Representatives

- Mr. Trajko Slaveski, Ph.D. — Minister of Finance
- Mrs. Maja Parnardzieva MA – State Advisor
- Mrs. Ana Mitreska MA – Deputy Director, National Bank of Macedonia
The information contained herein is subject to, and should be read in conjunction with, the detailed information concerning Macedonia and the Notes contained in the Prospectus. Investors are cautioned to rely solely on the Prospectus when making an investment decision with respect to the Notes. The offer and sale of the notes are subject to applicable securities laws in the European Union, the United States and elsewhere. The Notes are not eligible for offer or sale to US persons as defined in Regulation S under the Securities Act of 1933.
Macedonia – Credit Profile
Key considerations

- Macroeconomic stability backed by steady GDP growth (2005-08 CAGR of 4.8% p.a.) and low inflation (3.6% p.a. during 2005-08)
- Diversified economy with high recent FDI in-flows (US$1.7bn since 2006)
- Low external public debt (~17% of GDP)
- Best Consecutive Reformer Over the Last 2 Years in SE Europe based on the World Bank's Doing Business Reports
- Prospect of EU integration and NATO membership – major driver of further reforms and growth going forward
- Near investment grade ratings from international rating agencies
- Healthy banking system, mostly foreign owned and with very low external borrowings (2.8% of total sector liabilities)
- IMF facility in 2007 and not been utilised since then
- EUR8bn investment planned on infrastructure and energy over 8 years to further boost economic growth and improve trade balance
A Country’s Snapshot
Macedonia’s Story – A Resilient Credit

RATINGS
- S&P: BB / Negative
- Fitch: BB+ / Negative
- GDP 2008 est: US$9,522 million
- GDP per capita 2008 est: US$4,649
- Population 2009 est: 2,100,000
- Capital: Skopje

Credit Highlights
- Macedonia’s GDP per capita is above the ‘BB’ median, and even higher if measured in terms of PPP (US$9,063 per capita).
- EU candidate status providing an anchor for reforms and political stability.
- Moderate government debt levels.
- Strong remittance flows accounting for 15% of GDP, making a powerful contribution to overseas earnings.

Source: IMF, International Financial Statistics
Economy in brief

- Diversified economy with skilled workforce and further growth prospects
  - **Industry:** key sectors are steel and iron, textiles and clothing, chemicals, food processing and tobacco;
  - **Tourism:** About 250,000 foreign tourists visited Macedonia in 2008, up from 165,000 in 2004.

- Macedonia’s export products reflect its diverse economy with the manufactured and other value added products accounting for almost half of total exports
  - **Main export destinations:** Serbia, Greece, Germany and Bulgaria accounting for 60% of all exports

- Local currency is pegged to EUR, this policy is expected to continue
Macroeconomic trends

**GDP GROWTH (%)***

- 4.1% in 2004
- 4.1% in 2005
- 4.0% in 2006
- 5.9% in 2007
- 5.0% in 2008

- Uninterrupted real GDP growth of 4%+ since 2004

**GDP PER HEAD (US$ AT PPP)*

- 6,864 in 2004
- 7,346 in 2005
- 7,885 in 2006
- 8,485 in 2007
- 9,063 in 2008

- Constantly increasing GDP per head – a measure of income growth. It is expected to grow further given no expected significant change in the population

**CONSUMER PRICE INFLATION (%)*

- -1.9% in 2004
- 1.2% in 2005
- 2.9% in 2006
- 6.1% in 2007
- 4.1% in 2008

- Historically low levels of inflation
- In the first 5 months of 2009, the average inflation was 0.5%

**UNEMPLOYMENT RATE***

- 37.2% in 2004
- 37.3% in 2005
- 36.0% in 2006
- 34.9% in 2007
- 33.8% in 2008

- High unemployment rates, though falling since 2004

*Source: State Statistical Office
Macedonia vs Peers

GDP (US$BN AS OF 2008)*

- Montenegro: 3.6
- Macedonia: 9.5
- Albania: 13.5
- Serbia: 41.8
- Croatia: 51.4

RETAIL PRICE INFLATION (% AS OF 2008)*

- Macedonia: 6.7
- Albania: 4.2
- Croatia: 5.8
- Montenegro: 6.6
- Serbia: 10.1

GDP PER HEAD (EUR AS OF 2008)*

- Montenegro: 5,332
- Albania: 2,600
- Macedonia: 3,177
- Serbia: 4,100
- Croatia: 8,900

CURRENT ACCOUNT BALANCE (% OF GDP AS OF 2008)*

- Montenegro: -29.2
- Macedonia: -13.0
- Serbia: -17.0
- Croatia: -10.3
- Albania: -12.1

*Source: Economist Intelligence Unit
Macedonia had a record current-account deficit of US$1.2bn, or 13% of GDP, in 2008, owing to a increasing trade deficit and large-scale profit repatriation. FDI is a priority, so generous tax incentives have been introduced.

MKD is pegged to EUR. It is expected same policy strategy will be maintained going forward. Increased demand for foreign currency in the late 2008 and early 2009, partly met by depletion of foreign reserves.

### External Trade and International Reserves

<table>
<thead>
<tr>
<th>CURRENT ACCOUNT BALANCE (% OF GDP)*</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-8.4</td>
<td>-2.6</td>
<td>-0.9</td>
<td>-7.2</td>
<td>-13.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FDI (% OF GDP)*</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6.0</td>
<td>1.6</td>
<td>6.8</td>
<td>8.8</td>
<td>6.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MKD VS EUR (END-PERIOD)*</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>61.3</td>
<td>61.2</td>
<td>61.2</td>
<td>61.2</td>
<td>61.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INTERNATIONAL RESERVES (EUR BN)*</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>717</td>
<td>1,123</td>
<td>1,417</td>
<td>1,524</td>
<td>1,495</td>
</tr>
</tbody>
</table>

*Source: National Bank of Republic of Macedonia, Economist Intelligence Unit
Stable Banking System

- Banking sector consists of 18 banks and 11 saving houses
  - Total sector assets: EUR4bn
  - 14 banks owned by foreign shareholders (mostly EU based) representing 84.2% of total capital
  - High level of capital adequacy 16.2% vs 8% requirement

- Mainly domestic funding
  - Local deposits, annual double-digit growth
  - Foreign deposits and borrowings correspond only 10.9% of total liabilities, of that foreign bank loans 2.8%

- Ample liquidity in the system
  - 1/6 of total assets are highly liquid assets, which cover 39% of the total sight deposits
  - Central bank liquidity lines remain unused

- High asset quality
  - Conservative regulation and strict lending criteria has ensured high loan quality
  - Non-performing loans constitute only 4.3% of the loan portfolio
  - Loan impairment provisions cover 91% of all non-performing and delinquent loans

**Banking System Assets as % of GDP**

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>38.2%</td>
<td>41.7%</td>
<td>44.5%</td>
<td>49.0%</td>
<td>56.0%</td>
<td>63.1%</td>
<td>62.9%</td>
</tr>
</tbody>
</table>

**Banking System Asset Structure**

- Retail loans
- Corporate loans
- Other assets

![Graph showing asset structure over years](chart.png)
Given Macedonia’s investment potential, a number of international companies have started operations in the country, both as greenfield projects and through different types of asset acquisition and privatization.

Significant foreign investors in Macedonia: Johnson Matthey (UK), Mobilkom Austria (Austria), EVN (Austria), T-Home (Germany), Societe Generale (France), Johnson Controls (USA), QBE Insurance Group Limited (United Kingdom), Mittal Steel (Netherlands) and Duferco (Switzerland).

Source: National Bank of the Republic of Macedonia
Investment Incentives

Corporation Income Tax
- 0% tax on retained earnings
- As of 2009 only the distributed part of profits is taxed.

Source: Taxes at a Glance 2009, PricewaterhouseCoopers

Personal Income Tax

GDP by Sectors (EURm)

Source: State Statistical Office
Expected developments during 2009

- Real GDP growth of 0-1%
- Deceleration of CPI, reaching 1% on average (methodological)
- Stable employment and small increase of unemployment rate (possible downside due to economic crisis)
- Fiscal deficit to be maintained at 2.8% of GDP max, with an increase of public investments share in GDP to 7.2%
- Increase of private sector lending by 8% (lower growth compared to previous year)
Resilient Fiscal and Monetary Fundamentals
Fiscal Deficit
Resilient Fiscal and Monetary Fundamentals

TOTAL REVENUES AND EXPENDITURES

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Expenditure</th>
<th>Budget Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006 Actual</td>
<td>1,699</td>
<td>1,727</td>
<td>-28</td>
</tr>
<tr>
<td>2007 Actual</td>
<td>1,953</td>
<td>1,918</td>
<td>35</td>
</tr>
<tr>
<td>2008 Actual</td>
<td>2,228</td>
<td>2,290</td>
<td>-62</td>
</tr>
<tr>
<td>2009 Budget</td>
<td>2,333</td>
<td>2,519</td>
<td>-186</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance
Revenue-Expenditure Breakdown
Resilient Fiscal and Monetary Fundamentals

**Revenue Breakdown – 2009**
- Tax and Contribution: 15.3%
- Non Tax Revenues: 1.6%
- Capital Revenues: 0.8%
- Foreign Revenues: 0.1%
- Revenues from repayment of loans: 15.3%
- Source: Ministry of Finance

**Expenditure Breakdown – 2009**
- Pensions: 28.6%
- Wages and Allowances: 18.8%
- Other Transfers: 16.0%
- Goods and Services: 14.8%
- Health Care: 14.5%
- Social Benefits: 13.5%
- Unemployment Benefits: 3.5%
- Domestic Interest: 1.6%
- Foreign Interest: 0.8%
- Guaranties: 0.1%

**Revenue Breakdown – 2008**
- Tax and Contribution: 13.5%
- Non Tax Revenues: 1.0%
- Capital Revenues: 0.1%
- Foreign Revenues: 1.8%
- Revenues from repayment of loans: 15.3%
- Source: Ministry of Finance

**Expenditure Breakdown – 2008**
- Pensions: 28.1%
- Wages and Allowances: 17.5%
- Other Transfers: 15.6%
- Goods and Services: 15.8%
- Health Care: 15.6%
- Social Benefits: 14.9%
- Unemployment Benefits: 4.3%
- Domestic Interest: 3.4%
- Foreign Interest: 0.8%
- Guaranties: 0.1%
Monetary Policy

- Prudent monetary policy stance, aimed at preserving exchange rate and price stabilities
- 2005-07 period of abundant capital inflows and appreciation pressures
- Since late 2008, with the global crisis escalating, facing pressures on the FX market
- Timely, targeted interventions on the FX market, combined with changes in the reference rate enabled stability of the FX rate
- The depletion of foreign reserves is slowing down, with the import coverage currently at a safe level
Monetary growth and interest rates

- Strong monetary growth, mirroring the rebound of the economy, increasing capital inflows and rising confidence during 2005-2007
- Yet, no major withdrawals of deposits have been observed
- Deposit rates increase continuously, with the banks striving to increase their share at the deposit market
External Debt

**GROSS EXTERNAL DEBT (US$BN)**

- Multilateral institutions are the largest creditors
- Floating: 40% / Fixed: 60%
- Currencies:
  - EUR: 66% of total, USD: 6%, IMF Special Drawing Rights: 25%
- ATM – 8.54 years

**GROSS EXTERNAL DEBT / GDP RATIO**

<table>
<thead>
<tr>
<th>Year</th>
<th>Debt / GDP Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>52.5%</td>
</tr>
<tr>
<td>2005</td>
<td>51.1%</td>
</tr>
<tr>
<td>2006</td>
<td>51.5%</td>
</tr>
<tr>
<td>2007</td>
<td>52.5%</td>
</tr>
<tr>
<td>2008</td>
<td>49.1%</td>
</tr>
</tbody>
</table>

*Source: National Bank of Republic of Macedonia/Ministry of Finance*
External Public Debt
Maturity Profile – modest sovereign debt repayment

<table>
<thead>
<tr>
<th>FOREIGN DEBT SERVICE SCHEDULE</th>
</tr>
</thead>
<tbody>
<tr>
<td>(EURm)</td>
</tr>
<tr>
<td>Sovereign amortisation</td>
</tr>
<tr>
<td>Official bilateral</td>
</tr>
<tr>
<td>o/w Paris Club</td>
</tr>
<tr>
<td>Multilateral</td>
</tr>
<tr>
<td>o/w IMF</td>
</tr>
<tr>
<td>Other (including Eurobond)</td>
</tr>
<tr>
<td>Interest</td>
</tr>
<tr>
<td>Total Sovereign Debt Service</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance
Domestic Public Debt

DOMESTIC PUBLIC DEBT STOCK (EURm)

- Domestic public debt of Macedonia comprises the following: structural bonds, treasury bills and bonds, municipal debt, debt of the public enterprises and CB bills issued by NBRM
- The ATM of the domestic public debt as at December 2008 was 2.35 years

DOMESTIC PUBLIC DEBT SERVICING* (principle and interest in EURm)

- Decreasing of the servicing of the structural bonds in 2012 and beyond

*monetary authorities and public enterprises debt is not included
Source: Ministry of Finance
Terms of the Offering
Transaction Summary

Issuer:  • The Republic of Macedonia
Issue:  • Senior Eurobond Offering
Currency:  • EUR
Maturity:  • Medium-term
Price Guidance:  • TBD
Issuer Rating:  • S&P: BB (Negative), Fitch: BB+ (Negative)
Format:  • Regulation S
Listing:  • London Stock Exchange
Law:  • English
Lead Manager:  • HSBC
Use of Proceeds:  • To finance budget deficit and replenish FX reserves
### Additional details

#### MINISTRY OF FINANCE

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Republic of Macedonia  
Tel: +389 2 3117 288  
Fax: +389 2 3117 280  
Email: finance@finance.gov.mk

#### USEFUL WEBSITES

- Government of Macedonia: www.vlada.mk  
- Ministry of Finance: www.finance.gov.mk  
- Ministry of Economy: www.economy.gov.mk  
- Ministry of Foreign Affairs: www.mfa.gov.mk  
- Agency for FDI: www.investinmacedonia.com  
- Central Bank: www.nbrm.gov.mk  
Appendix I. Anti-crisis measures
### Anti-crisis measures

<table>
<thead>
<tr>
<th>PRINCIPAL CHALLENGES</th>
<th>GOVERNMENT MEASURES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banking System</strong></td>
<td><strong>Iron &amp; Steel</strong></td>
</tr>
<tr>
<td>◦ Credit crunch</td>
<td>◦ Lower external demand for domestic products</td>
</tr>
<tr>
<td>◦ Deceleration of deposit growth</td>
<td>◦ Volatility of commodity prices on world markets</td>
</tr>
<tr>
<td>◦ Rise in EUR deposits by means of converting MKD holdings to EUR</td>
<td><strong>Textiles &amp; Clothing</strong></td>
</tr>
<tr>
<td>◦ Tightening the regulation</td>
<td>◦ Declined world demand influenced negatively on export</td>
</tr>
<tr>
<td>◦ Introduction of marginal reserve requirements</td>
<td>◦ Greatly import dependent</td>
</tr>
<tr>
<td>◦ Enhanced monitoring of foreign bank exposure</td>
<td><strong>Infrastructure &amp; Energy</strong></td>
</tr>
<tr>
<td>◦ Daily monitoring of retails deposits</td>
<td>◦ Decline in the Project Finance market makes it hard to attract money into Macedonian projects</td>
</tr>
<tr>
<td>◦ Setting the minimal liquidity level for MKD and foreign currency assets and liabilities</td>
<td>◦ Macedonia imports all of its oil and gas demands and c. 30% of electricity consumed straining currency reserves</td>
</tr>
<tr>
<td><strong>Tourism</strong></td>
<td><strong>Infrastructure &amp; Energy</strong></td>
</tr>
<tr>
<td>◦ Expected fall in the number of foreign tourists visiting the country due to global slowdown would</td>
<td>◦ EUR8bn 8-year plan to spend on infrastructure and energy, EUR2.5-3bn financed by the Government</td>
</tr>
<tr>
<td><strong>Textiles &amp; Clothing</strong></td>
<td>◦ Plans to build hydro power stations station which would greatly reduce energy imports</td>
</tr>
<tr>
<td>◦ The Government adopted a Textile Industry Development Strategy which includes, among others, stimulating the export to EU, CIS and entry into the US market</td>
<td><strong>Tourism</strong></td>
</tr>
<tr>
<td>◦ A separate government agency is created to promote and support tourism</td>
<td>◦ Development of new types of tourism: rural, cultural and health tourism underway</td>
</tr>
</tbody>
</table>
# Doing Business in Macedonia

## KEY FEATURES

### Labour force
- Educated, highly-qualified, and diligent workforce
- Educational standards resemble those of the Western European countries
- English is widely spoken among Macedonia’s workforce, as well as all the languages of the region: Bulgarian, Croatian, Serbian, Slovenian, Albanian and Greek
- In order to support companies and increase their international competitiveness, the Government has introduced legal reforms in the functioning of the labour market that enable easier hiring and firing of the labour force.

### Excellent Location and Infrastructure
- **Strategic Location**: Macedonia is at the cross-roads of South Eastern Europe, which makes it an ideal transit and distribution centre for products for European markets
- **Telecommunications**: Macedonia has modern digital telecommunications network. With a new interconnection agreement, fixed telephony is liberalized and entry of new operators is expected. At the moment, fixed telephone services are offered by three companies, while mobile telephony is in constant development
- **Energy sector**: The broadly spread network for distribution and supply of electricity makes Macedonia a favourable destination for investing in every part of its territory

### Regulation of Business
- Market freedom, freedom of entrepreneurial activity, as well as property rights are fundamental values outlined in the Constitution of Macedonia.

### Taxation
- Creation of the most attractive tax package in Europe
Appendix II. EU Accession and Reforms
Much Progress on Economic Reforms, Much Still to Be Done

<table>
<thead>
<tr>
<th>Reform achievements</th>
<th>Top reform priorities for 2009-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>✦ Trade liberalisation (including WTO membership)</td>
<td>✦ Judiciary</td>
</tr>
<tr>
<td>✦ Infrastructure improvements (Including airports)</td>
<td>✦ Business environment</td>
</tr>
<tr>
<td>✦ Labour market (flexible labour legislation)</td>
<td>✦ Ownership rights (100% of territory with cadastre)</td>
</tr>
<tr>
<td>✦ Public finance (flat tax, gross wage, Estonian profit tax system)</td>
<td>✦ Dealing with licences (RIA)</td>
</tr>
<tr>
<td>✦ Protection of ownership rights (85% of territory with cadastre)</td>
<td>✦ Remaining privatization</td>
</tr>
<tr>
<td>✦ Facilitated external trade (one stop shop system)</td>
<td>✦ Public sector</td>
</tr>
<tr>
<td>✦ Ranked 71st according WB Doing Business</td>
<td>✦ All reforms in line with Pre-Accession Partnership</td>
</tr>
</tbody>
</table>
EU Accession: Long Road Ahead, But Start of Final Stage Appears Imminent

CHRONOLOGY OF THE RELATIONS OF REPUBLIC OF MACEDONIA WITH EU

- April 2001 – Macedonia became the 1st country in the region to have signed the Stabilization and Association Agreement (SAA) with the European Communities and their Member States
- March 2004 - Macedonia submitted the application for EU membership.
- October 2007 – Financial Agreement for 2007 National Programme within the Instrument for Pre-accession Assistance (IPA) and Framework Agreement were signed between the Republic of Macedonia and the European Commission on cooperation for financial assistance
- 2010 – Start of negotiations for fully-fledged EU membership
Thank you for your attention!!!