

Report on the public debt of the Republic of Macedonia for the third quarter of 2008

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Skopje, October 2008

1. More significant activities in the third quarter of 2008

- **Amendments and modifications to the Public Debt Law** – Taking into consideration the commitments of the Ministry of Finance for promoting the public debt management functions of the Republic of Macedonia, as of 9 July 2008, the Parliament of the Republic of Macedonia adopted Law on Amendments and Modifications to the Public Debt Law (Official Gazette of the Republic of Macedonia no. 88/08). These interventions in the legal framework should eliminate certain problems occurring in the manner of showing the public debt data, manner of borrowing of municipalities and public enterprises i.e. companies being fully or partially owned by the state or the municipalities, municipalities in the City of Skopje and the City of Skopje, manner of preparing the contents of the Public Debt Management strategy, as well as the procedures of issuing securities and their early buyout.
- **Trends in the total public debt** – Total public debt in the Republic of Macedonia amounted to EUR 1,827.7 million, i.e. 28.5% of GDP in the third quarter of 2008. At the end of September 2008, external public debt amounted to EUR 1,045 increasing by EUR 24.1 million i.e. 2,3% compared to previous the quarter. In June 2008, internal public debt amounted to EUR 429.3 million, while it amounted to EUR 782.7 million at the end of September 2008. This increase was mainly due to the change of the methodology for calculating and showing the public debt, whereby the debt of the National Bank of the Republic of Macedonia amounting to EUR 327.7 million at the end of September is included in the total public debt,.
- From the point of view of **currency structure** of the public debt, the Euro-denominated debt had dominant share with 56.6%. Debt denominated in domestic currency participated with 23.3%, out of which, only the treasury bills being issued by the National Bank of the Republic of Macedonia participated with 17.9%, which, according to the new provisions of the Public Debt Law are included in the calculation of the public debt. Analyzing the **interest structure** total public debt portfolio, one can observe that the share of the debt with fixed interest rate reduced amounting to 54% while the debt with variable interest rate increased to 46%. This decrease of the debt with fixed interest rate, was also due to the inclusion of the debt of the National Bank of the Republic of Macedonia, being short-term debt (maturity deadline of treasury bills is 28 days), thus being subject to change of the interest rates in the course of the year.
- **Issue of continuous government securities** – During the third quarter of 2008 година беа издадени six issues of 3- month treasury bills, three issues of 6-month treasury bills, two issues of 12- month treasury bills and one issue of 2-year government bonds and one issue of 3--year government bonds were made. Total amount of government securities offered at the auctions amounted to Denar 5.3 billion, while the realization amounted to Denar 2.62 billion in the third quarter of 2008. Regarding the presented data on the offer and the realization of the auctions of government securities, once can observe that the percentage of success of auctions being realized in this period was relatively low and it amounted to 49.45%. This report shows brief review of the Primary and Secondary Market, while the Government Securities Market is more thoroughly included in the “Publication of the Government Securities Market” being published twice a month by the Public Debt Management Department – Ministry of Finance.
- **Seventh issue of denationalization bonds**– *On 25th August 2007, on the basis of the Law on Issuance of Denationalization Bonds in the Republic of Macedonia* („Official Gazette of the Republic of Macedonia” no. 37/2002) as well as the Law on Amendments and modifications to the Law on Issuance of Denationalization Bonds in the Republic of Macedonia („Official Gazette of the Republic of Macedonia” no.89/2008), seventh issue of denationalization bond was made amounting to EUR 30 million (in line with issued prospectus). Conditions under which, this bond was issued are also identical for the first six issues, i.e. maturity deadline of 10 years with fixed interest rate of 2%. First installment for this bond falls due on 1ST June 2009.

Targets set up in 2008-2010 Public Debt Management Strategy of the Republic of Macedonia and their realization

Targets	Public Debt Portfolio Parameters as of June 2008 inclusive	Public Debt Portfolio Parameters as of September 2008 inclusive *	Targets for the period 2008-2010
Total public debt to GDP ratio	23.3%	23.4%	not to exceed 40%
General government debt to GDP ratio	20.7%	20.8%	not to exceed 35%
Total guaranteed debt to GDP ratio	2.2%	2.2%	not to exceed 6%
Ratio between domestic currency and foreign currency debt	Domestic currency debt-6.6	Domestic currency debt -6.5%	Domestic currency debt - 9-18% (with deviation of 2% points)
Share of the euro in the external debt	65,7%	64,8%	67-70% (with deviation of 3% points)
New borrowing	EUR 0.4 million	EUR 137.6 million	EUR 530 million
Newly issued guarantees for 2008	0	EUR 11 million	EUR 150 million

* When monitoring the realization of the targets the NBRM debt was not included in the calculations of the total public debt, pursuant to Law on Amendments and Modifications to the Public Debt Law, in the part referring to the Strategy.

2. Stock of public debt

(In million EUR)

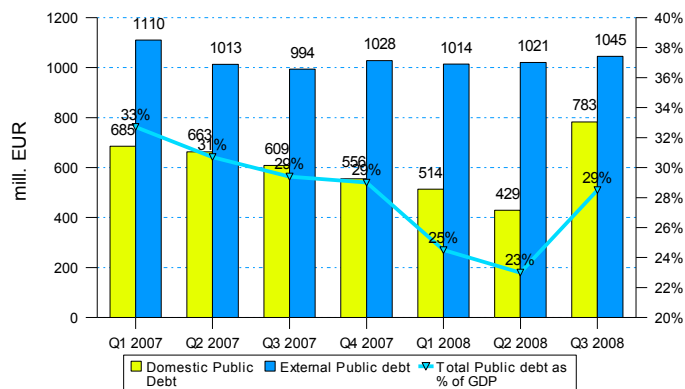
	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008*
External Public Debt	993,9	1.027,9	1.014,1	1.020,9	1.045,0
General Public Debt	844,5	877,2	868,2	867,5	886,5
Central Government Debt (consolidated)	844,5	877,2	868,2	867,5	886,5
Central Government Debt	813,6	841,8	832,7	831,1	851,9
Public Funds	30,9	35,4	35,5	36,4	34,6
Municipalities	0,0	0,0	0,0	0,0	0,0
Central bank	0,0	0,0	0,0	0,0	0,0
Public Enterprises	149,5	150,6	145,8	153,5	158,5
Domestic Public Debt	608,7	555,6	513,7	429,3	782,7
General Public Debt	606,6	552,8	509,5	425,0	451,3
Central Government debt	606,6	552,8	509,5	425,0	451,3
Structural Bonds	427,6	396,3	393,4	350,3	371,6
Bond for rehabilitation of Stopanska banka	0,0	0,0	0,0	0,0	0,0
Bond for selective credits	17,0	17,0	17,0	17,0	16,9
Bond for privatisation of Stopanska Banka	64,4	60,1	57,9	55,8	53,6
Bond for old foreign exchange savings	229,4	203,9	203,9	178,4	178,4
Denationalization Bond	116,9	115,4	114,6	99,1	122,7
Continuous Government securities	179,0	156,5	116,1	74,7	79,7
Out of which treasury bills for monetary purpose	104,5	75,5	29,4	0,0	0,0
Municipalities	0,0	0,0	0,0	0,0	0,0
Central Bank	268,0	344,3	355,6	354,5	327,7
Public Enterprises	2,1	2,8	4,2	4,3	3,7
Total Public debt – Public debt law	1.602,7	1.583,5	1.527,7	1.450,2	1.827,7
External public debt as % of total public debt	62,0	64,9	66,4	70,4	57,2
Domestic debt of the general government as % of the total general government debt	38,0	35,1	33,6	29,6	42,8
Total public debt as % of GDP	29,4	29,0	24,5	23,3	28,5
Total public debt as % of export	75,5	74,6	54,5	51,7	59,8
General government debt	1.451,1	1.430,0	1.377,7	1.292,4	1.337,8
External debt of the general government as % of the total general government debt	58,2	61,3	63,0	67,1	66,3
Domestic debt of the general government as % of the total general government debt	41,8	38,7	37,0	32,9	33,7
General government debt as % of average GDP	26,6	26,2	22,1	20,7	20,8
General government debt as % of average export	68,4	67,4	49,1	46,1	43,8
General government debt in foreign currency as % of total general government debt	86,5	87,9	90,3	92,9	92,8
TOTAL PUBLIC DEBT according to the GFS methodology	1.870,7	1.927,8	1.883,3	1.804,7	1.827,7
External public debt as % of total public debt	53,1	53,3	53,8	56,6	57,2
Domestic public debt as % of total public debt	46,9	46,7	46,2	43,4	42,8
Total public debt as % of GDP	34,3	35,3	30,2	29,0	28,5
Total public debt as % of average export	88,1	90,8	67,1	64,3	59,8

Source: MoF and NBRM

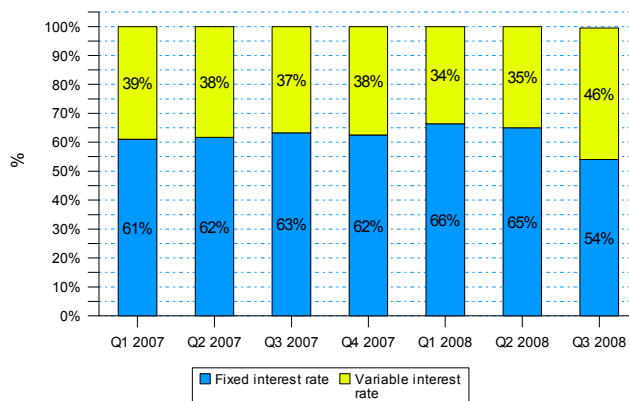
*According to the Amendments to the Public Debt Law (Official Gazette no. 88/08 as of 16 July 2008) methodology the for showing the public debt pursuant to the Public Debt Law and according to GFS methodology is harmonized, whereby NBRM debt is also included in the total public debt.

2.1. Structure of public debt

Domestic and external debt



Interest rate structure of the total public debt



Currency structure of the total public debt

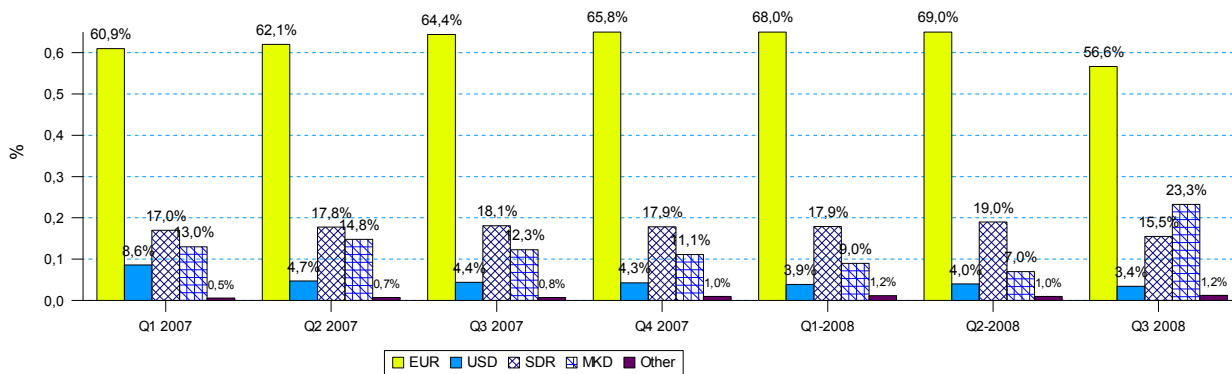
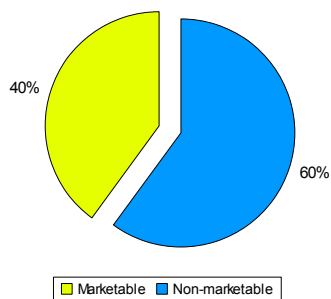
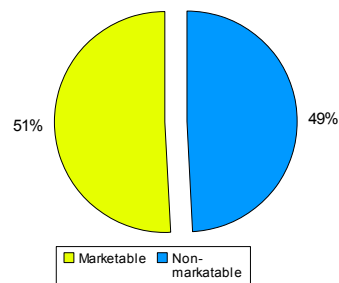


Chart 4
Marketable and non-marketable public debt
as of 30 June 2008



Source: MoF

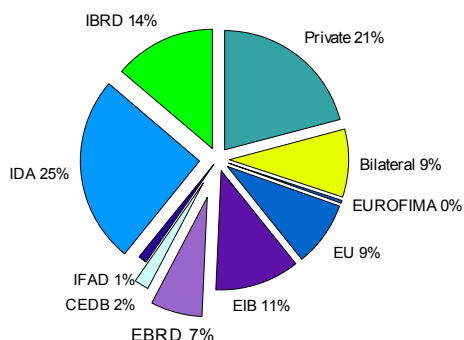
Marketable and non-marketable public debt
as of 30 September 2008



Source: MoF

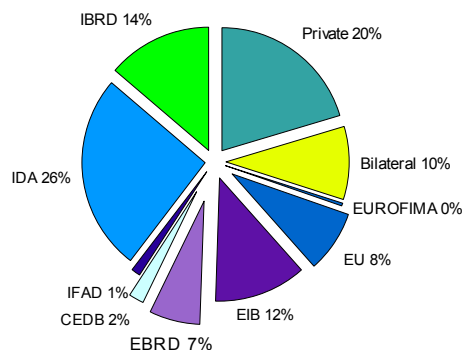
Ministry of Finance Public Debt Management Department

Chart 6
Structure of the external public debt by
creditors as of 30 June 2008



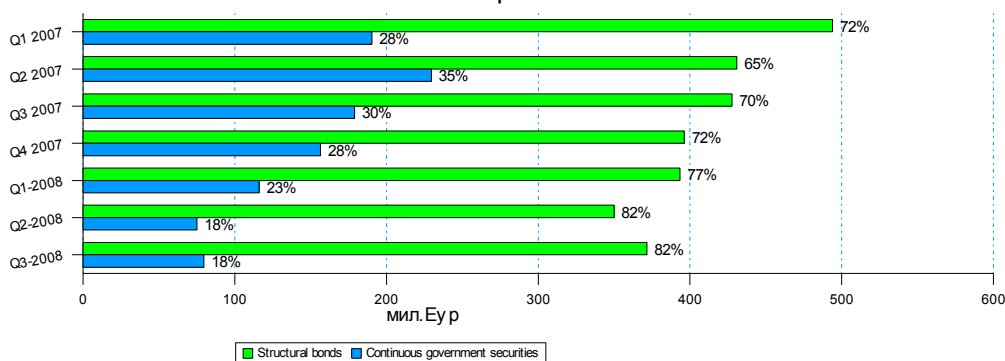
Source: MoF and NBRM

Structure of external public debt by
creditors as of 30 September 2008



Source: MoF and NBRM

Structure of domestic public debt



Source: MoF

2.2 Risk indicators in the public debt portfolio

	Average maturity – ATM (in years)				
	30.09.07	31.12.07	31.03.08	30.06.08	30.09.08
Domestic public debt	2,88	2,77	2,54	2,65	2,57
External public debt	9,39	9,11	8,90	8,75	8,67
Total public debt	7,03	6,87	6,64	6,74	6,60

Source: MF

	Average time to refixing – ATR (in years)				
	30.09.07	31.12.07	31.03.08	30.06.08	30.09.08
Domestic public debt	2,44	2,37	2,15	2,25	2,22
External public debt	7,56	7,35	7,19	7,04	7,07
Total public debt	5,73	5,59	5,39	5,41	5,42

Source: MF

	Duration of domestic public debt (years)				
	30.09.07	31.12.07	31.03.08	30.06.08	30.09.08
Structural bonds	2,26	2,24	2,04	2,16	2,09
Continuous government securities	0,57	0,64	0,50	0,55	0,52
Domestic public debt	2,01	1,95	1,76	1,88	1,82

Source: MF

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

Disbursement on basis of external borrowing

<i>In Million EUR</i>	Q3-2007 realisation	Q4-2007 realisation	Q1-2008 realisation	Q2-2008 realisation	Q3-2008 realisation	Projected disbursements Q3-2008	% of realisation Q3-2008*
Public sector	12,78	53,29	14,28	26,51	7,18	43,27	16,6%
General government	8,69	48,24	12,23	17,61	1,52	18,18	8,4%
Multilateral creditors	1,53	39,13	2,61	14,09	1,52	14,91	10,2%
IBRD	1,19	27,91	2,59	4,03	0,79	6,14	12,9%
IFAD	0,05	0,05	0,02	0,06	0,00	0,04	-
CEDB	0,00	0,00	0,00	0,00	0,73	0,73	100,0%
EBRD	0,29	2,17	0,00	0,00	0,00	0,00	0,0%
EIB	0,00	9,00	0,00	10,00	0,00	8,00	0,0%
Bilateral creditors	1,54	4,58	7,52	2,66	0,00	3,27	0,0%
Private creditors	0,00	0,00	0,00	0,00	0,00	0,00	-
Public funds	5,61	4,53	2,10	0,85	0,00	0,00	-
Official creditors	5,61	4,53	2,10	0,85	0,00	0,00	-
Мултилатерални кредитири	5,61	4,53	2,10	0,85	0,00	0,00	-
IBRD	0,00	0,00	0,20	0,00	0,00	0,00	-
EBRD	5,61	4,53	1,90	0,85	0,00	0,00	-
EIB	0,00	0,00	0,00	0,00	0,00	0,00	-
Public enterprises	4,09	5,05	2,05	8,91	5,66	25,09	22,5%
Multilateral creditors	3,70	3,88	2,05	7,89	5,66	10,73	52,7%
IBRD	2,98	0,45	1,69	2,74	3,47	4,08	84,9%
EBRD	0,72	3,43	0,36	5,15	2,19	6,64	32,9%
EIB	0,00	0,00	0,00	0,00	0,00	0,00	-
CEDB	0,00	0,00	0,00	0,00	0,00	0,00	-
Bilateral creditors	0,40	1,17	0,00	1,02	0,00	0,00	-
Private creditors	0,00	0,00	0,00	0,00	0,00	14,36	0,0%

Source: MoF and NBRM

* in Q3-2008 period the percentage of realisation of disbursement compared with the projections is low, equals only 16.6%

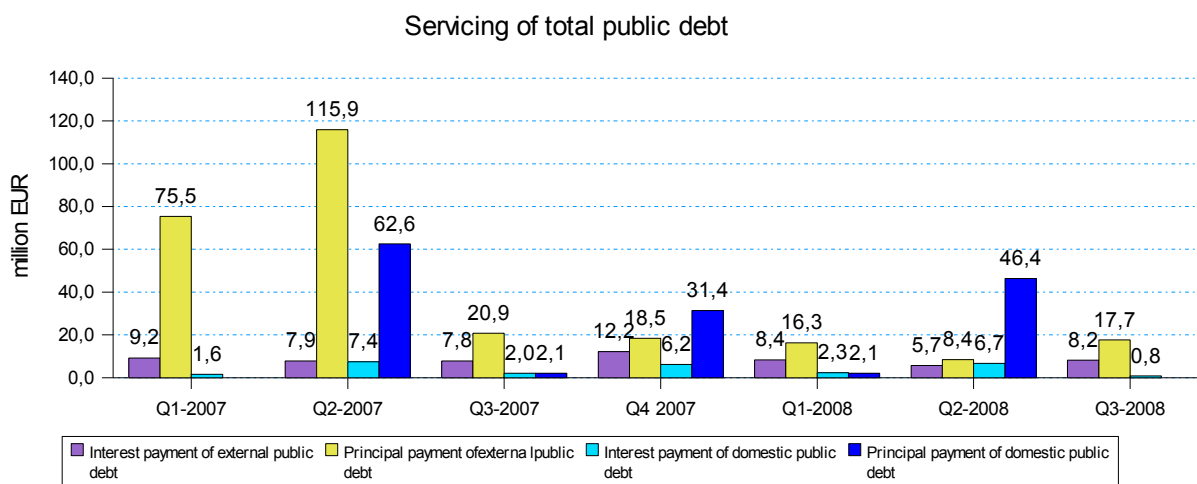
Net issue of continuous government securities and structural bonds

	<i>In million EUR</i>	Q1-2008	Q2-2008	Q3-2008
I	Nett issue of continuous government securities	5,81	-12,08	5,24
1	3-monts GS	8,45	-1,85	8,80
2	6-monts GS	4,58	-6,91	-5,08
3	12-month GS	-7,23	-2,67	0,65
4	2-year government bond	0,00	-1,47	0,74
5	3-year government bond	0,005	0,82	0,14
II	7th issue of denationalisation bonds*			25,18
I+II	Total	5,81	-12,08	30,42

Source: MoF

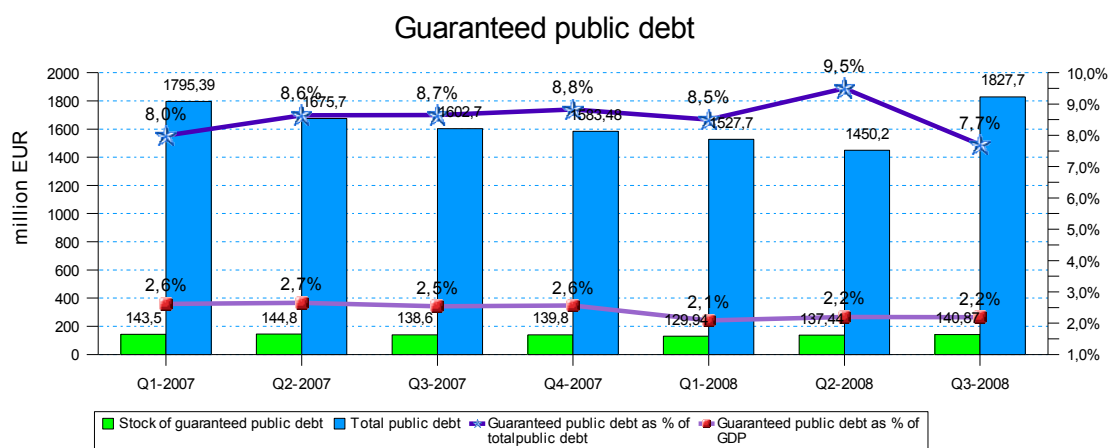
*There is no real cash inflow in the budget from the 7th issue of denationalisation bonds – they are issued for solving some structural problems

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 Q2-2008

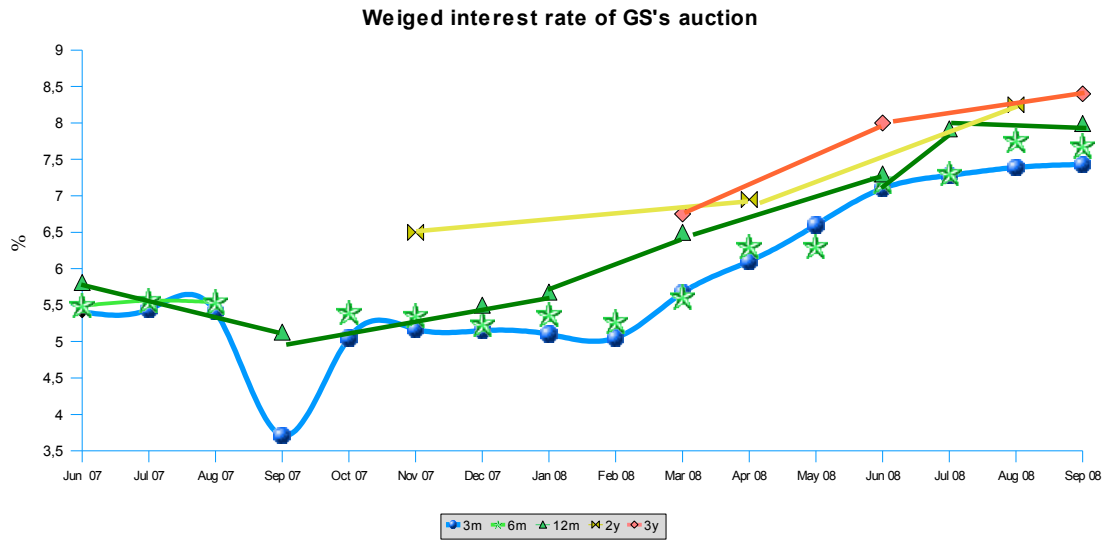
Results of the auctions of GS for Q3- 2008						
3 months						
	DZ2008/13-91	DZ2008/14-91	DZ2008/15-91	DZ2008/16-91	DZ2008/17-91	DZ2008/18-91
ISIN code	MKMINFDZ8130	MKMINFDZ8148	MKMINFDZ8155	MKMINFDZ8163	MKMINFDZ8171	MKMINFDZ8189
Days/years of maturity	91	91	91	91	91	91
Auction date	08.07.2008	22.07.2008	05.08.2008	19.08.2008	02.09.2008	16.09.2008
Date of maturity	08.10.2008	22.10.2008	05.11.2008	19.11.2008	03.12.2008	17.12.2008
Maximum interest rate	-	7,50	7,55	7,95	7,80	7,70
Minimum interest rate	-	7,00	7,15	7,19	7,19	7,19
Weighted average interest rate	-	7,40	7,40	7,38	7,41	7,44
Interest rate	7,15	-	-	-	-	-
Average price	-	98,1650	98,1639	98,1685	98,1616	98,1549
Price	98,22	-	-	-	-	-
Offer	700.000.000	600.000.000	350.000.000	400.000.000	400.000.000	450.000.000
Demand	298.920.000	493.300.000	314.540.000	249.620.000	571.030.000	497.700.000
Realisation	298.920.000	493.300.000	292.540.000	149.620.000	400.000.000	403.700.000
Realisation of competitive bids	-	493.300.000	292.540.000	149.620.000	400.000.000	403.700.000
Realisation of noncompetitive bids	-	0	0	0	0	0
% of noncompetitive bids	-	1	1	1	1	1
Bid to cover ratio*	1	1	1,08	1,67	1,43	1,23
Bids submitted	12	18	20	20	26	21
Bids accepted	12	18	17	19	21	16

Source: MoF

Auction results of government securities in Q3-2008							
	6 months		12 months		2 years	3 years	
	DZ2008/07-182	DZ2008/08-182	DZ2008/09-182	DZ2008/04-364	DZ2008/05-364	DO2008/05-0810	DO2008/06-0911
ISIN code	MKMINFDS8071	MKMINFDS8089	MKMINFDS8097	MKMINFDY8040	MKMINFDY8057	MKMINF20G176	MKMINF20G184
Days to maturity	182	182	182	364	364	2 години	3 години
Auction date	08.07.2008	05.08.2008	02.09.2008	22.07.2008	16.09.2008	21.08.2008	25.09.2008
Date of maturity	07.01.2009	04.02.2009	04.03.2009	22.07.2009	16.09.2009	25.08.2010	29.09.2011
Max interest rate	-	8,00	8,00	8,00	8,00	-	-
Min interest rate	-	7,40	7,43	7,20	7,99	-	-
Average interest rate	-	7,76	7,68	7,92	7,99	-	-
Interest rate	7,30	-	-	-	-	-	-
Coupon rate	-	-	-	-	-	8,25	8,40
Average price	-	96,2239	96,2609	92,5866	92,5866	-	-
Price	96,4408	-	-	-	-	100,0000	100,0000
Offer	500.000.000	350.000.000	350.000.000	250.000.000	350.000.000	300.000.000	300.000.000
Demand	59.700.000	172.570.000	198.950.000	112.300.000	67.000.000	45.000.000	8.500.000
Actual	59.700.000	172.570.000	137.500.000	112.300.000	47.000.000	45.000.000	8.500.000
Realisation of competitive bids	-	172.570.000	137.500.000	112.300.000	47.000.000	-	-
Realisation of non-competitive bids	-	0	0	0	0	-	-
Процент на неконкурентни понуди	-	1	1	1	1	-	-
Bid to cover ratio*	1	1	1,45	1	1,43	1	1
Bids submitted	4	7	9	3	6	2	2
Bids accepted	4	7	7	3	5	2	2

*this ratio shows the coverage of the realization with demand

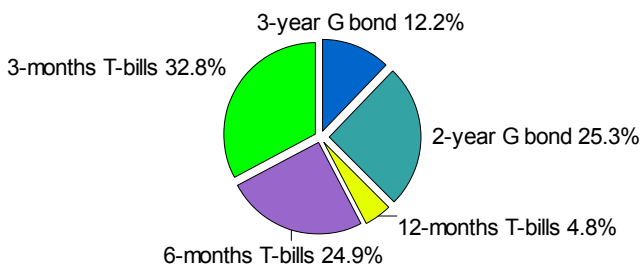
Source: MoF



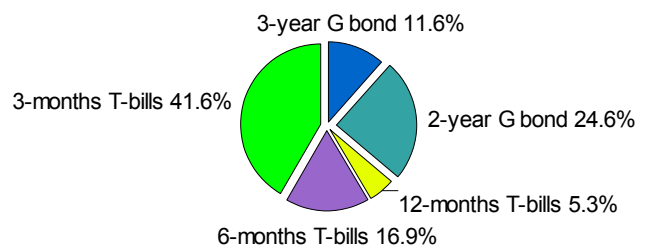
Source: MoF

6.1 Maturity structure of the GS

Maturity structure of GS, June 2008

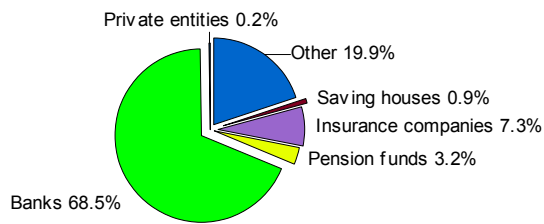


Maturity structure of GS, September 2008

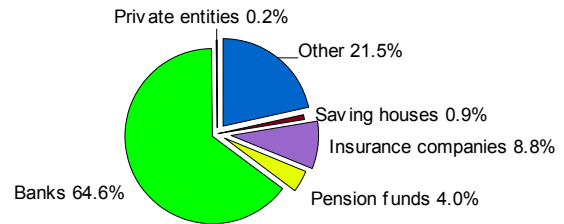


6.2 Ownership structure of GS

Ownership structure of GS
as of June 2008



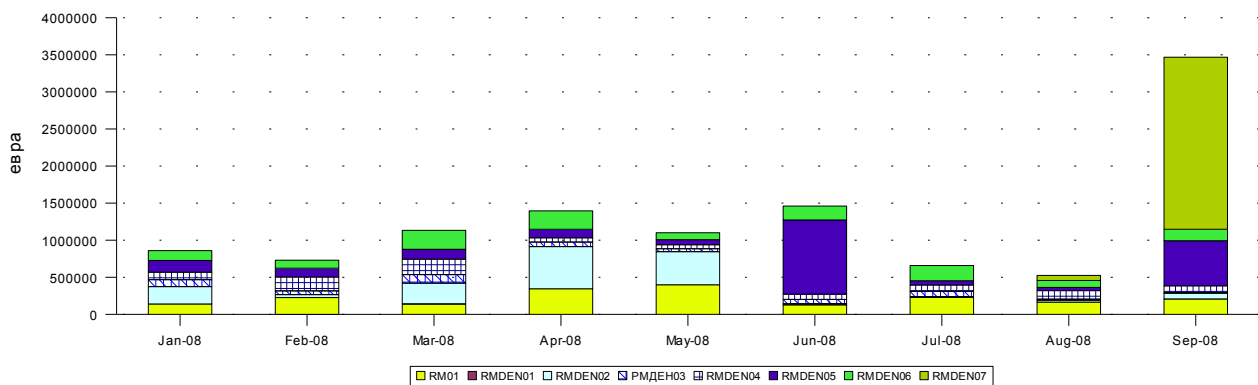
Ownership structure of GS
as of September 2008



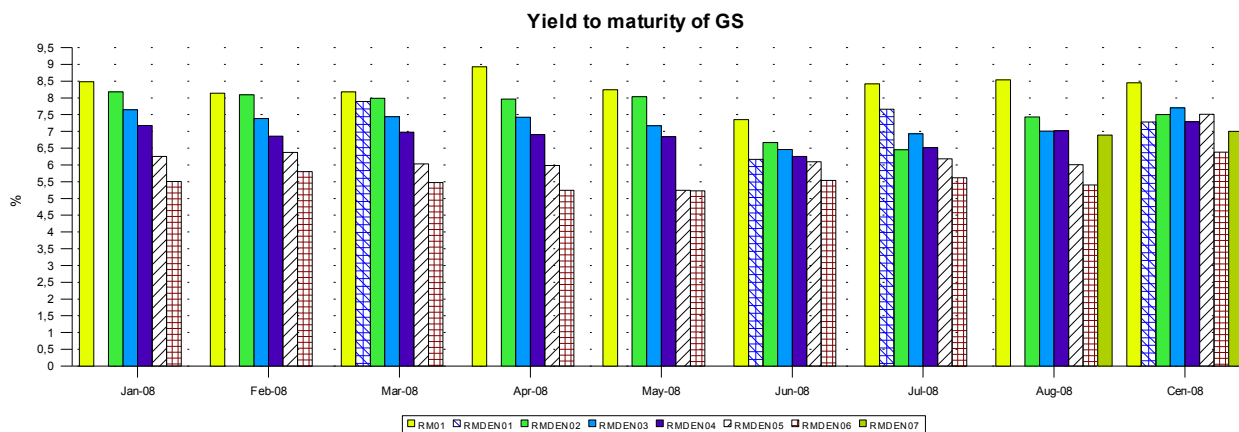
7. Secondary government securities market

7.1 Macedonian Stock Exchange

Turnover of GS

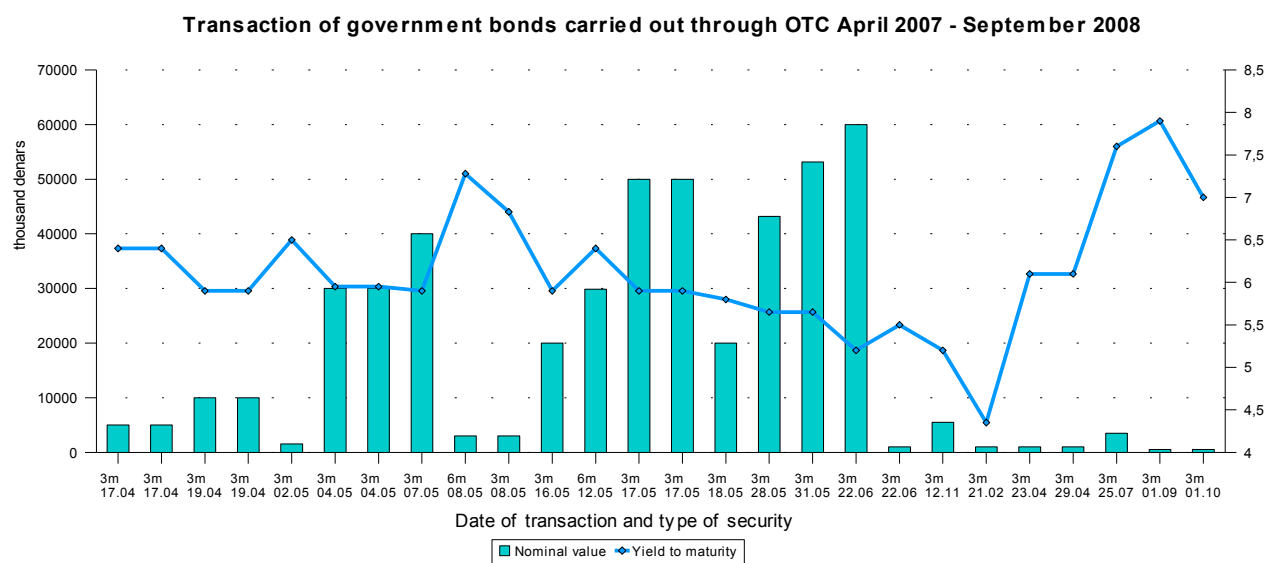


Source: MoF and Macedonian stock exchange

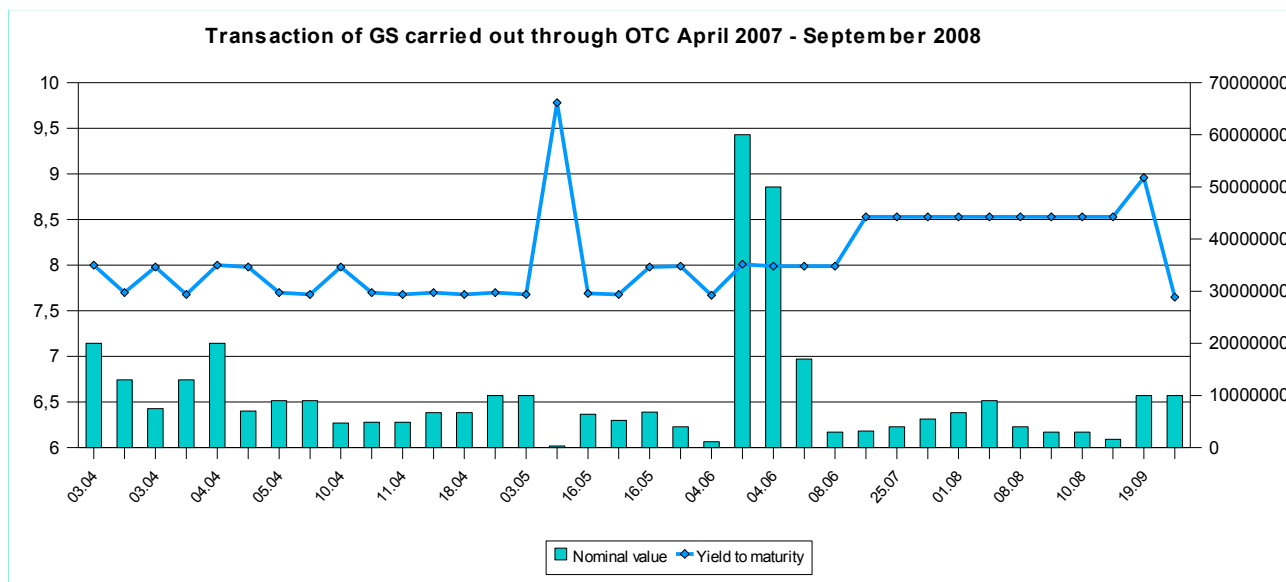


In the calculation average prices in the last day of trading of the respective month are used
Source: MoF and Macedonian Stock Exchange

7.2 Over the Counter



Source: MoF



Source: MoF

8.Contact

Contact person	Position	Telephone	E-mail
Maja Parnagieva	State advisor	3106-103	maja.parnagieva@finance.gov.mk
Sanja Manasijevic-Manceva	Head of Middle Office, Public Debt Management Department	3106-293	sanja.manasijevic@finance.gov.mk
Aferdita Redzepi	Middle Office, Public Debt Management Department	3106-327	aferdita.redzepi@finance.gov.mk
Dejan Despotoski	Middle Office, Public Debt Management Department	3106-327	dejan.despotoski@finance.gov.mk
Biljana Tojtovska	Middle Office, Public Debt Management Department	3106-324	biljana.tojtovska@finance.gov.mk