

Report on the public debt of the Republic of Macedonia for the third quarter of 2007

Contents

1. More significant activities in the third quarter of 2007.....	2
2. Stock of public debt.....	5
2.1. Public debt structure.....	6
2.2 Risk indicators of the public debt portfolio.....	7
3. Funds disbursed on the basis of external and domestic borrowing.....	8
4. Servicing the total public debt.....	9
5. Guaranteed public debt.....	9
6. Primary government securities market.....	10
7. Secondary government securities market.....	11
7.1 Macedonian Stock Exchange.....	11
7.2 Over-the-counter market.....	12
8. Contact persons.....	12

Skopje, December 2007

1. More significant activities in the third quarter of 2007

- **Public debt reduction** – Total public debt in the Republic of Macedonia in the third quarter of 2007 declined by EUR 73 million, i.e. by 1.3% in relation to GDP and is 29.4%. External public debt in June 2007 amounted to EUR 1,012.8 million and mildly declined, so at the end of the third quarter it was EUR 993.9 million, i.e. it declined by 1.8%. Domestic public debt in June 2007 amounted to EUR 662.9 million and by end-September 2007 it declined by EUR 54.2 million, i.e. it declined by 8.2%. This trend is a result, above all, of the regular maturity of structural bonds.
- **Issue of continuous government securities** - during the second quarter of 2007 five issues of 3-month treasury bills were made, two issues of 6-month treasury bills and one issue of 12-month treasury bills. Interest rates of treasury bills in this period continued to decline. This report gives a brief description of the developments on the primary and secondary market, while the government securities market is elaborated in more detail in the publication on the government securities market issued every two months by the Public Debt Management Department - Ministry of Finance.
- **Early buyback of the debt towards the European Investment Bank** – the Ministry of Finance, on August 15, 2007 made full early redemption of two credits from the European Investment Bank. The total amount of these credits is EUR 6.82 million and this operation of early redemption will result in interest savings in the next three years in the Budget of the Republic of Macedonia in the amount of **EUR 385 thousand**. These are credits inherited from former SFRY for the Project for construction of trans-Yugoslav highway. These credits are denominated in different currencies (Euros, Swiss Franks and Yen) and have high fixed interest rates of 9.5% and 7.65%, which is far less favourable than the interest rates at which the Republic of Macedonia can currently borrow.
- On July 11 2007, the Republic of Macedonia signed a **bilateral agreement for consolidation and repayment of certain debts with Italy**. This is a debt of Macedonian enterprises which used credits from Italy through banks from other countries from the former SFRY within the Paris Club of Creditors.

The Republic of Macedonia was the first country from former SFRY countries which in 1998, within the Paris Club of Creditors regulated the debt inherited from former SFRY towards Italy. Still, in the following period, an additional debt occurred which had not been covered with the 1998 agreement. In order to regulate these debts, both sides started negotiations, setting the conditions and the manner of regulating the debt towards Italy.

The Agreement sets rescheduling of the debt in the amount of EUR 6,785,821.75 and US\$ 1,194,779.5 and full redemption along with other debts towards Italy for which agreement had already been agreed upon within the Paris Club of Creditors. In addition, the debt treated as development assistance in the amount of US\$ 1,800,833.65 was agreed not to be repaid, but rather to be converted into projects of social and development nature, i.e. the project, „Computers for primary schools“, or, as an alternative, to the following projects:

 - Project for modernization of the Customs Administration - procurement of mobile X-ray system for inspection of large vehicles and containers
 - Subsidizing of hiring of single parents, handicapped persons and orphans;
 - Rehabilitation of the landslide in Ramnina in Veles

The agreement was ratified by the Parliament of the Republic of Macedonia, to be followed by full redemption of the Italian debt by the Republic of Macedonia.
- **Changes in the conditions for obtaining World Bank credits** - The Executive Board of the World Bank on September 27, 2007 made changes in cost assessment. This is a simplification of the procedures when signing new loans by eliminating the commitment fee which previously was 0.5% and through reduction of the existing margins of loans of the International Bank for

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Reconstruction and Development shown in the table below. The new rules will apply to all credits to be signed after May 16, 2007.

	Fixed interest rate loans (new conditions)	Fixed interest rate loans (old conditions)	Variable interest rate loans (new conditions)	Variable interest rate loans (old conditions)
Loans in US\$				
Interest costs	LIBOR + 0.05%	LIBOR + 0.52%	LIBOR – 0.04%	LIBOR + 0.38%
Loans in EUR				
Interest costs	LIBOR + 0.07%	LIBOR + 0.52%	LIBOR - 0.04%	LIBOR + 0.38%

- **Newly signed loans in the third quarter of 2007** – On September 18, 2007 the Ministry of Finance on behalf of the Government the Republic of Macedonia signed an Agreement on borrowing from the International Bank for Reconstruction and Development on the basis of three projects, those being the following: Agricultural Strengthening Project and Accession, Project for Trade and Transport Facilitation in Southeast Europe – TTFSE 2 and Project for the Second Programmatic Development Policy Loan (PDPL II).
 - Conditions of these projects are the following:
 - Project for Agriculture Strengthening and Accession -
 - amount: EUR 15 million
 - interest rate: LIBOR +/- variable margin¹
 - repayment period: 17 years
 - grace period: 5 years
 - 1% one-off fee for loan management
 - commitment fee: 0.75% p.a.;
 - Project for trade and transport facilitation in SEE (TTFSE II) -
 - amount: EUR 15 million
 - interest rate: LIBOR +/- variable margin
 - repayment period: 17 years
 - grace period: 5 years
 - 1% one-off fee for loan management
 - commitment fee: 0.75% p.a.;
 - Second Programmatic Development Policy Loan (PDPL II)
 - amount: EUR 23.3 million
 - interest rate: LIBOR +/- fixed margin¹
 - repayment period: 17 years
 - grace period: 5 years
 - 1% one-off fee for loan management
 - commitment fee: 0.75% p.a.;
- In the third quarter of 2007 partial **improvement was made of the characteristics of the public debt portfolio**, and thus realization of the targets set in the Public Debt Management Strategy (2007-2009).

¹ According to the most recent notification from the World Bank the fixed margin for credits in Euros is 0.07 percentage points

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Targets	Portfolio parameters as of June 2007	Portfolio parameters as of September 2007	Targets for the period 2007 - 2009
Public debt to GDP ratio	28,2%	27,5%	37%-40%
General government debt to GDP ratio	25,3%	24,7%	34%-37%
Total guaranteed debt to GDP ratio	2,6%	2,5%	3.7%-4.1%
Ratio between domestic and external debt	External debt – 65.7% Domestic debt – 34.3%.	External debt – 66.3% Domestic debt - 33.7%.	External debt - 65% Domestic debt - 35%.
Ratio between fixed interest rate debt and variable interest rate debt	Fixed interest rate debt –67.1% Variable interest rate debt – 32.9%	Fixed interest rate debt -67.1% Variable interest rate debt - 32.3%	Fixed interest rate debt - 70-80% Variable interest rate debt - 20-30%
Ratio between domestic currency debt and foreign currency debt	Domestic currency debt – 7.4%	Domestic currency debt – 6.2%	Domestic currency debt - 15-20%
Stock of public guaranteed debt	EUR 144.8 million	EUR 138.6 million	EUR 220 million

**When monitoring the realization of the targets and presentation of data, the national methodology was used, according to which central bank debt is not part of the total public debt, and it also excludes treasury bills for monetary purposes. While the data in the remaining part of the report are shown also according to the national methodology, but including the debt on the basis of treasury bills for monetary purposes (since despite the fact that they are issued for monetary policy purposes, primary issuer is the Ministry of Finance).*

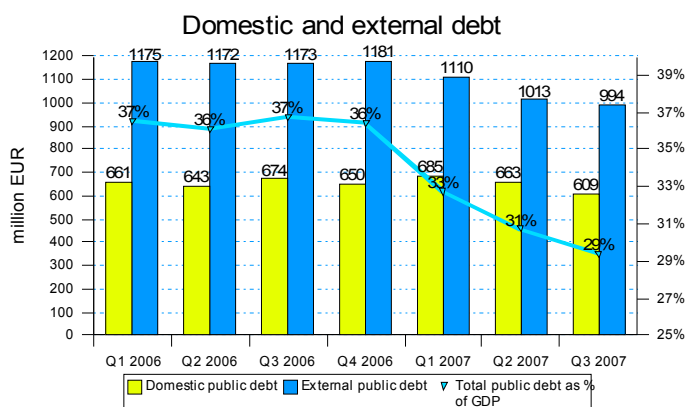
2. Stock of public debt

(in million EUR)

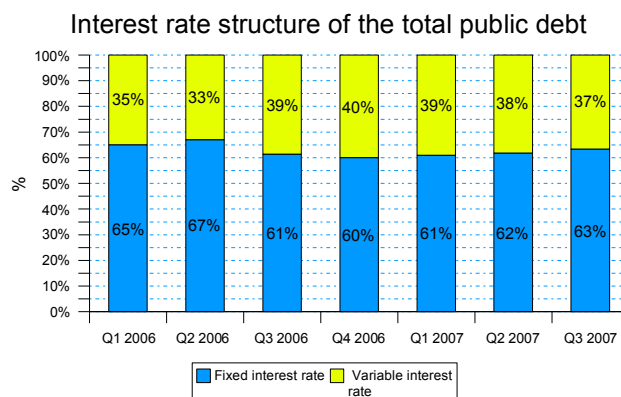
	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007
External public debt	1.174,9	1.171,8	1.172,6	1.180,6	1.110,1	1.012,8	993,9
General public debt	1.037,7	1.037,7	1.034,4	1.025,2	962,1	857,0	844,5
Central government debt (consolidated)	1.037,7	1.037,7	1.034,4	1.025,2	962,1	857,0	844,5
Central government debt	1.001,4	999,5	994,3	981,9	918,9	823,1	813,6
Public funds	36,4	38,2	40,1	43,3	43,2	33,9	30,9
Municipalities	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Central banka	51,8	47,8	47,3	42,4	38,1	0,0	0,0
Public enterprises	137,2	134,1	138,2	155,4	148,0	155,8	149,5
Domestic public debt	660,5	642,7	673,6	651,2	686,8	662,9	608,7
General public debt	660,5	641,2	672,1	648,4	684,2	660,5	606,6
Central government debt	660,3	641,0	671,9	648,2	684,2	660,5	606,6
Structural bond	559,2	512,0	508,4	479,7	493,9	430,9	427,6
Bond for rehabilitation of Stopanska banka	26,6	21,3	21,3	21,3	21,3	0,0	0,0
Bond for selective credits	17,0	17,0	17,0	17,0	17,0	17,0	17,0
Bond for privatization of Stopanska banka	75,1	73,0	70,8	68,7	68,7	66,5	64,4
Bond for old foreign exchange savings	306,5	280,9	280,4	254,9	254,9	229,4	229,4
Denationalization bond (I, II, III, IV, V and VI issue)	134,0	119,9	118,9	117,8	132,1	118,0	116,9
Continuous government securities	101,1	129,0	163,6	168,6	190,3	229,6	179,0
Out of which treasury bills for monetary purpose	22,9	43,6	77,2	75,9	92,0	134,1	104,5
Municipalities	0,2	0,2	0,2	0,2	0,0	0,0	0,0
Central banka	146,3	110,6	121,8	155,3	185,6	247,7	268,0
Public enterprises	N/A	1,5	1,5	2,8	2,6	2,4	2,1
TOTAL PUBLIC DEBT - Public debt low	1.835,5	1.814,5	1.846,2	1.831,8	1.796,9	1.675,7	1.602,7
GDP	5.046	5.046,2	5.046,2	5.046,2	5.456,0	5.456,0	5.456,0
Average export	1.913,5	1.913,5	1.913,5	1.913,5	2.122,4	2.122,4	2.122,4
External public debt as % of total public debt	64,0	64,6	63,5	64,4	61,8	60,4	62,0
Domestic public debt as % of total public debt	36,0	35,4	36,5	35,6	38,2	39,6	38,0
Total public debt as % of GDP	36,4	36,0	36,6	36,3	32,9	30,7	29,4
Total public debt as % of average export	95,9	94,8	96,5	95,7	84,7	79,0	75,5
General government debt	1.698,2	1.678,9	1.706,5	1.673,6	1.646,3	1.517,5	1.451,1
External debt of the general government as % of the total general government debt	61,1	61,8	60,6	61,3	58,4	56,5	58,2
Domestic debt of the general government as % of the total general government debt	38,9	38,2	39,4	38,7	41,6	43,5	41,8
General government debt as % of GDP	33,7	33,3	33,8	33,2	30,2	27,8	26,6
General government debt as % of average export	88,8	87,7	89,2	87,5	77,6	71,5	68,4
Foreign currency denominated debt of the general government as % of the total general government debt	91,5	90,0	88,2	87,6	86,1	83,8	86,5
Interest payment of general government debt as % of total revenues of the general government	3,2	3,0	1,7	4,2	1,9	4,0	1,2
TOTAL PUBLIC DEBT according to the GFS methodology	2.033,6	1.972,9	2.015,2	2.029,5	2.020,6	1.923,4	1.870,7
External debt as % of total public debt	60,3	61,8	60,5	60,3	56,8	52,7	53,1
Domestic debt as % of total public debt	39,7	38,2	39,5	39,7	43,2	47,3	46,9
Total public debt as % of GDP	40,3	39,1	39,9	40,2	37,0	35,3	34,3
Total public debt as % of average export	106,3	103,1	105,3	106,1	95,2	90,6	88,1

Source: MoF and NBRM

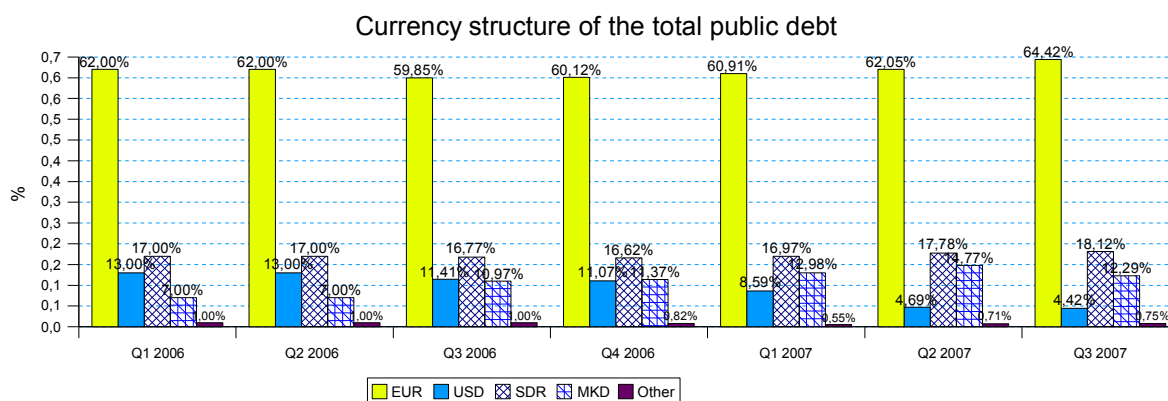
2.1. Public debt structure



Source:MoF

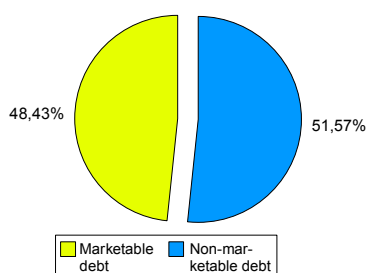


Source:MoF



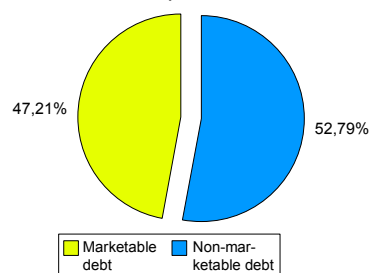
Source:MoF

Marketable and non-marketable public debt as of 30 June 2007



Source:MoF

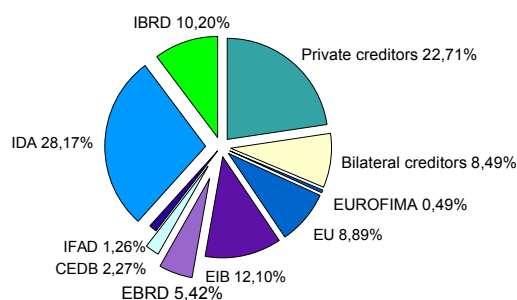
Marketable and non-marketable public debt as of 30 September 2007



Source:MoF

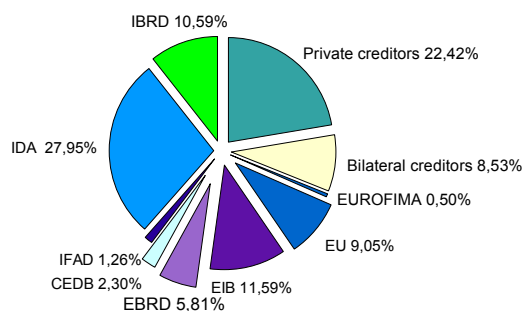
Ministry of Finance Public Debt Management Department

Structure of the external public debt by creditors
as of 30 June 2007



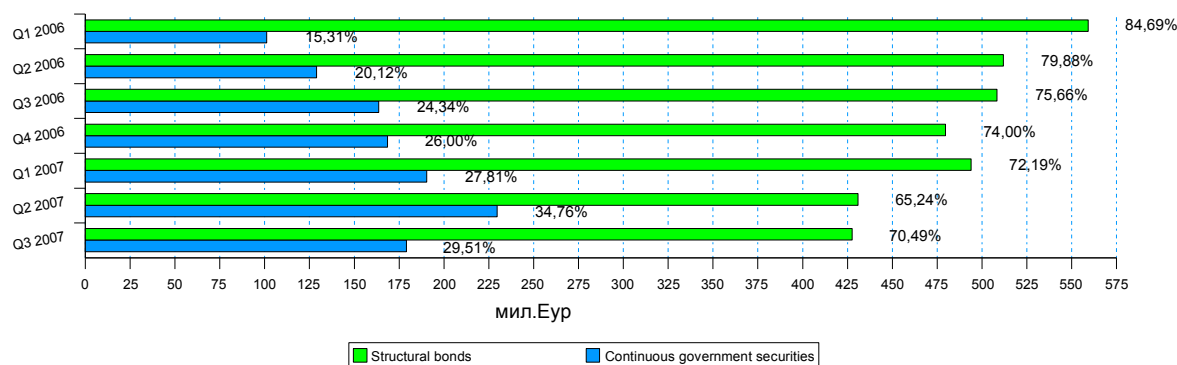
Source: MoF and NBRM

Structure of the external public debt by creditors
as of 30 September 2007



Source: MoF and NBRM

Structure of domestic public debt



Source: MoF

2.2 Risk indicators of the public debt portfolio

Average time to maturity-ATM (in years)				
	31.12.2006	31.03.2007	30.06.2007	30.09.2007
Domestic debt	3,03	2,91	2,99	2,88
External debt	8,98	9,22	9,60	9,39
Total debt	6,85	6,82	7,11	7,03

Source: MoF

Duration of domestic debt (in years)				
	31.12.2006	31.03.2007	30.06.2007	30.09.2007
Structural bonds	2,92	2,73	2,45	2,26
Continuous government securi	0,55	0,69	0,62	0,57
Total domestic debt	2,52	2,38	2,12	2,01

Source: MoF

Average time to refixing- ATR (in years)					
	31.12.05	30.06.06	31.12.06	30.06.07	30.09.07
Domestic debt	3,07	3,00	2,57	2,50	2,44
External debt	7,18	6,20	7,12	7,92	7,56
Total debt	5,67	5,13	5,46	5,82	5,73

Source: MoF

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

Disbursements on the basis of external borrowing

<i>In million EUR</i>	Q1-2007	Q2-2007	Q3-2007
Public sector	7,23	27,01	12,39
General Government	6,57	17,53	8,69
Central Government	5,12	14,73	3,08
Official creditors	5,12	13,15	3,08
Multilateral creditors	2,78	6,96	1,53
IBRD	1,43	1,47	1,19
IFAD	0,47	0,16	0,05
CEDB	0,00	0,00	0,00
EBRD	0,88	0,33	0,29
EIB	0,00	5,00	0,00
Bilateral creditors	2,33	6,19	1,54
Private creditors	0,00	1,58	0,00
Public funds	1,45	2,80	5,61
Official creditors	1,45	2,80	5,61
Multilateral creditors	1,45	2,80	5,61
IBRD	0,00	0,00	0,00
EBRD	1,45	2,80	5,61
EIB	0,00	0,00	0,00
Public enterprises	0,66	9,48	3,70
Official creditors	0,54	9,39	3,70
Multilateral creditors	0,54	2,74	3,70
IBRD	0,03	2,20	2,98
EBRD	0,51	0,54	0,72
Bilateral creditors	0,00	6,65	0,00
Private creditors	0,12	0,09	0,00

Source: MoF and NBRM

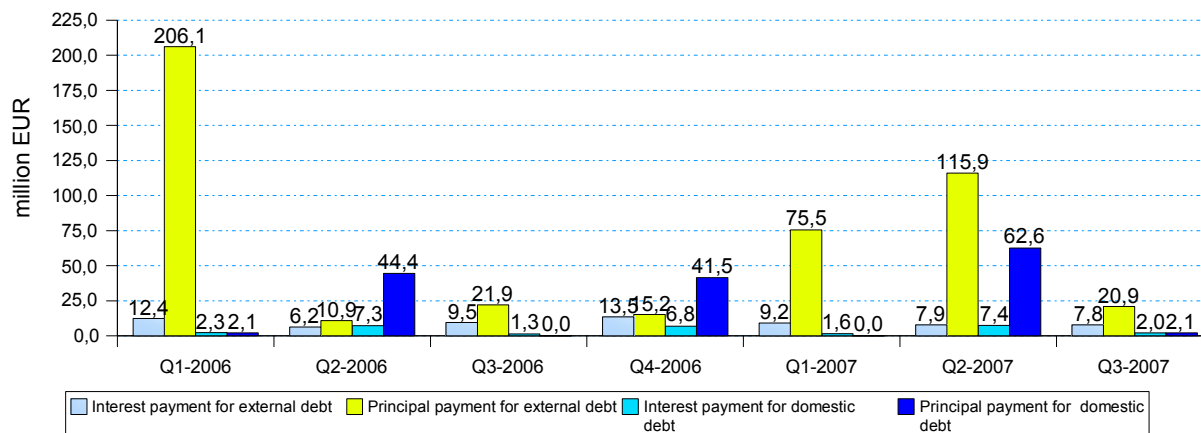
Disbursements on the basis of domestic borrowing

<i>In million EUR</i>	Q1-2007	Q2-2007	Q3-2007	Total Q1-Q3-2007
Net issue of government securities	17,69	42,49	-48,97	11,21
3-month GS	9,30	40,72	-35,28	14,74
6-month GS	1,78	-0,75	-11,04	-10,01
12-month GS	2,52	-1,24	-2,65	-1,37
2-year government bond	4,08	0,24		4,32
3-year government bond		3,52		3,52

Source: MoF

4. Servicing the total public debt

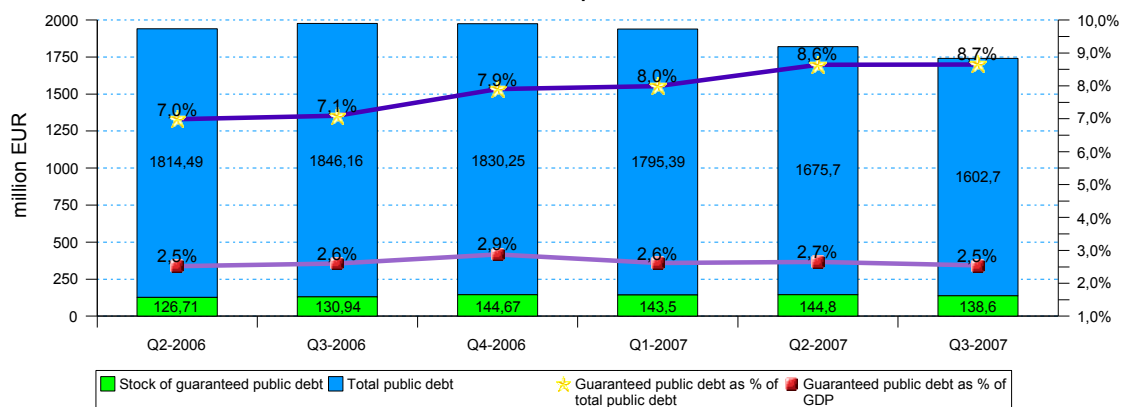
Servicing of total public debt



Source: MoF and NBRM

5. Guaranteed public debt

Guaranteed public debt



Source: MoF and NBRM

6. Primary government securities market

Auction of government securities in Q3-2007

Auction results of government securities in Q3- 2007						
3-months						
In denars	DZ2007/13-91	DZ2007/14-91	DZ2007/15-91	DZ2007/16-91	DZ2007/17-91**	DZ2007/18-91
ISIN code	MKMINFDZ7132	MKMINFDZ7140	MKMINFDZ7157	MKMINFDZ7165	MKMINFDZ7173	MKMINFDZ7181
Days to maturity	91	91	91	91	91	91
Date of auction	10.07.07	24.07.07	07.08.07	21.08.07	04.09.07	18.09.07
Date of maturity	10.10.07	24.10.07	07.11.07	21.11.07	15.12.07	19.12.07
Max. interest rate	5,5	5,5	5,49	5,49	/	4
Min. interest rate	4,98	4,98	5	5,09	/	3,49
Average interest rate	5,41	5,47	5,41	5,4	/	3,71
Average price	98,65	98,64	98,65	98,65	/	99,07
Offer	1.395.000.000	2.100.000.000	1.750.000.000	1.500.000.000	2.100.000.000	2.100.000.000
Demand	1.820.890.000	1.852.270.000	1.825.220.000	1.715.340.000	/	415.000.000
Actual	1.395.000.000	1.837.270.000	1.750.000.000	1.500.000.000	/	415.000.000
Realization of competitive bids	1.390.200.000	1.837.270.000	1.750.000.000	1.500.000.000	/	415.000.000
Realization of noncompetitive bids	4.800.000	0	0	0	/	0
% of noncompetitive bids	1	1	1	1	/	1
Bid to cover ratio*	1,31	1,01	1,04	1,14	/	1
Bids submitted	43	30	45	46	/	10
Bids accepted	42	27	43	44	/	10

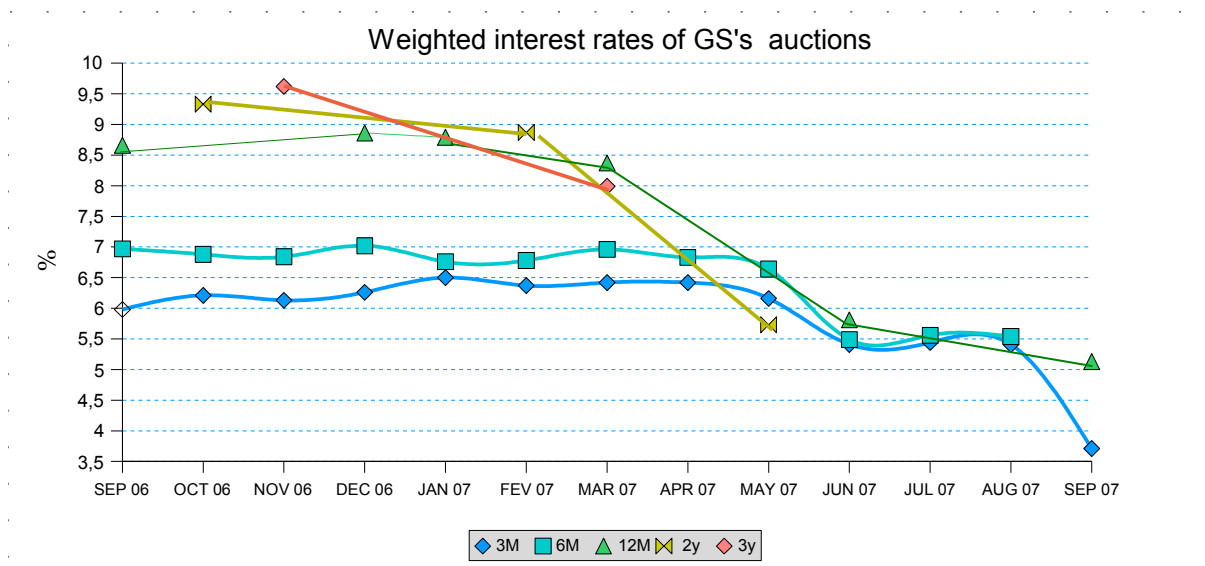
Source: MoF

Auction results of government securities in Q3-2007							
	6-months		12-months		2-year	3-year	
In denars	DZ2007/07-182	DZ2007/08-182	DZ2007/09-182*	DZ2007/04-364**	DZ2007/05-364	DZ2007/05-0809*	DO2007/06-0910
ISIN code	MKMINFDS7073	MKMINFDS7081	MKMINFDS7099	MKMINFDY7042	MKMINFDY7059	MKMINF20G093	MKMINF20G0101
Days to maturity	182	182	182	364	364	2 години	3
Date of auction	10.07.07	07.08.07	04.09.07	24.07.07	18.09.07	23.08.07	20.09.07
Date of maturity	09.01.08	06.02.08	05.03.08	23.07.08	17.09.08	27.08.09	24.09.10
Max. interest rate	5,69	5,69	/	0	5,2	/	0
Min. interest rate	5,18	5,29	/	0	5	/	0
Average interest rate	5,56	5,54	/	0	5,13	/	0
Average price	97,27	97,27	/	0	95,07	/	0
Coupon rate	-	-	-	-	-	-	-
Offer	200.000.000	200.000.000	200.000.000	100.000.000	600.000.000	100.000.000	200.000.000
Demand	416.070.000	331.710.000	/	0	119.500.000	/	0
Actual	200.000.000	200.000.000	/	0	119.500.000	/	0
Realization of competitive bids	200.000.000	200.000.000	/	0	119.500.000	/	0
Realization of noncompetitive bids	0	0	/	0	0	/	0
% of noncompetitive bids	1	1	/	1	1	/	1
Bid to cover ratio*	2,08	1,66	/	0	1	/	0
Bids submitted	15	15	/	0	9	/	0
Bids accepted	13	15	/	0	9	/	0

*this ratio shows the coverage of the realization with demand

**eliminated auction

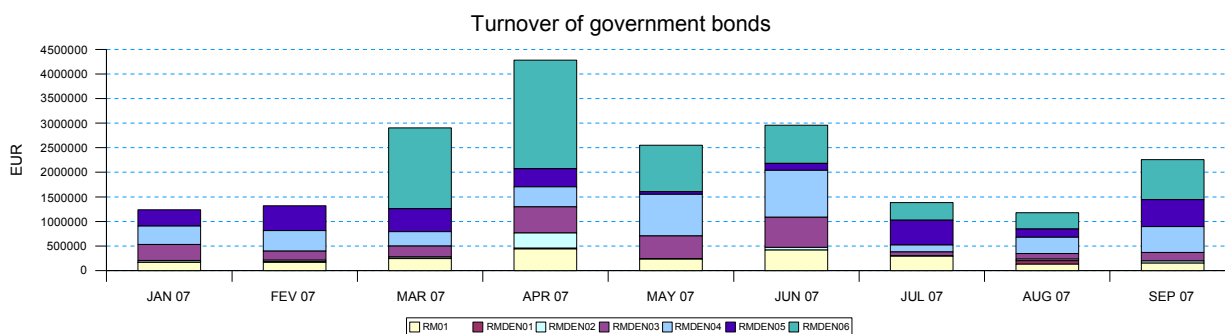
Source: MoF



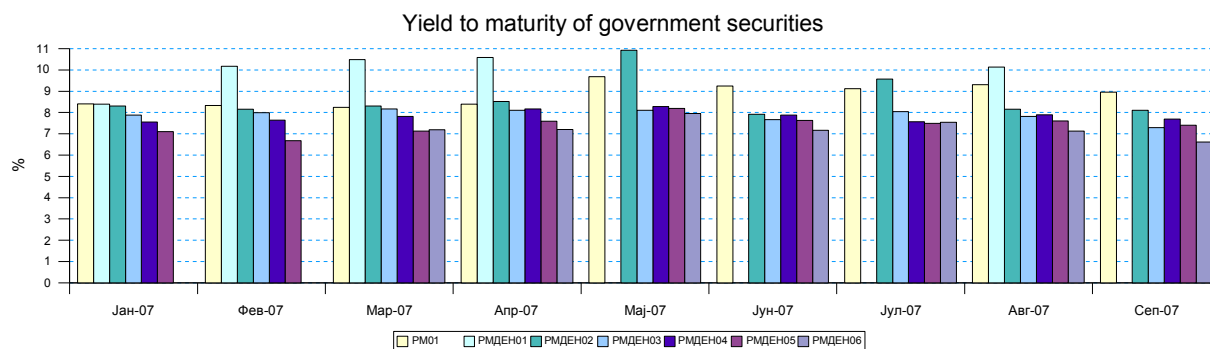
Source: MoF

7. Secondary government securities market

7.1 Macedonian Stock Exchange

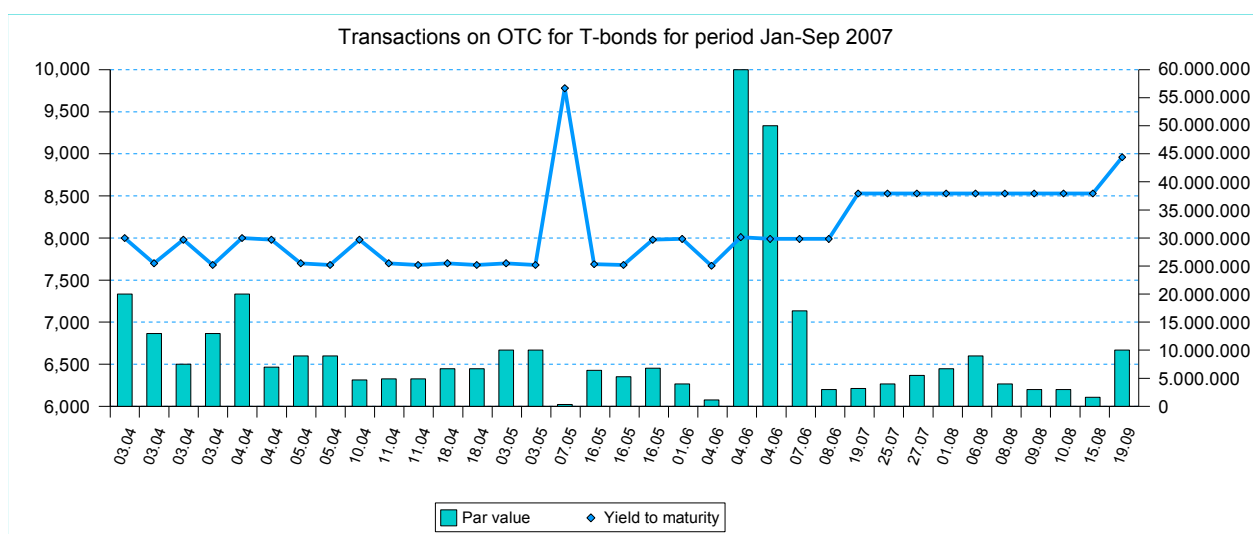


Source: Ministry of Finance and MSE



The calculations use average prices on the last day of trading in the respective month
Source: Ministry of Finance and MSE

7.2 Over-the-counter market



Source: MoF

8. Contact persons

	Job title	Telephone	E-mail
Maja Parnargieva	Head of Public Debt Management Department	3106-103	Maja.Parnargieva@finance.gov.mk
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Aferdita Redzeqi	Senior Associate	3106-327	Aferdita.Redzeqi@finance.gov.mk
Dejan Despotoski	Junior Associate	3106-327	Dejan.Despotoski@finance.gov.mk