



## **Ministry of Finance of the Republic of Macedonia**

***Public Debt Management Department***

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***Annual Report on Implementation of the Public Debt Management Strategy  
of the Republic of Macedonia for 2008***

Skopje, April 2009

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Pursuant to Article 27 paragraph 2 of the Law on Public Debt (Official Gazette of the Republic of Macedonia, nos. 62/05, 88/08), the Parliament of the Republic of Macedonia at its session held on \_\_\_\_\_ is informed with the 2008 Annual Report on Public Debt Management in the Republic of Macedonia.

## I. Introduction

Publishing the Annual report on Public Debt Management is aimed at informing the Government of the Republic of Macedonia and the Parliament of the Republic of Macedonia, in details and on regular basis, and introducing the public with the features of total public debt of the Republic of Macedonia, as well as with the steps undertaken last year for efficient debt portfolio management in the Republic of Macedonia.

The annual report is a summary of the results from the implementation of the Public Debt Management Strategy for the period 2008-2012 ("Official Gazette of the Republic of Macedonia" no.95/08), hereinafter: the Strategy.

The objectives of the public debt management of the Republic of Macedonia according to the Law on Public Debt ("Official Gazette of the Republic of Macedonia" nos. 62/2005, 88/08) 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 the Ministry of Finance to the end of developing and maintaining efficient domestic financial markets.

### I.1. Methodology

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

This definition on public debt is included in the Law on Public Debt ("Official Gazette of the Republic of Macedonia" nos. 62/2005; 88/2008) representing the so-called **national methodology** for calculating the public debt. Pursuant to the amendments and modifications to the Law on Public Debt, Methodology for Calculating the Public Debt according to the Law on Public Debt and the GFS Methodology is harmonized, whereby the debt of the National Bank of the Republic of Macedonia is also included in the total public debt. GFS Methodology is included in the **Government Financial Statistics Manual, issued by IMF**, being frequently applied methodology for calculating the public sector debt.

For the purposes of this information, data on public debt included in the 2007 overview tables and the charts are presented according to the old Methodology for Calculating the Public Debt, where the debt of the National Bank of the Republic of Macedonia is not included in the calculations, whereas the 2008 data are presented according to the new national methodology.

## II. Macroeconomic trends in 2008

### Current Macroeconomic Climate

In 2008, Macedonian economy continued to show significant economic achievements, despite the slowdown of the global economic activity, including the countries in the region. Positive trends were recorded in almost all sectors of the economy. Accelerated growth was realized in conditions of higher coordination between fiscal and monetary policy, supported by disciplined and responsible fiscal policy and consistent and more restrictive monetary policy. Progress achieved in the economy growth, implemented reforms and improved business environment have been acknowledge by renowned international institutions. Thus, in addition to the leading business portal Forbs, which ranked Macedonia at the 50<sup>th</sup> position in running business in its Best Countries for Business Report, being a leap by 32 places compared to 2007, the Doing Business Report of the World Bank confirmed the achieved progress, ranking our country at the 71<sup>st</sup> position, improving by eight places from 79<sup>th</sup> position in 2007. Fight against corruption and results achieved have been confirmed in the latest Report on Fight Against Corruption by the International Organization Transparency International, ranking Macedonia at the 72<sup>nd</sup> position compared to the 84<sup>th</sup> position last year.

Gross Domestic Product (GDP) growth rate for the third trimester of 2008 was 5.5%, thus the commenced trend of achieving noticeable growth rates continues. What is important to mention is the diversification of this growth i.e. the fact that all production sectors participated in the growth. Most significant growth was registered in the processing industry (10.6%), the retail and wholesale trade (8.9%) and the sector hotel and restaurants (7%). High growth of value added at services led to further change and approximation of the production structure of GDP to the one in the developed countries.

In December 2008, within the industry, due to the occurrences in the world economy, the downward trend of the industrial production on monthly and annual basis continued. Industrial production index decreased by 10.1% on annual basis, and the registered decrease of the production of base metals, decreased activity of the oil industry and the decline of production of cloth and tobacco products were the main reasons for such decrease.

Relatively high growth of the general price level in the second half of 2007 continued in the first half of 2008 as well, while it stabilized and started dropping on monthly level by the middle of the year. Thus, the 2008 average **inflation rate** achieved 8.3%, while it dropped to 4.1% on annual level, being realization of the audited projections.

With respect to the reasons for inflation, it should be pointed out that they were mostly external. In fact, main reason for inflation pressure were the increasing prices of food, oil and raw materials in general on the global market, causing, to a certain extent, chain-like increase in the prices of some other products as well. Confirmation for the connection between national inflation and world prices of food and oil is the fact that their stabilization and gradual decline lead to decline of the national inflation rate as well.

Regarding the **external sector**, export growth in the period January-December 2008 was 18.5%, while the import grew was 31.1%, causing widening of the trade deficit by 53.5% compared to the same period last year.

Such economy growth, in conditions of significant inflow of investments implied expected pressures on the import, particularly in the field of raw materials, investment products and equipment. However, due to the global negative trends, FDIs reached decreased level of EUR 36 million in the first eleven months of 2008, being around 20% less than the same period last year.

Positive economic developments that continued from 2007 into 2008 undoubtedly had their reflection in the social sphere as well.

(Labour Force Survey<sup>1</sup>) showed increase in the number of employees by around 20,000 compared to the same quarter last year or by 3.5% of the total employment. Thus, employment

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1 Working age population from 15 -64.

rate increased by 1.6 percentage points (p.p.) reaching 42.8% at quarterly level.

Employment rate amounted to 33,2% in the third quarter in 2008 which, compared to the same quarter from the previous year, was a drop by 1.3 p.p.

In 2008, **the monetary policy** was relatively more restrictive compared to the previous years and the results from the tight policy have already started to be felt with certain time delay. In fact, due to the increased interest rate of the Central bank bills to 7% and the other tight policy measures, the average weighted lending rates of the commercial banks increased by 0.1 p.p. in November 2008 compared to the previous month, while they remained at the same level of 9.8% in December and the interest rates of separate types of bank credits, for which, they had greater demand also increased. At the same time, in December 2008, the long-term credits the enterprises use for investments reached high increase by 34.5% on annual level, being additional impulse for further intensive growth of the economy.

In conditions of global financial and economic crisis, due to the low integration of the domestic banking system of the international financial markets and its relative isolation, the negative consequences that were not felt by October 2008 were dominantly transferred into the real sector of the Macedonian economy.

Thus, the negative effects were firstly felt by the industry for production of base metals, and the textile industry was also affected by the crisis. High drop of the prices of metals put the companies from this industry in an unenviable situation. In fact, in December 2008, the price of copper and zinc on the world stock exchanges reduced by around 53% compared to the same month last year, while the nickel price declined by 62%. Reduced prices of the mentioned products on the world markets, as well as the external demand for the domestic products were the main reasons for the decline of the industrial production and they strengthened the expectancies for the activity decrease in the coming period. After the exclusively favourable period of high and double-digit growth of the industrial production in the first three quarters of 2008 (cumulative growth of 10.4%) also observed serious drop by 7.6% in the fourth quarter, which caused for the average growth rate of the industrial production to amount to one-digit amount of 5.5% leading to non-realization of the projections for its increase by 6%.

Unfavourable economic conditions were also the main reason of the fact that the Gross Domestic Product showed slow-downed increase by 5.5% in the third quarter of 2008 (contrary to 6.3% in the second quarter), because of which the projections were not realized.

### **III. Execution of 2008 Budget of the Republic of Macedonia**

Regarding **public finance**, disciplined and prudent fiscal policy, as so far, continued to be conducted in 2008. Good realization of tax revenues continued in the course of 2008 in the amount of 95% of the planned amount, confirming the successful implementation of the tax reform this year aimed at introducing flat tax, reducing the tax burden and simplifying the tax procedures.

In the period 1<sup>st</sup> January- 31<sup>st</sup> December 2008, the Central Budget of the Republic of Macedonia had deficit of Denar 2,873 billion amounting to 0.75% compared to GDP.

Total budget revenues were realized in the absolute amount of Denar 85.837 billion or 94,07% compared to the total funds envisaged under the 2008 Budget of the Republic of Macedonia in the amount of Denar 91.251 billion.

In 2008, total budget expenditures were realized in the absolute amount of Denar 88,710 billion or by 96,20% compared to the plan.

The Budget of the Republic of Macedonia (*Central Budget and Funds Budgets*), as of 31<sup>st</sup> December 2007 had realized negative fiscal balance amounting to Denar 3,853 billion, being realization of 1% compared to GDP.

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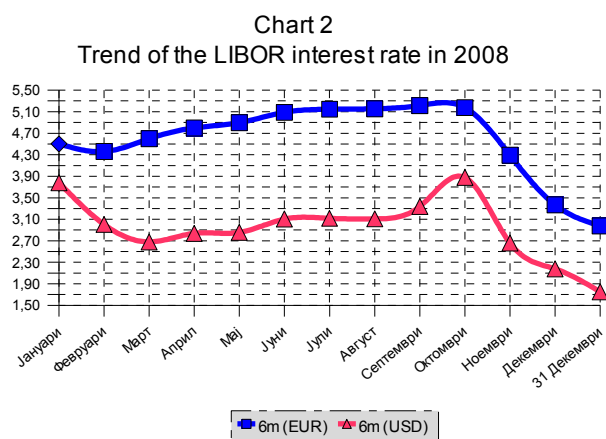
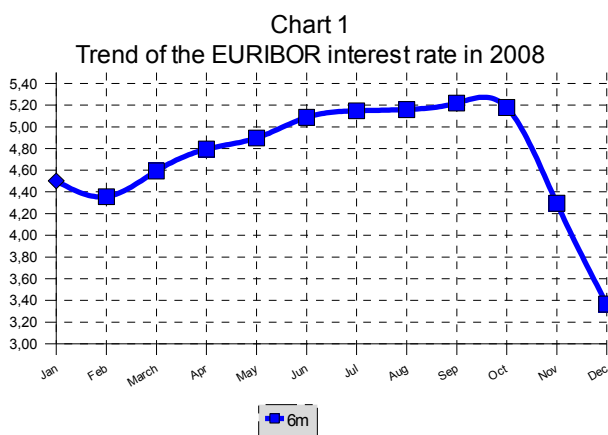
\*The Funds Budget includes the budgets of the Pension and Disability Insurance Fund of Macedonia, Health Insurance Fund of Macedonia, Agency for State Roads and Employment Agency of Republic of Macedonia.

#### IV. More Significant Activities in the Period December- January 2008

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

During 2008, interbank reference interest rate (Euribor) with 6-month maturity period showed continuous increasing trend on the deposit market in the eurozone in the period January – October and sudden downward trend from October up to the end of the year. In fact, in the period January-October 2008, an increase by around 0.68% percentage points was observed and drop by 2.21 percentage points from October to December. Thus, the interest rate of 6-month Euribor was in average 4.5% in January, while it amounted to 2.21% at the end of December.

In the same period, the interbank reference interest rate (Libor) expressed in euros with 6-month maturity period showed continuous increasing trend by October while afterwards it experienced accelerated decline by the end of the year on the deposit market in London, as well as the trend of the interbank reference interest rate – Euribor with the same maturity period, on the deposit market in the eurozone. In the period January-October 2008 an increase by around 0.5 percentage points was registered. At the same time, the interbank reference interest rate (Libor) expressed in US\$ with maturity period of 6 months declined in the first quarter of 2008, experiencing stable trend in the second and third quarter, while it decreased in the fourth quarter of 2008. In fact, the interest rate of 6-month Libor was in average 4.5% in January, while it amounted to 2.98% at the end of December, being decrease by around 1.62 percentage points.

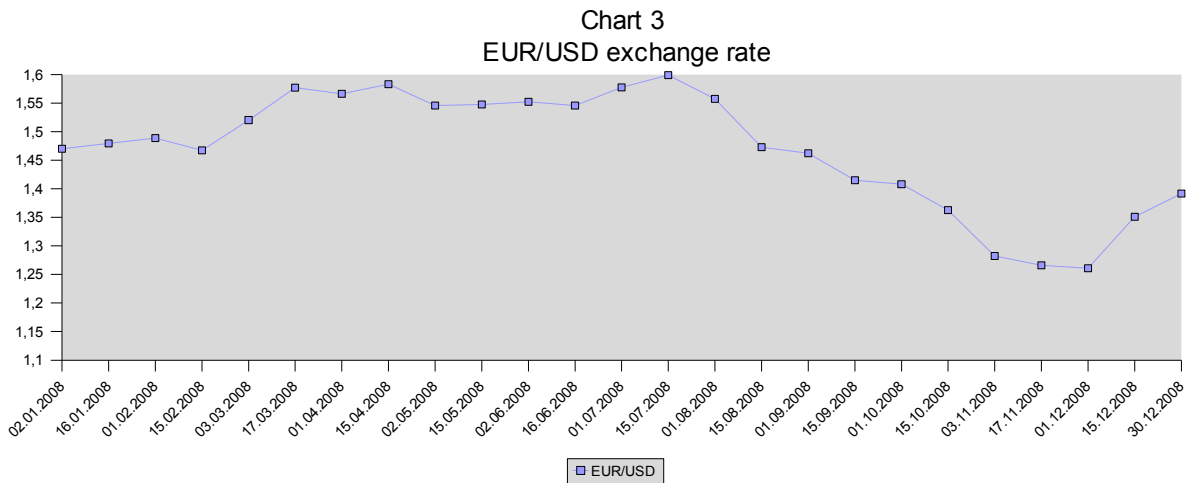


Source: European Central Bank

Source: British Bankers Association

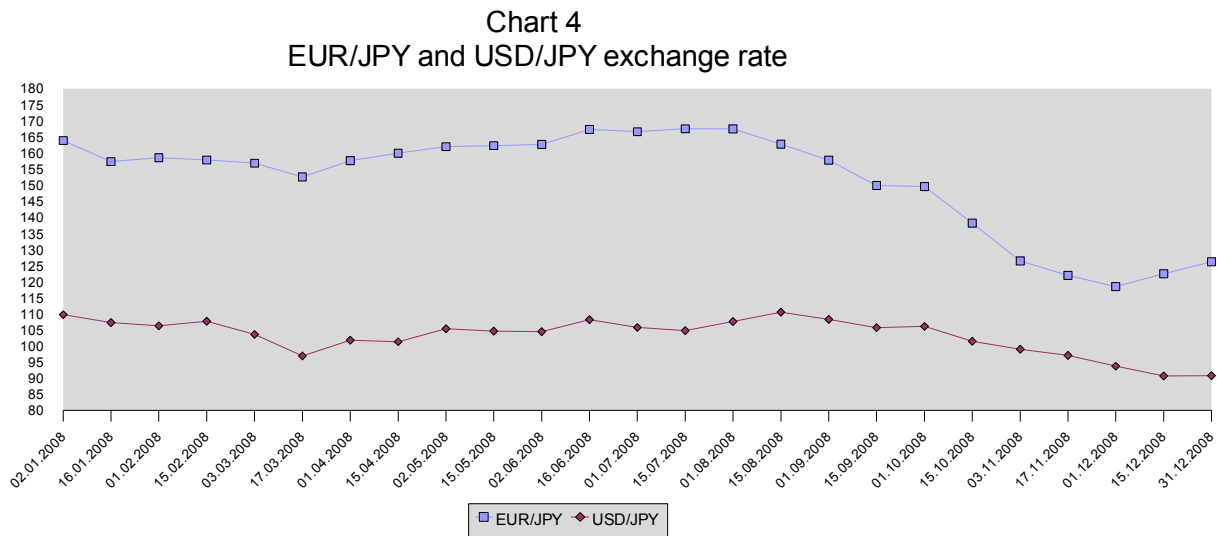
During 2008, the euro/denar exchange rate experienced no changes on the domestic market. In the beginning of 2008, the euro/denar exchange rate was Denar 61.42 for 1 euro, while 1 euro was Denar 61.41 in the last month of 2008. In the same period, the US dollar exchange rate in relation to the denar showed different trends i.e. decrease of the US dollar value compared to the denar during the first half of the year, while it increased compared to the denar in the second half of the year. In the first half of 2008, the average exchange rate of the US dollar was exchanged for Denar 39.74 for one dollar, the denar depreciated compared to the US dollar amounting to Denar 43.71 for 1 US dollar in average in the second quarter of 2008. The value US dollar/Denar amounted to Denar 43.56 for 1 US dollar at the end of 2008.

In 2008, the EUR/USD exchange rate experienced appreciation of the euro on the international financial market in the first half of the year, depreciating by the end of the year. Thus, in January, the average EUR/USD exchange rate amounted to 1.47%, reaching the highest value of the year of US\$ 1.6 for 1 euro in July, while it reached the lowest value of US\$ 1.26 for 1 euro in December, amounting to US\$ 1.39 for 1 euro at the end of year.



Source: European Central Bank

At the same time, the euro in relation to the Japanese yen was stable in the first half of the year, and afterwards it appreciated compared to the Japanese yen. In fact, in the period January – August 2008, there was stability of the euro value compared to the Japanese yen reaching in average Yen 160 for 1 euro, the euro appreciated in the second half of the year, amounting to Yen 126 for 1 euro at the end of December. The exchange rate of the US dollar on the other hand in relation to the Japanese yen experienced greater stability than the euro during the whole year. Thus, in January 2008, the average USD/JPY exchange rate was Yen 109.7 for 1 US dollar, while it amounted to Yen 90.79 for 1 US dollar in December, being an increase in the value of the US dollar compared to the Yen by around 17%.



Source: European Central Bank & the Financials.com

## IV.2. Credit Rating of the Republic of Macedonia in 2008

The grades for the credit rating the Republic of Macedonia obtained in 2007 and 2008 by the international credit rating agencies: Standard & Poor's and Fitch are shown in the table below:

### Standard & Poor's Credit Rating Agency

	2007	2008
Foreign currency	BB+/Stable	BB+/Negativ
Domestic currency	BBB-/Stable	BBB-/Negativ

Source: Standard & Poor's

### Fitch Credit Rating Agency

	2007	2008
Foreign currency	BB+/Positive	BB+/Stable
Domestic currency	BB+/Positive	BB+/Stable

Source: Fitch

According to the Fitch Credit Rating Agency, the main factors for obtaining credit rating grade in 2008 are the following: increasing trend of GDP, GDP per capita is within the rank for ensuring BB rating, high balance of payments current account deficit, the political system regarding the dispute with Greece, the NATO accession of the Republic of Macedonia and the country candidate status for EU membership.

According to the Standard and Poor's Credit Rating Agency, the main factors for obtaining credit rating grade in 2008 are the following: the candidate country status of the Republic of Macedonia for EU membership, prudent macroeconomic policy reflected in the stable growth, low inflation and sound fiscal position, structural rigidity referring to the weak points in the judicial system, low inflow of foreign investments and high unemployment, as well as the inflexible structure of the general government expenses.

Regular annual revision of the obtained country's credit rating grades is based on the information Credit Rating Agencies Fitch and Standard and Poor's' representatives obtained in September 2008, while visiting the Republic of Macedonia.

### IV.3. Public Debt Trend

According to the **National Methodology** and the International Monetary Fund Methodology, the public debt<sup>2</sup> decreased by EUR 59.8 million in the period 1<sup>st</sup> January – 31<sup>st</sup> December 2008, amounting to **EUR 1,868.0 million** at the end of 2008. Hence, the value of the public debt indicator decreased compared to the Gross Domestic Product by 5.1 percentage points from 33.34% to 28.22% respectively. (Table 7).

Accordingly, the government debt<sup>3</sup> declined by EUR 43.3 million, amounting to EUR 1,386.7 million at the end of 2008. Furthermore, the government debt reduced by 3.8 percentage points in relation to the Gross Domestic Product i.e. from 24.7% to 20.9%, being under the Maastricht criterion for the public debt, according to which, the general government debt must not exceed 60% of GDP.

The reduction of the government debt and the total public debt is result of both the regular servicing of the existing public debt and the smaller volume of new borrowing in the past period regarding the maturities. However, the downward trend of the total debt is mainly determined from the drop of the domestic debt mainly due to the termination of the issue of treasury bills for monetary purposes, reduction of the debt of the National Bank of the Republic of Macedonia on the basis of the Central bank bills, and as a result of the regular maturity of the structural bonds.

From the point of view of the **currency structure** of the public debt, the euro - denominated debt had dominant share with 57%. The debt dominated in domestic currency increased by 12 percentage points compared to 2007, i.e. from 11% to 23% in the total public debt portfolio. This increase of the domestic currency - denominated debt was mainly result of the new provisions of the Law on Public Debt, according to which, the debt of the National Bank of the Republic of Macedonia is also included in the total public debt. Therefore, out of the 23% domestic currency - denominated debt, the share of Central bank bills amounted to 15%, while the continuous government securities and the structural bonds participated with 8%.

With regard to the interest structure of the total public debt portfolio, the debt with fixed interest rates reduced for the account of the debt with variable interest rate at the end of 2008. Reduction of the debt with fixed rate is due to the inclusion of the Central bank bills issued by the National Bank of the Republic of Macedonia with a maturity period of 28 days, thus increasing the debt with variable interest rate. Compared to 2007, the share of the debt with variable interest rate in the total public debt portfolio increased by 9 percentage points i.e. from 38% to 47%, the Treasury bills out of which participated with 15%.

In 2008, the share of the **market debt** increased by EUR 198 million compared to the last year due to the change of the scope of the public debt and the inclusion of the Central bank bills. If ones exclude the increasing effect due to the change of the debt scope, the market debt would reduce by EUR 87.45 million as a result of the regular maturity of the structural bonds and the increase of the external debt towards the official creditors being non-market debt.

The share of the multilateral creditors in the structure of the external public debt decreased by 2 percentage points for the account of the bilateral creditors, the share of whom increased by 1.7 percentage points and the private creditors by 0.3 percentage points.

**From the point of view of the risks** the debt portfolio of the public debt of the Republic of Macedonia faces being also identified in the Medium-Term Public Debt Management Strategy, one can conclude that the unfavourable changes of the interest structure contributed to increase of the

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<sup>2</sup> **Public Debt** shall comprise sovereign debt and debt of the public enterprises and companies being fully or predominantly owned by the state, the municipalities, the municipalities within the City of Skopje and the City of Skopje and debt of the National Bank of Macedonia.

<sup>3</sup> **Sovereign debt** shall comprise all financial liabilities created by borrowing by the Republic of Macedonia, including municipal debt, debt of the municipalities within the City of Skopje, and of the City of Skopje, excluding debt of public enterprises and companies being fully or predominantly owned by the state, the municipalities, the municipalities within the City of Skopje and the National Bank of *the Republic of Macedonia*.

interest rate risk.

On the other hand, the increased share of the Denar-denominated debt contributed to reduction of the exchange rate risk, but taking into account that the Republic of Macedonia applies de facto fixed exchange rate of the Denar in relation to the Euro, the exposure of public debt portfolio to such risk would be also measured as share of the Euro in the total public debt portfolio, being actually prevalent currency in the total structure of the debt at the end of 2008.

In addition, the Ministry of Finance regularly monitors the trends of the main indicators for exposure of public debt portfolio of the Republic of Macedonia to risks.

To the end of monitoring the exposure to re-financing risk, average time to maturity indicator is continuously calculated (Table 9). Thereby, the value of this indicator for the total public debt at the end of 2007 amounted to 6.87 and as of 31<sup>st</sup> December 2008 it significantly decreased, reaching 6.43 years. Should this indicator be observed separately for the domestic public debt, one can observe certain drop from 2.27 years to 2.35 years, thus domestic debt portfolio becomes to a greater extent exposed to re-financing risk and such dynamics can be explained with the gradual maturity of bonds issued for structural purposes and insufficient extension of maturity of continuous government securities (treasury bills and bonds). With respect to the external public debt, there was also a reduction of this indicator from 9.11 to 8.54 years in 2008.

With regard to the indicator for exposure to the market risk- average time to refixing (table 11), it is obvious that this indicator dropped from 5.59 to 5.22 years during 2008, implying increase of the interest rate risk. Regarding the domestic public debt, trend of risk increase continued as a result of the decline of the share of structural bonds, having mainly fixed interest rates and larger borrowing in continuous government securities with 1-year maturity, with variable interest rates.

Maturity indicator (Table 10) is calculated for the domestic public debt, measuring portfolio exposure to market risk, more precisely the interest rate risk. At the end of 2007, its value amounted to 1.95 years, reducing to 1.68 years by 31<sup>st</sup> December 2008. This maturity indicator means that from the point of view of debtor i.e. issuer of these securities, the Republic of Macedonia is more exposed to interest rate risk compared to the last year.

#### **IV.4. Amendments and modifications to the Law on Public Debt**

Taking into accounts the commitments of the Ministry of Finance for promoting the public debt management functions of the Republic of Macedonia, the Parliament of the Republic of Macedonia adopted Law on Amendments and Modifications to the Law on Public Debt on 9<sup>th</sup> July 2008 (Official Gazette of the Republic of Macedonia no. 88/08). 88/08). These interventions in the legal framework eliminated certain problems occurring in the manner of showing the data on public debt, the manner of borrowing by the municipalities and the public enterprises i.e. the companies being fully or predominantly owned by the state or the municipalities, the municipalities in the City of Skopje and the City of Skopje, the manner of preparation and the contents of the Public Debt Management Strategy, as well as the procedures for issuing government securities and their early buy-back.

#### **IV.5. Issue of the Seventh Issue of Denationalization Bonds**

Pursuant to the Law on Issue of Denationalization Bonds of the Republic of Macedonia („Official Gazette of the Republic of Macedonia” nos. 37/2002, 89/2008), on 25<sup>th</sup> August 2008, the seventh denationalization bonds was issued, which, according to the project amounted to EUR 30 million (in line with the issued prospectus). Conditions, under which, this bond was issued are also identical for the first six issues i.e. maturity period of 10 years with fixed annual interest rate of 2%. The first installment for this bond falls due on 1<sup>st</sup> June 2009.

#### **IV.6. Stock of deposits of the Ministry of Finance (Denar and Foreign Currency Deposits)**

As of 31<sup>st</sup> December 2008 inclusive, total deposits of the Ministry of Finance decreased by EUR 34 million compared to the last year amounting to EUR 17.2 million. Foreign currency deposits of the Ministry of Finance also decreased by EUR 31 million amounting to EUR 7.2 million

as of 31<sup>st</sup> December 2008 inclusive. This was a result of the regular servicing of the external public debt and their usage for financing the budget deficit. In the course of 2008, higher inflow of foreign currency funds was realized on the basis of the new borrowing at the World Bank, on the basis of the Third Programmatic Development Policy Loan (PDPL III) in the total amount of EUR 16.7 million.

#### **IV.7. Public Debt Servicing**

All liabilities on the basis of public debt that fell due in 2008 were regularly and timely serviced by the Ministry of Finance, as well as by the other public debt holders.

To the end of repaying the liabilities on the basis of the government debt principal of the 2008 Budget of the Republic of Macedonia, Denar 7.081 million was planned, total of Denar 6,977 million out of which was spent, being minimum deviation of 1.47%.

The deviations at the projections in relation to the realization were result of the lower disbursements of credits than the planned ones, as well as the lower borrowing through the government securities.

Total of Denar 2,644 million was paid for the liabilities on the basis of interest costs of the government debt from the 2008 Budget of the Republic of Macedonia, which meant deviation of 2.51 % compared to the planned budget in the amount of Denar 2,712 million.

The deviation of the planned funds in the Budget from the realized ones for the interest rates is mainly due to the decrease of the interest rates on the external and domestic debt for those credits with variable interest rate, as well as due to the changes of the value of the Macedonian denar in relation to the other currencies (US dollars, Japanese yens etc.)

The external debt of public enterprises was timely services, so in 2008, the public enterprises paid debt in the total amount of Denar 1, 258 million on the basis of principal and Denar 562 million on the basis of interest.

In 2008, the repayments of the public debt (the government debt and the debt of public enterprises) amounted to Denar 8,235 million on the basis of principal and Denar 3, 206 on the basis of interest.

#### **IV.8. Realization of Disbursements on the Basis of External Public Debt**

Compared to previous year, when the percent of realization of disbursements on the basis of external debt was 68.6%, certain progress was achieved and the success of the disbursements regarding the projections amounted to 88.6% in 2008. From analytical aspect, the performance percentage of the general government debt decreased from 93.1 % to 77.6%, while regarding the public enterprises it was significantly increased compared to the last year 32.6%, being at level of 108.4%. From the point of view of realization of the disbursements of funds by separate projects, one may distinguish the ELEM Brod-Gneotina Project, financed through KfV bank and the H.S. Zletovica Project financed through the Japanese Bank for International Cooperation, the realization of which was higher than the projections. On the other hand, in the course of 2008, there were projects with low performance level, out of which, the IBRD Local and Regional Roads Project and the Modernization of Biomedical Equipment Project may be distinguished in the health sector financed by the Government of the Republic of Italy.

## IV.8. Continuous Government Securities

### IV.8.1. Primary Government Securities Market (GS)

The policy of continuous issue of government securities (GS) also continued in the course of 2008. Thereby, the focus was put mainly on the following:

#### ● Continuous issue of GS

Pursuant to the Decision on the Type and Features of Government Securities issued by the Ministry of Finance on behalf of the Government of the Republic of Macedonia, in the course of 2008, it was envisaged for net issue of government securities to be carried out in the maximum amount of Denar 4 billion, i.e. net issue in the amount of Denar 1 billion to be carried out in each quarter. On 31<sup>st</sup> December 2008, the stock of total issued government securities was Denar 7,491 million, being an increase by around Denar 2,534 billion compared to the stock on 31<sup>st</sup> December 2007, when it amounted to Denar 4,957 billion. If one makes comparative analysis of the trends in net issues in 2008 by quarters, one can observe that there was deviation trend of the realized issues in relation to the projected issues in all quarters. In the first quarter, net issue of government securities amounted to Denar 378.93 million, being a deviation by Denar 621.07 million from the projected amount. In the second quarter, net issue of government securities was negative and it amounted to Denar -724.88 million, being a deviation by Denar 1,724.88 million from the projected amount. In the third quarter, net issue amounted to Denar 305.64 million, being a deviation by Denar 694.36 million. The net issue also amounted to Denar 2,528.70 million in the fourth quarter, being a deviation by Denar 1,528.70 million higher than the projected amount.

Taking into account that during 2008, net issue of government securities was planned to be carried out in the maximum amount of Denar 4 billion, and as of the last government securities auction in 2008, the realized amount of net issue was Denar 2,534 billion, the total deviation was Denar 1,466 million in 2008. This deviation was mainly due to the favourable stock of the Central Budget of the Republic of Macedonia, i.e. its surplus<sup>4</sup> realized in the period January – beginning of December 2008. The constant surplus of the Central Budget of the Republic of Macedonia during almost whole 2008 was the reason why the Public Debt Management Department (Front Office) assessed that there was no need for full realization of the total planned borrowing amount in the form of issue with government securities in 2008.

#### ● Increasing the maturity period of GS

In the period January-December 2008, 3, 6 and 12-month treasury bills were continuously issued, as well as four issues of 2-year government bonds and three issues of 3-year government bonds. When creating the policy of issue of GS, although a special emphasis was put on extending their maturity period, i.e. greater amounts of government securities with longer maturity were offered, with respect to the amounts offered in 2007, the short-term securities continued to have dominant place in the maturity structure. On 31<sup>st</sup> December 2008, the maturity structure of continuous GOVERNMENT SECURITIES is as follows:

- percentage share of 3-month treasury bills was 56.25% in the maturity structure, being decrease by 3.34 percentage points in relation to the share of 3-month treasury bills on 31<sup>st</sup> December 2007, when it amounted to 59.68%,

- percentage share of 6-month treasury bills was 16.81% in the maturity structure, being an increase by 3.45 percentage points compared to the share of 6-month treasury bills on 31<sup>st</sup> December 2007, when it amounted to 13.36%,

- percentage share of 12-month treasury bills was 4.85% in the maturity structure, being a decline by around 3.78 percentage points in relation to the share of 12-month treasury bills on 31<sup>st</sup> December 2007, when it amounted to 8.63%,

- percentage share of 2-month government bonds was 14.54% in the maturity structure,

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<sup>4</sup> In the period January, 1- December, 19, 2008 the Central Budget of Republic of Macedonia ended with surplus in amount of **2.640 billion MKD** and at the end of 2008 the Budget deficit was 1% to GDP (which was below the projected level of 1,5% of GDP)

being an increase by around 1.50 percentage points compared to the share of 2-year government bonds on 31<sup>st</sup> December 2007, when it amounted to 13.04% and

- percentage share of 3-year government bonds was 7.55% in the maturity structure, being an increase by 2.26 percentage points compared to the share of 3-year government bonds on 31<sup>st</sup> December 2007, when it amounted to 5.29 % (Chart 10)

#### ● Promoting and increasing the attractiveness of GS

Within the promotional campaign for investments in GOVERNMENT SECURITIES as well as the increase of their attractiveness, the Ministry of Finance continued with the so far practice of regular issue of 2-month publication on the government securities market as well as the regular publication of information on government securities through the daily press, brochures, leaflets, announcements at the counters in the banks as well as the daily communications of the employees in the Ministry of Finance with the potential investors.

In order to continuously monitor the events on the government securities market (GS), to timely realize the problems the participants thereon face as well as to propose solutions for their overcoming and to initiate proposal for further development of the government securities market, two meetings of the Market Committee were held in the course of 2008.

#### ● Trends in the Interest Rates at the GOVERNMENT SECURITIES Auctions

If one makes comparative analysis of the trends in the interest rates on GOVERNMENT SECURITIES in 2008 compared to 2007, the interest rates increased from 0.5 to 2.5 percentage points in average in relation to the maturity of the government securities. Illustratively, the average weighted interest rate on 3-month treasury bills achieved at the auctions in December 2007 amounted to 5.15%, while it was 7.49% at the auctions in December 2008, being an increase by 2.34 percentage points. In the course of 2008, the weighted interest rate on 6-month treasury bills increased by around 2.53 percentage points, i.e. the weighted interest rate achieved at the auction in December 2007 was 5.24%, while it amounted to 7.77% at the auction in December 2008. In the course of 2008, the interest rate on 12-month treasury bills also increased by 1.50 percentage points, i.e. the weighted interest rate achieved at the last auction in 2007 was 5.50%, while it was 7.00% at the last auction in 2008. The increasing trend of the interest rates was also observed at the government securities with longer maturities. Thus, in 2008, the coupon interest rates on 2-year government bonds increased by 1.75% compared to 2007, while regarding 3-year government bonds they increased by around 0.50 percentage points compared to 2007. (Chart 8)

#### ● Within the ownership structure of realized government securities

Even in the course of 2008, trend of dominant share of the banks in the ownership structure in relation to the other entities on the government securities market continued. As of 31<sup>st</sup> December 2008, percentage share of banks in the ownership structure of the government securities amounted to 65.95%, while the share of the other entities was 34.05%. Despite the dominant share of banks, continuous decrease of their share in the ownership structure was observed in the course of 2008. In fact, the share of banks reduced by 16.05 percentage points i.e. it amounted to 82% on 31<sup>st</sup> December 2007, while it was 65.95% on 31<sup>st</sup> December 2008 in the analyzed period. (Chart 9)

#### ***IV.8.2. Secondary Government Securities Market***

In the course of 2008, in parallel with the further development of the primary market, the secondary trading with government securities was also developed. Trading is realized at the Macedonian Stock Exchange AD Skopje and on the Over-the Counter Market (OTC).

The establishment of **Working Group for promoting the further development of the secondary market- the Over-the-Counter Market** was one of the most significant novelties. Representatives from the Ministry of Finance, the National Bank of the Republic of Macedonia and representatives from part of the banks participated in the working group. Conclusion for preparation of Draft - Memorandum of Understanding, including the draft-conclusions was adopted within the working group, being the following: Mandatory daily listing of purchase and selling prices

of TB in the amount of at least Denar 1,000,000.00 (i.e. Denar 5,000,000.00 for large banks in line with the NBRM classifications), for the banks to commit themselves to realize the transaction according to the listed prices if another bank is interested and to also determine the maximum swap of 75 basic points between the listed purchase and selling prices of the banks regarding TB. These draft-conclusions were accepted at the eighth Market Committee, being distributed to the Bankers Association for the purpose of their formal acceptance and implementation. In the same period, 20 transactions in government bonds were executed on the over-the-counter markets, being decrease by 113 transactions compared to 2007, while the nominal amount of trading was Denar 510 million, being decrease by around Denar 690 million compared to 2007. (Charts 17 and 18).

Structural bonds (seven issues of government bonds for denationalization bonds for old foreign exchange saving) as well as continuous government bonds are traded on the Macedonian Stock Exchange. In the course of 2008, denationalization bonds as well as bonds for old foreign exchange saving were traded. In 2008, total trading volume was EUR 25,851,560 being decrease compared to 2007, when total trading volume of EUR 30,742,695 i.e. drop by 15.91% was realized. However, the total realized trading turnover was EUR 22,154,704 or Denar 1,356,838,359, being decline by 11.60% compared to 2007 (Charts 15 and 16).

In 2008, the purchase price of the **Eurobond** ranged between 74.688% to 95.128%, while the medium-term swap between 73 basic points to 714 basic points. In 2008, the average purchase price was 87.031%, while the average medium-term swap was 270 basic points. (Chart 19).

In 2007, the purchase price of the Eurobond ranged between 93.85% to 99.56%, while the medium-term swap between 44,78 basic points to 88,12 basic points. In 2007, the average purchase price was 96.67%, while the average medium-term swap was 58 basic points.

One can conclude that trading purchase price lower by 9.638 was realized in 2008, while average medium-term swap higher by 212 basic points was realized compared to 2007. In fact, in the course of 2008, global financial crisis affecting the financial markets influenced on such performances of the Eurobond. More significant trends were noticed during October and November when due to the instability of the world markets the medium-term swap sharply increased, while the purchase price of the Eurobond of the Republic of Macedonia decreased.

#### **IV.9. Newly extended loans in 2008**

● **Project for Construction of Primary School “Jan Amos Komenski” in the Karpos Municipality-** the Ministry of Finance and the Government of the Republic of Macedonia gave positive opinion for borrowing by municipality in 2008. In fact, the Agreement for Borrowing by Karpos Municipality from Universal Investment Bank Skopje amounting to Denar 25,402,091.00 for the Project for Construction of Primary School “Jan Amos Komenski” was signed on 18<sup>th</sup> July 2008. The construction of the new school “Jan Amos Komenski” will improve and modernize the learning conditions in the primary schools in the Karpos Municipality. Following the construction of the new primary school, the Karpos Municipality expects to increase the revenues in the Municipality Budget on the basis of taxes and real estate as a result of the school attractiveness. The school is being constructed according to all contemporary standards, referring to embedding eco materials and conservation of energy.

Conditions, under which, this project was signed are the followings:

- amount; Denar 25.402.091,00
- interest rate: 7,85%
- repayment deadline: 5 years
- grace period: no

● **Project for Improving the Local and Regional Roads-** 21<sup>st</sup> July 2008, the Ministry of Finance on behalf of the Government of the Republic of Macedonia and the International Bank for Reconstruction and Development – World Bank signed Loan Agreement for the Project for Improving the Existing Regional and Local Network. The purpose of this project is to reduce the costs for access to the markets and the services for the communities, using the regional and local roads, by improving the condition and quality of part of the network of regional and local roads. The projects includes the following: reconstruction and investment maintenance of regional roads – execution of localized repairs, investment maintenance and rehabilitation of around 330 km selected road sections of the regional roads; reconstruction and investment maintenance of local roads- execution of localized repairs, investment maintenance, different types of rehabilitation and superstructure works of around 420 km asphalted and non-asphalted selected local roads, also including preparation of tender documentation and provision of technical advisory services; and institutional support- strengthening the capacity of the borrower for management and maintenance of local road network, as well as implementation of financial and technical audits of the project. The Agency for State Roads of the Republic of Macedonia is beneficiary of the loan funds.

Conditions, under which, this project was signed are the followings:

- amount: EUR 70,000,000
- interest rate: LIBOR for euro currency plus variable swap
- repayment deadline: 20 years plus grace period included
- grace period: 5 years
- one-off fee of 0.25% of the loan amount (on the day of disbursement of the funds)

● **Project for Third Programmatic Development Policy Loan – PDPL 3-** on 1<sup>st</sup> September 2008, the Ministry of Finance, on behalf of the Government of the Republic of Macedonia and the International Bank for Reconstruction and Development – World Bank signed Agreement for the Third Programmatic Development Policy Loan – PDPL 3. Third Programmatic Development Policy Loan – PDPL 3 includes financing of different development policies in the Republic of Macedonia for promoting the growth and the increase in the number of new employments by improving both the investment climate and the efficiency of the public sector. The Reform Programme is also focused in the aspirations of the Republic of Macedonia for EU accession. In fact, the financing refers to the following projects: reform in the payment system of the public administration, judicial reform, labor market reform, strengthening the bank regulation and supervision, improving the business climate, reform in the field of health and the decentralization.

Conditions, under which, this project was signed are the followings:

- amount: EUR 16,700,000
- interest rate: LIBOR for euro currency reduced by 0.06%
- repayment deadline: 17 years plus grace period included
- - grace period: 5 years
- - one-off fee of 0.25% of the loan amount (on the day of disbursement of the funds)

● **Physical Education Facilities Project-** on 17<sup>th</sup> September 2008, the Ministry of Finance, on behalf of the Government of the Republic of Macedonia and the Council of Europe Development Bank signed Loan Agreement for partial financing of the Gym Construction Project. The project intends to improve the physical education in the Republic of Macedonia, including construction of 30 facilities for physical education in the secondary schools, provision of equipment and renewal of those schools, so as to satisfy the basic teaching standards.

Conditions, under which, this project was signed are the followings:

- amount: EUR 12,500,000
- interest rate: each tranche will be separately determined, on the day of disbursement of the funds, in relation to which interest rate is favorable (fixed and variable)
- repayment deadline: 15 years plus grace period included
- grace period: 5 years.

● **Project for Regulating the Debt of Macedonian Railways Transport AD Skopje** – the Agreement for Regulating the Debt of Macedonian Railways Transport AD Skopje as legal follower of PE Macedonian Railways Skopje towards Hungarian Railways MAV SA for the period 1991-1995 between Macedonian Railways Transport AD Skopje and Hungarian Railways MAV SA was signed on 10<sup>th</sup> December 2008.

Conditions, under which, this project was signed are the followings:

- amount: EUR 2,408,707.96
- interest rate: interest rate of 2.117% annually on overdue liabilities in the amount of EUR 397, 707.96 will be paid by Macedonian Railways Transport AD Skopje in three installments within 5 years and for the period 1<sup>st</sup> April 2003 to 31<sup>st</sup> December 2007 for overdue liabilities with an interest rate of 3.567% annually, Macedonian Railways Transport AD Skopje should pay an amount of EUR 2,011,000 within three years with certain dynamics in 2008, 2009 and 2010.

#### **IV.10. Issued guarantees in 2008**

● **State guarantee of the Republic of Macedonia of the liabilities of the Agreement for Regulating the Debt of Macedonian Railways Transport AD Skopje as legal follower of PE Macedonian Railways Skopje towards Hungarian Railways MAV SA for the period 1991-1995**

The Guarantee Agreement concluded between the Government of the Republic of Macedonia, represented by the Ministry of Finance and Hungarian Railways MAV SA was signed on 10<sup>th</sup> December 2008. The Republic of Macedonia guarantees the settlement of liabilities in the amount of EUR 7,716,697 under the Agreement for Regulating the Debt of Macedonian Railways Transport AD Skopje as legal follower if PE Macedonian Railways Skopje towards Hungarian Railways MAV SA for the period 1991-1995 concluded between Macedonian Railways Transport AD Skopje and Hungarian Railways MAV SA, within deadlines and conditions envisaged under the Agreement, only in cases when Macedonian Railways Transport AD Skopje does not repay the due annuities.

Conditions, under which, this project was signed are the followings:

- amount: EUR 7,716,697.
- interest rate: 3,567% annually
- repayment deadline: 5 years

## V. Review of Quantitative Targets

Pursuant to the Amendments and the Modifications to the Law on Public Debt (Official Gazette no. 88/08) the debt of the National Bank of the Republic of Macedonia is included in the scope of public debt, but this debt is excluded from the public debt, not being subject-matter of management and targeting in the Public Debt Management Strategy. Therefore, the category public debt does not include the debt of the National Bank of the Republic of Macedonia in the data shown in Table 1.

Regarding the shown realizations of the results of different parameters of the public debt portfolio, one can conclude that all targets set in the Public Debt Management Strategy were realized during 2008 i.e. the Ministry of Finance operates in line with the authorization for public debt management given by the Parliament of the Republic of Macedonia.

Table 1

No.1 Comparison of the public debt portfolio and the quantitative targets set in the Strategy

<b>Objectives</b>	<b>Portfolio parameters at the end of 2007</b>	<b>Portfolio parameters at the end of 2008</b>	<b>Objectives set in the Strategy</b>
Total public debt to GDP ratio (Chart 1)	27,64%	23,9%	not to exceed 40%
Government debt to GDP ratio (Chart 1)	24,83%	20,9%	not to exceed -35%
Total guaranteed public debt to GDP ratio (Chart 2)	2,56%	2,59%	not to exceed 6%
Share of euro denominated debt in the external public debt	euro denominated debt – 64.4%	euro denominated debt -65.8%	euro-denominated debt to amount to 67%-70% (deviation of +/-3 percentage points)
Share of domestic currency debt (Chart 4 4)	domestic currency –6.7%	domestic currency -9%	domestic currency –9% -18% (deviation of +/-2 percentage points)
New borrowing and newly extended credits (Table 2)	EUR 60.97 million	EUR 183.2 million	EUR 530 million EUR
New state guarantees	EUR 7.67 million	EUR 7.7 million	EUR 150 million EUR

Source: MoF

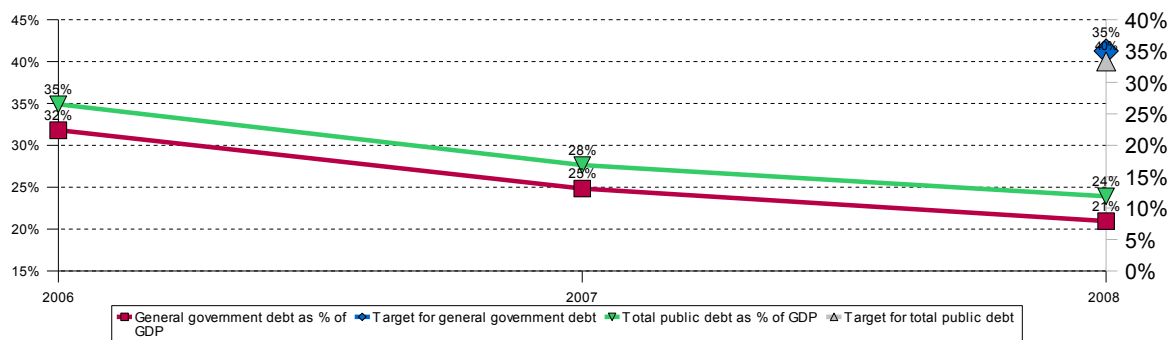
Objectives and performance of the public debt at the end of 2008 will be separately reviewed in the further text.

### V.1.1. Public Debt in relation to GDP

According to the objective set in the Strategy, “the public debt in relation to GDP not to exceed 40% in the next three years”, while within the government debt “the debt must not exceed 35% in relation to GDP”. At the end of 2008, the general government debt in relation to GDP was significantly under the set target, amounting to 20.9%, while the total public debt was 23.9% of GDP. This decrease was mainly due to the regular servicing of the existing public debt as well as due to the smaller volume of new borrowing in the past period.

Chart 5

Comparisons of the public debt to GDP ratio, government debt to GDP ratio and the targets



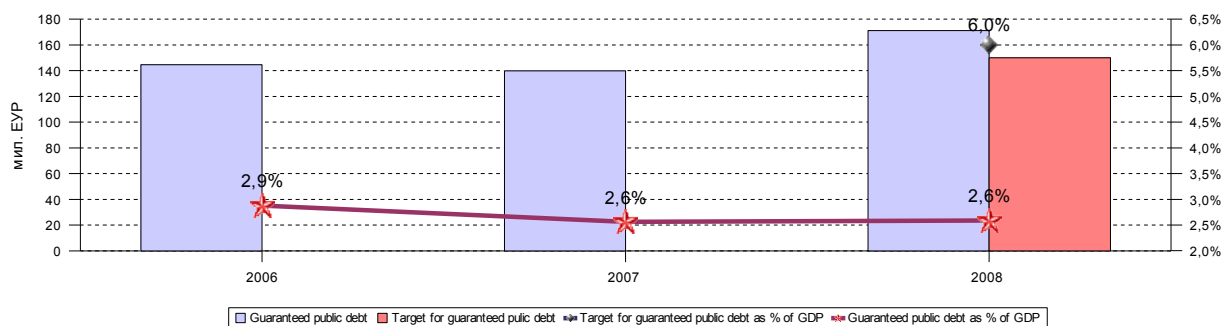
Source: MoF

### V.1.2. Guaranteed Public Debt to GDP Ratio

In line with the limits set in the Strategy referring to the issuance of guarantees in the period 2008-2010 “it is expected for the guaranteed public debt not to exceed 6% of the Gross Domestic Product in 2008, 5.6% in 2009 and 5% in 2010”. According to the recent data on the guaranteed public debt as of December 2008 inclusive, the real stock of the issued guarantees was under the level of the set targets, amounting to 2.59% in relation to GDP. The maintenance of low level of the guaranteed public debt was also one of the Strategy objectives, according to which, the future policy of the country should be focused on applying restrictive access for approving guarantees particularly of the public enterprises that often face liquidity problems.

Chart 6

Comparison of the guaranteed public debt to GDP ratio and the targets



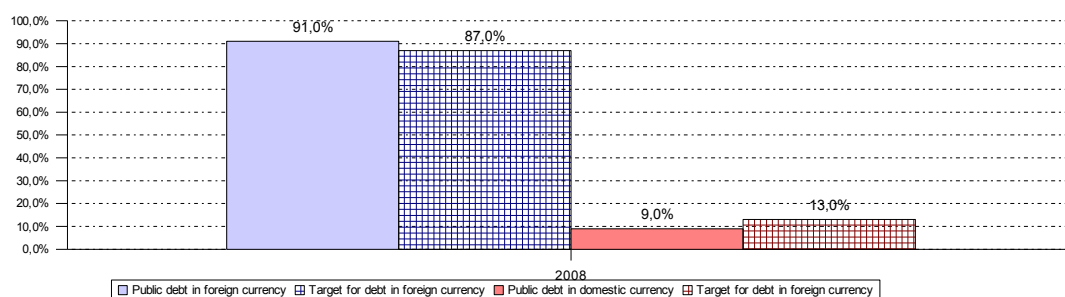
Source: MoF

### V.1.3. Debt denominated in foreign and domestic currency

The share of the Denar-denominated debt in relation to the total public debt amounted to 9% at the end of 2008, meaning that 91% of the public debt portfolio was denominated in foreign currency. On the other hand, this implies greater exposure to the public debt portfolio to the exchange rate risk. However, even though the portion of the Denar-denominated debt is still relatively modest in the total portfolio, there was significant progress of the Denar portfolio compared to the Denar-denominated debt at the end of 2007, when it participated with 6.7%. The increase of the share of the domestic currency - denominated debt contributed to the achievement of medium-term objective under the Strategy determining “**average increase in the share of the Denar in the total public debt and its ranging between 9%-18% (with maximum allowed deviation of +/- 2 percentage points)**”.

Chart 7

Comparison of the total public debt denominated in domestic/foreign currency ratio and the 2008 target



Source: MoF

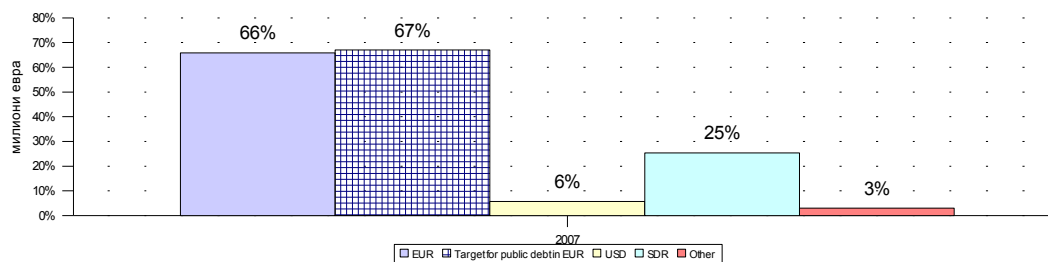
### V.1.4. Currency structure of external public debt

In the course of 2008, the currency structure of the external public debt improved mainly as a result of the commitment of the Ministry of Finance for the new borrowing to be in euro currency so as to avoid the exchange rate risk of the other currencies in relation to the euro. This arises from the de facto fixed exchange rate of the Denar in relation to the Euro.

In line with the primary objective stipulated in the Public Debt Management Strategy “*share of the euro- denominated debt in the total external debt to range between 67%-70% (with maximum allowed deviation of +/-3 percentage points)*”. At the end of 2008, the share of the euro-denominated debt in the external public debt was 65.7% and it increased by 1.3 percentage points compared to 2007. Such result contributes to the realization of the objective stipulated in the Strategy.

Chart 8

Currency structure of external public debt and 2008 target



Source: MoF

### V.1.5. New Borrowing

In 2008, total amount of new borrowing in line with the Strategy “are expected to amount to EUR 530 million”. **The amount of** new borrowing includes the newly extended credits in the course of the year and new borrowing on the basis of issuance of government securities. In the course of 2008, total new borrowing amounted to EUR 183.2 million, being within the targets i.e. not exceeding the set target.

Table 2

New extended credits and issued government securities

EUR million

Ново склучени кредити	Нови задолжувања по основ на државни хартии од вредност	Вкупно 2008 година	Таргет за нови задолжувања во 2008 година
109,7	73,4	183,2	530

Source: MoF

### V.1.6. New issued guarantees

In order to reduce the risk from the contingent liabilities in the public debt portfolio, the annual amount of new guarantees issued by the central government is defined in line with the Strategy, whereby, in the course of 2008, it was determined that the Republic of Macedonia may issue state guarantees in the maximum amount of **EUR 150 million**. In the course of 2008, only one state guarantee was issued in the total amount of **EUR 7.7 million**, being within the set target.

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*Regarding the afore-mentioned review for the realization of the Strategy targets, one can conclude that as **the short-term targets, which are defined for only one year also the short-term targets are successfully realized**, whereby being already reflected in the improvement of the public debt portfolio features.*

*Fulfillment of these targets influences to a great extent the reduction of the exposure of the public debt portfolio to market risks. Therefore, what is of great importance for the successful public debt management of the Republic of Macedonia and the reduction of risks, to which it is exposed, is to redirect the future borrowing from foreign creditors towards the domestic capital and money market. This will further contribute to the increase of the share of the market debt in the total public debt, broadening of the investment base, as well as the development of the domestic government securities market, being of huge importance for the successful public debt portfolio management.*

## VI. Public debt management activities

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

Table 3

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

<i>in million EUR</i>	Q1-2008	Q2-2008	Q3-2008	Q4-2008	Total 2008	Projected in 2008	Realization of projected disbursements
<b>Public sector</b>	<b>14,3</b>	<b>26,5</b>	<b>9,9</b>	<b>64,9</b>	<b>115,52</b>	<b>130,4</b>	<b>88,6%</b>
<b>General Government</b>	<b>7,1</b>	<b>17,6</b>	<b>4,2</b>	<b>36,1</b>	<b>65,1</b>	<b>83,9</b>	<b>77,6%</b>
<b>Central Government</b>	<b>5,0</b>	<b>16,8</b>	<b>4,2</b>	<b>34,6</b>	<b>60,6</b>	<b>47,8</b>	<b>126,8%</b>
<b>Official creditors</b>	<b>5,0</b>	<b>16,8</b>	<b>4,2</b>	<b>34,6</b>	<b>60,6</b>	<b>47,8</b>	<b>126,8%</b>
<b>Multilateral creditors</b>	<b>2,6</b>	<b>14,1</b>	<b>1,5</b>	<b>26,8</b>	<b>45,1</b>	<b>33,3</b>	<b>135,4%</b>
IBRD	2,6	4,0	0,8	18,8	26,2	32,3	81,2%
IFAD	0,0	0,1	0,0	0,0	0,1	0,2	37,7%
CEDB	0,0	0,0	0,7	0,0	0,7	0,7	100,0%
EBRD	0,0	0,0	0,0	0,0	0,0	0,0	-
EIB	0,0	10,0	0,0	8,0	18,0	0,0	-
<b>Bilateral creditors</b>	<b>2,4</b>	<b>2,7</b>	<b>2,7</b>	<b>7,8</b>	<b>15,6</b>	<b>14,6</b>	<b>107,0%</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>-</b>
<b>Public funds</b>	<b>2,1</b>	<b>0,9</b>	<b>0,0</b>	<b>1,5</b>	<b>4,4</b>	<b>36,1</b>	<b>12,3%</b>
<b>Official creditors</b>	<b>2,1</b>	<b>0,9</b>	<b>0,0</b>	<b>1,5</b>	<b>4,4</b>	<b>36,1</b>	<b>12,3%</b>
<b>Multilateral creditors</b>	<b>2,1</b>	<b>0,9</b>	<b>0,0</b>	<b>1,5</b>	<b>4,4</b>	<b>36,1</b>	<b>12,3%</b>
IBRD	0,2	0,0	0,0	1,5	1,7	9,4	18,1%
EBRD	1,9	0,9	0,0	0,0	2,7	1,7	163,8%
EIB	0,0	0,0	0,0	0,0	0,0	25,0	0,0%
<b>Public enterprises</b>	<b>7,1</b>	<b>8,9</b>	<b>5,7</b>	<b>28,7</b>	<b>50,4</b>	<b>46,5</b>	<b>108,4%</b>
<b>Official creditors</b>	<b>7,1</b>	<b>8,9</b>	<b>5,7</b>	<b>8,7</b>	<b>30,4</b>	<b>26,5</b>	<b>114,8%</b>
<b>Multilateral creditors</b>	<b>2,1</b>	<b>7,9</b>	<b>5,7</b>	<b>4,7</b>	<b>20,3</b>	<b>24,8</b>	<b>81,8%</b>
IBRD	1,7	2,7	3,5	1,9	9,8	12,6	77,5%
EBRD	0,4	5,2	2,2	2,8	10,5	12,2	86,2%
EIB	0,0	0,0	0,0	0,0	0,0	0,0	-
CEDB	0,0	0,0	0,0	0,0	0,0	0,0	-
<b>Bilateral creditors</b>	<b>5,1</b>	<b>1,0</b>	<b>0,0</b>	<b>4,0</b>	<b>10,1</b>	<b>1,7</b>	<b>596,8%</b>
<b>Private creditors</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>20,0</b>	<b>20,0</b>	<b>20,0</b>	<b>100,0%</b>

Source: MoF and NBRM

### VI.2. Primary Government securities market

Table 4

Net issue of continuous government securities and structural bonds

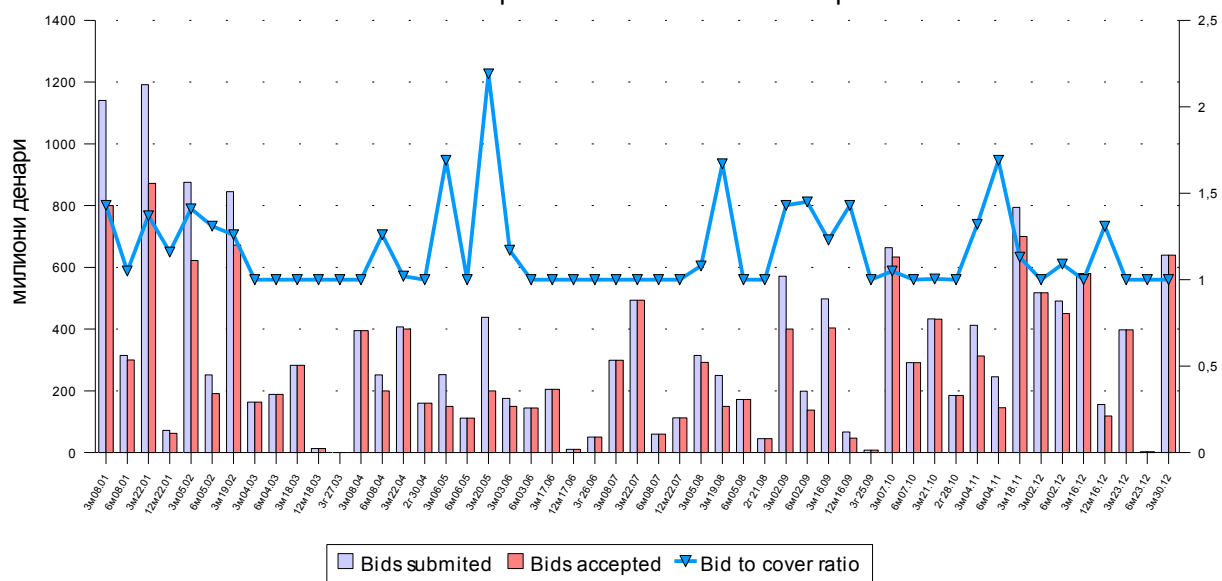
EUR million

		Q1-2008	Q2-2008	Q3-2008	Q4-2008	Total Q1-Q4-2008
<b>I</b>	<b>Net issue of government securities</b>	<b>5,81</b>	<b>-12,08</b>	<b>5,25</b>	<b>49,29</b>	<b>48,26</b>
1	3-month GS	8,45	-1,85	8,80	35,61	51,01
2	6-month GS	4,58	-6,91	-5,08	7,09	-0,32
3	12-month GS	-7,23	-2,67	0,65	1,68	-7,57
4	2-year government bond	0,00	-1,47	0,74	4,91	4,18
5	3-year government bond	0,005	0,82	0,14		0,97
<b>II</b>	<b>VII-th issue of denationalization bonds*</b>			<b>25,18</b>		<b>25,18</b>
<b>I+II</b>	<b>Вкупно</b>	<b>5,81</b>	<b>-12,08</b>	<b>30,43</b>	<b>49,29</b>	<b>73,44</b>

Source: MoF

\*On the basis of denationalization bonds, there is no real inflow in the Budget of the Republic of Macedonia but they are rather issued for the purpose of solving structural problems. The deviation in the amount of EUR 4.82 million in relation to the value in the prospectus is due to the reserve intended for the possibly unintentionally missed effective decisions.

Chart . 9  
Bids submitted and bids accepted at GS auctions in the period Jan-Dec 2008



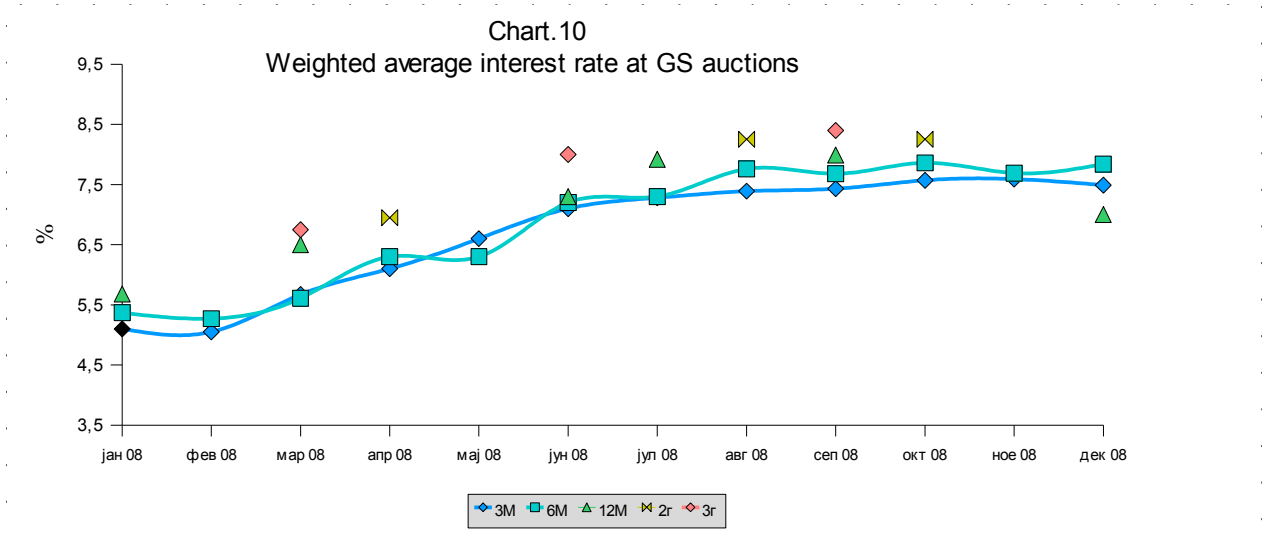
Source: MoF

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

Table 5  
Weighted interest rates on issued GS

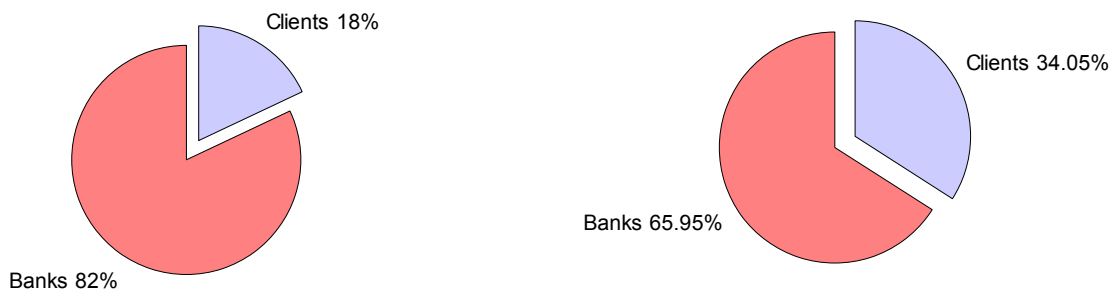
Date of auction	Weighted average interest rate of 3-months T-bills	Weighted average interest rate of 6-months T-bills	Weighted average interest rate of 12-months T-bills	Weighted average interest rate of 2-year T-bond	Weighted average interest rate of 3-year T-bond
January 08	5,10	5,37	5,68		
February 08	5,05	5,27			
March 08	5,67	5,61	6,50		6,75
April 08	6,10	6,30		6,95	
May 08	6,60	6,30			
June 08	7,10	7,20	7,30		8,00
July 08	7,28	7,30	7,92		
August 08	7,39	7,76		8,25	
September 08	7,43	7,68	7,99		8,40
October 08	7,57	7,86		8,25	
November 08	7,59	7,69			
December 08	7,49	7,84	7,00		

Source: MoF



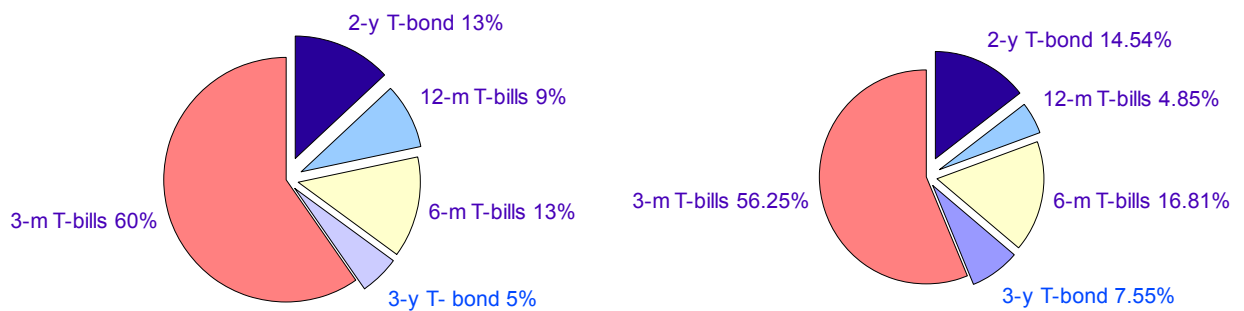
Source: MoF

### Chart 11 Ownership structure of continuous GS



Source: MoF

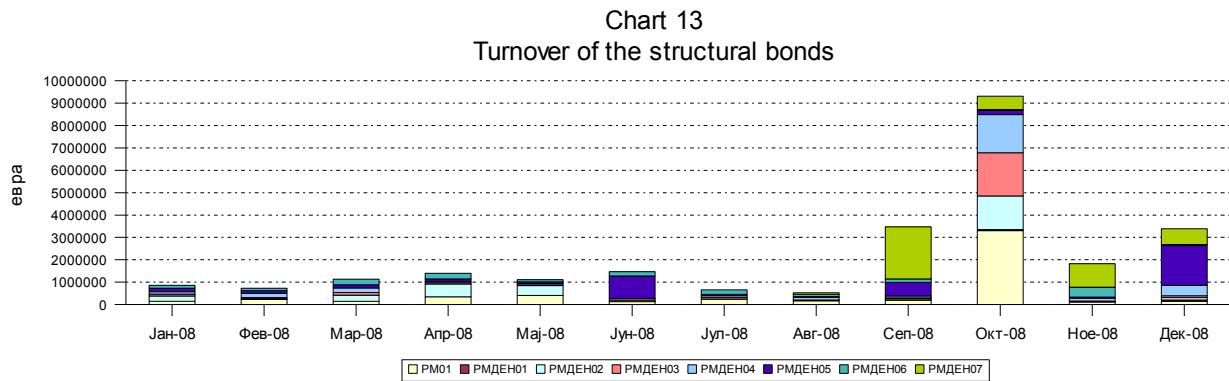
### Chart 12 Maturity structure of continuous GS



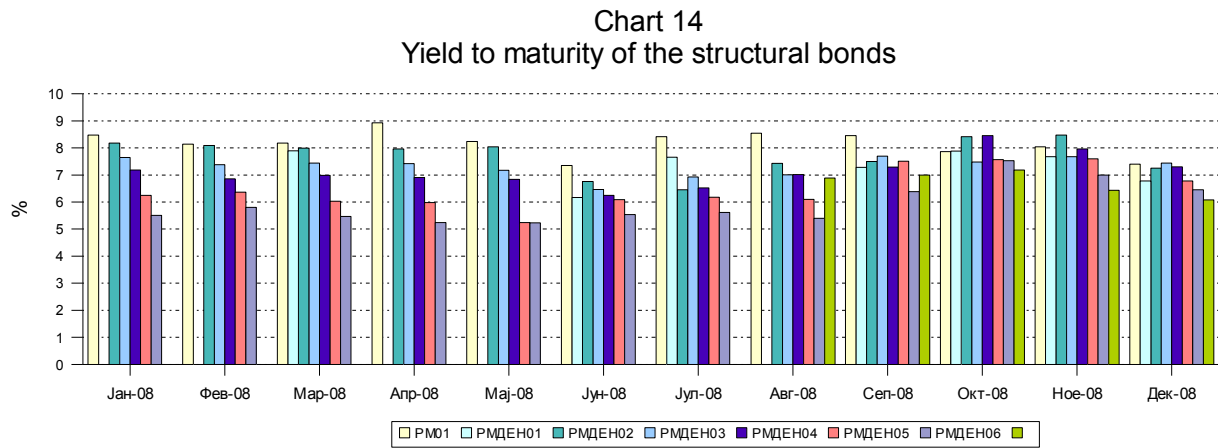
Source: MoF

### VI.3. Secondary government securities market

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

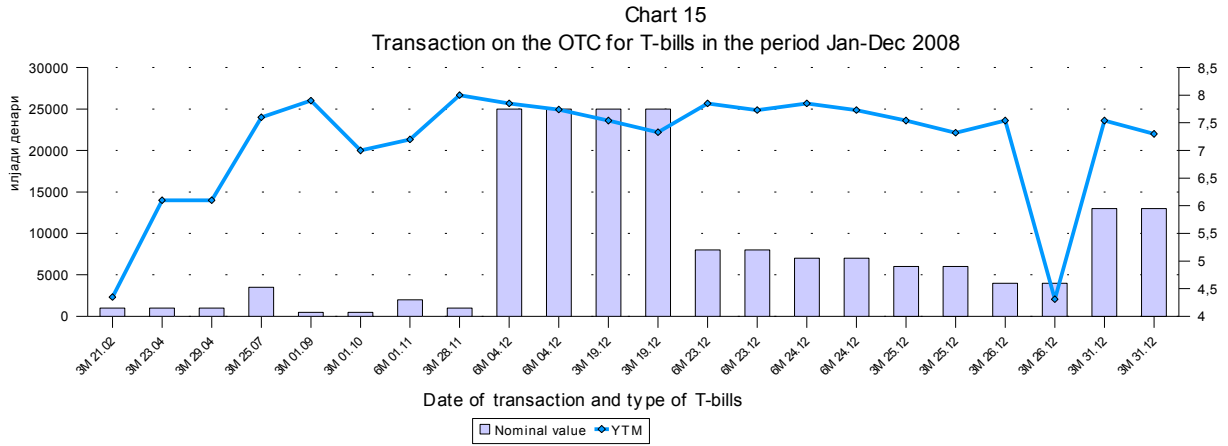


Source: Macedonian Stock Exchange AD Skopje

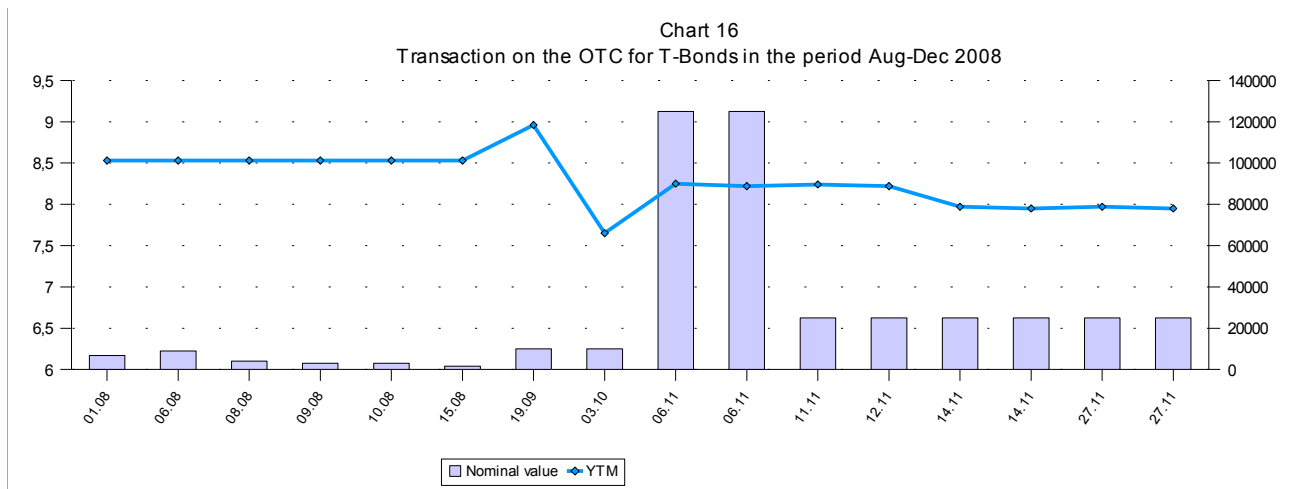


Source: Macedonian Stock Exchange AD Skopje

### VI.3.2. Over-the-Counter Markets

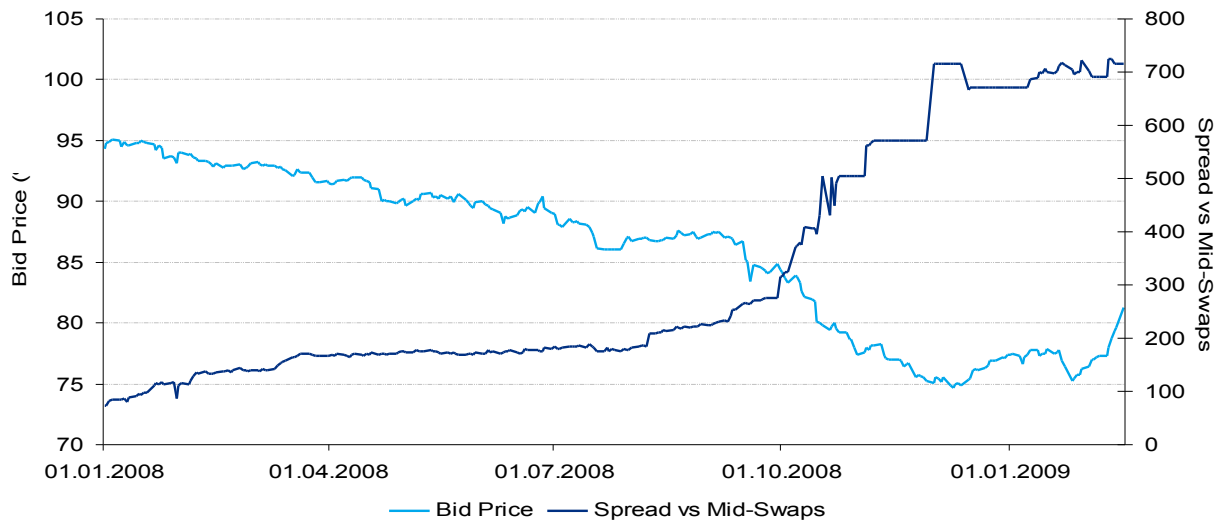


Source: NBRM



Source: NBRM

### VI.3.3. International Capital Market



Source: Citigroup-Bloomberg

## VI.4. Total public debt servicing

Table 6  
Repayments on the basis of total public debt in 2008

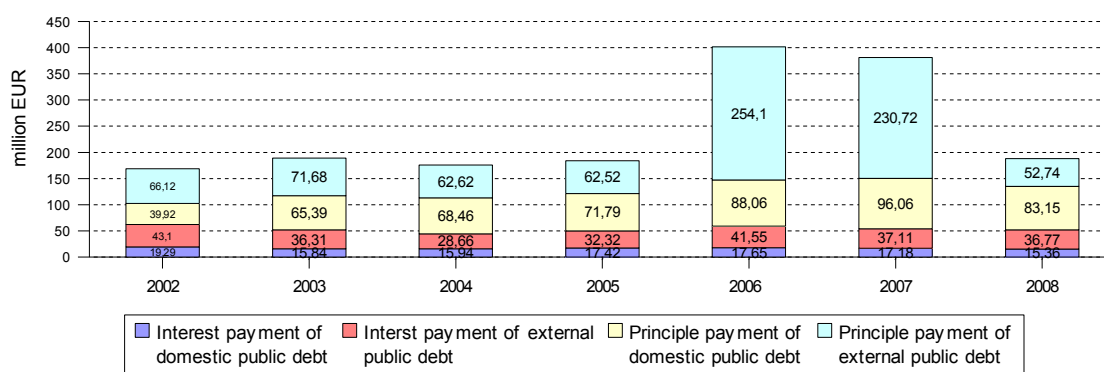
EUR million

Basis	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Total 2008	Projected payment for 2008
Interest payment for external public debt	8,37	5,68	8,23	14,49	36,77	37,18
Interest payment for domestic public debt	2,28	6,65	0,78	5,64	15,36	15,63
<b>Interest payment for total public debt</b>	<b>10,66</b>	<b>12,33</b>	<b>9,01</b>	<b>20,14</b>	<b>52,14</b>	<b>52,81</b>
Principal payment for external public debt	16,27	8,39	17,70	10,38	52,74	51,43
Principal payment for domestic public debt	2,14	46,40	0,00	34,61	83,15	83,30
<b>Principal payment for total public debt</b>	<b>18,41</b>	<b>54,79</b>	<b>17,7</b>	<b>44,99</b>	<b>135,89</b>	<b>134,73</b>

Source: MoF and NBRM

Chart 18

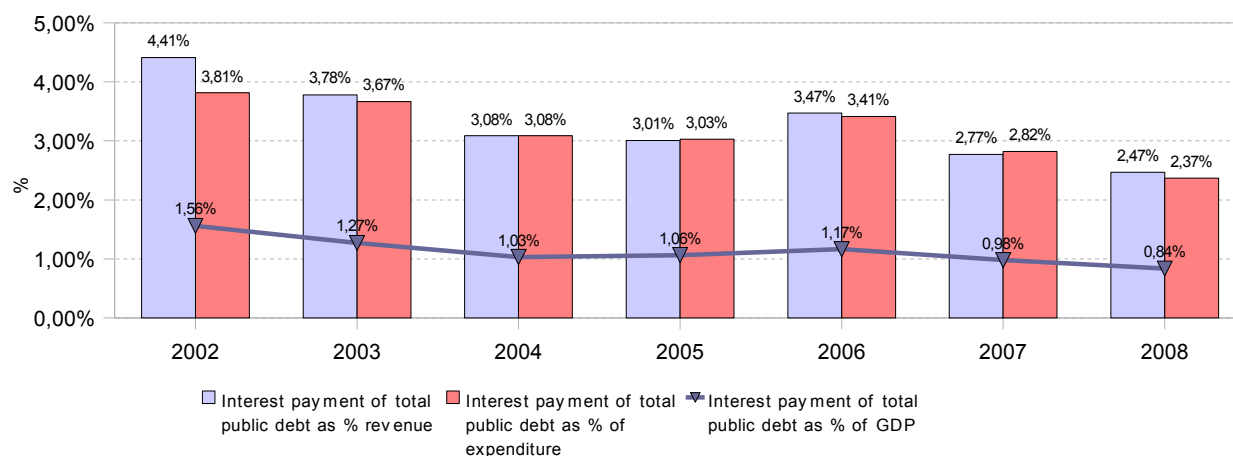
Repayment of interest and principal on the basis of total public debt



Source: MoF and NBRM

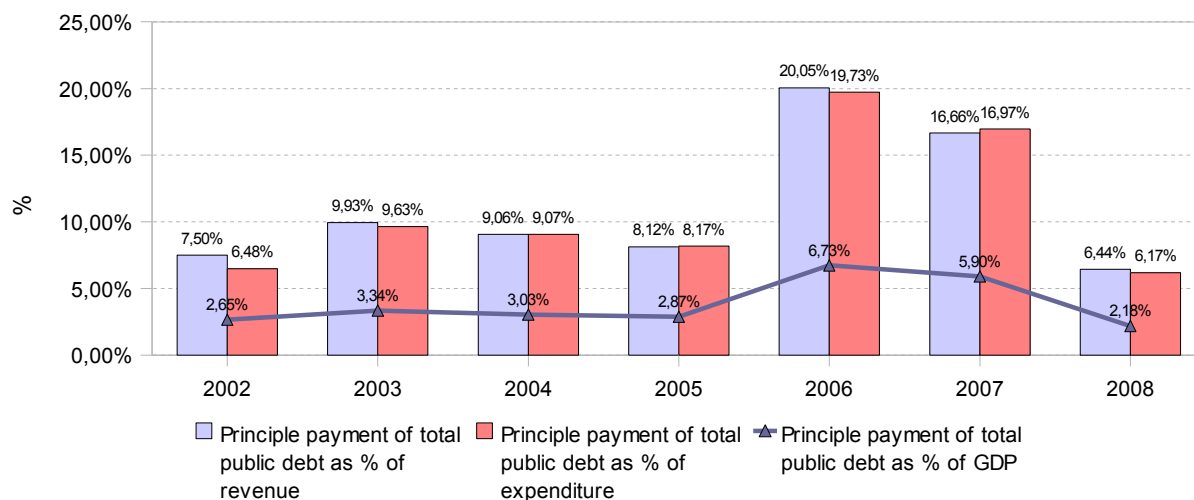
Chart 19

Interest costs for servicing the total public debt in relation to revenues, expenditures and GDP



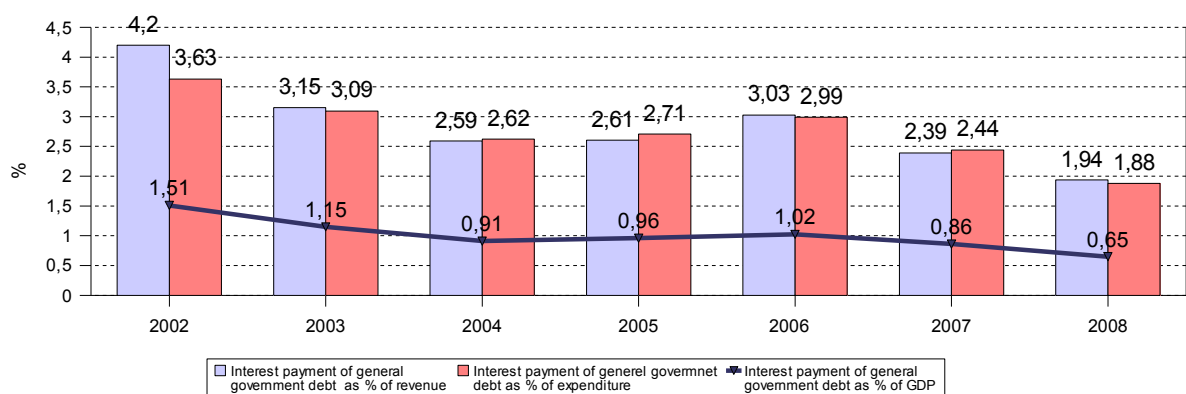
Source: MoF and NBRM

Chart 20  
Repayment of principal for total public debt in relation to revenues, expenditures and GDP



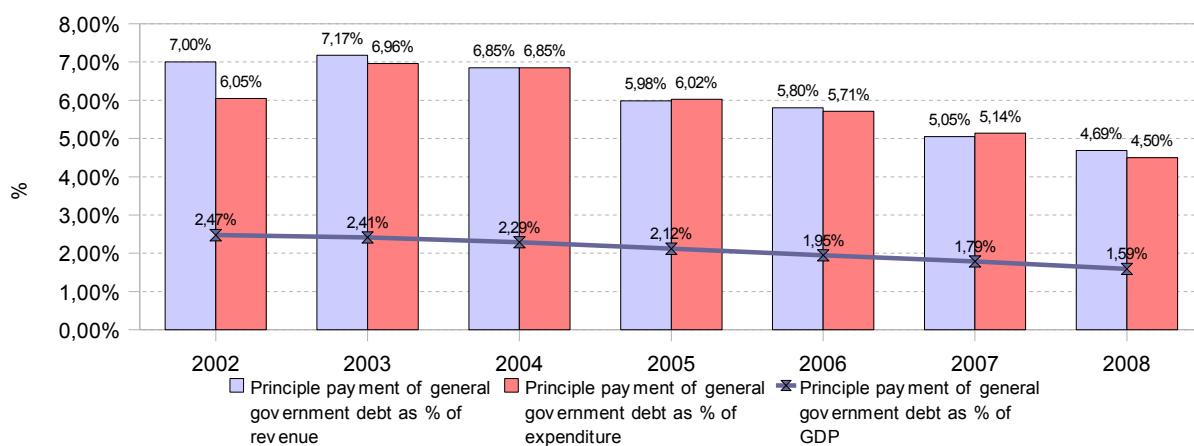
Source: MoF and NBRM

Chart 21  
Interest cost for government debt in relation to revenues, expenditures and GDP



Source: MoF and NBRM

Chart 22  
Repayment of principal for government debt in relation to revenues, expenditures and GDP



Source: MoF and NBRM

## VII. Public debt portfolio features

### VII.1. Total public debt

Table 7

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

	Basis	31.12.2005	31.12.2006	31.12.2007	31.12.2008
<b>External Public Debt*</b>		<b>1.441,16</b>	<b>1.223,01</b>	<b>1.027,86</b>	<b>1.113,93</b>
	General Government Debt	1.245,35	1.025,19	877,22	921,22
	Central Bank	52,66	42,39	0,00	0,00
	Public enterprises	143,15	155,42	150,64	192,71
<b>Domestic Public Debt</b>		<b>750,39</b>	<b>806,48</b>	<b>899,95</b>	<b>754,10</b>
	General Government Debt	603,66	648,42	552,80	465,47
	Treasure bills for monetary purposes	0,00	75,93	75,47	0,00
	Central Bank	146,74	155,26	344,32	285,19
	Public enterprises**	N/A	2,80	2,83	3,45
<b>Total public debt according GFS methodology and Public Debt Law</b>		<b>2.191,55</b>	<b>2.029,49</b>	<b>1.927,81</b>	<b>1.868,03</b>
	Total public debt as % GDP	46,87	39,93	33,34	28,22
<b>General Government Debt</b>		<b>1.849,01</b>	<b>1.673,61</b>	<b>1.430,02</b>	<b>1.386,69</b>
	General Government Debt as % GDP	39,54	32,93	24,73	20,95

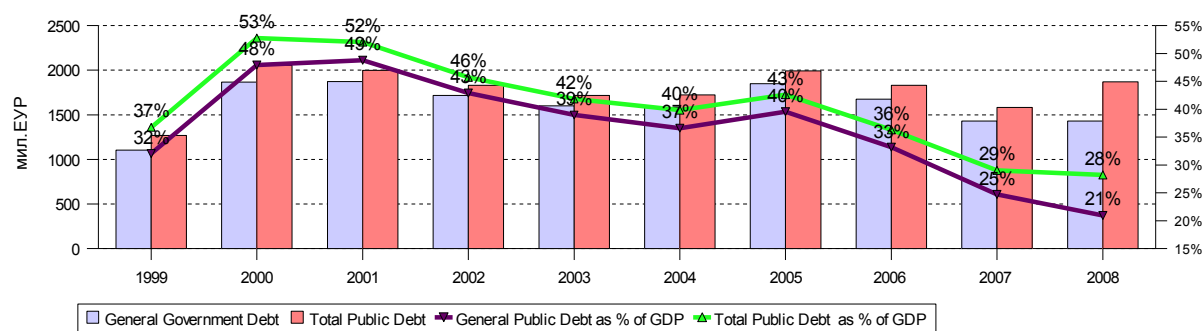
Source: MoF and NBRM

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

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

Chart 23

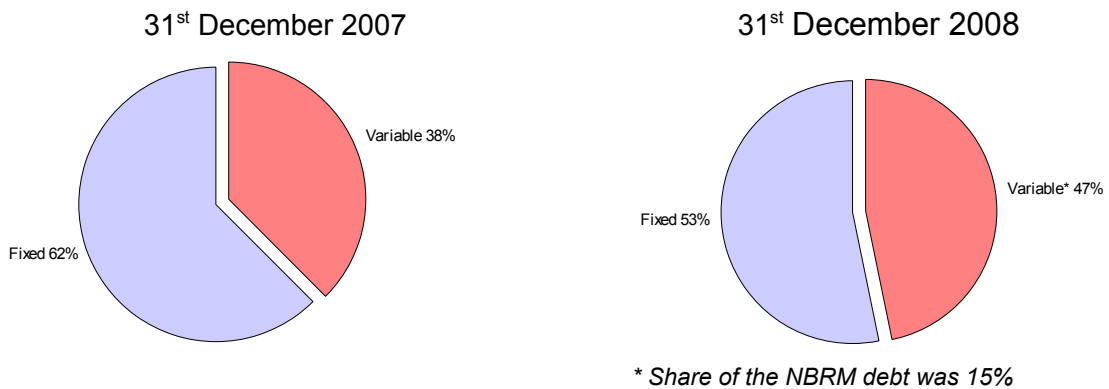
Public debt trend in relation to GDP



Source: MoF and NBRM

Chart 24

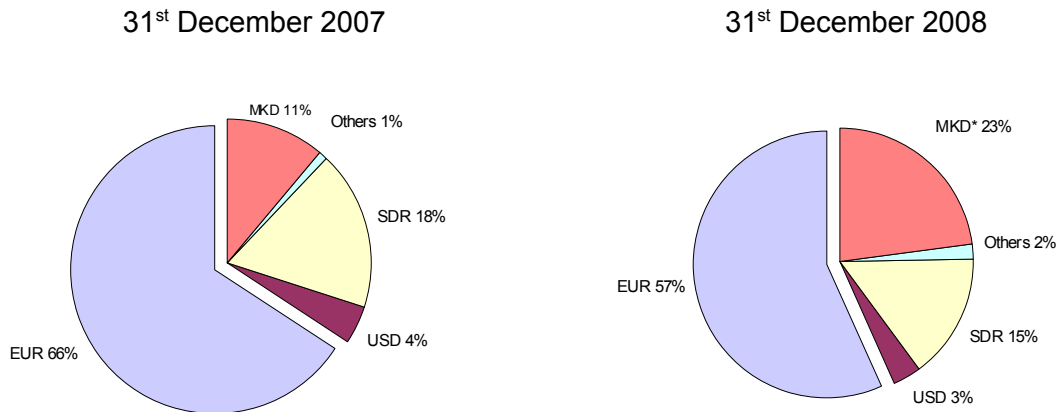
Total public debt interest structure



Source: MoF and NBRM

Chart 25

Total public debt currency structure

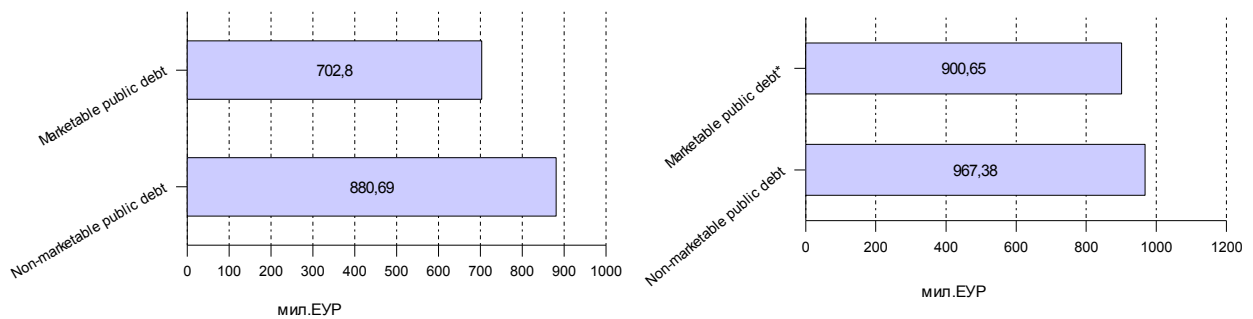


Source: MoF and NBRM

\* the treasury bills, out of which participated with 15%

Chart 26

Market/non-market total public debt



\* the treasury bills, out of which participated with EUR 285.2 million

Source: MoF and NBRM

## Indicators for public debt portfolio risk

Table. 8 Average Time to Maturity – ATM (in years)			
	31.12.2006	31.12.2007	31.12.2008
Domestic public debt	3,03	2,77	2,35
External public debt	8,98	9,11	8,54
<b>Total public debt</b>	<b>6,85</b>	<b>6,87</b>	<b>6,43</b>

Source: MoF

Table 9 Duration of the domestic debt (in years)			
	31.12.2006	31.12.2007	31.12.2008
Structural bonds	2,92	2,24	2,09
Continuous government securities	0,55	0,64	0,52
<b>Domestic Public Debt</b>	<b>2,52</b>	<b>1,95</b>	<b>1,68</b>

Source: MoF

Table 10 Average Time to Refixing – ATR (in years)			
	31.12.06	31.12.07	31.12.08
Domestic public debt	3,07	2,37	2,03
External public debt	7,18	7,35	7,03
<b>Total public debt</b>	<b>5,67</b>	<b>5,59</b>	<b>5,33</b>

Source: MoF

## VII.2. External public debt

Table 11

External public debt by creditors and debtors *EUR million*

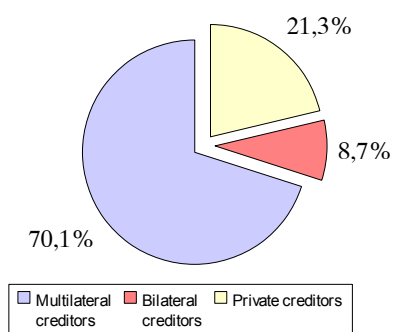
Sector/debtor/creditor	31.12.06	31.12.07	31.12.08
<b>External public debt according to the GFS methodology</b>	<b>1.223,01</b>	<b>1.027,86</b>	<b>1.113,90</b>
<b>External public debt according to the Public debt Law</b>	<b>1.180,62</b>	<b>1.027,86</b>	<b>1.113,90</b>
<b>Government of the Republic of Macedonia</b>	<b>1.025,19</b>	<b>877,22</b>	<b>921,22</b>
<b>Official creditors</b>	<b>874,62</b>	<b>726,84</b>	<b>769,44</b>
<b>Multilateral creditors</b>	<b>739,15</b>	<b>658,38</b>	<b>683,03</b>
IBRD	174,56	103,16	127,82
IDA	291,86	270,67	270,90
IFAD	12,50	12,22	12,30
CEDB	17,95	17,41	16,75
EBRD	43,12	56,86	53,15
EIB	109,16	108,06	117,11
EU	90,00	90,00	85,00
<b>Bilateral creditors</b>	<b>135,47</b>	<b>68,46</b>	<b>86,41</b>
Rescheduled debt 1995	78,55	0,00	0,00
Non-rescheduled debt	6,63	6,63	6,63
Newly-concluded loans	50,29	61,83	79,78
<b>Private creditors</b>	<b>150,57</b>	<b>150,38</b>	<b>151,77</b>
Eurobond	150,00	150,00	150,00
Other private creditors	0,57	0,38	1,77
<b>National bank of the Republic of Macedonia</b>	<b>42,39</b>	<b>0,00</b>	<b>0,00</b>
IMF	42,39	0,00	0,00
<b>Public enterprises</b>	<b>155,43</b>	<b>150,64</b>	<b>192,68</b>
<b>Official creditors</b>	<b>70,80</b>	<b>82,26</b>	<b>105,25</b>
<b>Multilateral creditors</b>	<b>56,20</b>	<b>61,64</b>	<b>75,99</b>
IBRD	25,71	29,50	37,34
EBRD	7,33	10,69	18,57
EIB	13,15	12,98	12,83
EUROFIMA	5,00	4,96	3,76
CEDB	5,00	3,50	3,50
<b>Bilateral creditors</b>	<b>14,60</b>	<b>20,62</b>	<b>29,26</b>
New ly-concluded loans	14,60	20,62	29,26
<b>Private creditors</b>	<b>84,63</b>	<b>68,38</b>	<b>87,43</b>

Source: NBRM

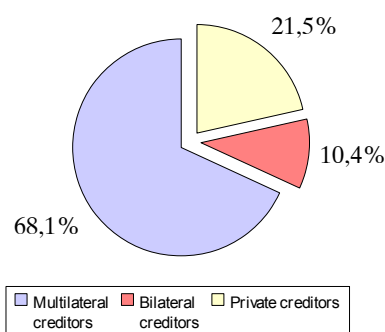
Chart 27

External public debt structure by creditors

31<sup>st</sup> December 2007



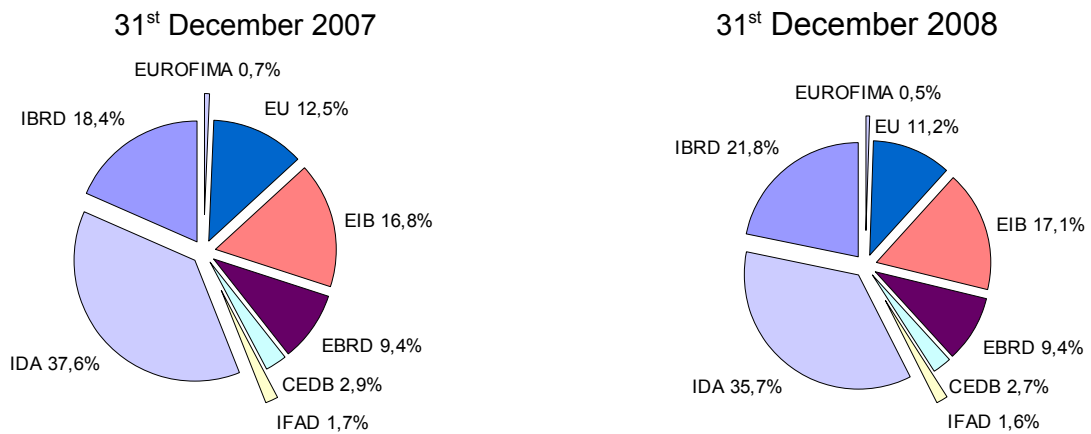
31<sup>st</sup> December 2008



Source: MoF and NBRM

Chart 28

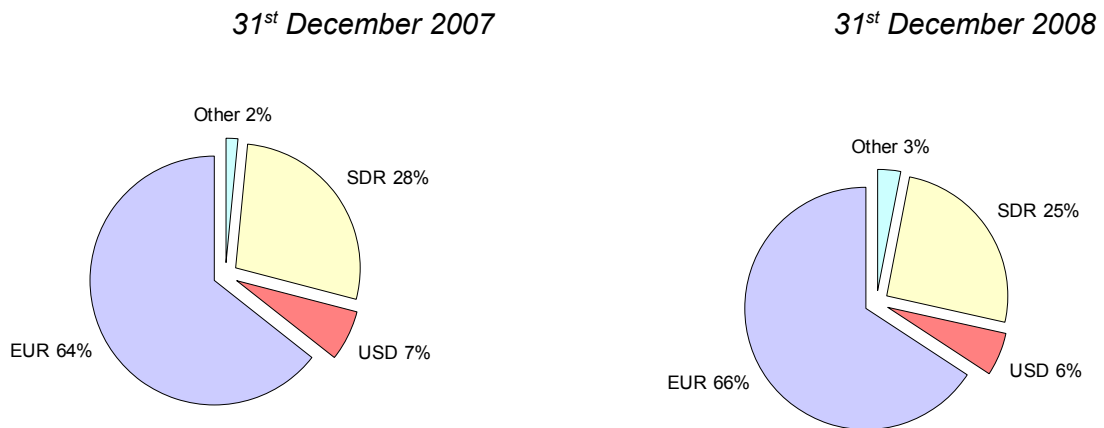
External public debt structure by multilateral creditors



Source: MoF and NBRM

Chart 29

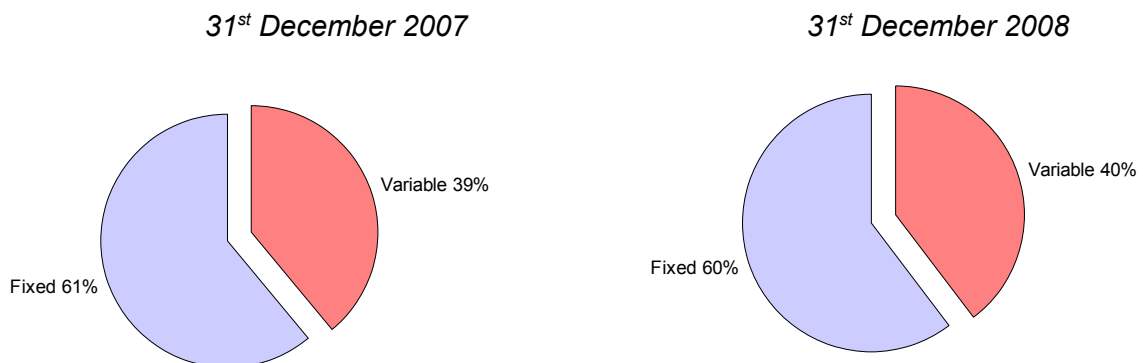
Currency structure of external public debt



Source: MoF and NBRM

Chart 30

Interest structure of external public debt



Source: MoF and NBRM

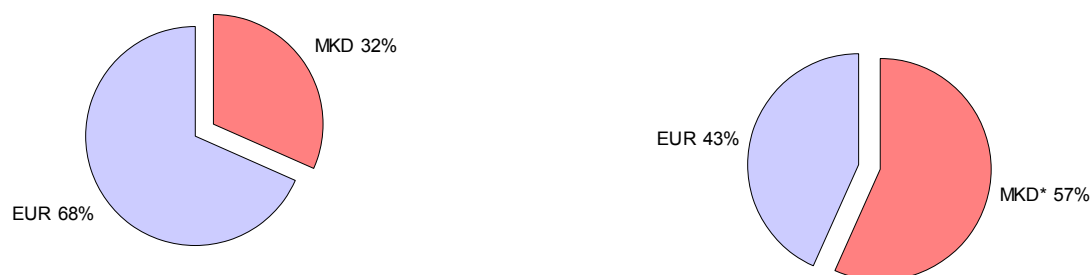
### VII.3. Domestic public debt

Table 12  
Domestic public debt according to the GFS Methodology and the Law on Public Debt  
EUR million

Basis	31.12.2006	31.12.2007	31.12.2008
<b>Domestic public debt according GFS methodology and Public Debt Law</b>	<b>806,5</b>	<b>899,9</b>	<b>754,1</b>
General Government Debt	648,4	552,8	465,5
Central government debt	648,2	552,8	465,5
Structural bond	479,7	396,3	343,5
Bond for rehabilitation of Stopanska banka	21,3	0,0	0,0
Bond for selective credits	17,0	17,0	16,9
Bond for privatization of Stopanska banka	68,7	60,1	51,5
Bond for old foreign exchange savings	254,9	203,9	152,9
Denationalization bond	117,8	115,4	122,2
Continuous government securities	168,6	156,5	122,0
o.w. T- bills for monetary purposes	75,9	75,5	0,0
Municipalities	0,2	0,0	0,0
Central Bank	155,3	344,3	285,2
Public enterprises	2,8	2,8	3,5

Source: MoF

Chart 31  
Domestic public debt currency structure  
31<sup>st</sup> December 2007                      31<sup>st</sup> December 2008



Source: MoF

\* the treasury bills, out of which participated with 38%

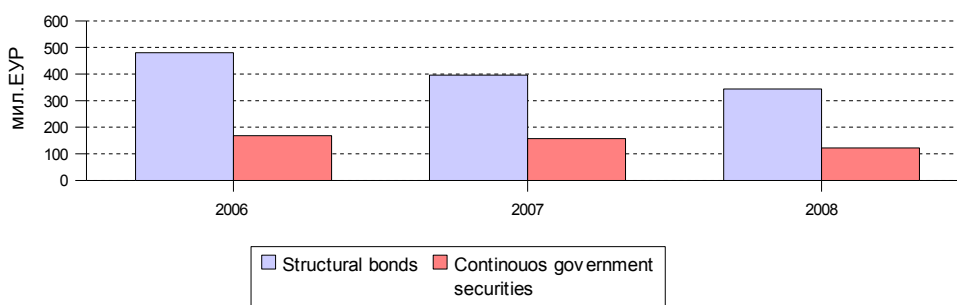
Chart 32  
Domestic public debt interest structure  
31<sup>st</sup> December 2007 31<sup>st</sup> December 2008



Source: MoF

\* the treasury bills, out of which participated with 38%

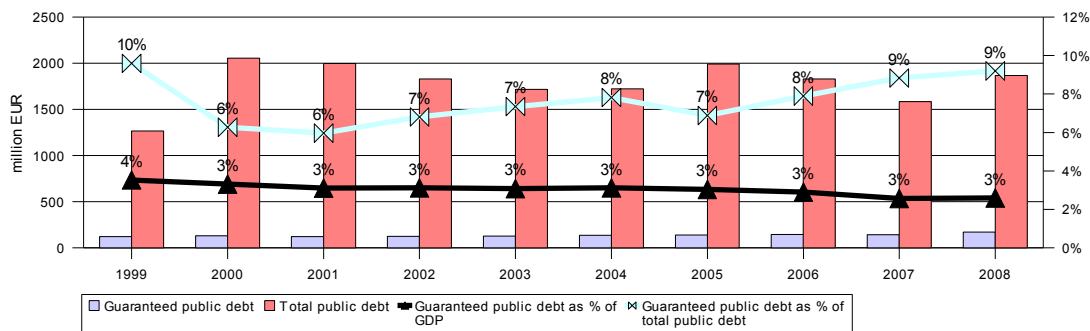
Chart 33  
Relation between the stock of structural bonds and continuous government securities



Source: MoF

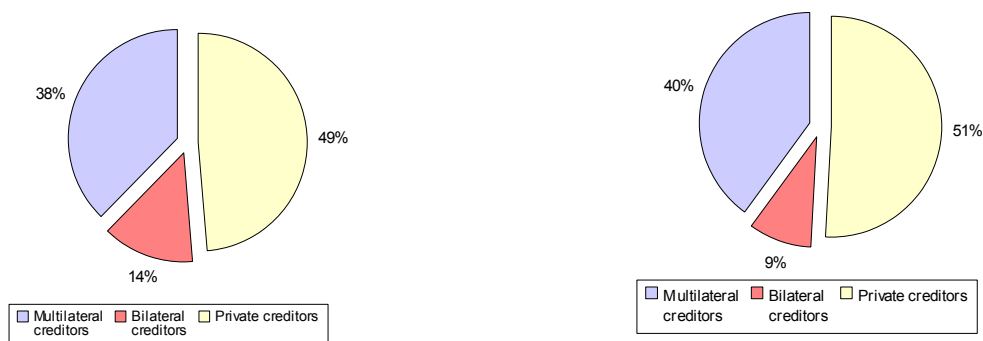
## VII.4. Guaranteed public debt

Chart 34  
Stock of guaranteed public debt



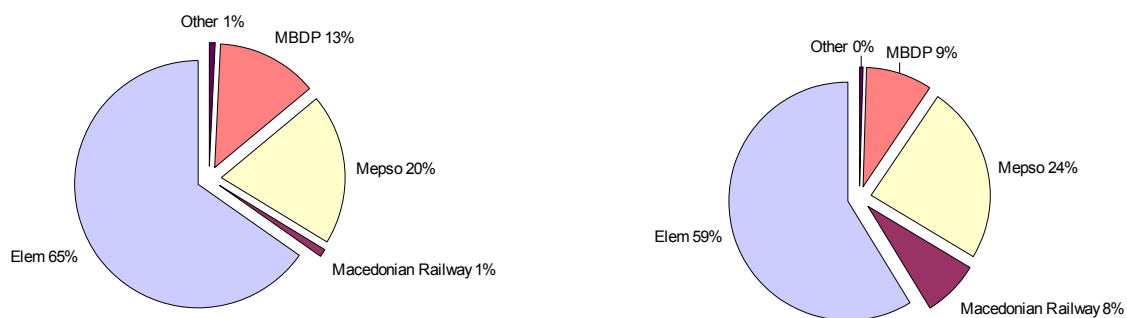
Source: MoF and NBRM

Chart 35  
Guaranteed public debt by creditors  
31<sup>st</sup> December 2007 31<sup>st</sup> December 2008



Source: MoF and NBRM

Chart 36  
Guaranteed public debt by public enterprises  
31<sup>st</sup> December 2007 31<sup>st</sup> December 2008



Source: MoF and NBRM

## VIII. Annex I realization of disbursements by 2008 projects

	in EUR	Projected Disbursements for 2008	Actual disbursements for 2008	Realization of projected disbursements
	<b>Total</b>	<b>130.429.959</b>	<b>115.522.395</b>	<b>88,6%</b>
	<b>IBRD</b>	<b>54.319.670</b>	<b>37.711.741</b>	<b>69,4%</b>
C	SPIL	2.240.213	710.053	31,7%
C	Health Sector Management Project	1.632.931	1.541.332	94,4%
C	Judicial Reform/Court Administration	1.759.117	952.396	54,1%
C	Macedonian Railways Restructuring	5.779.941	6.634.931	114,8%
C	Real Estate Cadastre&Registration Project	3.379.678	2.799.581	82,8%
C	BERIS	1.550.000	250.000	16,1%
C	Project for AD MEPSO	6.817.782	3.135.205	46,0%
C	PDPL III	16.700.000	16.700.000	100,0%
C	Education Modernization Project	940.454	546.129	58,1%
C	TTFSE II - Customs Administration	525.000	0	0,0%
C	TTFSE II - Roads Fund	3.025.000	1.700.000	56,2%
C	TTFSE II - Macedonian Railways	850.000	0	0,0%
C	Project for agriculture	3.752.015	2.567.115	68,4%
C	Project for Local and Regional Roads	5.000.000	175.000	3,5%
P	Municipal Service Improvement Project	367.539	0	0,0%
	<b>EBRD</b>	<b>13.897.025</b>	<b>13.277.976</b>	<b>95,5%</b>
C	Road Project II	1.678.830	2.749.177	163,8%
C	Power Transmission (400 kV interconnection Macedonia-Bulgaria)	12.218.195	10.528.798	86,2%
	<b>EIB</b>	<b>25.000.000</b>	<b>18.000.000</b>	<b>72,0%</b>
C	Road Project II (60 MEUR)	25.000.000	18.000.000	72,0%
	<b>IFAD</b>	<b>210.927</b>	<b>79.495</b>	<b>37,7%</b>
C	Agricultural Financial Project Services	210.927	79.495	37,7%
	<b>CEDB</b>	<b>729.826</b>	<b>729.826</b>	<b>100,0%</b>
C	Social Housing Project	729.826	729.826	100,0%
	<b>Bilateral creditors</b>	<b>16.266.670</b>	<b>25.717.518</b>	<b>158,1%</b>
C	Irrigation Vardar Valley	1.992.719	854.617	42,9%
P	Irrigation Vardar Valley II	821.140	0	0,0%
P	Water supply Project	900.000	0	0,0%
C	SME promotion III	0	1.018.962	-
C	Lisice Project	1.045.598	1.079.392	103,2%
C	JBIC-Zletovica Project	7.808.594	13.649.791	174,8%
C	Rationalization of management system and modernization of biomedical equipment in health sector	2.000.000	0	0,0%
C	ELEM-Brod Gneotino I (without sovereign guarantee)	1.698.620	9.114.757	536,6%
	<b>Private creditors</b>	<b>20.005.840</b>	<b>20.005.840</b>	<b>100,0%</b>
C	Cyprus-DEPHA Bank-Sv.Petka Project	20.005.840	20.005.840	100,0%

C-Concluded projects

P-Projected projects

## IX. Annex II Stock of public debt of the Republic of Macedonia (1999-2008)

(in million of EUR)

basis	year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<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>	<b>1.027,9</b>	<b>1.115,7</b>
General Government Debt	1.024,7	1.153,9	1.191,9	1.089,0	1.005,5	993,2	1.245,4	1.025,2	877,2	921,2
Central Government (consolidated)	1.024,7	1.153,9	1.191,9	1.089,0	1.005,5	993,2	1.245,4	1.025,2	877,2	921,2
Central Government	971,5	1.101,0	1.144,1	1.050,4	972,6	962,3	1.208,0	981,9	841,8	886,7
Public Funds	53,2	52,9	47,8	38,6	33,0	30,9	37,4	43,3	35,4	34,6
Municipalities	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Central Bank	101,2	87,7	80,3	64,7	54,7	46,0	52,7	42,4	0,0	0,0
Public enterprises	163,6	186,2	125,4	114,0	118,7	139,4	143,2	155,4	150,6	194,5
<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>	<b>899,9</b>	<b>754,5</b>
General Government Debt	79,9	711,7	681,5	626,9	593,6	589,8	603,7	648,4	552,8	465,9
Central Government Debt	79,9	711,7	681,5	626,9	593,6	589,8	603,5	648,2	552,8	465,5
Structural bonds	79,9	711,7	681,5	626,9	593,6	557,9	533,5	479,7	396,3	343,5
Stopanska Bank Rehabilitation Bond	58,7	53,6	48,1	42,7	37,2	31,9	26,6	21,3	0,0	0,0
Small Bond	4,0	2,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Bond for selective credits	17,1	17,1	17,0	17,0	17,0	16,9	17,0	17,0	17,0	16,9
Stopanska Bank Privatization Bond	0,0	120,2	111,6	103,0	94,4	85,8	77,2	68,7	60,1	51,5
Bond for old foreign exchange savings	0,0	518,9	504,9	462,4	408,9	357,7	306,5	254,9	203,9	152,9
Denationalisation Bond (I, II, III, IV, V and VI issue)	0,0	0,0	0,0	1,9	36,2	65,6	106,2	117,8	115,4	122,2
Continuous Government Securities	0,0	0,0	0,0	0,0	0,0	31,9	70,0	168,6	156,5	122,0
o.w. Treasury bills for monetary purposes	0,0	0,0	0,0	0,0	0,0	0,0	0,0	75,9	75,5	0,0
Municipalities	0,0	0,0	0,0	0,0	0,0	0,0	0,2	0,2	0,0	0,4
Central Bank	33,8	79,3	51,8	49,1	71,4	74,1	146,7	155,3	344,3	285,2
Public enterprises**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2,8	2,8	3,5
<b>TOTAL PUBLIC DEBT-GFS AND PUBLIC DEBT LAW</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>2.029,5</b>	<b>1.927,8</b>	<b>1.870,2</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>4.325,0</b>	<b>4.676,0</b>	<b>5.082,0</b>	<b>5.782,0</b>	<b>6.507,0</b>
<b>Average export***</b>	<b>1.117,0</b>	<b>1.433,3</b>	<b>1.290,0</b>	<b>1.180,5</b>	<b>1.203,2</b>	<b>1.345,0</b>	<b>1.642,9</b>	<b>1.902,6</b>	<b>2.441,5</b>	<b>2.684,0</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	53,3	59,7
Domestic public debt as % of the public debt	8,1	35,7	34,4	34,8	36,1	36,0	34,2	39,7	46,7	40,3
Public debt as % of average GDP	40,7	57,0	55,5	48,6	44,9	42,6	46,9	39,9	33,3	28,7
Public debt as % of average export	125,6	154,8	165,2	164,7	153,3	137,0	133,4	106,7	79,0	69,7
<b>General Government Debt-GFS and Public debt law</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>1.673,6</b>	<b>1.430,0</b>	<b>1.387,1</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	61,3	66,4
Domestic debt of the General Government as % of the General Government Debt	7,2	38,1	36,4	36,5	37,1	37,3	32,6	38,7	38,7	33,6
General Government debt as % of the average GDP	32,0	47,9	48,8	42,9	39,0	36,6	39,5	32,9	24,7	21,3
General Government debt as % of the average export	98,9	130,2	145,2	145,4	132,9	117,7	112,5	88,0	58,6	51,7

\* Source: National Bank of the Republic of Macedonia

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

\*\*\* Source: Ministry of Finance-Macroeconomic Department

\*\*\*\*The stock of public debt until July 2008 was calculated according to GFS methodology and separately according to the Public Debt Law. With the changes to the Public debt Law in July 2008 the way of calculating according to the Public debt Law is adjusted to the GFS methodology