



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

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GOVERNMENT SECURITIES MARKET IN THE REPUBLIC OF MACEDONIA

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September, 2008

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1 EVENTS ON THE FINANCIAL MARKET IN THE PAST PERIOD

1.1 Trends on the primary market for government securities in the Republic of Macedonia

What was characteristic for the government securities market (hereinafter: GS) in the period July - August 2008 is the trend of continuous increase of interest rates on GS in all maturities, which started in early 2008. During July, Ministry of Finance of the Republic of Macedonia adopted a decision to change the volume tender (fixed interest rate) into interest rate tender (multiple interest rates) on treasury bills. Average weighted interest rate on 3-month treasury bills in July was 7.28%, and it increased by 0.11 percentage points, amounting to 7.39% in August. Interest rate on 6-month treasury bills in July was 7.30%¹, and it amounted to 7.76% in August, being an increase by 0.46 percentage points. In August, weighted interest rate on the auctions of 12-month treasury bills amounted to 7.92%. On the auction of the 2-year government bond held in August, coupon interest rate of 8.25% was offered.

Comparative analysis of the trends in the interest rates on government securities at the beginning of 2008 suggests a continuous upward trend. Interest rate on 3-month treasury bills achieved on the auctions in January 2008 was 5.10%, while the same interest rate achieved on the auctions in August 2008 grew by 2.29 percentage points and it was 7.39%. Interest rate on the 6-month treasury bills in January 2008 was 5.37%, while the same interest rate achieved on the auctions in July 2008 grew and was 7.76%. Trend of interest rates is identical in other maturities of GS, i.e. interest rates on 12-month treasury bills and on 2-and 3-year government bonds. In fact, since the beginning of the year, interest rates on 12-month treasury bills, 2-year government bonds and 3-year government bonds increased by 2.24 percentage points, 2.00 percentage points and 1.25 percentage points respectively. Coupon interest rate offered on the auctions of 2-year government bonds in August 2008 was 8.25% while coupon interest rate on the last auction of 2-year government bonds held in February 2008 was 6.25%.

General conclusion is that at auctions of GS, realized in the course of July and August, demand was lower compared to the amount offered. Total amount of GS offered on the auctions in July was Denar 2.05 billion and the demand was Denar 964.22 million, while during August, Denar 1.4 billion was offered and the demand was around Denar 659.73 million.

During the analyzed period, there were positive changes in the ownership structure of undue government securities. In fact, share of banks in undue government securities dropped by 3.87 percentage points, i.e. from 68.48% in June to 64.61% in August, but as a result, the share of other investors grew (pension funds, insurance companies, savings

¹Volume tender - fixed interest rate was applied on the auction of 6-month treasury bills, held in June.



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houses, etc.). At the same time, share of insurance companies grew by 0.50 percentage points, of pension funds by 0.56 percentage points, of savings houses by 0.12 percentage points, and the biggest increase of share was noted in the category „other“, i.e. it grew by 2.73 percentage points. Share of physical persons in the ownership structure of undue government securities changed insignificantly in the same period, and it was 0.20%.

1.2 Seventh issue of denationalization bonds

Following the adopted amendments to the Law on Issuance of Denationalization Bonds in the Republic of Macedonia (Official Gazette of the Republic of Macedonia, nos. 37/2002 and 89/2008), Government of the Republic of Macedonia, at its fifth session held on 12 August 2008, adopted the Decision on Seventh Issue of Denationalization Bonds.

Total amount of the seventh issue of denationalization bonds is EUR 30,000,000.00. Seventh issue of the denationalization bonds covers all decisions on denationalization which became effective by 31 December 2007, according to which bonds are given as form of compensation.

Denationalization bonds are registered securities, denominated in euros and issued as dematerialized securities. Face value of a denationalization bond is EUR 1, coupon interest is 2% annually and the repayment period for the face value and the interest is 10 years.

Holders of denationalization bond from the seventh issue are sent, at their home address, a notification on the amount of the issued bonds.

Trading with the denationalization bonds from the seventh issue, as from 27 August 2008, is carried out on the Macedonian Stock Exchange AD Skopje with the intermediation of the brokerage companies and the banks - members of the Macedonian Stock Exchange AD Skopje.

The citizens can use the denationalization bonds prior to their maturity for the following: buying shares and stocks in state-owned enterprises; stocks and shares of enterprises reserved for former owners pursuant to the Law on Transformation of Socially-Owned Enterprises; payment of claims transferred under the Law to the Asset Management Agency of the Republic of Macedonia (functions of the Asset Management Agency were transferred to the Ministry of Finance); buying state property offered for sale and envisaging a possibility to be bought with bonds; buying shares and stocks of state-owned capital in the privatization process; payment of concession fee for state property; buying or payment of lease of state property; payment of liabilities under the Law on Issuance of Denationalization Bonds of the Republic of Macedonia and other ownership equivalent set under the Law.

Average trading price of denationalization bonds from the seventh issue on the Macedonian Stock Exchange AD was 80.22 in August. If average trading price of



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denationalization bonds from the seventh issue and the denationalization bonds from the sixth issue in the initial period is compared, one can conclude that average trading price of denationalization bonds from the seventh issue was higher by 4.22 percentage points.

1.3 Trends on the secondary market for government securities in the Republic of Macedonia

During July-August 2008, there was insignificant trading in government securities (treasury bills and government bonds) on the OTC market, i.e. there was only one transaction with treasury bills in the analyzed period. Total nominal trading amount was Denar 3.5 million, with average price of 98.4413 and average yield to maturity of 7.60%.

On the Macedonian stock exchange, structural bonds were traded in July, in the total volume of EUR 663.58 thousand and total trading volume² in structural bonds was EUR 577.77 thousand or Denar 35.35 million. Average yield to maturity reached the level of 6.83%.

Total trading volume for structural bonds in August was EUR 527.50 thousand and total trading volume for structural bonds was EUR 456.59 thousand or Denar 27.93 million. Average yield to maturity reached 6.91%.

In August, trading volume with structural bonds dropped by EUR 136.1 thousand compared to the one in July, and the turnover from trading with structural bonds was by EUR 121.18 thousand lower in relation to the previous month. Average yield to maturity in August was by 0.08 percentage points higher compared to the one in July. Share of foreign investors on the Macedonian stock exchange regarding government bonds (continuous and structural) in August was 7.35%, being a decline by 0.62 percentage points compared to the share of foreign investors in July, when it was 7.97%.

1.4 Review of ownership structure of undue structural government bonds regarding old foreign exchange saving and denationalisation as of August 2008, inclusive

As of August 2008 inclusive, overall stock of undue structural government bonds was EUR 291.41 million, EUR 125.64 million out of which referred to structural government bonds for denationalization (seven issues of denationalization government bonds), while EUR 165.77 million referred to structural government bonds for the old foreign exchange saving. Total number of holders of undue structural government bonds was 129,117, 7,034 out of which were holders of denationalization bonds, while 122,083

²Total trading volume obtained by multiplying the achieved price and the volume nominal amount of the security.



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were holders of bonds for the old foreign exchange saving. Out of the total amount of EUR 291.41 million, EUR 196,83 million were owned by physical persons, and EUR 94.54 million were owned by legal entities. Out of the total amount owned by legal entities, EUR 28.48 million or 30.13 % were owned by banks, EUR 1.22 million or 1.30% were owned by brokerage houses and the remaining ERU 64.84 million or 68.58% were owned by other legal entities.

Ratio on the ownership structure of undue structural government bonds ay physical persons and legal entities in August, compared to July, showed increase in the share of legal entities by 5.53 percentage points compared to the share of physical persons, which dropped by the same percentage points.



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1 GOVERNMENT SECURITIES MARKET

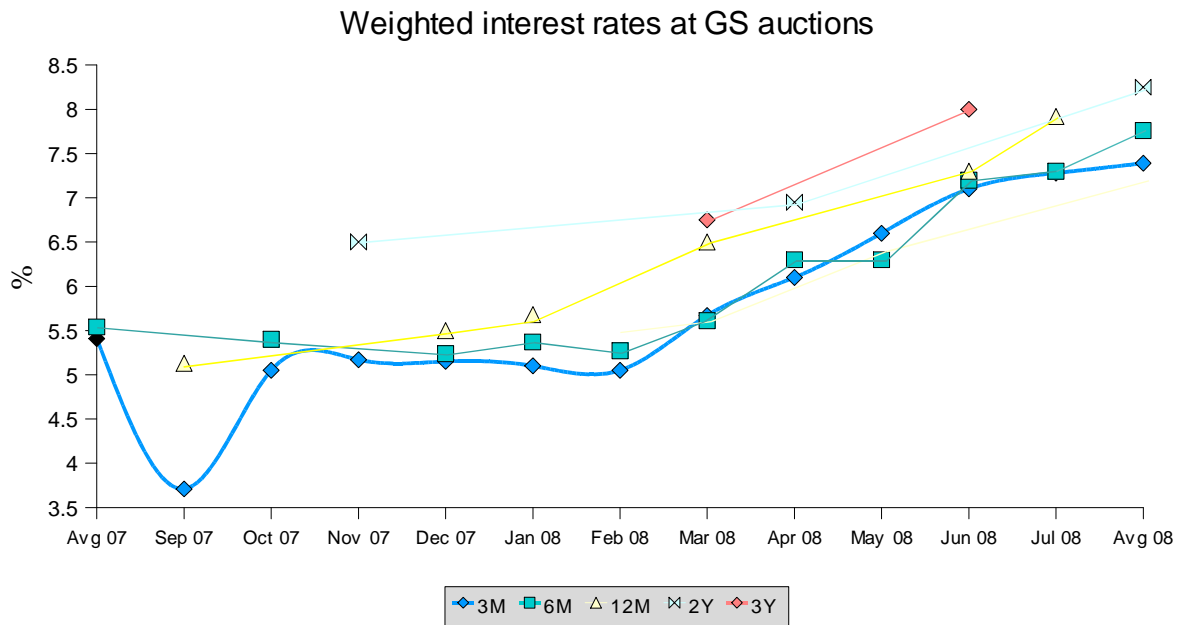
1.1 Primary market

	Results from the auctions of government securities in July 2008			
	3 month	6 month	12 month	
	DZ2008/13-91	DZ2008/14-91	DZ2008/07-182	DZ2008/04-364
ISIN code	MKMINFDZ8130	MKMINFDZ8148	MKMINFDS8071	MKMINFDY8040
Days of maturity	91	91	182	364
Date of auction	08.07.2008	22.07.2008	08.07.2008	22.07.2008
Maturity date	08.10.2008	22.10.2008	07.01.2009	22.07.2009
Max. interest rate	-	7.50	-	8.00
Min. interest rate	-	7.00	-	7.20
Average interest rate	-	7.40	-	7.92
Interest rate	7.15	-	7.30	-
Price	-	98.1650	-	92.5866
Average price	98.2247	-	96.4408	-
Amount offered for sale	700,000,000	600,000,000	500,000,000	250,000,000
Amount of bids submitted	298,920,000	493,300,000	59,700,000	112,300,000
Amount of bids accepted	298,920,000	493,300,000	59,700,000	112,300,000
Amount of bids accepted from competitive bids	-	493,300,000	-	112,300,000
Amount of bids accepted from noncompetitive bids	-	0	-	0
Percent of noncompetitive bids	-	1	-	1
Bid to cover ratio	1	1	1	1
Submitted bids	12	18	4	3
Accepted bids	12	18	4	3
	Results from the auctions of government securities in August 2008			
	3 month	6 month	2 year	
	DZ2008/15-91	DZ2008/16-91	DZ2008/08-182	DO2008/05-0810
ISIN code	MKMINFDZ8155	MKMINFDZ8163	MKMINFDS8089	MKMINF20G176
Days of maturity	91	91	182	2 year
Date of auction	05.08.2008	19.08.2008	05.08.2008	21.08.2008
Maturity date	05.11.2008	19.11.2008	04.02.2009	25.08.2010
Max. interest rate	7.55	7.95	8.00	-
Min. interest rate	7.15	7.19	7.40	-
Average interest rate	7.40	7.38	7.76	-
Average price	98.1639	98.1685	96.2239	-
Coupon interest rate	-	-	-	8.25
Amount offered for sale	350,000,000	400,000,000	350,000,000	300,000,000
Amount of bids submitted	314,540,000	249,620,000	172,570,000	45,000,000
Amount of bids accepted	292,540,000	149,620,000	172,570,000	45,000,000
Amount of bids accepted from competitive bids	292,540,000	149,620,000	172,570,000	-
Amount of bids accepted from noncompetitive bids	0	0	0	-
Percent of noncompetitive bids	1	1	1	-
Bid to cover ratio	1.08	1.67	0.98	1
Submitted bids	20	20	7	2
Accepted bids	17	19	7	2

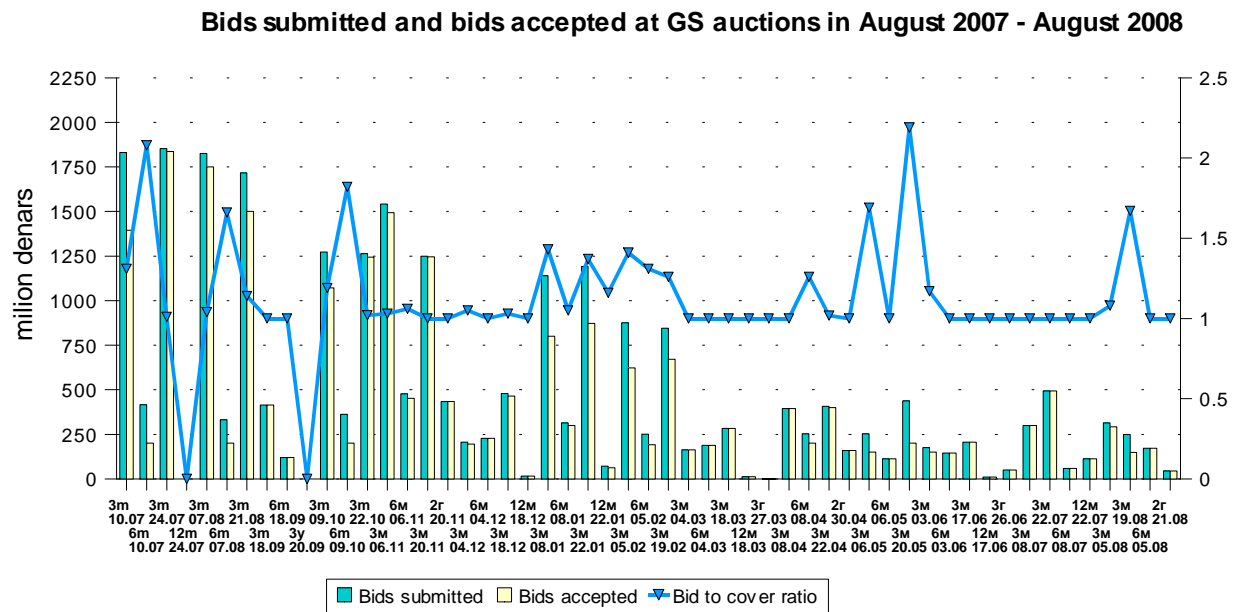
Source: Ministry of Finance



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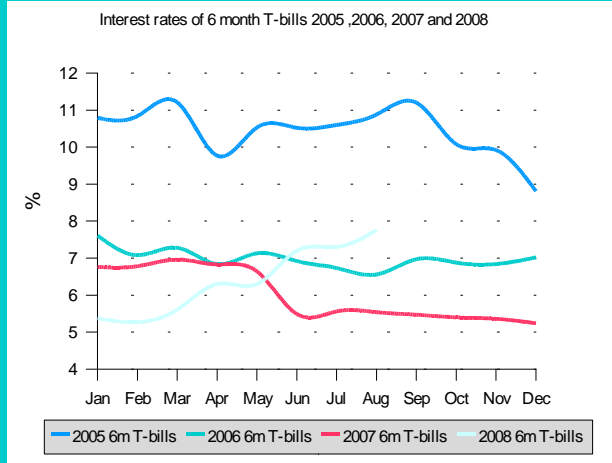
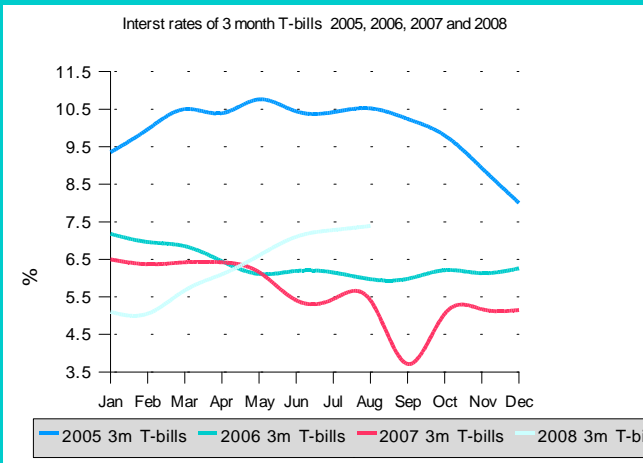
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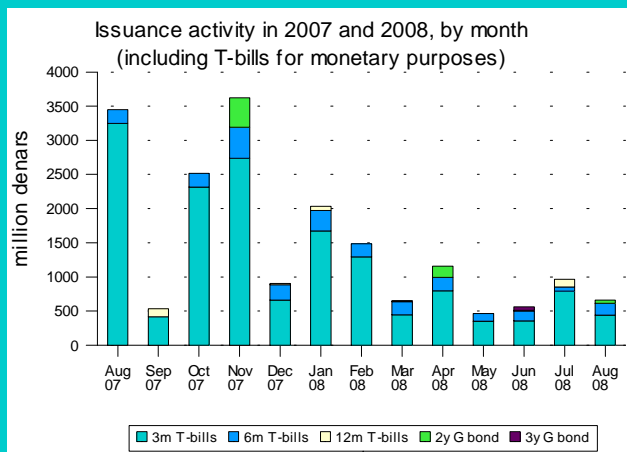
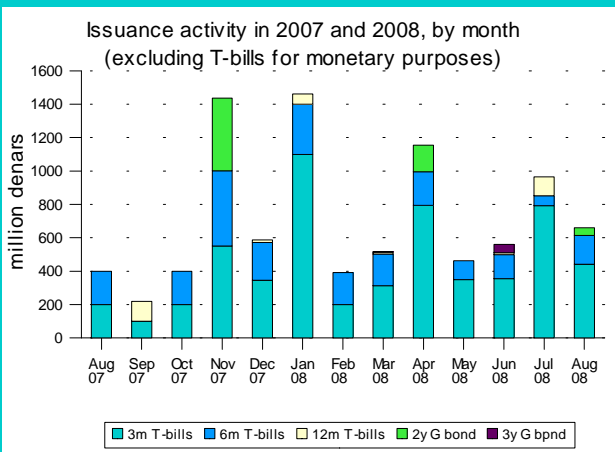
Source: Ministry of Finance



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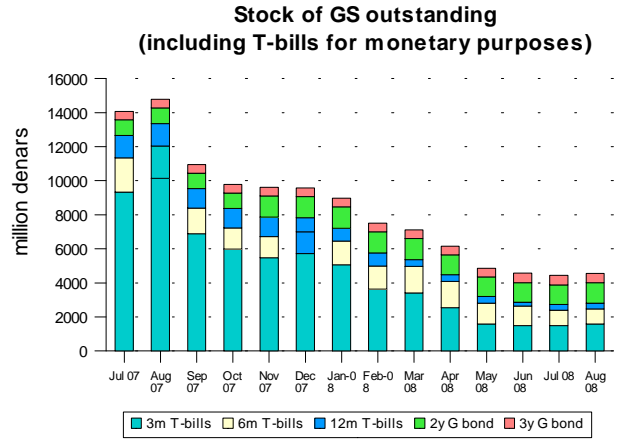
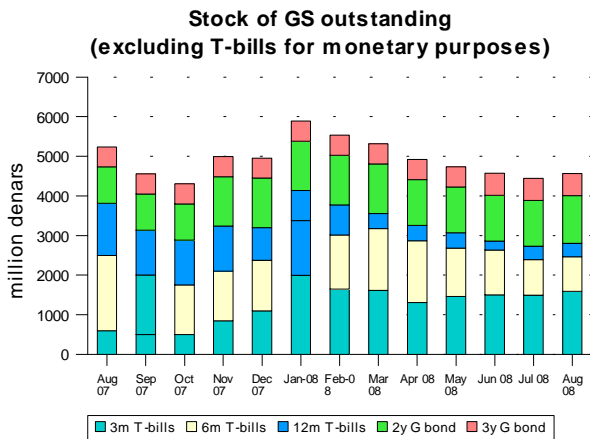
Source: Ministry of Finance



Source: Ministry of Finance

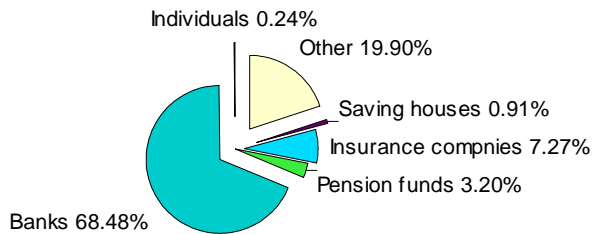


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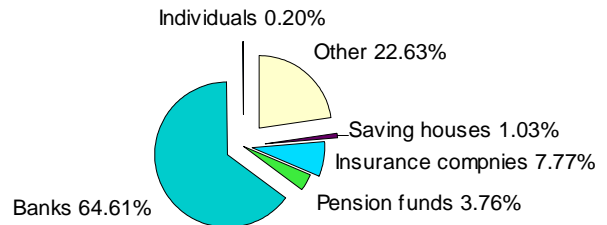


Source: Ministry of Finance

Ownership structure of continuous GS outstanding, June 2008



Ownership structure of continuous GS outstanding, August 2008

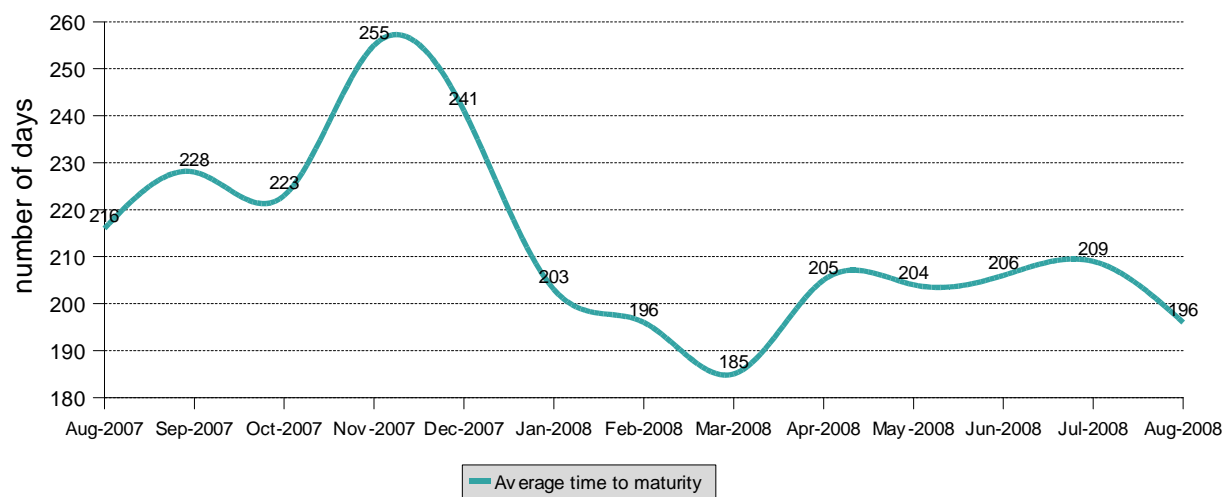


Source: Ministry of Finance



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Average time to maturity-ATM* of continuous government securities



*Average time to maturity (ATM) is an indicator showing the refinancing risk, which is especially relevant when the debt should be refinanced by additional issuance of new public debt. ATM shows the average length of time until maturity of securities and the sensitivity of fixed-income funds to the interest rate variations. The longer the period of time of ATM, the greater the sensitivity to the interest rate variations.

	Treasury bills		Government bonds				Total	
			2 years		3 years			
Duration*	30th of June 2008	31th of August 2008	30th of June 2008	31th of August 2008	30th of June 2008	31th of August 2008	30th of June 2008	31th of August 2008
Average days	57.37	67.22	359.84	311.77	581.06	518.97	201.74	191.40
Average years	0.16	0.18	0.99	0.85	1.59	1.42	0.55	0.52

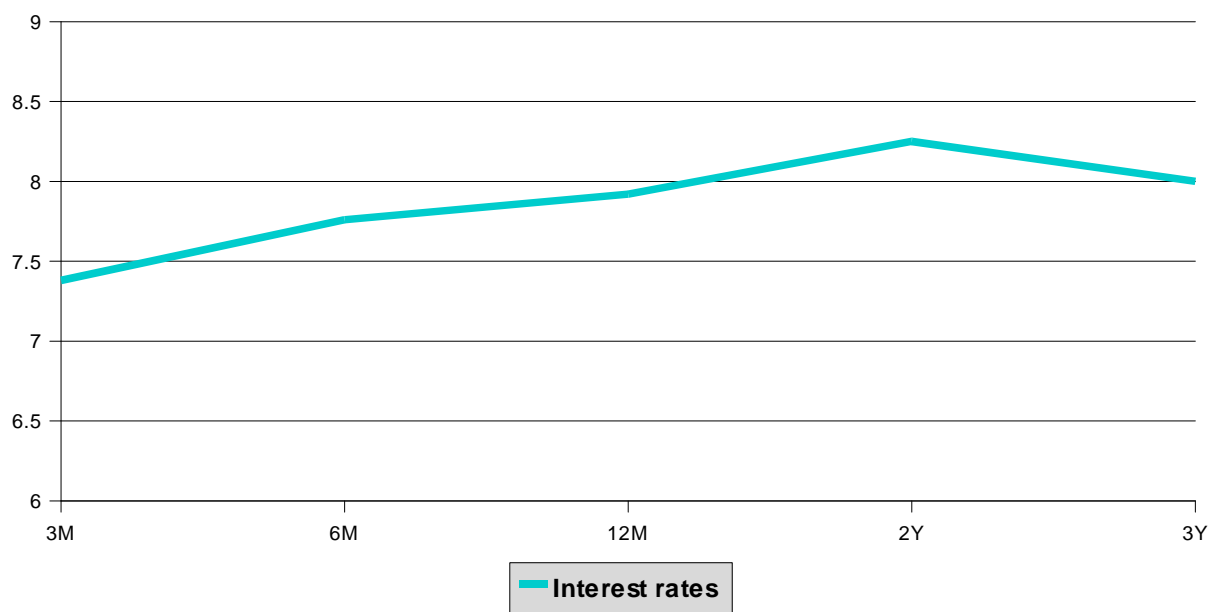
*Duration is an indicator showing the risk of interest rate variations. More precisely, this indicator shows how soon the interest rate changes would affect the debt-related cost, i.e. what is the change in the value of the fixed-income securities resulting from 1% variation in interest rates. When expressed in years, 5-year duration means that the value of the securities would grow by 5% should the interest rates decline by 1% and vice-versa.

Source: Ministry of Finance



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Yield to maturity of GS on primary market



Source: Ministry of Finance



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1.2 Secondary market

1.2.1 Macedonian Stock Exchange

OVERVIEW OF TRADING WITH BONDS ON MACEDONIAN STOCK EXCHANGE

July 2008	High (%)	Low (%)	Last daily average price (%)	Last trading day	Volume (NV in EUR)	Turnover (denars)	Turnover (EUR)	Yield to maturity
PM01	91,70	90,30	90,65	31.07.2008	233.498,00	12.949.982,00	211.659,00	8,42%
PMДЕН01	88,50	88,50	88,50	18.07.2008	572,00	30.963,00	506,00	7,66%
PMДЕН02	89,00	88,20	89,00	17.07.2008	5.819,00	316.222,00	5.168,00	6,45%
PMДЕН03	87,50	86,10	86,10	29.07.2008	70.470,00	3.766.596,00	61.561,00	6,93%
PMДЕН04	86,50	83,60	85,50	30.07.2008	87.243,00	4.571.051,00	74.707,00	6,52%
PMДЕН05	86,00	85,00	85,00	31.07.2008	57.886,00	3.017.533,00	49.328,00	6,18%
PMДЕН06	87,00	85,00	85,50	30.07.2008	204.098,00	10.698.049,00	174.846,00	5,62%
August 2008	High (%)	Low (%)	Last daily average price (%)	Last trading day	Volume (NV in EUR)	Turnover (denars)	Turnover (EUR)	Yield to maturity
PM01	91,00	90,60	90,93	29.08.2008	167.506,00	9.309.312,00	152.165,00	8,54%
PMДЕН02	88,30	87,20	87,20	29.08.2008	25.871,00	1.391.815,00	22.753,00	7,43%
PMДЕН03	86,30	86,20	86,20	27.08.2008	11.620,00	613.335,00	10.026,00	7,01%
PMДЕН04	85,50	84,00	84,40	29.08.2008	115.316,00	5.987.591,00	97.867,00	7,02%
PMДЕН05	85,50	84,00	85,50	29.08.2008	43.754,00	2.286.057,00	37.375,00	6,10%
PMДЕН06	86,50	82,00	86,50	29.08.2008	94.242,00	4.944.790,00	80.831,00	5,40%
PMДЕН07	80,90	80,00	80,40	29.08.2008	69.193,00	3.399.267,00	55.574,00	6,89%

Source: Macedonian Stock Exchange

FOREIGN INVESTORS ON THE OFFICIAL MARKET

Foreign investors	Avg 2007	Sep 2007	Oct 2007	Nov 2007	Dec 2007	Jan 2008	Feb 2007	Mar 2008	Apr 2008	May 2008	Jun 2008	Jul 2008	Aug 2008
Bonds*	10.22%	10.32%	8.72%	8.58%	8.40%	8.39%	8.38%	8.38%	8.39%	7.87%	7.68%	7.97%	7.35%

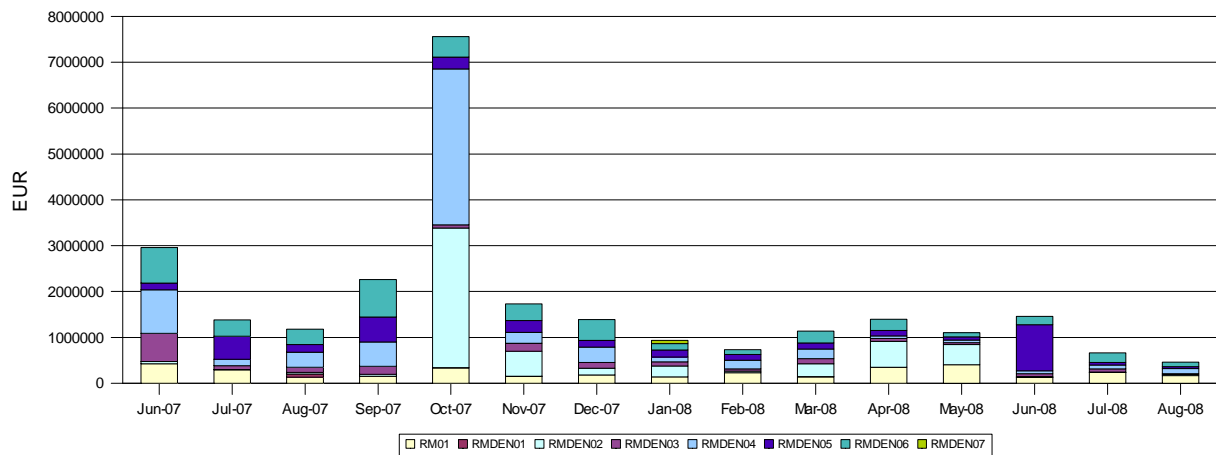
* Data as of end of the month, according to the Central Securities Depository, regarding the participation of the foreign investors in the total nominal value of bonds on the secondary market.

Source: Macedonian Stock Exchange



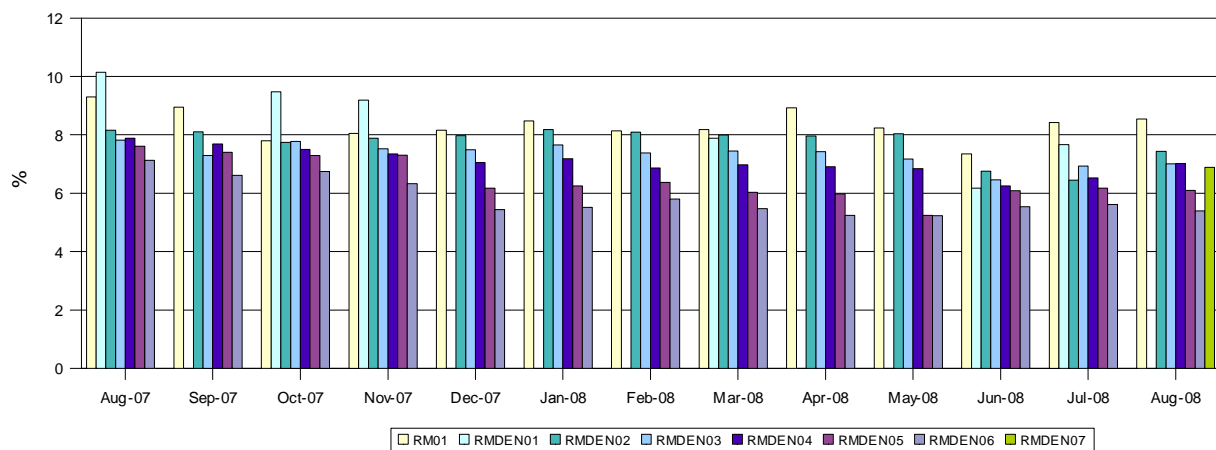
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Amount of trading with Government Securities



Source: Macedonian Stock Exchange

Yield to maturity of Government Securities

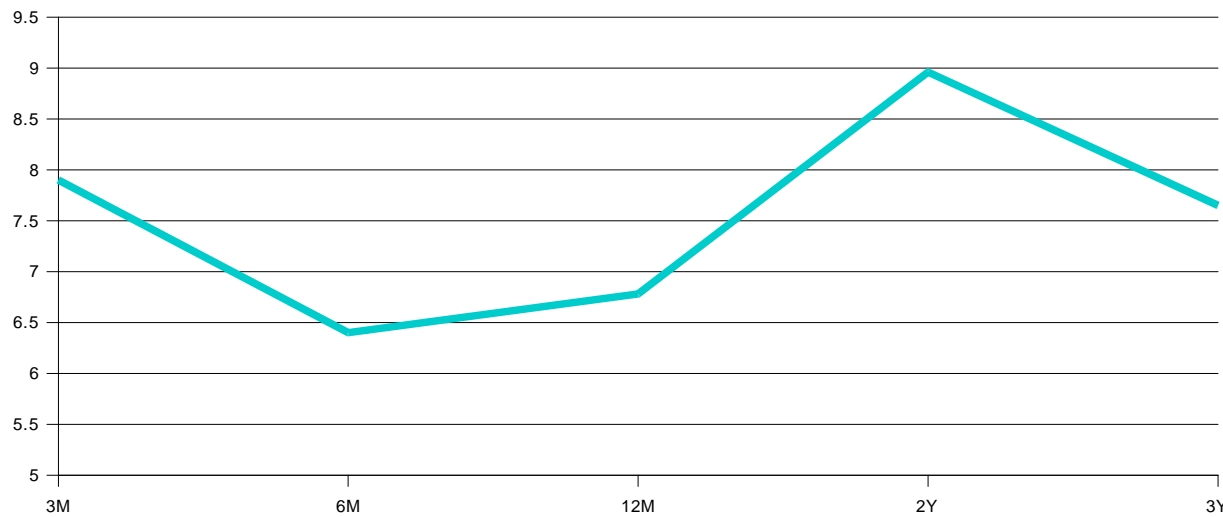


Source: Macedonian Stock Exchange



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Yield to maturity of GS on secondary market



Source: NBRM



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2 CALENDAR OF AUCTIONS FOR THE SECOND AND THIRD QUARTER IN 2008

Quarter	Month	Auction code	Auction date	Payment date	Maturity date	Maturity (in days years)
III	July	DZ2008/13-91	08.07.2008	09.07.2008	08.10.2008	91
		DZ2008/07-182	08.07.2008	09.07.2008	07.01.2009	182
		DZ2008/14-91	22.07.2008	23.07.2008	22.10.2008	91
		DZ2008/04-364	22.07.2008	23.07.2008	22.07.2009	364
	August	DZ2008/15-91	05.08.2008	06.08.2008	05.11.2008	91
		DZ2008/08-182	05.08.2008	06.08.2008	04.02.2009	182
		DZ2008/16-91	19.08.2008	20.08.2008	19.11.2008	91
		DO2008/05-0810	21.08.2008	25.08.2008	25.08.2010	02
	September	DZ2008/17-91	02.09.2008	03.09.2008	03.12.2008	91
		DZ2008/09-182	02.09.2008	03.09.2008	04.03.2009	182
		DZ2008/18-91	16.09.2008	17.09.2008	17.12.2008	91
		DZ2008/05-364	16.09.2008	17.09.2008	16.09.2009	364
IV	October	DZ2008/19-91	07.10.2008	08.10.2008	07.01.2009	91
		DZ2008/10-182	07.10.2008	08.10.2008	08.04.2009	182
		DZ2008/20-91	21.10.2008	22.10.2008	21.01.2009	91
		DO2008/07-1010	28.10.2008	30.10.2008	30.10.2010	02
	November	DZ2008/21-91	04.11.2008	05.11.2008	04.02.2009	91
		DZ2008/11-182	04.11.2008	05.11.2008	06.05.2009	182
		DZ2008/22-91	18.11.2008	19.11.2008	18.02.2009	91
	December	DZ2008/23-91	02.12.2008	03.12.2008	04.03.2009	91
		DZ2008/12-182	02.12.2008	03.12.2008	03.06.2009	182
		DZ2008/24-91	16.12.2008	17.12.2008	18.03.2009	91
		DZ2008/06-364	16.12.2008	17.12.2008	16.12.2009	364

The Calendar for Q3 and Q4 in 2008 year is indicative and it can be a subject of changes due to the national and religious holidays

Source: Ministry of Finance



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3 AUTHORIZED DIRECT PARTICIPANTS (DATA, CONTACTS AND FEES) ****

	Name	Address	Fax	Phone	Nominal amount	Fee for treasury bills-successful bid*	Fee for government bonds-successful bid	Fee for unsuccessful bid
1	Alfa Banka AD Skopje	Dame Gruev 1	3116-830 3135-206	3116-433	Any amount	0,10% (min. Denar 150)	0,10% (min. Denar 150)	
2	Eurostandard Banka AD Skopje	Vasil Glavinov 12/2	3224-095	3228-444	Any amount	0,12% (min. Denar 300)	0,12% (min. Denar 300)	Denar 300
3	Investbanka Banka AD Skopje	Makedonija 9/11	3135-367	3114-166				
3.1	Investbanka Banka for T-bills				For different amounts	Variable percentage drops from 0,14% to 0,10% (min. Denar 200.)		
3.2	Investbanka Banka for T-bonds				For different amounts		Variable percentage drops from 0,14% to 0,10% (min. Denar 500.)	
4	Kapital bank AD Skopje	27 mart, 1	3112-830 3134-060	3119-191 3124-288	up to Denar 200,000 exceeding Denar 200,000	Denar 200 fixed 0,10%	0,10% (min. Denar 200)	Denar 200
5	Izvozna i kreditna banka AD Skopje	Partizanski Odredi 3, blok 11	3122-393	3122-207	Any value	0,12%	0,12%	Denar 300 and Denar 500 for GB
6	Komercijalna Banka AD Skopje	Dimitar Vlahov 4	3113-494	3107-107 3111-133	Any amount	0,12% (min. Denar 300)	0,12% (min. Denar 300)	Denar 300
7	Stater Banka AD Kumanovo	Plostad Nova Jugoslavija b.b.	031/420-061	031/475-100 031/426-455	Any amount	0,12% (min. Denar 200)	0,15% (min. Denar 300)	Denar 200 for TB and Denar 300 for GB
8	Ohridska Banka AD Skopje	Makedonski Prosvetiteli 19	046/254-130 046/254-133	046/206-600 046/265-330	Any value	0,10%	0,10% (min. Denar 100)	Denar 100 for GB
9	Postenska Banka AD Skopje	Marks Engels 3	3220-389 3163-054	3112-862 3163-354	Does not work with clients			
10	ProKredit Banka AD Skopje	Bul. Jane Sandanski 109/a	3219-901	3219-900 3219-948	Any amount	0,10% (min. Denar 200)	0,10% (min. Denar 200)	
11	Sileks Banka AD Skopje	Gradski zid, blok 9, local 5	3114-891 3224-844	3115-288 3115-880 3112-699	Any amount	Denar 500 fixed	0,12% (min. Denar 500)	Denar 500
12	Stopanska Banka AD Bitola**	Dobrivoe Radosavljevik 21	047/207-515 047/207-541 047/207-513	047/207-500	Any amount	0,1% (min. Denar 200)	0,2%	Denar 200 for TB
13	Stopanska Banka AD Skopje	11 Oktomvri, 7	3114-503	3295-295	Any amount	0,11% (min. Denar 400)	0,11% (min. Denar 400)	Denar 250
14	TTK Banka AD Skopje	Naroden front 19/a	3236-444	3236/400				
15	NPB Tutunska banka AD Skopje	12 th Udarina Brigada, b.b	3105-630 3105-681	3105-601 3105-606 3105-694	Any amount	0,12% (min. Denar 300)	0,12%	Denar 300
16	Makedonska Banka za poddrška na razvojt AD Skopje							
17	Univerzalna Investiciona Banka AD Skopje	Maksim Gorki 6	3286-000 3130-448	3286-100	Any amount	0,12%	0,12%	
18	T.G Ziraat Bankasi – Skopje branch office***	Zeleznicka 8	3110-013	3111-337	Any amount	0,10% (min. EUR 15, max. EUR 400)	0,10% (min. EUR 15, max. EUR 400)	

*Data are provided from the commercial banks in the Republic of Macedonia and are subject to changes according to the business policy of the banks.

**All banks charge fees on the nominal amount, except Stopanska Banka AD Bitola, which charges fee on the discounted amount.

*** The amounts expressed in EUR are calculated in Denar equivalent on the day of payment according to the NBRM exchange rate.

**** Makedonska Banka za poddrška na razvojt AD Skopje do not work with clients.

All information on the bank fees for buying treasury bills and government bonds on behalf of the clients are available at the Ministry of Finance website www.finance.gov.mk, which is regularly updated after receiving bank notifications.



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

4 CONTACT PERSONS

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