

In accordance with the aforementioned principles, the investment in real estate is prohibited, except in securities on the basis of mortgages issued by banks having licence obtained from the National Bank of the Republic of Macedonia and indirect investment in investment funds. Investments in securities of the same issuer are limited to 10% of the nominal value of an individual security issued by that issuer, except in case of bonds and other securities issued or guaranteed by the Republic of Macedonia, and to 5% of the value of the Pension Fund assets placed in securities and issued by the same non-government entity registered in the Republic of Macedonia or in the EU member states, Japan and the USA, to the end of ensuring sufficient diversification of investments. It is to be expected that such prudential investment rules might channel significant amount of the funds into government bonds. It should be noted that the Ministry of Finance plans to issue new securities, thus increasing the supply and the diversity of government securities on the market.

**5. How developed is the bond market? Who are the main participants in the market and which are main financial instruments used? Are there private issues? Is there a secondary market? Please supply detailed information on the size, activity and structure of the bond market, including average maturity of the most important securities.**

The following data can serve as an indicator of the development of the bond market. Since 2001, 4 issues of government bonds were carried out, where:

- One issue of government bonds for the frozen saving deposits of citizens, in total value of EUR 550.000.000 with 10-year maturity period,
- Three issues of denationalisation bonds, with 10 years maturity period, in a total value of:
  - a) First issue – EUR 2.500.000
  - a) Second issue – EUR 39.500.000
  - c) Third issue – EUR 47.000.000

BONDS	MAX% of the nominal value	MIN% of the nominal value
RM01	86,00	55,10
RMDEN01	79,90	52,00
RMDEN02	80,40	47,00
RMDEN03	66,00	55,00

Source: Macedonian Stock Exchange

Total value of the issues – EUR 639.000.000

Participants and instruments - Since no institutional investors exist, main participants on the bond market in the Republic of Macedonia are individual investors, brokerage firms and banks. The instruments on the bond market are shown in the last part of this question, as well as in II\_V\_11.

Private issues: Pursuant to the Securities Law ("Official Gazette of RM", No. 63/2000, 103/2000, 34/2001, 4/2002, 37/2002, 31/2003 and 85/2003), initial (primary), sale of corporate securities can be executed via public offerings, direct sale to known buyer (placement) and auction (bidding). So far 4 private issues of corporate bonds were carried out in the Republic of Macedonia by 3 issuers.

Secondary market: there is a secondary bond market in the Republic of Macedonia. Government bonds are traded on the official market on the JSC Macedonian Stock Exchange.

According to the purpose of utilization - these are annuity bonds and have various purposes of utilization; the major participants on the bond market are individual investors.

Corporate bonds, issued by several companies in the Republic of Macedonia, were not traded on the secondary market until now, since they are convertible into shares and are intended for known buyers.

Data on the structure, the volume and the activity on the bond market, including the average maturity period of major securities are given below.

### 1. Primary bond market

#### 1.1. Bonds issued by legal entities

In 1998 the Securities Commission approved the first issue of bonds, the value of which was MKD 2.725.740.000 (US\$ 50.000.000, i.e. approximately EUR 40.753.000). It was a case of private investment, intended for foreign investors.

In 1999 the Securities Commission approved the first issue of convertible bonds, the value of which was MKD 1.007.304.512,50 (DM 32.500.000, i.e. approximately EUR 16.620.000). The same were issued by a pharmaceutical company and intended for a strategic investor in the form of private placement.

In 2000 the same company reappeared as issuer of the II issue of 650.000 long term convertible bonds with individual value of DM 50 (approximately EUR 25.50), in two series, A and B, in

respective total value per series of DM 16.250.000 (approximately EUR 8.308.500) intended for foreign investor in the form of private placement.

The bond amortization will be carried out in 12 installments for both series as follows:

- 1st installment – 15.02.2002 in the amount of DM 677.600 (approximately EUR 346.451)
- 2nd instalment – 15.08.2002 in the amount of DM 677.600 (approximately EUR 346.451)
- 3rd instalment – 15.02.2003 in the amount of DM 1.017.250 (approximately EUR 520.112)
- 4th instalment – 15.02.2003 in the amount of DM 1.017.250 (approximately EUR 520.112)
- 5th instalment – 15.02.2004 in the amount of DM 1.353.600 (approximately EUR 692.085)
- 6th instalment – 15.08.2004 in the amount of DM 1.353.600 (approximately EUR 692.085)
- 7th instalment – 15.02.2005 in the amount of DM 1.634.750 (approximately EUR 835.834)
- 8th instalment – 15.08.2005 in the amount of DM 1.634.750 (approximately EUR 835.834)
- 9th instalment – 15.02.2006 in the amount of DM 1.681.900 (approximately EUR 859.942)
- 10th instalment – 15.08.2006 in the amount of DM 1.681.900 (approximately EUR 859.942)
- 11th instalment – 15.02.2007 in the amount of DM 1.759.900 (approximately EUR 899.823)
- 12th instalment – 15.08.2007 in the amount of DM 1.759.900 (approximately EUR 899.823)

In early-2004 the Securities Commission issued an approval to a limited liability company for issuance of long-term debt securities. First issue of 4,500 bonds with individual nominal value of EUR 1.000 and the total value of the issue EUR 4.500.000 in MKD equivalent was intended for foreign investor in the form of private placement. The maturity period of the bonds is 31.12.2024, while the bonds bear monthly interest of 9,5% annually, in the case it is successfully realized.

## 1.2 Government bonds

**Table 1. Bonds issued in the Republic of Macedonia until 2004**

Purpose of issuance of the bonds	Year of issuance	Amount	Year of payment of the first instalment	Year of payment of the last instalment	Period of repayment in years	Interest rate	Date of payment of the principal	Date of payment of the interest	Balance as of October 1, 2004
Stopanska Banka rehabilitation bond	1996	75,00	1996	2010	15	level of discount rate	01.04	Monthly	32,00
Selective credits bond	1996	17,03		2020	25	no interest			17,03
Bond for foreign currency deposits	2000	546,50	01.04.2002	01.10. 2011	10	2% annually	01.04 and 01.10	01.04 and 01.10	356,20
Stopanska Banka privatisation bond	2001	120,10	31.03.2002	31.12. 2014	14	Euribor + 1 percentage point	31.03, 30.06, 30.09 and 31.12	31.03, 30.06, 30.09 and 31.12	88,00
First issue of denationalization bonds	2002	2,5	01.06.2003	01.06.2012	10	2% annually	01.06.2003	01.06	1,11
Second issue of denationalization bonds	2003	39,5	01.06.2004	01.06.2013	10	2% annually	01.06.2004	01.06	28,00
Third issue of denationalization bonds	2004	47	01.06.2005	01.06.2014	10	2% annually	01.06.2005	01.06	37,70
<b>TOTAL</b>		<b>847,63</b>							<b>560,54</b>

Source: Ministry of Finance of the Republic of Macedonia

**A. Bonds of the Republic of Macedonia for settlement of claims by citizens on the basis of foreign currency deposits**

According to the Law on the Manner and the Procedure for Payment of Foreign Currency Deposits of Citizens Guaranteed by the Republic of Macedonia ("Official Gazette of RM", No. 38/2000, 108/2000, 4/2002 and 42/2003), the Republic of Macedonia issued bonds for payment of the foreign currency deposits of the citizens. The total value of the bonds is EUR 550 million. The principal and the interest are paid semi-annually, on 01.04 and 01.10. The repayment period is 10 years. The repayment of the first installment of the principal and interest began in 2001, and the last installment is due on 01.10.2011. The interest rate is 2% annually.

The citizens can use the foreign currency deposit bonds for purchase and repayment of government property, redemption of claims of the Asset Management Agency (which ceased operating in April 2004 and the competences of which were assumed by the Ministry of Finance), payment of concession fee and for purchase and lease of government property.

**B. Bonds for settlement of liabilities on the basis of denationalization (I, II and III issue).**

Pursuant to the Law on Issuance of Denationalization Bonds by the Republic of Macedonia ("Official Gazette of RM", No. 37/2002), the Republic of Macedonia should carry out 6 issues of denationalization bonds within the next 6 years. Until 3.0.04.2004, 3 issues of denationalization bonds were carried out as follows:

- 1) In June 2002 the Republic of Macedonia issued the First issue of denationalization bonds in the total value of EUR 2,1 million. This issue covered all denationalisation decisions that came into effect until 31.12.2001, and which provided for giving bonds as compensation. The principal and the interest are paid in 10 annual instalments. The repayment of the first instalment of the principal and interest began on 01.06.2003, and the last instalment is due on 01.06.2012. The bonds bear 2% annual interest.
- 2) In January 2003 the Republic of Macedonia issued the Second issue of denationalization bonds in the total value of EUR 39,5 million. This issue covered all denationalisation decisions that came into effect until 31.12.2002, and which provided for giving bonds as compensation. The principal and the interest are paid in 10 annual instalments. The repayment of the first instalment of the principal and interest began on 01.06.2004, and the last instalment is due on 01.06.2013. The bonds bear 2% annual interest.
- 3) In January 2004 the Republic of Macedonia issued the Third issue of denationalization bonds in the total value of EUR 47 million. This issue covered all denationalisation decisions that came into effect until 31.12.2003, and which provided for giving bonds as compensation. The principal and the interest are paid in 10 annual instalments. The repayment of the first instalment of the principal and interest will begin on 01.06.2005, and the last instalment is due on 01.06.2014. The bonds bear 2% annual interest.

The citizens can use the denationalization bonds for purchase and repayment of government property, for redemption of claims of the Asset Management Agency (which ceased operating in April 2004 and the competences of which were assumed by the Ministry of Finance), for payment of concession fee and for purchase and lease of government property.

Since these bonds are issued for settling certain liabilities of the state, their features do not match the need of potential investors (long maturity periods, above all). Small part of these securities is relatively liquid on the secondary market (the Macedonian Stock Exchange) and their trading is stimulated by the government via granting certain favourable opportunities.

Taking into account the positive experience with the issues of the three-month treasury bills (since January 2004), as well as the major interest of the investors to invest their money in this risk-free

financial instrument, the payment of which is guaranteed by the government, introduction of long-term treasury bills in the first half of 2005 is envisaged.

## *2. Secondary bond market*

The volume of bonds traded on the secondary market is presented below:

- In 2000, bonds in total value of around EUR 4 million were traded on the secondary bond market of the Macedonian Stock Exchange;
- In 2001, the turnover reached total value of EUR 15,97 million;
- In 2002, total turnover of EUR 11,56 million was realized (transactions in government bonds)
- In 2003, the total turnover of bond trading on the official market of the Macedonian Stock Exchange was around EUR 33 million.

## **6. As regards the regulatory and supervisory framework, is there a Law on the Securities Market? If so, what are the main features of the law? Is supervision now considered to be satisfactory? As in banking (above), what steps are planned to address potential problems of co-operation between supervisors on a consolidated basis?**

The Securities Law was adopted by the Assembly of the Republic of Macedonia on 26.07.2000, and it was published in the Official Gazette of the Republic of Macedonia, No. 63/2000. After the adoption of the basic text of the Securities Law, several modifications and amendments were made and published ("Official Gazette of RM", No. 63/2000, 103/2000, 34/2001, 4/2002, 37/2002, 31/2003 and 85/2003). (see [11 Annex 16](#))

Main features of the Securities Law ("Official Gazette of RM", No. 63/2000, 103/2000, 34/2001, 4/2002, 37/2002, 31/2003 and 85/2003) are the following:

- Full dematerialization of securities by introduction of electronic entry as dematerialized form of records
- Introduction of Central Securities Depository, established as central database incorporating electronic data (entries) regarding issued securities, rights arising thereof and the holders of rights. The Central Securities Depository also determines and settles the liabilities on the basis of transactions and keeps registers of securities.
- Brokerage firms and banks being authorized participants on the Macedonian Stock Exchange can perform long-term securities trading operations after they acquire adequate approval from the Securities Commission of the Republic of Macedonia (SC).
- One of the novelties in the Law is the introduction of capital-based authorizations of brokerage firms when performing certain activities stipulated under the Law. The Law envisages placing connection between the capital and the activities for which that firm is registered. Thus, depending on the activity of the brokerage firm, the capital amounts to EUR 75.000, 150.000 or 500.000, and the level of liquid capital, i.e. liquid assets, depending on the activity the brokerage firm performs, must be EUR 15.000, 30.000 or 50.000. The brokerage firm is obliged to maintain the value of the capital in any period of its operation.
- The Assembly of Republic of Macedonia appoints and discharges the members of the Securities Commission. The Securities Commission has a status of a legal entity and is independent and autonomous institution, carrying out regulation and control over all participants when trading in long-term securities on the territory of the Republic of Macedonia. The Securities Commission has six members and a President, and their term of office is seven years, with right to a second term.

- Strengthening the independence of the Securities Commission.
- Introduction of Register of Joint-Stock Companies managed at the Securities Commission, including companies that issued securities via public offering after their establishment, or that have more than 100 shareholders and capital exceeding EUR 1.000.000.
- Obligation for mandatory listing of securities on the JSC Macedonian Stock Exchange, for the shareholding companies entered in the Register of the SC, and are in compliance with the listing conditions, with a remark that this legal obligation for mandatory listing applies until 31.12.2004.
- Until 31.12.2004, the trading in the issued securities not registered on the official markets on the Stock Exchange was carried out on the unofficial market of the Stock Exchange, bearing in mind that over-the-counter trading has not begun in the Republic of Macedonia.

There is an ongoing procedure for adoption of new Securities Law, which will incorporate the respective European Directives, as well as the IOSCO principles.

The Securities Commission (SC), successfully deals with all anomalies and irregularities occurring on the capital market.

Article 157 of the Securities Law stipulates that the SC is independent and autonomous organization, responsible for implementation of the Securities Law, the Law on Investment Funds and the Law on Taking Over Joint-Stock Companies and all by-laws adopted on the basis of these laws. The SC regulates and controls all participants in long-term securities trading on the territory of the Republic of Macedonia. Within its legal competences and powers the SC is responsible for lawful and efficient operations of the long-term securities market and for protection of the investors rights to the end of continuous raising of public confidence in the institutions on the long-term securities market in the Republic of Macedonia.

Within its legal competencies the SC carries out regular and special controls, full and partial controls, on-site (i.e. direct) and off-site (i.e. indirect) controls.

Twice a year the SC carries out full direct control of the operations of the participants in the long-term securities market (long-term securities market, central securities depository, brokers, brokerage firms and banks in the area of securities operations). At the same time the SC indirectly and directly controls the operations of the participants in the long-term securities market, as well as of the joint-stock companies – securities issuers.

In case the control discloses irregularities and illegal activities in the long-term securities operations, the SC passes a decision on elimination of the disclosed irregularities within specified period. Should they not be eliminated, the SC is authorized by law to pass a decision on temporary suspension of the operations of the stock exchange, the central securities depository, the broker, the brokerage firm, i.e. the bank in the area of securities operations, as well as a decision on revoking the licence, temporarily or permanently. The SC is authorized to undertake other measures, regulated under Article 103, Article 121, Article 122, Article 124, Article 126 and Article 151 of the Securities Law, for carrying out the fundamental functions of the SC, stipulated under Article 163 of the Securities Law.

To the end of avoiding potential problems in the cooperation between the supervisors on consolidated basis, one of the basic functions of the SC, defined in the Securities Law, is to cooperate with other institutions in the Republic of Macedonia and abroad via exchanging information, etc.

In terms of the cooperation with national supervisors, upon an initiative by the SC, activity was commenced for signing of Memorandum for Co-operation with the National Bank of the Republic of

Macedonia. The commenced procedure for signing of Memorandum of Co-operation is being finalized and it is expected to be signed soon.

On international level, the SC has signed six bilateral Memoranda of cooperation with the capital market regulators in the following countries: Republic of Slovenia, Bosnia and Herzegovina, Republic of Bulgaria, Republic of Croatia, Serbia and Montenegro and Romania. The Securities Commission of the Republic of Macedonia is a full member of the International Organization of Securities Commissions (IOSCO) since 1994.

#### ***D. Money market***

**1. How developed is the market for short-term financial instruments? Who are the main participants in the market and which are the main financial instruments used? Is there a secondary market? Please supply detailed information on the size, activity and structure of the money market.**

Dominant segment on the money market in the Republic of Macedonia is the inter-bank short-term deposits trading. Deposit trading is carried out between banks, directly and via the institutionalized money market. Most frequent in this segment of the money market are transactions with one-day maturity. They accounted for 68% of the total turnover in the first nine months of 2004. The average daily inter-bank value of trading for the first nine months of 2004 was MKD 92 million, 50% of which were realized outside the institutionalized money market, i.e. on bilateral basis.

Trading in short-term securities, as a segment on the money market in the Republic of Macedonia, is in the initial stage of development. Central bank bills issued by the National Bank of the Republic of Macedonia and the treasury bills issued by the Ministry of Finance fall within the group of short-term securities issued on continuous basis in the Republic of Macedonia.

Central bank bills are short-term, dematerialized and negotiable securities of the National Bank, sold at discounted amount in MKD. The registry of holdings in central bank bills is kept at the National Bank of the Republic of Macedonia. Central bank bills are sold at auctions, and all banks in the Republic of Macedonia have right to participate. Currently, the frequency of central bank bill auctions is twice a week (Wednesday and Friday), while the maturity period of the central bank bills is 7 and 28 days.

In order to stimulate the trading in central bank bills, rules were prepared covering settlement of transactions in central bank bills concluded at the OTC markets, adhering to the delivery vs. payment principle. However, the short maturity period and the frequent presence of the National Bank of the Republic of Macedonia on the money markets via the auctions is the cause for small volume of trading in these securities on the secondary market.

As of 2004 the Republic of Macedonia commenced issuing short-term government securities - treasury bills. Treasury bills are short-term, dematerialized (registered in the Central Securities Depository) and negotiable securities issued by the Ministry of Finance, sold at discounted amounts in MKD. Treasury bills are sold on auction, and all banks in the Republic of Macedonia have the right to participate, while other non-banking legal entities and natural persons can participate in the auctions indirectly, via the banks. Currently the frequency of treasury bill auctions is twice a month, while the maturity period of the treasury bills is 3 months.

Non-banking legal entities and natural persons prevail in the ownership structure of the treasury bills (63% of the total value of issued treasury bills as of 3009.2004). Bearing in mind that the primary market of treasury bills in the Republic of Macedonia began operating in early 2004, the total value of the issued treasury bills is low (MKD 2 million or 0,8% of the GDP projected for 2004). Due to that, as

well as the high transaction costs of trading in treasury bills on the stock exchange, trading on the secondary market is minimal. In the period January – October 2004, only one transaction of treasury bills, via the Macedonian Stock Exchange, was carried out on the secondary market, which is 0,5% of the total value of issued treasury bills. Thereby, the higher value of issued treasury bills (total value of issued treasury bills is expected to reach 1,6% of GDP by the end of 2005), as well as the planned activities for development of OTC markets are expected to contribute to the revival and the development of the secondary market.

The National Bank of the Republic of Macedonia, as regulator of the money market, is currently focused on stimulation of trading in securities. To that end, rules were prepared covering the trading and settlement of treasury bills on the OTC markets, envisaged to commence applying in early 2005. (The answer to the next question includes more detailed explanation of the development activities with regard to money markets; see [II VI D 2](#)).

## **2. What changes are considered necessary in order to improve market organisation and efficiency?**

The Ministry of Finance undertakes activities for completion of the legal regulation in the area of securities, which would significantly improve the market organization.

To the end of efficient operations of the securities market, new Securities Law will be adopted in the first half of 2005, prepared in accordance with the EU Directives and the principles and standards of the International Organization of Securities Commissions (IOSCO). After the adoption of the Law, the enactment of secondary legislation will follow. In parallel with the adoption of the new Securities Law, the Law on Investment Funds will be amended.

The National Bank of the Republic of Macedonia, as the regulator of the money market, is currently focused on finding solutions for stimulation of the segment covering trading in securities on the money market. The activities undertaken by the National Bank of the Republic of Macedonia are focused on supporting the development of the treasury bills market, which the Republic of Macedonia began issuing in January 2004. Rules were adopted covering the trading and settlement of treasury bills on the OTC markets, envisaged to commence applying in early 2005. All the organizational and technical preparations for establishment of the system for trading in short-term government securities within the National Bank of the Republic of Macedonia have been completed and the system is planned to start operating in January 2005. Special market committee was established for monitoring and development of the money market.

The National Bank of the Republic of Macedonia and the Ministry of Finance will undertake activities in order to motivate the banks to perform the function of treasury bills market-makers. Also, to the end of increasing the efficiency of the money market, the National Bank of the Republic of Macedonia will take part in the preparation of General Master Repo Agreement that would become the basis for conclusion of repo transactions.

Money market efficiency and transparency is of significant importance to the monetary authorities from the viewpoint of the transmission of monetary policy signals. Due to that, the National Bank of the Republic of Macedonia is interested in modernizing the manner of trading on the money market via developing competitive market infrastructure that would enable efficient and transparent trading.



### ***E. Non-bank financial institutions (see also chapter 3 – Free Movement of Services)***

#### **1. Please outline the legal framework concerning insurance companies in place. Are further measures envisaged in this area?**

The legal framework regulating the conditions and the manner of performing operations covering insurance, intermediation and representation in insurance is the Insurance Law ("Official Gazette of RM", No. 35/2001 – consolidated version), the Law on Supervision of Insurance Law on Supervision of Insurance ("Official Gazette of RM", No. 27/2002, 84/2002, 98/2002 and 33/2004) (see [11 Annex 12](#)), the Law on Contracts and Torts in the part referring to insurance agreements ("Official Gazette of RM", No. 18/2001, 4/2002 and 5/2003) and the Company Law ("Official Gazette of RM" No. 28/2004).

The legal framework regulating the operations of the insurance companies and the insurance brokerage companies is described in details in the answers to the questions in the section of financial services, the insurance sector, (See [II V](#)). In accordance with the Stabilisation and Association Agreement of the Republic of Macedonia with the European Union, the legal framework in the area of insurance will be additionally completed to the end of further and full implementation of European Union Directives and IAIS standards and principles.

To that end, the following activities are planned:

- modifications and amendments to the Insurance Law for strengthening the supervisory function in the Ministry of Finance, improvement of the risk management measures, strengthening the provisions pertaining to issuance of licenses and approvals to insurance companies, etc;
- adoption of new Law on Motor TPL Insurance for implementing the IV Directive of the European Union relating to insurance against civil liability in respect of the use of motor vehicles and improvement of the efficiency of the system of mandatory insurance;
- enactment of secondary legislation regulating specific issues related to the operations of insurance companies (solvency requirements, technical requirements, fit-and-proper requirements, etc.).

In accordance with the European Partnership Action Plan these activities are envisaged to be realized during 2005.

#### **2. What is the authorities' overall assessment of the degree of competition in the sector?**

Currently, on the insurance market in the Republic of Macedonia, there are nine insurance companies having license for performing insurance operations, out of which one insurance company performs non-life insurance and reinsurance activities, one insurance company performs life insurance activities, and the remaining seven perform non-life insurance activities.

The table below shows the share of the two largest insurance companies on the insurance market in the Republic of Macedonia with regard to the realized gross insurance premium within the period 1999-2003.

**Table: Structure (two elements) by realized gross premium**

by Structure (the elements) of Realized Gross Premium						
1999	non-life	98.0%	Domestic	98,0%		
			Foreign	/	EU	
	life	100%	Domestic	100%	Other	
			Foreign	/	EU	
2000	non-life	97.8%	Domestic	97,8%		
			Foreign	/	EU	
	life	100%	Domestic	100%	Other	
			Foreign	/	EU	
2001	non-life	97.2%	Domestic	97,2%		
			Foreign	/	EU	
	life	100%	Domestic	100%	Other	
			Foreign	/	EU	
2002	non-life	83.0%	Domestic	83,0%		
			Foreign	/	EU	
	life	100%	Domestic	100%	Other	
			Foreign	/	EU	
2003	non-life	78.1%	Domestic	78,1%		
			Foreign	/	EU	
	life	100%	Domestic	100%	Other	
			Foreign	/	EU	
Source: Ministry of Finance (on the basis of data from the annual statements of insurance companies)						

Although the insurance market in the Republic of Macedonia is characterized by small number of insurance companies, nevertheless, with regard to the supply, one could conclude that its structure is well established.

The adoption of the Law on Supervision of Insurance (“Official Gazette of RM” No. 27/2002, 84/2002, 98/2002 and 33/2002) enabled liberalization of the insurance market, thus creating conditions for attracting foreign capital and strengthening the competition. Data in the Table show that the share of the two largest insurance companies on the insurance market with regard to the realized gross insurance premium is in constant decline. There is a clear trend of dispersion of the total gross premium to multiple insurance companies, reflecting the higher degree of market competition.

Entrance of new insurance companies on the insurance market, from the standing point of the service beneficiaries, creates conditions for better choice and higher quality of services and reduction of their price.

**3. What is the situation regarding new financial markets and instruments, for example venture capital companies, factoring, leasing, etc.? Is the legal framework in place for such operations? Please provide any available information on market developments.**

The structure of the financial markets and instruments in the Republic of Macedonia is still insufficiently diversified. Banks and insurance companies dominate the market, offering mainly traditional banking and insurance services. Although authorized, the banks do not engage in financial leasing and factoring.

In general non-banking activities such as leasing, factoring, crediting, issuance of guarantees, etc. are regulated by the Law on Contracts and Torts (“Official Gazette of RM”, No. 18/2001, 4/2002 and

5/2003) and the Company Law ("Official Gazette of RM", No. 28/2004). These laws do not impose special requirements with regard to establishing and rendering these services.

**Leasing** - In 2002 to the end of promoting and stimulating the development of leasing industry a Law on Leasing was adopted ("Official Gazette of RM", No. 4/2002 and 49/2003). The Law regulates only the fundamental principles of leasing and enables freedom in service contracting. Pursuant to Article 3 paragraph 1 of the Law, a lessor can be a company or a subsidiary of foreign company established in accordance with the Company Law. In order to perform financial leasing companies and subsidiaries need to obtain permit from the Ministry of Finance (Article 3 paragraphs 2, 3 and 4 of the Law on Leasing). The procedure for acquiring financial leasing permit is simple and fast and is regulated by the Rulebook on the Manner and the Conditions for Acquiring Financial Leasing Permit ("Official Gazette of RM", No 13/2004).

Pursuant to the Rulebook, an application form is submitted to the Ministry of Finance along with the following documents:

- certificate from the court of competent jurisdiction that no measure against the legal entity for prohibition for performing an activity has been imposed;
- certificate from the court of competent jurisdiction that no measure against the authorised executive in legal entity for prohibition for performing a profession, an activity or duty has been imposed;
- certificate from competent institutions that public fees are regularly paid; and
- certificate from the court of competent jurisdiction that no bankruptcy or liquidation procedure has been initiated.

The Law provides security to service providers by ensuring collection of claims with a possibility to terminate the agreement and return the object in cases of improper utilization (Article 11 paragraph 5) or bankruptcy of the user (Article 8), as well as through the obligation for compulsory insurance of the object by the user (Article 13). The security of the lessee is provided via the granted possibility to refuse the object subject to leasing in case of failure of delivery or untimely delivery (Article 11 paragraph 3), as well as via the granted obligatory registration of the object being subject to leasing (Article 12).

Since the enactment of the Law on Leasing in February 2002, by October 2004 8 requests were submitted for acquiring financial leasing permit in the Republic of Macedonia, and permits were issued in all cases (four permits were issued to companies established by foreign legal entities, three to companies established by domestic and foreign legal entities, and one to a company established by a domestic natural person).

During 2003 and 2004, within the EU-funded Banking Sector Reform Project, the leasing was promoted as new financial product in the Republic of Macedonia.

**Factoring** - At present there is no special regulation on factoring. Hence there are no restrictions regarding the performance of this activity, which can be carried out on the basis of contracts concluded in accordance with the general rules on contracts and the special rules on transfer of claims regulated under the Law on Contracts and Torts ("Official Gazette RM", No. 18/2001, 4/2002 and 5/2003). Pursuant to Article 20 of the Law on Foreign Exchange Operations ("Official Gazette of RM", No. 34/2001, 49/2001, 103/2001, 54/2002, 32/2003 and 51/2003), residents can perform factoring with non-residents.

The level of development of the financial instrument factoring, in the Republic of Macedonia, is insufficient. In order to reverse this the Southeast Europe Enterprise Development (SEED) in 2004 carried out a market research, as a result of which, the preparation of a Study on Factoring in the Republic of Macedonia is being finalized, containing recommendations on the activities needed to stimulate the emergence and the development of this instrument.

**Swift money transfer** - In 2003 the Law on Performing Services of Swift Money Transfer ("Official Gazette of RM". No. 77/2003) was enacted. Swift money transfer services can be rendered by

companies registered in the Republic of Macedonia in accordance with the Company Law ("Official Gazette of RM", No. 28/2004), which also have to acquire permit from the National Bank of the Republic of Macedonia for performing swift money transfer, and by companies – subagents which conclude a contract with a service provider (Article 3 of the Law).

The company intending to provide swift money transfer services should mandatorily fulfil the following requirements (Article 6 of the Law):

- be registered in the Company Register for performing auxiliary activities of financial intermediation;
- to have appropriate business premises, technical equipment and information system;
- to provide appropriate protection and security of the financial resources, property and employees;
- not to be under bankruptcy or liquidation procedure;
- there should be no security prohibition measure for performing a profession, activity or duty imposed against the authorised executive and/or the employees which perform the services of swift money transfer, plus there should be no verdict imposed to them for a criminal act in the area of finances; and
- to have authorization in the form of contract from an authorized global system for electronic money transfer.

In order to obtain permit an application should be submitted to the National Bank, along with the following documents (Article 7 of the Law):

- information confirming the fulfilment of the conditions referred to in Article 6 of the Law (abovementioned);
- statutory acts on the manner of operations and money-laundering prevention program;
- proof for obtained personal identification number and taxpayer identification number;
- company headquarters and address of the place where swift money transfer service will be carried out;
- confirmation from a competent institution that it does not have outstanding liabilities on the basis of public fees;
- positive opinion on the solvency from the Central Register (for companies operating longer than six months);
- data on the identity (place and address of birth, place and address of residence, personal identification number of the citizens and ID number), degree of education and experience of the authorised executive and the employees in the company that will perform the transfer money services;
- residence permit and permit to work in the Republic of Macedonia for foreign individuals which will be authorised executives in the swift money transfer service providers or that will perform swift money transfer services;
- audit reports for the past two years on the authorized global system for electronic money transfer prepared by internationally recognized audit firm; and
- proof that the global system for electronic money transfer with which contract has been concluded is a legal entity performing electronic money transfer in accordance with the regulations in the country of registration and that it operates in at least 100 countries.

Before issuing the permit, the National Bank evaluates the fulfilment of the conditions for service provision, as well as the integrity and the reputation of the founders. Since the enacting of the Law one request for obtaining permit for providing swift money transfer service and a permit has been issued thereof.

#### Future development perspectives

The development of the Leasing industry that followed after the adoption of the Law on Leasing proves that the development of new financial markets and instruments can be stimulated by establishing special legal framework. Hence, during 2005 an analysis on interest of potential providers and users of certain financial services and products is envisaged, after which adoption of regulation on financial companies and services will follow. Thereby, services covered in Annex II of Directive 2000/12/EC will especially be taken into account.

The analysis, as well as all activities arising thereof, are expected to be realized with support from experts, preferably from EU.

**4. Please provide information on the establishment of the two-pillar pension system. What are the main challenges for its development? What are the next steps of the authorities to tackle these challenges?**

The Law on Modifications and Amendments to the Law on Pension and Disability Insurance ("Official Gazette of RM", No. 24/2000) is the legal framework which defines the concept of the pension system reform for establishing a three-pillar pension system in the Republic of Macedonia.

The modifications and amendments of the Law on Pension and Disability Insurance undertaken in 2000 led to reforms of the first pension system pillar (or the unique pillar in the previous pay-as-you-go system), with the goal to reduce the costs of the pension system, and to put the bases of a capital funded pension insurance.

For regulating the operations of the second pension system pillar, the Law on Mandatory Capital Funded Pension Insurance ("Official Gazette of RM", No. 29/2002, 85/2003 and 40/2004) was adopted in April 2002.

The fundamental objectives planned to be achieved with the reform are the following:

- to secure the exercise of rights to pension and disability insurance,
- to ensure short- and long-term solvency of the Pension and Disability Insurance Fund of the Republic of Macedonia,
- to enable maximum security with a minimal risk,
- to guarantee just pensions for all generations,
- to strengthen the public confidence in the pension system through the achievement of the other objectives.

The establishment and maintenance of a three-pillar pension system in the Republic of Macedonia, being a combined system of public, pay-as-you-go and capital funded pension system, are expected to create gains and advantages for individuals, for the overall pension system and for the economy.

From individuals' point of view, this system allows for greater security since pensions will be financed from two, i.e. three sources. Inherent risks of each system (pillar) will be diversified; hence the combined pension system will ensure offsetting of risks and achieving greater degree of security. Also, the introduction of individual accounts and through investing the funds accumulated on them will create greater revenues for the period after retirement. Transparency in the operations of such type of pension system is an important feature, since individuals will, at any time, know the amount of funds available on his/her account, the instruments in which his/her assets are invested and the profit earned from such investment.

From the overall pension system point of view, the existence of several pillars enables having long-term solvency of the pension system, which is a goal of each country in designing the social policy. By reducing the scope of the state (public) pension system through the introduction of a capital funded system, the liabilities of the state system will be reduced on the long run, which will lead to reduction of budget expenditures (transfer payments from the Budget) for pensions. Unlike the pay-as-you-go pension scheme which does not stimulate savings of the population on the account of generations' solidarity, a capital funded pension scheme influences the increase of national savings in medium and long run. It will also be an instrument for developing the financial market and increasing investments that will affect the growth of the economy.

Main challenges for the development of the two-pillar pension system

The reform of the administration which administers the existing Pension and Disability Insurance Fund of the Republic of Macedonia is especially important for successful implementation of the pension system reform. During the last two years such reform have been intensively implemented, tackling in particular the implementation of the new single collection procedure function and the control and distribution of contributions to state-owned and the (future) private pension funds.

During the preparation of the pension system reform the Government of the Republic of Macedonia assessed the possible risks (challenges) of the introduction of the multi-pillar pension system and envisaged ways to deal with them. They comprise of the following:

1. Dimensioning and carrying transition from the old to the new system:
  - development of actuarial models with assistance from foreign consultants and assessment of the transition costs;
  - careful planning and testing before the beginning of the implementation;
  - Macedonian model of the reform is a gradual model without stimulating entrance of huge number of employees in the system
  - development of market for government securities;
2. Tackling the lack of instruments in which the private pension funds can invest through:
  - provided possibility to invest 20% of private pension funds resources abroad;
  - ensuring the possibility for additional restrictions on investments by pension funds in accordance with the Law on Mandatory Capital Funded Pension Insurance which can be introduced by the Agency for Supervision of Fully Funded Pension Insurance in the first five years;
  - undertaking analyses of the domestic market and drafting recommendations for its development by engaging experts;
  - securing bank deposits, earmarked government bonds, operation of the domestic securities market and mandatory listing of companies on the Stock Exchange;
  - development of new government securities, which is undergone;
  - adoption of a Strategy for development of government securities market along with an Action Plan.

In addition to the strategy for development of long-term securities and for successful implementation of the new pension system the Government of the Republic of Macedonia will issue long-term government bonds, which are of huge importance for establishing the second pension system pillar.

3. Ensuring quality of the pension fund management companies through:
  - announcement of international tender for awarding two licenses for management with pension funds;
  - implementation of a pre-qualification procedure with strict conditions to eliminate unqualified bidders;
  - creating strong on-site and off-site supervision for timely identification and resolution of problems;
  - strict legal regulation and by-laws to preven misuse;
4. Building efficient and specialized Agency for Supervision of Fully Funded Pension Insurance through:
  - undertaking staff training (supported by the World Bank and USAID);
  - selecting a trained director with experience in the field;
  - creating a high-quality IT system for off-site supervision and a network connection with the Pension and Disability Insurance Fund, pension fund custodian and other relevant institutions;
  - securing an adequate budget and salaries for the authorised executives in the Agency.
5. Tackling the possibility of incomplete collection of contributions through:

- reorganization and improving the management in the existing Pension and Disability Insurance Fund;
  - securing monthly collection and adjustment of data and contributions;
  - continuous checking and adjustment to databases of other government institutions;
  - connecting the contribution databases;
  - strengthening the functions of the Pension and Disability Insurance Fund in the collection of contributions for both pillars;
6. Prevention of bad investments with resources of the pension funds through:
- adopting laws and bylaws strictly regulating in what and where to invest;
  - securing that investments must be made on the basis of principles of security, liquidity and diversification;
  - making pension funds able to buy securities traded on the official markets;
  - daily checking of the portfolios by the Agency;
  - securing that custodian would report on the illegal transactions to the Agency;
  - securing that the custodian is independent from the pension fund management companies.
7. Better information and education of the public regarding the new system through:
- broad public information and education campaign;
  - focus on the persons who can and the ones who must join;
  - giving impartial advise regarding the decision on entrance in the system and selection of pension fund;
  - application of computer software, call-centres and information centres;
8. Overcoming possible unethical conduct of sales agents through:
- securing that agents obtain licenses after passing a specialized exam;
  - creating strict marketing regulations which prohibit unethical conduct;
  - securing that marketing and advertising materials of companies must be approved by the Agency prior to being distributed;
  - prohibiting promises of yield, as well as advertising future revenues.
9. Preventing the possibility that members lose their resources in case of bankruptcy of a pension fund management companies or of the property custodian, through:
- securing that the resources of the pension fund are separated from the resources of the pension fund management company;
  - securing that the resources of the Fund are placed for safekeeping to the custodian bank;
  - securing that the resources of the pension fund cannot be subject to claims by creditors of the pension company;
  - securing strictly regulated restrictions of investments with regard to securities, issuer, etc. Only few selected banks can “accept” investments by the Funds;
  - making investment abroad possible only in cases of obtained investment rating or in case of investment in securities issued by governments or central banks of the USA, EU member states and Japan
10. Building public confidence in the new system through:
- transparent and regulated tender for licensing pension fund management companies, with strict criteria;
  - legal separation and protection of pension fund resources;
  - strict control of the marketing activities of the pension fund management companies;
  - impartial advises by the Government;
  - building strong regulatory and supervisory agency;
  - strict control of investments on daily basis;
  - regular reporting on the balances of individual accounts to the members;
  - important role of the Fund, institution that has credibility with the public.

### **Observed preconditions for development of the two-pillar pension system**

1. Fostering economic development accompanied by job creation.

Focus on real sector of the national economy that should enter dynamic development cycle, increasing the production capacities and stimulating job creation.

2. Stimulating real salaries growth

Salaries growth means enrichment of the pension and disablement insurance contribution base, which results in increase in the inflow of resources to the Funds.

3. System improvement i.e. digitalization of the contribution recording and payment system.

Electronic records of pension insurance contributions leads to increase of efficiency, but also towards control of the contribution collection.

4. Stimulating the capital market development, especially development of long-term government securities market.

Increasing the supply of high-quality financial instruments, especially long-term government securities with fixed return, contributes to building higher-quality portfolio of funds.

5. Promotion of the Agency for Supervision of Fully Funded Pension Insurance into high-quality regulatory and supervisory body on the market.

Efficiency and development of multi-pillar pension system and the Funds will depend on the manner of implementation of the laws and bylaws, as well as on the supervision carried out by the Agency.



### Classification by NACE Section:

- A    Agriculture, hunting and forestry
- B    Fishing
- C    Mining and quarrying
- D    Manufacturing
- E    Electricity, gas and water supply
- F    Construction
- G    Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods
- H    Hotels and restaurants
- I    Transport, storage and communication
- J    Financial intermediation
- K    Real estate, renting and business activities
- L    Public administration and defense; compulsory social security
- M    Education
- N    Health and social work
- O    Other community, social and personal service activities
- P    Private households with employed persons
- Q    Extra-territorial organizations and bodies

### Sections and Subsections classification:

#### **S.11    Non-financial corporations**

- S.11001    Public non-financial corporations
- S.11002    National private non-financial corporations
- S.11003    Foreign control non-financial corporations

#### **S.12    Financial corporations**

- S.121    Central Bank
- S.122    Other monetary financial institution
- S.12301    Other public financial intermediaries, except insurance corporations and pension funds
- S.124    Financial **auxiliaries**
- S.125    Insurance corporations and pension funds

#### **S.13    General government**

- S.1311    Central government
- S.1313    Local government
- S.1314    Social security funds

#### **S.14    Households**

#### **S.15    Non-profit institutions serving households**

### Type of capital:

1. Domestic
2. Foreign
3. Mixed

### Type of ownership:

1. Public
2. Private
3. Cooperative
4. Mixed
5. State

Source: Ministry of Economy