



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

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***Annual Report for implementing of the  
Public Debt Management Strategy for 2006***

**Skopje, July 2007**

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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 21.2.2007 adopted the 2006 Annual report on public debt management.

## 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 during this period 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 2006-2008 (Official Gazette of the Republic of Macedonia, no. 39/2006).

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:

- 1.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
2. 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 bearers of public debt, when calculating the debt, it also includes the debt of the monetary authorities, i.e. 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 analysed and observed only according to the national methodology.

Taking into account that the Annual report is prepared before year-end the data are shown as of October on the basis of realisation, and charts present projections until December, so as to make the report more comprehensive.

## II. Macroeconomic developments in 2006

In 2006, Republic of Macedonia recorded growth of the gross domestic product of 4%, which was realized in conditions of law and stable inflation (measured through the costs of living) of 3.2%, low current account deficit of 0.4%, prudent fiscal policy with 0.6% central government deficit. Positive trends were also recorded in the monetary sector, expressed through high increase in crediting of the private sector, followed by high increase in deposits of citizens with the banks and decline of interest rates.

GDP growth in 2006 was led by the increase in the industrial production (by around 4%), whereby the growth was more intensive at the traditional industrial branches (production of base metals, construction materials), as well as at industries with higher value added (production of machines and equipment). High increase by 6% was recorded in the trade, as a result of the real increase of net salaries by 4.4%, as well as the crediting to the private sector by 25%. Growth in transport and communications sector was 7.5%, mainly led by the increase in the traffic at mobile telephony. Low growth rates were evident at the agriculture sector (0.6%) and financial mediation (1.5%), while civil engineering sector has negative contribution to the growth in 2006 by (-) 0.4% as a result of the postponement of larger infrastructure projects (Skopje By-Pass, Corridor X).

Growth of the economic activity during the analyzed period led to corresponding increase in the volume of the commodities trade, whereby in 2006, the export of goods increased by 17.6%, with a simultaneous increase of the import by around 16.6%. Such trends contributed to increase of foreign trade deficit by around US\$ 176 million or 15% compared to last year. Rise of oil prices on the world stock markets has large influence over the increase of the deficit, i.e. oil participated with approximately 50% in the increase of the trade deficit. High import growth, high level of transfers, disciplined fiscal policy, as well as good coordination between the fiscal and the monetary policy contributed to significant growth of the gross foreign exchange reserves in 2006. At the end of 2006, gross foreign exchange reserves reached the level of US\$ 1,866 million or 4.5-month import coverage, which, compared to December 2005, was a growth by 41%.

In 2006, credits to private sector increased by 27% in relation to 2005 and reached the level of 32% of GDP, which was still below the level of crediting in the EU and most of the countries in the region. Such surge in the crediting was accompanied by the high increase of deposits of the private sector, in particular the deposits in domestic currency significantly increased, as a confirmation of the increased confidence in the Denar.

from the point of view of the operational setup of the monetary policy, auctions of Central Bank bills were the basic instrument of the monetary policy (reference interest rate). Thereby, favorable macroeconomic performances and significant share of banks in satisfying foreign exchange market demand, combined with the disciplined budget expenditure, created preconditions for reduction of interest rates on Central Bank bills. Thus, average interest rate on Central bank bills amounted to 5.7% at the end of 2006, being a drop by 2.8 percentage points in relation to December 2005. Such signal by the Central Bank was partially accepted by the commercial banks, aimed at reduction of the average interest on debit balances. In fact, at the end of 2006, it amounted to 10.7%, being a drop by 1.5 percentage points in relation to the end of 2005.

### III. Trend of public debt in the period January-December 2006

When analysing 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 public debt is reduced by EUR 160,3 million in the period December 2005 – December 2006. In fact, public debt stock in the amount of EUR 1,992.2 million in December 2005 will be reduced to **EUR 1.831,8 million**, i.e. **36,4%** of GDP in December 2006 (Table no. 8).

As of December 2006 inclusive, according to the **IMF methodology**, public debt amounted to **EUR 2.029,5 million**, i.e. 40,4% of GDP. According to the same methodology, general government debt amounted to EUR 1.673,6 million, i.e. 33,3% of GDP was within the Maastricht criteria on public debt, pursuant to which general government debt must not exceed 60% of GDP. Compared to 31<sup>st</sup> December 2005, public debt at end-2006 is reduced by EUR 162,07 million, or by 6,5 percentage points in relation to GDP. Such drop is a result of the buyback of the debt towards the London Club of Creditors in January this year. On the other hand, foreign public debt at end-2006, compared to the one at end-2005, was declined by EUR 218,2 million as a result of the early buyback of the debt towards the London Club of Creditors and the restrictive policy of the Government regarding borrowing from abroad, to the end of realizing one of the objectives set in the Public Debt Management Strategy - continuous increase of domestic public debt for the account of reducing the foreign public debt. From the aspect of foreign creditors, there are changes in external public debt, whereby at

end-2006 compared to 2005, the debt towards multilateral creditors grew by around 10 percentage points, while the public debt towards private creditors declined (Chart 22). Analysing the movements in the domestic public debt in the same period, one can conclude that it increased at the end-2006 by EUR 56,1 million in relation to the domestic public debt at the end of 2006, mainly as a result of the introduction of treasury bills for monetary purposes, the share of which in the domestic public debt at end-2006 accounted for EUR 75,9 million, as well as of the fifth issue of denationalisation bonds of EUR 29 million.

From the point of view of **interest structure**, favourable changes also occurred in both domestic and foreign public debt. In fact, recognizing the objective of the strategy to increase the part of the debt with fixed interest rate, during the analysed period, one can notice increase of the foreign public debt with fixed interest rate (debt towards the London Club of Creditors with variable interest rate was replaced with a debt with fixed interest rate by issuing the Eurobond). Within the domestic public debt, fixed interest rate debt declined as a result of the issuance of treasury bills for monetary purposes, treated as variable interest rate debt (Chart 19, 20 and 27).

Positive changes also occurred in the **currency structure** of public debt, to the end of increasing the part of the public debt denominated in domestic currency and the debt denominated in EUR. Thus, as a result of the buyback and the increased volume of issues of government securities and treasury bills for monetary purposes by end-2006, debt denominated in EUR and Denars, compared to 2005, increased by 4,5 percentage points, i.e. by 5,7 percentage points respectively, and at the same time, as a result, public debt denominated in US dollars declined by 11 percentage points (Chart 20).

### **III.1. Issue of the first Eurobond of the Republic of Macedonia**

Republic of Macedonia had its first promotion on the international capital market in December 2005, issuing the first Euro bond. As a result of the upgraded credit rating of the country and the successful road show, interested foreign investors submitted offers in the amount of EUR 593 million, which was 4 times greater amount than the issued amount of the Eurobond (EUR 150 million). This has enabled creation of broad base of investors - owners of the Eurobond, from Europe, USA and Asia. More precisely, the issue was distributed among 56 institutional investors globally, including 33% British investors, 31% German investors; 22.5% investors from other European countries (France, Italy, Switzerland, Greece, Slovenia, Cyprus), 12% American investors and 1.5% investors from Asia. Main investors are investment banks, investment funds and asset management companies.

At the same time, rating agencies Standard and Poor's and Fitch assigned the following ratings to the newly issued Eurobond: BB+ (with stable outlook) and BB (with positive outlook), respectively.

The issued Eurobond in the amount of EUR 150 million is with 10-year maturity period, as well as 4.625% coupon interest rate.

Thus, Macedonia has been placed for the first time on the map of institutional investors in the world, who, by being interested, confirmed the already expected results from the macroeconomic and political stability, prosperity of Macedonia, which is result of the prudent fiscal and monetary policy and its integration in EU and towards NATO.

Funds from the issue of Eurobond were used for complete buyout of the liabilities towards the London Club of Creditors, and partially for enhancing the foreign exchange reserves of the Republic of Macedonia.

Immediately after the issuance, the Euro bond started to be listed on the London Stock Exchange. Prices at which Eurobond was traded on the secondary market are shown in Chart 14. As one can notice, at the beginning, i.e. immediately after the issuance of the Eurobond, it was traded at relatively high prices due to the interest by the foreign investors in the bond, as well as the positive developments in the Republic of Macedonia, such as the candidate country status for accession in the EU. This trend was maintained by end-March 2006, and it started declining at the beginning of April, i.e. foreign investors offered lower prices for the

Macedonian bond. This downward trend can be interpreted as investors being cautious because of the parliamentary elections in the Republic of Macedonia.

### **III.2. Buyback of the debt towards the London Club of Creditors**

To the end of improving the structure of the debt portfolio, full buyback of the debt towards the London Club of Creditors was carried out in January 2006. This activity employed the funds from the Eurobond issue.

Following effects were achieved with the buyback of the debt towards the London Club of Creditors:

- **Improvement of the interest structure of the public debt and realization of high level of savings in the Budget in the coming years.**

In general, through this transaction, there will be savings in the amount of EUR 123.23 million in the Budget of the Republic of Macedonia in the next 7 years, under the assumption that the conditions on the international markets would remain unchanged (which is practically a less realistic option, since all larger investment banks envisage that dollar interest rate will continue to grow - which actually happened in the past months – leading to increase of the expenditures of the Republic of Macedonia for the buyback of the debt with a variable interest rate in the coming years). Additionally, certain analyses, i.e. scenarios, have also been made, should the conditions on the international market change, pointing out that the Budget of the Republic of Macedonia would be even more exposed to expenditures if the US dollar gets stronger in relation to the Euro in future. Analyses have confirmed the even greater economic justification of this transaction, in changed conditions on the international market (simultaneous increase of interest rates and dollar appreciation), which expressed in figures is a saving in the amount of around EUR 130 - 150 million, i.e. from EUR 9 to EUR 29 million per year, depending on the analysed year and scenario. The issue of the Eurobond and the buyback of the debt towards the London Club of Creditors led to budget savings, due to the rise of the interest rates on the international market; thus, the US\$ six-month LIBOR in October 2006 was 5,37%, compared to January 2006 when it was 4,94%;

- **Improvement of government debt portfolio profile**, due to the fact that Eurobond is a standard instrument in the public debt portfolio, recognizable on the international market and its introduction contributes to a replacement of lower-reputation debt. Thus, by introducing Eurobonds, in addition to the standard government securities, Republic of Macedonia has acquired better benchmark in its debt portfolio;

- The replacement of the existing debt with shorter maturity (7 years) with the Eurobond, with maturity of 10 years **extends the maturity period of the debt portfolio** of the Republic of Macedonia, as it is one of the objectives set in the 2006 - 2008 Public Debt Management Strategy;

- **Avoidance of certain types of market risks, especially the risk of change of interest rates and risk of change of the exchange rate;**

This transaction has enabled replacement of the debt with variable interest rate, experiencing an upward trend on the international markets, with a debt with fixed interest rate of 4,625%, which compared to the other countries, can be deemed as relatively favourable. In addition, one of the goals set in the Public Debt Management Strategy was also realized, that being continuous increase of the EUR-denominated debt for the account of the other foreign currencies, i.e. US dollar-denominated debt was replaced with EUR-denominated debt.

### **III.3. Fifth issue of denationalisation bonds**

Pursuant to the Law on Issuance of Denationalisation Bonds in the Republic of Macedonia (Official Gazette of

the Republic of Macedonia, no. 37/02), fifth denationalisation bond in the amount of EUR 34 million was issued on 13<sup>th</sup> March 2006 (according to the prospectus). Terms and conditions for the issuance of this bond are identical as for the first four issues, i.e. 10-year maturity period and 2% fixed interest rate. First instalment of this bond falls due on June 1, 2007.

Denationalisation bonds are listed on the Macedonian Stock Exchange AD Skopje. Trading with denationalisation bonds from this issue commenced on March 16, 2006 (Charts 9, 10, 11 and 13).

### **III.4. Continuous government securities**

#### ***III.4.1. Primary government securities market***

The policy of continuous issue of government securities continued in 2006. The focus was placed on the following:

- Increasing the issues of government securities

The stock of issued government securities as of December 31<sup>st</sup>, 2005 was Denar 4,28 billion and until October 2006 was higher by around Denar 1,38 billion and as of December 31<sup>st</sup>, 2006 it was Denar 5,66 billion. Total issued stock of government securities in the period January – December 2006 was Denar 10,31 billion, while the amount of net issues in the same period was Denar 2,02 billion.

- Increasing the maturity period of government securities

In the period January-December 2006, 3, 6 and 12-month T-bills were issued and two 2-year government bonds and one 3-year government bond. In creating the policy of issue of government securities, special emphasis is placed on extending their maturity period, i.e. greater amounts were offered of government securities with longer maturity period, rather than 3-month government securities.

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

As a result of the promotional campaign for investment in government securities and the enhancement of the portfolio with government securities with various maturity periods, especially those with longer maturity periods, the investors show increasing interest. This could be observed in the demand and the realization of the auctions of government securities (Chart 5).

As a result of the greater demand, interest rates on government securities continuously decline and by December 2006, they dropped on average by 1 to 2 percentage points, depending on their maturity period. Thereby, the biggest drop was noted in 3-month government securities due to the large demand for securities which doubled the offer in this period, with exception of few auctions, but also due to the greater investor confidence (Chart 6).

In the realized government securities in this period, there is a dominant share of banks, but also the share of other entities on the government securities market, such as insurance undertakings, savings houses, companies and physical persons is satisfactory (Chart 7).

#### ***III.4.2. Secondary government securities market***

In parallel with the development of the primary market, secondary trading of government securities also developed. Tradings are made on the Macedonian Stock Exchange AD Skopje and the OTC market.

One of the important novelties was the adoption of ***Rulebook on the Manner and the Procedure for Trading and Settling Transactions in Securities on Over-the-Counter Market*** (Official Gazette of the RM, no. 71/06), which enables trading in government bonds (excluding the bonds issued for payment of the foreign currency deposits of citizens and the denationalisation bonds) on the over the counter market. These rules entered into force as of July 1, 2006 and thus another segment of the government securities market is

completed and functioning. Trading on the OTC market does not bear transaction costs and the settlement is made in real time. In the period January-December 2006, 19 transactions in treasury bills and 98 transactions in government bonds were carried out on the OTC market (Charts 12 and 13).

### **III.4.3. Introduction of government securities for monetary purposes**

The Ministry of Finance, in agreement with the NBRM, in March 2006 launched the issue of government securities for monetary purposes. By December 2006, twenty auctions of government securities for monetary purposes were held, issued at regular auctions of government securities, with the same features as the regular government securities.

The stock of issued government securities for monetary purposes as of December 31, 2006 was Denar 4,64 billion. On the other hand, total stock of issued 3-month government securities as of December 2006 inclusive was Denar 5,99 billion.

The main reason for issuance of government securities for monetary purposes is to gradually eliminate of the government securities market segmentation, i.e. segmentation between Central Bank bills and the treasury bills of the Ministry of Finance, as well as to create a homogeneous government securities market. At the same time, the NBRM will be able to better monitor the market signals of the participants and to strengthen its transmission mechanisms, increasing the banks' responsiveness to the activities undertaken by the monetary authorities.

### **III.5. Early redemption of the continuous government bond no. 2**

On December 29, 2006, the Ministry of Finance made early buyback of the 5-year continuous government bond no. 2 issued in 2005 in the amount of Denar 716 million, fully owned by the National Bank of the Republic of Macedonia. The bond was bought back at nominal value, and the due coupon amount for the last year was paid in the amount of Denar 53 million. The Ministry of Finance has decided to do so on the basis of the current favourable budget position, as well as on the fact that the early buyback in the next four years the Ministry of Finance will make annual savings in interest in the amount of Denar 53 million or in total, Denar 212 million.

### **III.6. Newly concluded loans in 2006**

#### **• Loan for financing Brod Gneotino Project**

In April 2006, Government of the Republic of Macedonia adopted Decision on Borrowing by Electricity Generation Joint Stock Company – Electricity Power Stations of Macedonia – Skopje at Stopanska Banka AD Skopje for the purpose of financing Brod Gneotino Project in the amount of EUR 4,557,896.00 under the following terms and conditions:

- repayment period: 6.5 years in 78 monthly installments;
- interest rate: Euribor (1m) + 4% annually;
- Monthly interest calculation and payment;
- Loan managing fee of 1%.

#### **• Loan for the Legal and Judicial Implementation and Institutional Support Project**

In May 2006 the Parliament of the Republic of Macedonia enacted the Law on Borrowing a Loan by the Republic of Macedonia from the International Bank for Reconstruction and Development under the Loan



Agreement for the Legal and Judicial Implementation and Institutional Support Project. The Legal and Judicial Implementation and Institutional Support Project will be implemented in the next 5 years by the Ministry of Justice and comprises the following components:

- Institutional capacity building;
- Improving court structure;
- Enhancing Judicial Information Technology Systems; and
- Providing consultants' services and training for expanding the analytical capacity of the Project Implementation Unit.

The approved loan was in the amount of EUR 10,000,000 under the following terms:

- repayment period: 17 years;
- grace period: 5 years;
- interest rate: LIBOR + 0.75% p.a.;
- commitment fee: 0.75% p.a.;
- the loan will be repaid in 24 semi-annual annuities, starting from September 15, 2011, by March 15, 2023.

Ministry of Justice is in charge of the realization of the Loan Agreement for the Legal and Judicial Implementation and Institutional Support Project.

Loan beneficiaries are the Ministry of Justice and the Court Council.

#### **• Loan for realization of the second stage of the Program for the Rationalization of the Management System and Modernization of Biomedical Technology of the Health Sector**

Agreement on Borrowing by the Republic of Macedonia from the Government of Italy was signed in May 2005, pursuant to the adopted Law on Borrowing by the Republic of Macedonia from the Government of Italy for realization of the second stage of the Program for the Rationalization of the Management System and Modernization of Biomedical Technology of the Health Sector (Official Gazette of the RM, no. 112/2005). The approved loan was in the amount of EUR 2,582,285 and will be used under the following terms:

- interest: 0.00 %;
- Repayment period: 39 years;
- Grace period included in the repayment period: 19 years.

The loan proceeds will be used for procurement of equipment for the health organizations, the needs of which have been previously determined and defined.

This stage was preceded by a stage involving promotion of the system for maintenance and control of the medical equipment in the Republic of Macedonia. This stage was completed by using grant funds in the amount of EUR 1,291,143.00.

#### **• Loan for procurement of equipment for surface coal mine Brod Gneotino**

It is a matter of borrowing by Electricity Generation Joint Stock Company – Electricity Power Stations of Macedonia – Skopje at Kreditanstalt fuer Wiederaufbau – KfW from Frankfurt, Maine, Federal Republic of Germany, in the amount of EUR 16,300,000, under the following terms and conditions:

- interest of 4.75% p.a.;

- commitment fee of 0.25% p.a.;
- front-end fee of 1%;
- 11-year repayment period, and
- grace period of one year and six months included in the repayment period.

This borrowing entailed adoption of Law on Indebtedness, published in „Official Gazette of the Republic of Macedonia“, no. 57, 2006.

### III.6. Guarantees issued in 2006

#### •Guarantee issued for Macedonian Railways Reform Project

In February 2006, the state issued a guarantee for the credit extended by the International Bank for Reconstruction and Development to the Macedonian Railways for the realization of the Macedonian Railways Reform Project.

The loan is in the amount of EUR 15 million and is awarded under the terms and conditions of the International Bank for Reconstruction and Development - World Bank, i.e. 17-year repayment period, with 5-year grace period included, and LIBOR + 0.75% (with a variable band).

The project will be divided in two categories, as follows: **PART A**, comprising improvement of the efficiency of the infrastructure facilities, covering the procurement to be carried out by the PE „Macedonian Railways“ C.O. - Skopje, and then by its successor, i.e. the new infrastructure company, and **PART B**, covering the restructuring, improvement of efficiency of the transportation part, including procurement to be carried out by PE „Macedonian railways“ C.O. - Skopje at first, and then by its successor, i.e. the new transport company. To that end, pursuant to the adopted Law on Transformation of PE Macedonian Railways C.O. Skopje, two new companies are to be established as follows:

- Public enterprise for railway infrastructure Macedonian Railways - Skopje; and
- Transport joint stock company Macedonian Railways Transport - Skopje.

#### •Guarantee for the project AD MEPSO - transmission of electricity and management with the electricity system

In March 2006 sovereign guarantee was issued, guaranteeing the settlement of the liabilities and the fulfillment of the provisions of the Loan Agreement for the project AD MEPSO, signed between the AD MEPSO - transmission of electricity and management with energy and electricity system, in state ownership and the International Bank for Reconstruction and Development. The approved loan is in the amount of EUR 20,700,000, with 17-year repayment period, including 5-year grace period, and interest rate LIBOR + 0.75%.

#### •Guarantee for the credit from DEPFA BANK for the implementation of the project HPP „Sv. Petka“ by AD „Riko“ - Ljubljana

In May 2006 Parliament of the Republic of Macedonia adopted a law guaranteeing the settlement of the financial liabilities under the Loan Agreement for the project HPP „Sv. Petka“, signed between AD ELEM and DEPFA Investment Bank limited from Nicosia, Cyprus. The approved loan was in the amount of EUR 41,037,621 under the following terms:

- interest EURIBOR: +2.75% p.a.;
- commitment fee: 0.80% p.a.;
- repayment period: 16 years;
- grace period included in the repayment period: three years and six months;
- default interest EURIBOR: + 4.75%.

The Agreement also includes a possibility for AD ELEM and DEPFA to negotiate on replacing the variable interest rate with fixed interest rate.

## IV. Review of objectives and quantitative targets

When analyzing the objectives, measures and targets in 2006, debt of the monetary authorities has not been taken into account, i.e. all objectives and targets have been monitored and analyzed according to the Law on Public Debt, according to which NBRM debt, as well as the treasury bills for monetary purposes are not included in the total public debt. This is due to the fact that targets and objectives determined in the Public Debt Management Strategy are defined only from the point of view of the fiscal policy, rather than from the point of view of the monetary policy.

### IV.1. Table of quantitative targets

In order to monitor the implementation of the 2006 – 2008 Public Debt Management Strategy, the table below compares the main parameters of the public debt portfolio as of December 2005, December 2006, with the targets set in the Strategy.

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

| <i>targets</i>  | <i>Portfolio parameters as of December 2005</i>     | <i>Portfolio parameters with projection for 2006</i>    | <i>Targets defined in the strategy for 2006</i>     |
|---|---|---|---|
| Ratio between Public debt and GDP (Chart 1)                   | 44.05%  | 34,9%   | 37%-41%   |
| Ratio between General government debt and GDP (Chart1)        | 40.89%  | 31,8%   | 35%-38%   |
| Ratio between total guaranteed public debt and GDP (Chart 2)  | 3.05%   | 2,88%   | 3,8%-4,1%   |
| New borrowings (Table 2)                                      | 125.5 million EUR                                   | 136,9million EUR  | 180 million EUR                                     |
| Ratio between domestic and external debt (Chart 3)            | External debt - 69.7%<br>Domestic debt - 30.3%      | External debt-67,3%<br>Domestic debt-32,7%              | External debt-66%<br>Domestic debt-34%              |
| Ratio between debt in domestic and foreign currency (Chart 4) | In foreign currency-94%<br>In domestic currency -6% | In foreign currency 92,4%<br>In domestic currency -7,6% | In foreign currency-92%<br>In domestic currency -8% |
| Stock of total guaranteed public debt (Chart 2)               | 137.7 million EUR                                   | 144,67 million EUR                                      | 175 million EUR                                     |

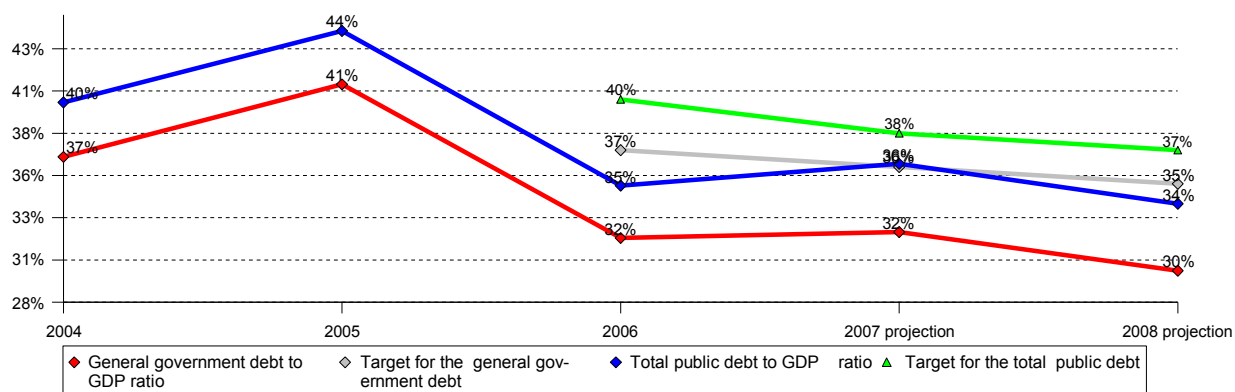
Source: Ministry of Finance and NBRM

#### IV.1.1 Public debt to GDP ratio

According to the target set in the 2006 – 2008 Public Debt Management Strategy, public debt in relation to GDP shows a continuous declining trend and it will range between 37% and 41%, while within general government, it will show a declining trend ranging between 35% and 38% of GDP.

In December 2005, this ratio was 44.1%, while within the general government, it was 40.9%. Public debt increase in 2005 was due to the issue of the first Eurobond in the amount of EUR 150 million, which amount in January 2006 was used to buyback of the debt towards the London Club of Creditors, thus offsetting this debt increase.

Chart 1  
Comparison of the public debt to GDP ratio and the targets

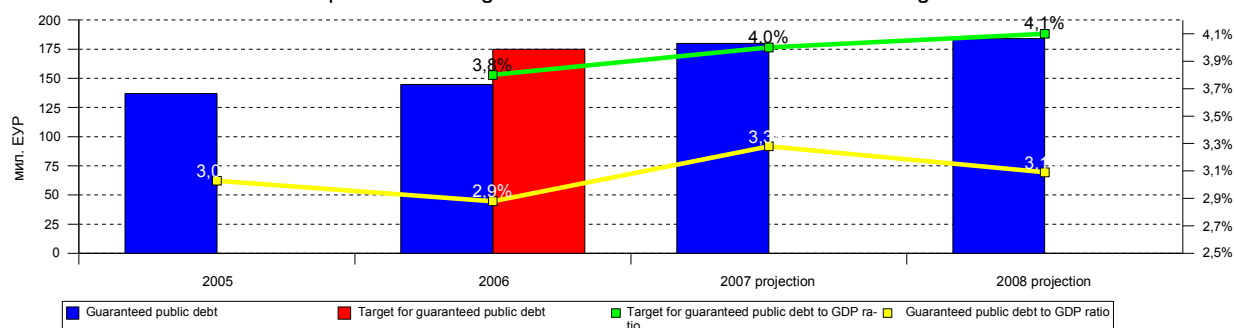


Source: Ministry of Finance and NBRM

#### IV.1.2 Guaranteed debt to GDP ratio

In accordance with the limits for issuance of guarantees in the period 2006 – 2008, a trend of insignificant growth of the issued guarantees is expected, between 3.8% and 4.1% of GDP. According to the analyses, as of December 2006 inclusive, the real stock of issued guarantees was within the set targets. Although the percentage of guaranteed debt to GDP slightly rose in relation to the set targets, still, this percentage is expected to decline in the next period by gradually repaying the guaranteed debt, as well as running restrictive policy when issuing new guarantees.

Chart 2  
Comparison of the guaranteed debt to GDP ratio and the targets



Source: Ministry of Finance and NBRM

### IV.1.3. New borrowings

Total amount of new borrowings in 2006, according to the Strategy, is expected to amount to EUR 180 million, EUR 49 million out of which on the basis of the issue of continuous government securities, and the remaining EUR 131 million on the basis of borrowing from abroad. As of December 2006 inclusive, borrowing on the basis of domestic public debt was in the amount of EUR 50,76 million, while external borrowing was amounting to EUR 86,14 million. According to this the number for new borrowings is in the target which was set in the Public Debt Management Strategy (2006-2008).

Table 2  
New borrowings on the basis of domestic and external public debt

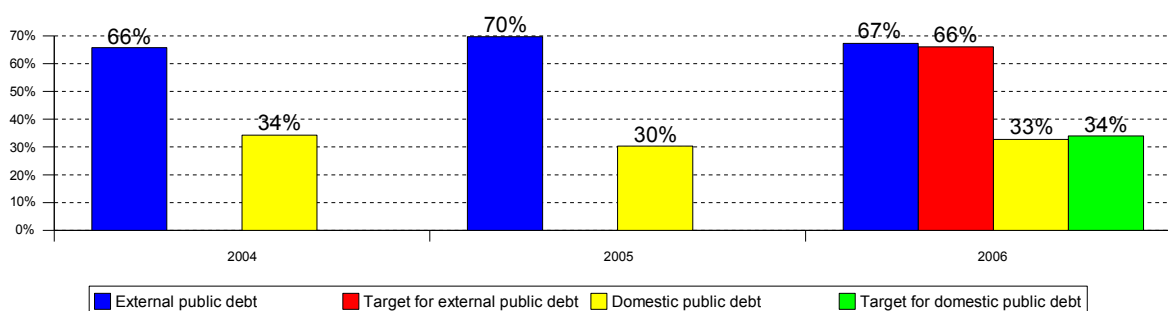
| <i>In million EUR</i> | January-<br>December 2006 | Target for<br>January-<br>December- 2006 |
|-----------------------|---------------------------|--|
| External borrow ing   | 86,14                     | 131,00                                   |
| Domestic borrow ing   | 50,76                     | 49,00                                    |
| <b>Total</b>          | <b>136,9</b>              | <b>180,00</b>                            |

Source: Ministry of Finance and NBRM

### IV.1.4. Ratio between domestic and external public debt

Ratio between domestic and external public debt is 33% rather than 66% and is expected to be within the target until 2008, meaning 34% rather than 66%, while in the next period, the objective under the Public Debt Management Strategy is to reduce the external public debt and increase the domestic public debt.

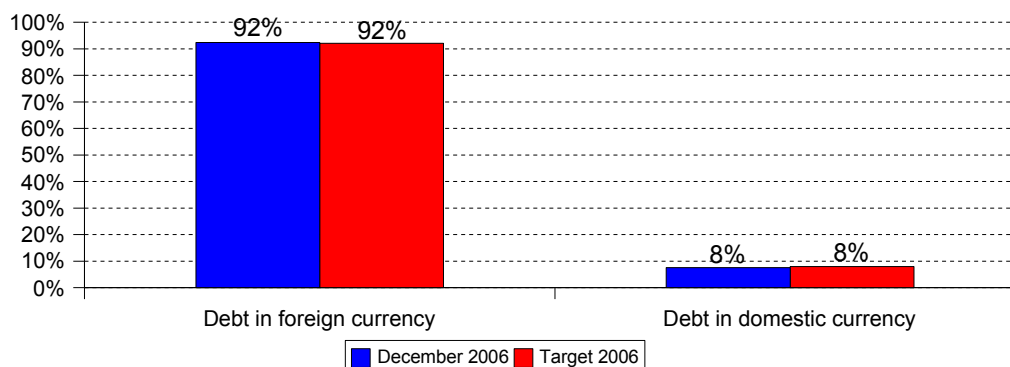
Chart 3  
Comparison of the domestic/external public debt and the 2006 targets



Source: Ministry of Finance and NBRM

#### IV.1.5. Debt in foreign and domestic currency

Chart 4  
Comparison of the total public debt in domestic/foreign currency and the 2006 target



Source: Ministry of Finance and NBRM

#### IV.2. List of objectives

Table 3  
Comparison of public debt portfolio and the objectives set in the Public Debt Management Strategy

| <b>Strategy objectives</b>   | <b>Public Debt Management Strategy targets</b>   |
|--|--|
| Gradual increase in debt with fixed interest rate  | by 2008, the fixed interest rate debt should range between 70% and 80% of the total public debt (Chart 19)                           |
| Increasing the portion of debt denominated in Denars   | by 2008, the domestic currency debt should range between 15% and 20% of the total public debt (Chart 20)                             |
| Increasing the portion of debt denominated in EUR  | by 2008, the EUR debt should be up to 60% of the total public debt (Chart 15)  |
| Increasing the share of domestic public debt while decreasing external borrowing                         | (Charts 3 and 18)  |
| Increasing the share of market instruments, while gradually decreasing the loans from official creditors | by 2008, increasing the borrowing with securities rather than with credits (Chart 21)  |
| Extending maturity of the public debt  | total maturity period of the debt should be over 5 years   |
| Taking advantage of the opportunity for early repayment of public debt                                   | the objective is to achieve favourable currency, interest and maturity structure as well as smooth profile of public debt repayments |
| Ensuring smooth profile of repayments  | no major concentration of payments in a single year (Charts 15, 16 and 17)   |
| Restrictive approach for new borrowing or issuance of sovereign guarantees                               | reducing the issued guarantees and financing public projects (Chart 29 and 31)   |

Source: Ministry of Finance

## V. Public debt management activities

### V.1. Funds disbursed on the basis of external debt

Table 4  
Disbursements on the basis of already signed and newly signed credits

EUR million

|                                      | Q1         | Q2          | Q3          | Q4           | Total<br>2006 | Disbursement<br>according to<br>the Strategy | Diferen<br>ce |
|--------------------------------------|------------|-------------|-------------|--------------|---------------|--|---------------|
| <b>Public sector</b>                 | <b>8,3</b> | <b>15,2</b> | <b>29,5</b> | <b>33,1</b>  | <b>86,1</b>   | <b>131,7</b>                                 | <b>-45,6</b>  |
| <b>Government of the R. of Maced</b> | <b>4,3</b> | <b>15,1</b> | <b>18,0</b> | <b>11,2</b>  | <b>48,6</b>   | <b>91,9</b>                                  | <b>-43,4</b>  |
| <b>Multilateral creditors</b>        | <b>2,7</b> | <b>11,9</b> | <b>14,6</b> | <b>7,961</b> | <b>37,2</b>   | <b>68,5</b>                                  | <b>-31,3</b>  |
| IBRD                                 | 0,5        | 2,8         | 2,6         | 2,23         | 8,1           | 30,3   | -22,2         |
| CEDB                                 | 0,0        | 1,7         | 0,0         | 0,0          | 1,7           | 3,5  | -1,8          |
| EIB                                  | 0,0        | 0,0         | 5,0         | 0,0          | 5,0           | 13,7   | -8,7          |
| IDA                                  | 0,8        | 2,1         | 1,0         |              | 3,9           | 5,9  | -2,1          |
| EBRD                                 | 1,3        | 4,8         | 4,8         | 5,3          | 16,2          | 13,1   | 3,2           |
| EU                                   | 0,0        | 0,0         | 0,0         | 0,0          | 0,0           | 0,0  | 0,0           |
| IFAD                                 | 0,2        | 0,5         | 1,1         | 0,5          | 2,3           | 2,0  | 0,3           |
| <b>Bilateral creditors</b>           | <b>1,6</b> | <b>3,2</b>  | <b>3,4</b>  | <b>3,3</b>   | <b>11,4</b>   | <b>23,5</b>                                  | <b>-12,1</b>  |
| <b>Private creditors</b>             | <b>0,0</b> | <b>0,0</b>  | <b>0,0</b>  | <b>0,0</b>   | <b>0,0</b>    | <b>0,0</b>                                   | <b>0,0</b>    |
| <b>Public enterprises</b>            | <b>4,0</b> | <b>0,1</b>  | <b>11,6</b> | <b>21,9</b>  | <b>36,6</b>   | <b>39,8</b>                                  | <b>-3,2</b>   |
| <b>Multilateral creditors</b>        | <b>4,0</b> | <b>0,1</b>  | <b>2,8</b>  | <b>9,578</b> | <b>15,5</b>   | <b>29,5</b>                                  | <b>-14,0</b>  |
| IBRD                                 | 0,0        | 0,1         | 1,0         | 0,12         | 1,3           | 3,2  | -1,9          |
| EIB                                  | 4,0        | 0,0         | 0,0         | 3,5          | 7,5           | 3,3  | 4,2           |
| EBRD                                 | 0,0        | 0,0         | 1,8         | 5,0          | 6,8           | 23,0   | -16,2         |
| CEDB                                 | 0,0        | 0,0         | 0,0         | 1,0          |               |  |               |
| <b>Bilateral creditors</b>           | <b>0,0</b> | <b>0,0</b>  | <b>0,0</b>  | <b>0,0</b>   | <b>0,0</b>    | <b>7,7</b>                                   | <b>-7,7</b>   |
| <b>Private creditors</b>             | <b>0,0</b> | <b>0,0</b>  | <b>8,7</b>  | <b>12,3</b>  | <b>21,0</b>   | <b>2,6</b>                                   | <b>18,4</b>   |

Source: Ministry of Finance and NBRM

\* Annex of disbursed funds by projects

### V.2. Primary government securities market

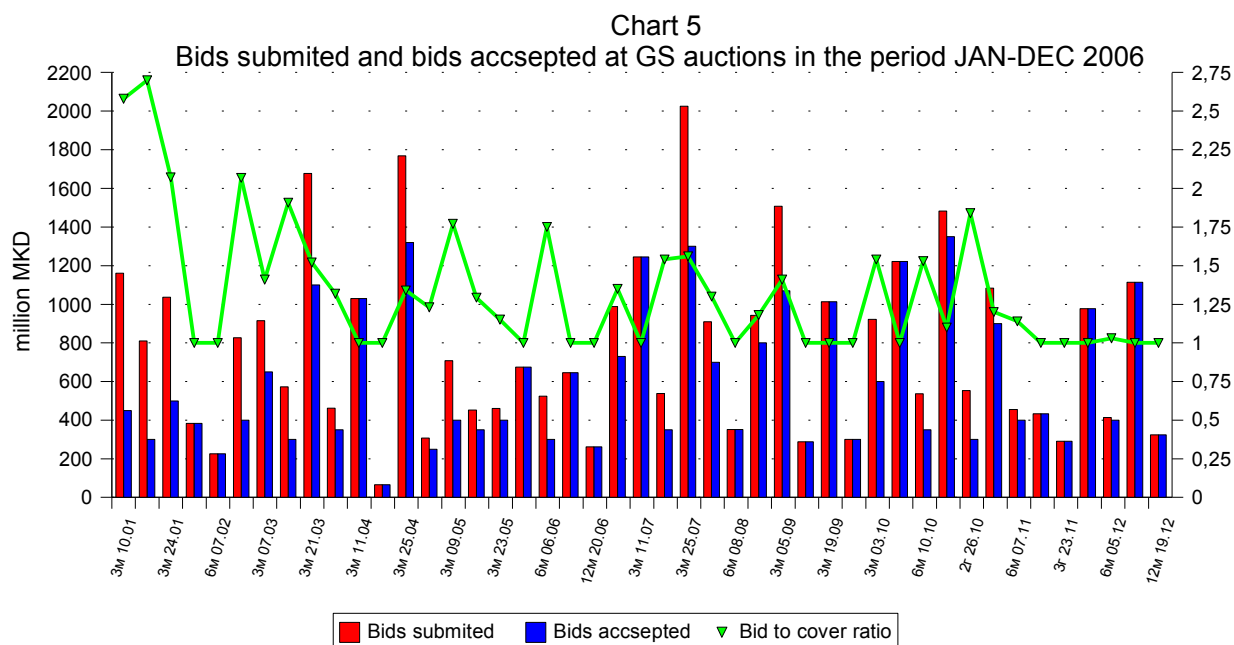
Table 5  
Net issue of continuous government securities and structural bonds

EUR million

|   | Jan 06      | Feb 06      | Mar 06       | Apr 06       | May 06      | Jun 06      | Jul 06       | Avg 06       | Sep 06      | Oct 06       | Nov-06      | Dec-06        | Total<br>Jan-Dec 06 |
|---|-------------|-------------|--------------|--------------|-------------|-------------|--------------|--------------|-------------|--------------|-------------|---------------|---------------------|
| <b>Net issue of GS</b>                            | <b>2,25</b> | <b>2,78</b> | <b>32,40</b> | <b>-4,61</b> | <b>8,31</b> | <b>3,20</b> | <b>-4,80</b> | <b>-2,83</b> | <b>8,33</b> | <b>11,73</b> | <b>4,66</b> | <b>-10,66</b> | <b>50,76</b>        |
| 1 3-month T-bills                                 | -0,67       | 0,58        | -5,58        | -3,18        | 0,30        | -1,60       | -5,61        | -4,82        | 4,02        | 2,41         | -0,81       | -2,41         | -17,36              |
| 2 6-month T-bills                                 | 2,92        | 2,20        | 3,18         | -1,43        | 3,96        | 1,60        | 0,81         | 1,99         | -0,19       | 4,46         | 0,80        | 1,57          | 21,87               |
| 3 12 month T-bills                                |             |             | 5,25         |              |             | 3,19        |              |              | 4,50        |              |             | 1,88          | 14,82               |
| 4 2 years T-bonds                                 |             |             |              |              | 4,05        |             |              |              |             | 4,86         |             |               | 8,91                |
| 5 3 years T-bonds                                 |             |             |              |              |             |             |              |              |             |              | 4,67        |               | 4,67                |
| 6 5 years T-bonds                                 |             |             |              |              |             |             |              |              |             |              |             | -11,70        | -11,70              |
| 7 5 <sup>th</sup> issue of denationalization bond |             |             | 29,55        |              |             |             |              |              |             |              |             |               | 29,55               |

Source: Ministry of Finance





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

Source: Ministry of Finance

**Table 6**  
Weighted interest rates on issued government securities

| Date of auctions | Weighted average interest rate 3-month T-bills | Weighted average interest rate 6-month T-bills | Weighted average interest rate 12-month T-bills | Weighted average interest rate 2-years T-bond |
|------------------|--|--|---|---|
| January 06       | 7,18   | 7,61   |   |   |
| February 06      | 6,96   | 7,08   |   |   |
| March 06         | 6,85   | 7,28   | 8,62  |   |
| April 06         | 6,45   | 6,84   |   | 9,44  |
| May 06           | 6,11   | 7,13   |   |   |
| June 06          | 6,54   | 6,92   | 8,66  |   |
| July 06          | 6,15   | 6,73   |   |   |
| August 06        | 5,97   | 6,56   |   |   |
| September 06     | 5,98   | 6,97   | 8,66  |   |
| October 06       | 6,27   | 6,88   |   | 9,33  |
| November 06      | 6,13   | 6,84   |   |   |
| December 06      | 6,26   | 7,02   | 8,86  |   |

Source: Ministry of Finance

Chart 6  
Weighted average interest rate at GS

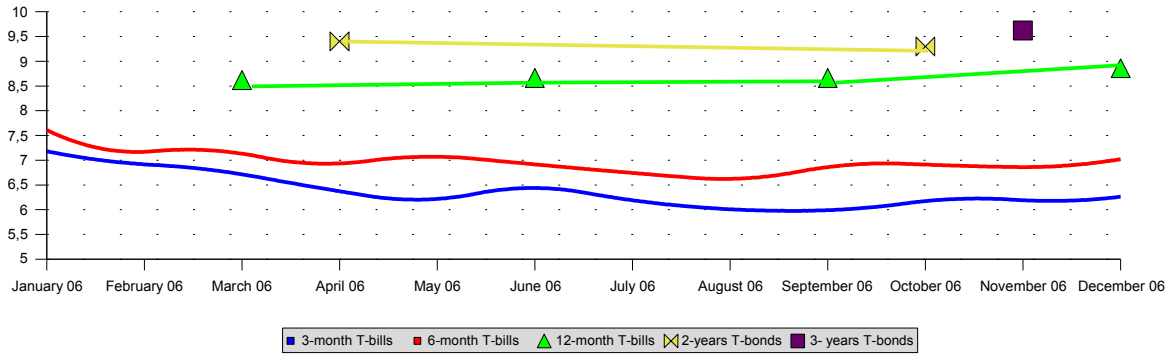
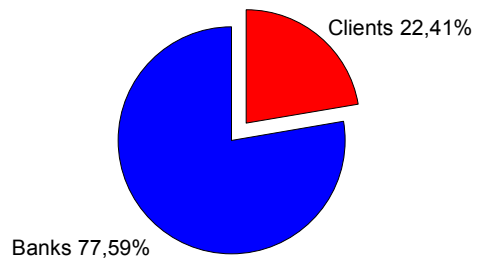
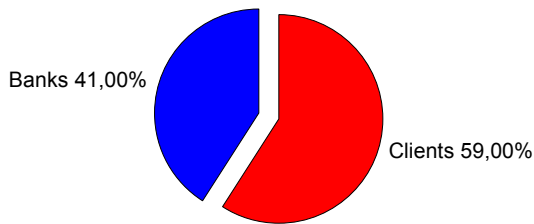


Chart 7

Ownership structure of continuous government securities

31.12.2005

31.12.2006



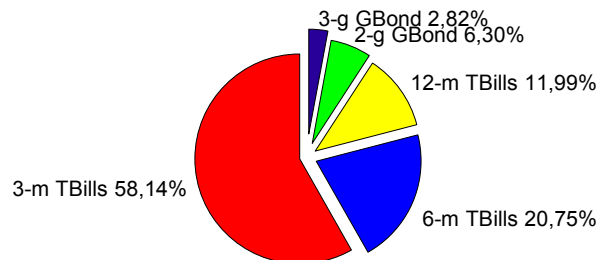
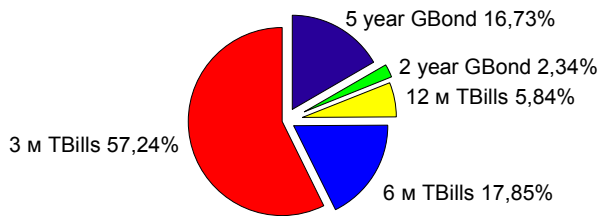
Source: Ministry of Finance

Chart 8

Maturity structure of continuous government securities

31.12.2005

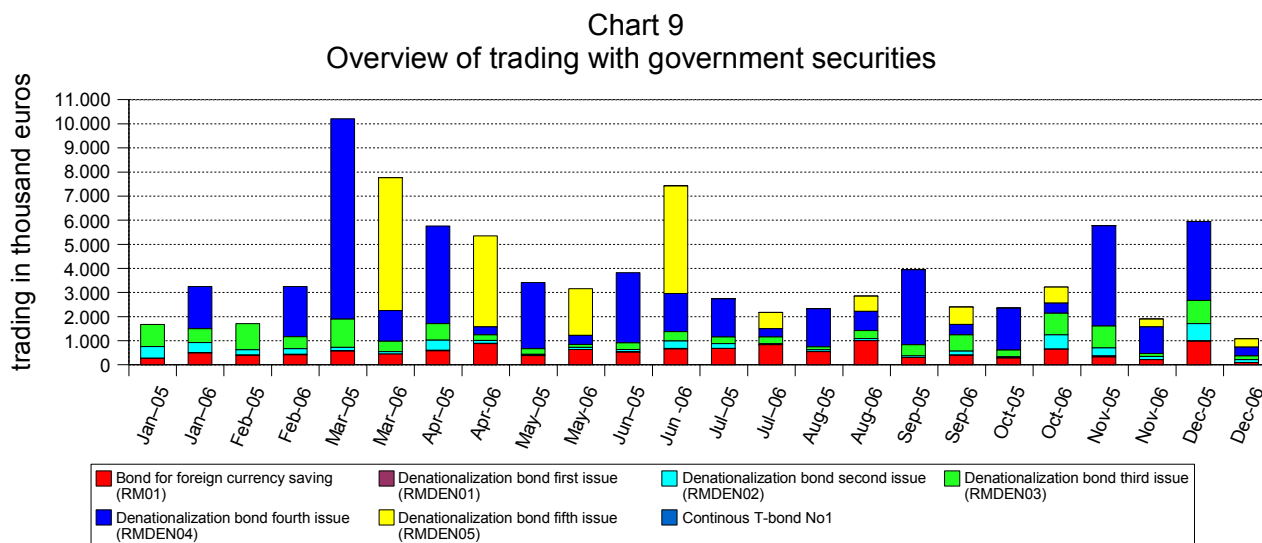
31.12.2006



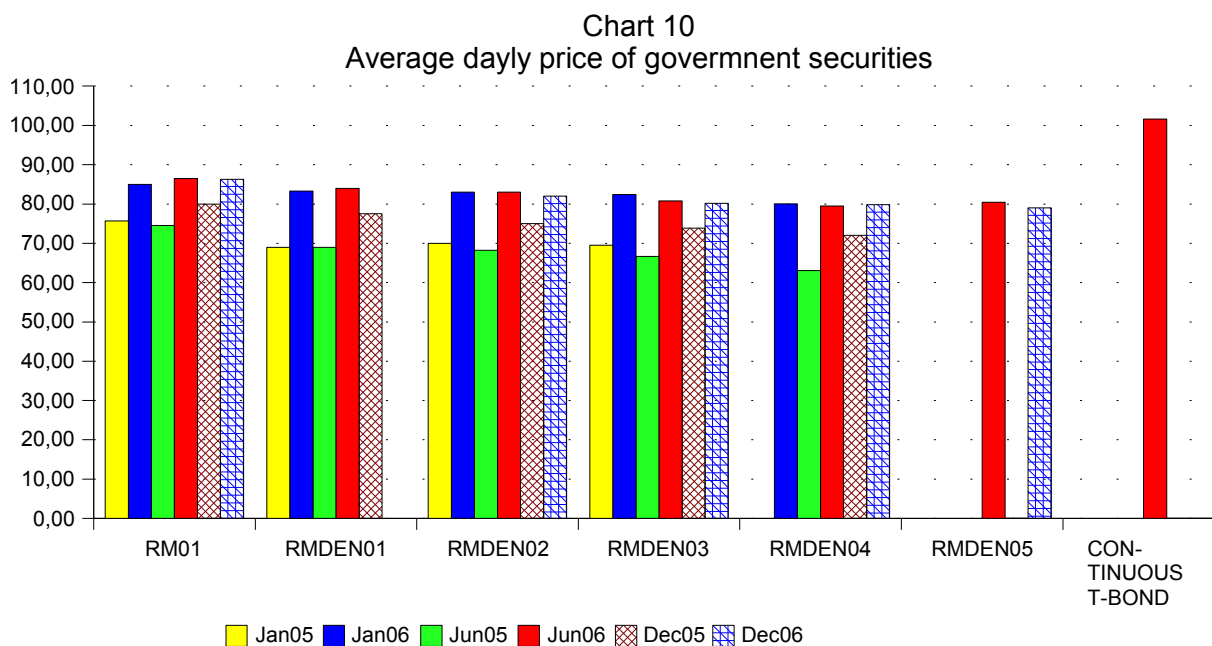
Source: Ministry of Finance

### V.3. Secondary government securities market

#### V.3.1. Macedonian Stock Exchange AD Skopje

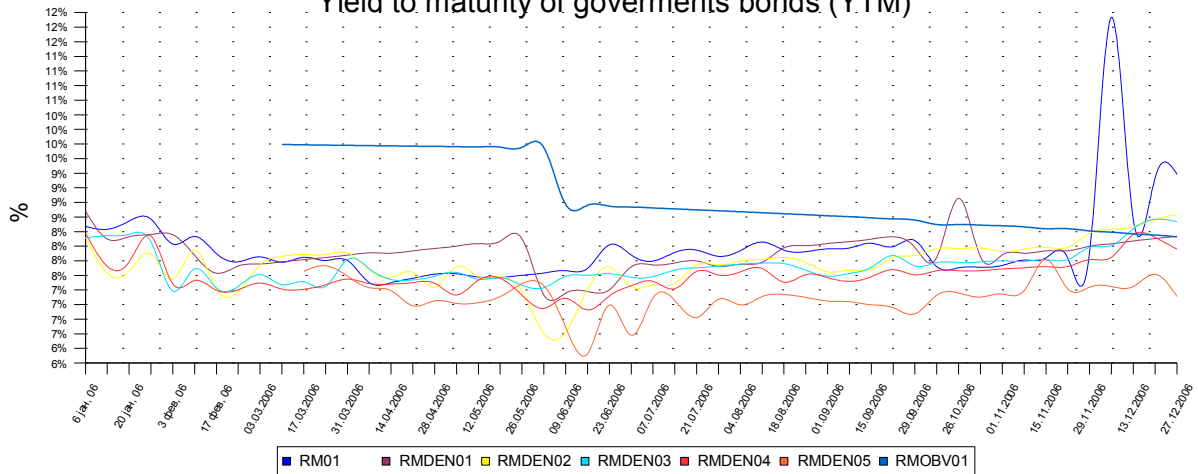


Source: Macedonian Stock Exchange AD Skopje



Source: Macedonian Stock Exchange AD Skopje

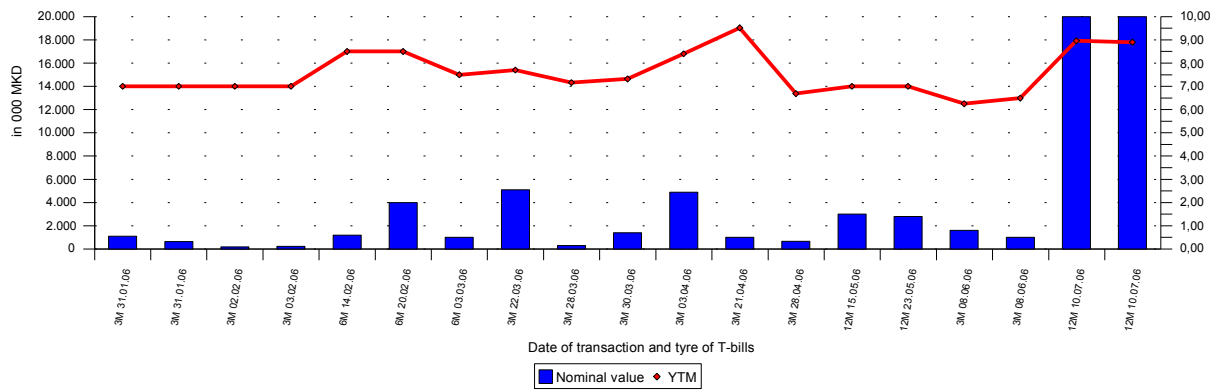
Chart 11  
Yield to maturity of governments bonds (YTM)



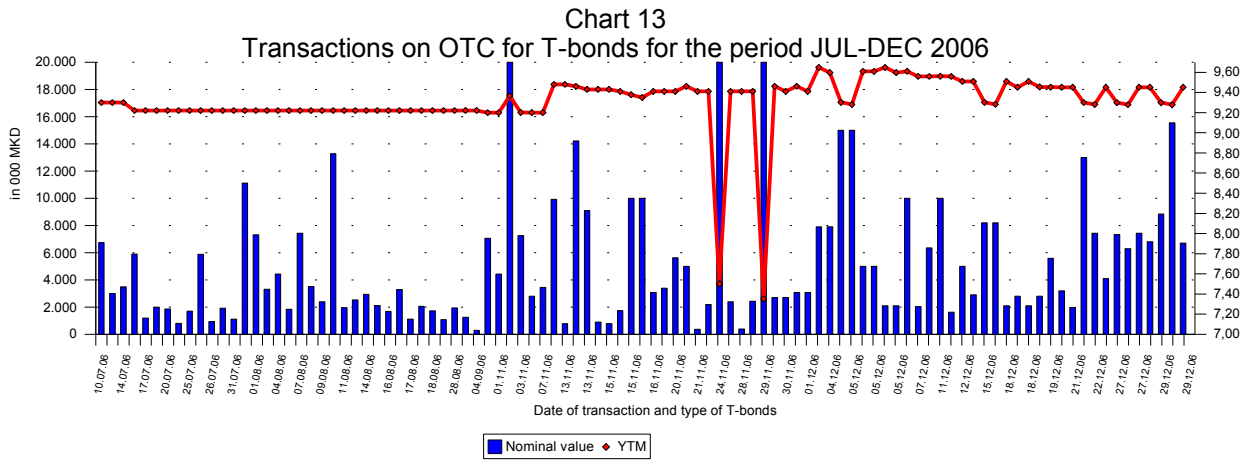
Source: Macedonian Stock Exchange AD Skopje

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

Chart 12  
Transactions on OTC for T-bills for the period JAN-DEC 2006

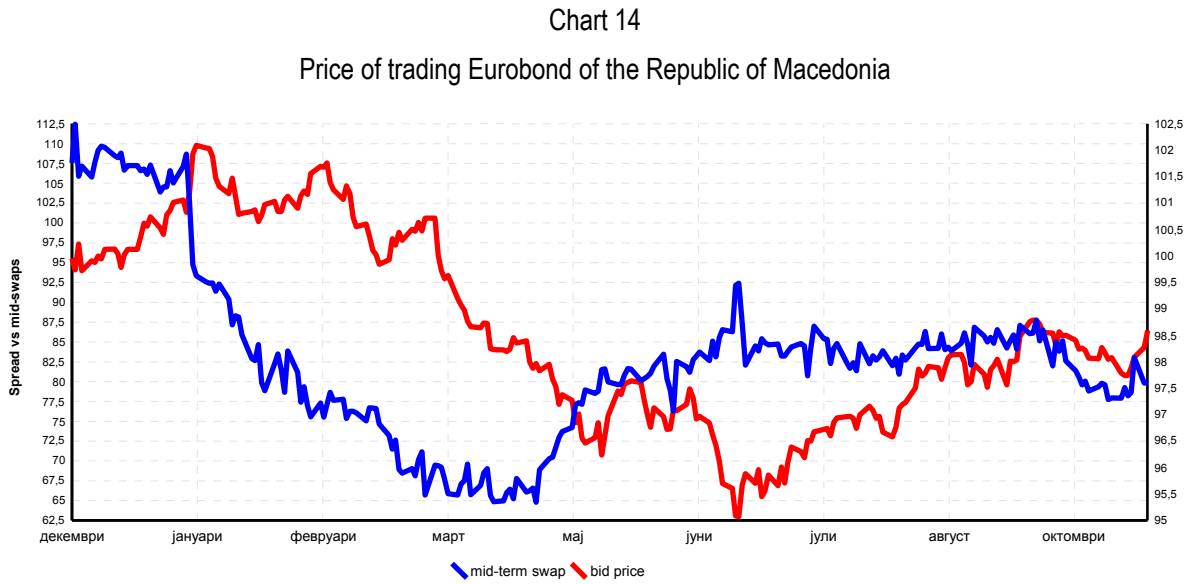


Source: NBRM



Source: NBRM

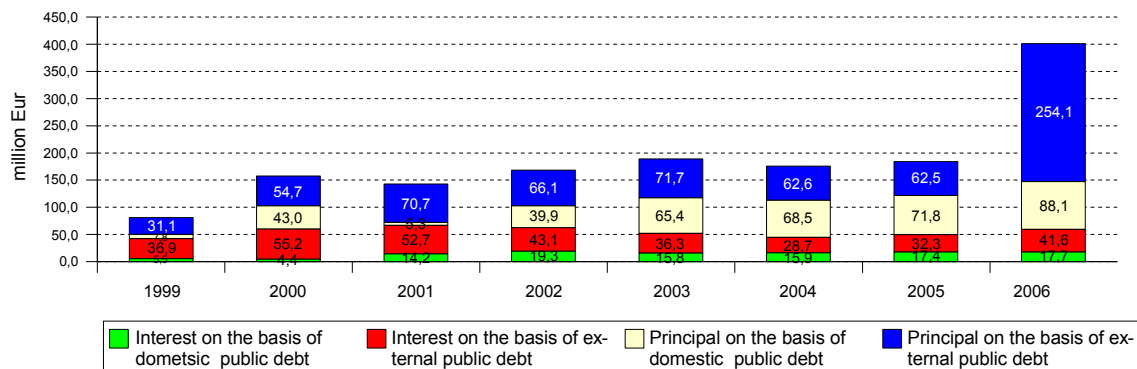
### V.3.3. International capital market



Source: Citigroup-Bloomberg

## V.4. Servicing the total public debt

Chart 15  
Repayment of interest and principal on the basis of total public debt



Source: Ministry of Finance and NBRM

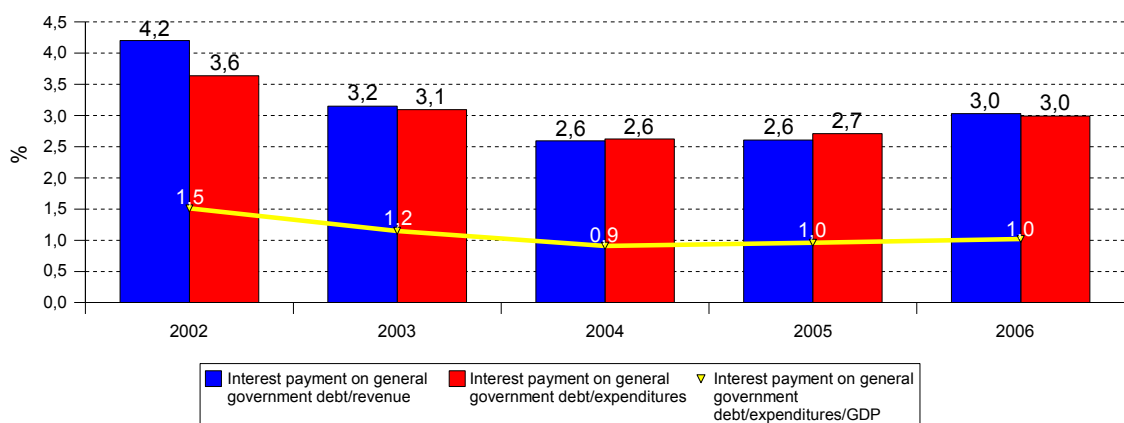
Table 7  
Repayments on the basis of total public debt in 2006

EUR million

| Basis  | Q1- 2006      | Q2-2006      | Q3-2006      | Q4-2006      | Total-2006    |
|--|---------------|--------------|--------------|--------------|---------------|
| Interest on the basis of external public debt            | 12,39         | 6,21         | 9,48         | 13,47        | 41,55         |
| Interest on the basis of domestic public debt            | 2,27          | 7,26         | 1,28         | 6,84         | 17,65         |
| <b>Total interest on the basis of total public debt</b>  | <b>14,66</b>  | <b>13,47</b> | <b>10,76</b> | <b>20,31</b> | <b>59,20</b>  |
| Principal on the basis of external public debt           | 206,11        | 10,90        | 21,94        | 15,16        | 254,11        |
| Principal on the basis of domestic public debt           | 2,14          | 44,43        | 0,00         | 41,49        | 88,06         |
| <b>Total principal on the basis of total public debt</b> | <b>208,25</b> | <b>55,33</b> | <b>21,94</b> | <b>56,65</b> | <b>342,17</b> |

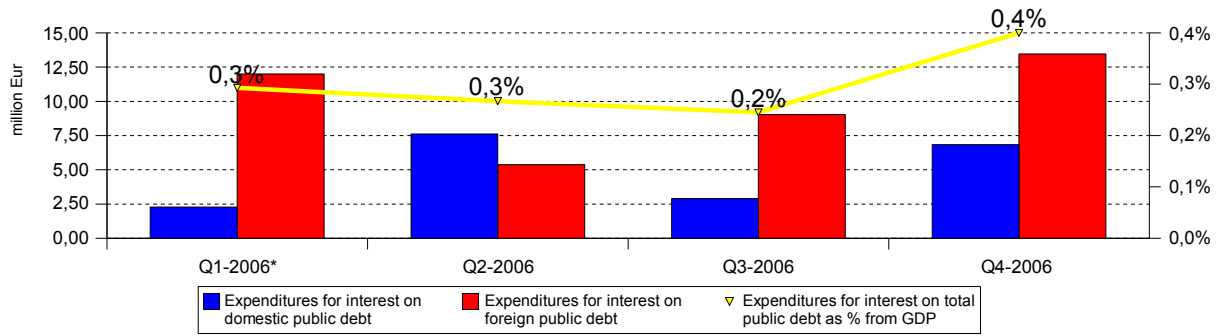
Source: Ministry of Finance and NBRM

Chart 16  
Repayment of interest in relation to revenues, expenditures and GDP



Source: Ministry of Finance and NBRM

Chart 17  
Interest costs for servicing the total public debt in 2006



Source: Ministry of Finance and NBRM

\*On January 11, 2006, there was a buyback of the debt towards the London Club of Creditors with funds obtained from the issue of the Eurobond.

## VI. Characteristics of the public debt portfolio

### VI.1. Total public debt

Table 8

Total public debt, according to the GFS Methodology and the Law on Public Debt

EUR million

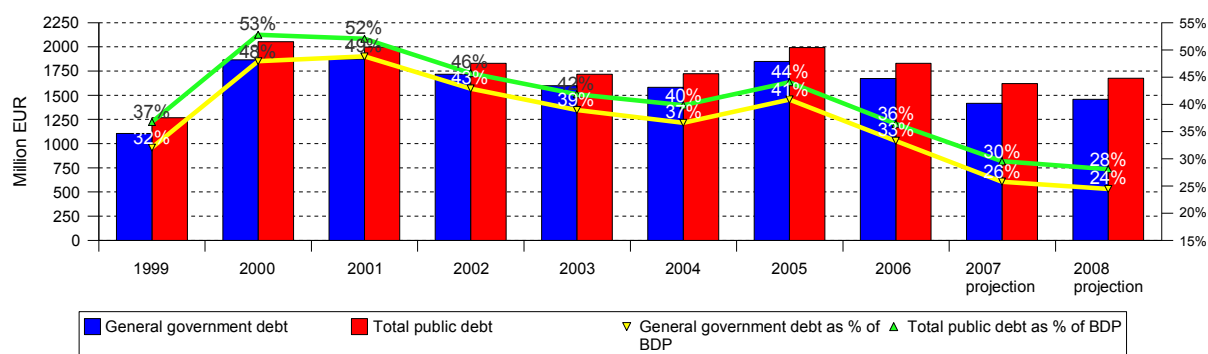
|   | Basis                                   | 31.12.2005      | 31.12.2006      |
|---|---|-----------------|-----------------|
| <b>Foreign public debt*</b>   |   | <b>1.441,16</b> | <b>1.223,01</b> |
|   | General Government                      | 1.245,35        | 1.025,19        |
|   | Central government                      | 52,66           | 42,39           |
|   | Public enterprises                      | 143,15          | 155,42          |
| <b>Domestic public debt</b>   |   | <b>750,39</b>   | <b>806,48</b>   |
|   | General Government debt                 | 603,66          | 648,42          |
|   | T-Bills for monetary purposes           | 0,00            | 75,93           |
|   | Central bank                            | 146,74          | 155,26          |
|   | Public enterprises**                    | N/A             | 2,80            |
| <b>Total public debt according to the GFS methodology</b>   |   | <b>2.191,55</b> | <b>2.029,49</b> |
|   | Total public debt as % from average GDP | 48,37           | 40,36           |
| <b>General Government debt</b>  |   | <b>1.848,81</b> | <b>1.673,61</b> |
|   | General Government debt as % from GDP   | 40,80           | 33,29           |
| <b>Total public debt according to the Public debt Law (including T-Bills for monetary purposes)</b> |   | <b>1.992,16</b> | <b>1.831,83</b> |
|   | Total public debt as % from average GDP | 43,97           | 36,43           |

Source: Ministry of Finance and NBRM

\*In December 2005, first Eurobond was issued in the amount of EUR 150 million, which led to temporary increase of the external public debt, since these funds in January 2006 were used for full early buyback of the debt towards the London Club of Creditors.

\*\*Since April 2006, public enterprises began submitting reports on the debt stock (in line with the Public Debt Law) to the Ministry of Finance.

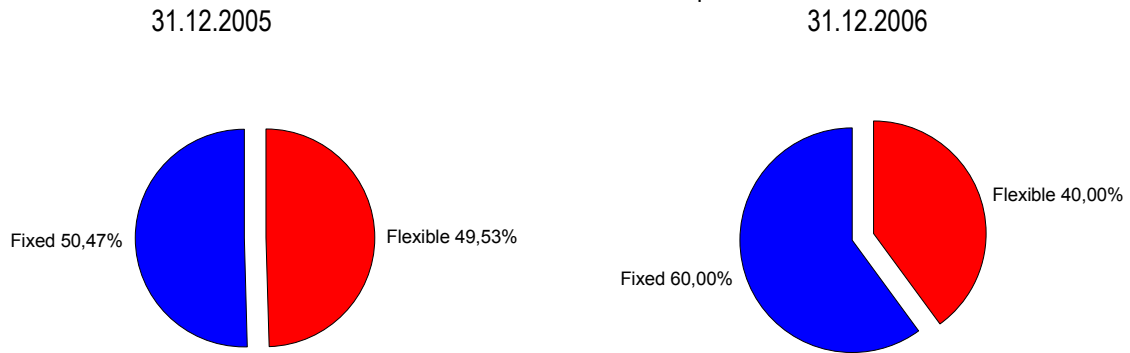
Chart 18  
Trend of public debt to GDP ratio



Source: Ministry of Finance and NBRM



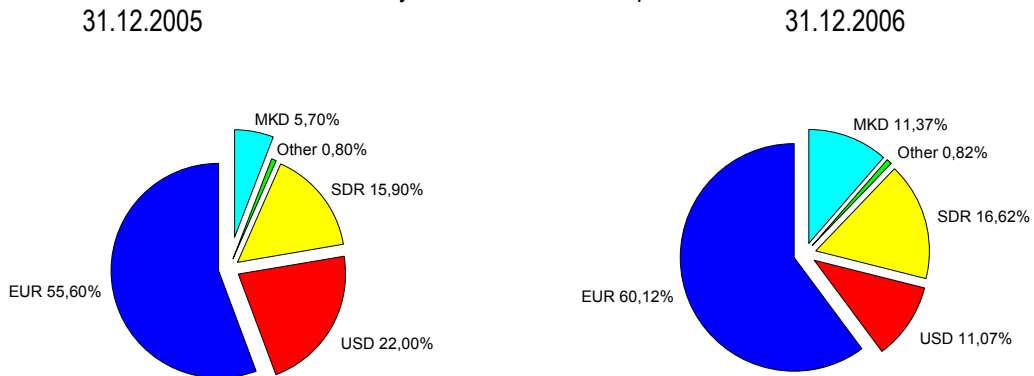
Chart 19  
Interest structure of the total public debt



Source: Ministry of Finance and NBRM

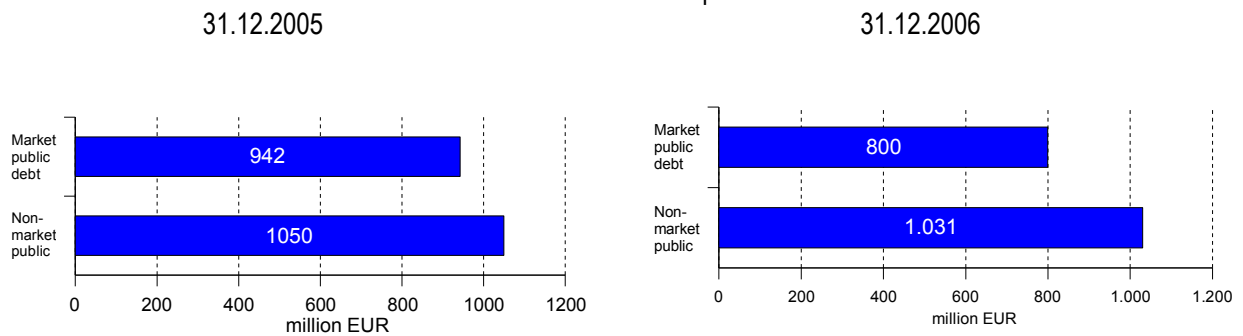
\*Selective credit bond is an interest-free debt and is not included in the interest structure of the total public debt

Chart 20  
Currency structure of the total public debt



Source: Ministry of Finance and NBRM

Chart 21  
Market/non-market total public debt



Source: Ministry of Finance and NBRM

## VI.2. External public debt

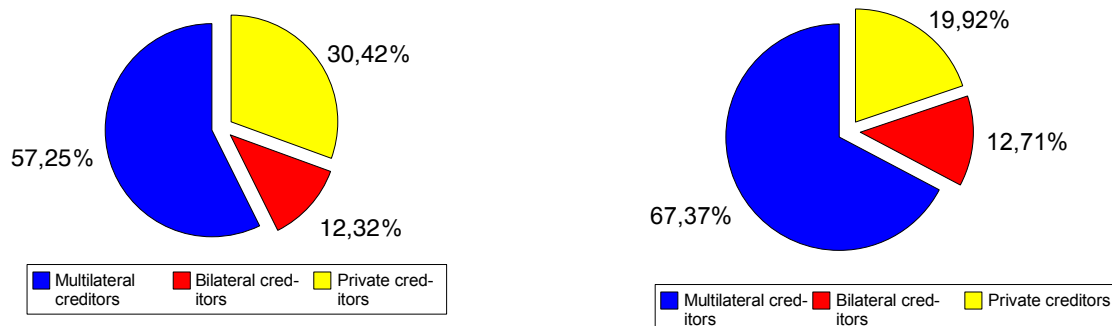
Table 9  
External public debt by creditors and debtors

EUR million

| Sector/debtor/creditor                              | 31.12.05        | 31.12.06        |
|---|-----------------|-----------------|
| <b>Public debt according to the GFS methodology</b> | <b>1.441,16</b> | <b>1.223,01</b> |
| <b>Public debt according to the Public debt Law</b> | <b>1.388,50</b> | <b>1.180,62</b> |
| <b>Government of Republic of Macedonia</b>          | <b>1.245,35</b> | <b>1.025,19</b> |
| <b>Official creditors</b>                           | <b>906,09</b>   | <b>874,62</b>   |
| <b>Multilateral creditors</b>                       | <b>751,82</b>   | <b>739,15</b>   |
| IBRD  | 185,18          | 174,56          |
| IDA   | 307,13          | 291,86          |
| IFAD  | 10,97           | 12,50           |
| CEB   | 16,78           | 17,95           |
| EBRD  | 29,22           | 43,12           |
| EIB   | 112,53          | 109,16          |
| EU  | 90,00           | 90,00           |
| <b>Bilateral creditors</b>                          | <b>154,27</b>   | <b>135,47</b>   |
| Rescheduled debt                                    | 102,31          | 78,55           |
| Non rescheduled debt                                | 6,63            | 6,63            |
| Newly concluded loans                               | 45,33           | 50,29           |
| <b>Private creditors</b>                            | <b>339,26</b>   | <b>150,57</b>   |
| Eurobond  | 150,00          | 150,00          |
| Other private creditors                             | 189,26          | 0,57            |
| Banks   | 189,26          | 0,57            |
| Non banking private sector                          | 0,00            | 0,00            |
| <b>NBRM</b>   | <b>52,66</b>    | <b>42,39</b>    |
| IMF   | 52,66           | 42,39           |
| <b>Public enterprises</b>                           | <b>143,15</b>   | <b>155,43</b>   |
| <b>Official creditors</b>                           | <b>59,99</b>    | <b>70,80</b>    |
| <b>Multilateral creditors</b>                       | <b>43,14</b>    | <b>56,20</b>    |
| IBRD  | 25,25           | 25,71           |
| EBRD  | 5,94            | 7,33            |
| EIB   | 5,83            | 13,15           |
| EUROFIMA  | 6,12            | 5,00            |
| CEDB  | 0,00            | 5,00            |
| <b>Bilateral creditors</b>                          | <b>16,85</b>    | <b>14,60</b>    |
| Newly concluded loans                               | 16,85           | 14,60           |
| <b>Private creditors</b>                            | <b>83,16</b>    | <b>84,63</b>    |
| Other private creditors                             | 83,16           | 84,63           |

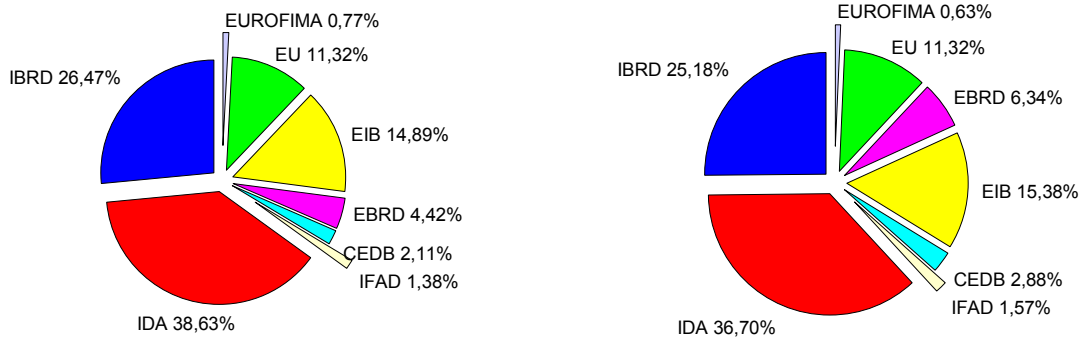
Source: NBRM

Chart 22  
Structure of external public debt by creditors  
31.12.2005                      31.12.2006



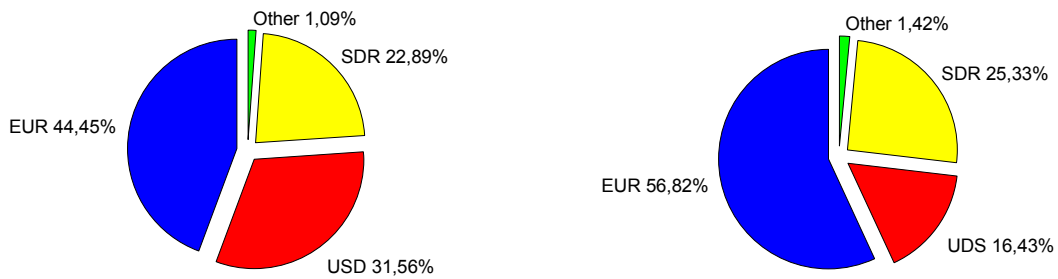
Source: Ministry of Finance and NBRM

Chart 23  
Structure of external public debt by multilateral creditors  
31.12.2005 31.12.2006



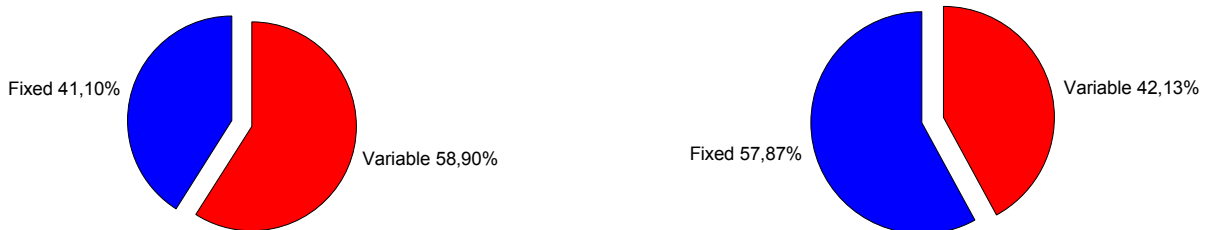
Source: Ministry of Finance and NBRM

Chart 24  
Currency structure of external public debt  
31.12.2005 31.12.2006



Source: Ministry of Finance and NBRM

Chart 25  
Interest structure of external public debt  
31.12.2005 31.12.2006



Source: Ministry of Finance and NBRM

### VI.3. Domestic public debt

Table 10

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

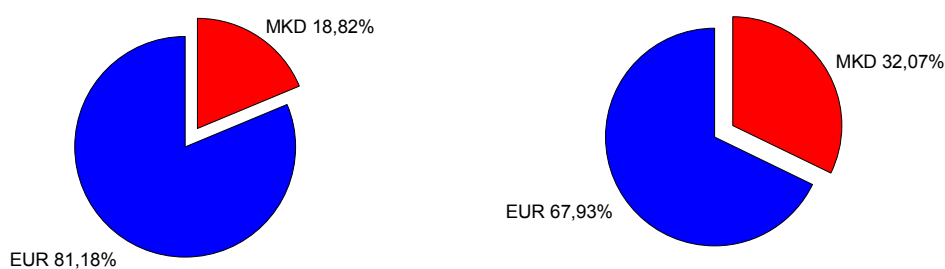
EUR million

| Basis   | Q 4 2005 | Q 1 2006 | Q 2 2006 | Q 3 2006 | Q 4 2006 |
|---|----------|----------|----------|----------|----------|
| Domestic public debt according to the GFS methodology   | 750,39   | 806,84   | 753,29   | 795,59   | 806,44   |
| Domestic public debt according to the Public Debt Law (with involved T-bills for monetary purposes) | 603,66   | 660,53   | 642,70   | 673,80   | 651,18   |
| General Government Debt   | 603,66   | 660,53   | 641,18   | 672,17   | 648,38   |
| Central Government debt   | 603,46   | 660,33   | 640,98   | 671,97   | 648,18   |
| Structural bonds  | 533,50   | 559,20   | 512,00   | 508,37   | 479,58   |
| Stopanska bank rehabilitation bond  | 26,61    | 26,62    | 21,29    | 21,29    | 21,25    |
| Bond for selective credits  | 16,98    | 16,99    | 16,98    | 16,98    | 16,95    |
| Stopanska bank privatization bond   | 77,24    | 75,10    | 72,95    | 70,80    | 68,66    |
| Bond for old currency saving  | 306,50   | 306,51   | 280,90   | 280,41   | 254,92   |
| Denationalization bond  | 106,16   | 133,99   | 119,87   | 118,89   | 117,8    |
| Continuous government securities  | 69,96    | 101,12   | 128,98   | 163,60   | 168,6    |
| Ow T-bills for monetary purposes  | 0,00     | 22,89    | 43,64    | 77,26    | 75,9     |
| Municipalities  | 0,20     | 0,20     | 0,20     | 0,20     | 0,2      |
| Central Bank  | 146,74   | 146,31   | 110,59   | 121,79   | 155,26   |
| Public enterprises  | N/A      | N/A      | 1,52     | 1,63     | 2,8      |

Source: Ministry of Finance

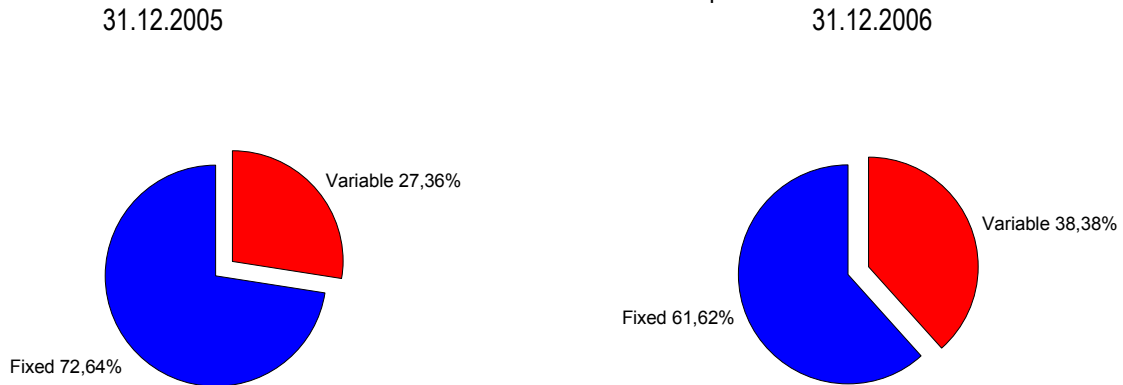
\*General government debt includes treasury bills for monetary purposes issued by the Ministry of Finance on behalf and for the account of the National Bank, which uses them for running the monetary policy.

Chart 26  
Currency structure of the domestic public debt  
31.12.2005 31.12.2006



Source: Ministry of Finance

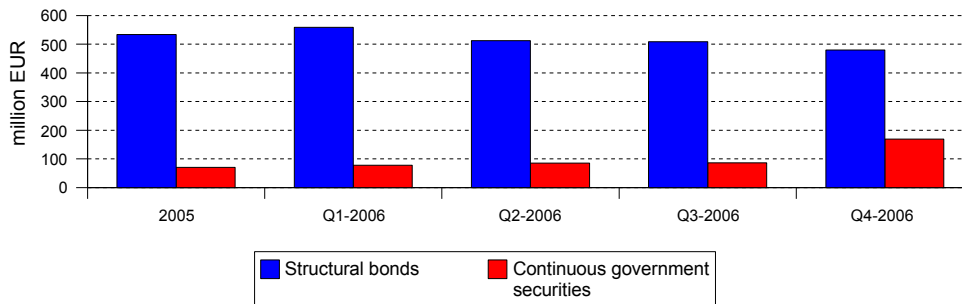
Chart 27  
Interest structure of the domestic public debt



Source: Ministry of Finance

\*Selective credit bond is an interest-free debt and is not included in the interest structure of the domestic public debt

Chart 28  
Ratio between the stock of structural bonds and continuous government securities



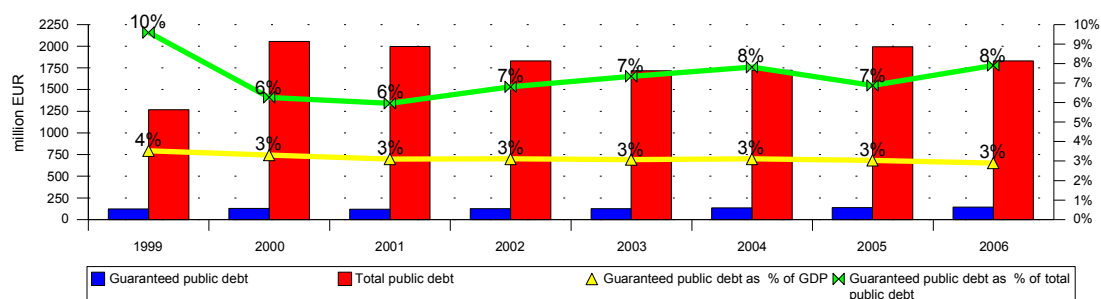
Source: Ministry of Finance

\*In March 2006, fifth issue of denationalization bond was launched.

## VI.4. Guaranteed public debt

Chart 29

Stock of public guaranteed debt



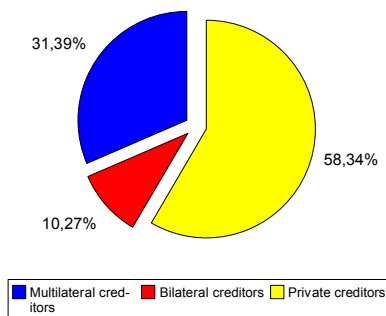
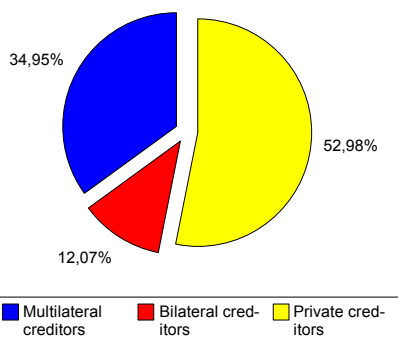
Source: Ministry of Finance and NBRM

Chart 30

Guaranteed public debt by creditors

31.12.2005

31.12.2006



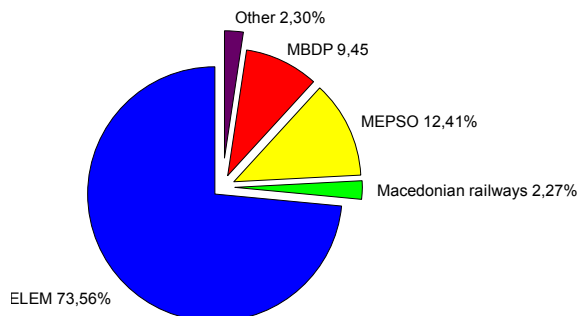
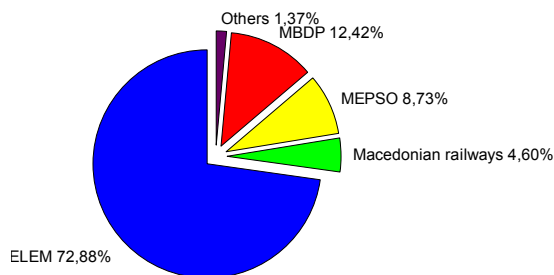
Source: Ministry of Finance and NBRM

Chart 31

Guaranteed public debt by public enterprises

31.12.2005

31.12.2006



Source: Ministry of Finance and NBRM

## VII. Annexes

### VII.1. Annexes of disbursed funds by projects

|            | In Eur  | Final beneficiaries                     | Funds Disbursed in 2005 projection | Funds Disbursed in 2005 realization | Index 5=4/3 | Projected disbursement according to the Public debt management Strategy 2006 | Funds Disbursed in 2006 realization | Index 12=11/10 |
|------------|---|---|------------------------------------|-------------------------------------|-------------|--|-------------------------------------|----------------|
|            | 1   | 2                                       | 3                                  | 4                                   |             | 10   | 11                                  | 12=11/10       |
| <b>I</b>   | <b>Public sector</b>  |   | <b>151.698.012</b>                 | <b>89.640.606</b>                   | <b>59</b>   | <b>131.755.602</b>   | <b>86.143.108</b>                   | <b>65</b>      |
| <b>1</b>   | <b>Multilateral creditors</b>   |   | <b>127.963.785</b>                 | <b>82.997.146</b>                   | <b>65</b>   | <b>97.971.647</b>  | <b>53.725.633</b>                   | <b>55</b>      |
| <b>1.1</b> | <b>IBRD/IDA</b>   |   | <b>38.684.973</b>                  | <b>51.434.297</b>                   | <b>133</b>  | <b>39.454.681</b>  | <b>13.284.289</b>                   | <b>34</b>      |
| 1.1.1      | Irrigation Rehabilitation and Restructuring Project   | Ministry of Agriculture                 | 2.996.614                          | 2.043.650                           | 68          | 1.957.267  | 2.401.017                           | 123            |
| 1.1.2      | Electric Power Development Project  | ELEM and MEPSO                          | 958.499                            | 424.372                             | 44          | 0  | 0                                   | 0              |
| 1.1.2      | TTFSE   | Customs                                 | 2.630.587                          | 2.308.068                           | 88          | 729.836  | 608.168                             | 83             |
| 1.1.3      | Children and Youth Development Project  | Agency for youth and sport              | 411.600                            | 281.990                             | 69          | 652.422  | 600.239                             | 92             |
| 1.1.4      | Community Development and Culture Project   | Ministry of Culture                     | 1.396.500                          | 1.885.680                           | 135         | 1.304.845  | 1.767.778                           | 135            |
| 1.1.5      | Community Development Project   | Ministry for local government           | 3.160.500                          | 1.934.406                           | 61          | 1.304.844  | 1.364.052                           | 105            |
| 1.1.6      | Transport Sector Project – Macedonian Railways  | Macedonian Railways                     | 1.500.000                          | 0                                   | 0           | 2.200.000  | 37.500                              | 2              |
| 1.1.7      | Judicial reforms project  | Ministry of Justice                     | 300.000                            | 0                                   | 0           | 464.851  | 1.025.000                           | 221            |
| 1.1.8      | Education Modernization Project   | Ministry of education and science       | 1.150.000                          | 0                                   | 0           | 1.631.056  | 0                                   | 0              |
| 1.1.9      | SPIL  | Ministry of labor and social policy     | 2.021.890                          | 972.261                             | 48          | 1.957.267  | 1.630.526                           | 83             |
| 1.1.10     | Health Sector Management Project  | Ministry of Health                      | 1.569.540                          | 71.236                              | 5           | 2.038.820  | 260.243                             | 13             |
| 1.1.12     | PSMAL II  | Ministry of Finance                     | 19.850.000                         | 16.456.645                          | 83          | 0  | 0                                   | 0              |
| 1.1.13     | PDPL I  | Ministry of Finance                     | 0                                  | 24.400.000                          | 0           | 0  | 0                                   | 0              |
| 1.1.11     | PDPL II   | Gov. Of R Macedonia Mof and NBRM        | 0                                  | 0                                   | 0           | 22.052.324   | 0                                   | 0              |
| 1.1.12     | Land registration (Cadastré)  | State Bureau for Geodetic Works         | 489.243                            | 655.768                             | 134         | 1.631.056  | 860.484                             | 53             |
| 1.1.13     | BERIS   | Ministry of Economy                     | 250.000                            | 0                                   | 0           | 530.093  | 500.000                             | 94             |
| 1.1.17     | Transport sector project  | Road funds                              | 0                                  | 222                                 | 0           | 0  | 0                                   | 0              |
| 1.1.14     | Electric Power Development Project  | MEPSO                                   | 0                                  | 0                                   | 0           | 1.000.000  | 2.229.281                           | 223            |
| <b>1.2</b> | <b>EBRD</b>   |   | <b>51.104.043</b>                  | <b>12.237.196</b>                   | <b>24</b>   | <b>36.059.700</b>  | <b>18.977.436</b>                   | <b>53</b>      |
| 1.2.1      | Road project II   | Road fund                               | 11.007.968                         | 7.862.403                           | 71          | 7.500.000  | 11.139.958                          | 149            |
| 1.2.2      | MEAP  | Ministry of Finance                     | 6.448.445                          | 2.738.391                           | 42          | 3.570.000  | 2.417.965                           | 68             |
| 1.2.3      | Civil Aviation Project  | Civil aviation                          | 6.916.113                          | 1.571.714                           | 23          | 1.989.700  | 2.664.766                           | 134            |
| 1.2.4      | Power Transmission Pipe line ( Macedonia-Bulgaria 400KV)  | MEPSO                                   | 26.731.517                         | 64.688                              | 0,2         | 23.000.000   | 2.754.747                           | 12             |
| <b>1.3</b> | <b>EIB</b>  |   | <b>30.325.888</b>                  | <b>16.794.130</b>                   | <b>55</b>   | <b>17.000.000</b>  | <b>12.500.000</b>                   | <b>74</b>      |
| 1.3.1      | Road project II (EUR 60 mil)  | Road fund                               | 13.331.873                         | 8.000.000                           | 60          | 13.700.000   | 5.000.000                           | 36             |
| 1.3.2      | Electricity transformation stations in R.Macedonia  | MEPSO                                   | 7.460.956                          | 1.000.000                           | 13          | 3.300.000  | 7.500.000                           | 227            |
| 1.3.3      | Global Finance  | Ministry of finance and NBRM            | 9.533.059                          | 7.794.130                           | 82          | 0  | 0                                   | 0              |
| <b>1.4</b> | <b>IFAD</b>   |   | <b>3.934.936</b>                   | <b>2.531.523</b>                    | <b>64</b>   | <b>1.957.266</b>   | <b>2.263.908</b>                    | <b>116</b>     |
| 1.4.1      | Project for Rural Development   | Ministry of Finance                     | 1.657.146                          | 668.729                             | 40          | 228.032  | 499.369                             | 219            |
| 1.4.2      | Agriculture Financial services Project  | Ministry of Finance                     | 2.277.791                          | 1.862.794                           | 82          | 1.729.234  | 1.764.539                           | 102            |
| <b>1.5</b> | <b>CEB</b>  |   | <b>3.913.944</b>                   | <b>0</b>                            | <b>0</b>    | <b>3.500.000</b>   | <b>6.700.000</b>                    | <b>191</b>     |
| 1.5.1      | Social Housing Project  | Ministry of Transport Communication and | 3.913.944                          | 0                                   | 0           | 0  | 1.700.000                           | 0              |
| 1.5.2      | Job Creation II Project   | MBPR                                    | 0                                  | 0                                   | 0           | 3.500.000  | 5.000.000                           | 143            |
| <b>2</b>   | <b>Bilateral creditors</b>  |   | <b>23.734.227</b>                  | <b>6.643.460</b>                    | <b>28</b>   | <b>33.783.955</b>  | <b>32.417.475</b>                   | <b>96</b>      |
| 2.1        | Italy   | Ministry of Agriculture                 | 6.999.781                          | 2.422.299                           | 35          | 5.073.763  | 900.714                             | 18             |
| 2.2        | KfW   |   | 2.446.215                          | 242.000                             | 10          | 11.583.533   | 3.163.323                           | 27             |
| 2.2.1      | Irrigation Vardar Valley  | Ministry of Agriculture                 | 2.446.215                          | 242.000                             | 10          | 3.914.533  | 3.163.323                           | 81             |
| 2.2.2      | Credit for Support line for SME   | MBPR                                    | 0                                  | 0                                   | 0           | 7.669.000  | 0                                   | 0              |
| 2.2.3      | Brod Gneotino   | ELEM                                    | 0                                  | 0                                   | 0           | 0  | 0                                   | 0              |
| 2.3        | JBIC- Zietovica project   | Ministry of Agriculture                 | 1.607.199                          | 2.703.298                           | 168         | 8.155.276  | 2.779.505                           | 34             |
| 2.4        | Spain ( Project Lisce)  |   | 7.756.618                          | 1.275.863                           | 16          | 6.340.544  | 4.542.151                           | 72             |
| 2.4.1      | Project Lisce loan from ICO – Spain   | Ministry of Agriculture                 | 5.427.304                          | 638.395                             | 12          | 4.321.887  | 2.992.594                           | 69             |
| 2.4.2      | Project Lisce loan from BBVA – Spain  | Ministry of Agriculture                 | 2.329.314                          | 637.468                             | 27          | 2.018.657  | 1.549.557                           | 77             |
| 2.5        | Spain- Strezevo   | Ministry of Agriculture                 | 1.345.418                          | 0                                   | 0           | 0  | 0                                   | 0              |
| 2.6        | Kozjak Project  | Ministry of Agriculture                 | 3.578.995                          | 0                                   | 0           | 2.630.839  | 0                                   | 0              |
| 2.7        | Rationalization of management system and modernization of biomedical equipment in health sector | Ministry of Agriculture                 | 0                                  | 0                                   | 0           | 0  | 0                                   | 0              |
| 2.8        | Project SV.Petka  | ELEM                                    | 0                                  | 0                                   | 0           | 0  | 21.031.781                          | 0              |

Source: Ministry of Finance and NBRM

## VII.2 Annex - Stock of public debt in the Republic of Macedonia (1999 – 2006)

| basis   | year           |                |                |                |                |                |                |                |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|   | 1999           | 2000           | 2001           | 2002           | 2003           | 2004           | 2005           | 2006           |
| <b>EXTERNAL PUBLIC DEBT*</b>  | <b>1.289,6</b> | <b>1.427,7</b> | <b>1.397,6</b> | <b>1.267,6</b> | <b>1.178,9</b> | <b>1.178,6</b> | <b>1.441,2</b> | <b>1.223,0</b> |
| General Government Debt   | 1.024,7        | 1.153,9        | 1.191,9        | 1.089,0        | 1.005,5        | 993,2          | 1.245,4        | 1025,2         |
| Central Government (consolidated)   | 1.024,7        | 1.153,9        | 1.191,9        | 1.089,0        | 1.005,5        | 993,2          | 1.245,4        | 1025,2         |
| Central Government  | 971,5          | 1.101,0        | 1.144,1        | 1.050,4        | 972,6          | 962,3          | 1.208,0        | 981,9          |
| Public Funds  | 53,2           | 52,9           | 47,8           | 38,6           | 33,0           | 30,9           | 37,4           | 43,3           |
| Municipalities  | 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           |
| Public enterprises  | 163,6          | 186,2          | 125,4          | 114,0          | 118,7          | 139,4          | 143,2          | 155,4          |
| <b>DOMESTIC PUBLIC DEBT</b>   | <b>113,6</b>   | <b>791,0</b>   | <b>733,3</b>   | <b>676,0</b>   | <b>665,0</b>   | <b>663,9</b>   | <b>750,4</b>   | <b>806,5</b>   |
| General Government Debt   | 79,9           | 711,7          | 681,5          | 626,9          | 593,6          | 589,8          | 603,7          | 648,4          |
| Central Government Debt   | 79,9           | 711,7          | 681,5          | 626,9          | 593,6          | 589,8          | 603,5          | 648,2          |
| Structural bonds  | 79,9           | 711,7          | 681,5          | 626,9          | 593,6          | 557,9          | 533,5          | 479,7          |
| Stopanska Bank Rehabilitation Bond  | 58,7           | 53,6           | 48,1           | 42,7           | 37,2           | 31,9           | 26,6           | 21,3           |
| Small Bond  | 4,0            | 2,0            | 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           |
| Stopanska Bank Privatization Bond   | 0,0            | 120,2          | 111,6          | 103,0          | 94,4           | 85,8           | 77,2           | 68,7           |
| Bond for old foreign exchange savings                                       | 0,0            | 518,9          | 504,9          | 462,4          | 408,9          | 357,7          | 306,5          | 254,9          |
| Denationalisation Bond (I, II, III, IV and V issue)                         | 0,0            | 0,0            | 0,0            | 1,9            | 36,2           | 65,6           | 106,2          | 117,8          |
| Continuous Government Securities  | 0,0            | 0,0            | 0,0            | 0,0            | 0,0            | 31,9           | 70,0           | 168,6          |
| o.w. Treasury bills for monetary purposes                                   | 0,0            | 0,0            | 0,0            | 0,0            | 0,0            | 0,0            | 0,0            | 75,9           |
| Municipalities  | 0,0            | 0,0            | 0,0            | 0,0            | 0,0            | 0,0            | 0,2            | 0,2            |
| Central Bank  | 33,8           | 79,3           | 51,8           | 49,1           | 71,4           | 74,1           | 146,7          | 155,3          |
| Public enterprises**  | N/A            | N/A            | N/A            | N/A            | N/A            | N/A            | N/A            | 2,8            |
| <b>TOTAL PUBLIC DEBT-GFS</b>  | <b>1.403,2</b> | <b>2.218,7</b> | <b>2.130,9</b> | <b>1.943,7</b> | <b>1.843,9</b> | <b>1.842,5</b> | <b>2.191,6</b> | <b>2029,5</b>  |
| <b>GDP***</b>   | <b>3.448,1</b> | <b>3.893,0</b> | <b>3.839,0</b> | <b>4.001,0</b> | <b>4.105,0</b> | <b>4.324,0</b> | <b>4.523,0</b> | <b>5028,0</b>  |
| <b>Average export***</b>  | <b>1.117,0</b> | <b>1.433,0</b> | <b>1.290,0</b> | <b>1.180,0</b> | <b>1.204,0</b> | <b>1.348,0</b> | <b>1.640,0</b> | <b>1913,5</b>  |
| External public debt as % of the public debt                                | 91,9           | 64,3           | 65,6           | 65,2           | 63,9           | 64,0           | 65,8           | 60,3           |
| Domestic public debt as % of the public debt                                | 8,1            | 35,7           | 34,4           | 34,8           | 36,1           | 36,0           | 34,2           | 39,7           |
| Public debt as % of average GDP   | 40,7           | 57,0           | 55,5           | 48,6           | 44,9           | 42,6           | 48,5           | 40,4           |
| Public debt as % of average export  | 125,6          | 154,8          | 165,2          | 164,7          | 153,1          | 136,7          | 133,6          | 106,1          |
| <b>General Government Debt-GFS</b>  | <b>1.104,6</b> | <b>1.865,5</b> | <b>1.873,4</b> | <b>1.715,9</b> | <b>1.599,1</b> | <b>1.583,0</b> | <b>1.849,0</b> | <b>1673,6</b>  |
| 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           |
| 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           |
| General Government debt as % of the average GDP                             | 32,0           | 47,9           | 48,8           | 42,9           | 39,0           | 36,6           | 40,9           | 33,3           |
| General Government debt as % of the average export                          | 98,9           | 130,2          | 145,2          | 145,4          | 132,8          | 117,4          | 112,7          | 87,5           |
| <b>Public debt calculated on the basis of the Public Debt law****</b>       | <b>1.268,2</b> | <b>2.051,8</b> | <b>1.998,8</b> | <b>1.829,9</b> | <b>1.717,8</b> | <b>1.722,4</b> | <b>1.992,2</b> | <b>1755,9</b>  |
| External public debt as % of the public debt                                | 93,7           | 65,3           | 65,9           | 65,7           | 65,4           | 65,8           | 69,7           | 67,2           |
| Domestic public debt as % of the public debt                                | 6,3            | 34,7           | 34,2           | 34,2           | 34,6           | 34,2           | 30,3           | 32,8           |
| Public debt as % of average GDP   | 36,8           | 52,7           | 52,1           | 45,7           | 41,8           | 39,8           | 44,0           | 34,9           |
| Public debt as % of average export  | 113,5          | 143,2          | 154,9          | 155,1          | 142,7          | 127,8          | 121,5          | 91,8           |

\* 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: IMF tables (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)



## **VIII. Conclusion**

Ministry of Finance proposes to the Government of Macedonia to adopt the 2006 Annual Report on Public Debt Management.