

Report on the public debt of the Republic of Macedonia for the first quarter of 2010

Contents

1. More significant activities in the first quarter of 2010	2
2. Stock of public debt	5
2.1. Structure of public debt	6
2.2 Risk indicators in the public debt portfolio	8
3. Funds disbursed on the basis of external and domestic borrowing	9
4. Servicing of total public debt	10
5. Guaranteed public debt	10
6. Primary government securities market	11
6.1 Maturity structure of the GS	12
6.2 Ownership structure of GS	13
7. Secondary government securities market	13
7.1 Macedonian Stock Exchange	13
7.2 Over the Counter Market	14
8. Contact	15

Skopje, 2010

1. More significant activities in the first quarter of 2010

- **Trends in the total public debt** - Total public debt in the Republic of Macedonia in the first quarter of 2010 increased by EUR 126.5 million compared to the previous quarter and as of March 2010 inclusive it amounted to EUR 2,255.4 million or 32.7% of GDP. This increase of the debt was a result of the increase of the domestic debt of the National Bank of Macedonia on the basis of issued central bank bills, amounting to EUR 114 million in this quarter. The general government debt increased by EUR 4 million, i.e. it reduced by 0.9% points in relation to GDP, amounting to EUR 1,601.2 million or 23.2% of GDP in March 2010, being under the Maastricht criterion for public debt, according to which the general government debt, i.e. the government debt must not exceed 60% of GDP.

The external public debt amounted to EUR 1,392.3 million at the end of March 2010, increasing by EUR 18.5 million compared to the previous quarter. This increase of the external public debt was due to the increase of the debt of both the central government and the public enterprises. Domestic public debt amounted to EUR 755 million in December 2009, while it was EUR 863 million at the end of March 2010. This increase of the domestic public debt by EUR 108 million was a result of the increase of the stock of central bank bills the National Bank of the Republic issues for monetary purposes, in the amount of EUR 114 million, while central government debt reduced by EUR 6 million.

Share of external public debt in total public debt compared to the fourth quarter of 2009 reduced by 2.8% as opposed to the share of domestic public debt, amounting to 61.7%. From the point of view of the currency structure of the public debt in the first quarter of 2010 Euro-denominated debt had dominant share with 61.3% and compared to the previous quarter it decreased by 3.8 percentage points. Debt denominated in domestic currency compared to the end of 2009 increased by 4.3 percentage points, amounting to 18%, out of which only CB- bills being issued by the National Bank of Macedonia participated with 16%.

Regarding the interest structure of the total public debt portfolio, share of debt with fixed interest rate at the end of the first quarter of 2010 remained at the same level compared to the fourth quarter of 2009, amounting to 51%, while share of debt with variable interest rate was 49%.

- **Issuance of continuous government securities** - During the first quarter of 2010, total of three auctions of government securities with foreign currency clause with maturity period of six months were carried out on the primary government securities market. Total amount offered for sale at auctions amounted to Denar 5,400.00 million, the demand amounted to Denar 5,481.43 million, while the performance was in the amount of Denar 5,264.40 million. The presented data on the auctions held in the first quarter can lead to the conclusion that market entities are highly interested in investing their free cash funds in such type of financial instruments. High values of the performance percentage of auctions, amounting to 99.18%, as well as of the percentage of coverage of the offer in relation to the demand, amounting to 101.51% also speak in favor thereof.

Downward trend of interest rates on government securities which began in the second half of 2009 continued during the first quarter of 2010 as well. Interest rate on six-month treasury bills with foreign currency clause at the last auction held in March 2010 was 4.99%, while the interest rate on six-month treasury bills with foreign currency clause at auction carried out in January 2010 was 5.20%. Data on interest rates show that interest rates on six-month treasury bills decreased by 0.21 percentage points in the first quarter of 2010.

During the first quarter of 2010, total amount which was repaid on the basis of due government securities amounted to Denar 5,354.83 million, while net borrowing on the basis of issued continuous government securities was negative and it was Denar -77.66 million.

- **Secondary government securities market** - During the first quarter of 2010, insignificant trading in government securities (treasury bills and government bonds) was noticed on the OTC market, i.e. five transactions with 6-month treasury bills with foreign currency clause were realized. Total nominal trading amount was EUR 133.65 million, increasing by EUR 14.53 million compared to the nominal trading amount achieved in the fourth quarter of 2009.

Average yield to maturity of realized transactions with initial maturity of 6-month treasury bills with foreign currency clause in the first quarter of 2010 was 5.17%. In the same period, structural bonds (eight issues of government bonds for denationalization and bonds for old foreign currency savings) and continuous government bonds were traded on the Macedonian Stock Exchange. Total trading volume in this period amounted to EUR 3.12 million or Denar 191.88 million, while total trading turnover amounted to EUR 2.26 million or Denar 167.97 million. In the first quarter of 2010, trading volume in government bonds was lower by EUR 1.90 million compared to trading volume in the fourth quarter of 2009, as well as the trading turnover of structural bonds decreased by EUR 2.34 million compared to the previous quarter.

Ministry of Finance
Public Debt Management Department

Targets set in the Public Debt Management Strategy of the Republic of Macedonia for the period 2010-2012, and their realization

Targets	Portfolio parameters as of 31 st December 2009*	Portfolio parameters as of 31 st March 2010*	Targets for the period 2010 2012
Public debt to GDP ratio	27,1%	26,2%	not to exceed 40%
General government debt to GDP ratio	24,1%	23,2%	not to exceed 30%
Total guaranteed debt to GDP ratio	2,6%	2,6%	not to exceed 10%
Share of euro debt in total public debt	Euro-denominated debt-77,1%	Euro-denominated debt-76,5%	not to be below 70%
Net borrowing in 2010	-	EUR 10,3 million	EUR 350 million
Net borrowing of guaranteed public debt in 2010	-	EUR 3,8 million	EUR 150 million

**When monitoring the realization of the targets, debt of the National Bank of the Republic of Macedonia was not included in the calculations of the total public debt, pursuant to Article 7 paragraph 5 of the Public Debt Law.*

2. Stock of public debt

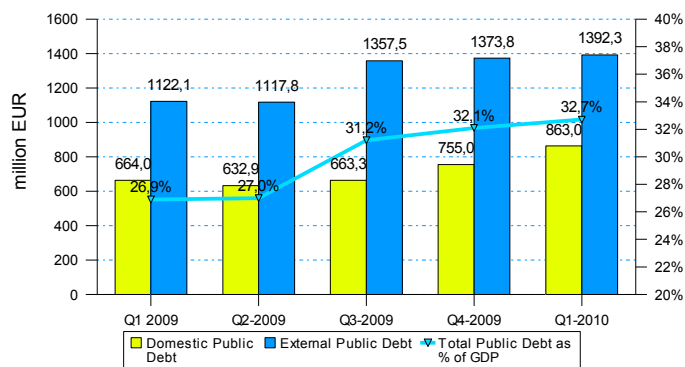
(In million EUR)

	Q2 2009	Q3 2009	Q4 2009	Q1 2010
External Public Debt	1.117,8	1.357,5	1.373,8	1.392,3
General Public Debt	925,8	1.098,0	1.105,3	1.114,9
Central Government Debt (consolidated)	925,8	1.098,0	1.105,3	1.114,9
Central Government Debt	893,0	1.067,1	1.074,4	1.085,8
Public Funds	32,7	30,9	30,9	29,1
Municipalities	0,0	0,0	0,0	0,0
Central bank	0,0	71,5	71,7	73,9
Public Enterprises	192,1	188,1	196,8	203,5
Domestic Public Debt	632,9	663,3	755,0	863,0
General Public Debt	471,7	453,1	492,0	486,3
Central Government debt	471,4	452,8	491,7	486,0
Structural Bonds	315,1	312,9	282,5	278,4
Bond for selective credits	17,0	17,0	16,9	16,9
Bond for privatisation of Stopanska Banka	47,2	45,1	42,9	40,8
Bond for old foreign exchange savings	127,4	127,4	101,9	101,9
Denationalization Bond	123,5	123,5	120,7	118,8
Continuous Government securities	156,3	139,9	209,2	207,6
Municipalities	0,3	0,3	0,3	0,3
Central Bank	158,2	207,4	260,4	374,4
Public Enterprises	3,0	2,8	2,7	2,3
Total Public debt – according GFS methodology and Public debt law	1.750,7	2.020,8	2.128,8	2.255,4
External public debt as % of total public debt	63,8	67,2	64,5	61,7
Domestic debt of the general government as % of the total general government debt	36,2	32,8	35,5	38,3
Total public debt as % of GDP	27,0	31,2	32,1	32,7
Total public debt as % of export	71,2	95,9	110,8	108,9
General government debt	1.397,5	1.551,1	1.597,2	1.601,2
External debt of the general government as % of the total general government debt	66,2	70,8	69,2	69,6
Domestic debt of the general government as % of the total general government debt	33,8	29,2	30,8	30,4
General government debt as % of average GDP	21,6	24,0	24,1	23,2
General government debt as % of average export	56,8	73,6	83,1	77,3

Source: MoF and NBRM

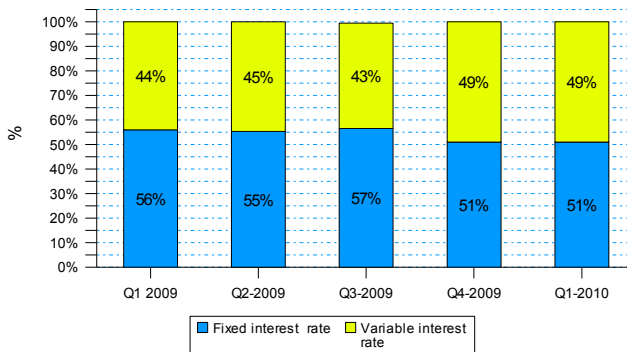
2.1. Structure of public debt

Domestic and external public debt



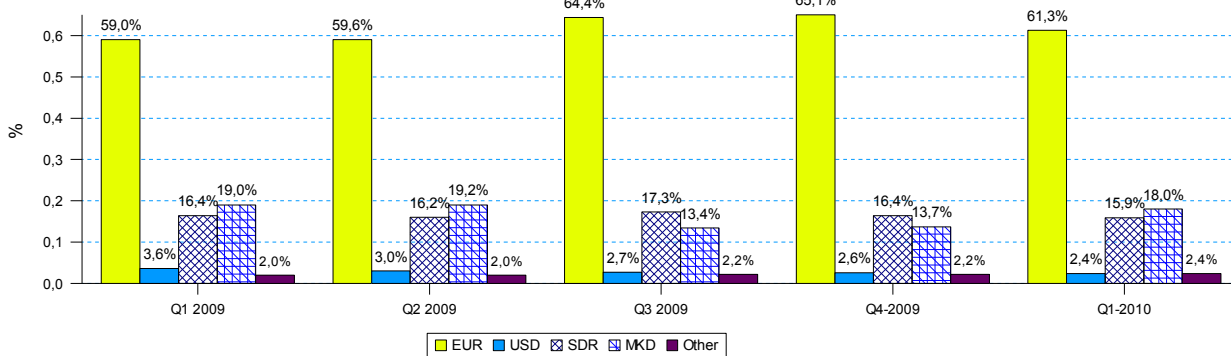
Source: MoF

Interest rate structure of total public debt



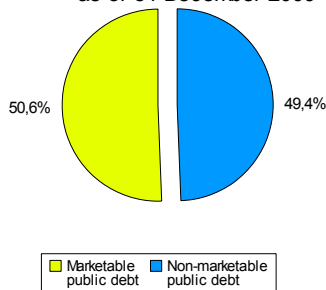
Source: MoF

Currency structure of total public debt



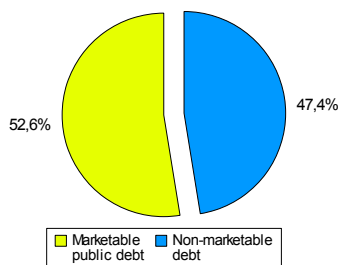
Source: MoF

Marketable/non-marketable public debt as of 31 December 2009



Source: MoF

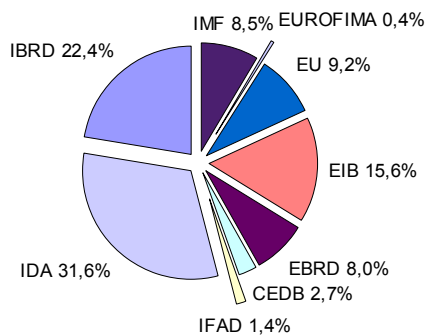
Marketable/non-marketable public debt as of 31 March 2010



Source: MoF

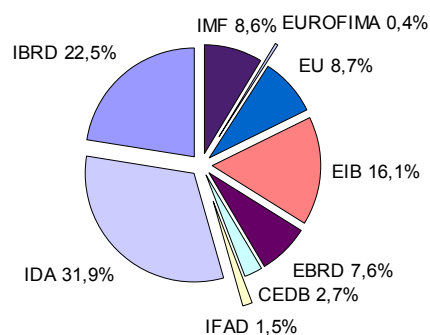
Ministry of Finance
Public Debt Management Department

Structure of public debt by creditors
as of December 2009



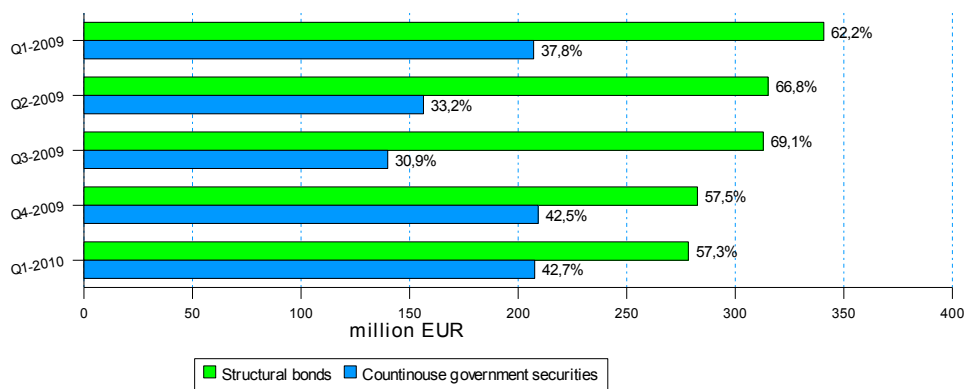
Source: MoF and NBRM

Structure of public debt by creditors
as of 31 March 2010



Source: MoF and NBRM

Domestic Public Debt Structure



Source: MoF

2.2 Risk indicators in the public debt portfolio

Average maturity – ATM (in years)					
	31.03.09	30.06.09	30.09.09	31.12.09	31.03.10
Domestic public debt	1,79	2,17	1,98	1,76	1,65
External public debt	8,44	8,30	8,16	7,22	7,21
Total public debt	5,94	6,23	6,02	5,51	5,44

Source: MF

Average time to refixing – ATR (in years)					
	31.03.09	30.06.09	30.09.09	31.12.09	31.03.10
Domestic public debt	1,54	1,91	1,75	1,56	1,55
External public debt	6,98	6,63	6,62	5,95	5,84
Total public debt	4,94	5,04	4,94	4,58	4,28

Source: MF

Duration of domestic public debt (years)					
	31.03.09	30.06.09	30.09.09	31.12.09	31.03.10
Structural bonds	1,90	2,18	1,93	1,97	1,81
Continuous government securit	0,50	0,25	0,36	0,31	0,22
Domestic public debt	1,37	1,54	1,39	1,26	1,14

Source: MF

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

Disbursement on basis of external borrowing

<i>In million EUR</i>	Q1-2009 realization	Q2-2009 realization	Q3-2009 realization	Q4-2009 realization	Q1-2010 realization	Projected disbursement in Q1-2010	% of realization Q1-2010
Public sector	8,5	18,9	254,4	46,4	20,5	19,8	104%
General government	5,3	14,8	186,5	14,8	9,5	9,1	103%
Central government	5,3	14,8	186,5	14,8	9,5	9,1	103%
Official creditors	5,3	14,8	11,5	14,8	8,5	9,1	92%
Multilateral creditors	2,6	11,8	6,3	10,1	4,9	4,9	100%
IBRD	2,6	6,8	6,3	10,1	4,9	4,9	100%
CEDB	0,0	5,0	0,0	0,0	0,0	0,0	-
Bilateral creditors	2,6	3,0	5,2	4,8	3,5	4,2	83%
Private creditors	0,0	0,0	175,0	0,0	1,0	0,0	-
Public enterprises	3,2	4,2	67,9	31,6	11,1	10,7	104%
Official creditors	3,2	4,2	5,1	22,4	11,1	10,7	104%
Multilateral creditors	1,8	2,6	4,5	22,4	10,0	9,6	104%
IBRD	0,4	0,9	2,7	0,0	0,3	0,3	100%
EBRD	1,4	1,7	1,8	0,8	2,4	2,0	120%
EIB	0,0	0,0	0,0	12,5	7,3	7,3	100%
MMF	0,0	0,0	62,8	9,2	0,0	0,0	-
Bilateral creditors	1,4	1,5	0,6	0,0	1,1	1,1	100%
Private creditors	0,0	0,0	0,0	0,0	0,0	0,0	-

Source: MoF and NBRM

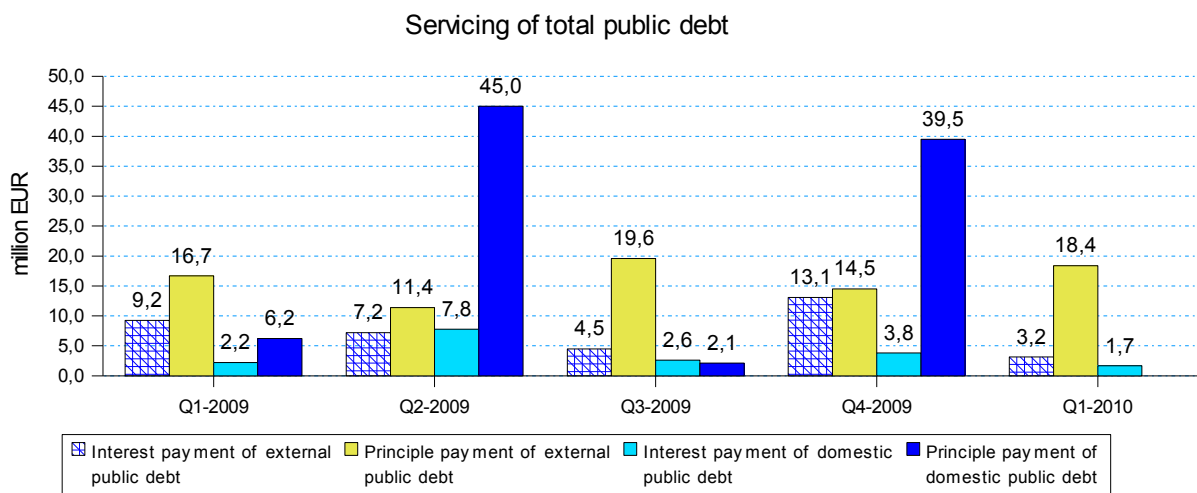
Net issue of continuous government securities and structural bonds

	<i>in million EUR</i>	Q1-2009	Q2-2009	Q3-2009	Q4-2009	Q1-2010
I	Nett issue of continuous government securities	84,31	-52,65	-16,02	67,56	-1,21
1	1-month GS	66,3	-66,3	0,0	0,0	0,0
2	3-monts GS	24,3	-2,5	-49,9	11,7	-51,3
3	6-monts GS	-1,3	-4,0	28,8	69,5	50,1
4	12-month GS	-1,1	20,5	5,1	-1,8	-0,1
5	2-year government bond	-3,9	-0,3	0,0	-7,1	0,0
6	3-year government bond	0,0	0,0	0,0	-4,8	0,0
II	8th issue of denationalisation bonds*		23,0			
I+II	Total	84,31	-29,65	-16,02	67,56	-1,21

*On the basis of bonds for denationalization, there is no real inflow of funds in the Budget of the Republic of Macedonia, but they are rather issued to persons in the denationalization process, whose claims towards the state can not be offset by compensation with real property but with bonds.

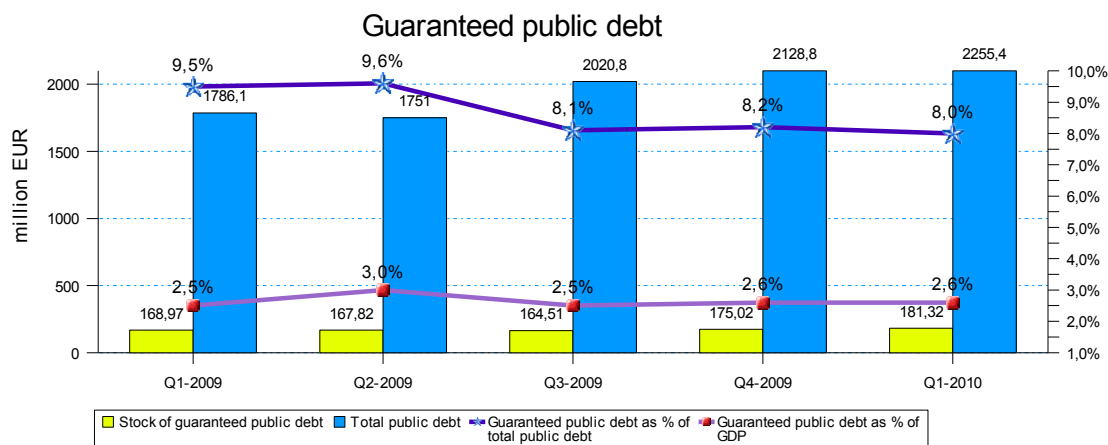
Source: MoF

4. Servicing of total public debt



Source: MoF and NBRM

5. Guaranteed public debt



Source: MoF and NBRM

6. Primary government securities market

Auctions of government securities in the period Q1-2010

Results of the auctions of GS			
	January 2010	February 2010	March 2010
	6-months	6-months	6-months
<i>Ознака на аукција</i>	Д32010/01-180 дк	Д32010/02-182 дк	Д32010/03-189 дк
<i>ISIN code</i>	MKMINFDSA019	MKMINFDSA027	MKMINFDSA035
<i>Days/years of maturity</i>	180	182	189
<i>Auction date</i>	05.01.2010	02.02.2010	02.03.2010
<i>Date of maturity</i>	07.07.2010	04.08.2010	08.09.2010
<i>Девизен курс ДЕН/ЕУР:</i>	61.1659	61.4061	61,5238
<i>Interest rate</i>	5,20	5,00	4,99
<i>Price</i>	97,4659	97,5345	97,4471
<i>Offer</i>	1.900.000.000	1.500.000.000	2.000.000.000
<i>Demand</i>	1.780.810.000	1.717.030.000	1.983.590.000
<i>Realisation</i>	1.780.810.000	1.500.000.000	1.983.590.000
<i>Bid to cover ratio*</i>	1	1,14	1
<i>Bids submitted</i>	13	14	15
<i>Bids accepted</i>	13	14	15

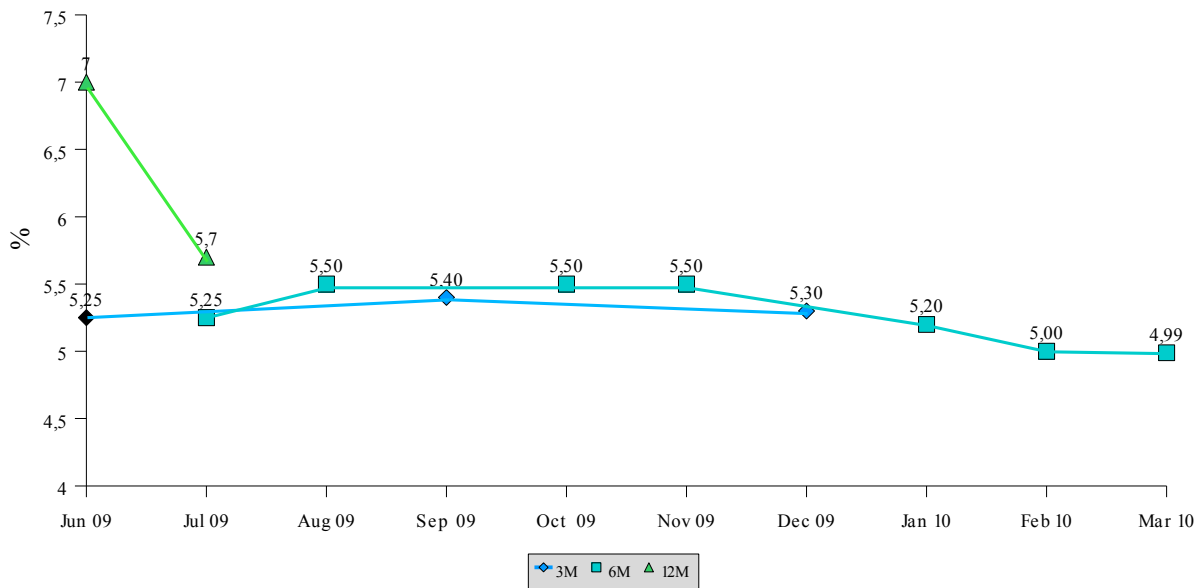
* this ratio shows the coverage of the realization with demand

Source: MoF

Interest rate of the GS with foreign clause holds in 2009 and 2010			
	3-months T-bills	6-months T-bills	12-months T-bills
Date of auctions	Interest rate	Interest rate	Interest rate
16.06.2009	5,25		7,00
23.06.2009			7,00
07.07.2009		5,25	
21.07.2009			5,70
04.08.2009		5,50	
01.09.2009	5,40		
06.10.2009		5,50	
03.11.2009		5,50	
01.12.2009	5,30		
05.01.2010		5,20	
02.02.2010		5,00	
02.03.2010		4,99	

Source: MoF

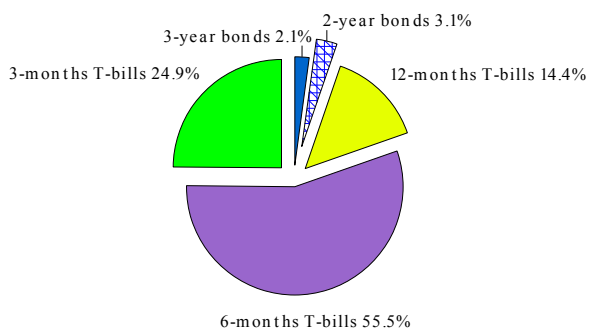
Interest rate of GS with foreign clause



Source: MoF

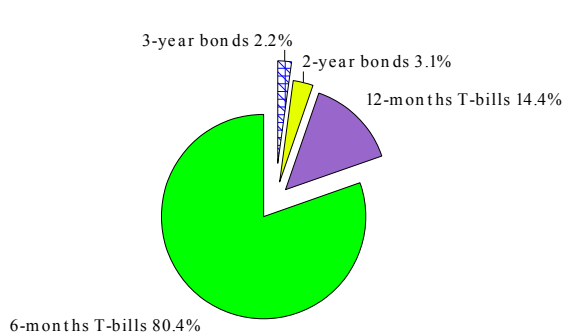
6.1 Maturity structure of the GS

Maturity structure of GS,
December 2009



Source: MoF

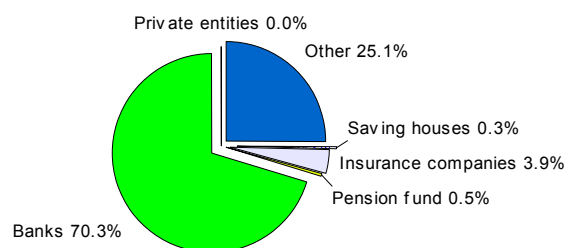
Maturity structure of GS,
March 2010



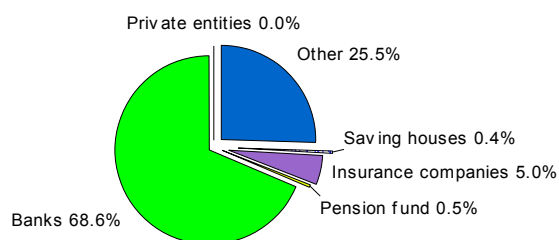
Source: MoF

6.2 Ownership structure of GS

Ownership structure of GS,
December 2009



Ownership structure of GS,
March 2010

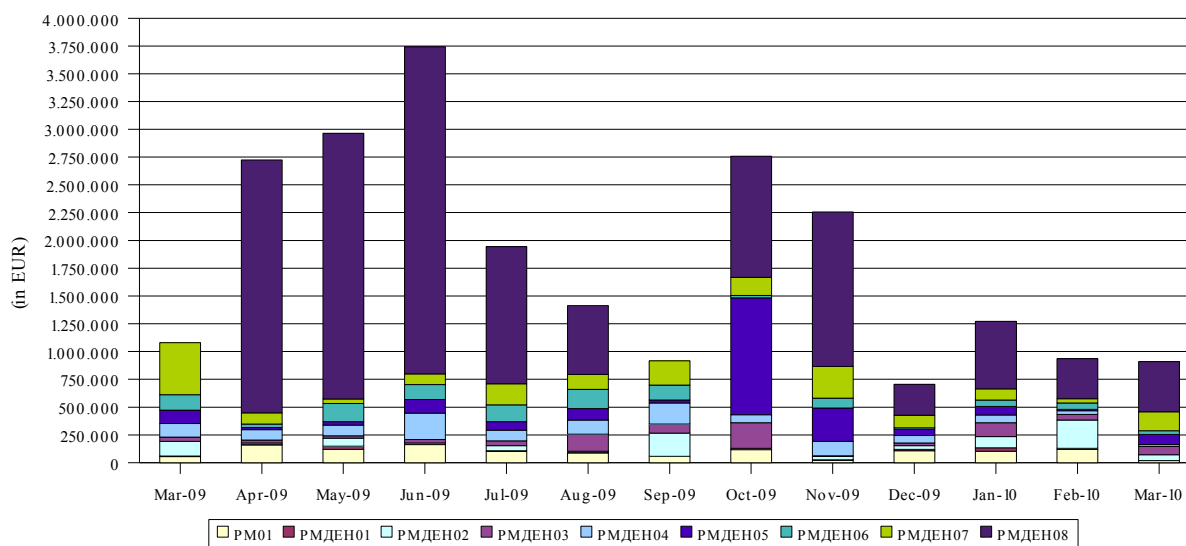


Source: MoF and Macedonian stock exchange

7. Secondary government securities market

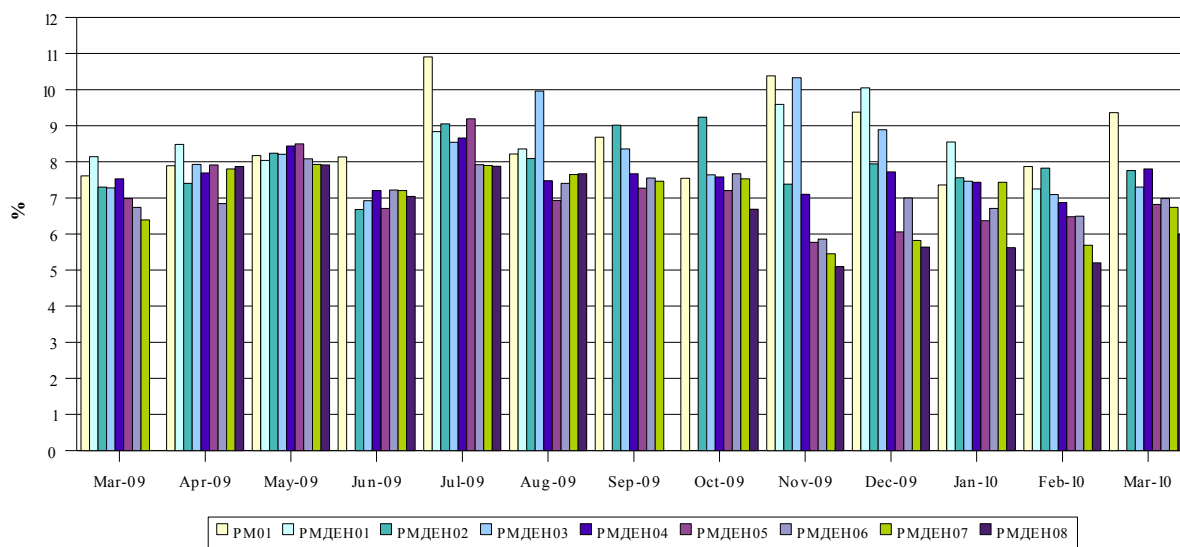
7.1 Macedonian Stock Exchange

Turnover of GS



Source: MoF and Macedonian stock exchange

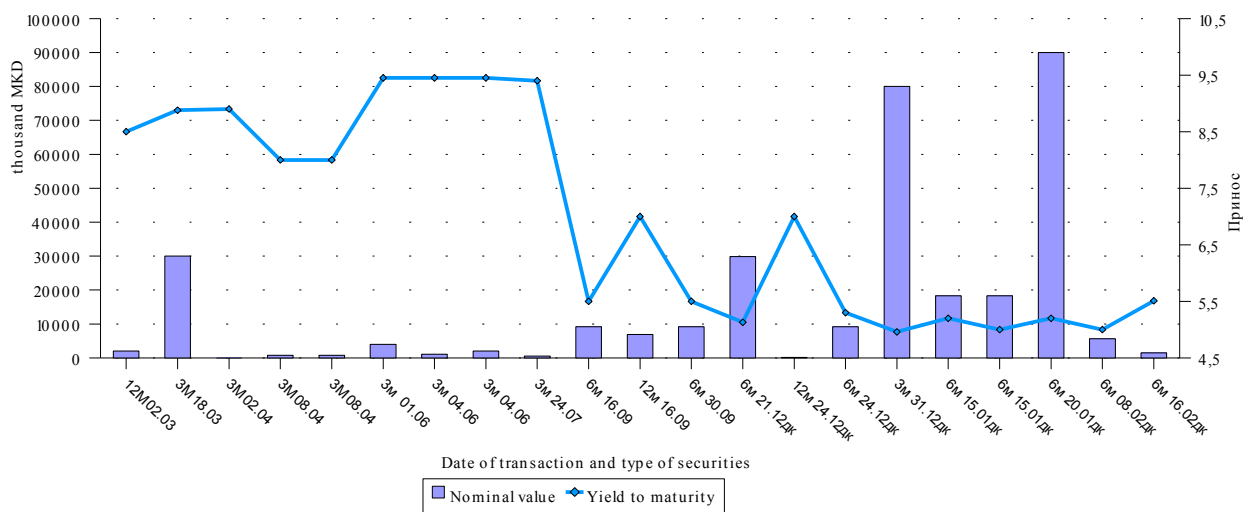
Yield to maturity of GS



Source: MoF and Macedonian stock exchange

7.2 Over the Counter Market

**Transaction of government securities carried out through OTC,
March 2009 - March 2010**



Source: MoF and NBRM

8. Contact

<i>Contact person</i>	<i>Position</i>	<i>Telephone</i>	<i>E-mail</i>
<i>Ana Stojkova</i>	<i>Head of Front Office, Public Debt Management Department</i>	<i>3106-293</i>	<i>ana.stojkova@finance.gov.mk</i>
<i>Aferdita Redzeqi</i>	<i>Middle Office, Public Debt Management Department</i>	<i>3106-327</i>	<i>aferdita.redzeqi@finance.gov.mk</i>
<i>Dejan Despotoski</i>	<i>Middle Office, Public Debt Management Department</i>	<i>3106-578</i>	<i>dejan.despotoski@finance.gov.mk</i>