



Ministry of Finance of the Republic of Macedonia

Public Debt Management Department

Quarterly review – The Public Debt of The Republic of Macedonia

[March 2006]

Skopje, 2006

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I. Public debt – definition and stock

Public debt of the Republic of Macedonia comprises government debt and all financial obligations created through borrowing by the municipalities and the City of Skopje, as well as borrowing by the public enterprises and companies fully or predominantly owned by the state. Thus, Government of the Republic of Macedonia, the municipalities and the City of Skopje, public enterprises and companies fully or predominantly owned by the state can appear as bearers of public debt.

This definition on public debt is included in the Public Debt Law (Official Gazette of the Republic of Macedonia, no. 62/2005) and it represents what is known as national methodology for calculating the public debt. Another methodology often used in practice to calculate public sector debt is included in the IMF Government Financial Statistics Manual, and it differs from the national methodology in the fact that in addition to the above-mentioned bearers of public debt, when calculating the debt, it also includes the debt of the monetary authorities, i.e. the debt of the central bank. As this Information is concerned, data on public debt in the overview tables will be calculated according to both methodologies (national and the IMF one), while the data in the charts will be calculated according to the national methodology.

Public debt portfolio of the Republic of Macedonia comprises debts inherited from former Yugoslavia, borrowing with international financial institutions and on international financial markets, as well as borrowing on domestic financial markets.

Highest level of public debt was realized in 2000, when the debt amounted to 52.9% of GDP. In the next period, public debt, expressed in absolute and relative terms, continuously declined. In December 2005, there was a slight increase of the public debt by 3.1 percentage point in relation to GDP, when as a result of the issue of the Eurobond, the level of public debt amounted to EUR 1.9 billion or 44.1% of the projected GDP.

Funds from the issue of Eurobond were used for complete buyout of the liabilities towards the London Club of Creditors, leading to offsetting the effects of the increase of the debt realized with this issue.

Thus, as of 31st March 2006 inclusive, public debt amounts to EUR 1.8 billion, i.e. 37.9% of GDP. General government debt amounts to EUR 1.7 billion, i.e. 35.06% of GDP and it is within the Maastricht criteria on public debt, according to which government public debt should not exceed 60% of GDP.

1. Events that characterized public debt management in the past period

1. Issue of first Eurobond of the Republic of Macedonia

In December 2005, Republic of Macedonia appeared, for the first time, on the international financial market with an issue of Eurobond.

Prior to the issue, there was a roadshow conducted by the team from the Ministry of Finance and the National Bank of the Republic of Macedonia, led by Minister of Finance, Mr. Nikola Popovski MA, during which number of meetings was held with individual investors, presentations were organized for groups of financial investors, as well as conference calls were made with investors from other financial centers throughout the world.

As a result, offers were submitted in the amount of EUR 593 million, i.e. 4 times greater amount than the issued amount of the Eurobond (EUR 150 million). The huge interest for the Republic of Macedonia and its financial instrument has enabled creation of broad base of investors - owners of

the Eurobond, from Europe, USA and Asia. The issue was distributed among 56 institutional investors globally, including 33% British investors, 31% German investors; 22.5% investors from other European countries (France, Italy, Switzerland, Greece, Slovenia, Cyprus), 12% American investors and 1.5% investors from Asia. Main investors are investment banks, investment funds and asset management companies.

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

At the same time, rating agencies Standar and Poor's and Fitch assigned the following ratings to the newly issued Eurobond as follows: BB+ (with stable outlook) and BB (with positive outlook), respectively. Thus, for the first time, Macedonia is placed on the world map of institutional investors, the interest of which confirmed the already apparent results from the macroeconomic and political stability, the prosperity of Macedonia resulting from its prudent fiscal and monetary policy and its integration into the European Union and NATO.

2. Buyback of the debt towards London Club of Creditors

So as to improve the structure of the debt portfolio, full buyback of the debt towards London Club of Creditors was carried out in January 2006. This activity employed the funds from the Eurobond issue.

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

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

In general, through this transaction, there will be savings in the amount of EUR 123.23 million in the Budget of the Republic of Macedonia in the next 7 years, under the assumption that the conditions on the international markets would remain unchanged (which is practically a pessimistic option, since all larger international banks envisage that dollar interest rate will continue to grow – which actually happened in the past months – leading to increase of the expenditures of the Republic of Macedonia for the buyback of the debt with a variable interest rate in the coming years). Additionally, certain analyses, i.e. scenarios, have also been prepared, should the conditions on the international market change, pointing out that the Budget of the Republic of Macedonia would be even more exposed to expenditures if the US dollar gets stronger in relation to the euro in future. Analyses have confirmed the even greater economic justification of this transaction, in changed conditions on the international market (simultaneous increase of interest rates and dollar appreciation), which expressed in figures is a saving in the amount of around EUR 130- 150 million, i.e. from EUR 9 to EUR 29 million per year, depending on the analyzed year and scenario.

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

- **By replacing the existing shorter-term debt with Eurobonds with 10-year maturity, the maturity of the debt portfolio of the Republic of Macedonia is extended.**

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

This transaction has enabled replacement of the debt with variable interest rate, experiencing an upward trend on the international markets, with a fixed interest rate of 4.625%, which compared

to the other countries, can be deemed as relatively favourable. In addition, one of the goals set in the Public Debt Management Strategy was also realized, that being continuous increase of the EUR-denominated debt for the account of the other foreign currencies, i.e. US dollar-denominated debt was replaced with EUR-denominated debt.

3.Fifth issue of denationalisation bond

Pursuant to the Law on Issuance of Denationalisation Bonds in the Republic of Macedonia (Official Gazette of the Republic of Macedonia, no. 37/02), fifth denationalization bond in the amount of EUR 34 million was issued on 13th March 2006. Terms and conditions for the issuance of this bond are identical as for the first four issues, i.e. 10-year maturity period and 2% fixed interest rate. First installment of this bond falls due on 1st June 2007.

Denationalisation bonds are listed on the Macedonian Stock Exchange AD Skopje. Trading with denationalisation bonds from this issue commenced on 16th March 2006.

4.Guarantee issued for Macedonian Railways Reform Project

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

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

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

- 1.Public enterprise for railway infrastructure Macedonian Railways – Skopje; and
- 2.Transport joint stock company Macedonian Railways Joint Stock Company – Skopje.

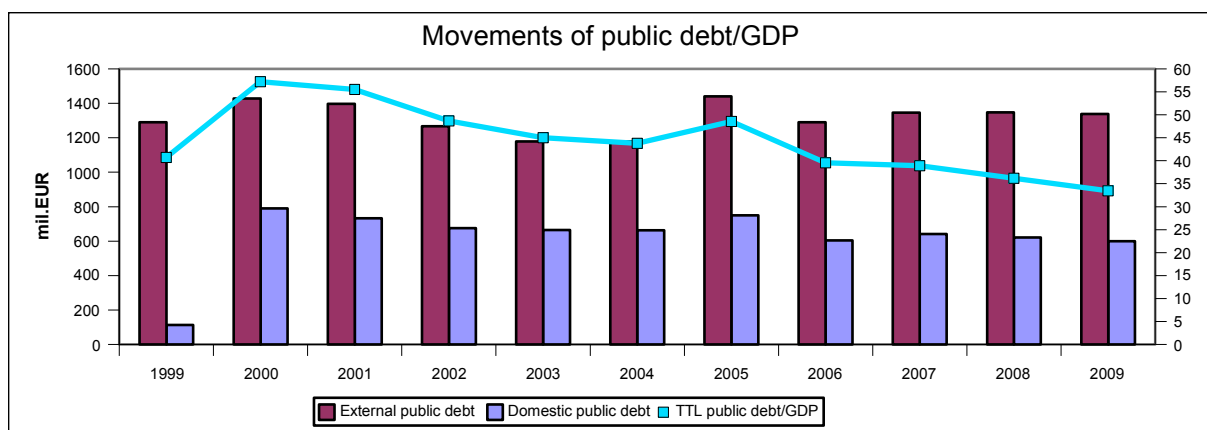
II. Characteristics of the public debt portfolio

	EUR millions	
	Month	
	31.12.2005	31.03.2006
External public debt*	1.441,2	1.226,7
General Government debt	1.245,4	1.037,7
Central Bank debt	52,7	51,8
Public enterprises debt	143,2	137,2
Domestic public debt	750,2	784,1
General Government debt	603,5	637,8
Central Bank debt	146,7	146,3
Public enterprises debt	N/A	N/A
Total public debt according the GFS methodology	2,191.35*	2.010,9
Total public debt as % of average GDP	48,6	42,1
Total public debt according the Public Debt Law	1.992,0	1.812,7
Total public debt as % of average GDP	44,1	37,9

Source: Ministry of Finance and NBRM

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

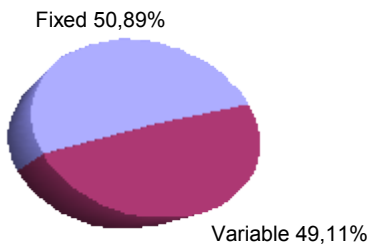
**At end-April 2006, public enterprises will submit the first report on the debt stock (in line with the Public Debt Law) to the Ministry of Finance.



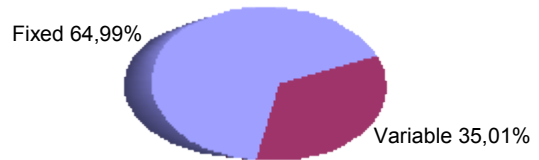
Source: Ministry of Finance and NBRM

Interest structure of the total public debt

31.12.2005



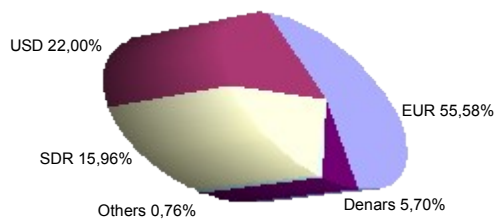
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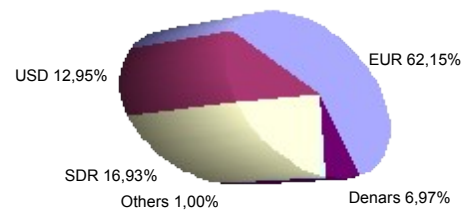
Source: Ministry of Finance and NBRM

Currency structure of the total public debt

31.12.2005



31.03.2006



Source: Ministry of Finance and NBRM

1.Domestic Public Debt

EUR million

	31.12.2005	31.01.2006	28.02.2006	31.03.2006
Domestic public debt according the GFS methodology	750,39	775,47	766,32	806,84
Domestic public debt according the Public debt law	603,66	605,03	607,71	637,64
General Government Debt	603,66	605,03	607,71	637,64
Central Government debt	603,66	605,03	607,71	637,64
Structural bonds	533,50	532,95	532,57	559,21
Rehabilitation of Stopanska banka bond	26,61	26,51	26,61	26,62
Bond for selective credits	16,98	16,92	16,98	16,99
Privatisation of Stopanska banka bond	77,24	77,24	77,24	75,10
Old foreign exchange saving bond	306,50	306,50	306,50	306,51
Denationalisation bonds	106,16	105,78	105,23	133,99
I issue	0,83	0,83	0,83	0,83
II issue	24,65	24,65	24,68	24,68
III issue	30,39	30,23	30,20	29,99
IV issue	50,28	50,07	49,52	48,94
V issue	0,00	0,00	0,00	29,55
Continuous Government securities	69,96	71,87	74,94	78,23
Treasury bills for monetary purposes	0,00	0,00	0,00	22,89
Municipalities	0,20	0,20	0,20	0,20
Central Bank	146,74	170,44	158,62	146,31
Public enterprises	N/A	N/A	N/A	N/A

Source: Ministry of Finance

Currency structure of the domestic public debt

31.12.2005

31.03.2006



Source: Ministry of Finance

Interest structure of the domestic public debt

31.12.2005

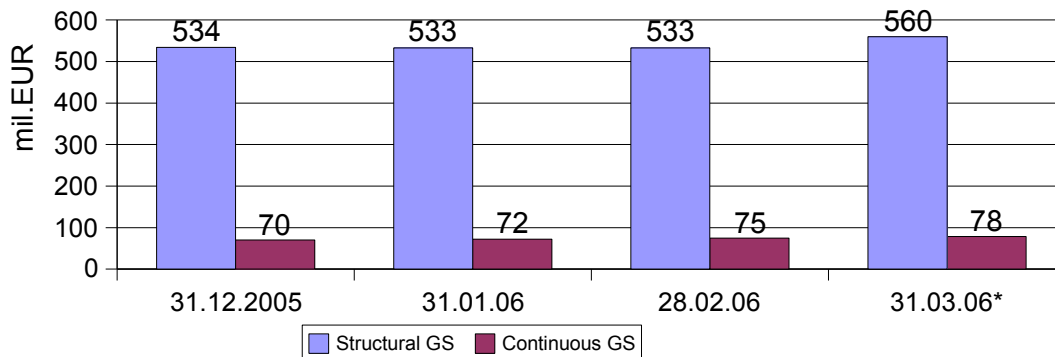
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Source: Ministry of Finance

1.1. Structural bonds and continuous government securities

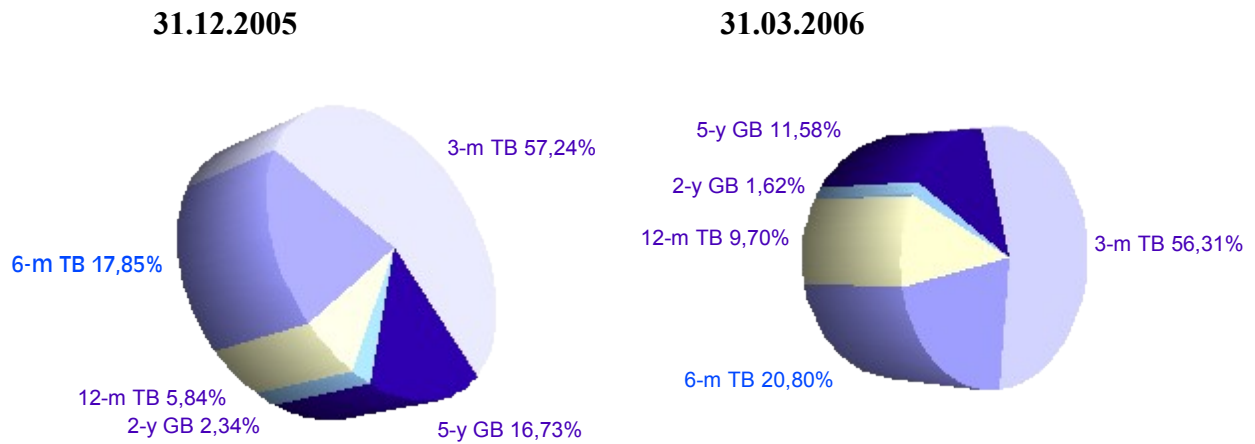
Structural and continuous government securities proportion



Source: Ministry of Finance

*In March 2006, fifth issue of denationalisation bonds was launched.

Structure of government securities by maturity from the aspect of day of issuance



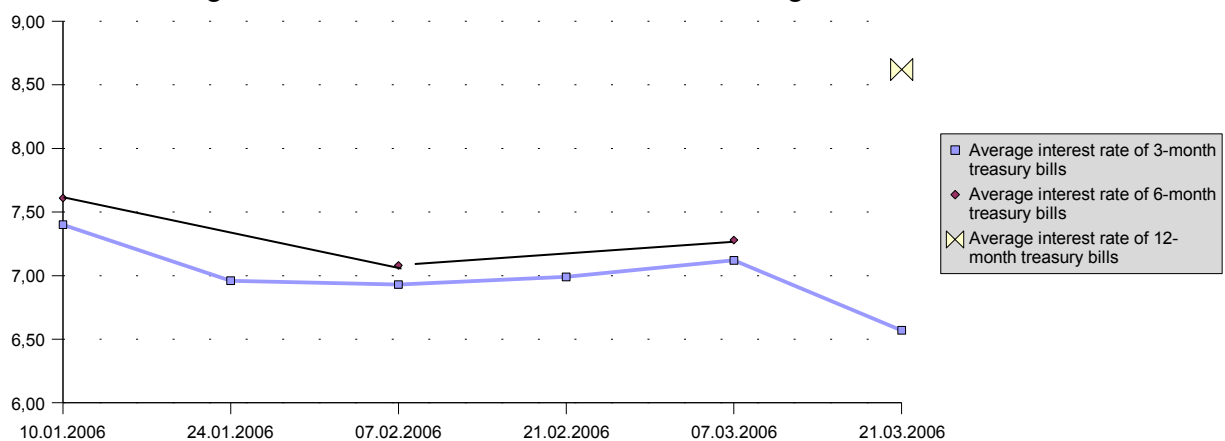
Source: Ministry of Finance

*Starting in March 2006, maturity structure of government securities also includes the treasury bills for monetary purposes (at the moment issues only as 3-month TB).

Trends of interest rates at the auctions of 3-, 6- and 12-months TB in the period of 31st December 2005 to 31st March 2006

Date of auction	Average interest rate of 3-month treasury bills	Average interest rate of 6-month treasury bills	Average interest rate of 12-month treasury bills
10.01.2006	7,40	7,61	
24.01.2006	6,96		
07.02.2006	6,93	7,08	
21.02.2006	6,99		
07.03.2006	7,12	7,28	
21.03.2006	6,57		8,62

Weighted interest rate of 3-m; 6-m and 12-m government securities

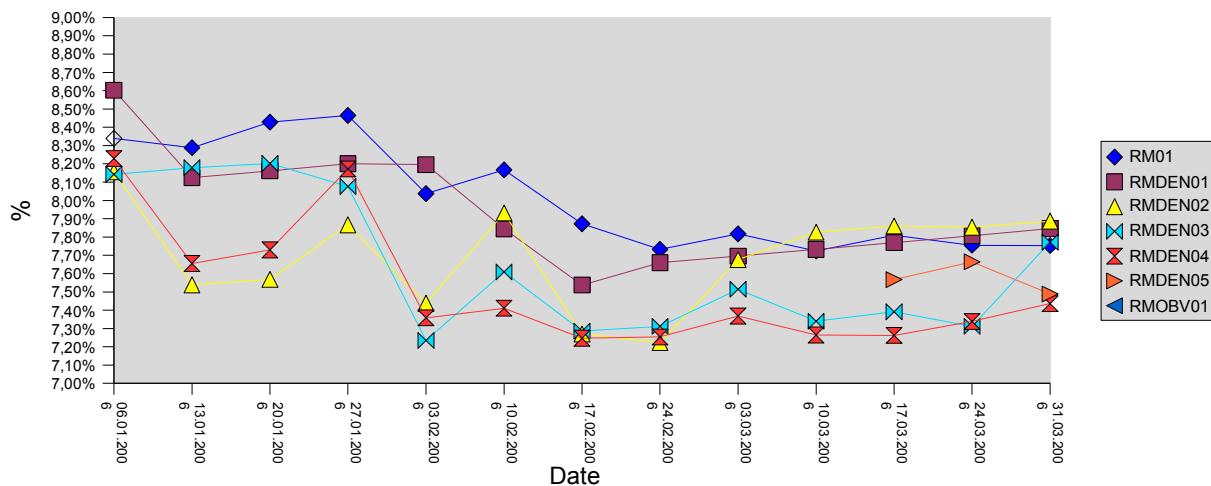


Source: Ministry of Finance

1.2. Secondary government securities market

1.2.1. Trading on the Macedonian Stock Exchange AD Skopje

Yield to maturity (YTM)



Source: Macedonian Stock Exchange AD Skopje

	Average price of the bonds (P)						
	RM01	RMDEN01	RMDEN02	RMDEN03	RMDEN04	RMDEN05	RMOBV01
06.01.2006	84,5	82,0	81,0	79,1	77,0		
13.01.2006	84,7	83,2	82,7	79,1	78,8		
20.01.2006	84,5	83,2	82,7	79,1	78,7		
27.01.2006	84,5	83,2	82,0	79,5	77,4		
03.02.2006	85,5	83,3	83,2	82,0	80,0		
10.02.2006	85,3	84,2	82,0	81,0	79,9		
17.02.2006	86,0	85,0	83,8	82,0	80,4		
24.02.2006	86,4	84,8	84,0	82,0	80,5		
03.03.2006	86,3	84,8	82,9	81,5	80,2		
10.03.2006	86,6	84,8	82,6	82,1	80,6		100,3
17.03.2006	86,5	84,8	82,6	82,0	80,7	75,6	100,3
24.03.2006	86,7	84,8	82,7	82,3	80,5	75,3	100,3
31.03.2006	86,8	84,8	82,7	81,1	80,3	76,0	100,3

Source: Macedonian Stock Exchange AD Skopje

1. 2.2. *Over-the-counter market (OTC Market)*

Transactions with government securities on the OTC market

Transaction date	ISIN	Number of days to maturity	Nominal amount	Price	Yield to maturity
31.01.2006	MKMINFDZ6019	71	1.110.000	98,6382	7,00
31.01.2006	MKMINFDZ6027	85	630.000	98,3741	7,00
02.02.2006	MKMINFDZ6027	83	180.000	98,4117	7,00
03.02.2006	MKMINFDZ6027	82	220.000	98,4306	7,00
14.02.2006	MKMINFDS5093	22	1.200.000	99,4832	8,50
20.02.2006	MKMINFDS5093	16	4.000.000	99,6236	8,50
03.03.2006	MKMINFDS5093	5	1.000.000	99,8959	7,50
22.03.2006	MKMINFDZ6050	77	5.100.000	98,3797	7,70
28.03.2006	MKMINFDZ6068	85	300.000	98,3370	7,16
30.03.2006	MKMINFDZ6019	13	1.400.000	99,7365	7,32

Source: NBRM

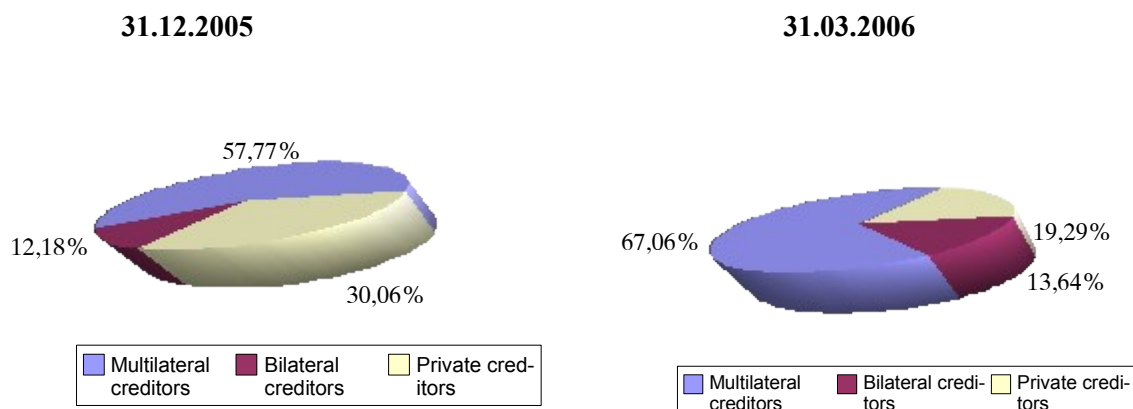
2.External public debt

EUR million

	31.12.05	31.01.06	28.02.06	31.03.06
Public debt according the GFS methodology	1.441,16	1.226,49	1.238,71	1.226,75
Public debt according the Public Debt Law	1.388,50	1.174,46	1.186,05	1.174,94
Government of Republic of Macedonia	1.245,35	1.038,51	1.046,64	1.037,70
Officials creditors	906,09	887,75	895,88	886,99
Multilateral creditors	751,82	743,81	750,03	742,47
IBRD	185,18	181,77	183,20	181,49
IDA	307,13	303,18	307,17	302,43
IFAD	10,97	10,84	10,97	11,00
CEDB	16,78	16,78	16,78	16,78
EBRD	29,22	28,73	29,38	29,63
EIB	112,53	112,52	112,53	111,15
EU	90,00	90,00	90,00	90,00
Bilateral creditors	154,27	143,94	145,86	144,52
Rescheduled debt 1995	102,31	91,76	92,75	91,61
Non-rescheduled debt	6,63	6,63	6,63	6,63
Newly concluded loans	45,33	45,55	46,48	46,29
Private creditors	339,26	150,76	150,76	150,71
Eurobond	150,00	150,00	150,00	150,00
Other private creditors	189,26	0,76	0,76	0,71
Banks	0,76	0,76	0,76	0,71
Non banking private sector	188,50	0,00	0,00	0,00
Central Bank of the Republic of Macedonia	52,66	52,04	52,66	51,81
IMF	52,66	52,04	52,66	51,81
Public Enterprises	143,15	135,95	139,41	137,23
Official creditors	59,99	59,27	61,38	61,26
Multilateral creditors	43,14	42,45	45,56	45,46
IBRD	25,25	25,25	24,36	24,36
EBRD	5,94	5,25	5,25	5,25
EIB	5,83	5,83	9,84	9,75
EUROFIMA	6,12	6,12	6,11	6,10
Bilateral creditors	16,85	16,82	15,82	15,80
Newly concluded loans	16,85	16,82	15,82	15,80
Private creditors	83,16	76,68	78,03	75,97
Other private creditors	83,16	76,68	78,03	75,97

Source: NBRM

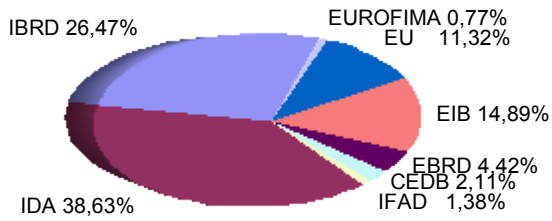
Structure of the external public debt by creditors



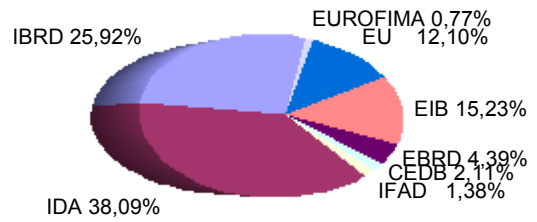
Source: Ministry of Finance and NBRM

Structure of the external public debt by multilateral creditors

31.12.2005



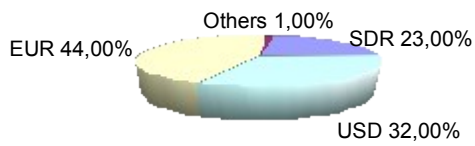
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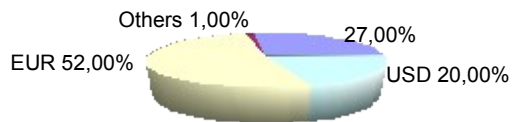
Source: Ministry of Finance and NBRM

Currency structure of the external public debt

31.12.2005



31.03.2006

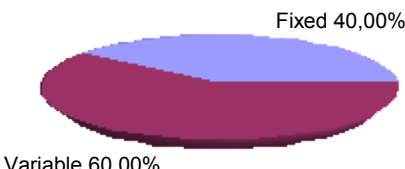
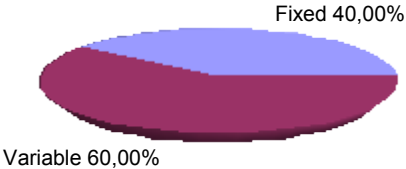


Source: Ministry of Finance and NBRM

Interest structure of the external public debt

31.12.2005

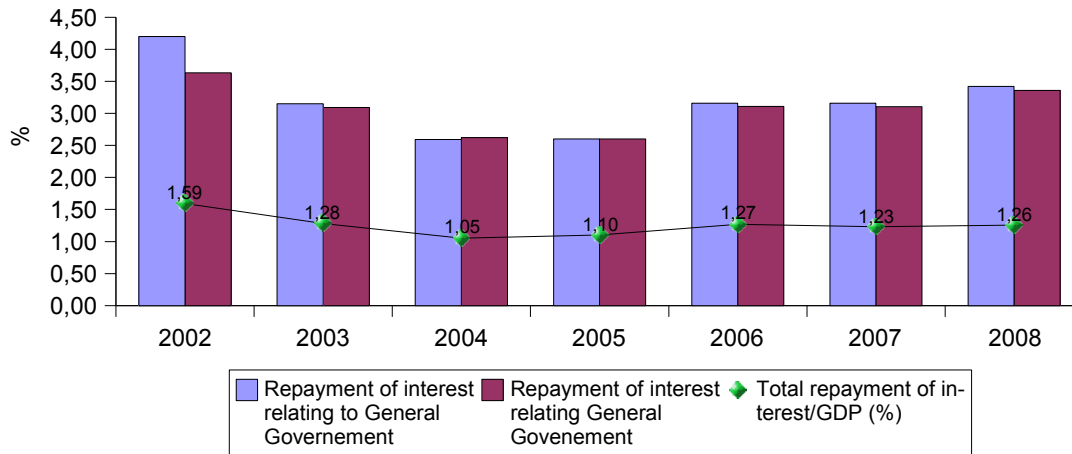
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Source: Ministry of Finance and NBRM

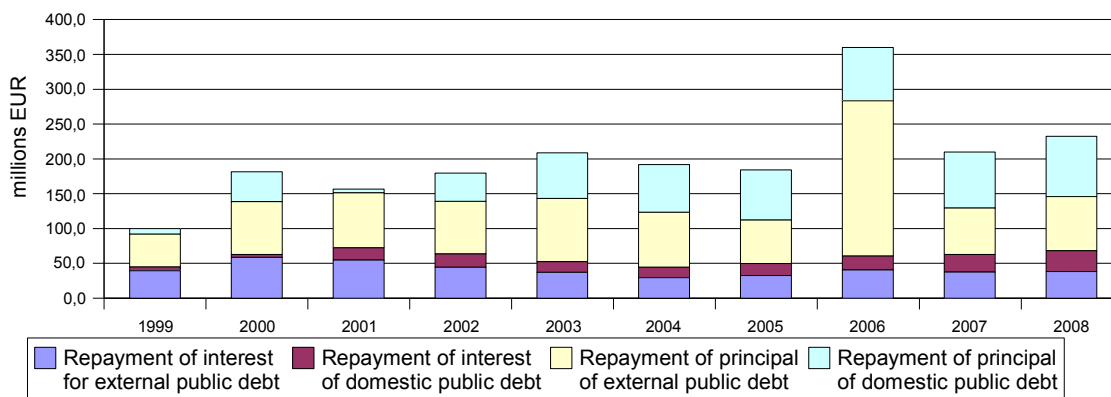
III. Servicing of the total public debt

Repayment of interest in relation to revenues, expenditures and GDP



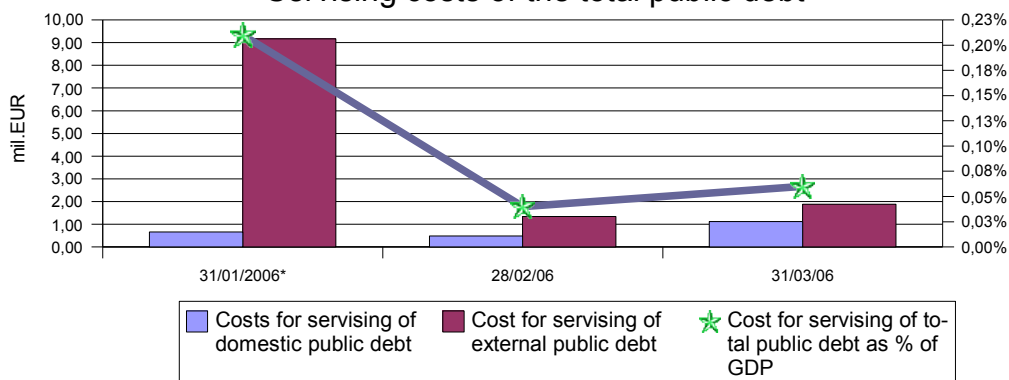
Source: Ministry of Finance

Repayment of interest and principal of the public debt



Source: Ministry of Finance

Servicing costs of the total public debt



Public Debt Management Department

Source: Ministry of Finance and NBRM

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

Servicing costs of the public debt for Q1 in 2006

EUR million

Basis	Jan-06	Feb-06	Mar-06	Total
Interest on the basis of external public debt	9,17	1,34	1,89	12,39
Interest on the basis of domestic public debt	0,66	0,49	1,12	2,27
Interest on the basis of total public debt	9,83	1,82	3,01	14,66
Principal on the basis of external public debt	200,97	1,73	3,40	206,11
Principal on the basis of domestic public debt	0,00	0,00	2,15	2,15
Principal on the basis of total public debt	200,97	1,73	5,55	208,25

Source: Ministry of Finance and NBRM

IV. Funds disbursed in the first quarter of 2006

1. Funds disbursed on the basis of external public debt

	<i>In EUR</i>	Jan-06	Feb-06	Mar-06	Total
1	Multilateral creditors	146.053	5.389.824	1.213.092	6.748.969
1.1	IBRD/IDA	146.053	739.376	354.572	1.240.002
1.2	EBRD	0	644.470	656.019	1.300.489
1.3	EIB	0	4.000.000	0	4.000.000
1.4	IFAD	0	5.977	202.502	208.479
2	Bilateral creditors	793.590	436.612	324.094	1.554.296
2.1	Italy-support to SME	107.800	24.700	177.170	309.670
2.2	KfW	667.900	0	0	667.900
2.3	Bank Bilbao-Spain (Project Lisice)	0	411.912	146.924	558.836
2.4	JBIC-Project Zletovica	17.890	0	0	17.890
1+2	Total public sector	939.643	5.826.436	1.537.186	8.303.265

Source: Ministry of Finance

2. Funds disbursed on the basis of domestic public debt (net issuance)

Denar (in million)

	Jan-06	Fev-06	Mar-06	Vkupno
Total Continuous GS	138,18	170,65	174,51	483,34
3-month government securities	-40,93	35,63	-342,14	-347,44
6-month government securities	179,11	135,02	194,71	508,84
12-month government securities			321,94	321,94

Source: Ministry of Finance