



Ministry of Finance of the Republic of Macedonia
Public Debt Management Department

***Annual Report on the implementation of the
Public Debt Management Strategy of the Republic of Macedonia for 2007***

Skopje, March 2008

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Pursuant to Article 27 paragraph 2 of the Law on Public Debt (Official Gazette of the Republic of Macedonia, no. 62/05), the Assembly of the Republic of Macedonia at its session held on _____, 2007 is informed with the 2007 Annual Report on public debt management in the Republic of Macedonia.

I. Introduction

Publishing the Annual report on public debt management is aimed at informing the Government of the Republic of Macedonia and the Assembly of the Republic of Macedonia, in details and on regular basis, and introduce the public with, the feature of total public debt of the Republic of Macedonia, as well as on the steps undertaken last year for efficient debt portfolio management in the Republic of Macedonia.

The annual report is a summary of the results from the implementation of the Public Debt Management Strategy for the period 2007-2009 (Official Gazette of the Republic of Macedonia, no. 24/07), hereinafter: the Strategy.

The objectives of public debt management according to the Law on Public Debt (Official Gazette of the Republic of Macedonia no. 62/2005) are the following:

- undertaking measures and activities by the Ministry of Finance to the end of ensuring financing of the needs of the state with the lowest possible cost, in the medium and long run, and with sustainable level of risk; and
- undertaking measures and activities by Ministry of Finance to the end of development and maintenance of efficient domestic financial markets.

I.1. Methodology

Public debt of the Republic of Macedonia comprises government debt and all financial liabilities created through borrowing by the municipalities and the City of Skopje, as well as borrowing by the public enterprises and companies fully or predominantly owned by the state. Thus, Government of the Republic of Macedonia, the municipalities and the City of Skopje, public enterprises and companies fully or predominantly owned by the state can appear as public debt issuers.

This definition on public debt is included in the Public Debt Law (Official Gazette of the Republic of Macedonia, no. 62/2005) and it represents what is known as **national methodology** for calculating the public debt. Another methodology often used in practice to calculate public sector debt is included in the **IMF Government Financial Statistics Manual**, and it differs from the national methodology in the fact that in addition to the above-mentioned public debt issuers, when calculating the debt, it also includes the debt of the central bank.

As this Information is concerned, data on public debt in the overview tables are presented according to both methodologies (national and the IMF one), while the data in the charts are shown in accordance with the national methodology including the treasury bills for monetary purposes, while the objectives and targets were analyzed and observed only according to the national methodology.

II. Macroeconomic developments in 2007

Economic performance in the Republic of Macedonia in 2007 is the best in the transition period so far, whereby positive trends are also recorded in all sectors of the economy. This is the first test and a confirmation of the success of the ambitious economic program of the Government of the Republic of Macedonia, supported by the disciplined fiscal and consistent monetary policy. Reports by two eminent world institutions also speak in favor of the intensive reforms in the Republic of Macedonia. The first one refers to the report Doing Business 2008, published by the World Bank and the International Financial Corporation (IFC), according to which Macedonia is ranked fourth in the world among 179 countries - top reformists in the field of economy. Such jump is due to the progress made by the Republic of Macedonia in shortening the procedures for business start-up and the deadlines for firm registration, as well as in the tax cuts and the streamlining of tax procedures.

The second recognition is obtained from Transparency International, which ranked Macedonia on the 84th position according to the corruption perceptions index. Being at the extremely low 105th position which the Republic of Macedonia shared with Swaziland last year, it is now 21 positions higher, being a significant progress and showing that Macedonia moves in the right direction.

GDP growth rate for the first nine months of 2007 was 5.1%, whereby it is significant that growth is diversified, i.e. growth was noted in almost all production sectors, except agriculture, where it slightly declined by 0.1%. However, growth was most evident in the service sector, i.e. retail and wholesale (13.4%), transport and communications (12.9%), financial mediation (5.2%) and civil engineering (5.1%).

It is also important to point out that the positive economic trends occurred in conditions of low and stable inflation, which, in average, was 2.3% in 2007. In the last quarter of 2007 according to the regional and global trends, the inflation rate grew more intensively (mainly as a result of the food price growth), but still, the 2007 average is within the limits of low inflation.

Real sector growth is reflected in the external sector as well, whereby exports in 2007 export grew by 39.8%, while import grew by 38.9%, pointing out to real reduction of the trade deficit. Both in the real and the external sector, growth is broad-based, whereby the highest growth was achieved in the export of base metals (83.4%, mainly as a result of the price growth of these products on the global markets) construction materials (35%), food and beverages (24.8%), clothes (25%), production of base metals (31.5%), production of machines and devices (45.6%), etc. Export reduction was noted only in oil production. Positive economic trends are also underpinned by the strong increase in the import of investment products and intermediary goods of 33.5%, indicating higher production and investment activity in the country.

Positive trends in the real sector are also supported by the movements in the monetary sphere. In December 2007, primary money grew by 21.8% on annual level, and at the same time, demand for cash grew (10.7%) and the liquidity of banks (42.5%). M1 money supply grew by 31.7% on annual level, whereby, deposit money (current accounts and giro accounts) grew by 50.1% and have the highest share in the growth of M1. Broader monetary aggregates M2 and M4, under the influence of total deposit potential, grew by 28.3% and 29.5%, respectively. During 2007 there was a low, but continuous reduction of the average weighted lending interest rates of the commercial banks, and at the same time long-term credits to corporate sector (funds used for investments) grew, meaning a significant support to the economic activity. Average weighted borrowing interest rates, under the effect of the higher competition in the banking sector and as part of the policy to attract deposits, continuously grew in 2007. The trend of gradual narrowing of interest margins of banks, and at the same time, relaxation of the non-interest conditions they offer, lead to facilitated access to the necessary funds in the corporate sector.

From the aspect of the achievements in the banking system, total deposit potential of banks in December 2007 grew by 32% compared to December 2006, mainly as a result of the higher savings by the population, the share of which in the growth of the deposit potential is nearly 72%. Higher deposit potential, coupled by the greater competition in the banking sector (entry of Société General) and the proactive credit policy led to an annual growth rate of credits to the private sector

by 39.1%. Thereby, the highest growth on annual level was noted by short-term credits to the population (81.1%). Long-term credits to enterprises dominate in the structure of bank investments in the non-government sector, and at the same time, they grew by 41.5% on annual level.

III. Execution of 2007 Budget of the Republic of Macedonia

In the period 1 January - 31 December 2007 the Central Budget of the RM has surplus in the amount of denar 717 million i.e. 0.2% of GDP. This surplus is due to the better results of all tax revenues compared to the plans, as well as due to the revenues from the dividend from Makedonski Telekomunikaci for 2005 in the amount of denar 2,872 billion. Budget expenditures as of 31 December 2007 were executed according to the plans, i.e. their realization is 100.4%.

Total budget revenues in 2007 as of 31 December 2007 amount to denar 76,158 billion and are by 4.94% higher compared to the total envisaged funds in the 2007 Budget of denar 72,573.

Accordingly, positive fiscal balance of the Budget (Central Budget and the Funds Budget*), as of 31 December 2007 is denar 2.168 billion, i.e. 0.65% compared to GDP, which is major deviation compared to the planned deficit of denar 3,497 billion, i.e. 1% of GDP.

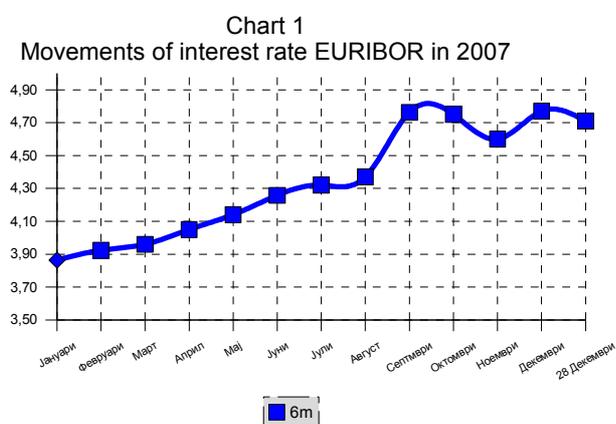
*The Funds Budget includes the budgets of the Pension and Disability Insurance Fund of Macedonia, Health Insurance Fund of Macedonia, Regional and National Road Fund and Employment Agency of Republic of Macedonia.

IV. More significant activities in the period January-December 2007

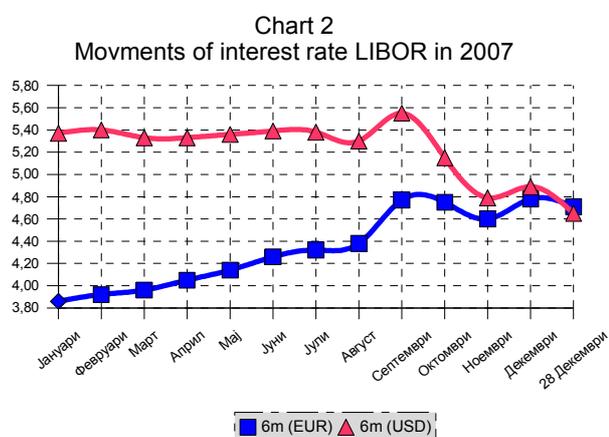
IV.1 International environment (interest rates and exchange rates)

During 2007 on the deposit market in the euro zone, interbank reference interest rate (EURIBOR) with 6-month maturity period continuously grew, i.e. in the period January-February 2007 it grew by around 0.85 percentage point. Interest rate of 6-month EURIBOR, in January was, in average, 3.87%, while in December it was 4.72%.

In the same period, on the deposit market in London, the interbank reference interest rate (LIBOR) expressed in euros with 6-month maturity period continuously grew, as well as the interbank reference interest rate – EURIBOR with the same maturity period, on the deposit market in the euro zone. In the period January-February 2007 growth amounted to around 0,85 percentage points. In the same period, the interbank reference interest rate (LIBOR) expressed in US\$ with maturity period of 6 months, shows stable trend in the first, second and third quarter of 2007, while in Q4 of 2007 interest rates declined. Interest rate of 6-month LIBOR in January was, in average, 5.38%, while in December it was 4.65%, which is a decline by around 0.73 percentage points.



Source: European Central Bank

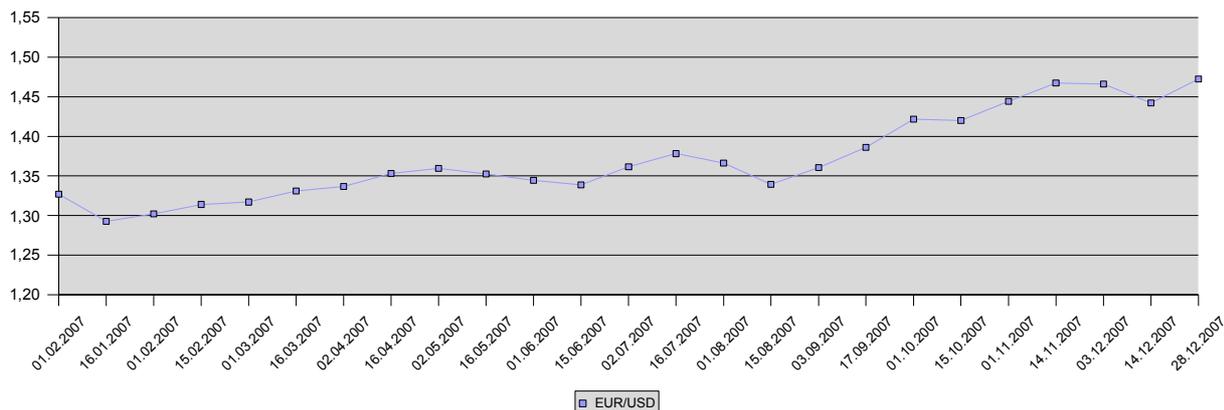


Source: BBA

On the domestic market, during 2007, the euro/denar exchange rate experienced no changes. In Q1 of 2007 the average euro/denar exchange rate was denar 61.19 for 1 Euro, while in Q4 of 2007 1 Euro was denars 61.18. In the same period, the US dollar/denar exchange rate showed continuous depreciation of the US dollar, i.e. declining value compared to the denar throughout the year. In Q1 of 2007 average foreign exchange rate of the US dollar was 46.69 denars, in Q2 the denar appreciated compared to the US dollar and the exchange rate was denar 45.40 for 1 US dollar and this trend continues in the next two quarters of 2007 where 1 US dollar exchanges for denar 44.56, i.e. denar 42.27 for 1 US dollar, respectively.

On the international financial market, in 2007, the EUR/USD exchange rate experienced continuous appreciation of the euro throughout the year. Thus, in January, the average EUR/USD exchange rate was US\$ 1.33 for 1 Euro, while in December it was US\$ 1.47 for 1 Euro.

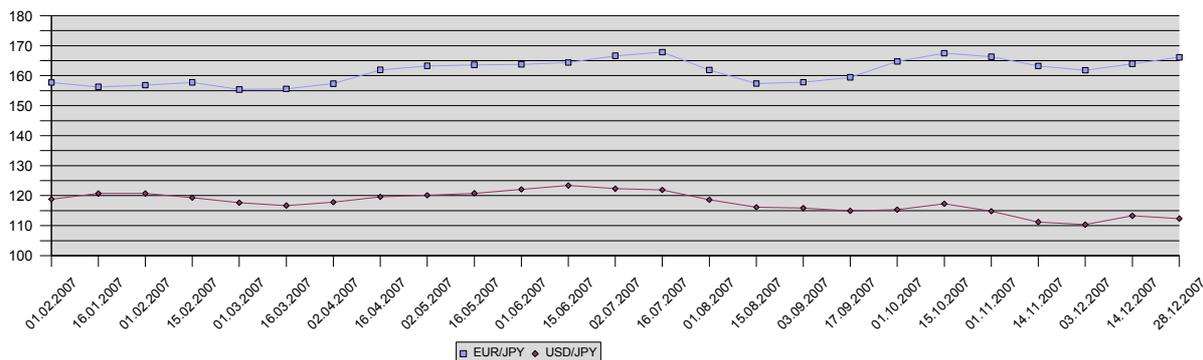
Chart 3 Exchange rate EUR/USD



Source: European Central Bank

At the same time, the euro in relation to the Japanese yen continuously grows. In the period January-February 2007 the value of the euro grew by 4.54%, i.e. in January, the average foreign exchange rate was Yen 157.76 for 1 euro, while in December it was Yen 166.22 for 1 euro. The exchange rate of the US dollar declined in relation to the Japanese Yen during the whole year. Thus, in the period January-February 2007 the value of the US dollar declined by 5.69%, i.e. in January, the average exchange rate of the USD/JPY was Yen 119 for 1 US dollar, while in December it was Yen 112 for 1 dollar.

FX Rate EUR/JPY and USD/JPY



Source: European Central Bank & the Financials.com

The improvement of the economic climate in the Republic of Macedonia in 2007 shown through the macroeconomic trends in Macedonia in 2007, as well as the Budget surplus that contributes to high balance on the Budget and Treasury account, were factors that directly affected the public debt policymaking in Macedonia in 2007.

IV.2 Credit rating of the Republic of Macedonia in 2007

The Republic of Macedonia has hired three international credit rating agencies: Standard & Poor's, Fitch and Japanese credit rating, which assigned credit ratings to the country. The credit ratings the Republic of Macedonia was assigned in 2006 and 2007 are shown in the table below:

Standard & Poor's rating agency

	2006	2007
Foreign currency	BB+/Stable	BB+/Stable
Domestic currency	BBB-/Stable	BBB-/Stable

Source: Standard & Poor's

Fitch rating agency

	2006	2007
Foreign currency	BB+/Stable	BB+/Positive
Domestic currency	BB+/Stable	BB+/Positive

Source: Fitch

Japanese credit rating

	2007
Foreign currency	BB+/Stable
Domestic currency	BBB-/Stable

Source: Japanese credit rating

The reports on the credit rating of the Republic of Macedonia by the three agencies emphasize that the credit rating reflects structural rigidities, labor market challenges, limited fiscal flexibility and the remaining political tensions between political parties. It also emphasizes that the Republic of Macedonia implements prudent macroeconomic policy, stable economic growth, significant fiscal results were achieved and several structural reforms launched. The credit rating also emphasizes the progress in the political stability, supported with the EU tendencies and the expectations by the Government to continue implementing the structural reforms and to maintain macroeconomic stability and fiscal prudence.

The assigned ratings place the Republic of Macedonia only a step away from the investment ratings, i.e., it received three out of four categories for investment ratings.

IV.3. Public debt trend

When analyzing public debt trends pursuant to the **National Methodology**, which includes the debt stock pertaining to issued treasury bills for monetary purposes, one can conclude that in the period 31 December 2006 – 31 December 2007 public debt of the Republic of Macedonia declined by EUR 248.3 million. In fact, public debt stock in the amount of EUR 1,831.8 million as of 2006 inclusive will decline to **EUR 1.583,5 million**, at the end of 2007, i.e. from 36.4% to 29.02% of GDP (Table no. 7).

Furthermore, in accordance with the **IMF** methodology, public debt at end-2007 was **EUR 1.927,8 million**, i.e. 35.3% of GDP and compared to 31 December, 2006, it declined by EUR 101.7 million or by 4.9 percentage points in relation to GDP. Such decline is a result of the redemption of the debt towards the Paris Club of Creditors, as part of the credits towards the International Bank for Reconstruction and Development and the European Investment Bank, the debt towards the IMF and the structural bond for rehabilitation of Stopanska Banka AD – Skopje in the total amount of EUR 233.9 million. At the same time, external public debt in relation of 2006 declined by EUR 195.1 million and by end 2007 it amounted to EUR 1,027.9 million, which is mainly a result of early redemption and the low realization of disbursements on the basis of external borrowings. With regard to domestic public debt it can be concluded that compared to 2006 it grew by EUR 93.5 million and by end-2007 it amounted to EUR 899.9 million which, above all, is a result of the growth of the stock of central bank bills by EUR 189 million (securities issued by the National Bank of the Republic of Macedonia) as well as of the sixth issue of denationalization bonds in the amount of EUR 15.4 million. According to the same methodology, general government debt in December 2007 amounted to EUR 1,430.0 million, i.e. 26.2% of GDP is within the Maastricht criteria on public debt, pursuant to which general government debt must not exceed 60% of GDP.

Following the objective of the Strategy for increasing the share of the fixed interest rate debt, in the observed period there were favorable changes in the **interest structure** of the total public debt. In accordance with the national methodology, at the end of 2007 total public debt with fixed interest rate amounted to EUR 989.5 million, i.e. 62.5% which is by 2.5 percentage points more compared to 2006. Observed individually, there is an evident improvement of the interest structure both in external and domestic public debt, whereby the fixed interest rate external debt is by 3.2 percentage points higher in 2007 and it is 61%. This improvement in the interest structure is above all, a result of the early redemption of the variable interest rate debt. Regarding domestic public debt, fixed interest rate debt also grew by 13.8 percentage points and at end-2007 this share was 75.5% of the total public debt. This improvement is mainly a result of the early redemption of the Stopanska Banka rehabilitation bond which was with variable interest rate (Charts 20, 26 and 28).

In the course 2007, positive changes were also recorded in the **currency structure** of public debt, to the end of increasing the part of the public debt denominated in EUR in line with the objective of the Strategy. Thus, as a result of the activities related to early buyback, debt denominated in EUR, compared to 2006, increased by 5.6 percentage points, reaching 65.8% at the end of 2007, and at the same time, public debt denominated in US dollars declined by 6.8 percentage points. Although increase of the share of the debt denominated in domestic currency is one of the goals set in the Strategy, however this share experienced slight drop in the total public debt by 0.3 percentage points in 2007, i.e. it declined from 11.4% to 11.1% (Chart 21). This drop was mainly due to the drop in the net issue of continuous government securities in 2007 in the amount of minus EUR 10 million (Table 4), treasury bills for monetary purposes in the amount of minus EUR 0.46 million (Table 7), as well as the early buyback of Stopanska Bank Rehabilitation Bond, denominated in denars in the amount of EUR 21 million.

From the point of view of the risks the public debt portfolio in the Republic of Macedonia faces, being identified in the Strategy, one can conclude that favorable changes in the interest structure contributed to reducing the interest rate risk.

On the other hand, reduced share of the denar-denominated debt contributed to increase in the exchange rate risk, but taking into account that the Republic of Macedonia applies de facto fixed

exchange rate of the denar in relation to the Euro, the exposure of public debt portfolio to such risk would be also measured as share of the Euro in the total public debt portfolio, which is actually prevalent currency with 65.8% share in the total debt structure at the end of 2007. Therefore, objective of early buybacks in 2007 was to reduced the non-euro debt within the external public debt, and despite the insignificant share in the denar-denominated debt, exchange rate risk was reduced as a result of the increased domination of the euro-denominated debt.

In addition, Ministry of Finance regularly monitors the trends of the main indicators for exposure of public debt portfolio in the Republic of Macedonia to risks. Indicators are not set as targets in the Strategy, however they measure the trend or the exposure of public debt portfolio to certain risk.

Thus, to the end of monitoring the exposure to re-financing risk, average time to maturity indicator is continuously calculated (Table 9). Thereby, value of this indicator for the total public debt at the end of 2006 reached 6.85 years, and as of 31 December 2007 inclusive, it kept approximately the same value, reaching 6.87 years. Should this indicator be observed separately for the domestic debt, one can observe certain drop from 3.03 years to 2.77 years, thus domestic debt portfolio becomes more risky and it can be explained with gradual maturity of bonds issued for structural purposes and insufficient extension of maturity of continuous government securities (treasury bills and government bonds). With respect to external debt, there was a reduction of the re-financing risk, i.e. this risk indicator increased from 8.98 years to 9.11 years. Reasons for such increase are not continuous as a result of maturity extension for new borrowings exceeding the size necessary for maturity compensation, but are rather result of operations of early buyback of debt with shorter-term maturity than the average one.

Regarding indicator of market risk exposure - average time to re-fixing (Table 11), it is evident that this indicator slightly dropped from 5.67 years to 5.59 years in the course of 2007, implying increased risk from re-fixing. Risk regarding part of the portfolio pertaining to external debt dropped at both average time to maturity and average time to re-fixing. This drop was mainly due to the buyback of the variable interest debt. Regarding the domestic debt, trend of risk increase continued as a result of decline of the share of structural bonds, which mainly have fixed interest rates and larger borrowing by issuing continuous government securities with 1-year maturity, with variable interest rates.

At the moment, maturity indicator (Table 10) is calculated only for the domestic debt and is measuring portfolio exposure to market risk, more precisely risk from re-fixing. At the end of 2006, it value was 2.52 years, and it decline to 1.95 years by 31 December 2007. This decline in the maturity indicator means that, from the point of view of debt, i.e. securities issuer, the Republic of Macedonia is more exposed to risk from re-fixing compared to last year.

IV.4. Deposits of the Ministry of Finance (denar and foreign currency deposits)

Total deposits of the Ministry of Finance, which at the end of 2006 amounted to EUR 325.8 million, dropped by EUR 274.6 million as of 31 December 2007 inclusive, amounting to EUR 51.2 million. From an analytic point of view, stock on the treasury account, expressed in denars, amounting to denar 5.81 billion as of 31 December 2006 inclusive, dropped to denar 793 million, i.e. by around denar 5 billion. This drop was a result of the negative net withdrawals of continuous government securities in the amount of denar 0.7 billion, early buyback of Stopanska Banka Rehabilitation Bond in the amount of denar 1.3 billion, payment of liabilities on the basis of domestic bonds issued for structural purposes (old foreign currency saving, denationalization and privatization of Stopanska Banka AD Skopje), as well as refund of funds for privatization of AD ESM (EUR 22.5 million). Foreign currency deposits of the Ministry of Finance dropped by EUR 192.7 million in 2007, amounting to EUR 38.2 million as of 31 December 2007 inclusive. The drop was a result of the early buyback of the external public debt, as well as its regular servicing. Higher inflow of funds in the course of 2007 was realized on the basis of new borrowing at the World Bank, on the basis of the Second Programmatic Development Policy Loan in the total amount of EUR 23.3 million.

IV.5. Early buyback of the debt towards the Paris Club of Creditors

To the end of reducing interest costs in the Budget of the Republic of Macedonia and using higher level of foreign exchange deposits of the Ministry of Finance, and in accordance with the Multilateral Agreement signed in Paris on 24 January 2007 with 13 member states of the Paris Club, the Republic of Macedonia, in the period 31 January – 30 April 2007 made early buyback of the debt towards the Paris Club of Creditors at nominal value and without additional penalties or fees. The objective for such operation was aimed at restructuring public debt portfolio, i.e. reducing the external debt denominated in non-euro currencies, reducing variable interest rate debt, as well as realizing interest savings. Total amount of the debt towards the Paris Club of Creditors amounted to EUR 77 million, realizing saving in the Budget of the Republic of Macedonia in 2007, estimated at EUR 2.5 million. Interest savings will be further realized by 2011, in the total amount of approximately EUR 9.8 million.*

On 11 July 2007 the Republic of Macedonia signed **bilateral agreement for consolidation and repayment of non-rescheduled debts with the Republic of Italy**. This is mainly a debt of Macedonian enterprises which used credits from Italy through banks from other countries from the former SFRY within the Paris Club of Creditors. In fact, Republic of Macedonia was the first country from former SFRY countries which in 1998, within the Paris Club of Creditors, regulated the debt inherited from former SFRY towards Italy. Still, in the following period, an additional debt occurred which had not been covered with the 1998 agreement. In order to regulate these debts, both sides started negotiations, setting the conditions and the manner of regulating the debt towards Italy. The Agreement sets rescheduling of the debt in the amount of EUR 6,785,821.75 and US\$ 1,194,779.5 and full redemption along with other debts towards Italy in the amount of EUR 930,593.33 and US\$ 1,541,621.83, for which agreement had already been agreed upon within the Paris Club of Creditors. In addition to these amounts is the amount of US\$ 1,800,833.65 agreed not to be defined as debt, i.e. credit of the Republic of Macedonia, but rather to be converted as Italian assistance to the Republic of Macedonia for projects of social and development nature. The project "Computers for primary schools" was set as priority one, and should any problems arise during its realization, the alternative projects are the following:

- Project for modernization of the Customs Administration - procurement of mobile X-ray system for inspection of large vehicles and containers
- Subsidizing of hiring single parents, handicapped persons and orphans;
- Rehabilitation of the landslide in Ramina in Veles

*For the calculation of the interest costs saving are used actual interest rates at the moment of repayment (6 months LIBOR for USD of 5,4% and exchange rate EUR/USD=1,32)

The agreement was ratified by the Parliament of the Republic of Macedonia and on **31 October 2007, Republic of Macedonia carried out full buyback of the Italian debt within the Paris Club of Creditors in the total amount of EUR 9.5 million.**

IV.6 Buyback of the Bond for rehabilitation of Stopanska Banka A.D. Skopje

On 1 April 2007, Ministry of Finance carried out early repayment of Stopanska Banka Rehabilitation Bond at nominal amount in the amount of denar 1,302.5 million. The early repayment for the period April 2007 – March 2010, when this bond was to be regularly serviced, would result in total approximate saving on the basis of interest costs in the amount of denar 205.66 million. For the purpose of realizing this buyback, denar deposits of the Ministry of Finance were used, for which only 1% interest from the National Bank of the Republic of Macedonia was received. Taking into account that this bond was issued for structural purposes and under non-market conditions, early buyback has improved the characteristics of the total public debt portfolio so as to reduced the share of the debt issued under non-market conditions and reduce the variable interest rate debt.

IV.7. Prepayment of the debt towards the International Monetary Fund

On 23 May 2007, the National Bank of the Republic of Macedonia made full early repayment of the liabilities of the Republic of Macedonia under concessional and non-concessional loans towards the IMF in the total amount of SDR 29.19 million (i.e. EUR 32.8 million). According to the initial repayment plans, the maturity period of the loans was until 2010. Total interest savings by 2010 were EUR 1.7 million. Early repayment of the debt towards the IMF reflects the stronger external position of the Republic of Macedonia, which contributed to greater rating of the Republic of Macedonia at the credit rating agencies and interest savings and reduction of the variable interest rate debt and non-euro debt.

IV.8. Prepayment of part of the debt towards International Bank for Reconstruction and Development

Following the detailed analyses, Government of the Republic of Macedonia approved early buyback of part of the debt towards the International Bank for Reconstruction and Development in the amount of EUR 96.1 million. The objective of this operation was further improvement of the structure of the debt portfolio and its exposure to interest and currency risks. In addition, with this buyback interest savings were realized in the amount of EUR 2.7 million in 2007 alone, and savings continue to be realized by 2021, estimated in the total amount of EUR 32.7 million*, of which the Road Fund alone would realize interest savings of EUR 9.6 million. On the basis of the analyses of the savings in net present value, net savings on the basis of early buyback of credits are in the amount of EUR 3.1 million.

On 11 June 2007, Ministry of Finance successfully carried early buyback.

From the aspect of the interest costs directly affecting the Budget of the Republic of Macedonia, the early bought back credits were with unfavorably high fixed and variable interest rates. Average weighted interest rate for all 6 loans, subject to early buyback, was 5.6%. This interest rate was significantly higher than the interest rates at which the Republic of Macedonia could have borrowed on the foreign markets (6-month LIBOR for euros, decreased by 0.04 percentage points margin, which was approximately 4.5%).

At the same time, from the point of view of the **currency structure**, most of the redeemed credits were concluded and in non-euro currencies (78% of the credits are US\$-denominated), which is contrary to the objectives in the medium-term Public Debt Management Strategy, whereby one of the basic objectives is increase of the debt in euros within the external public debt.

IV.9. Prepayment of the debt towards the European Investment Bank

On 15 August 2007, Ministry of Finance carried out early buyback of two credits from the European

*For the calculation of the interest costs saving are used actual interest rates at the moment of repayment (6 months LIBOR for USD of 5,4% and exchange rate EUR/USD=1,32)

Investment Bank. Total amount of these credits amounts to EUR 6.82 million, whereby the early buyback operation will lead to interest savings in the Budget of the Republic of Macedonia in the amount of EUR 385,000 in the next three years. It is a matter of credits inherited from Former SFRY regarding the project for construction of trans-Yugoslavian highway. These credits were denominated in different currencies (euros, Swiss francs and yens) and had high-fixed interest rates of 9.5%% and 7.65%%, being far more less favorable than the interest rates at which the country can borrow at the moment.

IV.10. Public debt servicing

All liabilities on the basis of public debt that became due in 2007, were regularly and timely serviced by the Ministry of Finance or by the final beneficiaries.

Funds in the amount of denar 20.043 million were allocated in 2007 Budget for repayment of liabilities on the basis of public debt principal, whereby the execution of the projected budget was increased by 6.64 percentage points, i.e. funds in the total amount of denar 21.468 million were paid for this purpose (Table 7). Such deviations were result of the payments on the basis of guaranteed debt, in case when the final beneficiaries of the credits, due to financial difficulties, were not able to timely service their liabilities.

Funds in the total amount of denar 2.874 million were paid from 2007 Budget for repayment of liabilities on the basis of public debt interest, which, compared to the projected budget in the amount of denar 2.753 million, was a deviation by 4.21 percentage points in relation to the projected amount. Insufficiently projected budget funds with respect to interest payments was mainly due to the increase of interest rates on external debt with variable interest rate.

IV.11. Continuous government securities

IV.11.1 Primary government securities market

The policy of continuous issue of government securities continued in 2007. The focus was placed on the following:

•Continuous issue of government securities

Pursuant to the Decision on the Type and Features of Government Securities issued by the Ministry of Finance on behalf of the Government of the Republic of Macedonia, in the course of 2007 it was envisaged to carry out net issue of government securities in the maximum amount of denar 3.5 billion, i.e. quarterly net withdrawal in the amount of denar 875 million. In 2007, as a result of the favorable budget situation, i.e. budget surplus during the whole year, the stock of total issued government securities was denar 4.96 billion on 31 December 2007, being a drop by around denar 0.7 billion compared to the stock on 31 December 2006, when it amounted to denar 5.66 billion. Should one make a comparative analysis of the trends in net issues in 2007 by quarters, one can concluded that there was deviation at the realized issues in relation to the projected issues in all quarters. Net issue of government securities in the first quarter amounted to denar 118 million, being a deviation by around denar 760 million in relation to the projected amount. Net issue of government securities in the second quarter amounted to denar 57 million, being a deviation by around denar 820 million in relation to the projected amount. Negative net issue amounting to denar 1.232 million was registered in the third quarter, being a deviation by around denar 2.100 million. Net issue in the fourth quarter amounted to denar 430 million, being a deviation by around denar 445 million.

•Extending the maturity period of government securities

In the period January-December 2007, 3, 6 and 12-month treasury bills were issued, as well as three 2-year government bonds and one 3-year government bond. When creating the policy of issue of government securities, special emphasis was placed on extending their maturity period, i.e. greater amounts were offered of government securities with longer maturity period with respect to the amounts offered in 2006. Maturity structure of continuous government securities on 31 December 2007 was as follows:

-percentage share of 3-month treasury bills in the maturity structure was 59.68%, being an increase by around 1.54 percentage points in relation to the share of 3-month treasury bills on 31 December 2006, when it amounted to 58.14%,

-percentage share of 6-month treasury bills in the maturity structure was 13.36%, being a decline by around 7.41 percentage points in relation to the share of 6-month treasury bills on 31 December 2006, when it amounted to 20.75%,

-percentage share of 12-month treasury bills in the maturity structure was 8.63%, being a decline by around 3.36 percentage points in relation to the share of 12-month treasury bills on 31 December 2006, when it amounted to 11.99%,

-percentage share of 2-year government bonds in the maturity structure was 13.04%, being an increase by around 6.74 percentage points in relation to the share of 2-year government bonds on 31 December 2006, when it amounted to 6.30%, and

-percentage share of 3-year government bonds in the maturity structure was 5.29%, being an increase by around 2.47 percentage points in relation to the share of 3-year government bonds on 31 December 2006, when it amounted to 2.82%. (Chart 10)

○ Greater attractiveness of government securities and expansion of the base of foreign investors

As a result of the promotional campaign for investments in government securities (Ministry of Finance in cooperation with USAID), issued **Guidelines for Investors in Government Securities**. Guidelines for Investors in Government Securities was distributed to: banking institutions, brokerage houses, pension funds and to other non-banking financial institutions), and there is interest shown by the investors for enhancement of the portfolio with government securities with different maturity periods. This could be observed in the realized auction of government securities in 2007, when demand exceeded the realization of the auctions of government securities (Chart 7).

As a result of the greater attractiveness, as well as the increased demand of government securities, interest rate on continuously declined in 2007. Should comparative analysis of the trends in the interest rates on government securities in 2007 be made in relation to 2006, interest rates dropped in average by 1 to 2 percentage points, depending on the maturity of government securities. Weighted interest rate of the 3-month treasury bills achieved at auctions in December 2006 was 6.26%, while the same interest rate achieved at auctions in December 2007 declined by 5.15% percentage points, being a drop by around 1.11 percentage points. Weighted interest rate on 6-month treasury bills in the course of 2007 declined by around 1.78 percentage points, i.e. weighted interest rate at the auction in December 2006 amounted to 7.02%, while at the auction in December 2007, it was 5.24%. Interest rate on 12-month treasury bills in the course of 2007 declined by 3.36 percentage points, i.e. weighted interest rate at the last auction in 2006 amounted to 8.86%, while at the last auction in 2007, it was 5.50%. Downward trend of interest rates was also recorded at government securities with longer maturity period. With respect to 2-year government bonds, coupon interest rates in 2007 declined by around 2.50 percentage points in relation to 2006, while regarding 3-year government bonds, they dropped by around 1.50 percentage points in relation to 2006. (Chart 8)

Even in the course of 2007, trend of dominant share of the banks in relation to the other entities on the securities market continues in the ownership structure of realized government securities. As of 31st December 2007 inclusive, percentage share of banks in the ownership structure of the government securities amounted to 82%, while the one amounted to 77.59% on 31st December 2006, being an increase of the banks' share by around of 4.41 percentage points. (chart 9)

● Introducing non-competitive offers

Starting 10th April 2007, the Ministry of Finance introduced non-competitive offers as a new manner of auctioning (for natural persons) on the Macedonian government securities market. Amount of the non-competitive offers from the first auction of their appearance accounted for 1% of the

offered amount, remaining unchanged at all other auctions in the course of 2007.

In line with definition given in the *Rulebook on Amendments and Modifications to the Rulebook on the Manner and Procedure for Issuing and Settlement of Government Securities* (Official Gazette of the Republic of Macedonia no.35/2007) a non-competitive offer means purchasing government securities, whereby, it is auctioned only with amount, while the price is equal to the weighted (average) price (interest rate) achieved at the auction (in the part referring to competitive offers).

Ministry of Finance introduced the non-competitive offers in order to enable the natural persons, participants at the auction to simplify the procedure for participation at the auction that in addition to the auctioning amount requires the participants to have more extensive knowledge and more information for determining the interest rate.

Introduction of non-competitive offers as a new manner of auctioning enabled the natural persons to auction with non-competitive offers at all other government securities' auctions in 2007, since their introduction. In 2007, total number of approved non-competitive offers was 2 offers, while the realized amount was denar 4,900,000.00.

IV.11.2. Secondary government securities market

In the course of 2007, in parallel with the further development of the primary market, the secondary trading with government securities was also developed. Trading is realized at the Macedonian Stock Exchange AD Skopje and on the Over-the Counter Market (OTC).

- The modifications to the *Rules on the Manner and Procedure for Trading and Settlement of Transactions with Securities over the OTC Market* ("Official Gazette of the Republic of Macedonia" no. 14/07) was one of the most significant novelties. National Bank of the Republic of Macedonia in cooperation with the Ministry of Finance in order to promote the trading with government securities on the Over-the-Counter Market made certain changes in the rules on the manner and procedure for trading and settlement with securities on over-the-counter markets, thus introducing mandatory listing for the government securities in the amount of denar 1,000,000. Mandatory listing for treasury bills begun to be applied from 1st March 2007, while the mandatory listing for government bonds was introduced on 1st September 2007. Compared to 2006, 24 transactions in treasury bills were executed on the over-the-counter markets In the period January-February 2007, being an increase by 5 transactions compared to 2006, while the nominal amount of trading amounted to denar 506,76 million, being an increase by around denar 435.7 million compared to 2006. In the same period, 109 transactions in government bonds were executed on the over-the-counter markets, being an increase by 11 transactions compared to 2006, while the nominal trading amount was denar 693,31 million, being an increase by around denar 186 million compared to 2006 (charts 13 and 14).

- Structural bonds (six issues of government bonds for denationalization and bonds for old foreign exchange saving) as well as continuous government bonds are traded on the Macedonian Stock Exchange. Starting 11th January 2007, for the purpose of encouraging the development of the continuous government securities market, the Macedonian Stock Exchange A.D. -Skopje abolished the fee for trading with continuous government securities. In the course of 2007, denationalization bonds as well as bonds for old foreign exchange saving were traded. Total trading volume amounted to EUR 30, 742,695.00 in 2007, and total trading turnover amounting to EUR 25,062,457 or denar 1,536,328,614.00 was realized (charts 11 and 12).

- In 2007, the offered price of the **Euro bond** ranged between 93.85% to 99.56%, while the medium-term swap spread between 44.78 basic points to 88.12 basic points. In 2007, average offered price was 96.67%, while the average swap spread amounted to 58,88 basic points.

In 2006 however, offered price of the Euro bond ranged between 94.88% to 101.84%, while the average swap spread between 65.7 basic points to 108.67% basic points. In 2006, average offered price was 100.66%, while the average swap spread amounted to 83.13 basic points.

•One can conclude that average trading price lower by 41.78% was realized in 2007, while medium-term swap spread higher by 13.54 basic points was realized compared to 2006 (chart 15). Euro bond attraction was increased in 2007, bringing higher yield to the owners, meaning that most of the investors keep the bond until it falls due.

IV.12. Newly extended loans in 2007

On 18th September 2007, the Ministry of Finance, on behalf of the Government of the Republic of Macedonia signed Agreement for Borrowing from the International Bank for Reconstruction and Development on the basis of three projects such as: Agriculture Strengthening and Accession Project, Trade and Transport Facilitation in Southeast Europe Project (TTFSE II) and Second Programmatic Development Policy Loan Project (PDPL II)

Agriculture Strengthening and Accession Project - Agriculture Strengthening and Accession Project was concluded so as to improve the agricultural sector, to the end of better adjustment to the EU accession requirements. Main goals of the project are the following: Improving the capacities of the Ministry of Agriculture, Forestry and Water Economy to the end of better harmonization with the EU accession requirements; supporting the ability of the credit beneficiary to attract EU funds for rural development, developing the Veterinary Administration and completing the reforms in the Irrigation Department.

Terms and condition, under which, this project was signed are the following:

- amount: EUR 15 million
- interest rate: LIBOR +/- variable margin¹
- repayment deadline: 17 years
- grace period: 5 years
- 1% front-end fee
- commitment fee: 0.75% per year;

Trade and Transport Facilitation in Southeast Europe Project (TTFSE II) - Second Trade and Transport Facilitation in Southeast Europe Project is aimed at improving the trend of the fast growing trade by eliminating the identified bottlenecks under the border infrastructure and improving the efficiency and quality of railway transport of goods along the trans-European Corridor 10 in the Republic of Macedonia.

Terms and condition, under which, this project was signed are the following:

- amount: EUR 15 million
- interest rate: LIBOR +/- fixed margin²
- repayment deadline: 17 years
- grace period: 5 years
- 1% % front-end fee
- commitment fee: 0.75% per year;

Second Programmatic Development Policy Loan Project II- Second Programmatic Development Policy Loan - PDPL 2 includes funding of different development policies in the Republic of Macedonia. In fact, the funding refers to the following projects: adopting the new Law on Courts; adopting the new Law on Misdemeanors, Adopting the new Bankruptcy Law; Regulatory Guillotine Project; funding the Department for Policy and Regulatory Reform in the General Secretariat; implementing the revised wage structure of the state administration, adopting the modifications to the Health Insurance Law; as well as managing Health Insurance Fund

¹According to the last World Bank report the variable margin for the credits in euros amounted to - 0.04 percentage points

²According to the last World Bank report the fixed margin for the credits in euros amounted to 0.07 percentage points

projects.

Terms and condition, under which, this project was signed are the following:

- amount: EUR 23.3 million
- interest rate: LIBOR +/- fixed margin²
- repayment deadline: 17 years
- grace period: 5 years
- 1% % front-end fee
- commitment fee: 0.75% per year;

IV.13. Issued Guarantees in 2007

- **Guarantee for the Project for accelerating the development of small and medium-sized enterprises (phase III)**

In January 2007, sovereign guarantee was issued ensuring the settlement of the liabilities and fulfillment of the provisions of the Loan and Financing Agreement intended to accelerate the development of small and medium-sized enterprises in the Republic of Macedonia (phase III), concluded on 14th February 2007 between the Macedonian Bank for Development Promotion and the Reconstruction Credit Bank from Federal Republic of Germany amounting to EUR 7, 668,961.97 under the following terms and conditions:

- 2% fixed interest rate
- repayment deadline: 30 years
- grace period: 10 years
- commitment fee: 0,25% per year.

² According to the last World Bank report the fixed margin for the credits in euros amounted to - 0.07 percentage points

V. Review of the quantitative targets

When analyzing the objectives, measures and targets for 2007, debt of the monetary authorities has not been taken into account, i.e. all objectives and targets are fulfilled and analyzed pursuant to the Law on Public Debt, according to which debt of the National Bank of the Republic of Macedonia, as well as the treasury bills for monetary purposes do not account in the total public debt. This is due to the fact that targets and objectives set in the Strategy are defined only from the point of view of the fiscal policy, rather than from the point of view of the monetary policy.

To the end of monitoring the implementation of the 2007-2009 Strategy, the following table shows comparison of the main public debt portfolio parameters as of December 2006 and December 2007 inclusive, with the targets set in the Strategy.

Table 1
Comparison of public debt portfolio and quantitative targets set in the Strategy

Targets	Portfolio parameters as of December 2006	Portfolio parameters as of December 2007	Targets set in the Strategy
Total public debt to GDP ratio (chart 1)	34.9%	27.64%	37%-40%
General government debt to GDP ratio (chart 1)	31.8%	24.83%	34%-37%
Total guaranteed debt to GDP ratio (chart 2)	2.88%	2.56%	3.7%-4.1%
New borrowing (table 2)	EUR 136.9 million	EUR 90.2 million	EUR 203 million
Ratio between external and domestic debt (chart 3)	external public debt-67.3% domestic public debt-32.7%	external public debt-68.2% domestic public debt-31.8%	external public debt-65% domestic public debt-35%
Ratio between foreign currency debt and domestic currency debt (chart 4)	foreign currency-92.4% domestic currency-7.6%	foreign currency-93.3% domestic currency-6.7%	foreign currency-85-80% domestic currency-15%-20%
Stock of the total guaranteed public debt (chart 2)	EUR 144.67 million	EUR 139.8 million	EUR 220 million

Source: MoF

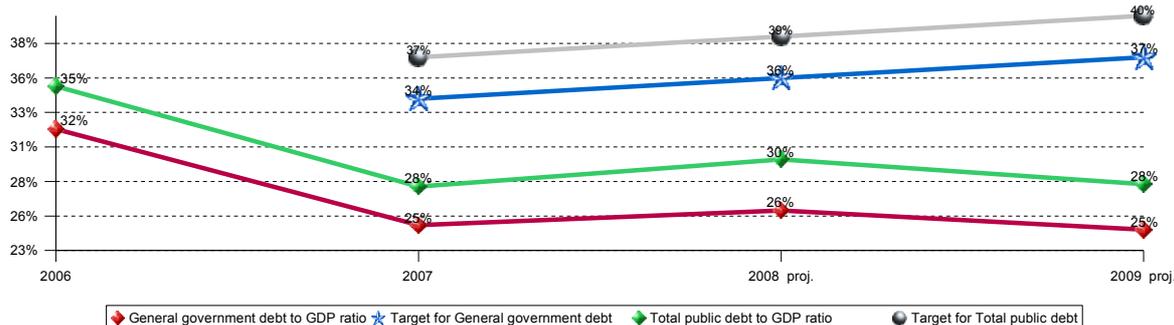
Public debt targets and performance at end-2007 will be separately reviewed in the further text.

V.1. Public debt in relation to GDP

According to the target set in the Strategy, “public debt in relation to GDP has a tendency to continuously decline, ranging between 37% to 40%”, while within the general government “debt will have tendency to decline ranging between 34% to 37% of GDP”. At the end of 2007, general government debt in relation to GDP was significantly below the set target amounting to 24.8%, while the total public debt was 27.6% of GDP. This reduction was mainly due to the operations of early redemption of the debt, while the GDP growth in 2007 was an additional factor. In addition, according to the projections for 2008 and 2009, public debt is planned to be set under the set targets of the Strategy.

Chart 5

Comparison of public debt to GDP ratio and targets



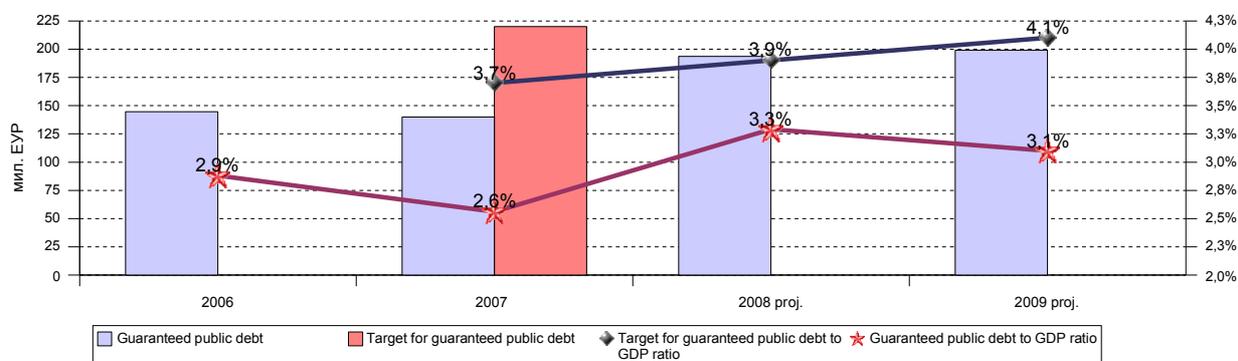
Source: MoF

V.2. Guaranteed public debt in relation to GDP

In line with the limits given in the Strategy referring to the issuance of guarantees in the period 2007-2009 “trend of insignificant increase of issued guarantees ranging between 3,7% to 4,1% of GDP is expected”. According to the made calculations as of December 2007 inclusive, real stock of issued guarantees is below (under) the limits of the set targets amounting to 2.6% of GDP, i.e. out of the planned EUR 220 million, the stock of the guaranteed debts amounted to only EUR 139.8 million. This reduction of the stock of the guaranteed public debt was one of the Strategy goals according to which, future policy of the country should be aimed at applying restrictive approach for approval of guarantees, in particular to public enterprises, which often experience liquidity problems. Fulfillment of this goal will influence the reduction of large risks the Republic of Macedonia could face in future, should these guarantees be called up.

Chart 6

Comparison of guaranteed debt to GDP ratio and targets



Source: MoF

V.3. New borrowing

Total amount of new borrowing in 2007 "is expected to be EUR 203 million, EUR 57 million out of which on the basis of continuous government securities, while the remaining EUR 146 million on the basis of borrowing abroad". Out of the amount envisaged for external borrowing, EUR 31 million is on the basis of newly extended credits, and the rest is on the basis of disbursed tranches under agreements concluded in the previous years. Stock of the treasury account as well as the realized budget surplus during the whole 2007 influenced the decision on the amount of the net borrowing of continuous government securities. Thus, at the end of 2007, the Ministry of Finance had denar 618.1 million i.e. EUR 10.1 million net outflow (stock reduction) of government securities. On the other hand, external borrowing amounted to EUR 100.3 million, amount being lower by EUR 45.7 million than the projected one. Out of the realized disbursements on the basis of newly extended credits, EUR 26,4 million in total have been disbursed, while EUR 73.9 million on the basis of disbursed tranches under agreements concluded in the previous years. In line with the abovementioned, the amount of new borrowing in 2007 was within the set target of the Strategy.

Table 2

New borrowing on the basis of domestic and external public debt

EUR million

EUR million	Realization JAN-DEC-2007	Target for JAN-DEC-2007
External borrowing	100,3	146,0
Domestic borrowing	-10,1	57,0
Total	90,21	203,00

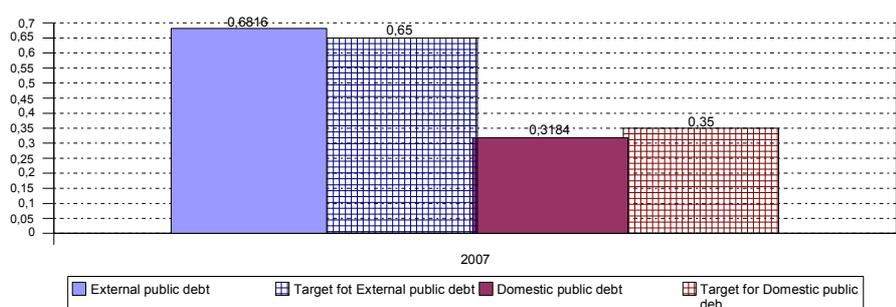
Source: MoF

V.4. Ratio between domestic and external public debt

Ratio between domestic and external public debt amounted to 32% in December 2007 as opposed to 68% and compared to 2006 domestic public debt percentage point reduced by 1% unlike the external public debt. This reduction of the domestic public debt share is contrary to the set medium-term target of the Strategy according to which, "domestic public debt should reach the level of 35%, as opposed to 65% of the foreign public debt". Reduction of the domestic public debt share was mainly due to the negative net borrowing on the basis of government securities, while the borrowing abroad is more and more increasing. Even though the borrowing abroad has lower costs compared to the domestic borrowing (due to the weak development of the domestic securities market), there is still risk regarding the foreign borrowing that could negatively affect the budget costs of the Republic of Macedonia. In order to avoid these negative consequences, the future borrowing policy should be focused on the domestic government securities market.

Chart 7

Comparison of domestic/external public debt ratio and targets for 2007



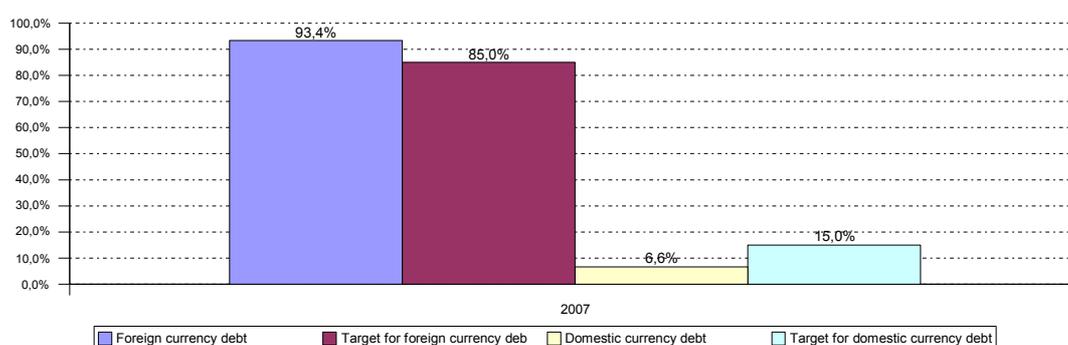
Source: MoF

V.5. Debt denominated in foreign and domestic currency

Taking into consideration the fact that the current share of the denar -denominated debt as of 2007 inclusive is at very low level of only 6.7%, it influences the too big exposure of the public debt portfolio to the exchange rate risk. Compared to 2006, when the domestic currency debt participated with 7.6% in the total public debt, this share was reduced by 0.9 percentage points in 2007. Reduced share of the domestic currency debt was a result to the favourable budget situation, i.e. budget surplus in the course of 2007, whereby the total issued government securities reduced by around denar 0.7 billion. In addition, the early redemption of the Bond for Rehabilitation of Stopanska Banka influenced the reduction of the share of the domestic currency debt. This reduction of the domestic currency debt is not in line with the medium-term target of the Strategy where it is determined "for this percentage to increase, having the prospects to achieve 15% to 20% in relation to total public debt". Due to the fact that this target was not realized, public debt portfolio is exposed to larger risks, and thus the possibility for higher public debt servicing costs. This is an important signal for creating future borrowing policy, whereby priority should be given for the (to) new borrowing (so as to be) in domestic currency regarding the borrowing abroad, which will also additionally contribute to the development of the domestic securities market.

Chart 8

Comparison of total public debt denominated in domestic/foreign currency ratio target for 2007

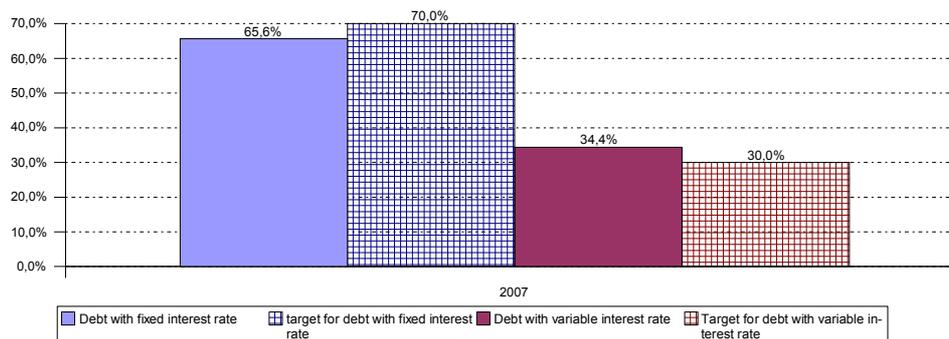


Source: MoF

V.6. Debt with fixed and variable interest rate

Share of the debt with fixed interest rate in the total public debt portfolio amounted to 65.4% in December 2007 and compared to 2006 increased by 2.4 percentage points. This increase is aimed at improving the interest structure of the public debt portfolio being one of the set medium-term targets in the Strategy, where it is recommended for this share to range between 70% to 80%. However, according to the projections for the future trend in the interest structure, one can observe that the share of the debt with fixed interest rate declines. Such reduction was mainly due to the gradual amortization of the credits concluded under non-concessional terms and most often with variable interest rate. In order to avoid further worsening of the portfolio interest structure, and thus exposure to larger interest rate risk, it is necessary to use the possibilities for fixing the interest rate in line with the trends in the market interest rates in the next period. The borrowing policy on the basis of continuous government securities should be also focused on that, whereby the issuances of long-term government securities with fixed interest rate should be increased.

Chart 9
Debt with fixed/variable interest rate and target for 2007



Source: MoF

V.7. External public debt currency structure

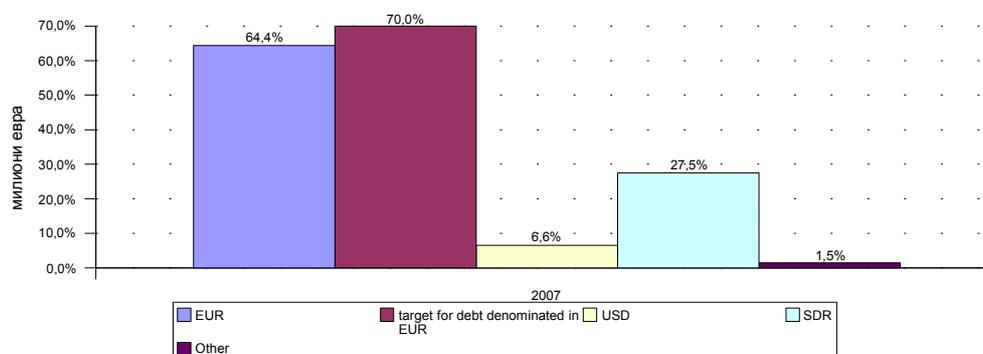
In 2007, external public debt currency structure showed significant improvement mainly due to two factors:

-early buyback of the credits with different non-euro currencies (US dollars, Switzerland francs, Danish crowns, Japanese yen etc.) and

-commitment of the Ministry of Finance for the new borrowing to be in euro currency in order to avoid the exchange rate risks of the other currencies in relation to the euro. This arises from the fixed exchange rate regime of the denar in relation to the euro.

In order to increase the foreseeability of the calculation of the interest-related costs in the Budget of the Republic of Macedonia, the intention of the Ministry of Finance given in the Strategy is to increase "the share of the debt in euros, which, should reach a level of 70% of the total external public debt by 2009". As of December 2007 inclusive, share of the euro-denominated debt in the external public debt amounted to 64% and compared to 2006 it increased by 8 percentage points. In addition, according to the projections for the trend in the external public debt currency structure, the euro-denominated debt has a tendency to gradually increase. Therefore, it is of huge importance for the new credits to be denominated in euro currency in order to further improve the currency structure as well as to reduce the exposure of the public debt portfolio to the exchange risk.

Chart 10
Currency structure of external public debt and target of 2007



Source: MoF

*Regarding the aforementioned review for the realization of the Strategy targets one can conclude that **the short-term targets, which, are defined for only one year, are successfully realized** being already reflected in the improvement of the public debt portfolio features. However, with regard to the medium-term targets there is partial fulfillment, and taking into consideration the fact that these targets have a validity period of 3 years, their full realization depends on the further steps to be taken during the following years.*

With regard to the medium-term targets, negative directions of the trend in the portfolio are observed at the relation between the internal and external public debt as well as in the target for participation of the debt in domestic currency in the total public debt portfolio. Unfulfilment of these targets exposes to a great extent the public debt portfolio to market risks. Therefore, what is of great importance for the successful public debt management of the Republic of Macedonia and the reduction of risks, to which it is exposed, is to redirect the future borrowing from foreign creditors towards the domestic capital and money market. This will further contribute to the increase of the participation of the market debt in the total public debt, broadening of the investment base, as well as the development of the domestic securities market being of huge importance to the successful public debt portfolio management.

VI. Public debt management activities

VI.1. Disbursed funds on the basis of external public debt

Table 3

Disbursements on the basis of already extended and newly extended credits by creditors and public debt levels

<i>EUR million</i>	Q1-2007	Q2-2007	Q3-2007	Q4-2007	Total 2007	Projected 2007	Realization of projected disbursements
Public sector	7,23	27,01	12,78	53,29	100,32	146,22	68,6%
General Government	6,57	17,53	8,69	48,24	81,03	87,06	93,1%
Central Government	5,12	14,73	3,08	43,70	66,62	76,26	87,4%
Official creditors	5,12	13,15	3,08	43,70	65,04	76,26	85,3%
Multilateral creditors	2,78	6,96	1,53	39,13	50,40	50,69	99,4%
IBRD	1,43	1,47	1,19	27,91	32,01	32,99	97,0%
IFAD	0,47	0,16	0,05	0,05	0,73	0,64	113,3%
CEDB	0,00	0,00	0,00	0,00	0,00	2,50	0,0%
EBRD	0,88	0,33	0,29	2,17	3,66	3,45	106,0%
EIB	0,00	5,00	0,00	9,00	14,00	11,10	126,1%
Bilateral creditors	2,33	6,19	1,54	4,58	14,64	25,57	57,3%
Private creditors	0,00	1,58	0,00	0,00	1,58	0,00	
Public funds	1,45	2,80	5,61	4,53	14,41	10,80	133,4%
Official creditors	1,45	2,80	5,61	4,53	14,41	10,80	133,4%
Multilateral creditors	1,45	2,80	5,61	4,53	14,41	10,80	133,4%
IBRD	0,00	0,00	0,00	0,00	0,00	0,00	
EBRD	1,45	2,80	5,61	4,53	14,41	10,80	133,4%
EIB	0,00	0,00	0,00	0,00	0,00	0,00	
Public enterprises	0,66	9,48	4,09	5,05	19,29	59,16	32,6%
Official creditors	0,54	9,39	4,09	5,05	19,08	44,80	42,6%
Multilateral creditors	0,54	2,74	3,70	3,88	10,86	39,70	27,4%
IBRD	0,03	2,20	2,98	0,45	5,67	10,60	53,4%
EBRD	0,51	0,54	0,72	3,43	5,20	23,00	22,6%
EIB	0,00	0,00	0,00	0,00	0,00	1,10	0,0%
CEDB	0,00	0,00	0,00	0,00	0,00	5,00	0,0%
Bilateral creditors	0,00	6,65	0,40	1,17	8,22	5,10	161,3%

Source: Mof and NBRM

VI.2. Primary government securities market

Table 4

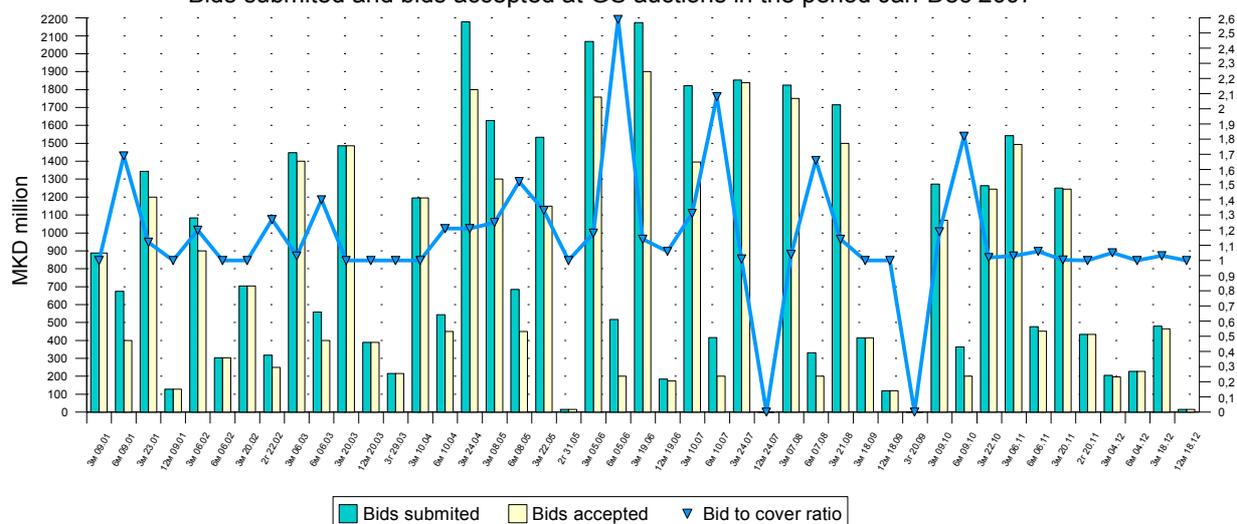
Net issuance of continuous government securities and structural bonds
EUR million

	<i>In million EUR</i>	Q1-2007	Q2-2007	Q3-2007	Q4-2007	Total Q1-Q4-2007
I	Net issue of government securities	17,69	57,73	-48,97	-21,30	-10,09
1	3-month GS	9,30	40,72	-35,28	-19,00	-4,26
2	6-month GS	1,78	-0,75	-11,04	-3,14	-13,15
3	12-month GS	2,52	-1,24	-2,65	-4,61	-5,98
4	2-year government bond	4,08	0,24		5,45	9,77
5	3-year government bond		3,52			3,52
II	VI-th issue of denationalization bonds*		15,24			15,24
I+II	Total	17,69	72,97	-48,97	-21,3	5,15

*due to this issue does not occurs inflow in the Budget because this bond is issued for solving structural problems

Source: MoF

Chart 11
Bids submitted and bids accepted at GS auctions in the period Jan-Dec 2007



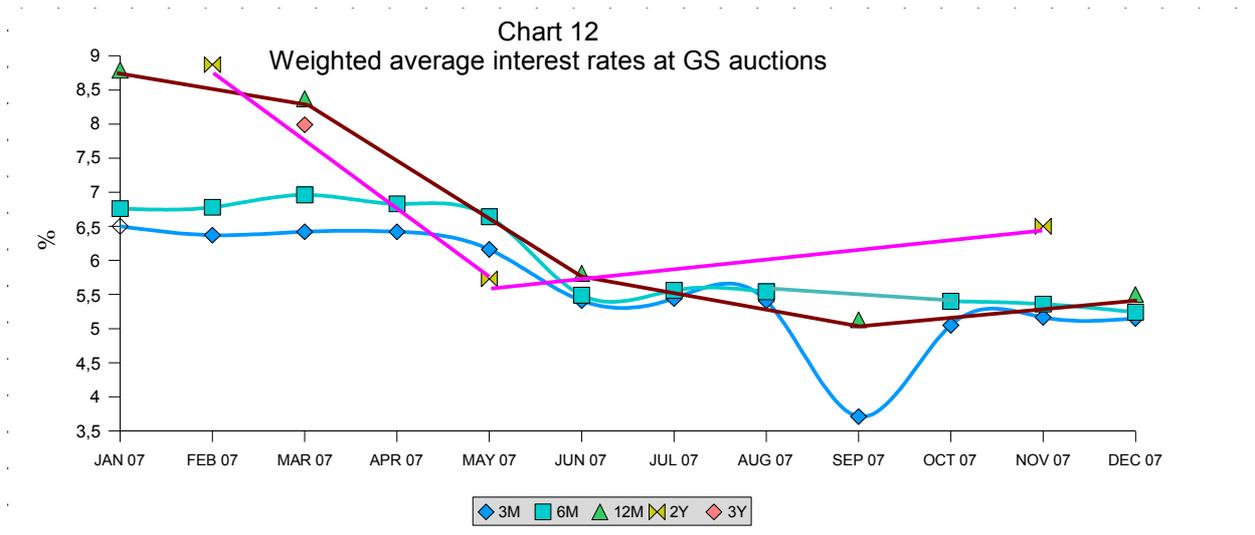
Source: MoF

*Bid to cover ratio- coefficient showing the coverage of the demand realization

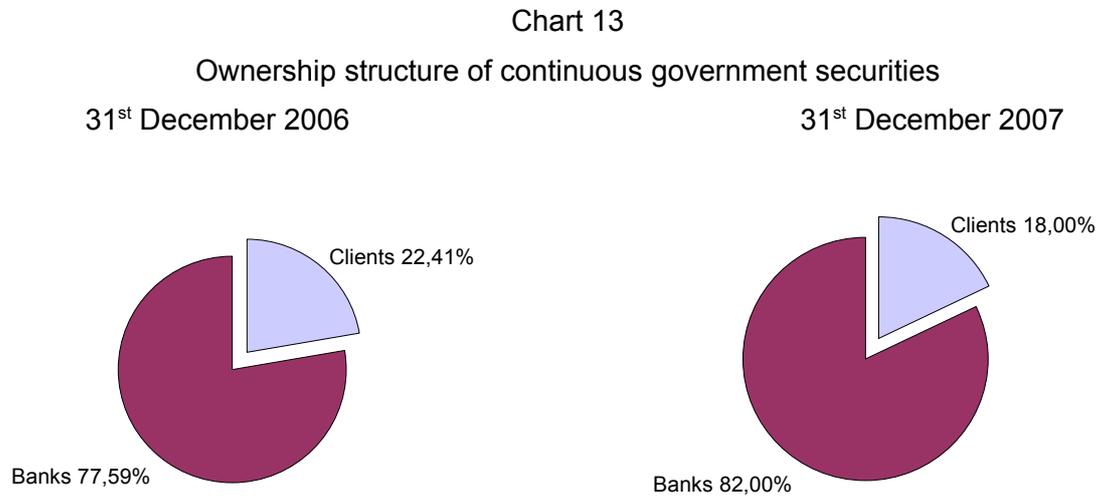
Table 5
Weighted interest rates on issued government securities

Date of auction	Weighted average interest rate of 3-months T-bills	Weighted average interest rate of 6-months T-bills	Weighted average interest rate of 12-months T-bills	Weighted average interest rate of 1-year T-bond	Weighted average interest rate of 2-year T-bond
January 07	6,50	6,76	8,79		
February 07	6,37	6,78		8,87	
March 07	6,42	6,96	8,37		7,999
April 07	6,42	6,83			
May 07	6,16	6,64		5,73	
June 07	5,41	5,49	5,81		
July 07	5,44	5,56			
August 07	5,41	5,54			
September 07	3,71		5,13		
October 07	5,05	5,40			
November 07	5,17	5,36		6,500	
December 07	5,15	5,24	5,5		

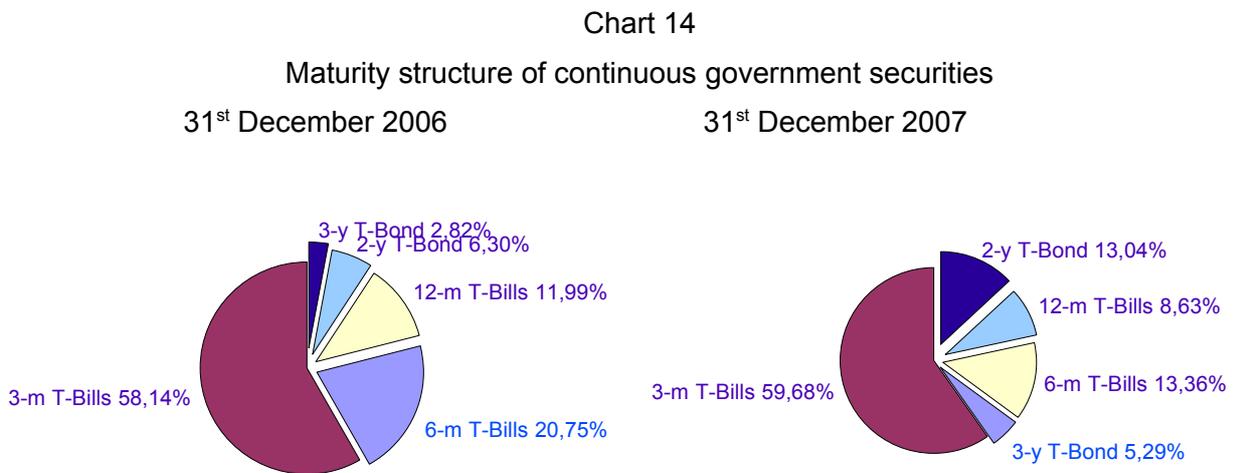
Source: MoF



Source: MoF



Source: MoF

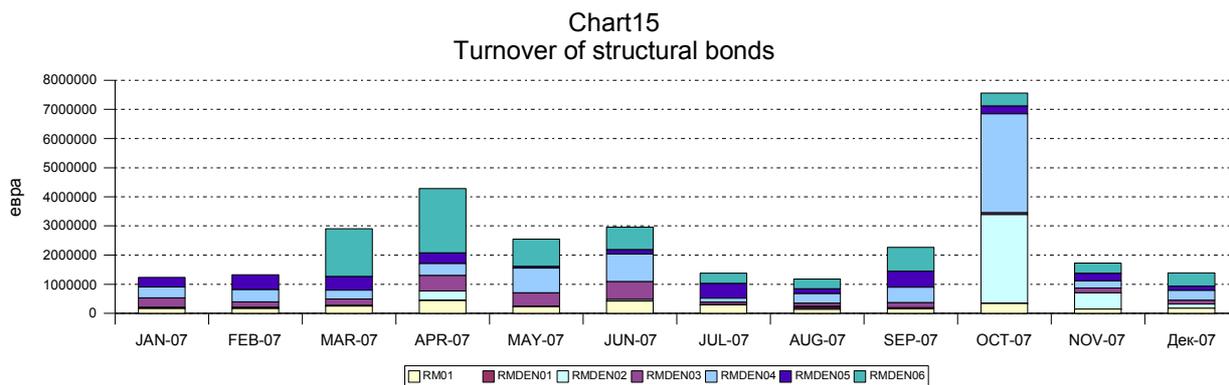


Source: MoF

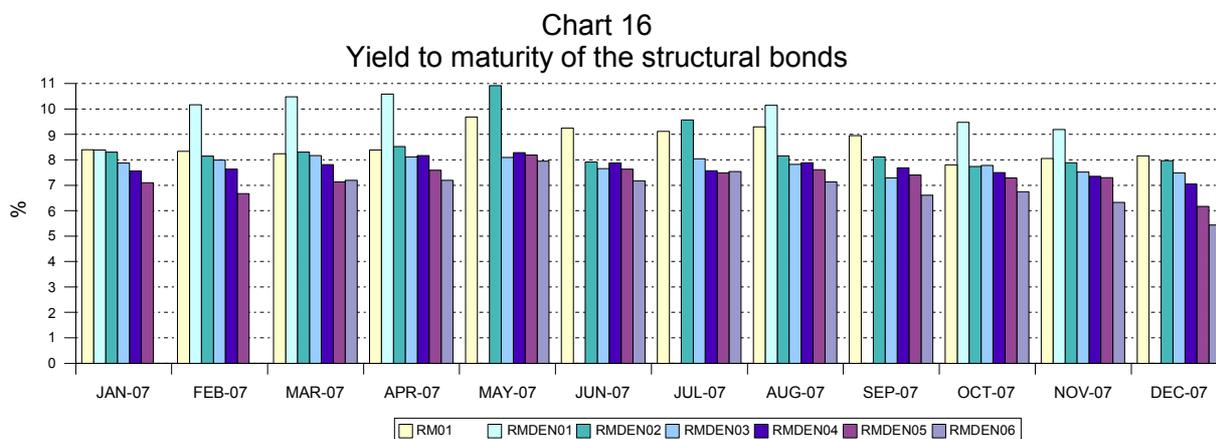
Source: MoF

VI.3. Secondary government securities market

VI.3.1. Macedonian Stock Exchange AD Skopje

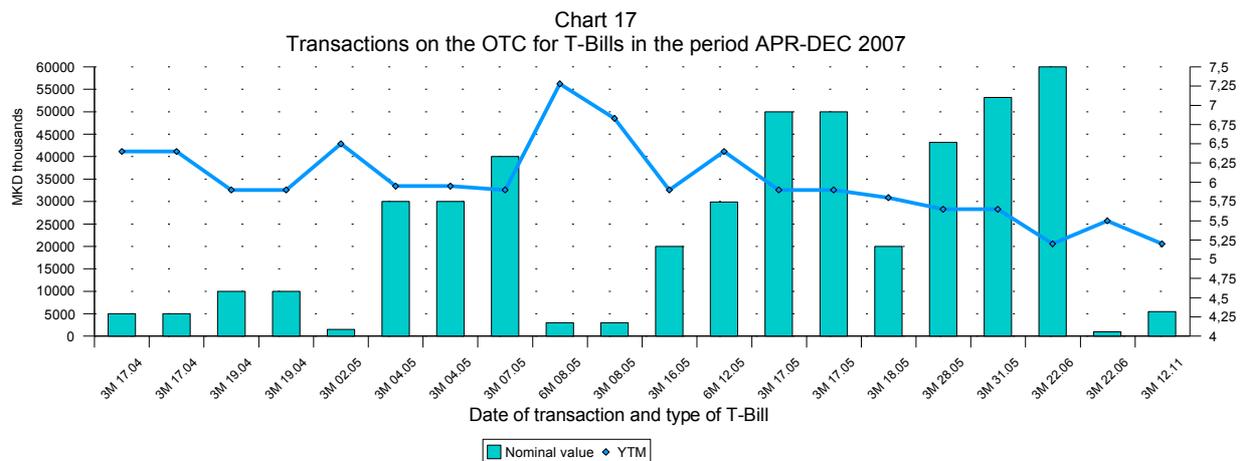


Source: Macedonian Stock Exchange AD Skopje

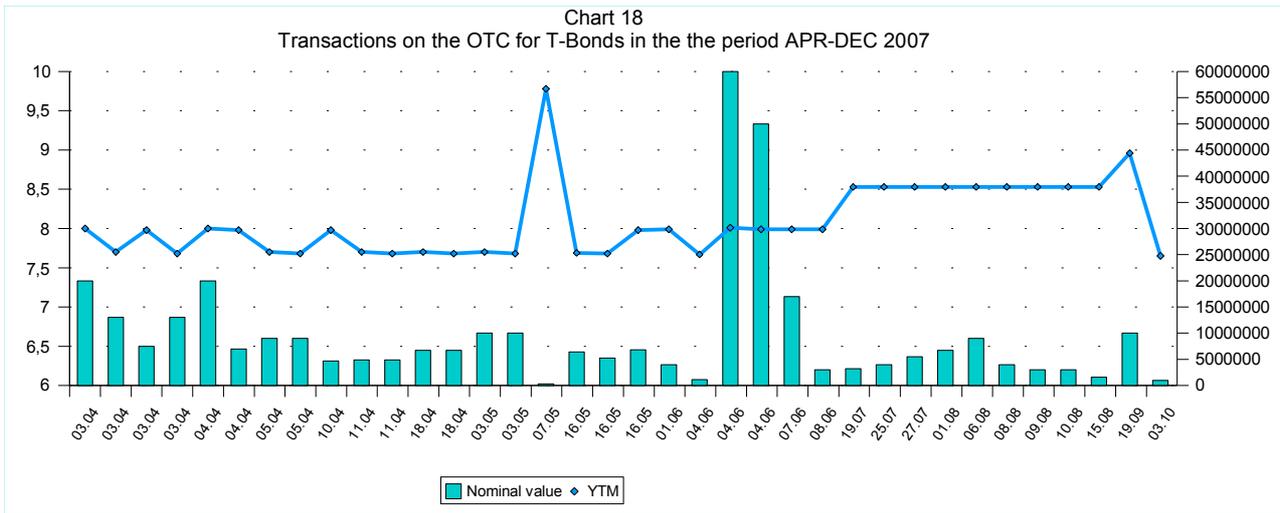


Source: Macedonian Stock Exchange AD Skopje

VI.3.2. Over-the-counter markets

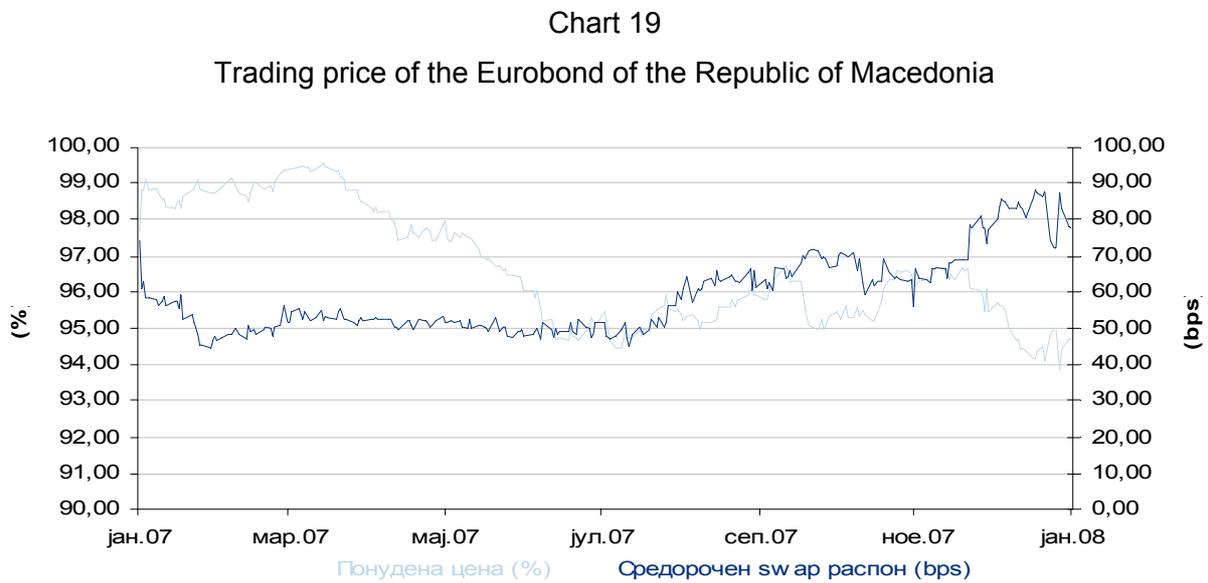


Source: NBRM



Source: NBRM

VI.3.3. International capital market

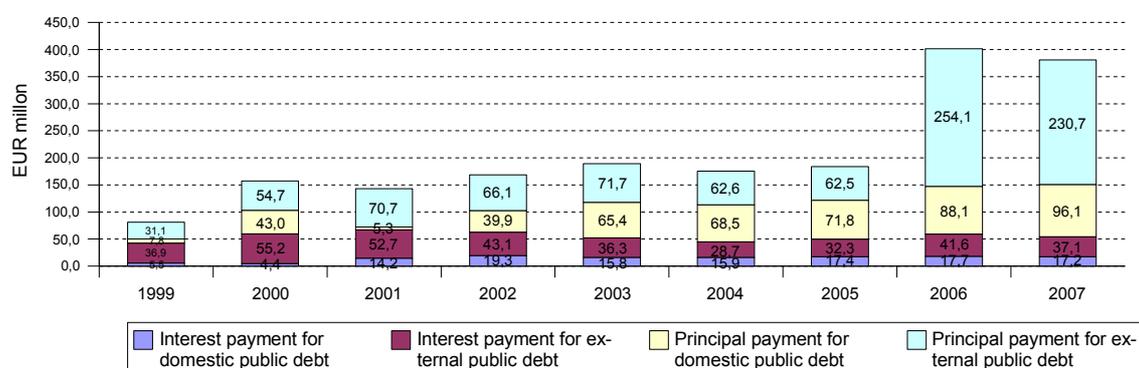


Source: Citigroup-Bloomberg

VI.4. Total public debt servicing

Chart 20

Interest and principal payment on the basis of total public debt



Source: MoF and NBRM

Table 6

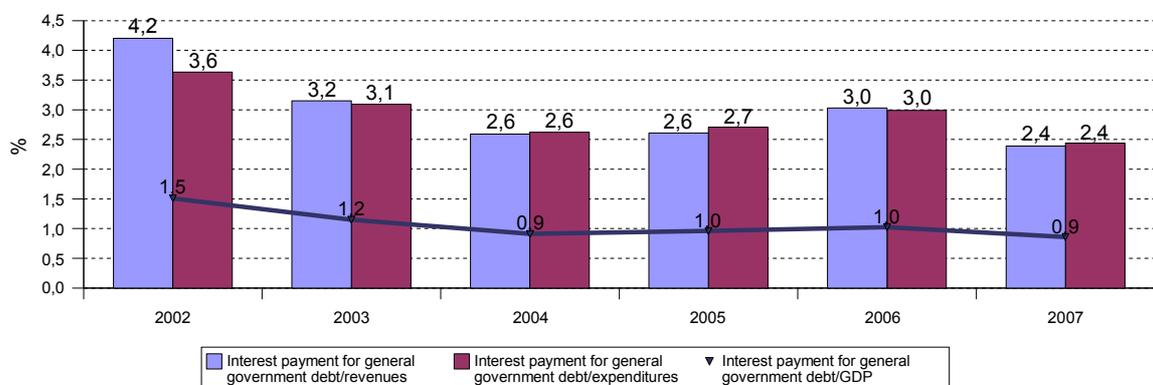
Interest and principle payment on the basis of total public debt for 2007
EUR million

Basis	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Total 2007	Projected payment for 2007
Interest payment for external public debt	9,20	7,87	7,83	12,21	37,11	41,91
Interest payment for domestic public debt	1,55	7,42	2,04	6,16	17,17	25,76
Interest payment for total public debt	10,75	15,29	9,87	18,37	54,28	67,67
Principal payment for external public debt	75,46	115,93	20,85	18,48	230,72	79,15
Principal payment for domestic public debt	0,00	62,57	2,14	31,35	96,06	80,50
Principal payment for total public debt	75,46	178,5	22,99	49,83	326,78	159,65

Source: MoF and NBRM

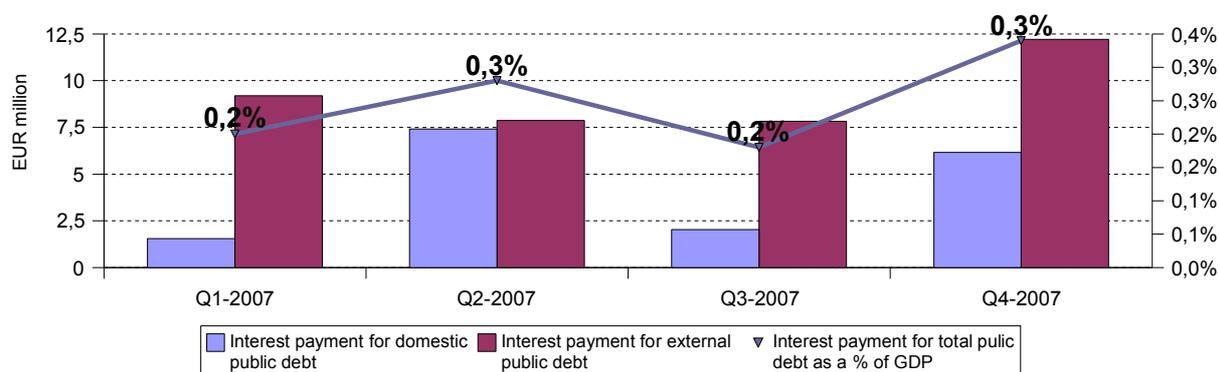
Chart 21

Interest payment in relation to revenues, expenditures and GDP



Source: MoF and NBRM

Chart 22
Interest costs for total public debt servicing in 2007



Source: MoF and NBRM

VII. Public debt portfolio features

VII.1. Total public debt

Table 7

Total public debt according to the GFS methodology and pursuant to the Law on Public Debt
EUR million

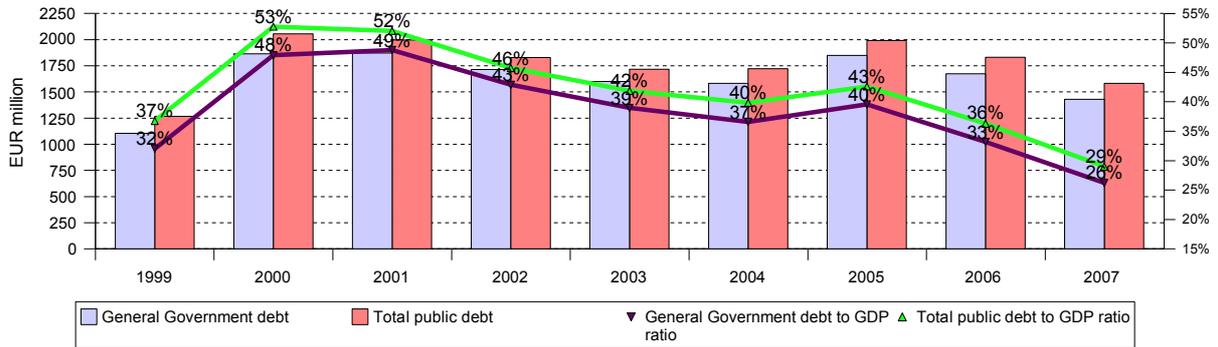
	Basis	31.12.2005	31.12.2006	31.12.2007
External public debt*		1.441,16	1.223,01	1.027,86
	General government debt	1.245,35	1.025,19	877,22
	Central Bank	52,66	42,39	0,00
	Public enterprises	143,15	155,42	150,64
Domestic public debt		750,39	806,48	899,95
	General government debt	603,66	648,42	552,80
	Treasury bills for monetary purposes	0,00	75,93	75,47
	Central Bank	146,74	155,26	344,32
	Public enterprises*	N/A	2,80	2,83
Total public debt according to the GFS methodology		2.191,55	2.029,49	1.927,81
	Total public debt as a % of GDP	46,87	40,22	35,33
General government debt		1.848,81	1.673,61	1.430,02
	General government debt as a % of GDP	39,54	33,17	26,21
Total public debt according to the Public debt Law (including treasury bills for monetary purposes)		1.992,16	1.831,83	1.583,48
	Total public debt as a % of GDP	42,60	36,30	29,02

Source: MoF and NBRM

*In December 2005 the first Eurobond was issued in the amount of EUR 150 million, whereby the external public debt temporary increased, since those funds were used for overall early buyback of the debt towards the London Club of Creditors in January 2006.

**Starting April 2006 public enterprises began to submit to the Ministry of Finance the first reports on the debt stock (pursuant to the Law on Public Debt)

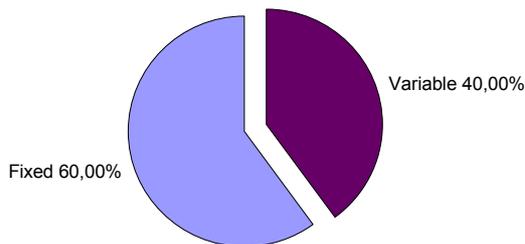
Chart 23
Public debt trend in relation to GDP



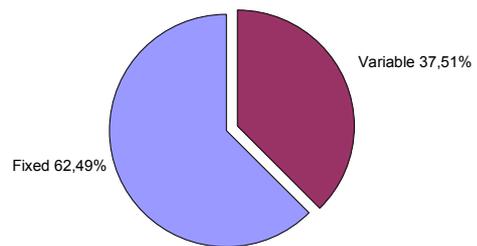
Source: MoF and NBRM

Chart 24
Interest structure of the total public debt

31st December 2006



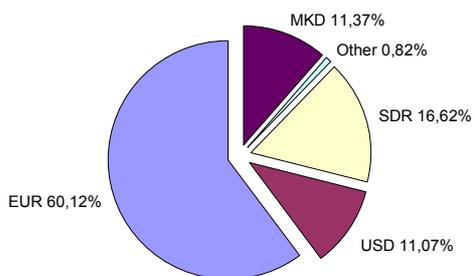
31st December 2007



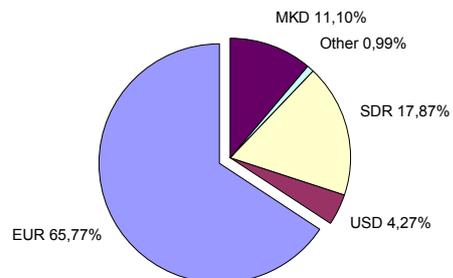
Source: MoF and NBRM

Chart 25
Currency structure of the total public debt

31st December 2006



31st December 2007



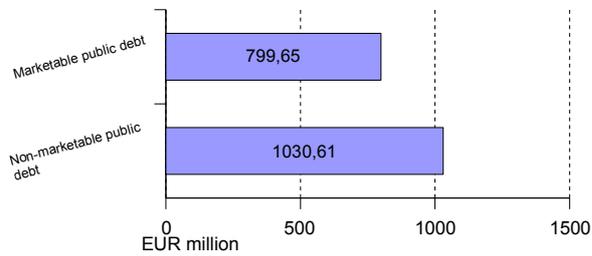
Source: MoF and NBRM

Source: MoF and NBRM

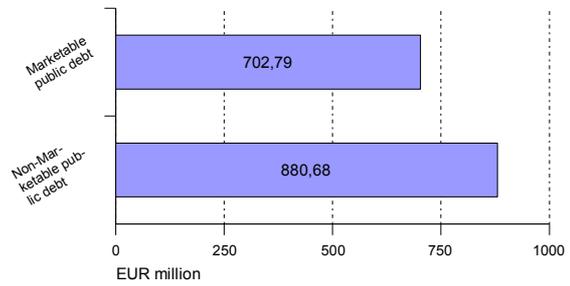
Chart 26

Market/non-market total public debt

31st December 2006



31st December 2007



Source: MoF and NBRM

Risk indicators for public debt portfolio

Table 8 Average Time to Maturity – ATM (in years)

	31.12.2006	31.03.2007	30.06.2007	30.09.2007	30.12.2007
Domestic public debt	3,03	2,91	2,99	2,88	2,77
External public debt	8,98	9,22	9,60	9,39	9,11
Total public debt	6,85	6,82	7,11	7,03	6,87

Source: MoF

Table 19 Duration of the domestic debt (in years)

	31.12.2006	31.03.2007	30.06.2007	30.09.2007	30.12.2007
Domestic public debt	2,92	2,73	2,45	2,26	2,24
External public debt	0,55	0,69	0,62	0,57	0,64
Total public debt	2,52	2,38	2,12	2,01	1,95

Source: MoF

Table 10 Average Time to Refixing – ATR (in years)

	31.12.05	30.06.06	31.12.06	30.06.07	30.09.07	30.12.07
Domestic public debt	3,07	3,00	2,57	2,50	2,44	2,37
External public debt	7,18	6,20	7,12	7,92	7,56	7,35
Total public debt	5,67	5,13	5,46	5,82	5,73	5,59

Source: MoF

VII.2. External public debt

Table 11

External public debt by creditors and debtors

EUR million

Sector/debtor/creditor	31.12.05	31.12.06	31.12.07
External public debt according to the GFS methodology	1.441,16	1.223,01	1.027,86
External public debt according to the Public debt Law	1.388,50	1.180,62	1.027,86
Government of the Republic of Macedonia	1.245,35	1.025,19	877,22
Official creditors	906,09	874,62	726,84
Multilateral creditors	751,82	739,15	658,38
IBRD	185,18	174,56	103,16
IDA	307,13	291,86	270,67
IFAD	10,97	12,50	12,22
CEDB	16,78	17,95	17,41
EBRD	29,22	43,12	56,86
EIB	112,53	109,16	108,06
EU	90,00	90,00	90,00
Bilateral creditors	154,27	135,47	68,46
Rescheduled debt 1995	102,31	78,55	0,00
Non-rescheduled debt	6,63	6,63	6,63
Newly-concluded loans	45,33	50,29	61,83
Private creditors	339,26	150,57	150,38
Eurobond	150,00	150,00	150,00
Other private creditors	189,26	0,57	0,38
Banks	189,26	0,57	0,38
Non-banking private sector	0,00	0,00	0,00
National bank of the Republic of Macedonia	52,66	42,39	0,00
IMF	52,66	42,39	0,00
Public enterprises	143,15	155,43	150,64
Official creditors	59,99	70,80	82,26
Multilateral creditors	43,14	56,20	61,64
IBRD	25,25	25,71	29,50
EBRD	5,94	7,33	10,69
EIB	5,83	13,15	12,98
EUROFIMA	6,12	5,00	4,96
CEDB	0,00	5,00	3,50
Bilateral creditors	16,85	14,60	20,62
Newly-concluded loans	16,85	14,60	20,62
Private creditors	83,16	84,63	68,38
Other private creditors	83,16	84,63	68,38

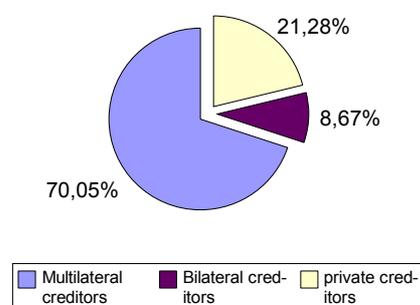
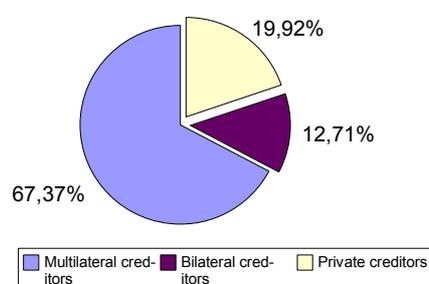
Source: NBRM

Chart 27

Structure of external public debt by creditors

31st December 2006

31st December 2007



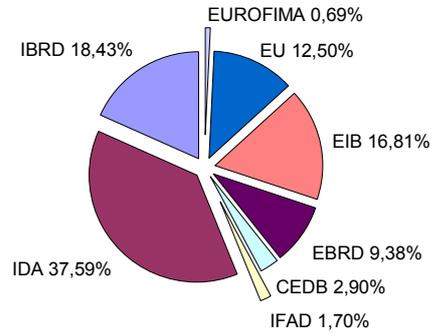
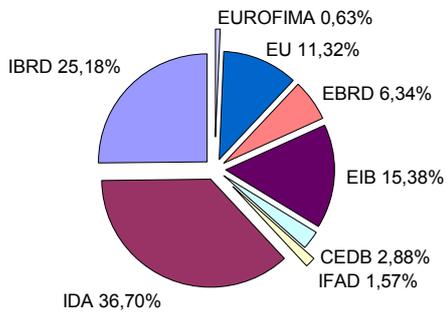
Source: MoF and NBRM

Chart 28

External public debt structure by multilateral creditors

31st December 2006

31st December 2007



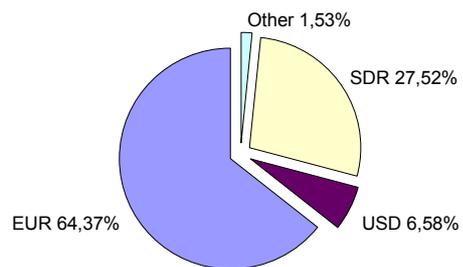
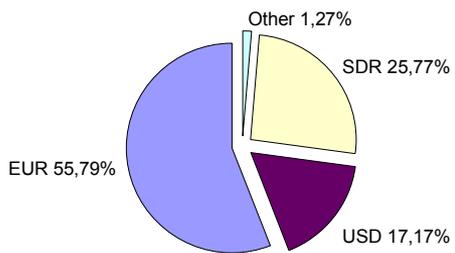
Source: MoF and NBRM

Chart 29

Currency structure of the external public debt

31st December 2006

31st December 2007



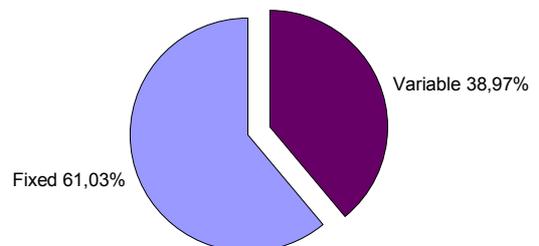
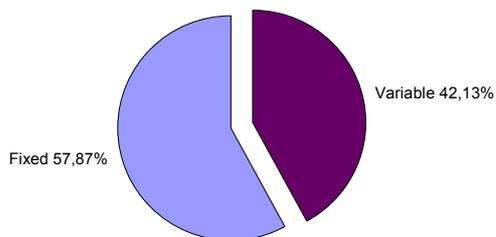
Source: MoF and NBRM

Chart 30

Interest rate structure of the external public debt

31st December 2006

31st December 2007



Source: MoF and NBRM

VII.3. Domestic public debt

Table 12

Domestic public debt according to the GFS methodology and pursuant to the Law on Public Debt

EUR million

Basis	2006	Q1-2007	Q2-2007	Q3 -2007	Q4 -2007
Domestic public debt according GFS methodology	806,44	872,37	910,61	876,73	899,95
Domestic public debt according Public debt Law (including t-bills for monetary purposes)	651,18	686,81	662,89	608,73	555,62
General government debt*	648,38	684,24	660,49	606,64	552,80
Central government debt	648,18	684,24	660,49	606,64	552,80
Structural bond	479,58	493,94	430,91	427,64	396,34
Bond for rehabilitation of Stopanska banka	21,25	21,30	0,00	0,00	0,00
Bond for selective credits	16,95	16,99	16,98	16,98	16,98
Bond for privatization of Stopanska banka	68,66	68,66	66,51	64,37	60,08
Bond for old foreign exchange savings	254,92	254,89	229,40	229,37	203,87
Denationalization bond	117,8	132,11	118,02	116,92	115,41
Continuous government securities	168,6	190,30	229,58	179,01	156,46
o.w. T- bills for monetary purposes	75,9	92,00	134,11	104,54	75,47
Municipalities	0,2	0,00	0,00	0,00	0,00
Central Bank	155,26	185,56	247,72	268,00	344,32
Public enterprises	2,8	2,57	2,40	2,09	2,83

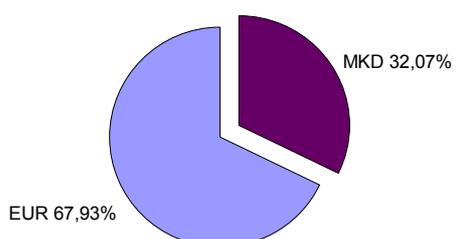
Source: MoF

*The central and general government debt includes the treasury bills for monetary purposes, the Ministry of Finance issues on behalf and for NBRM that use them when conducting monetary policy.

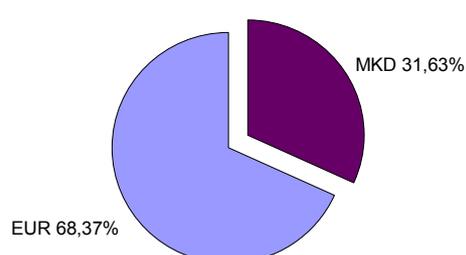
Chart 31

Currency structure of the domestic public debt

31st December 2006



31st December 2007



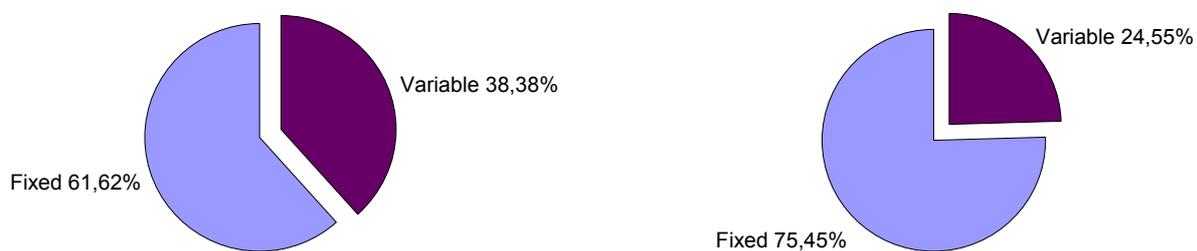
Source: MoF

Chart 32

Interest rate structure of the domestic public debt

31st December 2006

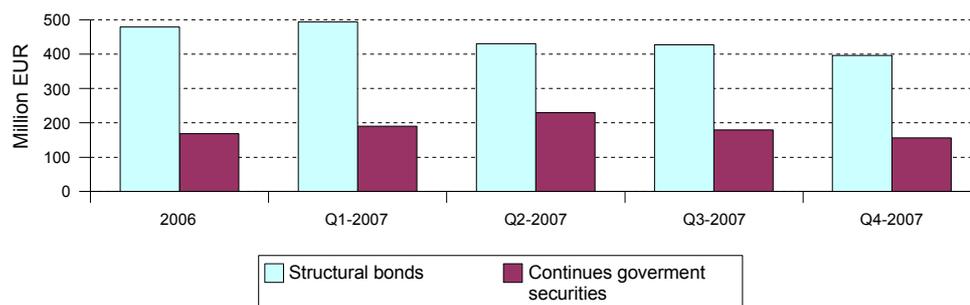
31st December 2007



Source: MoF

Chart 33

Ratio between stock of structural bonds and continuous government securities



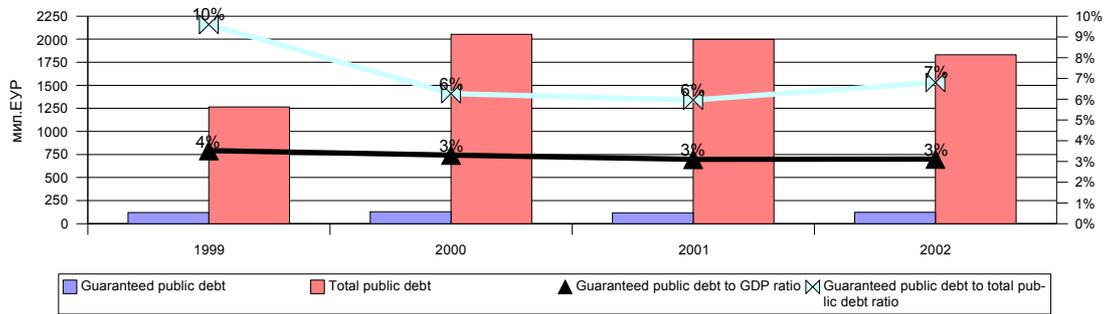
Source: MoF

**In March 2007, the sixth issuance of the denationalisation bond was issued*

VII.4. Guaranteed public debt

Chart 34

Stock of guaranteed public debt

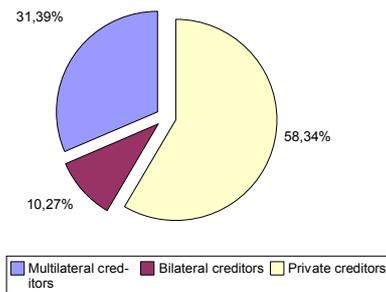


Source: MoF and NBRM

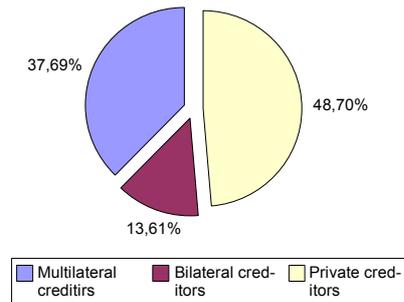
Chart 35

Guaranteed public debt by creditors

31st December 2006



31st December 2007

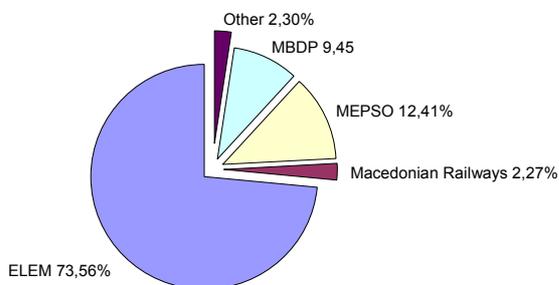


Source: MoF and NBRM

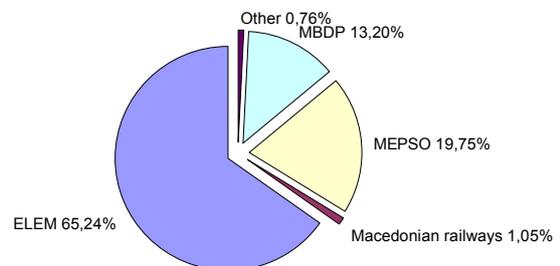
Chart 36

Guaranteed public debt by public enterprises

31st December 2006



31st December 2007



Source: MoF and NBRM

VIII. Annex Stock of public debt of the Republic of Macedonia (1999 - 2007)

(in millions of EUR)

basis	year								
	1999	2000	2001	2002	2003	2004	2005	2006	2007
EXTERNAL PUBLIC DEBT*	1.289,6	1.427,7	1.397,6	1.267,6	1.178,9	1.178,6	1.441,2	1.223,0	1.027,9
General Government Debt	1.024,7	1.153,9	1.191,9	1.089,0	1.005,5	993,2	1.245,4	1.025,2	877,2
Central Government (consolidated)	1.024,7	1.153,9	1.191,9	1.089,0	1.005,5	993,2	1.245,4	1.025,2	877,2
Central Government	971,5	1.101,0	1.144,1	1.050,4	972,6	962,3	1.208,0	981,9	841,8
Public Funds	53,2	52,9	47,8	38,6	33,0	30,9	37,4	43,3	35,4
Municipalities	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Central Bank	101,2	87,7	80,3	64,7	54,7	46,0	52,7	42,4	0,0
Public enterprises	163,6	186,2	125,4	114,0	118,7	139,4	143,2	155,4	150,6
DOMESTIC PUBLIC DEBT	113,6	791,0	733,3	676,0	665,0	663,9	750,4	806,5	899,9
General Government Debt	79,9	711,7	681,5	626,9	593,6	589,8	603,7	648,4	552,8
Central Government Debt	79,9	711,7	681,5	626,9	593,6	589,8	603,5	648,2	552,8
Structural bonds	79,9	711,7	681,5	626,9	593,6	557,9	533,5	479,7	396,3
Stopanska Bank Rehabilitation Bond	58,7	53,6	48,1	42,7	37,2	31,9	26,6	21,3	0,0
Small Bond	4,0	2,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Bond for selective credits	17,1	17,1	17,0	17,0	17,0	16,9	17,0	17,0	17,0
Stopanska Bank Privatization Bond	0,0	120,2	111,6	103,0	94,4	85,8	77,2	68,7	60,1
Bond for old foreign exchange savings	0,0	518,9	504,9	462,4	408,9	357,7	306,5	254,9	203,9
Denationalisation Bond (I, II, III, IV, V and VI issue)	0,0	0,0	0,0	1,9	36,2	65,6	106,2	117,8	115,4
Continuous Government Securities	0,0	0,0	0,0	0,0	0,0	31,9	70,0	168,6	156,5
o.w. Treasury bills for monetary purposes	0,0	0,0	0,0	0,0	0,0	0,0	0,0	75,9	75,5
Municipalities	0,0	0,0	0,0	0,0	0,0	0,0	0,2	0,2	0,0
Central Bank	33,8	79,3	51,8	49,1	71,4	74,1	146,7	155,3	344,3
Public enterprises**	N/A	2,8	2,8						
TOTAL PUBLIC DEBT-GFS	1.403,2	2.218,7	2.130,9	1.943,7	1.843,9	1.842,5	2.191,6	2.029,5	1.927,8
GDP***	3.448,1	3.893,0	3.839,0	4.001,0	4.105,0	4.325,0	4.676,0	5.046,0	5.472,0
Average export***	1.117,0	1.433,3	1.290,0	1.180,5	1.207,3	1.347,1	1.640,4	1.913,5	2.594,5
External public debt as % of the public debt	91,9	64,3	65,6	65,2	63,9	64,0	65,8	60,3	53,3
Domestic public debt as % of the public debt	8,1	35,7	34,4	34,8	36,1	36,0	34,2	39,7	46,7
Public debt as % of average GDP	40,7	57,0	55,5	48,6	44,9	42,6	46,9	40,2	35,2
Public debt as % of average export	125,6	154,8	165,2	164,7	152,7	136,8	133,6	106,1	74,3
General Government Debt-GFS	1.104,6	1.865,5	1.873,4	1.715,9	1.599,1	1.583,0	1.849,0	1.673,6	1.430,0
External debt of the General Government as % of the General Government Debt	92,8	61,9	63,6	63,5	62,9	62,7	67,4	61,3	61,3
Domestic debt of the General Government as % of the General Government Debt	7,2	38,1	36,4	36,5	37,1	37,3	32,6	38,7	38,7
General Government debt as % of the average GDP	32,0	47,9	48,8	42,9	39,0	36,6	39,5	33,2	26,1
General Government debt as % of the average export	98,9	130,2	145,2	145,4	132,5	117,5	112,7	87,5	55,1
Public debt calculated on the basis of the Public Debt law****	1.268,2	2.051,8	1.998,8	1.829,9	1.717,8	1.722,4	1.992,2	1.755,9	1.508,0
External public debt as % of the public debt	93,7	65,3	65,9	65,7	65,4	65,8	69,7	67,2	68,2
Domestic public debt as % of the public debt	6,3	34,7	34,2	34,2	34,6	34,2	30,3	32,8	31,8
Public debt as % of average GDP	36,8	52,7	52,1	45,7	41,8	39,8	42,6	34,8	27,6
Public debt as % of average export	113,5	143,2	154,9	155,0	142,3	127,9	121,4	91,8	58,1

* Source: National Bank of the Republic of Macedonia

** Beginning April 2006 public enterprises started submitting to the Ministry of Finance reports on the stock of debt (according to the Public Debt Law);

*** Source: Ministry of Finance-Macroeconomic Department (data for 2005 and 2006 are revised)

**** Total public debt excluding the debt of the monetary authority (IMF loans; CB bills and Treasury bills for monetary purpose)

IX. Conclusion

Ministry of Finance proposed to the Government of the Republic of Macedonia to adopt the 2007 Annual Report on Implementation of the Public Debt Management Strategy.