

Report on the public debt of the Republic of Macedonia for the second quarter of 2007

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Skopje, August 2007

1. Highlights in the second quarter of 2007

- **Public debt reduction** – Total public debt in the Republic of Macedonia in the first quarter of 2007 declined by EUR 121,2 million, i.e. by 3,7% in relation to GDP and is 30,7%. External public debt in march 2007 amounted to EUR 1.110,1 million and constantly declines, so at end of second quarter of 2007 it amounted to EUR 1.012,8 million, i.e. it declined by 8,9%. Domestic public debt in march 2007 amounted to EUR 686,8 million and by end-June 2007 it declined by EUR 23,9 million, i.e. by 3,4%, due to prepayment of the Bond for rehabilitation of Stopanska banka A.D Skopje, as well as the regularly redemption of the remains structural bond.
- **Early prepayment of the debt towards the Paris Club of Creditors** - In order to reduce interest costs to the Budget of the Republic of Macedonia and to use the high level of resources from the foreign currency deposit of the Ministry of Finance, and under the multilateral agreement signed in Paris on January 24, 2007 with 13 member states of the Paris Club, the Republic of Macedonia, in the period January 13 – April 30, 2007 committed to an early prepayment of the overall debt towards the Paris Club of Creditors in the amount of EUR 77 million at par value and without additional penalties or fees. The objectives of this operation are restructuring of the public debt portfolio so as to reduce the non-euro external debt, reduce variable interest rate debt and to realize interest savings in the Budget of the Republic of Macedonia in 2007 of EUR 2.5 million and interest rates will be realized until 2011 in the total amount of EUR 9.8 million. In the second quarter, total of four agreements were realized with the member states of the Paris Club of Creditors. This operation is expected to be completed by signing a bilateral agreement with Italy which has submitted evidence of old debts still not regulated between the two countries. Upon the ratification of the agreement with Italy in the Macedonian Parliament, the payment under this agreement will be made at end-2007.
- **Early prepayment of the part of the debt towards the International Bank for Reconstruction and Development** - On 4 April 2007 година the Government has approved the realization of an early prepayment of the debt towards IBRD in the amount of EUR 96,1 million. The objective of this early prepayment is further improvement of the structure of the debt portfolio and its exposure to interest and currency risks. Also for this operation, interest savings are planned in the amount of EUR 2.7 million in 2007 only, and savings continue to be realized until 2021 in the total amount of EUR 32.7 million, of which the Road Fund only would realize interest savings of EUR 9.6 million. The calculations of net present value savings shows the positive effect of the early prepayment of the credits in amount of EUR 3,1 million. The buy back operation was successful executed on 11 June 2007 by the Ministry of finance.

From the point of view of interest cost, the prepaid credits had very unfavorable interest rates. Namely, the average weighed interest rate for all six loans was 5,6% i.e. interest rate higher than the actual interest rates that Republic of Macedonia can borrow on the foreign markets (six months Eur Libor increased by 0,5 % points margin currently is around 4,5%).

The positive changes also occurred currency structure, where the biggest part of the prepaid loans was denominated in non-euro currency (78% of the credits were denominated in US dollars) putting this operation in line with the accepted targets in mid term Strategy for public debt management, where the one of the main target is to increase the share of foreign debt in euro currency.

- **Early prepayment of the bond for rehabilitation of Stopanska Banka AD Skopje** – The Ministry of Finance on 1 April 2007 made an early prepayment of the bond for rehabilitation of Stopanska Banka AD Skopje in the amount of Denar 1,302.5 million. The early prepayment for the period April 2007 – March 2010 would result in total saving on the basis of interest costs in the amount of Denar 205.66 million. Taking into account that this bond was issued for structural

purposes, this prepayment operation would improve the characteristics of the total public debt portfolio so as to reduced the share of the debt issued under non-market conditions and improve the image of the Republic of Macedonia with the credit rating agencies.

- **Issue of continuous government securities** –during the second quarter of 2007 six issues of 3-month treasury bills were made, three issues of 6-month treasury bills, one issue of 12-month treasury bills and one issue of a 2-year government bond. Interest rates on treasury bills and 2-year government bond keep the trend of declining. This report gives a brief description of the development on the primary and secondary market, while the government securities market is elaborated in more detail in the publication on the government securities market issued every two months by the Public Debt Management Department.
- This quarter is characterized by poor realization of the **disbursements** on the basis of external borrowings of only 33,1% of the planned, i.e. of the planned EUR 61,1 million only EUR 20,2 million have been disbursed. his low percentage of realization carries additional costs on the basis of commitment fees that burden the budget of the Republic of Macedonia.
- In the second quarter of 2007 was made additional improvement of the characteristics of the public debt portfolio, and thus realization of the targets set in the Public Debt Management Strategy (2007-2009).

Targets	Parameters of the debt portfolio as of March 2007	Parameters of the debt portfolio as of June 2007	Targets for the period 2007-2009
Ratio between total public debt and GDP	31,2%	28,2%	37%-40%
Ratio between general government debt and GDP	28,5%	25,3%	34%-37%
Ratio between total guaranteed debt and GDP	2,6%	2,6%	3.7%-4.1%
Ratio between external and domestic debt	external debt-65% domestic debt-35%	external debt-65,7% domestic debt-34,3%	external debt 65% domestic debt-35%
Ratio between the debt with fixed and variable interest rate	debt with fixed rate-64% debt with variable rate- -36%	debt with fixed rate- 67,1% debt with variable rate- 32,9%	debt with fixed rate 70-80% debt with variable rate- 20-30%
Ratio between domestic currency debt and foreign currency debt	domestic currency debt- - 8,1%	domestic currency debt – 7,4%	domestic currency debt – 15-20%
Stock of guaranteed public debt	143,5 million EUR	144,8 million EUR	220 million EUR

**When monitoring the realization of the targets and presentation of data, the national methodology was used, according to which central bank debt is not part of the total public debt, and it also excludes treasury bills for monetary purposes. While the data in the remaining part of the report are shown also according to the national methodology, but including the debt on the basis of treasury bills for monetary purposes (since despite the fact that they are issued for monetary policy purposes, primary issuer is the Ministry of Finance).*

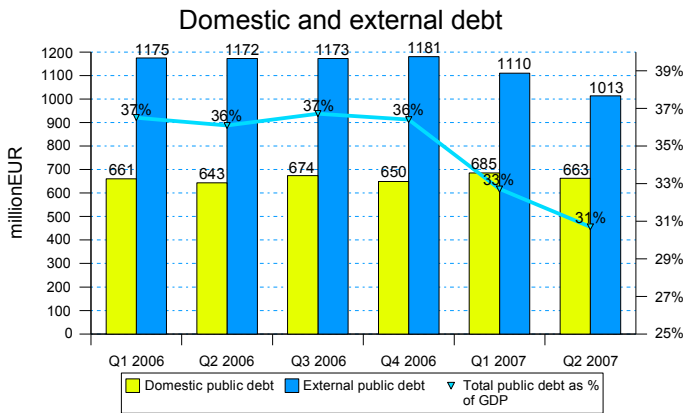
2. Stock of public debt

(in million EUR)

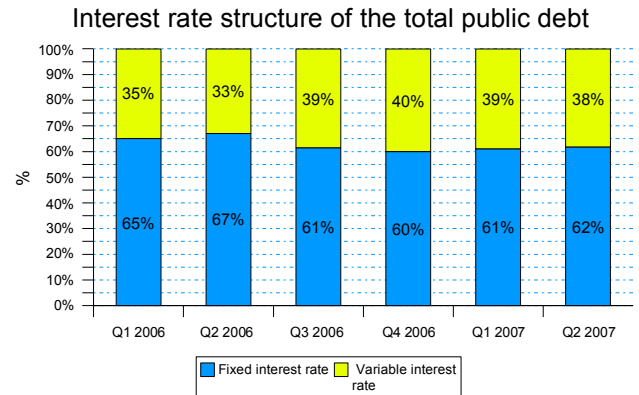
	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007
External public debt	1.174,9	1.171,8	1.172,6	1.180,6	1.110,1	1.012,8
General public debt	1.037,7	1.037,7	1.034,4	1.025,2	962,1	857,0
Central government debt (consolidated)	1.037,7	1.037,7	1.034,4	1.025,2	962,1	857,0
Central government debt	1.001,4	999,5	994,3	981,9	918,9	823,1
Public funds	36,4	38,2	40,1	43,3	43,2	33,9
Municipalities	0,0	0,0	0,0	0,0	0,0	0,0
Centralna Banka	51,8	47,8	47,3	42,4	38,1	0,0
Public enterprises	137,2	134,1	138,2	155,4	148,0	155,8
Domestic public debt	660,5	642,7	673,6	651,2	686,8	662,9
General public debt	660,5	641,2	672,1	648,4	684,2	660,5
Central government debt	660,3	641,0	671,9	648,2	684,2	660,5
Structural bond	559,2	512,0	508,4	479,7	493,9	430,9
Bond for rehabilitation of Stopanska banka	26,6	21,3	21,3	21,3	21,3	0,0
Bond for selective credits	17,0	17,0	17,0	17,0	17,0	17,0
Bond for privatization of Stopanska banka	75,1	73,0	70,8	68,7	68,7	66,5
Bond for old foreign exchange savings	306,5	280,9	280,4	254,9	254,9	229,4
Denationalization bond (I, II, III, IV, V and VI issue)	134,0	119,9	118,9	117,8	132,1	118,0
Continuous government securities	101,1	129,0	163,6	168,6	190,3	229,6
Out of which treasury bills for monetary purpose	22,9	43,6	77,2	75,9	92,0	134,1
Municipalities	0,2	0,2	0,2	0,2	0,0	0,0
Public enterprises	N/A	1,5	1,5	2,8	2,6	2,4
TOTAL PUBLIC DEBT - Public debt low	1.835,5	1.814,5	1.846,2	1.831,8	1.796,9	1.675,7
GDP	5.027,6	5.027,6	5.027,6	5.003,4	5.462,7	5.462,7
Average export	1.913,5	1.913,5	1.913,5	1.913,5	2.122,4	2.122,4
External public debt as % of total public debt	64,0	64,6	63,5	64,4	61,8	60,4
Domestic public debt as % of total public debt	36,0	35,4	36,5	35,6	38,2	39,6
Total public debt as % of GDP	36,5	36,1	36,7	36,6	32,9	30,7
Total public debt as % of average export	95,9	94,8	96,5	95,7	84,7	79,0
General government debt	1.698,2	1.678,9	1.706,5	1.673,6	1.646,3	1.517,5
External debt of the general government as % of the total general government debt	61,1	61,8	60,6	61,3	58,4	56,5
Domestic debt of the general government as % of the total general government debt	38,9	38,2	39,4	38,7	41,6	43,5
General government debt as % of average GDP	33,8	33,4	33,9	33,4	30,1	27,8
General government debt as % of average export	88,8	87,7	89,2	87,5	77,6	71,5
Foreign currency denominated debt of the general government as % of the total general government debt	91,5	90,0	88,2	87,6	86,1	83,8
Interest payment of general government debt as % of total revenues of the general government	3,2	3,0	1,7	4,2	1,9	4,0
TOTAL PUBLIC DEBT according to the GFS methodology	2.033,6	1.972,9	2.015,2	2.029,5	2.020,6	1.923,4
External debt as % of total public debt	60,3	61,8	60,5	60,3	56,8	52,7
Domestic debt as % of total public debt	39,7	38,2	39,5	39,7	43,2	47,3
Total public debt as % of GDP	40,4	39,2	40,1	40,6	37,0	35,2
Total public debt as % of average export	106,3	103,1	105,3	106,1	95,2	90,6

Source: MoF and NBRM

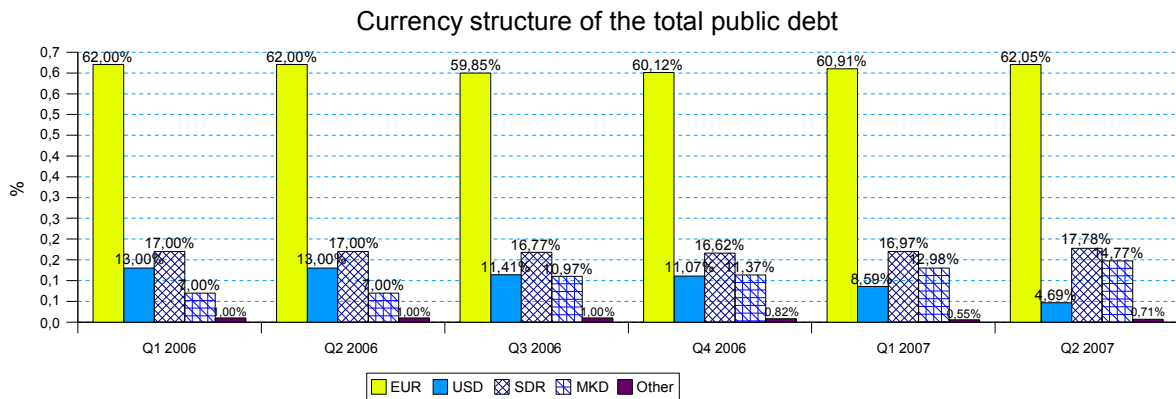
2.1. Public debt structure



Source: MoF and NBRM

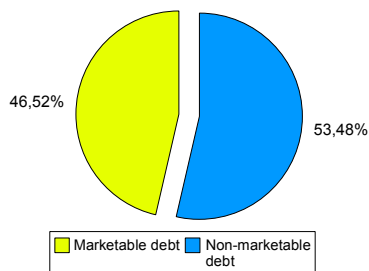


Source: MoF and NBRM



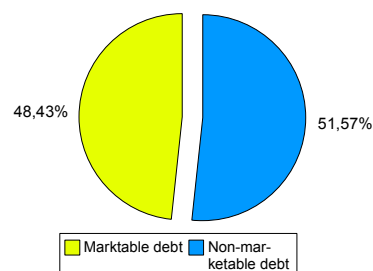
Source: MoF and NBRM

Marketable and non-marketable public debt as of 31 March 2006



Source: MoF and NBRM

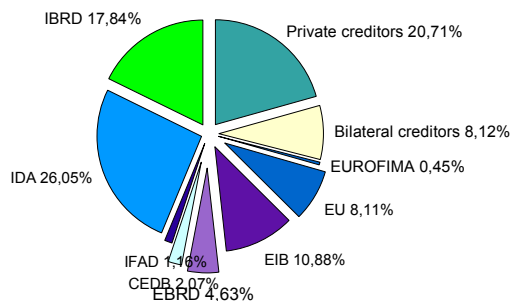
Marketable and non-marketable public debt as of 30 June 2007



Source: MoF and NBRM

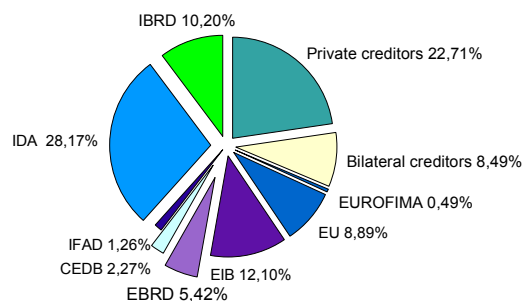
Ministry of finance
Public debt management department

Structure of the external public debt by creditors as of 31 March 2006



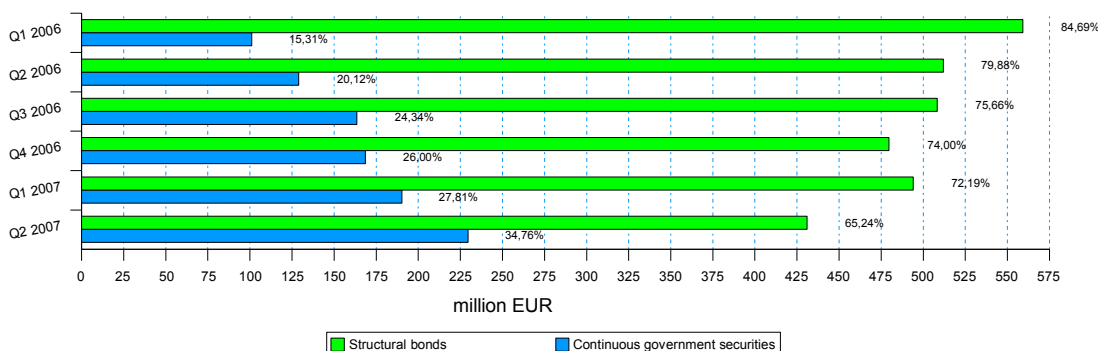
Source: MoF and NBRM

Structure of the external public debt by creditors as of 30 June 2007



Source: MoF and NBRM

Structure of domestic public debt



Source: MoF

2.2 Risk indicators of the public debt portfolio

Average time to maturity-ATM (in years)			
	31.12.2006	31.03.2007	30.06.2007
Domestic debt	3,03	2,91	2,99
External debt	8,98	9,22	9,60
Total debt	6,85	6,82	7,11

Source: MoF

Duration of domestic debt (in years)			
	31.12.2006	31.03.2007	30.06.2007
Structural bonds	2,92	2,73	2,45
Continuous government secu	0,55	0,69	0,62
Total domestic debt	2,52	2,38	2,12

Source: MoF

Average time to refixing- ATR (in years)				
	31.12.05	30.06.06	31.12.06	30.06.07
Domestic debt	3,07	3,00	2,57	2,50
External debt	7,18	6,20	7,12	7,92
Total debt	5,67	5,13	5,46	5,82

Source: MoF

3. Funds disbursed on the basis of external and domestic borrowing

Disbursements on the basis of external borrowing

	In million EUR	Q1-2006	Q2-2006	Q3-2006	Q4-2006*	Q1-2007	Q2-2007 actual	Q2-2007 projected	Realization of disbursement in % of projected- Q2-2007**
Public sector		8,3	15,2	29,5	33,2	7,2	20,2	61,1	33,1%
Government of the R. of Macedonia		4,3	15,1	18,0	11,4	6,6	17,5	43,5	40,2%
Multilateral creditors		2,7	11,9	14,6	7,8	4,2	9,7	32,8	29,6%
IBRD		0,5	2,8	2,6	1,8	1,4	1,4	19,1	7,5%
CEDB		0,0	1,7	0,0	0,0	0,0	0,0	0,0	-
EIB		0,0	0,0	5,0	0,0	0,0	5,0	6,1	82,0%
IDA		0,8	2,1	1,0	0,3	0,0	0,0	0,0	-
EBRD		1,3	4,8	4,8	5,3	2,3	3,1	7,2	43,5%
IFAD		0,2	0,5	1,1	0,5	0,5	0,2	0,4	39,2%
Bilateral creditors		1,6	3,2	3,4	3,6	2,3	6,2	10,7	57,8%
Private creditors		0,0	0,0	0,0	0,0	0,0	1,6	0,0	-
Public enterprises		4,0	0,1	11,6	21,9	0,7	2,7	17,6	15,6%
Multilateral creditors		4,0	0,1	2,8	9,6	0,5	2,7	9,5	28,9%
IBRD		0,0	0,1	1,0	0,1	0,0	2,2	2,9	75,9%
EiB		4,0	0,0	0,0	3,5	0,0	0,0	0,0	-
CEDB		0,0	0,0	0,0	5,0	0,0	0,0	3,0	0,0%
EBRD		0,0	0,0	1,8	1,0	0,5	0,5	3,6	15,1%
Bilateral creditors		0,0	0,0	0,0	0,0	0,0	0,0	8,1	0,0%
Private creditors		0,0	0,0	8,7	12,3	0,1	0,0	0,0	-

Source: Ministry of Finance and NBRM

*Percentage of realization of disbursements in 2006 was 62%

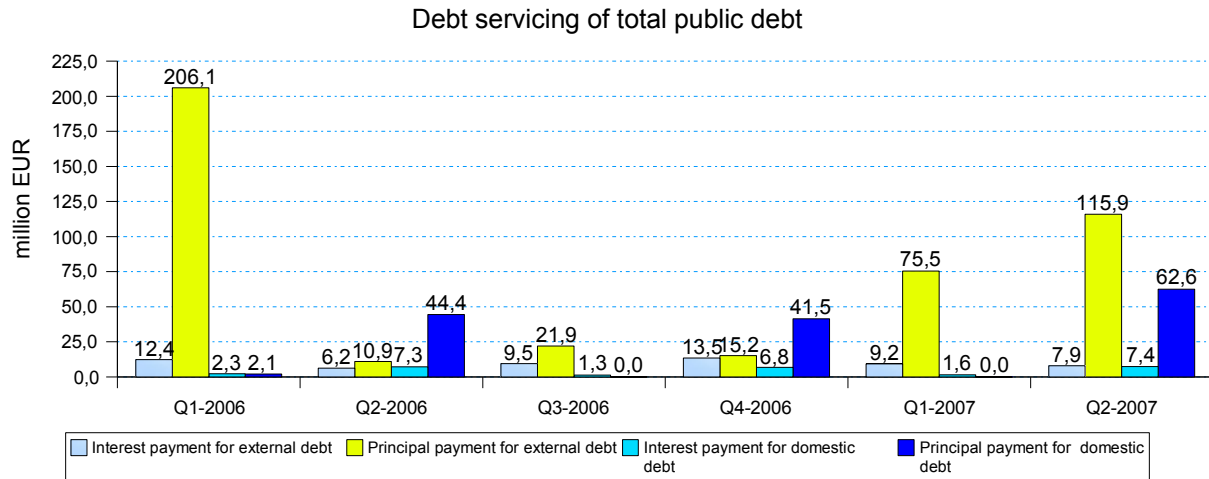
**In Q2-2007 there is significant decline in the percentage of realization of the disbursements ((33,1%) compared to Q1-2007 when it was 24,2%.

Disbursements on the basis of domestic borrowing

	In million EUR	APR-07	MAY-07	JUN-07	Total APR-JUN 2007
	Net issue of government securities	19,68	14,40	8,17	42,49
1	3-month GS	14,58	13,60	12,54	40,72
2	6-month GS	1,58	0,80	-3,13	-0,75
3	12-month GS			-1,24	-1,24
4	2-year government bond			0,24	0,24
5	3-year government bond	3,52			3,52

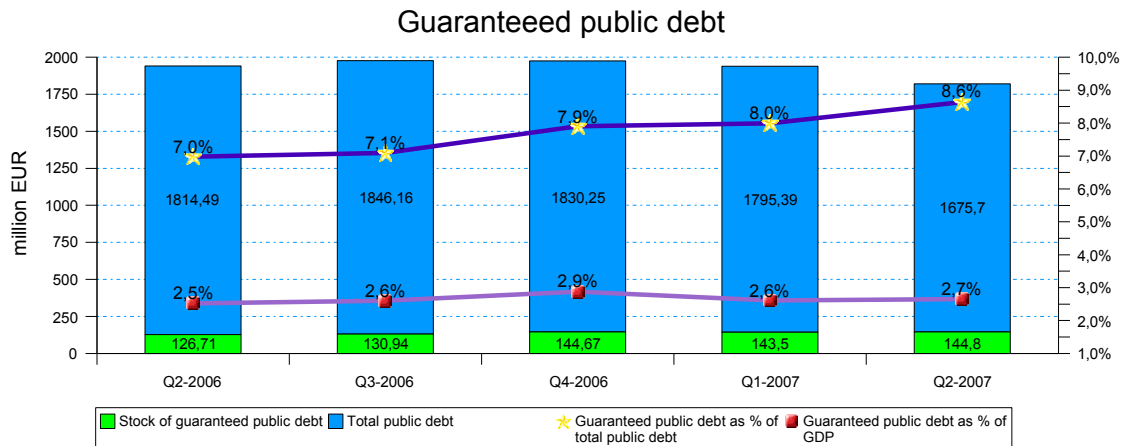
Source: MoF

4. Servicing the total public debt



Source: MoF and NBRM

5. Guaranteed public debt



Source: MoF and NBRM

6. Primary government securities market

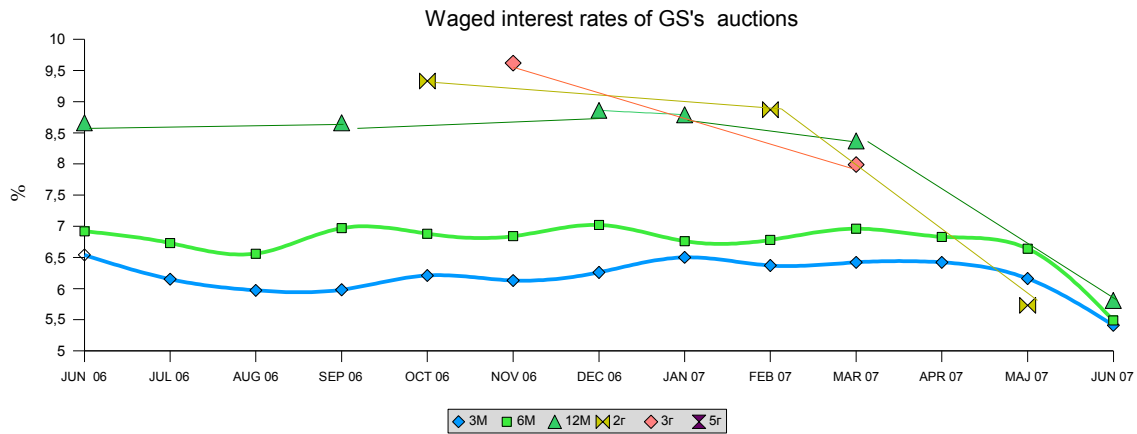
Auction of government securities in Q2-2007

Auction results of government securities in Q2-2007						
In denars	3-months					
	DZ2007/07-91	DZ2007/08-91	DZ2007/09-91	DZ2007/10-91	DZ2007/11-91	DZ2007/12-91
ISIN code	MKMINFDZ7074	MKMINFDZ7082	MKMINFDZ7090	MKMINFDZ7108	MKMINFDZ7116	MKMINFDZ7124
Days to maturity	91	91	91	91	91	91
Date of auction	10.04.2007	24.04.2007	08.05.2007	22.05.2007	05.06.2007	19.06.2007
Date of maturity	11.07.2007	25.07.2007	08.08.2007	22.08.2007	05.09.2007	19.09.2007
Max. interest rate	6,80	6,35	6,29	6,20	5,84	5,49
Min. interest rate	6,00	5,50	5,50	5,50	5,24	4,88
Average interest rate	6,59	6,25	6,21	6,11	5,44	5,38
Average price	98,3627	98,4458	98,4534	98,4781	98,6430	98,6586
Offer	1.450.000.000	1.800.000.000	1.300.000.000	1.150.000.000	1.800.000.000	1.900.000.000
Demand	1.194.970.000	2.177.690.000	1.627.000.000	1.533.840.000	2.068.220.000	2.173.400.000
Actual	1.194.970.000	1.800.010.000	1.300.000.000	1.150.040.000	1.758.220.000	1.900.010.000
Realization of competitive bids	1.190.170.000	1.799.810.000	1.300.000.000	1.149.940.000	1.758.220.000	1.900.010.000
Realization of noncompetitive bids	4.800.000	200.000	0	100.000	0	0
% of noncompetitive bids	1	1	1	1	1	1
Bid to cover ratio*	1	1,21	1,25	1,33	1,18	1,14
Bids submitted	51	48	51	63	54	53
Bids accepted	51	48	44	45	53	34

Auction results of government securities in Q2-2007						
In denars	6-months		12-months		2-year	
	DZ2007/04-182	DZ2007/05-182	DZ2007/06-182	DZ2007/03-364	DO2007/03-0609	
ISIN code	MKMINFDS7040	MKMINFDS7057	MKMINFDS7065	MKMINFDY7034	MKMINF20G077	
Days to maturity	182	182	182	364	2	
Date of auction	10.04.2007	08.05.2007	05.06.2007	19.06.2007	31.05.2007	
Date of maturity	10.10.2007	07.11.2007	05.12.2007	18.06.2008	04.06.2009	
Max. interest rate	6,99	6,79	5,49	5,85	5,750	
Min. interest rate	6,25	6,00	5,49	5,59	5,701	
Average interest rate	6,83	6,64	5,49	5,81	5,734	
Average price	96,6639	96,7522	97,2995	94,4529	99,1100	
Coupon rate					5,25	
Offer	450.000.000	450.000.000	200.000.000	200.000.000	100.000.000	
Demand	544.390.000	684.100.000	517.000.000	184.000.000	15.000.000	
Actual	450.000.000	450.000.000	200.000.000	174.000.000	15.000.000	
Realization of competitive bids	450.000.000	450.000.000	200.000.000	174.000.000	15.000.000	
Realization of noncompetitive bids	0	0	0	0	0	
% of noncompetitive bids	1	1	1	1	1	
Bid to cover ratio*	1,21	1,52	2,59	1,06	1	
Bids submitted	18	18	23	10	2	

Source: MoF

Ministry of finance
Public debt management department

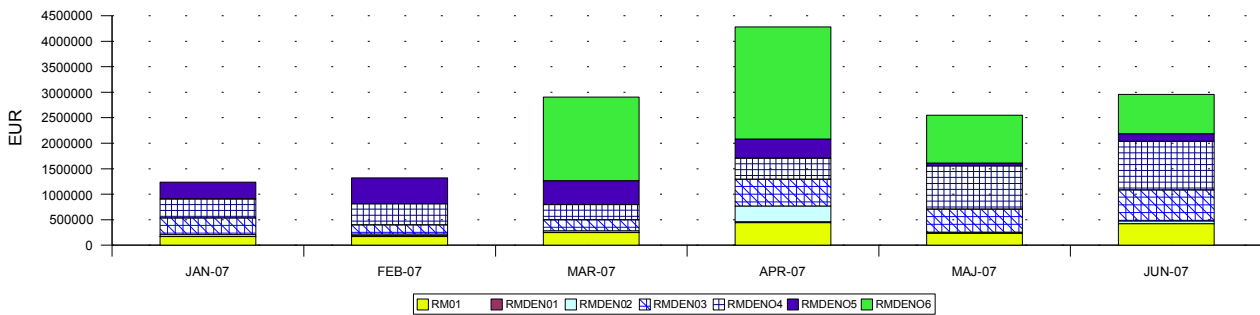


Source: MoF

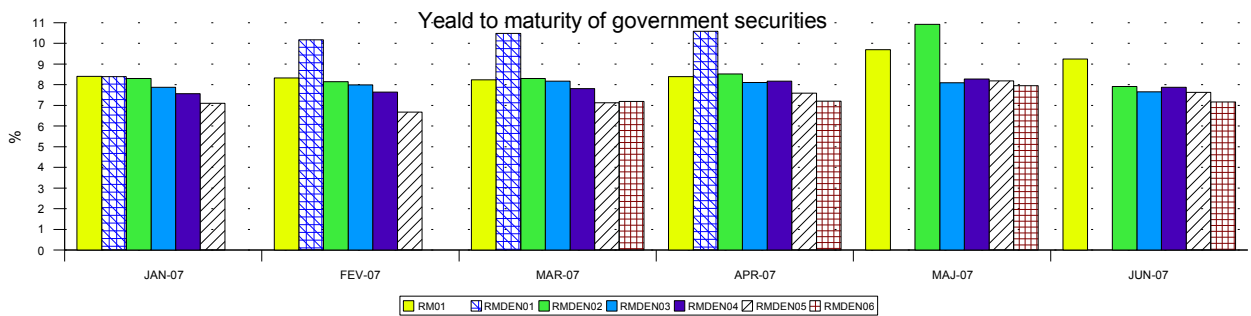
7. Secondary government securities market

7.1 Macedonian Stock Exchange

Turnover of government bonds



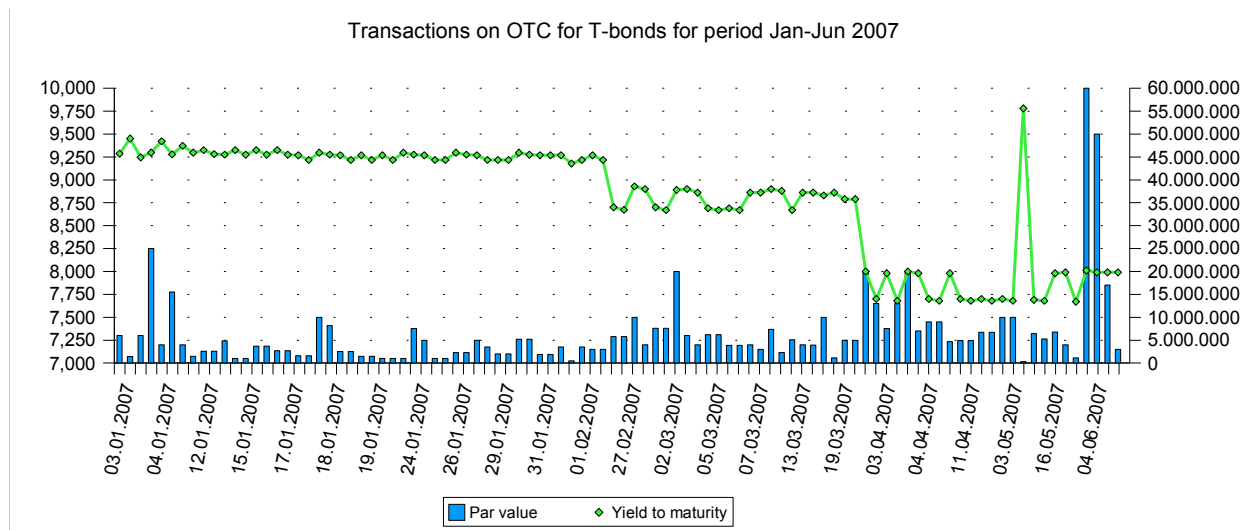
Source: Ministry of Finance and MSE



Source: Ministry of Finance

The calculations use average prices on the last day of trading in the respective month

7.2 Over-the-counter market



8. Contact persons

	Job title	Telephone	E-mail
Maja Parnargieva	Head of Public Debt Management Department	3106-396	Maja.Parnargieva@finance.gov.mk
Sanja Manasijevic-Manceva	Head of Middle Office	3106-171	Sanja.Manasijevic@finance.gov.mk
Aferdita Redzepe	Senior Associate	3106-345	Aferdita.Redzepe@finance.gov.mk
Dejan Despotoski	Junior Associate	3106-345	Dejan.Despotoski@finance.gov.mk