

A stylized map of the Republic of Macedonia is centered on the right side of the slide. The map is filled with the colors of the national flag: a red field with a golden sun in the center, from which eight golden rays extend to the edges. The map has a slightly irregular, torn-paper-like border. The background of the entire slide is a gradient from dark blue on the left to bright orange on the right, with several semi-transparent stars scattered across it.

# **The Republic of Macedonia Investor Presentation**

June 2009

# Representatives

- ◆ Mr. Trajko Slaveski, Ph.D. — Minister of Finance
- ◆ Mrs. Maja Parnardzieva MA – State Advisor
- ◆ Mrs. Ana Mitreska MA – Deputy Director, National Bank of Macedonia



# Outline

---

- ◆ Macedonia – Credit Profile
- ◆ Macroeconomic Performance
- ◆ Resilient Fiscal and Monetary Fundamentals
- ◆ Prudent Debt Management
- ◆ Terms of the Offering
- ◆ Anti-Crisis Measures
- ◆ EU Accession and Reforms

*The information contained herein is subject to, and should be read in conjunction with, the detailed information concerning Macedonia and the Notes contained in the Prospectus. Investors are cautioned to rely solely on the Prospectus when making an investment decision with respect to the Notes. The offer and sale of the notes are subject to applicable securities laws in the European Union, the United States and elsewhere. The Notes are not eligible for offer or sale to US persons as defined in Regulation S under the Securities Act of 1933.*

The background features a gradient from light blue on the left to light orange on the right. Scattered throughout are semi-transparent stars in shades of yellow and white. A central graphic shows a hand holding a yellow ribbon that runs horizontally across the page, partially obscured by a dark blue bar.

---

# Macedonia – Credit Profile



# Key considerations

---

- ◆ Macroeconomic stability backed by steady GDP growth (2005-08 CAGR of 4.8% p.a.) and low inflation (3.6% p.a. during 2005-08)
- ◆ Diversified economy with high recent FDI in-flows (US\$1.7bn since 2006)
- ◆ Low external public debt (~17% of GDP)
- ◆ Best Consecutive Reformer Over the Last 2 Years in SE Europe based on the World Bank's Doing Business Reports
- ◆ Prospect of EU integration and NATO membership – major driver of further reforms and growth going forward
- ◆ Near investment grade ratings from international rating agencies
- ◆ Healthy banking system, mostly foreign owned and with very low external borrowings (2.8% of total sector liabilities)
- ◆ IMF facility in 2007 and not been utilised since then
- ◆ EUR8bn investment planned on infrastructure and energy over 8 years to further boost economic growth and improve trade balance

# A Country's Snapshot

## Macedonia's Story – A Resilient Credit



### RATINGS

◆ S&P	BB / Negative
◆ Fitch	BB+ / Negative
◆ GDP 2008 est	US\$9,522 million
◆ GDP per capita 2008 est	US\$4,649
◆ Population 2009 est	2,100,000
◆ Capital	Skopje

### CREDIT HIGHLIGHTS

- ◆ Macedonia's GDP per capita is above the 'BB' median, and even higher if measured in terms of PPP (US\$9,063 per capita).
- ◆ EU candidate status providing an anchor for reforms and political stability
- ◆ Moderate government debt levels
- ◆ Strong remittance flows accounting for 15% of GDP, making a powerful contribution to overseas earnings

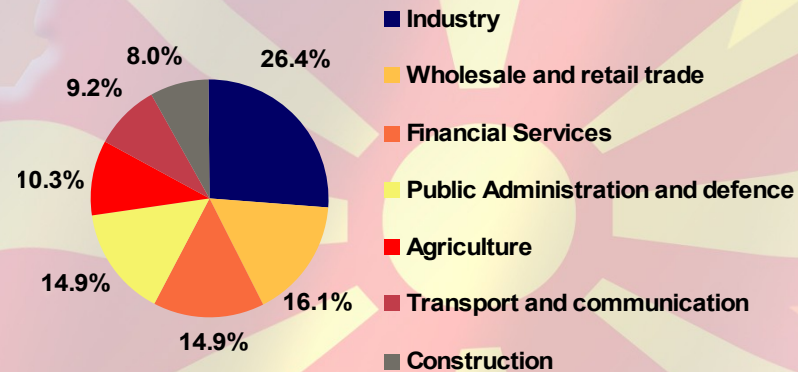
The background features a gradient from light blue on the left to light orange on the right. Scattered across this gradient are several five-pointed stars in shades of light blue and light orange. In the center, a hand is shown holding a globe, with the hand and globe rendered in a semi-transparent, light-colored style. A thin white horizontal line is positioned near the top of the page.

# Macroeconomic Stability

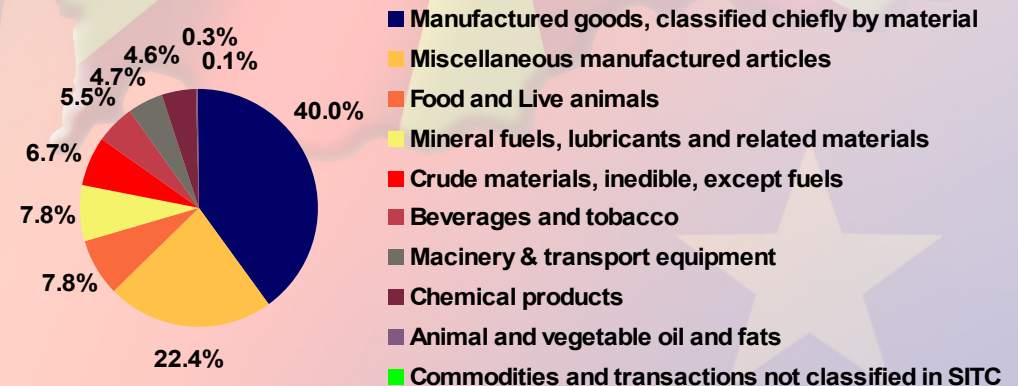
# Economy in brief

- ◆ Diversified economy with skilled workforce and further growth prospects
  - **Industry:** key sectors are steel and iron, textiles and clothing, chemicals, food processing and tobacco;
  - **Tourism:** About 250,000 foreign tourists visited Macedonia in 2008, up from 165,000 in 2004.
- ◆ Macedonia's export products reflect its diverse economy with the manufactured and other value added products accounting for almost half of total exports
  - **Main export destinations:** Serbia, Greece, Germany and Bulgaria accounting for 60% of all exports
- ◆ Local currency is pegged to EUR, this policy is expected to continue

**GDP COMPOSITION - 2008**



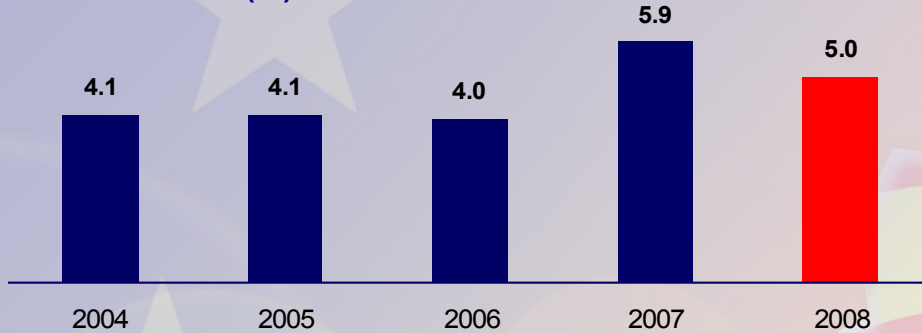
**EXPORT BREAKDOWN BY PRODUCT GROUPS - 2008**





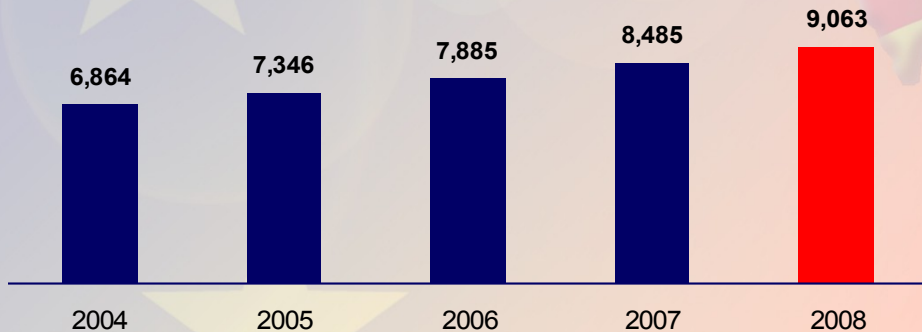
# Macroeconomic trends

## GDP GROWTH (%)\*



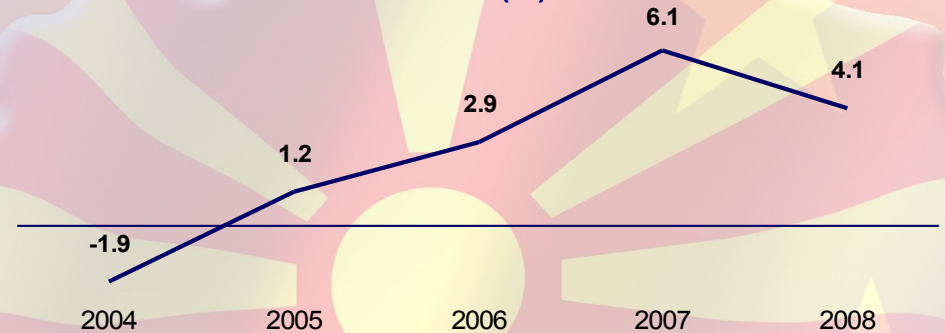
- ◆ Uninterrupted real GDP growth of 4%+ since 2004

## GDP PER HEAD (US\$ AT PPP)\*



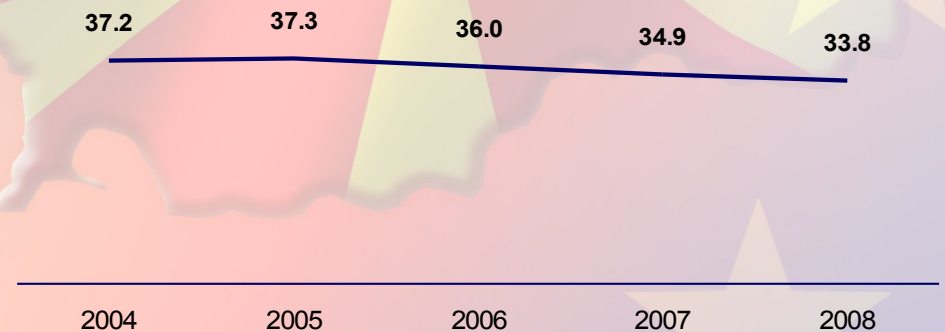
- ◆ Constantly increasing GDP per head – a measure of income growth. It is expected to grow further given no expected significant change in the population

## CONSUMER PRICE INFLATION (%)\*



- ◆ Historically low levels of inflation
- ◆ In the first 5 months of 2009, the average inflation was 0.5%

## UNEMPLOYMENT RATE\*

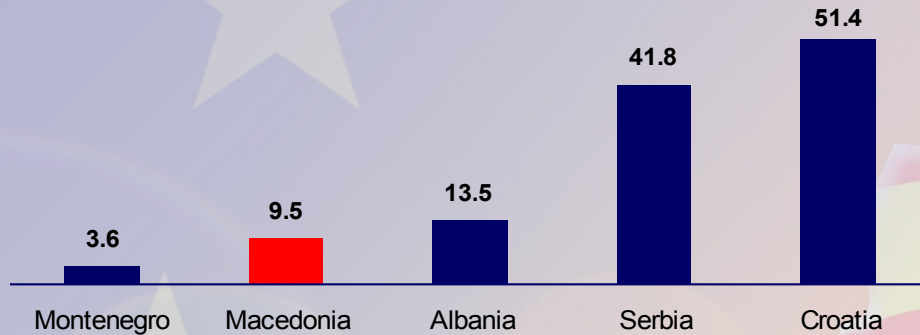


- ◆ High unemployment rates, though falling since 2004

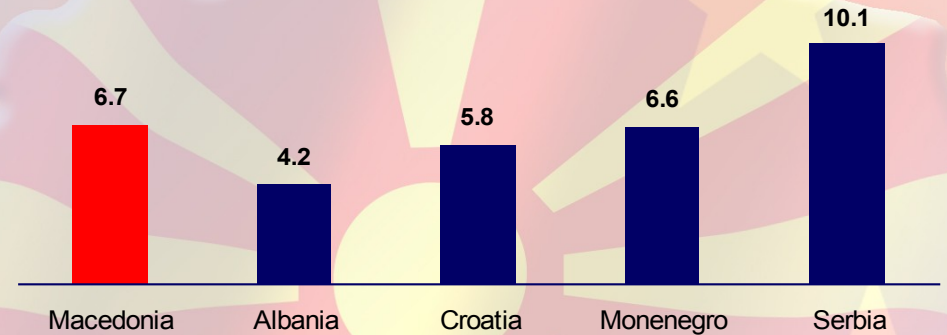
\*Source: State Statistical Office

# Macedonia vs Peers

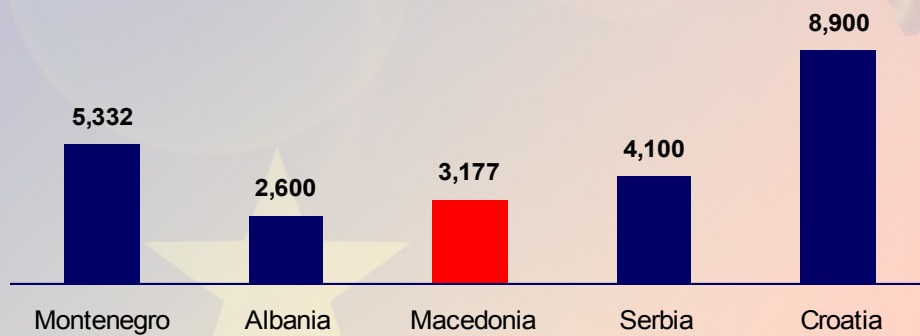
GDP (US\$BN AS OF 2008)\*



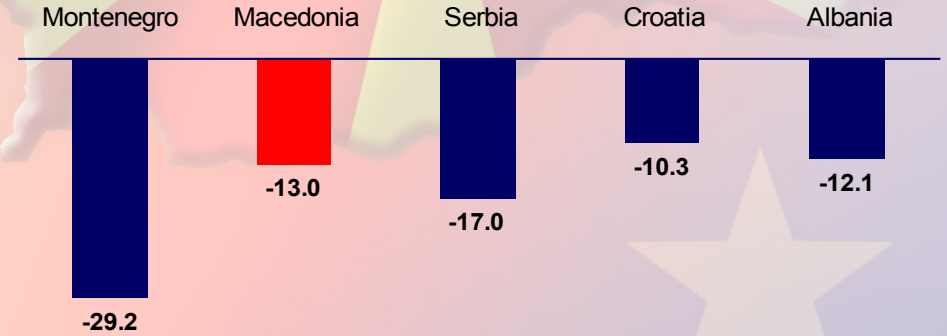
RETAIL PRICE INFLATION (% AS OF 2008)\*



GDP PER HEAD (EUR AS OF 2008)\*



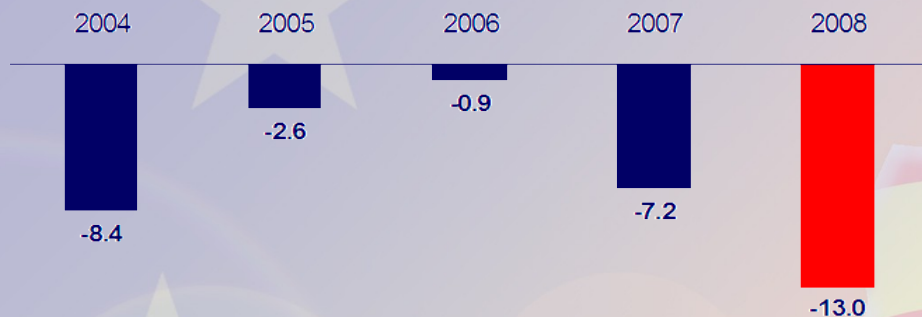
CURRENT ACCOUNT BALANCE (% OF GDP AS OF 2008)\*



\*Source: Economist Intelligence Unit

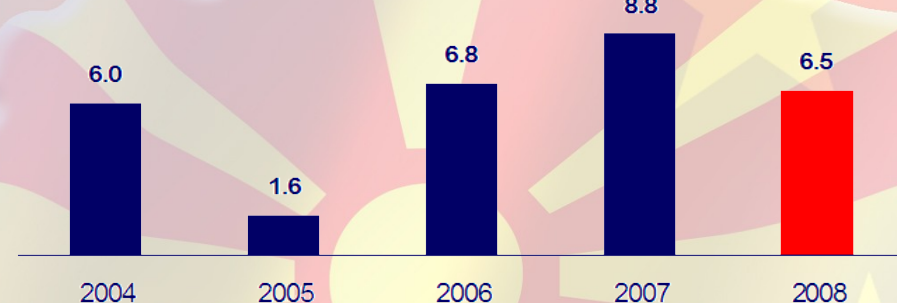
# External Trade and International Reserves

**CURRENT ACCOUNT BALANCE (% OF GDP)\***



- ◆ Macedonia had a record current-account deficit of US\$1.2bn, or 13% of GDP, in 2008, owing to a increasing trade deficit and large-scale profit repatriation

**FDI (% OF GDP)\***



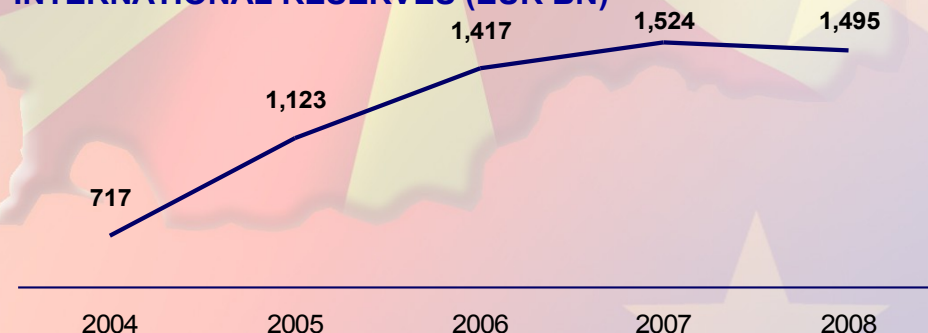
- ◆ FDI is a priority, so a generous tax incentives have been introduced

**MKD VS EUR (END-PERIOD)\***



- ◆ MKD is pegged to EUR
- ◆ It is expected same policy strategy will be maintained going forward

**INTERNATIONAL RESERVES (EUR BN)\***



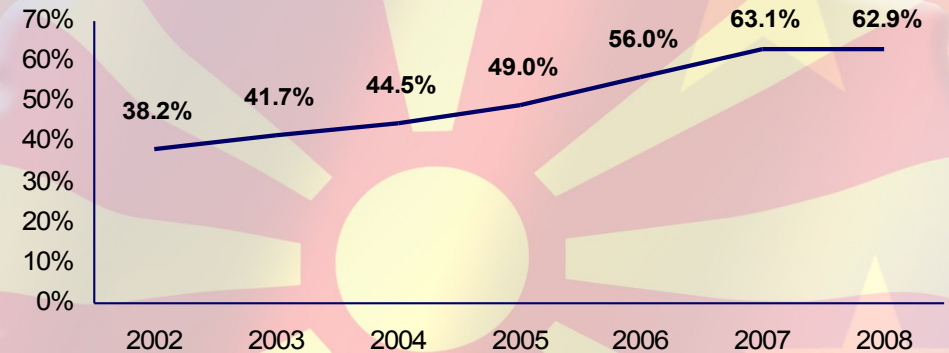
- ◆ Increased demand for foreign currency in the late 2008 and early 2009, partly met by depletion of foreign reserves

\*Source: National Bank of Republic of Macedonia, Economist Intelligence Unit

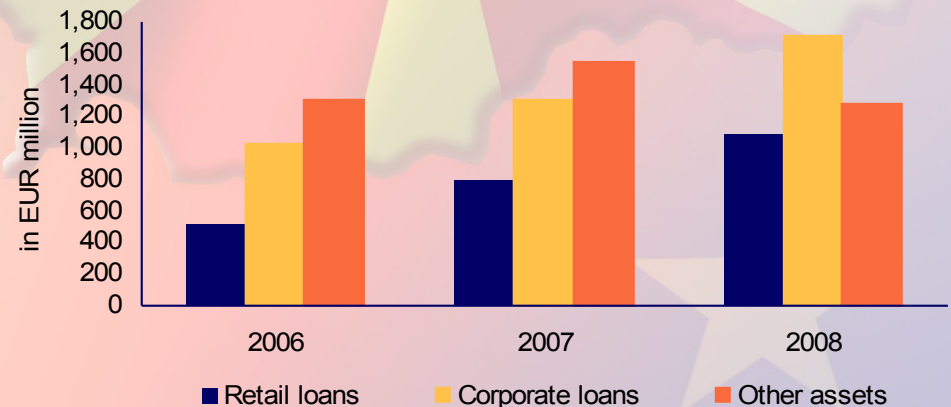
# Stable Banking System

- ◆ Banking sector consists of 18 banks and 11 saving houses
  - Total sector assets: EUR4bn
  - 14 banks owned by foreign shareholders (mostly EU based) representing 84.2 % of total capital
  - High level of capital adequacy 16.2% vs 8% requirement
- ◆ Mainly domestic funding
  - Local deposits, annual double-digit growth
  - Foreign deposits and borrowings correspond only 10.9% of total liabilities, of that foreign bank loans 2.8%
- ◆ Ample liquidity in the system
  - 1/6 of total assets are highly liquid assets, which cover 39% of the total sight deposits
  - Central bank liquidity lines remain unused
- ◆ High asset quality
  - Conservative regulation and strict lending criteria has ensured high loan quality
  - Non-performing loans constitute only 4.3% of the loan portfolio
  - Loan impairment provisions cover 91% of all non-performing and delinquent loans

**BANKING SYSTEM ASSETS AS % OF GDP**



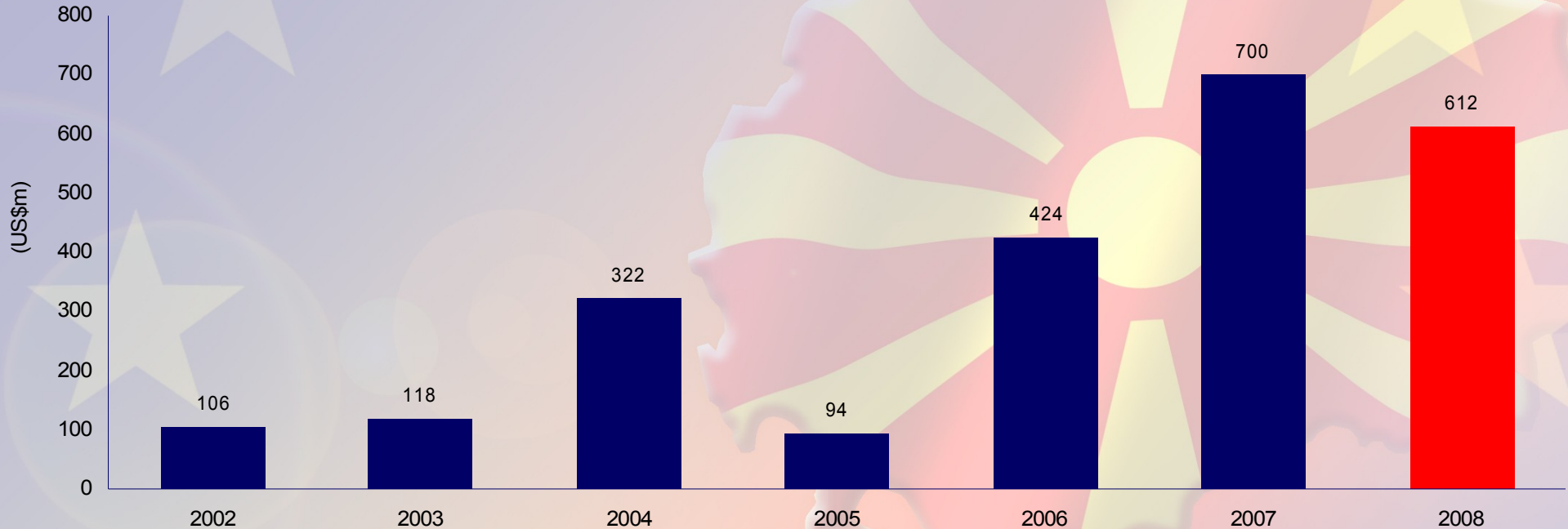
**BANKING SYSTEM ASSET STRUCTURE**





# Foreign Direct Investment

## FOREIGN DIRECT INVESTMENT — FDI FLOW BY YEAR

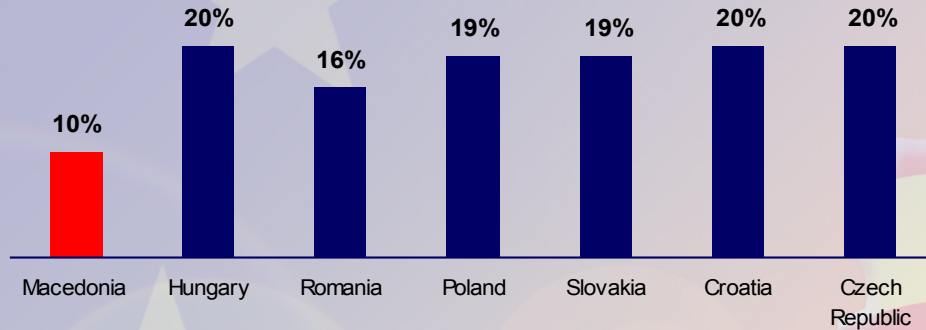


- ◆ Given Macedonia's investment potential, a number of international companies have started operations in the country, both as greenfield projects and through different types of asset acquisition and privatization
- ◆ Significant foreign investors in Macedonia: Johnson Matthey (UK), Mobilkom Austria (Austria), EVN (Austria), T-Home (Germany), Societe Generale (France), Johnson Controls (USA), QBE Insurance Group Limited (United Kingdom), Mittal Steel (Netherlands) and Duferco (Switzerland)

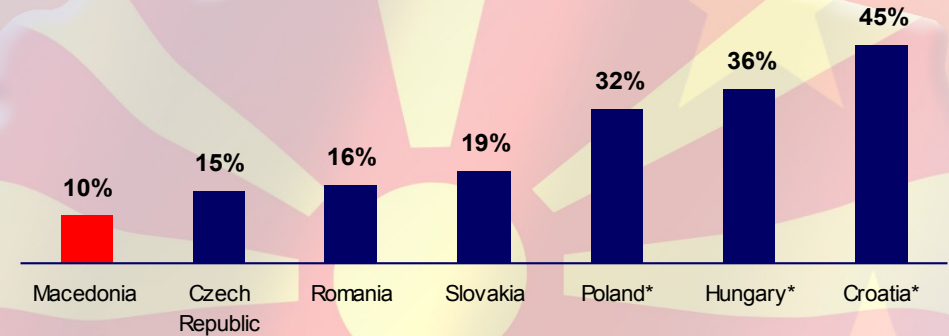
Source : National Bank of the Republic of Macedonia

# Investment Incentives

## CORPORATE INCOME TAX



## PERSONAL INCOME TAX

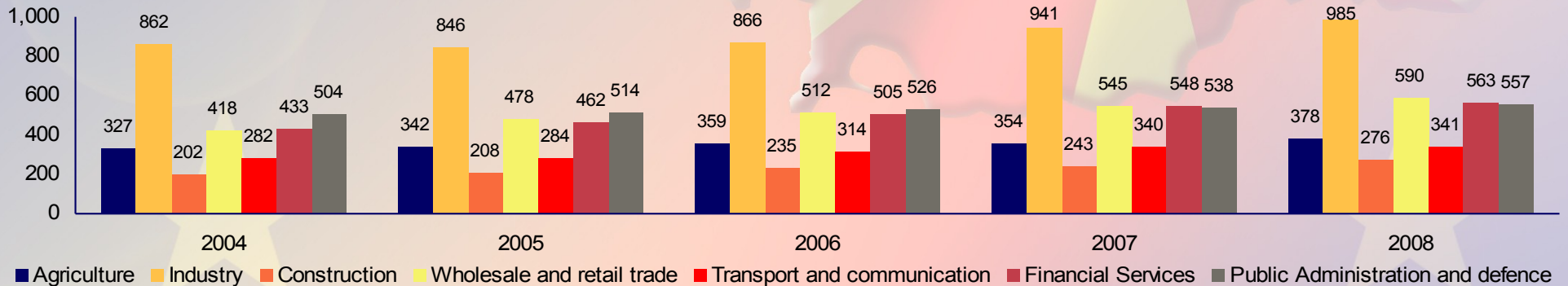


- ◆ 0% tax on retained earnings
- ◆ As of 2009 only the distributed part of profits is taxed.

Source : Taxes at a Glance 2009, PricewaterhouseCoopers

\* Poland personal income tax 18% - 32%, Hungary 18% - 36%, Croatia 18% - 45%

## GDP BY SECTORS (EURm)



Source : State Statistical Office

## Expected developments during 2009

- ◆ Real GDP growth of 0-1%
- ◆ Deceleration of CPI, reaching 1% on average (methodological)
- ◆ Stable employment and small increase of unemployment rate (possible downside due to economic crisis)
- ◆ Fiscal deficit to be maintained at 2.8% of GDP max, with an increase of public investments share in GDP to 7,2%
- ◆ Increase of private sector lending by 8% (lower growth compared to previous year)

The background features a gradient from light blue on the left to light orange on the right. Scattered throughout are semi-transparent stars in shades of yellow and white. A central graphic shows a hand holding a globe, with the globe's colors (red, yellow, green) visible. A thin white horizontal line is positioned near the top of the page.

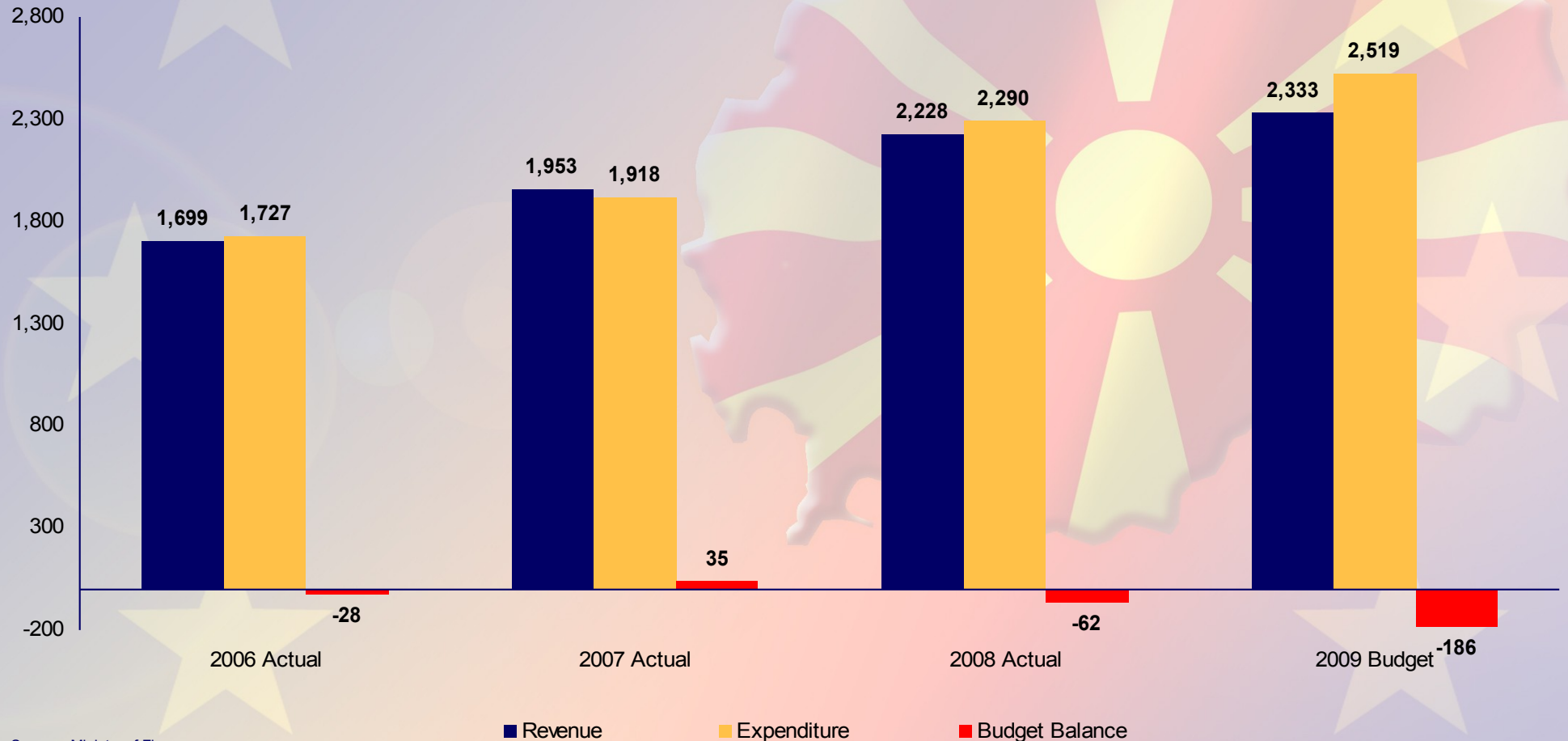
# Resilient Fiscal and Monetary Fundamentals



# Fiscal Deficit

## Resilient Fiscal and Monetary Fundamentals

### TOTAL REVENUES AND EXPENDITURES

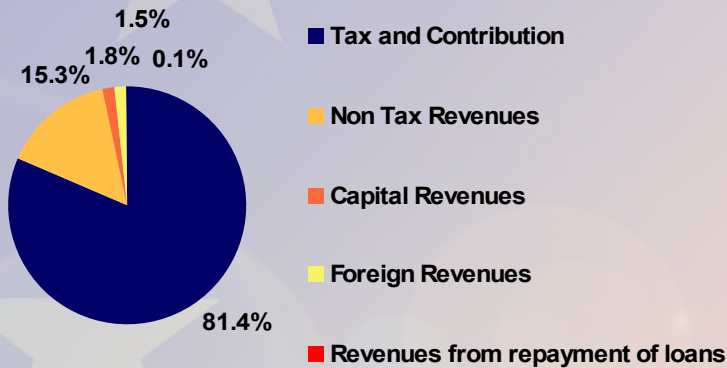


Source : Ministry of Finance

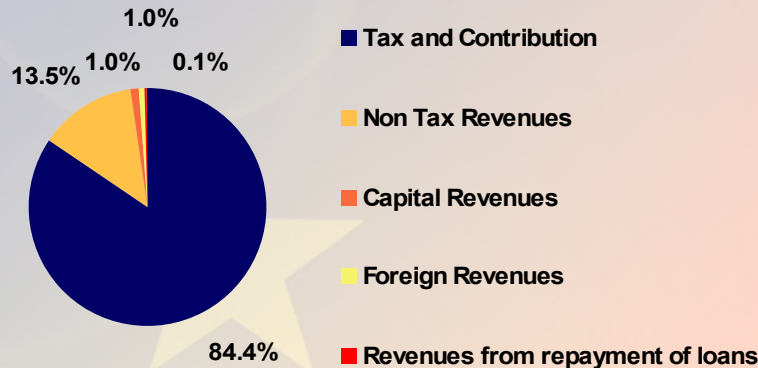
# Revenue-Expenditure Breakdown

## Resilient Fiscal and Monetary Fundamentals

REVENUE BREAKDOWN – 2009

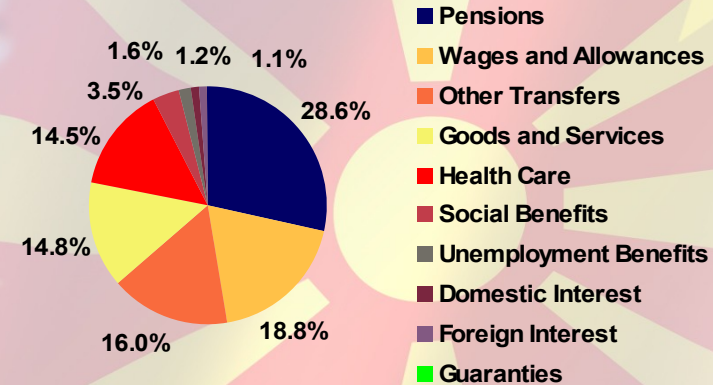


REVENUE BREAKDOWN – 2008

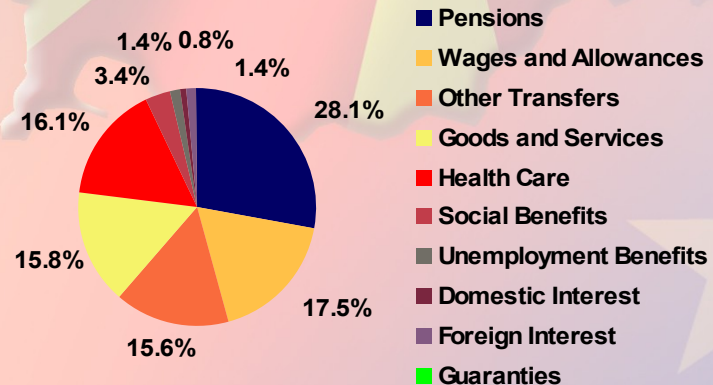


Source : Ministry of Finance

EXPENDITURE BREAKDOWN – 2009



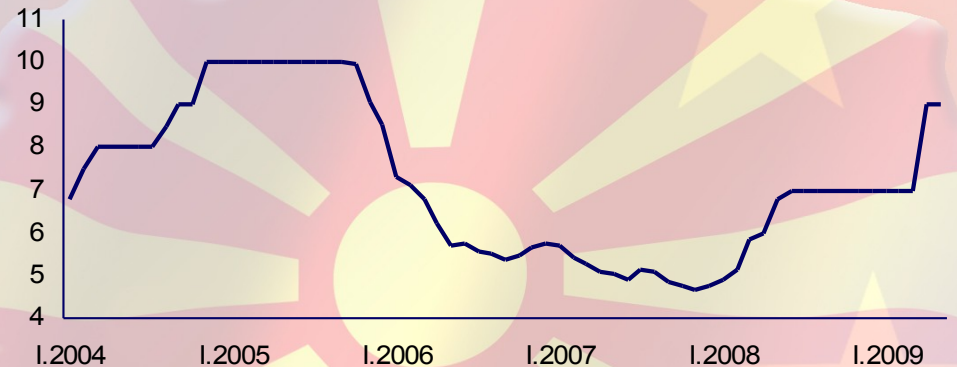
EXPENDITURE BREAKDOWN – 2008



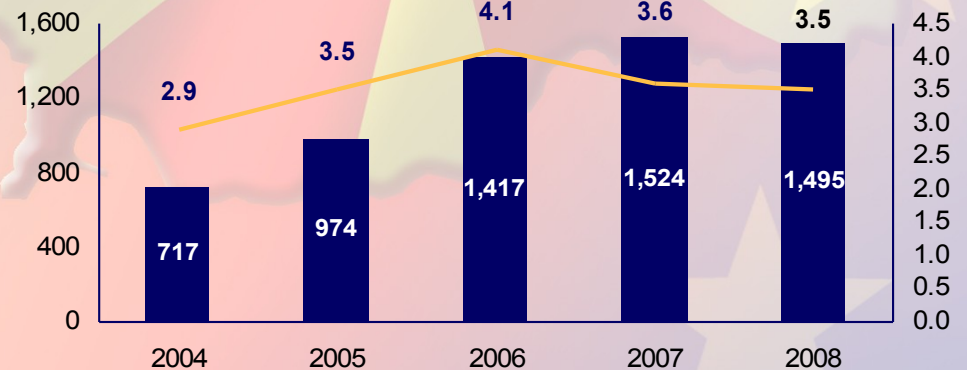
# Monetary Policy

- ◆ Prudent monetary policy stance, aimed at preserving exchange rate and price stabilities
- ◆ 2005-07 period of abundant capital inflows and appreciation pressures
- ◆ Since late 2008, with the global crisis escalating, facing pressures on the FX market
- ◆ Timely, targeted interventions on the FX market, combined with changes in the reference rate enabled stability of the FX rate
- ◆ The depletion of foreign reserves is slowing down, with the import coverage currently at a safe level

**POLICY RATE (CENTRAL BANK BILLS INTEREST RATE, IN %)**



**COVERAGE OF THE IMPORT OF GOODS AND SERVICES WITH GROSS FOREIGN RESERVES**



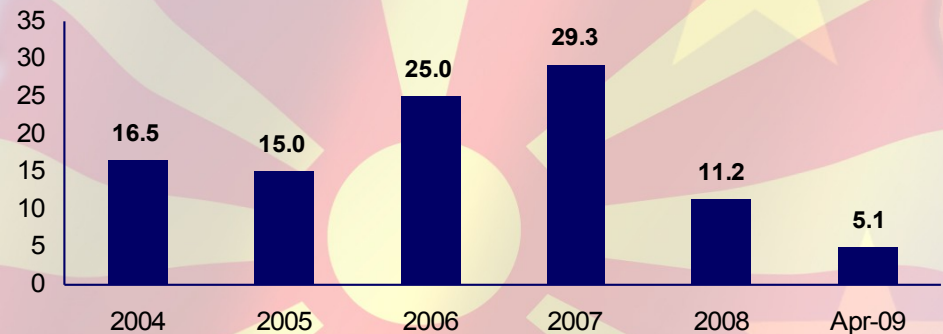
■ Gross foreign reserves (left scale)

— Average monthly coverage of the import of goods and services with gross foreign reserves (right scale)

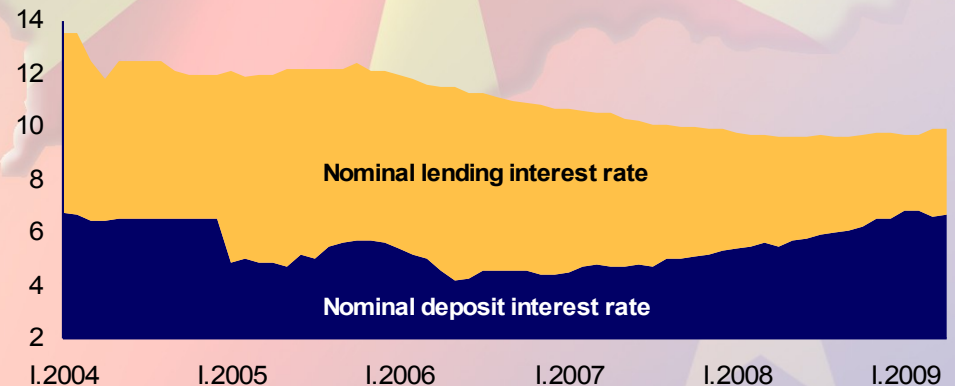
# Monetary growth and interest rates

- ◆ Strong monetary growth, mirroring the rebound of the economy, increasing capital inflows and rising confidence during 2005-2007
- ◆ Yet, no major withdrawals of deposits have been observed
- ◆ Deposit rates increase continuously, with the banks striving to increase their share at the deposit market

**MONEY SUPPLY M4, Y-O-Y, GROWTH RATES, IN %**



**BANKS' INTEREST RATES, IN %**





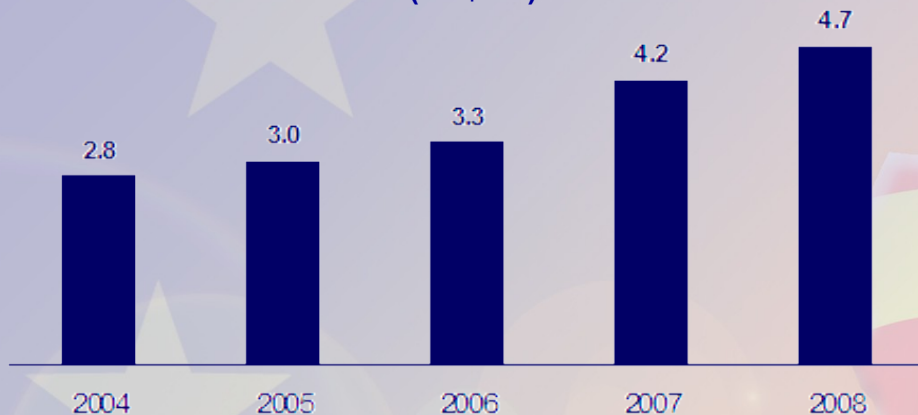
The background features a gradient from light blue on the left to light orange on the right. Scattered throughout are several five-pointed stars in shades of light blue and light orange. A hand is visible, holding a yellow ribbon that runs horizontally across the middle of the image.

---

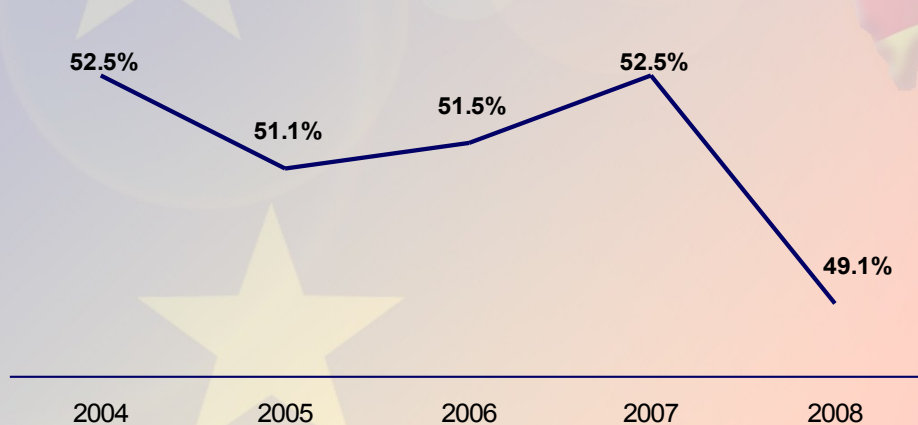
# Prudent Debt Management

# External Debt

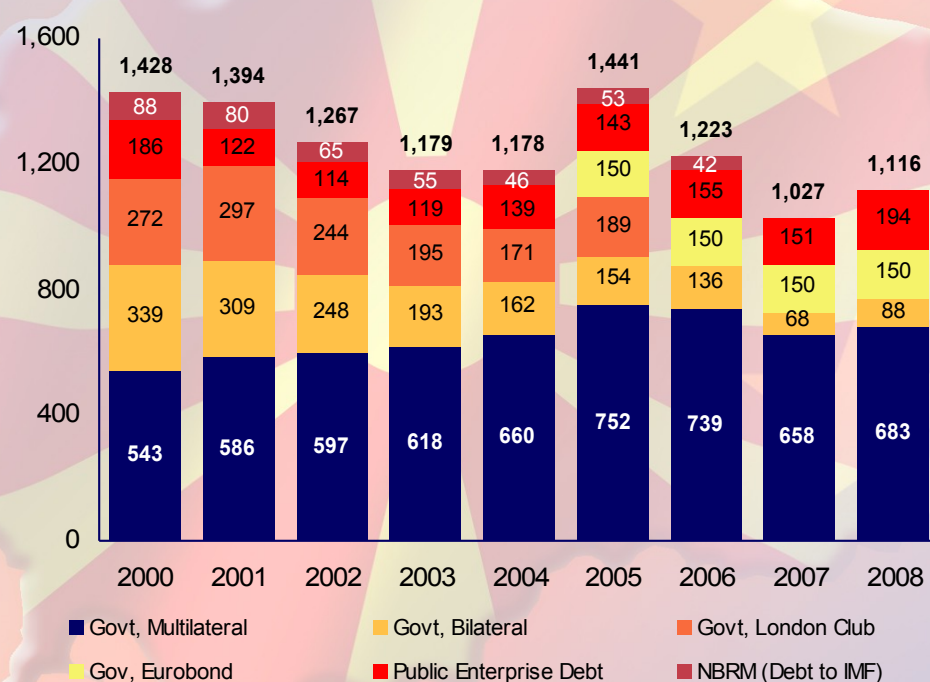
GROSS EXTERNAL DEBT (US\$BN)\*



GROSS EXTERNAL DEBT / GDP RATIO\*



EXTERNAL PUBLIC DEBT



- ◆ Multilateral institutions are the largest creditors
- ◆ Floating: 40% / Fixed: 60%
- ◆ Currencies:
  - EUR: 66% of total, USD: 6%, IMF Special Drawing Rights : 25%
- ◆ ATM – 8.54 years

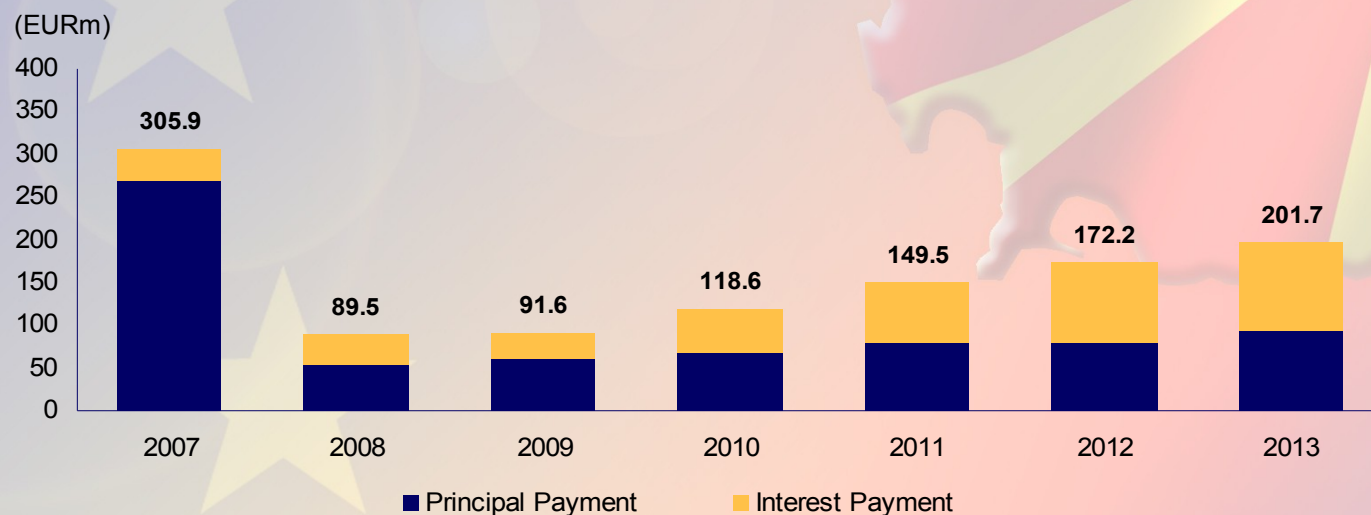
\*Source: National Bank of Republic of Macedonia/Ministry of Finance

# External Public Debt

## Maturity Profile – modest sovereign debt repayment

### FOREIGN DEBT SERVICE SCHEDULE

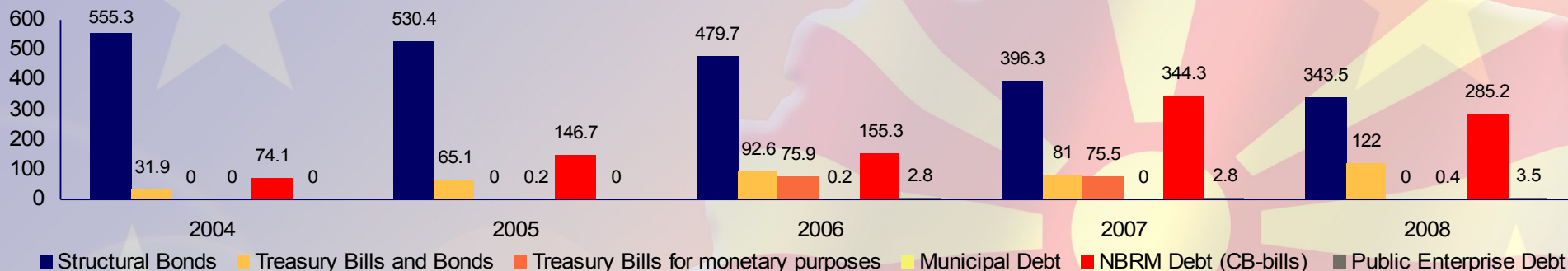
(EURm)	2007	2008	2009	2010	2011	2012	2013
<b>Sovereign amortisation</b>	<b>268.4</b>	<b>52.7</b>	<b>61.1</b>	<b>68.6</b>	<b>78.4</b>	<b>80.5</b>	<b>93.9</b>
Official bilateral	92.6	6.7	6.3	8.1	9.5	9.5	9.6
o/w Paris Club	86.5	0	0	0	0	0	0
Multilateral	167.2	35.6	41.9	45.8	54.8	59.7	69.1
o/w IMF	41.7	0	0	0	0	0	0
Other (including Eurobond)	8.6	10.4	12.8	14.6	14.1	97.3	96.7
<i>Interest</i>	<i>37.5</i>	<i>36.8</i>	<i>30.5</i>	<i>50</i>	<i>71.1</i>	<i>91.7</i>	<i>107.8</i>
<b>Total Sovereign Debt Service</b>	<b>305.9</b>	<b>89.5</b>	<b>91.6</b>	<b>118.6</b>	<b>149.5</b>	<b>172.2</b>	<b>201.7</b>



Source : Ministry of Finance

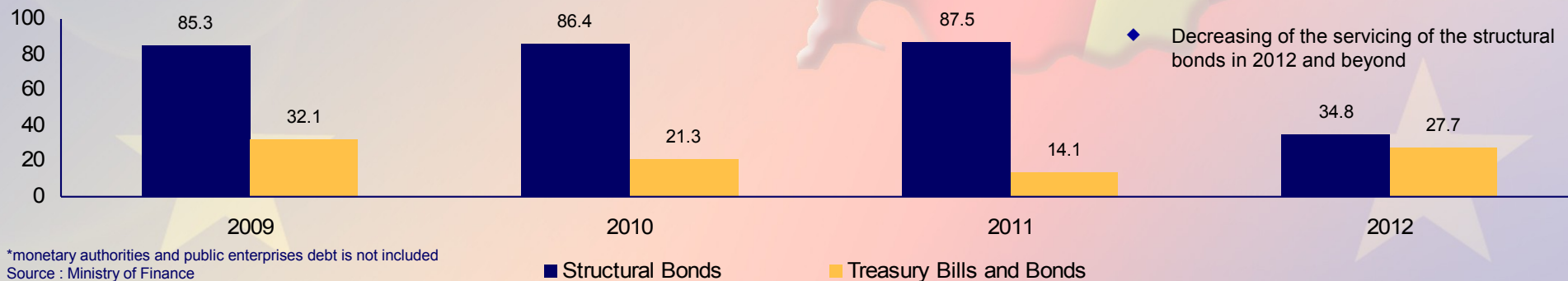
# Domestic Public Debt

## DOMESTIC PUBLIC DEBT STOCK (EURm)



- ◆ Domestic public debt of Macedonia comprises the following: structural bonds, treasury bills and bonds, municipal debt, debt of the public enterprises and CB bills issued by NBRM
- ◆ The ATM of the domestic public debt as at December 2008 was 2.35 years

## DOMESTIC PUBLIC DEBT SERVICING\* (principle and interest in EURm)



\*monetary authorities and public enterprises debt is not included  
Source : Ministry of Finance



The background features a gradient from light blue on the left to light orange on the right. A central figure of a superhero in a red and yellow suit is visible, appearing to burst through a jagged hole in a dark blue horizontal band. Several five-pointed stars in light blue and light orange are scattered across the background.

---

# Terms of the Offering

# Transaction Summary

---

- Issuer:** • The Republic of Macedonia
- Issue:** • Senior Eurobond Offering
- Currency:** • EUR
- Maturity:** • Medium-term
- Price Guidance:** • TBD
- Issuer Rating:** • S&P: BB (Negative), Fitch: BB+ (Negative)
- Format:** • Regulation S
- Listing:** • London Stock Exchange
- Law:** • English
- Lead Manager:** • HSBC
- Use of Proceeds:** • To finance budget deficit and replenish FX reserves

# Additional details

---

## MINISTRY OF FINANCE

Dame Gruev 14  
1000 Skopje  
Republic of Macedonia  
Tel: +389 2 3117 288  
Fax: +389 2 3117 280  
Email: [finance@finance.gov.mk](mailto:finance@finance.gov.mk)

## USEFUL WEBSITES

- ◆ Government of Macedonia: [www.vlada.mk](http://www.vlada.mk)
- ◆ Ministry of Finance: [www.finance.gov.mk](http://www.finance.gov.mk)
- ◆ Ministry of Economy: [www.economy.gov.mk](http://www.economy.gov.mk)
- ◆ Ministry of Foreign Affairs: [www.mfa.gov.mk](http://www.mfa.gov.mk)
- ◆ Agency for FDI: [www.investinmacedonia.com](http://www.investinmacedonia.com)
- ◆ Central Bank: [www.nbrm.gov.mk](http://www.nbrm.gov.mk)
- ◆ State Statistical Office: [www.stat.gov.mk](http://www.stat.gov.mk)

The background features a gradient from light blue on the left to light orange on the right. Scattered throughout are semi-transparent stars in shades of yellow and white. A hand is visible at the top, holding a yellow ribbon that runs horizontally across the page.

---

# Appendix I. Anti-crisis measures



# Anti-crisis measures

	PRINCIPAL CHALLENGES	GOVERNMENT MEASURES
Banking System	<ul style="list-style-type: none"> <li>◆ Credit crunch</li> <li>◆ Deceleration of deposit growth</li> <li>◆ Rise in EUR deposits by means of converting MKD holdings to EUR</li> </ul>	<ul style="list-style-type: none"> <li>◆ Tightening the regulation</li> <li>◆ Introduction of marginal reserve requirements</li> <li>◆ Enhanced monitoring of foreign bank exposure</li> <li>◆ Daily monitoring of retail deposits</li> <li>◆ Setting the minimal liquidity level for MKD and foreign currency assets and liabilities</li> </ul>
Iron & Steel	<ul style="list-style-type: none"> <li>◆ Lower external demand for domestic products</li> <li>◆ Volatility of commodity prices on world markets</li> </ul>	<ul style="list-style-type: none"> <li>◆ A National Strategy for Steel Industry Restructuring is prepared</li> <li>◆ Intention to enable the steel companies to maximise profitability and reduce costs</li> </ul>
Textiles & Clothing	<ul style="list-style-type: none"> <li>◆ Declined world demand influenced negatively on export</li> <li>◆ Greatly import dependent</li> </ul>	<ul style="list-style-type: none"> <li>◆ The Government adopted a Textile Industry Development Strategy which includes, among others, stimulating the export to EU, CIS and entry into the US market</li> </ul>
Infrastructure & Energy	<ul style="list-style-type: none"> <li>◆ Decline in the Project Finance market makes it hard to attract money into Macedonian projects</li> <li>◆ Macedonia imports all of its oil and gas demands and c. 30% of electricity consumed straining currency reserves</li> </ul>	<ul style="list-style-type: none"> <li>◆ EUR8bn 8-year plan to spend on infrastructure and energy, EUR2.5-3bn financed by the Government</li> <li>◆ Plans to build hydro power stations which would greatly reduce energy imports</li> </ul>
Tourism	<ul style="list-style-type: none"> <li>◆ Expected fall in the number of foreign tourists visiting the country due to global slowdown would</li> </ul>	<ul style="list-style-type: none"> <li>◆ A separate government agency is created to promote and support tourism</li> <li>◆ Development of new types of tourism: rural, cultural and health tourism underway</li> </ul>

# Doing Business in Macedonia

## KEY FEATURES

### Labour force

- ◆ Educated, highly-qualified, and diligent workforce
- ◆ Educational standards resemble those of the Western European countries
- ◆ English is widely spoken among Macedonia's workforce, as well as all the languages of the region: Bulgarian, Croatian, Serbian, Slovenian, Albanian and Greek
- ◆ In order to support companies and increase their international competitiveness, the Government has introduced legal reforms in the functioning of the labour market that enable easier hiring and firing of the labour force.

### Excellent Location and Infrastructure

- ◆ **Strategic Location:** Macedonia is at the cross-roads of South Eastern Europe, which makes it an ideal transit and distribution centre for products for European markets
- ◆ **Telecommunications:** Macedonia has modern digital telecommunications network. With a new interconnection agreement, fixed telephony is liberalized and entry of new operators is expected. At the moment, fixed telephone services are offered by three companies, while mobile telephony is in constant development
- ◆ **Energy sector:** The broadly spread network for distribution and supply of electricity makes Macedonia a favourable destination for investing in every part of its territory

### Regulation of Business

- ◆ Market freedom, freedom of entrepreneurial activity, as well as property rights are fundamental values outlined in the Constitution of Macedonia.

### Taxation

- ◆ Creation of the most attractive tax package in Europe

The background features a gradient from light blue on the left to light orange on the right. Scattered throughout are semi-transparent, stylized stars in shades of yellow and white. A central graphic shows a hand holding a flag with red, white, and yellow sections, positioned as if emerging from behind a horizontal line.

---

## Appendix II. EU Accession and Reforms

# Much Progress on Economic Reforms, Much Still to Be Done

---

## Reform achievements

- ◆ Trade liberalisation (including WTO membership)
- ◆ Infrastructure improvements (Including airports)
- ◆ Labour market (flexible labour legislation)
- ◆ Public finance (flat tax, gross wage, Estonian profit tax system)
- ◆ Protection of ownership rights (85% of territory with cadastre)
- ◆ Facilitated external trade (one stop shop system)
- ◆ Ranked 71st according WB Doing Business

## Top reform priorities for 2009-2010

- ◆ Judiciary
- ◆ Business environment
- ◆ Ownership rights (100% of territory with cadastre)
- ◆ Dealing with licences (RIA)
- ◆ Remaining privatization
- ◆ Public sector
- ◆ All reforms in line with Pre-Accession Partnership



# EU Accession: Long Road Ahead, But Start of Final Stage Appears Imminent

---

## CHRONOLOGY OF THE RELATIONS OF REPUBLIC OF MACEDONIA WITH EU

- ◆ April 2001 – Macedonia became the 1st country in the region to have signed the Stabilization and Association Agreement (SAA) with the European Communities and their Member States
- ◆ March 2004 - Macedonia submitted the application for EU membership.
- ◆ December 2005 – European Council granted the Republic of Macedonia candidate status for EU membership
- ◆ October 2007 – Financial Agreement for 2007 National Programme within the Instrument for Pre-accession Assistance (IPA) and Framework Agreement were signed between the Republic of Macedonia and the European Commission on cooperation for financial assistance
- ◆ 2010 – Start of negotiations for fully-fledged EU membership

---

**Thank you for your attention!!!**

