

**REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE**

PUBLIC DEBT LAW

Skopje, June 2005

I. GENERAL PROVISIONS

Subject to Regulation

Article 1

This Law shall stipulate the public debt management, the purposes of the public debt, the procedure of issuance, servicing and termination of sovereign guarantees, as well as information on public debt.

Definitions

Article 2

Certain terms used in this Law shall have the following meaning:

1. State debt shall comprise all financial liabilities created by borrowing by the Republic of Macedonia, excluding municipal debt, by the city of Skopje, public enterprises and companies being fully or predominantly owned by the state.

2. Public debt shall comprise state debt and all financial liabilities created by borrowing by municipalities, by the city of Skopje, public enterprises and companies being fully or predominantly owned by the state.

3. Issuers of public debt shall mean the Government of the Republic of Macedonia, municipalities, public enterprises and companies being fully or predominantly owned by the state.

4. Borrowing shall mean procedure for creation of financial liabilities by conclusion of loan agreement, issuance of government securities and liabilities upon called-up sovereign guarantees.

5. Short-term borrowing shall mean borrowing with maturity period of up to one year.

6. Long-term borrowing shall mean borrowing with maturity period of one year and exceeding one year.

7. Servicing of public debt shall mean all payments on the basis of due interest and principal arising from debt, as well as all other payments upon costs incurred pursuant to the terms and conditions under which the debt was incurred.

8. Refinancing shall mean borrowing to the end of providing resources for repayment of existing public debt.

9. Rescheduling shall mean changing the terms and conditions and/or the structure of an existing public debt, without new borrowing.

10. Sovereign guarantee shall mean potential liability assumed by the Republic of Macedonia on behalf of the issuer of public debt for the account of which the guarantee was issued.

11. Agent shall mean domestic or foreign financial institution that may carry out certain operations, laid down by law, on behalf of and for the account of the Ministry of Finance.

Article 3

Issuers of public debt shall borrow in accordance with the criteria and procedures laid down in this law.

Article 4

(1) Municipal borrowing shall be carried out in accordance with the Law on Local Financing.

(2) Borrowing by the city of Skopje shall be carried out in accordance with the Law on the City of Skopje.

Article 5

The debt of the National Bank of the Republic of Macedonia shall not be considered public debt.

Article 6

All financial liabilities undertaken by residents of the Republic of Macedonia, not guaranteed by the state, shall mean private debt.

II. PUBLIC DEBT MANAGEMENT STRATEGY

Public Debt Management Strategy

Article 7

(1) Public debt management strategy (hereinafter: Strategy) shall be an act determining, for a three-year period, the public debt both in total amounts and in amounts per separate issuers of public debt:

- level of the amount (limit) of public debt;
- level of the amount (limit) of sovereign guarantees;
- maximum amount of new borrowing in the current year;
- maximum amount of newly issued sovereign guarantees in the current year;
- condition of public debt at the end of the year;
- condition of the sovereign guarantees at the end of the year;
- public debt structure;
- sovereign guarantee structure, and
- manners of public debt servicing and management.

(2) The Government of the Republic of Macedonia, upon the proposal by Minister of Finance, shall adopt the Strategy enacted by the Parliament of the Republic of Macedonia, along with the Budget of the Republic of Macedonia for the next year.

(3) The Public Debt Management Strategy can be updated during the year.

Article 8

(1) Public debt limit shall be determined on the basis of the ration between the public debt and the gross domestic product.

(2) Public debt amount denominated in foreign currency shall be calculated in denars, according to the middle exchange rate at the official exchange rate list of the National Bank of the Republic of Macedonia valid on the calculation date.

(3) Debt of the municipalities and of the city of Skopje, of the public enterprises and companies being fully or predominantly owned by the state shall be included in the calculation of public debt shall not constitute liability of the Budget of the Republic of Macedonia, except in cases when, pursuant to the law, a sovereign guarantee has been issued.

Article 9

The limit of public debt set in the Strategy shall not pose constraint for regular servicing of the debt.

Public Debt Management

Article 10

(1) Public debt management shall mean a set of measures and activities the Ministry of Finance undertakes within the competences set under this or other law.

(2) Public debt management objectives shall be the following:

- undertaking measures and activities by the Ministry of Finance to the end of ensuring financing of the needs of the state with the lowest possible cost, in the medium and long run, and with sustainable level of risk and
- undertaking measures and activities by Ministry of Finance to the end of development and maintenance of efficient domestic financial markets.

Article 11

(1) The Ministry of Finance has the following competences in managing public debt:

- preparation and implementation of the Strategy;
- preparation of annual report for implementation of the Strategy;
- proposing of the source and structure of borrowing for financing of budget deficit;
- undertaking activities related to regular servicing state debt;
- control of timely servicing of public debt by issuers of public debt;

- undertaking measures for collection of claims from issuers of public debt on behalf of which payment was made upon called-up guarantee;
- undertaking measures in relation to the limit of public debt;
- preparation and publication of Calendar of planned issuances of government securities for the current year;
- organization and issuance of government securities on behalf of the Republic of Macedonia;
- recording of issuance of government securities; monitoring of transactions in government securities on the secondary market and creation of conditions for development of secondary market;
- setting of criteria for selection of authorized participants on the government securities market;
- undertaking of activities for minimizing the cost for servicing the state debt and the issued sovereign guarantees;
- undertaking activities for reducing public debt- and state guarantees-related risk.
- utilization of financial derivatives to the end of elimination or reduction of financial risks;
- monitoring of the balance of the treasury single account and management with the investment the excess of funds thereon;
- monitoring of balances of the foreign exchange accounts of the state opened and kept with the National Bank of the Republic of Macedonia;
- organization of internal control over public debt management activity; and
- conclusion of agreements for exercising competences laid down under this law.

(2) The Ministry of Finance has the following competences in public debt management, which can be transferred to an agent:

- keeps public debt registry;
- keeps registry of issued sovereign guarantees;
- keeps registry of holders of government securities;
- organizes and implements activities referring to the primary government securities market;
- selects authorized participants on the government securities market;
- checks whether the authorized participants on the government securities market fulfill the assessment criteria and selects authorized participants on the government securities market;
- prepares information on the financial condition of the authorized participants with government securities;
- manages the foreign exchange accounts of the state.

(3) The Minister of Finance shall prescribe the contents and the manner of keeping and using the data from the public debt registry and the registry of issued sovereign guarantees;

(4) The Ministry of Finance can transfer the competences referred to in paragraph 2 of this Article, by concluding agreement with an agent.

(5) The Ministry of Finance shall inform the public on the transferred competences referred to in paragraph 2 of this Article.

III. STATE DEBT

Purposes and Treatment of State Debt

Article 12

(1) The state debt shall be incurred and used for the following:

- financing projects and investments;
- support to the balance of payments;
- support to the foreign exchange reserves of the Republic of Macedonia;
- fostering the development of the financial markets in the Republic of Macedonia;
- budget deficit financing;
- interim financing of the liquidity connected with cash flows;
- refinancing state debt;
- payment upon issued sovereign guarantees, and
- protection or elimination of effects caused by natural or environmental disaster.

(2) Projects proposed for financing, referred to in paragraph 1 indent 1 of this Article should fulfill the following criteria:

- to have justifiable purpose for utilizing the funds; and
- to have co-financing resources to the end of smooth project implementation.

(3) The following projects, referred to in paragraph 1 indent 1 of this Article shall be given priority for financing:

- are part of the strategic priorities of the Republic of Macedonia, and/or
- have project implementation units having institutional capacity to implement the project; and/or
- the issuer of public debt proposing the project has experience in implementation of similar projects.

Article 13

(1) Claims by creditors upon public debt shall be priority liability in the Budget of the Republic of Macedonia in terms of regular servicing.

(2) All financial liabilities constituting state debt shall be equally treated.

Article 14

(1) The Budget of the Republic of Macedonia shall also set the long-term spending rights in the future fiscal years.

(2) The amount of resources for long-term spending rights shall be determined on the basis of the commitments under concluded agreements, commitments on the basis of co-financing, borrowing agreements, decisions on issuance of government securities and obligations on the basis of membership acquired by the Republic of Macedonia in international financial institutions.

Article 15

Borrowing can be made in the country and abroad and be denominated in both domestic and foreign currency.

Borrowing by Concluding Loan Agreement

Article 16

(1) Only the Government of the Republic of Macedonia shall conclude loan agreements on behalf of the Republic of Macedonia.

(2) The legislative, judicial and executive branch may give initiative on beginning negotiations for conclusion of loan agreement upon prior consent by the Government of the Republic of Macedonia.

(3) The initiative referred to in paragraph 2 of this Article should mandatorily contain positive opinion by the Ministry of Finance.

(4) Representatives from the Ministry of Finance shall mandatorily participate in the negotiations referred to in paragraph 2 of this Article, as well as other authorized representatives from the Government of the Republic of Macedonia.

(5) The Minister of Finance shall conclude loan agreement on behalf of the Government of the Republic of Macedonia, upon adoption of special law for each new foreign borrowing.

(6) The Minister of Finance shall conclude loan agreement on behalf of the Government of the Republic of Macedonia, upon adoption of a decision by the Government of the Republic of Macedonia for each new foreign borrowing.

Article 17

(1) In case the loan agreement envisages on-lending, the loan may be conceded to issuers of public debt or to commercial banks registered in the Republic of Macedonia.

(2) The Minister of Finance shall conclude agreement on behalf of the Government of the Republic of Macedonia with the entities referred to in paragraph 1 of this Article, defining the conditions of concession of the resources.

(3) The Government of the Republic of Macedonia shall stipulate the selection criteria for the entities referred to in paragraph 1 of this Article.

Borrowing by Issuance of Government Securities

Article 18

(1) Borrowing by issuance of government securities shall be carried out by issuance of short-term and long-term securities.

(2) Government securities may be denominated in domestic currency, with or without foreign exchange clause, or in foreign currency.

(3) Government securities can be issued on the domestic or international capital market.

(4) Government securities, on behalf of the Republic of Macedonia, shall be issued by the Ministry of Finance upon prior adopted decision by the Government of the Republic of Macedonia, determining the type and features of the government securities.

(5) The Minister of Finance shall prescribe the manner and the procedure for issuance and payment of government securities.

(6) The Minister of Finance shall make selection of settlement institution and determine the primary issue of government securities traded on an international financial market.

(7) The Minister of Finance shall conclude agreements with authorized participants on the government securities market.

Article 19

(1) The Ministry of Finance shall keep registry on holders of government securities.

(2) The registered holder of government securities shall enjoy all the rights arising from the ownership of government securities.

(3) All government securities shall be issued in dematerialized form.

Article 20

(1) The Ministry of Finance shall have the right to redeem the government securities at any time prior to their maturity date, depending on the type and the features of government securities.

(2) The Minister of Finance shall decide on the early redemption referred to in paragraph 1 of this Article.

(3) The Ministry of Finance shall publish invitation for participation in the early redemption referred to in paragraph 1 of this Article.

Issuance, Servicing, Collection Right and Termination of Sovereign Guarantees

Article 21

(1) The projects, for the financing of which sovereign guarantee is required should fulfill the following criteria:

- to have justifiable purpose for utilizing the funds; and
- to have co-financing resources to the end of smooth project implementation, and

- solvency of the issuer of public debt proposing the project is solvent so as to timely service the public debt.

(2) Priority in the issuance of sovereign guarantee shall be given to the projects that meet the following:

- are part of the strategic priorities of the Republic of Macedonia, and/or
- generate revenues and are creditworthy; and/or
- have project implementation units having institutional capacity to implement the project.

Article 22

(1) Issuers of public debt shall submit request to the Government of the Republic of Macedonia for initiation of procedure for receiving a loan secured by sovereign guarantee.

(2) The request referred to in paragraph 1 of this Article should mandatorily contain positive opinion by the Ministry of Finance.

(3) The Minister of Finance or persons authorized by him/her shall mandatorily participate in the negotiations for obtaining a loan secured by sovereign guarantee.

(4) On behalf of the Republic of Macedonia, the Minister of Finance shall sign the agreement for issuance of sovereign guarantee of the letter of guarantee to the foreign lenders, as well as agreement for provision of sovereign guarantee with the entity on behalf of which it was issued, upon prior adopted law on issuance of sovereign guarantee.

(5) On behalf of the Republic of Macedonia, the Minister of Finance shall sign the agreement for issuance of sovereign guarantee of the letter of guarantee to the domestic lenders, as well as agreement for provision of sovereign guarantee with the entity on behalf of which it was issued, upon prior adopted decision by the Government of the Republic of Macedonia.

(6) The Minister of Finance shall have the right to set a tariff list for issuance of sovereign guarantee.

Article 23

(1) The issuer of public debt, on behalf of which the sovereign guarantee was issued shall service the debt guaranteed by the Republic of Macedonia.

(2) Should the issuer of public debt, on behalf of which the sovereign guarantee was issued fail to service the debt as referred to in paragraph 1 of this Article on the date it falls due, the Ministry of Finance, on behalf of the Republic of Macedonia, shall pay the liability upon the called-up sovereign guarantee.

(3) The issuer of public debt, on behalf of which the sovereign guarantee was issued, shall be obliged, within the period specified in the agreements referred to in Article 22 paragraphs 4 and 5 of this Law, to pay the resources paid by the Ministry of Finance upon the called-up sovereign guarantee, to the account of the Budget of the Republic of Macedonia.

(4) The obligation referred to in paragraph 3 of this Article is unconditional and irrevocable.

(5) In case the Ministry of Finance, on behalf of the Republic of Macedonia, pays the liability upon called-up sovereign guarantee, the Ministry of Finance shall be entitled to collect the claim including principal, interest, default interest and other costs incurred due to the inability of the issuer of public debt on behalf of which the sovereign guarantee was issued to service the debt referred to in paragraph 1 of this Article on the date it falls due.

(6) Should the issuer of public debt on behalf of which the sovereign guarantee was issued be a municipality or the city of Skopje, a public enterprise or company being fully or predominantly owned by the state, The Ministry of Finance shall have the right, in order to collect the claim referred to in paragraph 5 of this Article, to issue order to the performer of payment operations to freeze the account of the issuer of public debt.

(7) The Minister of Finance shall have the right to undertake additional measures regarding the amount referred to in paragraph 5 of this Article envisaged in the securing agreement referred to in Article 22 paragraphs 4 and 5 of this law, as well as according to the law.

Article 24

(1) Issued sovereign guarantee shall cease to be valid in the following cases:

- the liabilities upon the debt guaranteed by the Republic of Macedonia have been fully settled by the date it falls due at the latest, or
- the period of validity of the issued sovereign guarantee, set in the agreement on issuance of sovereign guarantee has expired.

(2) The Ministry of Finance shall register and record the ceased validity of the issued sovereign guarantee.

IV. DEBT OF PUBLIC ENTERPRISES AND COMPANIES BEING FULLY OR PREDOMINANTLY OWNED BY THE STATE

Article 25

(1) The public enterprise, i.e. company being fully or predominantly owned by the state can raise initiative to begin negotiations for conclusion of loan agreement, in case of long-term borrowing, only upon prior consent by the Government of the Republic of Macedonia.

(2) The initiative referred to in paragraph 1 of this Article shall mandatorily contain positive opinion by the Ministry of Finance.

(3) Representatives from the Ministry of Finance shall mandatorily participate in the negotiations referred to in paragraph 1 of this Article, as well as other authorized representatives from the Government of the Republic of Macedonia.

(4) The public enterprise, i.e. company being fully or predominantly owned by the state can conclude loan agreement upon adoption of special law for each new foreign borrowing.

(5) The public enterprise, i.e. company being fully or predominantly owned by the state can conclude loan agreement upon prior adopted decision by the Government of the Republic of Macedonia, for each new domestic borrowing.

(6) In case the loan agreement envisages on-lending and the public enterprise, i.e. the company being fully or predominantly owned by the state is the final loan beneficiary, the Minister of Finance shall conclude loan agreement upon adoption of special law for each new foreign borrowing.

V. INFORMATION ON PUBLIC DEBT

Article 26

(1) All issuers of public debt, except the municipalities and the city of Skopje, shall be obliged to submit to the Ministry of Finance, by 15 day of the month at the latest, monthly information on changes of the conditions in any new borrowing from the previous month.

(2) The municipalities and the city of Skopje, shall be obliged to submit to the Ministry of Finance, 15 days after the quarter expires, quarterly information on changes of the conditions in any new borrowing from the previous quarter, as well as on changes in the conditions of issued guarantees.

(3) Information by the municipalities and by the city of Skopje referred to in paragraph 2 of this Article should mandatorily contain data on the debt of public enterprises established by the municipalities, i.e. by the city of Skopje.

(4) The Minister of Finance shall prescribe in more detail the type and contents of the information referred to in paragraphs 1 and 2 of this Article.

(5) The Minister of Finance can request additional information on any borrowing, upon which the issuers of public debt must reply within seven days of the day they received the request, at the latest.

VI. TRANSPARENCY OF PUBLIC DEBT

Article 27

(1) The public debt registry and the registry of issued sovereign guarantees shall be available to the public.

(2) The annual report on Strategy implementation shall be considered by the Government of the Republic of Macedonia and submitted to the Parliament of the Republic of Macedonia together with the final statement of the Budget of the Republic of Macedonia for the respective year, for the purpose of its information.

(3) The report referred to in paragraph 2 of this Article shall have the following elements: realization of strategic objectives for public debt management and guarantees; detailed information on the condition of the overall public debt, gross and net changes; sovereign guarantees issued; information on the sovereign guarantees being called-up or sovereign guarantees having probability to be called-up; and implementation of other measures set in the Strategy.

(4) The Ministry of Finance shall publish the information on the public debt and the report referred in paragraph 2 of this Article in the Bulletin of the Ministry of Finance and on its website.

VII. PENALTY PROVISIONS

Offences

Article 28

(1) The accountable person, i.e. the managing person at the issuer of public debt shall be fined for an offence with Denar 25,000 to 50,000 should he/she:

- initiate negotiations for borrowing without prior consent by the Government of the Republic of Macedonia (Article 16, paragraph 2);
- fail to pay the resources to the account of the Budget of the Republic of Macedonia (Article 23, paragraph 3);
- fail to submit information to the Ministry of Finance in accordance with Article 26 paragraphs 1, 2 and 5 of this Law.

Article 29

The legal entity-issuer of public debt shall be fined for the offences referred to in Article 28 with Denar 150,000 to 300,000.

VIII. TRANSITIONAL AND FINAL PROVISIONS

Article 30

(1) The Minister of Finance shall adopt the bylaws envisaged by this Law within six months from the date this Law enters into force.

(2) Provisions referred to in Article 11 paragraph 2 indents 1 и 2 of this Law shall start applying one year after the day this Law enters into force.

Article 31

Borrowing by concluding loan agreement, borrowing by issuance of government securities and the issuance, servicing, collection right and termination of sovereign guarantees

that began before this Law has entered into force shall proceed in accordance to the provisions of this Law.

Article 32

This Law shall enter into force on the eighth day from the day it is published in the *Official Gazette of the Republic of Macedonia*.