



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

**Annual Report on Public Debt Management of the Republic of
Macedonia for 2012**

Skopje, 2013

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Pursuant to Article 27 paragraph 2 of the Law on Public Debt (“Official Gazette of the Republic of Macedonia”, nos. 62/05, 88/08, 35/11), Parliament of the Republic of Macedonia is informed with the 2012 Annual Report on Public Debt Management of the Republic of Macedonia.

I. Introduction

Annual Report on Public Debt Management is prepared to the end of informing the Government of the Republic of Macedonia and the Parliament of the Republic of Macedonia, in details and on regular basis, and introducing the public with the features of total public debt of the Republic of Macedonia, as well as with the measures undertaken in the course of the previous year for efficient debt portfolio management in the Republic of Macedonia.

I.1. Methodology

Government debt comprises all financial liabilities incurred on the basis of borrowing by the Republic of Macedonia, including the debt of public institutions established by the Republic of Macedonia, the municipalities, the municipalities in the City of Skopje and the City of Skopje.

Public debt of the Republic of Macedonia comprises the government debt and the debt of public enterprises and companies fully or predominantly owned by the state, the municipalities, the municipalities in the City of Skopje and the City of Skopje, and the National Bank of the Republic of Macedonia. Hence, Government of the Republic of Macedonia, public institutions established by the Republic of Macedonia, the municipalities, the municipalities in the City of Skopje and the City of Skopje, public enterprises and companies fully or predominantly owned by the state, the municipalities, the municipalities in the City of Skopje and the City of Skopje and the National Bank of the Republic of Macedonia can appear as public debt issuers.

This definition of public debt is included in the Law on Public Debt, it presents the so-called **National Methodology** for calculating the public debt and is harmonized with the GFS Methodology, included in the **Government Financial Statistics Manual, issued by IMF**, being frequently applied methodology for calculating the public sector debt.

In addition, consolidated central government debt is also defined as a term in the Report, which is in line with the GFS Methodology and comprises the government debt excluding the debt of the municipalities, the municipalities in the City of Skopje and the City of Skopje.

II. Macroeconomic trends in the Republic of Macedonia in 2012

Gross Domestic Product. In 2012, GDP dropped by 0.3% in real terms, above all as a result of the unfavourable economic trends in the EU, the uncertainty related to the debt crisis in the Eurozone and the expectations of economic entities. In fact, reduced external demand for Macedonian products, mainly from the EU and the decline of export prices, caused for utilization of capacities of the companies operating in the processing industry to drop, industrial production to decline, as well as for negative growth of export. In addition, bad weather conditions, which led to slowdown of construction activities and drop of investment demand, had effects on the economic activity in the first quarter in 2012.

Analyzed according to the expenditure side of GDP, high growth rate of gross investments of 12.1% limited GDP decline, at the same time creating the bases for strengthening the competitiveness of the economy in the coming period. Final consumption declined by 0.7% in real terms, as a result of the drop of personal consumption by 1.2%, while public consumption decreased by 1.2%. Export of goods and services declined by 0.4%, while import grew by 3.6 in real terms, mainly as a result of the strong increase of gross investments.

Analyzed according to the production side of GDP, drop of economic activity was due to the 7.4% decline of the industrial production. Construction sector, following its decline of 8.1% in the first half in 2012, conditioned by the bad weather conditions, as well as the high comparative basis, grew by 13.3% in the second half of the year, and average growth in this sector was positive, accounting for 4.6%. Services sector in 2012 registered 1.3% growth rate, wherein catering industry experienced 4.6% growth. Agriculture sector grew by 1.4%.

Inflation. Inflation rate in 2012 amounted to 3.3%. Inflation dynamics was driven by supply factors, while inflationary pressure through domestic demand channel was not present in 2012, taking into account the reduced economic activity and the negative output gap. Quarterly dynamics showed that inflation in the first two quarters experienced a downward trend, while, in the third and the fourth quarter, it registered certain intensification, as a result of the increased prices of electricity and heat energy, as well as food. Analyzed by categories, the highest increase of prices in 2012 was seen at the category housing by 7.6%, followed by the 5.3% increase at the category clothing and footwear. Prices in the category food surged by 2.4%, as a result of the higher prices in the second half of the year.

External Sector. Value of export of goods in 2012 was lower by 2.7% compared to the previous year, while import of goods registered slight nominal growth of 0.3%. As a result of such trends, trade deficit widened by 6.1%, accounting for 23.7% of GDP in 2012. Such developments in the foreign trade reflected the deteriorated global economic climate and the weakened foreign demand, as well as the reduced domestic economic activity. Significant portion of the trade deficit was covered by private transfers, the inflows of which increased by 12% in 2012 in relation to the previous year, accounting for 21,5% of GDP. Hence, current account deficit accounted for 3.9% of GDP in 2012.

Inflow of foreign direct investments in the country accounted for 1.4% of GDP in 2012, whereby most of it was realized in a form of share capital and re-infested profit. Gross foreign currency reserves were kept at adequate level, amounting to EUR 2,193 at the end of 2012, being an increase of 6% compared to the previous year.

Labour market. Positive trends were registered on the labour market in 2012. According to the Labour Force Survey, number of employed persons in 2012 was higher by 0.8% compared to the previous year. Increase of employment was accompanied by 0.8% drop in the number of unemployed persons, while total number of active population was higher by 0.3%. Such trends on the labour market caused for the employment rate in 2012 to increase to 39%. Unemployment rate in 2012 dropped to 31% from 31.4%, the same level as in 2011.

Analysis of administrative data showed that number of unemployed persons registered in the Employment Agency was continuously declining in the course of 2012. Hence, at the end of 2012, 243.4 thousand persons were registered, being a decline of 13.4% in relation to the previous year. In the course of 2012, outflow of persons from the Employment Agency Registry amounted to around 124 thousand persons, 36.1% out of which were new employments.

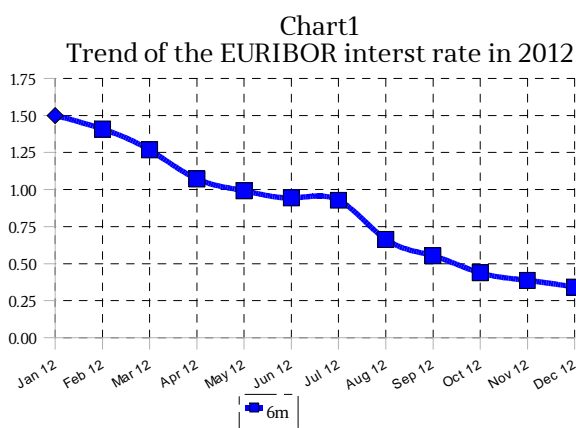
In 2012, compared to 2011, average net salary increased by 0.3% in nominal terms, while average gross salary increased by 0.2%.

III. More significant activities in the period January-December 2012

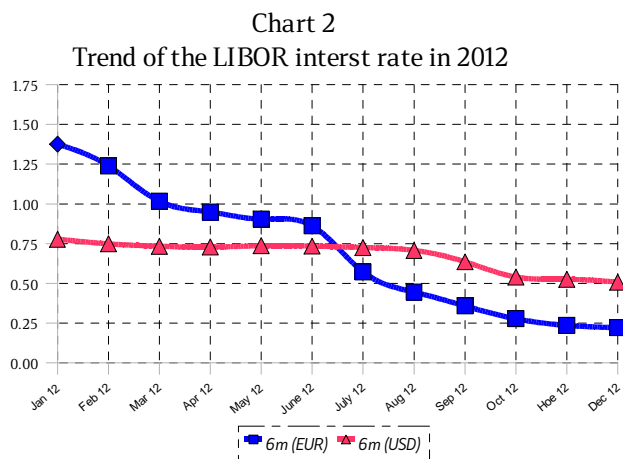
III.1 International environment (interest rates and exchange rates)

In the course of 2012, interest rate on the interbank deposit market in the Eurozone registered constant decline. Thus, interbank Euribor 6-month interest rate dropped by 1.19 percentage points on average during this period, i.e. average interest rate in January accounted for 1.51%, while it accounted for 0.32% in December 2012. Interbank EUR Libor interest rate followed the same trend. In fact, at the interbank deposit market in London, EUR 6-month Libor amounted to 1.46% in January 2012, while its average value was 0.22% at the end of the year.

At the interbank deposit market in London, in the period January-August 2012, Dollar Libor interest rate with 6-month maturity period, experienced stable trend in its value, while it experienced slight decrease by the end of the year. In 2012, average interest rate on Dollar 6-month Libor decreased by 0.27 percentage points. Thus, average US dollar 6-month Libor interest rate, amounted to 0.79% in January, reducing to 0.52% in December.

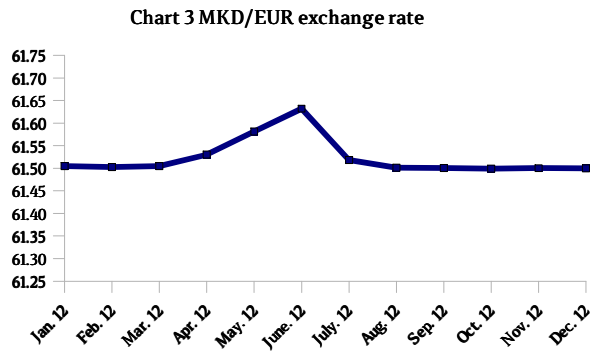


Source: European Banking Federation

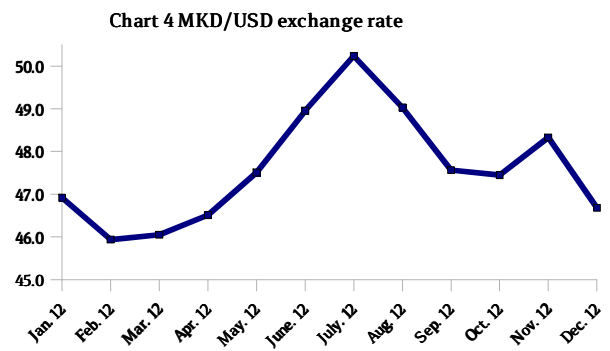


Source: British Bankers Association

As for the foreign currency market in the Republic of Macedonia, in 2012, Denar exchange rate in relation to the euro was stable and it ranged between Denar 61.4875 and Denar 61.6607 per euro. Highest value of Denar was observed on 6th October 2012 when it amounted to Denar 61.4875 per euro, while the lowest value amounted to Denar 61.6607 per euro on 21st May 2012. In relation to Denar/American dollar exchange rate, two periods may be differentiated, period January-July 2012, when Denar reduced the value in relation to the American dollar, and the period July-December 2012, when Denar continuously appreciated. In the analysed period, Denar exchange rate in relation to the American dollar ranged between Denar 45.7113 and Denar 50.9173 per American dollar.

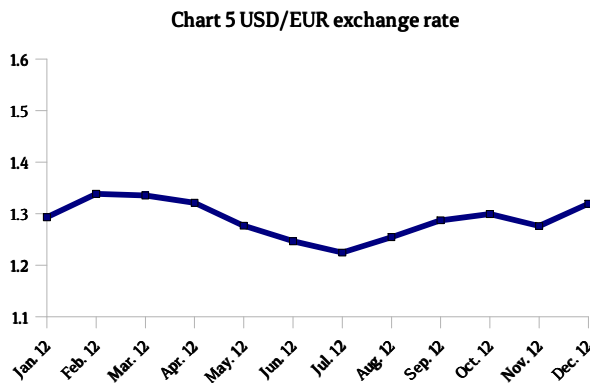


Source: NBRM

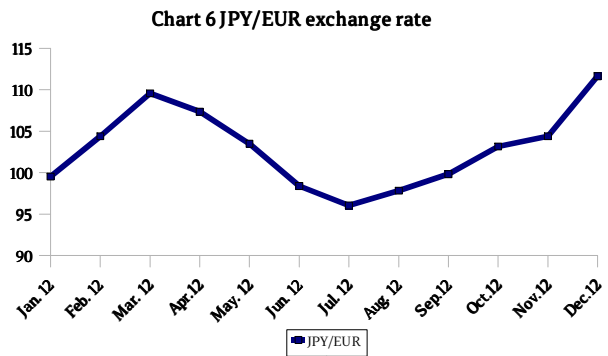


Source: NBRM

As regards the international financial market, starting 2012 until the end of July, value of the euro in relation to the American dollar continuous decreased, reaching the lowest value of 1.21 dollar per euor on 24th July 2012. Following this period, value of the euro stabilized and started its strengthening. In January, the average American dollar/euro exchange rate amounted to 1.29 dollars per euro, while it amounted to 1.31 per euro in December, increasing by 1.55%. At the same time, the same trend was also observed at the Japanese yen/euro exchange rate, i.e. in the first seven months of 2012, euro observed constant decrease of its value in relation to the Japanese yen, reaching the value of 94.63 yen per euro. During the rest of the year, euro continuously increased, whereby on 27th December 2012, it reached the highest value, amounting to 113.87 yen per euro. In 2012, the value of the euro in relation to the Japanese yen appreciated by 10.45%, i.e. the average exchange rate JPY/EUR was 99.33 yen per euro in January, amounting to 109.71 yen per euro in December.



Source: European Central Bank



Source: European Central Bank

III.2 Credit rating of the Republic of Macedonia in 2012

Republic of Macedonia on annual basis, obtains new revised credit rating by the international Credit Rating Agencies Fitch and Standard and Poor's.

In 2011, Fitch Credit Rating Agency affirmed the credit rating of the Republic of Macedonia for foreign and domestic currency BB+, as well as the stable outlook of the country. Awarded credit rating to the Republic of Macedonia is based upon stable macroeconomic policy, low level of government debt and stable banking system.

During the same period, Fitch Credit Rating Agency awarded the credit rating of the Republic of Macedonia for foreign and domestic currency BB+, with stable outlook. Awarded credit rating to the Republic of Macedonia is based upon moderate general government debt and reforms undertaken for EU accession.

In 2012, Fitch Credit Rating Agency announced that it retains the previously awarded credit rating to the Republic of Macedonia for foreign and domestic currency BB+, as well as the stable outlook of the country. In line with the Fitch Ratings Report, the affirmed rating is due to the low level of inflation, moderate budget deficit, relatively low level of public debt and well-capitalized banking sector, as well as macroeconomic stability and increased volume of foreign direct investments.

In 2012, Standard & Poor's Credit Rating Agency affirmed the credit rating of the Republic of Macedonia for foreign and domestic currency BB, as well as the stable outlook of the country. According to Standard&Poor's, rating affirmation is a result of the favourable fiscal policy and the low level of indebtedness, as well as the prospects for possible accession to the European Union, being pillar for implementation of the reforms.

Stable credit rating of the Republic of Macedonia is a strong signal to foreign investors and it has positive impact on the interest rate at which the country borrows on the international capital market, as well as the overall economic and political image of the Republic of Macedonia.

The grades for the credit rating the Republic of Macedonia obtained in 2011 and 2012 by the international Credit Rating Agencies Standard & Poor's and Fitch Ratings are shown in the table below:

Fitch Credit Rating Agency

	2011	2012
Foreign currency	BB+/Stable	BB+/Stable
Domestic currency	BB+/Stable	BB+/Stable

Source:Fitch

Standard & Poor's Credit Rating Agency

	2011	2012
Foreign currency	BB/Stable	BB/Stable
Domestic currency	BB/Stable	BB/Stable

Source: Standard & Poor's

III.3. Public debt trend

Central government debt (consolidated) amounted to EUR 2,544.5 at the end of 2012, and compared to the previous year, it increased by EUR 455.7 million. If the value of the debt is expressed in relation to the gross domestic product, it surged by 6 percentage points compared to the end of 2011, i.e. from 27.8% to 33.8%. However, in line with the method of recording the debt, being based upon cash calculation, the amount of the debt stock at the end of 2012 includes funds for refinancing of debt in 2013, i.e. funds that were intended for paying the Eurobond in the amount of EUR 175 million, being fully paid on 8th January 2013.

Debt of the municipalities at the end of 2012 amounted to EUR 10.0 million, accounting for 0.13% in relation to GDP. Compared to the previous year, this debt surged by EUR 5.9 million.

Debt of public enterprises at the end of 2012 amounted to EUR 366.1 million, accounting for 4.9% of GDP and compared to the previous year, it increased by EUR 57.7 million.

At the end of 2012, debt of the National Bank of the Republic of Macedonia amounted to EUR 467.2 million, i.e. 6.2% of GDP. Compared to the previous year, the debt of the National Bank of the Republic of Macedonia reduced by EUR 135.9 million, accounting for 1.8 percentage points of GDP.

III.4. Eleventh issue of denationalization bonds

Pursuant to the Law on Issuance of Denationalization Bonds in the Republic of Macedonia (Official Gazette of the Republic of Macedonia, nos. 37/02, 89/08, 161/09 and 6/12), the eleventh issue of denationalization bonds in the amount of EUR 10 million was issued on 16th March 2012. Terms and conditions, under which this bond was issued, were identical for both the first ten issues, i.e. 10-year maturity period and 2% fixed annual interest rate. First instalment for payment of the principal and the interest on this issue of the bond falls due on 1st June 2013.

This issue of the denationalization bonds covers all effective decisions on denationalization in the period 1st January 2011 - 31st January 2012, according to which bonds are given as compensation.

III.5. Public debt servicing

All liabilities on the basis of government debt that fell due in 2012 were regularly and timely serviced by the Ministry of Finance, as well as by the other public debt issuers.

To the end of repaying the liabilities on the basis of the **government debt** principal in the 2012 Budget of the Republic of Macedonia, Denar 5,402 million was planned, while total of Denar 4,216 million was spent for repaying the interest-related costs.

III.6. Continuous government securities

III.6.1. Primary government securities market (GS)

Borrowing by issuing government securities in 2012 - The decision on determining the maximum amount of new borrowing by issuing government securities by the Government of the Republic of Macedonia (Official Gazette no. 03/13), the maximum amount of borrowing was Denar 27,475.00 million. Thus, new borrowing on the basis of issued GS in 2012 amounted to Denar 27,470.02 billion, and the stock of total issued GS as of 31st December 2012 inclusive, amounted to Denar 49,521.53 million.

GS auctions - In the period January-December 2012, Ministry of Finance issued 3-month, 6-month and 12-month treasury bills with and without foreign exchange clause, as well as 3-year and 5-year government bonds with and without foreign exchange clause. During this period, total of one hundred and seventeen (117) GS auctions were held, i.e. sixty (60) auctions of 3-month treasury bills, fifteen (15) auctions of 6-month treasury bills, twelve (12) auctions of 12-month treasury bills, eleven (11) auctions of 3-year government bonds and nineteen (19) auctions of 5-year government bonds.

Total amount offered on the GS auctions in 2012 was Denar 123,275.16 billion, i.e. observed more separately by maturity, total amount offered was distributed as follows: Denar 98,256.02 was offered at 3-month treasury bills auctions, Denar 11,476.22 at 6-month treasury bills auctions, Denar 3,440.39 million was offered at 12-month treasury bills auctions, Denar 2,136.18 million was offered at 3-year government bonds auctions and Denar 7,966.35 at 5-year government bonds auctions. Total amount realized at the auctions in the same period was Denar 115,227.93 million. On the basis of the presented data on the amount offered and the amount of realization of GS auctions, one can see that the percentage of success of auctions in 2012 was 93.47%, increasing by 1.82 percentage points compared to 2011, when the success percentage of auctions was 91.65%.

In 2012, portfolio of continuous GS comprises 3-month treasury bills, 6-month treasury bills, 12-month treasury bills, 3-year government bonds and 5-year government bonds. As of 31st December 2012 inclusive, maturity structure of GS portfolio is as follows:

- percentage share of 3-month treasury bills was 65.17% in the maturity structure, decreasing by 8.58 percentage points compared to 31st December 2011, when it amounted to 73.75%.
- percentage share of 6-month treasury bills was 6.04% in the maturity structure, decreasing by 14.85 percentage points compared to 31st December 2011, when it amounted to 20.89%.
- percentage share of 12-month treasury bills was 6.55% in the maturity structure, increasing by 6.55 percentage points compared to 31st December 2011, when it amounted to 0%.
- percentage share of 3-year government bonds was 4.20% in the maturity structure, increasing by 4.20 percentage points compared to 31st December 2011, when it amounted to 0%; and
- percentage share of 5-year government bonds was 18.04% in the maturity structure,

increasing by 12.68 percentage points compared to 31st December 2011, when it amounted to 5.36%;

Trends of interest rates at GS auctions – During 2012, volume tender was applied at GS auctions.

During this period, interest rates on short-term government securities experienced one-off change, and depending on the maturity of instruments, they changed from 0.10 p.p. to 0.45 p.p. In the analyzed period, interest rates on 3-month treasury bills without and with foreign exchange clause, reduced by 0.20 p.p., accounting for 4.00% and 3.90% respectively at the end of December, interest rate on 6-month treasury bills with foreign exchange clause decreased by 0.10 p.p., amounting to 4.00% at the end of December, while interest rates on 12-month treasury bills without foreign exchange clause surged by 0.45 p.p., accounting for 4.75% at end-December. In this period, interest rates on long-term securities did not change, whereby interest rates on 3-year government bonds without and with foreign exchange clause amounted to 5.30% and 5.10% respectively, while interest rates on 5-year government bonds without and with foreign exchange clause accounted for 5.70% and 5.50% respectively.

Ownership structure of GS - Dominant share of banks in the ownership structure of government securities continued during 2012 as well. As of 31st December 2012 inclusive, percentage share of banks in the ownership structure of the government securities amounted to 57.51%, while the share of the other market entities was 42.49%. During the analyzed period, share of banks decreased by 7.26 percentage points in relation to the share of other entities, being respectively increased. As of 31st December 2011 inclusive, ratio between banks and other market entities was 64.77 to 35.23% respectively.

III.6.2. Secondary government securities market

Legal regulations on secondary trading in the Republic of Macedonia provide for trading in all structural government securities on the Macedonian Stock Exchange AD, as well as trading in continuous government securities on the OTC markets.

In 2012, total trading volume realized on the Macedonian Stock Exchange AD Skopje amounted to EUR 21,453,582.00, decreasing by 8.92% compared to 2011, when it amounted to EUR 23,553,560.00. At the same time, total realized trading turnover was EUR 19,535,765.00 in 2012, declining by 7.01% compared to 2011. (Chart 15)

During the same period, total of seven (7) transactions with government securities were realized on the Over-the-Counter Market, whereby all concluded transactions referred to short-term government securities. Total nominal trading amount amounted to Denar 1,058,000,000.00. Compared to the trading in 2011, it can be concluded that smaller number of transactions were realized in 2012 and total nominal amount of trading was higher by Denar 322,850,000.00 million compared to the trading in 2011.

III.7. Newly concluded loans in 2012

IV. 7.1. New loans concluded by Central Government

- **Borrowing by the Republic of Macedonia at Deutsche Bank**

On 6th July 2012, Ministry of Finance, on behalf of the Government of the Republic of Macedonia, and the Deutsche Bank concluded Loan Agreement in the amount of EUR 75,000,000. Loan funds from Deutsche Bank amounting to EUR 75 million will be intended to finance the 2012 budget deficit and refinance the liabilities falling due on the basis of regular repayment of the government debt.

Terms and conditions under which this loan was signed are the following:

- Loan amount: EUR 75 million;
- Repayment period: 5 years;
- Manner of repayment: semi-annual repayment of interest, and the principal will be repaid at once, at the end of the 5th year from the loan's approval;
- Interest rate: fixed interest rate being determined as a sum of 5-year swap (for Euro) and margin accounting for 5.33%.

- **Borrowing by the Republic of Macedonia at the World Bank under the Loan Agreement for additional financing of the Municipal Services Improvement Project**

On 7th July 2012, Ministry of Finance, on behalf of the Government of the Republic of Macedonia, and the World Bank concluded Loan Agreement in the amount of EUR 37,200,000. Loan funds will be intended for improving the transparency, financial sustainability and recommendation of target municipal services in the participating municipalities in the Project.

Terms and conditions under which this loan was signed are the following:

- Loan amount: EUR 37.2 million;
- Repayment period: 18 years including 5-year grace period;
- Manner of repayment: 26 semi-annual installments each 15th February and 15th August in the year, starting 15th August 2017 until 15th August 2029;
- Interest rate: 6-month EURIBOR with variable spread;
- Front-end fee: 0.25 %.

- **Borrowing by the Republic of Macedonia at the World Bank under the Loan Agreement for financing the Catastrophe Risk Insurance Facility Project**

On 23rd March 2012, Ministry of Finance, on behalf of the Government of the Republic of Macedonia, and the World Bank concluded Loan Agreement in the amount of US\$ 5,000,000. Objective of the Project is to increase access of access of homeowners, farmers, small- and

medium-sized enterprises to financial protection from losses caused by natural disasters.

Terms and conditions under which this loan was signed are the following:

- Loan amount: US\$ 5 million;
- Repayment period: 22 years including 6-year grace period;
- Manner of repayment: 32 semi-annual instalments each 15th May and 15th

November in the year, starting 15th May 2017 until 15th May 2032;

- Interest rate: 6-month LIBOR for euro currency plus variable swap;
- Front-end fee: 0.25 %.

- **Borrowing by the Republic of Macedonia at the European Bank for Reconstruction and Development under the “Rehabilitation of Eastern Part of Rail Corridor VIII Project - Phase I, Kumanovo-Beljakovce Section”**

On 21st August 2012, Ministry of Finance, on behalf of the Government of the Republic of Macedonia, and the European Bank for Reconstruction and Development (EBRD) concluded Loan Agreement in the amount of EUR 46,400,000. This Corridor will develop transportation system, which will contribute to increasing the trade between the Republic of Albania, Republic of Macedonia and the Republic of Bulgaria, i.e. it will lead to improvement of the access and the connection with the neighbouring countries, to the end of increasing competitiveness and developing the economy and the communication with the European countries. Rehabilitation of this section will contribute to reducing the costs for its maintenance and ensuring safe traffic, i.e. improving safety during the transport of people and goods, thus saving time and providing for environmental benefits.

Terms and conditions under which this loan was signed are the following:

- Loan amount: EUR 46,400,000;
- Repayment period: 15-year repayment period, including 4-year grace period;
- Manner of repayment: in 22 semi-annual instalments, on 20th April and 20th October every year, starting 20th October 2016;

- Interest rate: Variable 6-month EURIBOR interest rate increased by 1% margin. Interest rate is paid on annual basis;

- Commitment fee – 0.5% of the undisbursed loan funds.

III. 7.2. New loans concluded by local government

- **Project for Construction of Infrastructure for Accelerated Sustainable Economic Growth”**

On 13th August 2012, Ilinden Municipality and Halkbank AD Skopje signed Agreement for Long-Term Loan in the amount of EUR 569,000.0 in Denar equivalent for financing the “Project for Construction of Infrastructure for Accelerated Sustainable Economic Growth”. Implementation of this Project is aimed at ensuring quality conditions for attracting domestic and foreign investors in local economic zones in the municipality, thus having direct effects on the economic development in Ilinden Municipality. Realization of this

Project will provide for construction of accessible and internal road and utility infrastructure in line with all proscribed standards and norms for contemporary and modern infrastructure, thus creating conditions for accelerated and sustainable economic development of the municipality.

Terms and conditions under which this loan was signed are the following:

- Amount: EUR 569,000.0;
- Interest rate: 6.7% on annual basis;
- Repayment period: 5 (five) years; and
- Front-end fee: 0.5% of the loan amount.

III.7.3. New loans concluded by public enterprises

- **Project for Construction of Permanent Operating Assets for Production of Program for the Needs of Macedonian Radio Television**

On 27th November 2012, Public Enterprise Macedonian Radio and Television and Komercijalna banka AD Skopje signed Agreement for Long-Term Agreement in the amount of Denar 150,000,000.0 for financing the “Project for Construction of Permanent Operating Assets for Production of Program for the Needs of Macedonian Radio Television”. “Project for Construction of Permanent Operating Assets for Production of Program for the Needs of Macedonian Radio Television” will contribute to introducing new quality in the operations of the public radio and broadcasting service.

Terms and conditions under which this loan was signed are the following:

- Amount: Denar 150,000,000.0;
- Repayment period: 5 (five) years including 1 (one) year- grace period, starting from the day of the first disbursement of the loan funds;
- Interest rate: 8% on annual basis;
- Front-end fee in the amount of 0.5% of the amount of the approved loan and fee in the amount of 0.5% of the amount of the used loan funds, however not higher than Denar 150,000;
- Without fee for early repayment.

III.8. Issued guarantees in 2012

- **Sovereign guarantee of the Republic of Macedonia issued to ELEM AD Skopje of the liabilities under the Loan Agreement from the European Bank for Reconstruction and Development for Boskov Most Hydro Power Plant Project,**

On 3rd April 2012, Agreement was signed for guarantee issued to ELEM AD Skopje for fulfilling the obligations under the Loan Agreement from the European Bank for Reconstruction and Development (EBRD). Republic of Macedonia guarantees the settlement of liabilities in the amount of EUR 65,000,000.

Terms and conditions under which this loan was signed are the following:

- Amount: EUR 65,000,000;

- Interest rate: variable 6-month EURIBOR interest rate increased by 1 p.p. annual margin.
- Repayment period: 15 years including grace period, and
- Grace period: 5 years.

- **Sovereign guarantee of the Republic of Macedonia issued to Macedonian Railways Transport – AD Skopje of the liabilities under the Loan Agreement by the European Bank for Reconstruction and Development for the Macedonian Railways Fleet Renewal Project**

On 1st October 2012, Agreement for guarantee issued to Macedonian Railways Transport - AD Skopje of the liabilities under the Loan Agreement by the European Bank for Reconstruction and Development (EBRD) for the Macedonian Railways Fleet Renewal Project, was signed. Republic of Macedonia guarantees the settlement of liabilities in the amount of EUR 50,000,000. Within the Project, 4 three-car diesel passenger multiple units, 2 new three-car electric passenger multiple units will be procured, and 5-6 electric locomotives and 150 wagons will be rehabilitated.

Terms and conditions under which this loan was signed are the following:

- Loan amount: EUR 50,000,000;
- Repayment period: 15- years, including grace period of 3 years and 6 months;
- Manner of repayment: In 23 semi-annual installments, every 20th March and 20th September in the year;
- Interest rate: variable 6-month EURIBOR interest rate increased by 1% margin.
- Front-and fee in the amount of 1% of the loan amount.
- Commitment fee – 0.5% of the undisbursed loan funds.

- **Sovereign guarantee of the Republic of Macedonia issued to the Macedonian Bank for Development Promotion of the liabilities of the Loan Agreement from the European Investment Bank for the MBDP Loan for SME & Priority Projects III.**

On 10th July 2012, Agreement was signed for guarantee issued to the Macedonian Bank for Development Promotion of the liabilities of the Financial Agreement from the European Investment Bank for the PSME & Priority Projects III. Republic of Macedonia guarantees the settlement of liabilities in the amount of EUR 100,000,000.

Third phase of this Project was continuation of the successful realization of the first and second project, by which the Government of the Republic of Macedonia continues to support the private sector. Project is aimed at providing fresh capital for small- and medium-sized enterprises and mitigating the consequences of the crisis over this segment of the real sector. In addition, this Project is expected to contribute to support for new projects, new employments and increased liquidity in the economy and increased export.

Terms and conditions under which this loan was signed are the following:

-Loan amount: EUR 100,000,000;

-Repayment period: repayment period for each tranche of the loan may be from four years to eight years at the most starting from the date of disbursing the tranche, including grace period that may be between 60 days and two years from the date of disbursing the tranche. Repayment period will be determined for each loan tranche separately, on the day of the submission of the request for disbursement of the loan funds by the Macedonian Bank for Development Promotion.

- Manner of repayment: tranche may also be repaid on one-off basis between the third and fifth year;

- Interest rate: will be determined for each tranche of the loan separately, on day of the submission of the request for disbursement of the loan funds by the Macedonian Bank for Development Promotion, depending on which interest rate is more favourable for the Republic of Macedonia (fixed or variable one).

- **Sovereign guarantee of the Republic of Macedonia issued to ELEM AD Skopje of the liabilities under the Loan Agreement from Deutsche Bank for the Bitola Thermal Power Plant Rehabilitation Project**

On 24th August 2012, Agreement was signed for guarantee of the Republic of Macedonia issued to ELEM AD Skopje for fulfillment of the liabilities under the Loan Agreement from Deutsche Bank for funding the Bitola Thermal Power Plant Rehabilitation Project. Republic of Macedonia guarantees the settlement of liabilities in the amount of EUR 49,232,018. Revitalization and modernization of Thermal Power Plant Bitola will contribute to reducing NOx, continue the working life and increase the efficiency of the power plant. In addition, greater import of electricity will be prevented, thus providing for stability of the national electricity system and harmonization with the EU directives for such type of facilities, on longer run.

Terms and conditions under which this loan was signed are the following:

-Amount: EUR 49,232,018 (loan is divided in two portions each amounting to EUR 24,367,656 and EUR 24,864,362 respectively);

-Interest rate: variable 6-month EURIBOR interest rate increased by 1.675% annually.

-Repayment period: 12 years;

- Grace period: 10 months for EUR 24,367,656 and 22 months for EUR 24,864,362;

- Front-end fee: 0.625% of the loan amount;

- Commitment fee: 0.625% of the undisbursed loan funds on annual basis; and

- Agent fee: EUR 9,500 annually to Deutsche Bank, until the full loan repayment.

IV. Public debt management activities

IV.1. Disbursements on the basis of concluded loans by creditors and public debt levels

Table 1
Disbursements on the basis of already concluded and newly concluded loans by creditors and public debt levels

<i>In million euro</i>		Jan-Dec 2012 realization of disbursement
Disbursements on the basis of loans of total public debt		238.33
Central government debt (consolidated)		135.43
	Official creditors	60.43
	Multilateral creditors	55.89
	IBRD	23.27
	CEDB	11.69
	EBRD	15.90
	EIB	5.03
	Bilateral creditors	4.54
	Private creditors	75.00
Municipality		3.41
	Official creditors	3.41
	Multilateral creditors	3.41
	EBRD	3.41
Public enterprises		99.49
	Official creditors	74.45
	Multilateral creditors	56.51
	IBRD	3.82
	EBRD	0.86
	EIB	51.83
	Bilateral creditors	17.94
	Private creditors	25.04

Source: MoF and NBRM

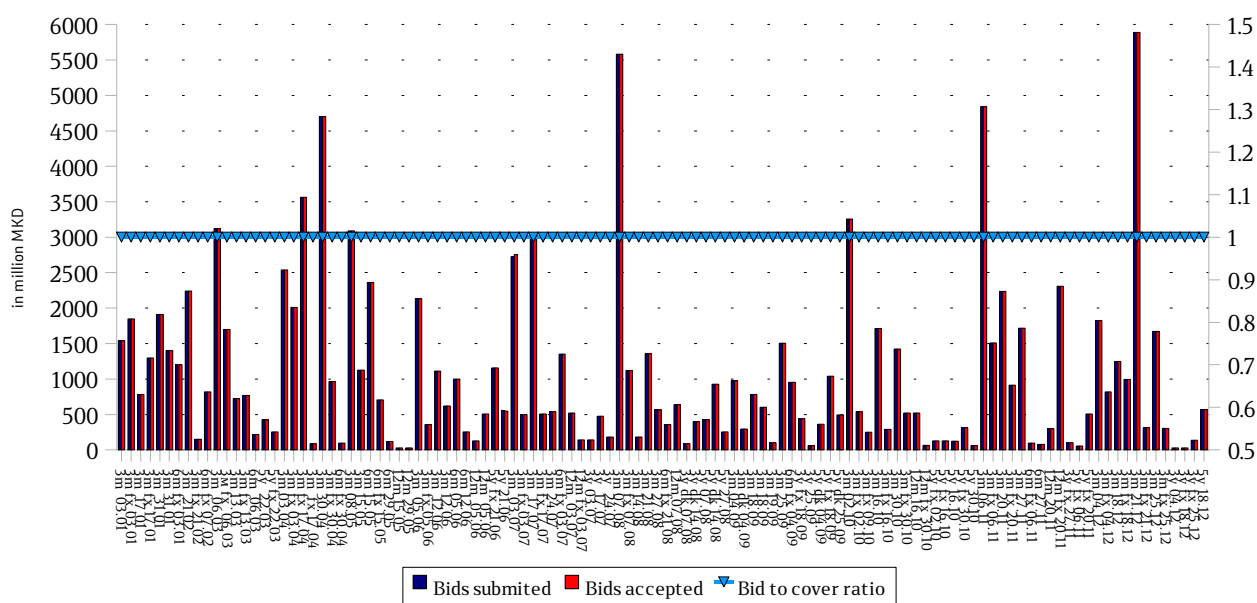
IV.2. Primary government securities market

Table 2
Net issue of continuous government securities and structural bonds (EUR million)

		Q1-2012	Q2-2012	Q3-2012	Q4-2012	Total Q1-Q4-2012
I	Net issue of government securities	19.10	165.82	85.94	175.81	446.67
2	3-month T- Bills	22.45	77.34	-31.55	192.09	260.33
3	6-month T- Bills	-14.46	49.68	6.81	-66.90	-24.87
4	12-month T- Bills	0.00	10.72	24.79	14.93	50.44
6	3-year T-Bonds	0.000	0.00	29.06	4.82	33.88
7	5-year T-Bonds	11.11	28.08	56.83	30.87	126.89
II	XI -th issue of denalization bonds*	11.00	10.00	0.00	0.00	10.00
I+II	Total	19.10	175.82	85.94	175.81	456.67

Source: MoF

Chart 7
Demand and realization of government securities auctions
January–December 2012



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

Source: MoF

Table 3
Average interest rates on GS without foreign exchange clause in 2012

Month	Weighted average interest rate 3 months T-Bills	Weighted average interest rate 6 months T-Bills	Weighted average interest rate 12 months T-Bills	Weighted average interest rate of 3-year T- Bonds	Weighted average interest rate of 5-year T- Bonds
January	4.20				
February	4.20				
March	4.20				5.70
April	4.20				
May	4.15	4.10	4.39		
June	4.00	4.10	4.75		5.70
July	4.00			5.30	
August	4.00		4.75		5.70
September	4.00			5.30	
October	4.00		4.75		5.70
November	4.00	4.10	4.75		
December	4.00	4.10			5.70

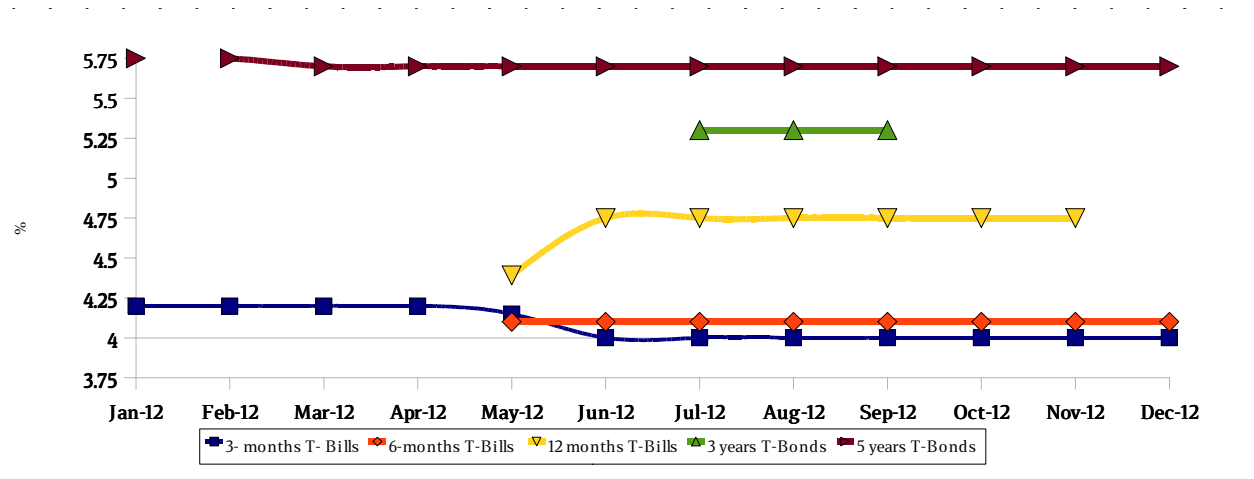
Source: MoF

Table 4
Average interest rates on GS with foreign exchange clause in 2012

Month	Weighted average interest rate 3 months T-Bills	Weighted average interest rate 6 months T-Bills	Weighted average interest rate 12 months T-Bills	Weighted average interest rate of 3-year T-Bonds	Weighted average interest rate of 5-year T-Bonds
January	4.10	4.10			
February	4.10	4.10			
March	4.10	4.10			5.50
April	4.10	4.10			
May		4.00			
June	3.90				5.50
July	3.90	4.00	4.50		
August	3.90	4.00		5.10	5.50
September	3.90	4.00		5.10	5.50
October	3.90		4.50		5.50
November	3.90	4.00	4.50	5.10	5.50
December	3.90			5.10	5.50

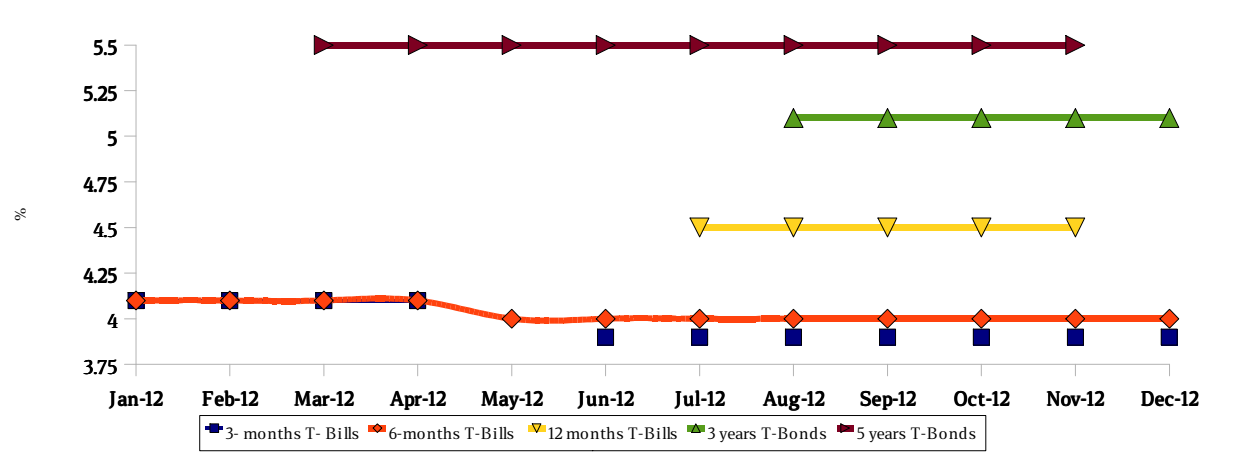
Source: MoF

Chart 8
Average interest rates achieved at auctions of GS without foreign exchange clause



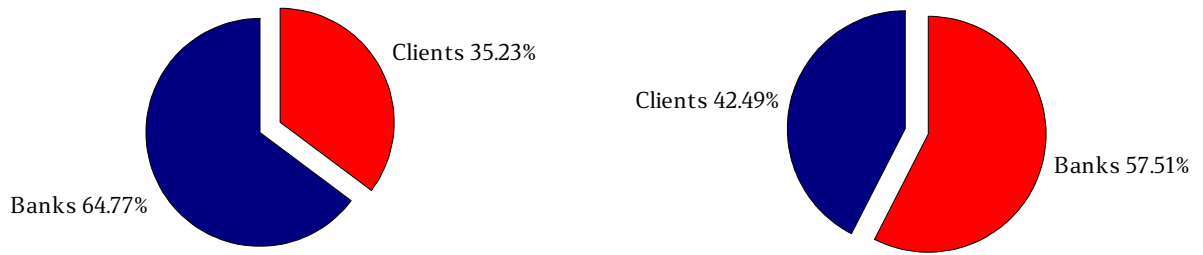
Source: MoF

Chart 9
Average interest rates achieved at auctions of GS with foreign exchange clause



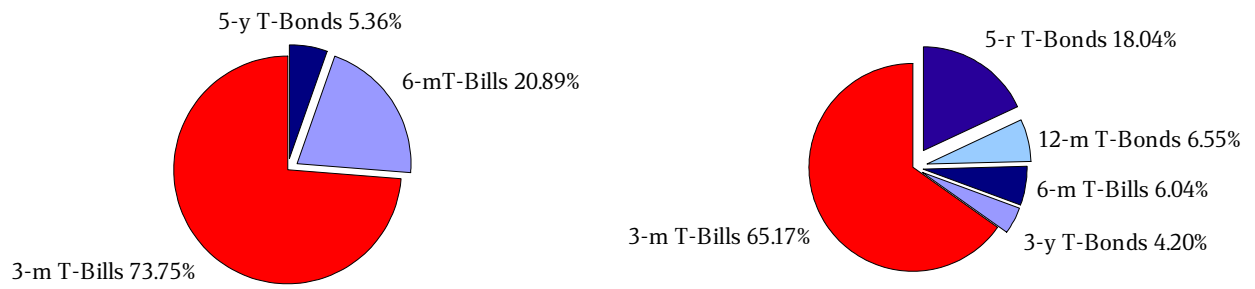
Source: MoF

Chart 10
 Ownership structure of continuous GS
 31st December 2011 31st December 2012



Source: MoF

Chart 11
 Maturity structure of continuous GS
 31st December 2011 31st December 2012

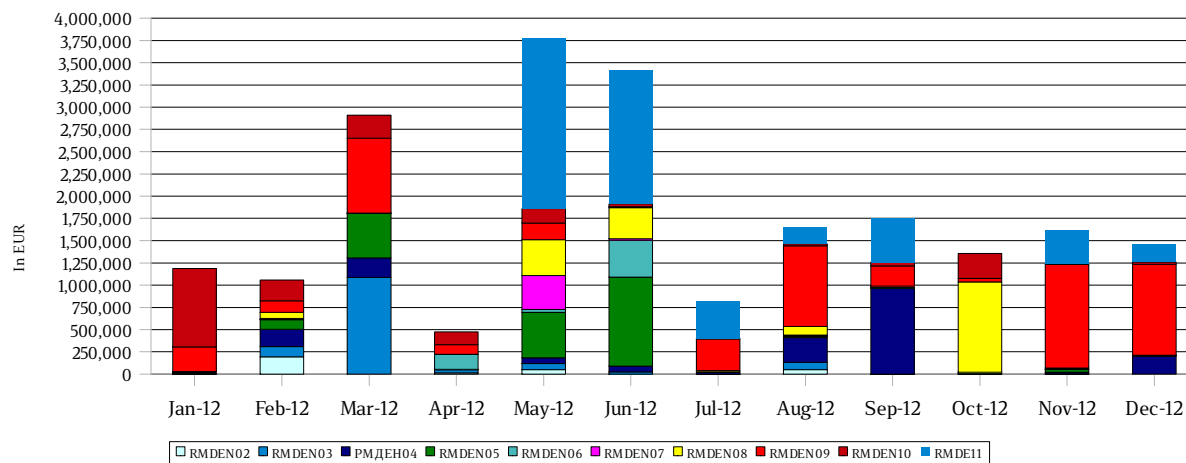


Source: MoF

IV.3. Secondary government securities market

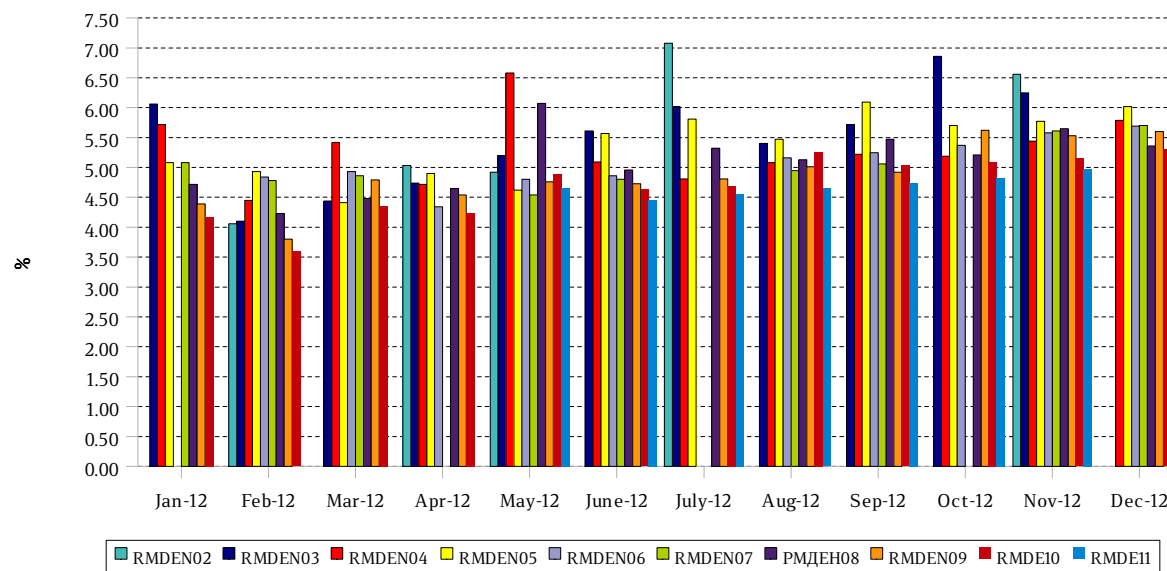
IV.3.1. Macedonian Stock Exchange AD Skopje

Chart 12
Trading volume for structural government bonds,
January–December 2012



Source: Macedonian Stock exchange AD Skopje

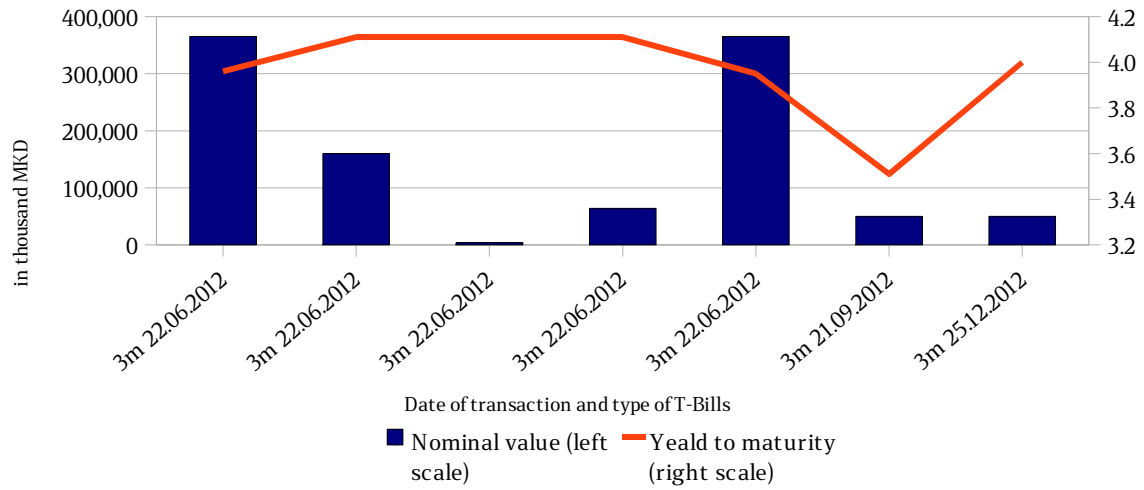
Chart 13
Yield to maturity of structural government bonds,
January–December 2012



Source: Macedonian Stock exchange AD Skopje

IV.3.2. Over-the-counter markets (OTC Markets)

Chart 17
Transactions of T-bills carried out through OTC,
January–December 2012



Source: NBRM

V. Debt portfolio features

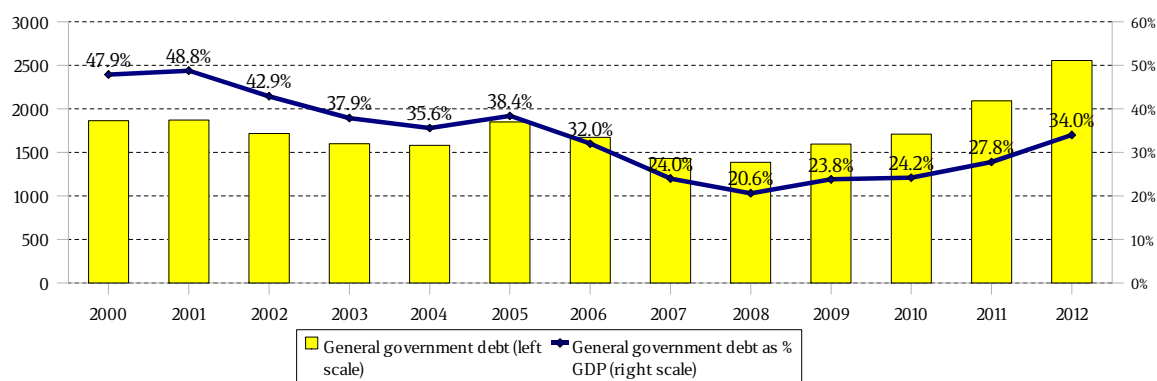
V.1. Government debt

Table 5
Government debt trends

in million eur		2006	2007	2008	2009	2010	2011	2012
External government debt		1,025.2	877.2	921.2	1,105.3	1,173.8	1,582.1	1,615.9
	Central government debt (consolidated)	1,025.2	877.2	921.2	1,105.3	1,173.8	1,582.1	1,612.5
	Municipality	0.0	0.0	0.0	0.0	0.0	0.0	3.4
Domestic government debt		648.4	552.8	465.9	492.0	537.0	510.8	938.6
	Central government debt (consolidated)	648.2	552.8	465.5	491.7	536.8	506.7	932.0
	Municipality	0.2	0.0	0.4	0.3	0.2	4.1	6.6
General government debt		1,673.6	1,430.0	1,387.1	1,597.3	1,710.8	2,092.9	2,554.5
	General government debt as % of GDP	30.6	23.5	20.5	23.6	24.1	27.7	33.7

Source: MoF and NBRM

Chart 15
Trends of the government debt in relation to GDP

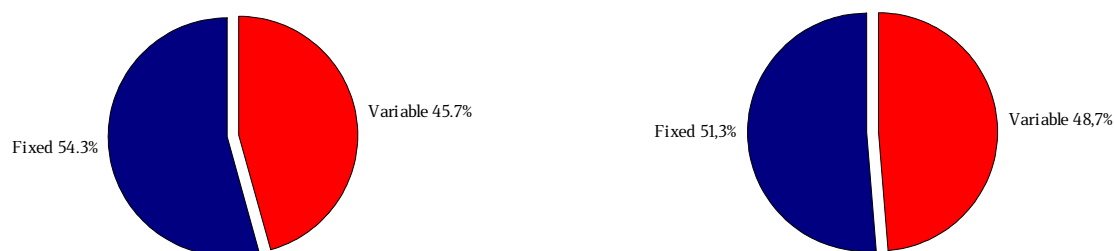


Source: MoF and NBRM

Chart 16
Total government debt interest structure

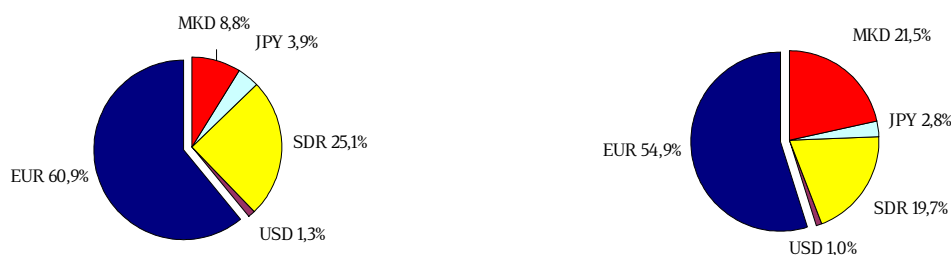
31st December 2011

31st December 2012



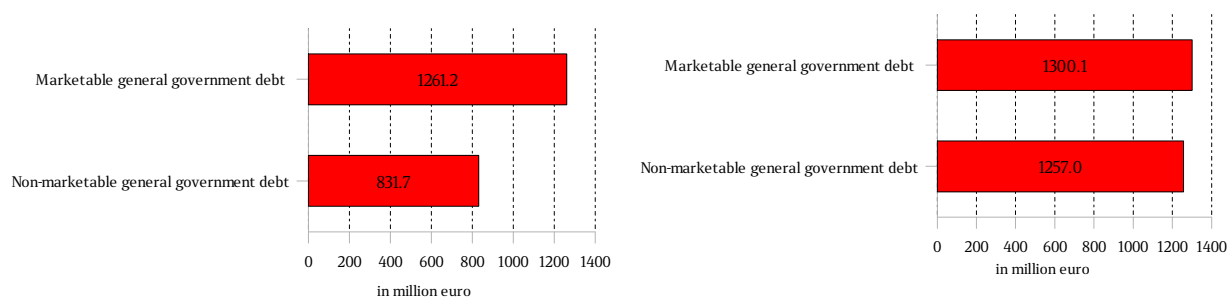
Source: MoF and NBRM

Chart 17
Currency structure of the government debt
31st December 2011 31st December 2012



Source: MoF and NBRM

Chart 18
Market/non-market government debt
31st December 2011 31st December 2012



Source: MoF and NBRM

Indicators for government debt portfolio risk

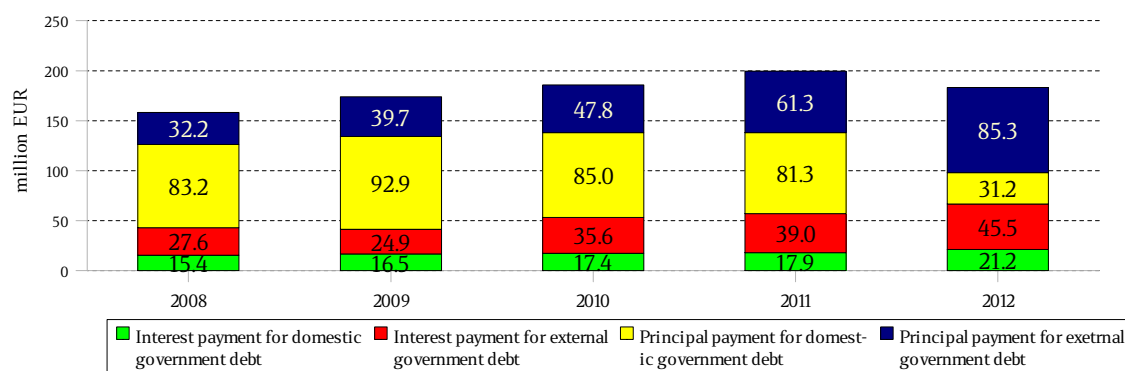
Table.8 Average time to maturity- ATM (in years)				
	2009	2010	2011	2012
Domestic debt	1.8	1.4	1.3	1.3
External debt	7.2	7.0	6.1	5.2
Total government debt	5.5	5.2	4.9	3.8

Source: MoF

Table.9 Average time to refixing- ATR (in years)				
	2009	2010	2011	2012
Domestic debt	1.6	1.3	1.2	1.3
External debt	6.0	5.3	4.4	3.6
Total government debt	4.6	4.0	3.6	2.8

Source: MoF

Chart 19
Repayment of interest and principal on the basis of government debt



Source: MoF and NBRM

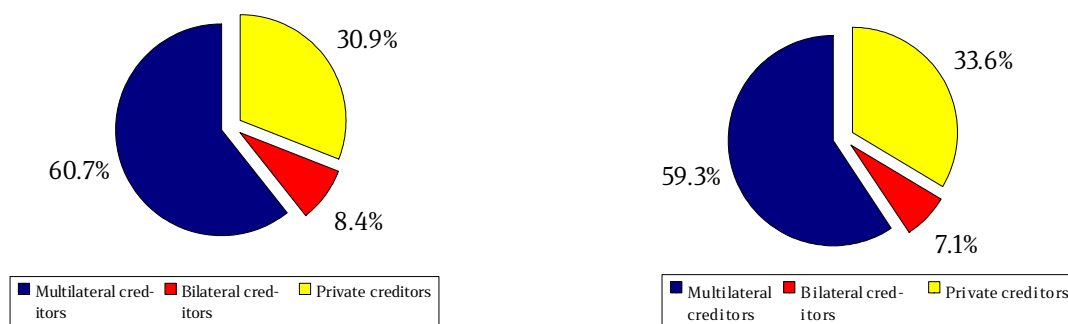
V.2. External government debt

Table 8
External government debt by creditors and debtors (EUR million)

Sector/debtor/creditor	31/12/07	31/12/08	31/12/09	31/12/10	31/12/11	31/12/12
External Government Debt of the Republic of Macedonia	877.2	921.2	1,105.3	1,173.8	1,582.1	1,615.9
Official creditors	726.8	769.4	776.0	841.8	1,092.5	1,072.7
Multilateral creditors	658.4	683.0	678.0	719.0	959.4	957.8
IBRD	103.2	127.8	148.8	195.8	218.8	229.9
IDA	270.7	270.9	266.2	277.1	277.1	262.8
IFAD	12.2	12.3	12.1	12.7	12.5	11.8
CEDB	17.4	16.8	20.4	27.6	29.6	39.4
EBRD	56.9	53.1	46.9	40.7	39.9	52.5
EIB	108.1	117.1	106.6	96.2	85.7	80.2
EU	90.0	85.0	77.0	69.0	61.0	51.0
IMF	0.0	0.0	0.0	0.0	234.9	230.2
Bilateral creditors	68.5	86.4	98.0	122.8	133.1	114.9
Private creditors	150.4	151.8	329.3	332.0	489.6	543.2
Eurobond	150.0	150.0	325.0	325.0	325.0	325.0
Other private creditors	0.4	1.8	4.3	7.0	164.6	218.2

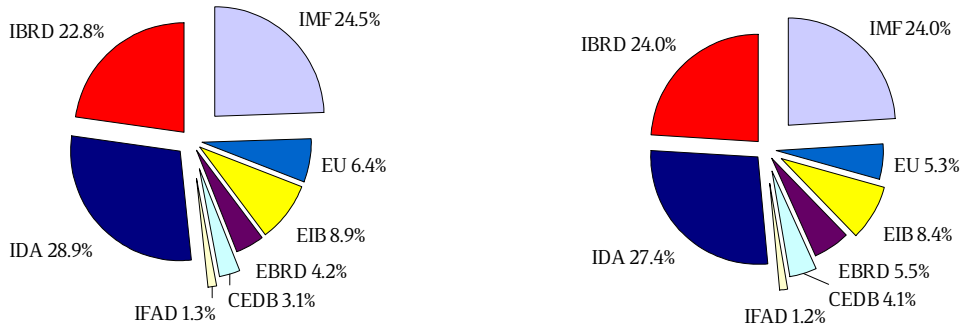
Source: MoF and NBRM

Chart 20
External government debt structure by creditors
31st December 2011 31st December 2012



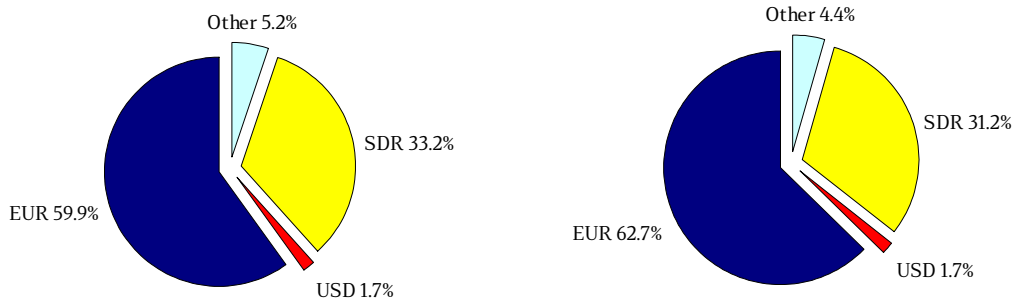
Source: MoF and NBRM

Chart 21
External government debt structure by multilateral creditors
31st December 2011 31st December 2012



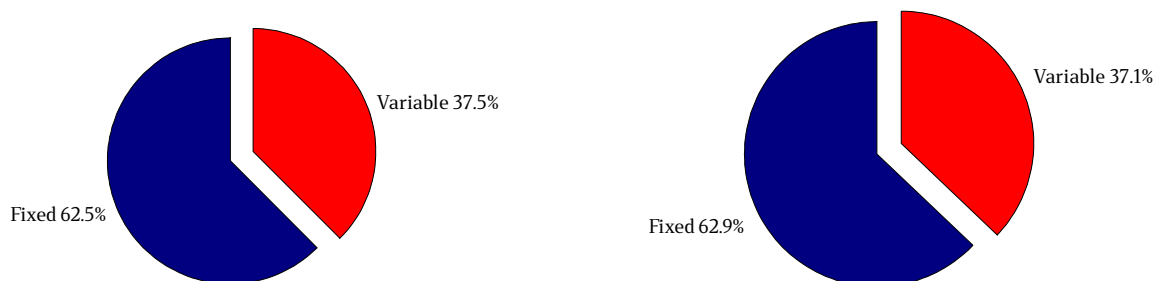
Source: MoF and NBRM

Chart 22
Currency structure of external government debt
31st December 2011 31st December 2012



Source: MoF and NBRM

Chart 23
Interest structure of external government debt
31st December 2011 31st December 2012



Source: MoF and NBRM

V.3. Domestic government debt

Table 9

Domestic government debt according to the GFS Methodology and the Law on Public Debt

million EUR	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011	31/12/2012
Government debt	648.4	552.8	465.9	492.0	537.0	510.8	938.6
Central government debt (consolidated)	648.2	552.8	465.5	491.7	536.8	506.7	932.0
Structural bond	479.7	396.3	343.5	282.5	226.1	152.1	126.8
Bond for rehabilitation of Stopanska banka	21.3	0.0	0.0	0.0	0.0	0.0	0.0
Bond for selective creditors	17.0	17.0	16.9	16.9	16.9	16.9	16.9
Bond for privatization of Stopanska banka	68.7	60.1	51.5	42.9	34.3	27.9	19.3
Bond for old for foreign exchange saving	254.9	203.9	152.9	101.9	51.0	0.0	0.0
Denationalization bonds	117.8	115.4	122.2	120.7	124.0	107.3	90.6
Continuous government securities	168.6	156.5	122.0	209.2	310.6	354.6	805.2
Municipality	0.2	0.0	0.4	0.3	0.2	4.1	6.6

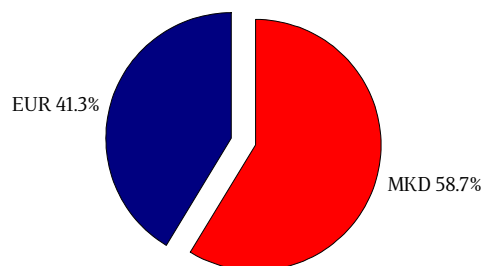
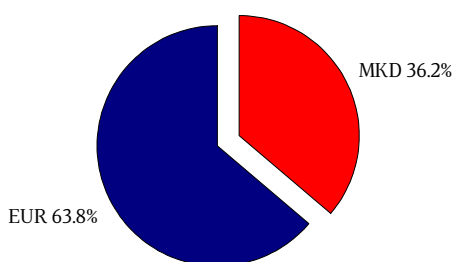
Source: MoF

Chart 24

Domestic government debt currency structure

31st December 2011

31st December 2012



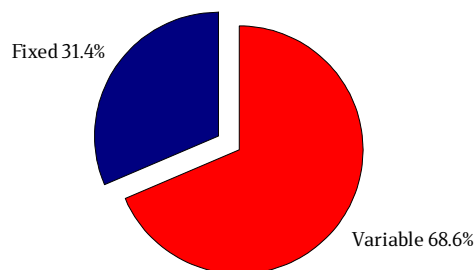
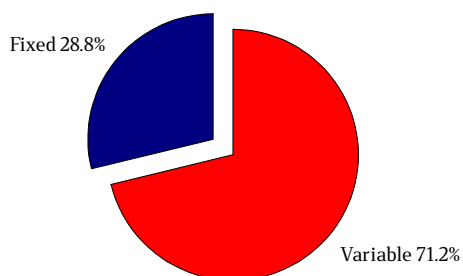
Source: MoF

Chart 25

Domestic government debt interest structure

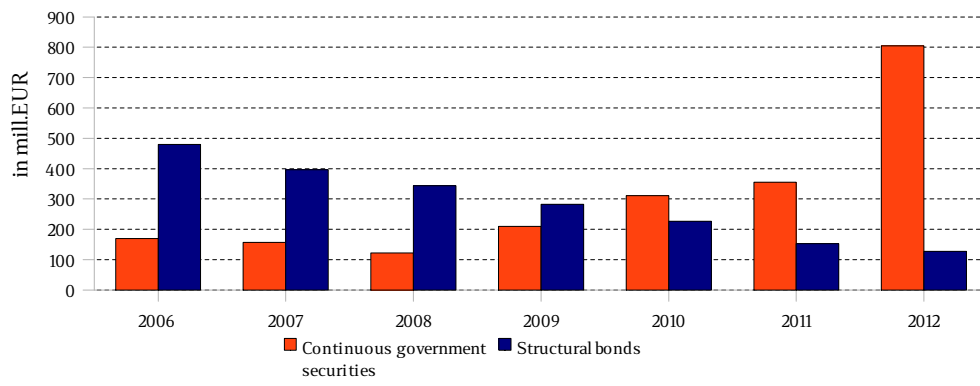
31st December 2011

31st December 2012



Source: MoF

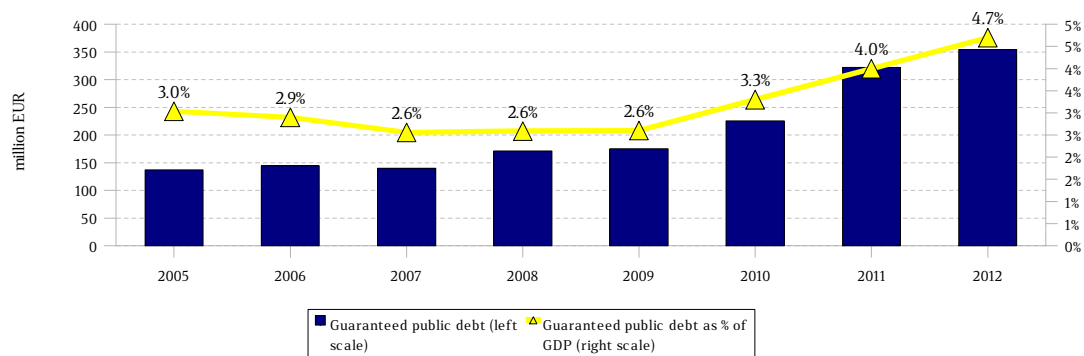
Chart 26
Ratio between the stock of structural bonds and continuous GS



Source: MoF

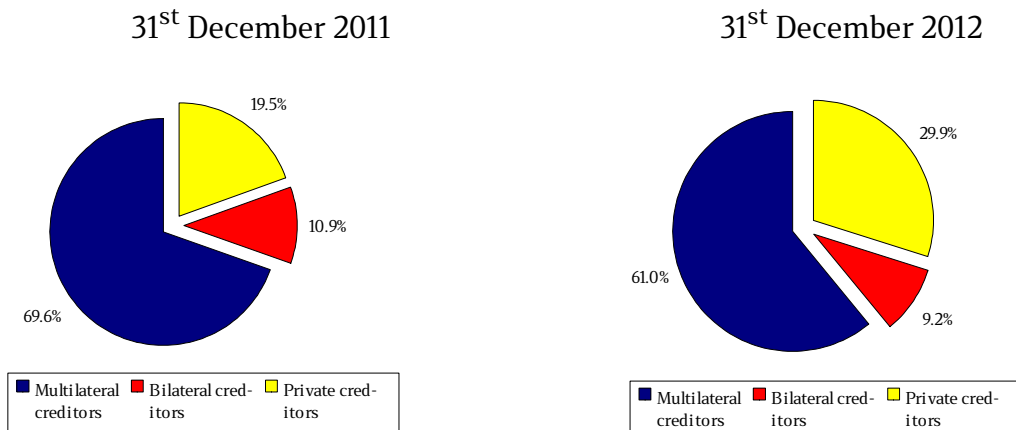
V.4. Guaranteed public debt

Chart 27
Stock of guaranteed public debt



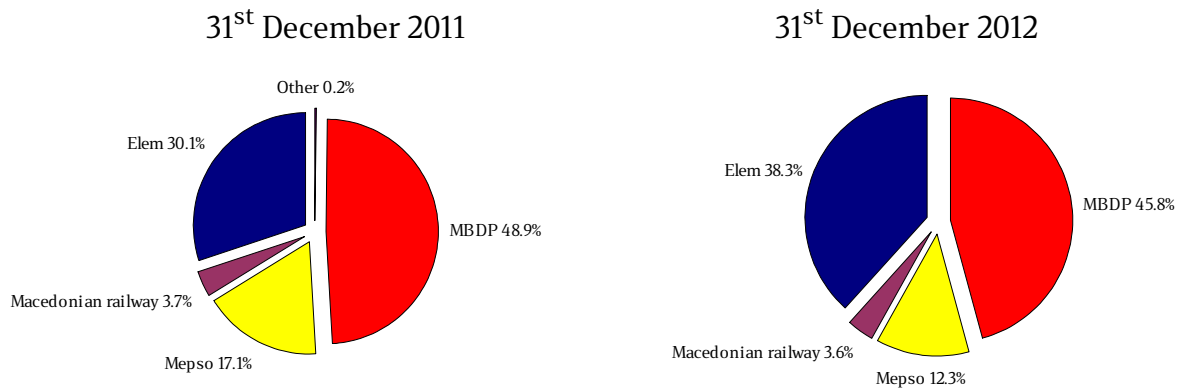
Source: MoF and NBRM

Chart 28
Guaranteed public debt by creditors



Source: MoF and NBRM

Chart 29
Guaranteed public debt by debtors



Source: MoF and NBRM