



**Ministry of Finance of the Republic of Macedonia
International Finance and Public Debt Management Department**

**Annual Report on Public Debt Management of the Republic
of Macedonia for 2014**

Skopje, 2015

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Pursuant to Article 27 paragraph 1 of the Law on Public Debt („Official Gazette of the Republic of Macedonia“, no. 165/2014), the 2014 Annual Report on Public Debt Management is submitted to the Parliament of the Republic of Macedonia, for information purposes.

I. Introduction

Annual Report on Public Debt Management is prepared to the end of informing the Government of the Republic of Macedonia and the Parliament of the Republic of Macedonia, in details and on regular basis, and introducing the public with the features of debt portfolio of the Republic of Macedonia, as well as with the measures undertaken in the course of the previous year for its efficient management.

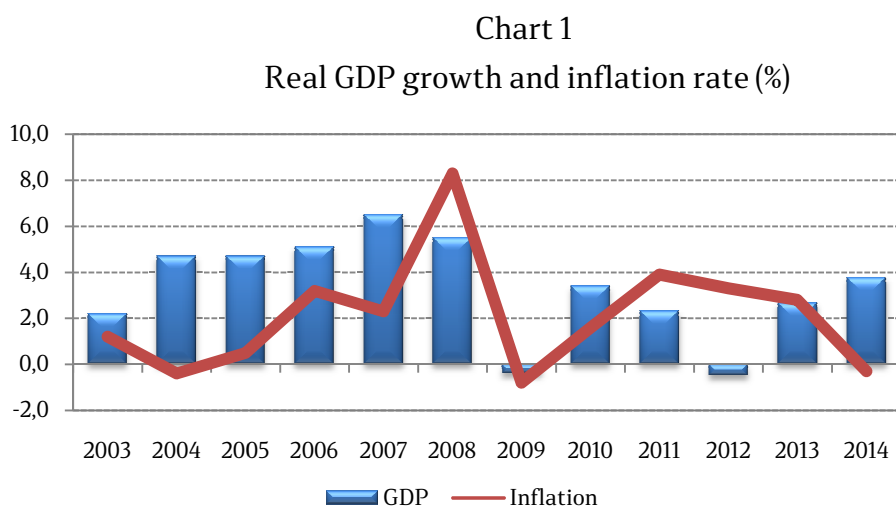
Objectives of the public debt management of the Republic of Macedonia pursuant to the Law on Public Debt are the following:

- financing the needs of the state with the lowest cost possible, in the medium and long run and sustainable level of risk;
- identifying, monitoring and managing the risks which public debt portfolio is susceptible to and
- development and maintenance of efficient domestic financial market.

II. Macroeconomic trends in the Republic of Macedonia in 2014

Gross domestic product

Trend of economic activity growth continued in 2014, however, more intensively compared to the previous year. According to the estimated data, real GDP growth in 2014 amounted to 3.8%.



Source: State Statistical Office

GDP growth in 2014 is on broad basis, i.e. all sectors recorded positive growth rates. Industrial production continued its positive trends in 2014 as well, registering 4.3% growth, as a result of the growth of the manufacturing industry. Construction experienced significant growth of 6.1% in 2014. Services sector experienced 3.2% growth, while agriculture surged by 2%.

Analyzed according to the expenditure side, export and gross investments were main driving forces of GDP growth in 2014. Export of goods and services grew by 17% on real basis, mainly as a result of the increased export potential of the country. Growth of export was also accompanied by change of its structure, towards production of higher value added products, being a result of the production and export of facilities in the free economic zones. Gross investments in 2014 surged by 13.5%, as a result of the increase of investments in the construction, i.e. the realization of public infrastructure investments, as well as investments of foreign companies in the free economic zones, as well as the growth of import of investment goods. High growth of export and gross investments created pressures on the import of goods and services, increasing by 14.5%. Consumption surging by 1.6%, as a result of the private consumption growth, had also positive contribution to the economic growth.

Inflation

Average inflation rate in 2014 amounted to -0.3%; Prices of food products, decreasing by around 1%, had the most significant contribution to the reduction of

consumer prices in 2014. Energy component of inflation, i.e. reduced prices of liquid fuels and lubricants by almost 4%, reflecting the downward trend of oil price on the global markets in the second half of the year had also significant contribution thereto.

Labour Market

Positive trends on the labour market continued in 2014. According to the Labour Force Survey, unemployment rate recorded continuous reduction in the course of the year, decreasing to 27.6%, i.e. by 1 percentage point in the fourth quarter compared to the same quarter of the previous year. Number of employed persons in 2014 surged by 1.7% compared to the previous year resulting in decrease of unemployed persons by 3%. Increase of employment is mainly due to the operations of the new facilities in the free economic zones and the active employment measures undertaken during 2014. Average net salary in 2014 increased by 1.2% in nominal terms and by 1.5% in real terms.

External Sector

Current account deficit accounted for 1.3% of GDP in 2014, being lower by 0.5 percentage points compared to the deficit in 2013.

Narrowing of the current account deficit is mainly a result of the increased inflow of transfers from abroad by 3.4%. Trade balance had also positive contribution to the reduction of the current account deficit. In this period, balance of primary income account and balance of services account deteriorated.

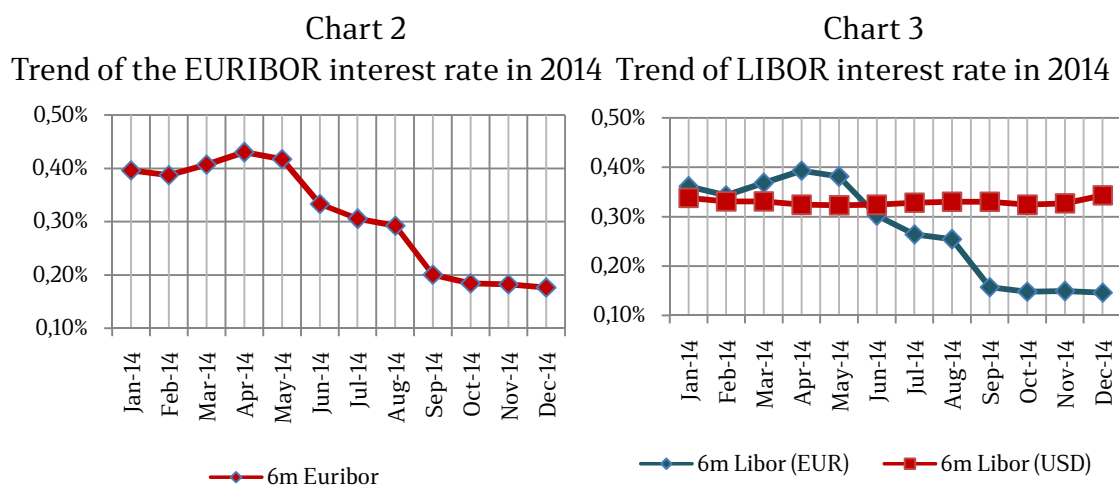
Foreign Direct Investments in 2014 amounted to EUR 262 million, being higher by EUR 10 million, i.e. by 4% compared to 2013. In 2014, Foreign Direct Investments accounted for 3.1% of GDP, as same as in 2013. At the end of 2014, gross foreign exchange reserves amounted to EUR 2,432 million, increasing by 22% compared to the stock at the end of 2013, mainly as a result of the issuance of the third Eurobond on the international capital market.

III. More significant activities in the period January-December 2014

III.1 International Environment

Interest rates on the interbank deposit market in the Eurozone in the period January-May experienced continuous increase, while as of June, the interest rates gradually decreased, reaching their lowest level in October. Thus, in 2014, 6-month Euribor interest rate decreased by 0.21 percentage points in average, i.e. average interest rate amounted to 0.39% in January, accounting for 0.18% in December 2014. Interbank EUR Libor interest rate followed the same trend. In fact, at the interbank deposit market in London, EUR 6-month Libor amounted to 0.33% in January 2014, while its average value was 0.14% at the end of the year.

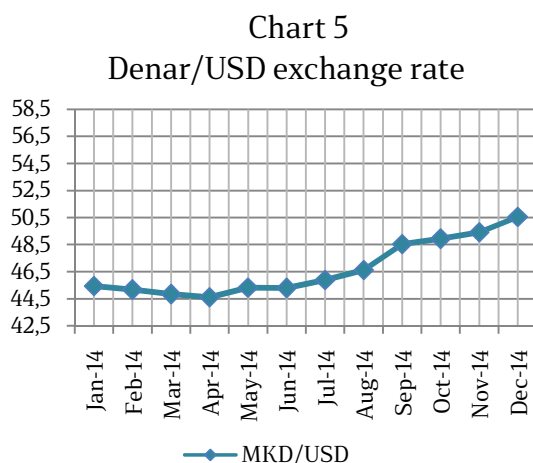
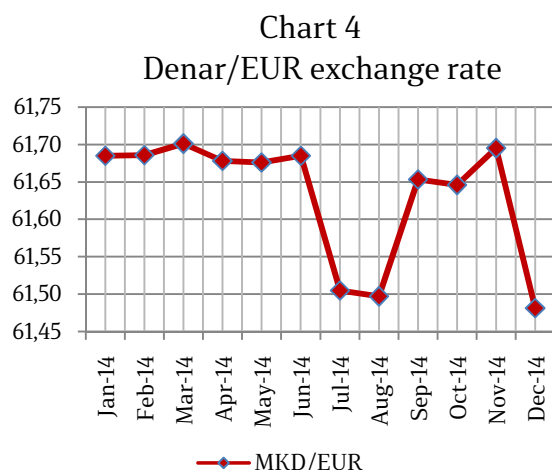
USD 6-month Libor had not experience any big fluctuations during the year, and its value ranged around 0.33% throughout 2014.



Source: European Banking Federation

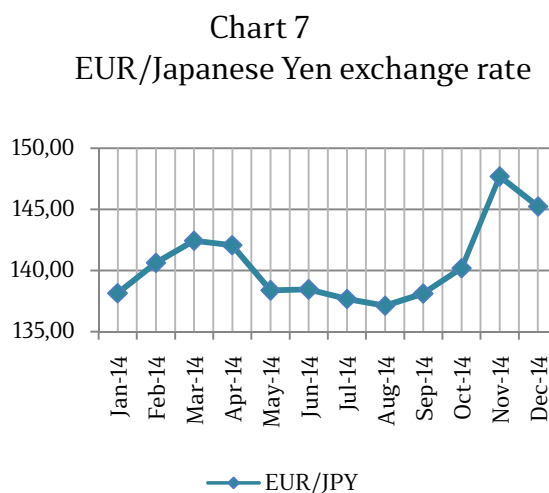
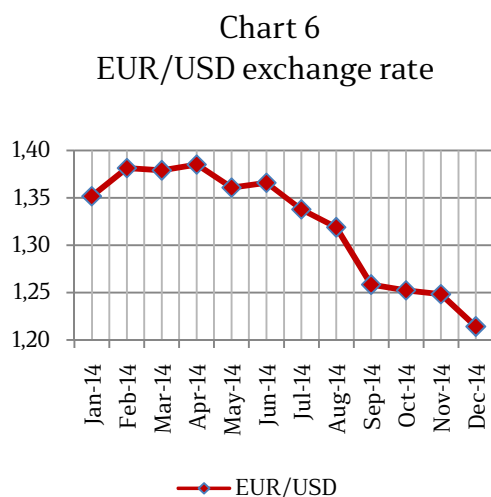
Source: British Bankers Association

As for the foreign currency market in the Republic of Macedonia, in 2014, Denar exchange rate in relation to the euro was stable and it ranged between Denar 61.4814 and Denar 61.7010 per euro. During 2014, the value of the American dollar increased in relation to the Denar, i.e. the American dollar ranged between Denar 44.6100 and Denar 50.5600 per American dollar.



Source: NBRM

As for the international financial market, value of the euro in relation to the American dollar continuously increased by the beginning of May 2014, reaching its highest value of USD 1.3953 per euro, while the value of the euro gradually decreased in the other months, whereby in December 2014, it reached USD 1.2141 per euro, decreasing by around 12.9%. As regards Euro/Japanese Yen exchange rate, at the beginning of 2014, the value of the euro in relation to the Japanese Yen increased, reaching Yen 142.07 per euro, while as of May 2014, the value of the euro started to decrease, reaching Yen 137.11 per euro in August 2014. Afterwards, value of the euro started to increase again, amounting to Yen 145.23 per euro in December.



Source: European Central Bank

III.2 Credit rating of the Republic of Macedonia in 2014

Republic of Macedonia obtained new revised credit rating by the international Credit Rating Agencies, Standard and Poor's and Fitch Ratings in the course of the year.

On 31st October 2014, Standard & Poor's Credit Rating Agency affirmed the previously awarded credit rating for foreign and domestic currency BB- to the Republic of Macedonia at the same time affirming the stable outlook of the country.

Affirmed credit rating is based upon the moderate level of external debt and public debt, as well as the positive expectations for average growth of economy of around 3.4% of GDP, being based upon the stable inflows from foreign direct investments.

Positive effects on improving the credit rating in future may be caused by establishing reforms to the end of higher growth and by increasing the effectiveness and accountability of the public institutions. On the other hand, negative pressure on the rating in terms of lower credit rating may be caused from the decrease of the economic growth.

On 5th September 2014, Fitch Ratings Credit Rating Agency announced that it affirmed the previously awarded credit rating for foreign and domestic currency BB+ to the Republic of Macedonia, as well as the stable outlook of the country.

In fact, this credit rating was awarded to the Republic of Macedonia in 2010, and since then onwards, it has been affirmed each year. Affirmation of the credit rating of the Republic of Macedonia by Fitch Ratings is based upon the GDP growth in the first quarter this year, low level of inflation, moderate budget deficit, relatively low public debt, and well-capitalised banking sector.

Stable credit rating of the Republic of Macedonia is a strong signal to foreign investors and it has positive impact on the interest rate at which the country borrows on the international capital market, as well as the overall economic and political image of the Republic of Macedonia. In addition, affirmation of the credit rating is one more strong signal to the foreign investors that Republic of Macedonia is a country which they can have confidence in and could be assured of sound macroeconomic policies in future as well.

Credit rating awarded to the Republic of Macedonia in 2013 and 2014 by the international Credit Rating Agencies Standard & Poor's and Fitch Ratings, are shown in the table below:

Standard & Poor's Credit Rating Agency

	2013	2014
Foreign currency	BB -/Stable	BB -/Stable
Domestic currency	BB -/Stable	BB -/Stable

Source: Standard & Poor's

Credit Rating Agency Fitch Ratings

	2013	2014
Foreign currency	BB +/Stable	BB +/Stable
Domestic currency	BB +/Stable	BB +/Stable

Source: Fitch Ratings

III.3 Issue of the third Eurobond of the Republic of Macedonia

As a result of the stable credit rating, as well as the stable economic policies of the country, in July 2014, Ministry of Finance issued new Eurobond with maturity period of 7 years, and interest rate amounting to 3.975%. As for the primary issue, Eurobonds in the total amount of EUR 500 million were issued, although the demand by investors reached double amount of EUR 1.2 billion. Eurobond was issued at the Irish Stock Exchange in line with Rule 144A/Regulation S. This enabled the creation of a broad base of investors - owners of Eurobond from Europe and the USA. More precisely, the issue was placed at 100 institutional investors, including 16% investors from Great Britain, 35% investors from Continental Europe and 49% American investors. In general, owners are fund and asset management companies (89%), private banks (4%), insurance funds (3%) and others (4%).

In the course of 2014, in addition to the newly issued Eurobond, the Eurobond, issued by the Republic of Macedonia in 2005, falling due in December 2015, continued to be traded on the international capital market. As of December 2014 inclusive, the yield to maturity of the 2005 Eurobond amounted to 2.1575%, while the yield to maturity of the 2014 Eurobond accounted for 3.7967%.

III.4 Trends in the government and public debt of the Republic of Macedonia

At the end of 2014, public debt of the Republic of Macedonia, including the government debt and the guaranteed public debt, amounted to EUR 3,921.3 million, accounting for 46.0% of GDP. External public debt amounted to EUR 2,725.1 million, while domestic public debt amounted to EUR 1,196.2 million.

At the end of 2014, government debt of the Republic of Macedonia amounted to EUR 3,262.5 million, i.e. 38.2% of GDP. As a result of this level of government debt, Republic of Macedonia remains to be moderately indebted country, the government debt being significantly lower than the average at EU level.

External government debt, compared to 2013, increased by EUR 494.6 million, amounting to EUR 2,092.2 million at the end of 2014. The increase was due to the issue of the Eurobond, under which financial resources for financing the 2014 and 2015 budget deficits were provided.

Domestic government debt at the end of 2014 amounted to EUR 1,170.3 million, decreasing by EUR 3.8 million compared to the previous year.

From the point of view of the currency structure of the government debt, at the end of 2014, the euro- denominated debt predominated, participating with 63.0% in the total portfolio, being higher by 4.8 percentage points compared to 2013, while Denar - denominated debt surged by 0.4 p.p., i.e. from 21.9% to 22.3% in the same period. As regards foreign currency government debt portfolio, share of the euro-denominated debt at the end of 2014 amounted to 81.0%.

Debt with fixed interest rate in the interest structure of the government debt surged by 12.7 p.p. compared to 2013, accounting for 67.3%. This increase of the fixed interest rate debt is mainly due to the issued Eurobond, being with fixed interest rate, as well as the increase of the issued long-term government bonds on the domestic securities market.

III.5 Servicing of government and public debt of the Republic of Macedonia

All liabilities on the basis of government and public debt that fell due in 2014 were regularly and timely serviced by the Ministry of Finance, as well as by the other public debt issuers.

As for the repayment of liabilities on the basis of the public debt in 2014, including the government debt and the guaranteed debt of public enterprises, total of EUR 330.02 million was spent, EUR 236.85 million out of which for repayment of the principal and EUR 93.17 million for repayment of interest.

III.6 Amendment to the Law on Public Debt

On 16th September 2014, the Parliament adopted the Law on Modifications and Amendments to the Law on Public Debt, being published in the “Official Gazette of the Republic of Macedonia”, no. 139/2014 dated 18th September 2014, being third subsequent amendment to the Law on Public Debt. According to the amendment to the Law, the public debt is defined as a sum of the government debt of the Republic of Macedonia, also including the debt of the municipalities as local government units, and the guaranteed debt of public enterprises and state-owned joint stock companies. In addition, pursuant to the Law, the procedure for borrowing by the public debt issuers was finalized.

III.7 Issue of the thirteenth issue of denationalization bonds

Pursuant to the Law on Issuance of Denationalization Bonds in the Republic of Macedonia (“Official Gazette of the Republic of Macedonia”, nos. 37/02, 89/08, 161/09, 6/12 and 104/13), the thirteenth issue of denationalization bond in the amount of EUR 10 million was issued on 5th August 2014.

Terms and conditions, under which this bond was issued, were identical for both the first twelve issues, i.e. 10-year maturity period and 2% fixed annual interest rate. First installment for payment of the principal and the interest on this issue falls due on 1st June 2015.

This issue of the denationalization bonds covers all effective decisions on denationalization in the period 1st January 2013 – 31st January 2014, according to which bonds are given as compensation.

III.8 Continuous government securities

III.8.1 Primary Government Securities Market

Borrowing by issuing GS in 2014 - The decision on determining the maximum amount of new borrowing by issuing government securities by the Government of the Republic of Macedonia in 2014, the maximum amount of borrowing was determined in the amount of Denar 9,940.00 million. Thus, new borrowing on the basis of issued government securities in 2014 amounted to Denar 960.96 million, and the stock of total issued GS as of 31st December 2014 inclusive, amounted to Denar 66,161.89 million.

GS auctions - in the period January-December 2014, Ministry of Finance regularly issued 6-month and 12-month treasury bills with and without foreign exchange clause, as well as 2-year, 3-year, 5-year and 10-year government bonds with and without foreign exchange clause. During this period, total of eighty one (81) GS auctions were held, i.e. twelve (12) auctions of 6-month treasury bills, twenty two (22) auctions of 12-month treasury bills, eleven (11) auctions of 2-year government bonds,

four (4) auctions of 3-year government bonds, sixteen (16) auctions of 5-year government bonds and sixteen (16) auctions of 10-year government bonds.

Total amount offered at the GS auctions in 2014 was Denar 58,941.08 million, demand amounted to Denar 59,909.95 million, while the total amount of auctions realized in this period was Denar 55,024.59 million. More separately by maturities, total realized amount was distributed in the following manner: Denar 11,437.51 million was realized at the auctions of 6-month treasury bills, Denar 30,840.04 million was realized at the auctions of 12-month treasury bills, Denar 4,840.51 million was realized at the auctions of 2-year government bonds, Denar 911.50 million was realized at the auctions of 3-year government bonds, Denar 4,212.81 million was realized at the auctions of 5-year government bonds and Denar 2,782.22 million at the auctions of 10-year government bonds.

In 2014, portfolio of continuous GS comprised 6-month treasury bills, 12-month treasury bills, 2-year government bonds, 3-year government bonds, 5-year government bonds and 10-year government bonds. As of 31st December 2014 inclusive, compared to 31st December 2013, upward trend of the percentage share of long-term securities as opposed to the short-term securities was observed, thus the maturity structure of the GS portfolio is as follows:

Table 1
Maturity of government securities

	Percentage share in 2013	Percentage share in 2014	Difference
6-month T-Bills	34.28%	0.00%	-34.28% ↓
12-month T-Bills	31.16%	46.61%	15.45% ↑
2-year T-Bonds	4.68%	11.93%	7.26% ↑
3-year T-Bonds	5.36%	6.67%	1.31% ↑
5-year T-Bonds	24.53%	30.58%	6.05% ↑
10-year T-Bonds	0.00%	4.21%	4.21% ↑

Source: MoF

Trends of interest rates at GS auctions – During 2014, volume tender was applied at GS auctions. During 2013, interest rates on government securities were multiply reduced by 1.5% in average on annual basis (see Chart 10).

Ownership structure of undue GS - Dominant share of banks in the ownership structure of undue government securities continued during 2014 as well. As of 31st December 2014 inclusive, percentage share of banks in the ownership structure of the government securities amounted to 47.09%, while the share of the other market entities was 52.91%. As of 31st December 2013 inclusive, ratio between banks and other market entities was 56.16 to 43.84% respectively. During the analyzed period, share of banks decreased by 9.07 percentage points in relation to the share of other entities, being respectively increased.

III.8.2 Secondary government securities market

Existing regulations on secondary trading in the Republic of Macedonia provide for trading in all structural government securities on the Macedonian Stock Exchange AD, as well as trading in continuous government securities on the OTC markets.

In 2014, total turnover of trading in bonds realized on the Macedonian Stock Exchange AD Skopje amounted to Denar 541,153,799, decreasing by 25.68% compared to 2013, when it amounted to Denar 728,185,116.

During the same period, total of twenty one (21) transactions with government securities, ten (10) transactions with treasury bills and twenty one (21) transactions with government bonds out of which were carried out on the Over-the-Counter Market. Total nominal trading amount amounted to Denar 2,167,310,000. Compared to the trading in 2013, it can be concluded that larger number of transactions were realized in 2014 and total nominal amount of trading was higher by Denar 188,480,000 compared to the trading in 2013.

III.9 Newly concluded loans in 2014

III.9.1 New loans concluded by Central Government

- **Borrowing by the Republic of Macedonia at the World Bank under the Loan Agreement for the "Second Programmatic Competitiveness Development Policy Loan".**

On 23rd July 2014, Ministry of Finance, on behalf of the Government of the Republic of Macedonia and the World Bank concluded Loan Agreement in the amount of EUR 36.4 million. Loan funds were intended for financing the budget deficit.

Terms and conditions under which this loan was signed are the following:

- amount: EUR 36.4 million;
- interest rate: six-month EURIBOR with variable spread;
- repayment period: 18 years including 5-year grace period;
- manner of repayment: equal repayment amounts that will be paid twice a year, starting 15th March 2019, as of 15th March 2031 inclusive. The loan shall be repaid by semesters, each 15th March and 15th September in the year.

- **Borrowing by the Republic of Macedonia at the World Bank under the Loan Agreement for the "Skills Development and Innovation Support Project".**

On 7th February 2014, Ministry of Finance, on behalf of the Government of the Republic of Macedonia, and the World Bank concluded Loan Agreement in the amount of EUR 17.7 million. Loan funds were intended for financing the activities that will be realized by the Ministry of Education and Science and the Fund for Innovation and Technological Development, i.e. for improving the quality of higher education, vocational education, as well as public financial support for encouraging Macedonian companies with respect to innovations.

Terms and conditions under which this loan was signed are the following:

- amount: EUR 17.7 million;
- interest rate: six-month EURIBOR with variable spread;
- repayment period: 18 years including 5-year grace period;
- manner of repayment: equal repayment amounts that will be paid twice a year, starting 1st February 2019, as of 1st August 2031 inclusive. Loan will be paid by semesters, each 1st February and 1st August in the year.

- **Borrowing of the Republic of Macedonia at the European Bank for Reconstruction and Development under the Loan Agreement for the Project "Construction of New and Reconstruction of the Existing Parts of the Section Beljakovce-Kriva Palanka – Eastern Part of Rail Corridor VIII, Phase 2".**

On 5th December 2014, Ministry of Finance, on behalf of the Government of the Republic of Macedonia and EBRD concluded Loan Agreement intended for realization of the "Construction of New and Reconstruction of the Existing Parts of the Section Beljakovce-Kriva Palanka – Eastern Part of Rail Corridor VIII, Phase 2" in the amount of EUR 145,000,000, while EBRD and the Public Enterprise for Railway Infrastructure "Macedonian Railways" Skopje concluded Project Agreement.

The Project envisages construction of railroad tracks on Beljakovce – Kriva Palanka section, including reconstruction of the existing parts thereof, covering 34 km in length.

Ministry of Finance will on-lend the loan funds of the Public Enterprise for Railway Infrastructure "Macedonian Railways" Skopje, for which the Ministry of Finance, Ministry of Transport and Communications and the Public Enterprise for Railway Infrastructure "Macedonian Railways" Skopje will conclude Sub-Loan Agreement. Loan funds will be repaid from the funds of the Public Enterprise for Railway Infrastructure "Macedonian Railways" - Skopje.

Terms and conditions under which this loan was signed are the following:

- amount: EUR 145,000,000;
- interest rate: variable, including 6-month EURIBOR increased by 1% margin;
- repayment period: 15 years including 4-year grace period;
- manner of repayment: the loan will be repaid in 23 equal semi-annual installments, starting from 20th October 2018 until 20th October 2029.

III.9.2 New loans concluded by local government

- **Short-term borrowing within the Project under IPA Cross-Border Cooperation Component.**

On 18th July 2014, Delcevo Municipality and Macedonian Bank for Development Promotion AD Skopje signed Short-Term Loan Agreement in the amount of Denar 3,000,000 for financing the Project under IPA Cross-Border Cooperation Component, for the purpose of realizing the capital project “Better Life for Children in Cross-Border Region”. Realization of this Project will provide for improving the teaching conditions in the PS "Vanco Prke" Delcevo, and benefits from the implementation of energy efficiency-related measures are also expected.

Terms and conditions under which this loan was signed are the following:

- amount: Denar 3,000,000;
- interest rate: 5.75%;
- acceptable repayment period including grace period: 1 year, including 6-month grace period;
- manner of repayment: quarterly.

- **Short-term borrowing within the Project under IPA Cross-Border Cooperation Component.**

On 21st July 2014, Staro Nagoricane Municipality and Macedonian Bank for Development Promotion AD Skopje signed Short-Term Loan Agreement in the amount of Denar 1,800,000 for financing the Project under IPA Cross-Border Cooperation Component, for the purpose of realizing the Project “To keep Youth Population in Cross-Border Region – new- Y4Y”. Project activities are divided in two parts: reconstruction of old school building in Staro Nagoricane Municipality and its transformation in training center for young people, and realization of trainings and re-qualifications of young people, for the purpose of their employment.

Terms and conditions under which this loan was signed are the following:

- amount: Denar 1,800,000;
- interest rate: 5.75%;
- acceptable repayment period: 6 months;
- manner of repayment: quarterly.

- **Short-term borrowing within the Project under IPA Cross-Border Cooperation Component.**

On 25th December 2014, Novaci Municipality and Macedonian Bank for Development Promotion AD Skopje signed Short-Term Loan Agreement in the amount of Denar 2,779,646 for financing the Project under IPA Cross-Border Cooperation Component, for the purpose of realizing the “Living History – Living Nature” Project. “Living History – Living Nature” Project is realized for the purpose of protecting the cultural historic heritage of the cross-border region, as well as creating conditions for

tourism development by reconstructing the House of Kales Anga, Kamen Most (Stone Village) in Zovik village and The Church St. Dimitrija.

Terms and conditions under which this loan was signed are the following:

- amount: Denar 2,779,646;
- interest rate: 5.75%;
- acceptable repayment period including grace period: 1 year, including 6-month grace period;
- manner of repayment: quarterly.

III.9.3 New loans concluded by public enterprises established by municipality, municipality in the City of Skopje and the City of Skopje

- **Project “Additional Construction of the Administrative Building of Public Enterprise Watersupply and Sewerage Skopje”.**

On 25th December 2014, Public Enterprise Watersupply and Sewerage Skopje and Komercijalna banka AD Skopje signed Agreement for borrowing with long-term loan in the amount of Denar 450,000,000 for financing the Project “Additional Construction of the Administrative Building of Public enterprise Watersupply and Sewerage Skopje”. Project covers carrying out construction and construction and craftsmanship activities for building administrative building of the Public Enterprise "Watersupply and Sewerage – Skopje.

Terms and conditions under which this loan was signed are the following:

- amount: Denar 450,000,000;
- interest rate: contractual interest rates in the amount of 6% annually;
- acceptable repayment period: 10 years including 1-year grace period;
- manner of repayment: 108 equal monthly installments.

III.10 Issued guarantees in 2014

- **Sovereign guarantee of the Republic of Macedonia issued to the Public Enterprise for State Roads of the liabilities under the Loan Agreement from Export-Import Bank of China for the “Project on Construction of Miladinovci - Stip Motorway”.**

On 9th January 2014, Agreement was signed for guarantee of the Republic of Macedonia issued to the Public Enterprise for State Roads of the liabilities under the Loan Agreement from Export-Import Bank of China for the “Project on Construction of Miladinovci - Stip Motorway”. Republic of Macedonia guarantees the settlement of liabilities in the amount of US\$ 278,374,071.98. Project realisation has provided for significant improvement of the transport connections towards the eastern part of the

Republic of Macedonia. Highway connection will provide for high level of services, including fast, safe and secure traffic. Construction of this section reduces the distance between Skopje and Stip by more than 15 km. Project realisation will provide for reducing the costs for access to the markets and services of the communities which use this national road for their activities.

Terms and conditions under which this loan was signed are the following:

- amount: US\$ 278,374,071.98;
- interest rate: 2%;
- repayment period: 20 years;
- grace period: 5 years;
- manner of repayment: the loan will be repaid in 30 equal semi-annual installments falling due each 21st January and 21st July, starting from 21st July 2019 until 21st January 2034.

- **Sovereign guarantee of the Republic of Macedonia issued to the Public Enterprise for State Roads of the liabilities under the Loan Agreement from Export-Import Bank of China for the “Project on Construction of Kicevo-Ohrid Motorway”.**

On 9th January 2014, Agreement was signed for guarantee of the Republic of Macedonia issued to the Public Enterprise for State Roads of the liabilities under the Loan Agreement from Export-Import Bank of China for the “Project on Construction of Kicevo-Ohrid Motorway”. Republic of Macedonia guarantees the settlement of liabilities in the amount of US\$ 505,044,966.98. Project realisation has provided for significant improvement of the transport connections towards Ohrid. Highway connection will provide for high level of services, including fast, safe and secure traffic. Existing condition on the section from Kicevo to Ohrid has limited geometric elements, directly and unfavourable affecting the traffic speed and safety. In order to partially overcome this problem, in the past period, a need arose for limiting the movement freight vehicles during the weekends, particularly during the tourist season. Construction of this section as highway will provide for both permanent resolution of the problems and ensuring fast and safe traffic throughout the year.

Terms and conditions under which this loan was signed are the following:

- amount: US\$ 505,044,966.98;
- interest rate: 2%;
- repayment period: 20 years;
- grace period: 5 years.
- manner of repayment: the loan will be repaid in 30 equal semi-annual installments falling due each 21st January and 21st July, starting from 21st July 2019 until 21st January 2034.

- **Sovereign guarantee of the Republic of Macedonia issued to the Public Enterprise for State Roads of the liabilities under the Loan Agreement from the World Bank for the “National and Regional Road Rehabilitation Project”.**

On 21st October 2014, Agreement was signed for guarantee of the Republic of Macedonia issued to the Public Enterprise for State Roads of the liabilities under the Loan Agreement from the World Bank for the National and Regional Road Rehabilitation Project. Republic of Macedonia guarantees the settlement of liabilities in the amount of EUR 52,000,000. Project realization will contribute to improving the connection of the selected national and regional roads with Corridor X and Corridor VIII, as well as increasing the safety on the roads throughout the country.

Terms and conditions under which this loan was signed are the following:

- amount: EUR 52,000,000;
- interest rate: six-month EURIBOR with variable spread;
- repayment period: 23 years;
- grace period: 6 years;
- manner of repayment: the loan will be repaid in 34 equal semi-annual installments, starting from 15th October 2020 until 15th April 2037.

- **Sovereign guarantee of the Republic of Macedonia issue to the Public Enterprise for State Roads of the liabilities under the Loan Agreement from the European Bank for Reconstruction and Development for National Roads Program**

On 5th December 2014, Agreement was signed for guarantee of the Republic of Macedonia issued to the Public Enterprise for State Roads of the liabilities under the Loan Agreement from the European Bank for Reconstruction and Development for the National and Regional Road Rehabilitation Project. Republic of Macedonia guarantees the settlement of liabilities in the amount of EUR 160,000,000. Project realization will provide for improving the quality of road infrastructure and enhancing the capacity of the Public Enterorise for State Roads.

Terms and conditions under which this loan was signed are the following:

- amount: EUR 160,000,000;
- interest rate: 6-month EURIBOR increased by 1% margin;
- repayment period: 15 years;
- grace period: 4 years.

IV. Public debt management activities

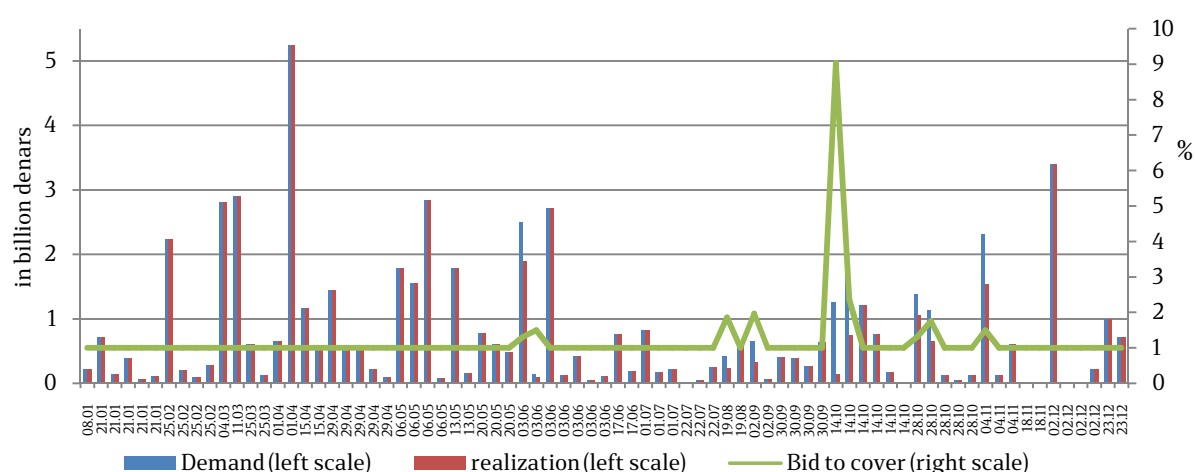
IV.1 Primary government securities market

Table 2
Net issue of continuous government securities and structural bonds

	(Denar million)	Q1- 2014	Q2- 2014	Q3- 2014	Q4- 2014	Total 2014
I	Net issued government securities	5,642.58	-984.79	706.44	-4,403.27	960.96
	6-month treasury bills	-183.46	-10,622.29	-851.68	-10,410.23	-22,067.66
	12-month treasury bills	3,949.47	8,196.82	420.38	-2,289.25	10,277.42
	2-year government bonds	807.00	125.94	0.00	3,909.82	4,842.76
	3-year government bonds	0.00	0.00	0.00	911.83	911.83
	5-year government bonds	893.07	1,063.42	0.00	2,256.99	4,213.48
	10-year government bonds	176.50	251.32	1,137.74	1,217.57	2,783.13
II	13 th issue of dentaionalization bonds	0.00	0.00	615.00	0.00	615.00
I+II	Total	5,642.58	-984.79	1,321.44	-4,403.27	1,575.96

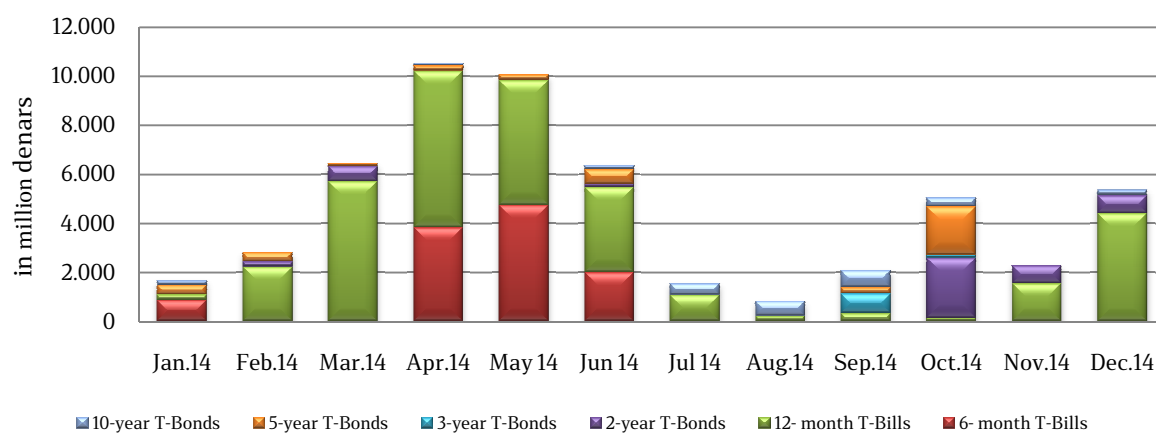
Source: MoF

Chart 8
Demand and realization of government securities auctions
January–December 2014



Source: MoF

Chart 9
Realized government securities January – December 2014



Source:MoF

Table 3
Average interest rates on GS without foreign exchange clause in 2014

Date of action	6-month T-Bills	12-month T-Bills	2-year T-Bonds	3-year T-Bonds	5-year T-Bonds	10-year T-Bonds
January	3.15	3.60				5.30
February		3.60	4.00		4.80	
March		3.60	4.00			
April	3.15	3.60				
May	3.15	3.60			4.80	
June	3.15	3.60	4.00			5.30
July		3.20				
August		3.20				
September		3.20		3.65	3.90	4.80
October		2.70	3.20	3.65	3.90	4.80
November		1.70	2.20		2.90	
December		1.70	2.20			3.80

Source:MoF

Table 4

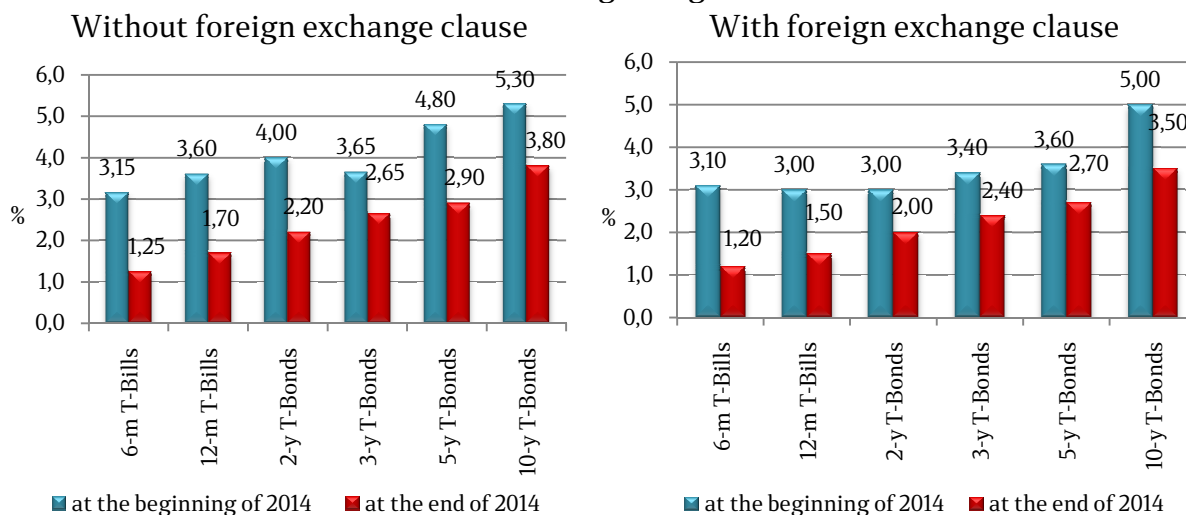
Average interest rates on GS with foreign exchange clause in 2014

Date of action	6-month T-Bills	12-month T-Bills	2-year T-Bonds	3-year T-Bonds	5-year T-Bonds	10-year T-Bonds
January	3.10				4.60	5.00
February					4.60	
March					4.60	
April	3.10					
May	3.10				4.60	5.00
June	3.10				4.60	5.00
July		3.00			4.40	5.00
August						5.00
September				3.40		5.00
October			3.00		3.70	4.50
November			2.00			
December					2.70	

Source:MoF

Chart 10

Interest rates on GS at the beginning and at the end of 2014



Source:MoF

Chart 11

Ownership structure of continuous GS

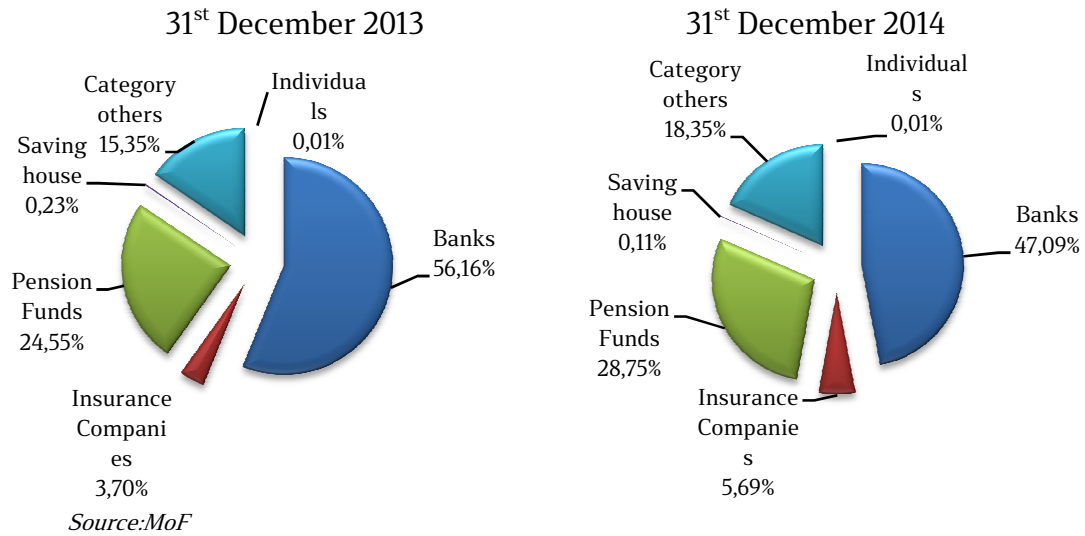


Chart 12

Maturity structure of continuous GS

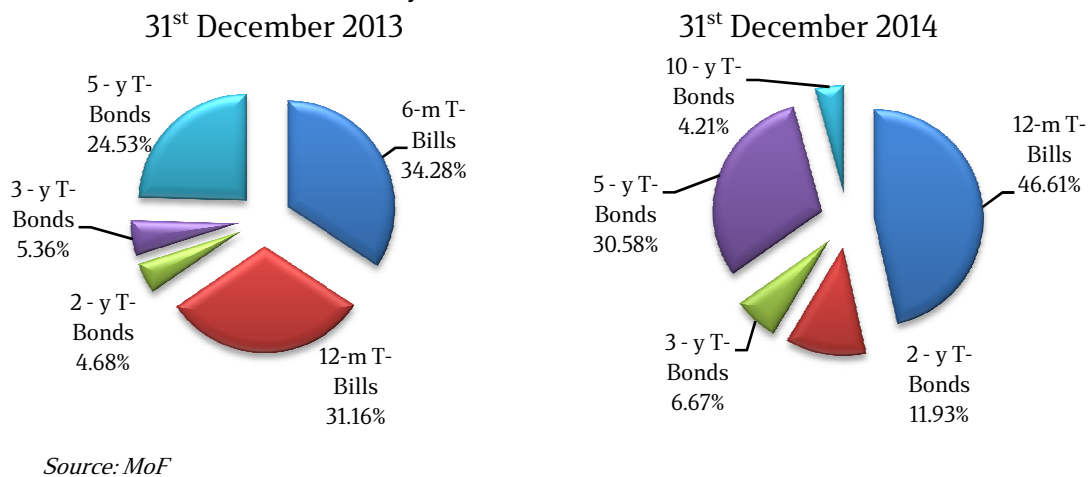


Chart 13

Yield to maturity of the 2005 Eurobond,
January–December 2014

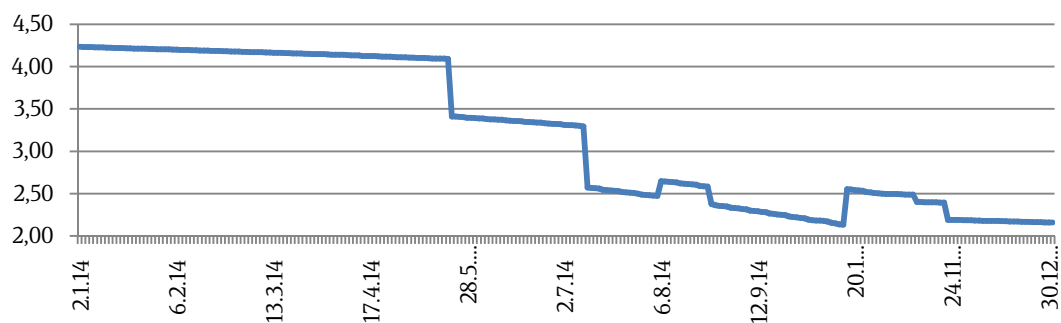
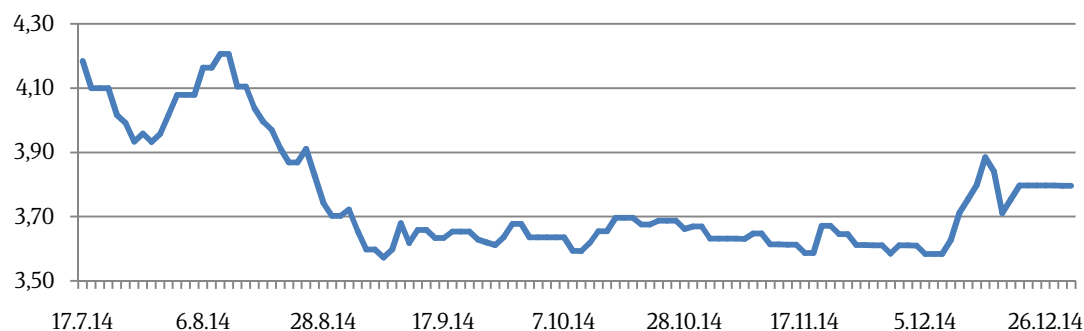


Chart 14
Yield to maturity of the 2014 Eurobond,
July - December 2014

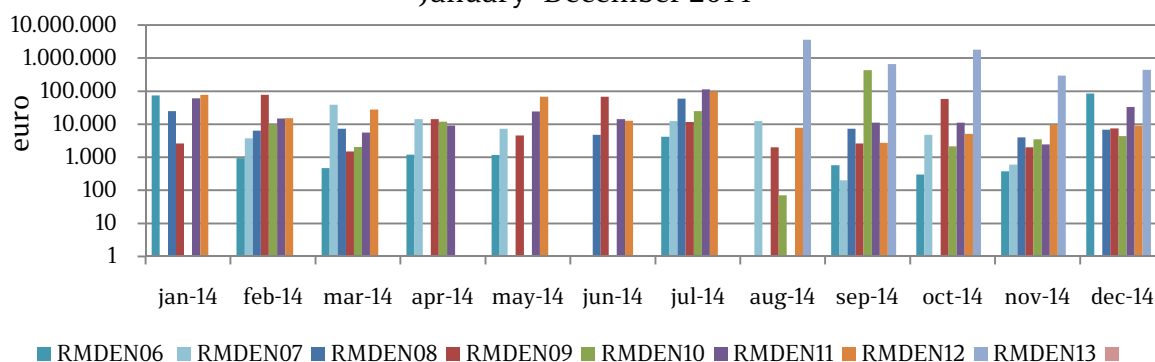


Source: MoF

IV.2 Secondary government securities market

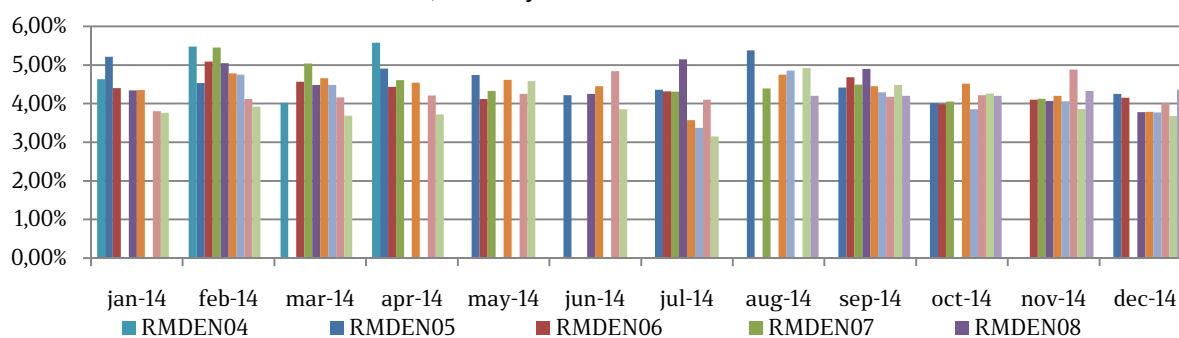
IV.2.1 Macedonian Stock Exchange AD Skopje

Chart 15
Trading volume for structural government bonds,
January–December 2014



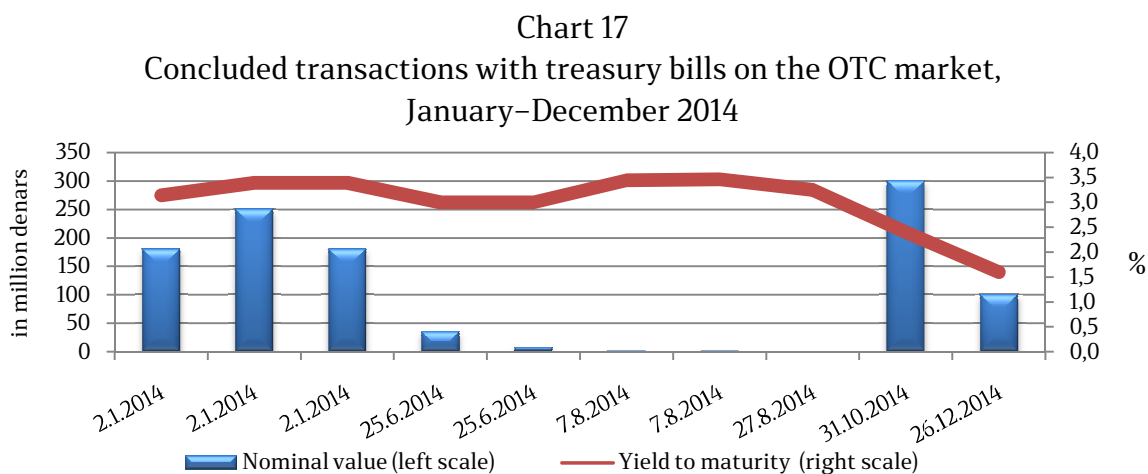
Source: Macedonian Stock exchange Ad Skopje

Chart 16
Yield to maturity of structural government bonds,
January–December 2014

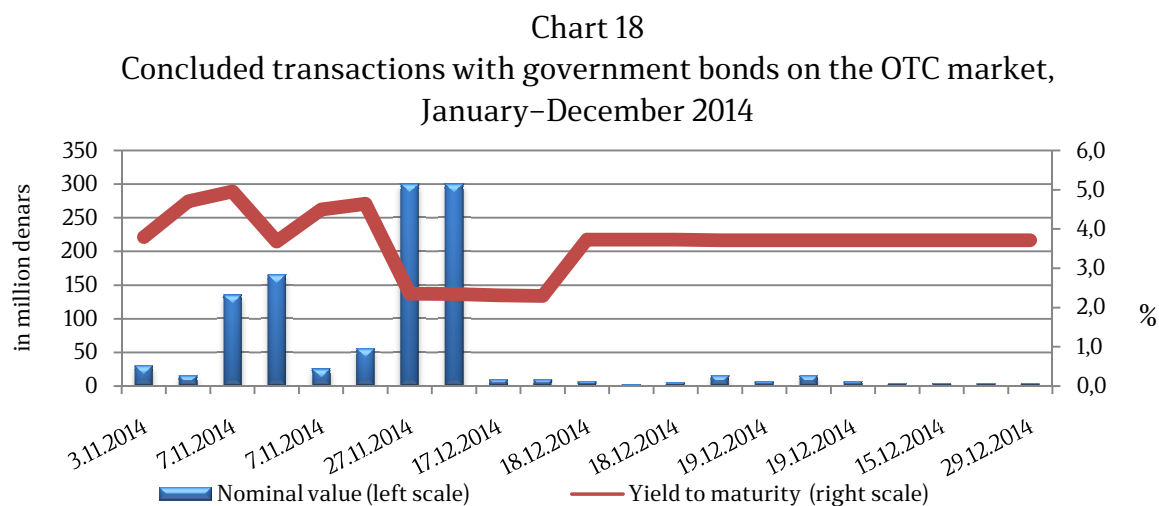


Source: Macedonian Stock exchange Ad Skopje

IV.2.2 Over-the-counter markets



Source: NBRM



Source: NBRM

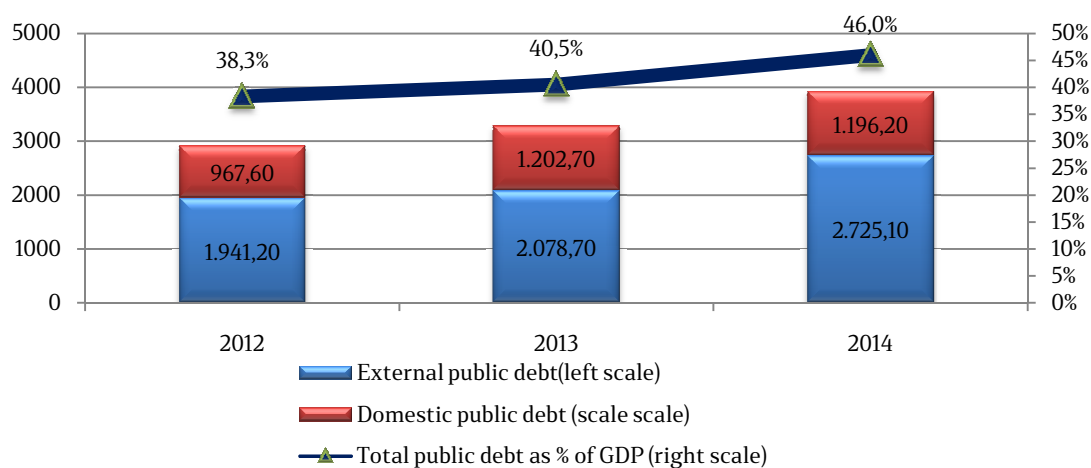
V. Public debt portfolio features

Table 5
Stock of public debt

(in million of euro)	2012	2013	2014
General Government Debt	2,554.5	2,771.6	3,262.5
Guaranteed public debt	354.3	509.8	658.9
Public debt (general government debt+guaranteed debt)	2,908.8	3,281.4	3,921.4
External public debt	1,941.2	2,078.7	2,725.1
Domestic public debt	967.6	1,202.7	1,196.2
Public debt as % of GDP	38.3%	40.5%	46.0%

Source: Ministry of Finance and NBRM

Chart 19
Public debt trend



Source: Ministry of Finance and NBRM

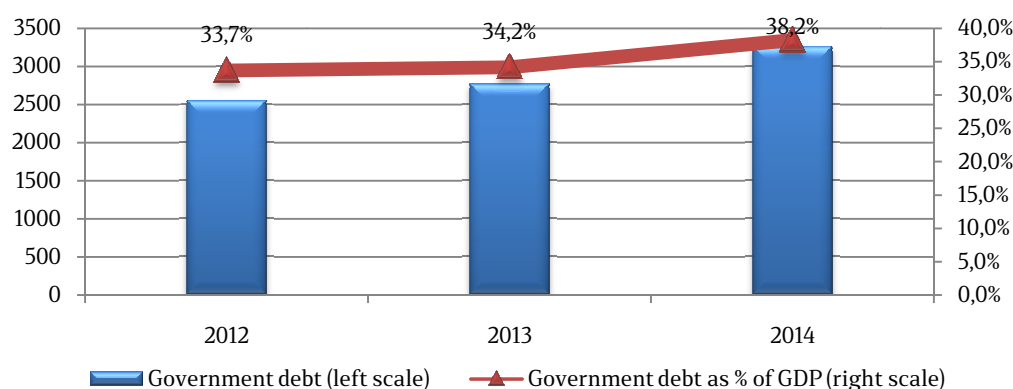
V.1 Government debt

Table 6
Stock of government debt

(EUR million)	2012	2013	2014
EXTERNAL GOVERNMENT DEBT	1,615.9	1,597.5	2,092.2
Central government debt (consolidated)	1,612.5	1,591.9	2,086.9
Debt of municipalities	3.4	5.6	5.3
DOMESTIC GOVERNMENT DEBT	938.6	1,174.1	1,170.3
Central government debt (consolidated)	932.0	1,165.1	1,159.5
Debt of municipalities	6.6	9.0	10.8
GOVERNMENT DEBT	2,554.5	2,771.6	3,262.5
Government debt as % of GDP	33.7	34.2	38.2

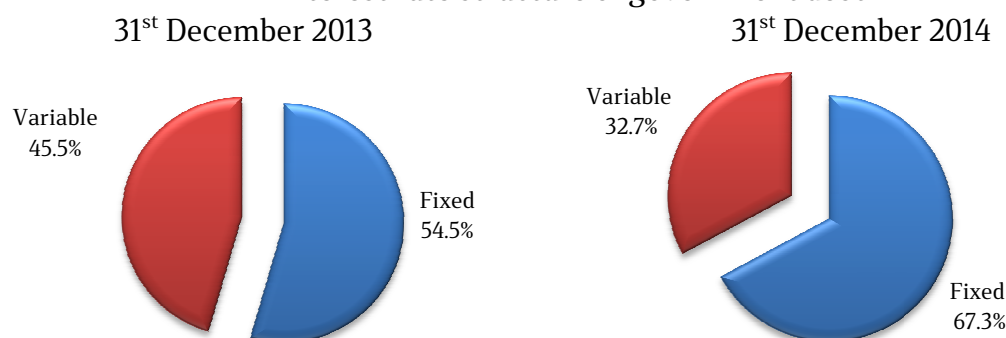
Source: MoF and NBRM

Chart 20
Government debt trends



Source: MoF and NBRM

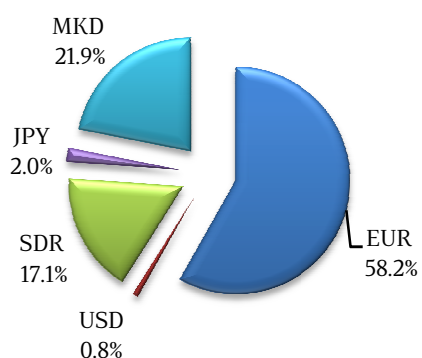
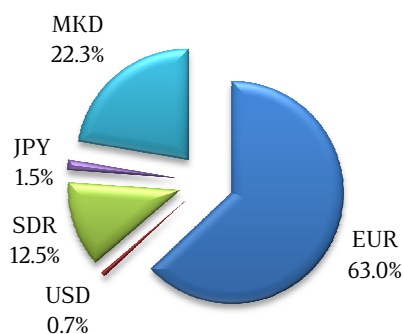
Chart 21
Interest rate structure of government debt



Source: MoF and NBRM

Chart 22

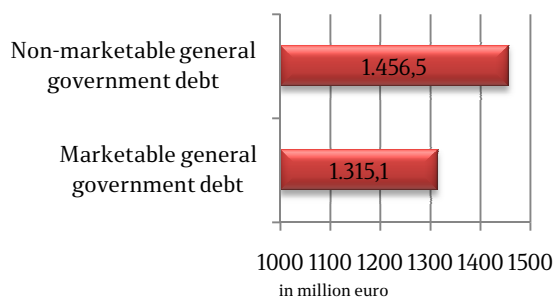
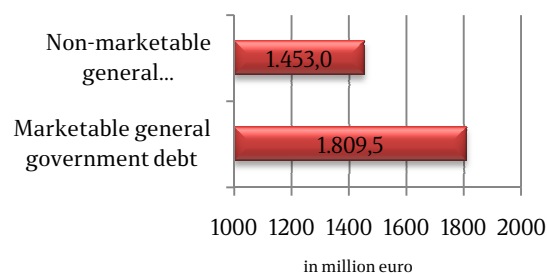
Currency structure of the government debt

31st December 201331st December 2014

Source: MoF and NBRM

Chart 23

Market/non-market government debt

31st December 201331st December 2014

Source: MoF and NBRM

Indicators for government debt portfolio risk

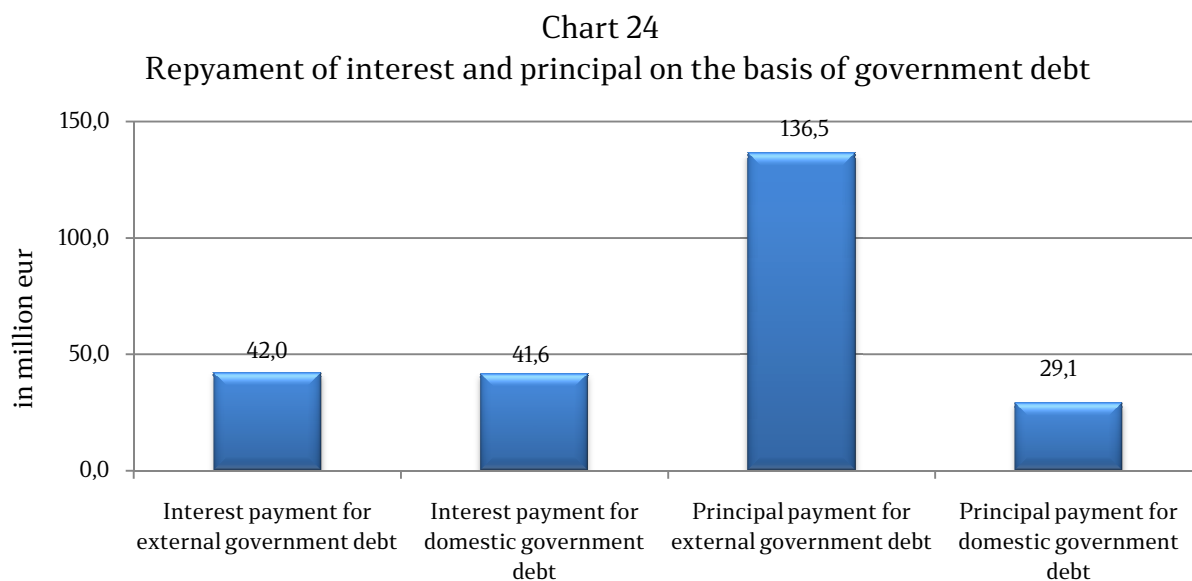
Table 7 Average Time to Maturity– ATM (years)

	2014
Domestic debt	1.9
External debt	5.4
Total government debt	4.2

Table 8 Average time to refixing (years)

	2014
Domestic debt	1.9
External debt	4.2
Total government debt	3.4

Source: MoF



Source: MoF and NBRM

V.1.1 External government debt

Table 9
Stock of external government debt by creditors

(EUR million)	31 st December 2012	31 st December 2013	31 st December 2014
External government debt	1,615.9	1,597.5	2,092.2
Official creditors	1,072.7	981.1	983.2
Multilateral creditors			
IBRD	957.8	883.1	888.7
IDA	229.9	216.3	251.3
IFAD	262.8	242.3	249.3
IFAD	11.8	10.8	11.1
CEDB	39.4	49.1	53.0
EBRD	52.5	27.5	67.1
EIB	80.2	73.7	76.6
EU	51.0	43.6	33.6
IMF	230.2	219.7	146.7
Bilateral creditors	114.9	98.0	94.5
Private creditors	543.2	616.5	1,109.0
Eurobond	325.0	150.0	650.0
Other private creditors	218.2	466.5	459.0

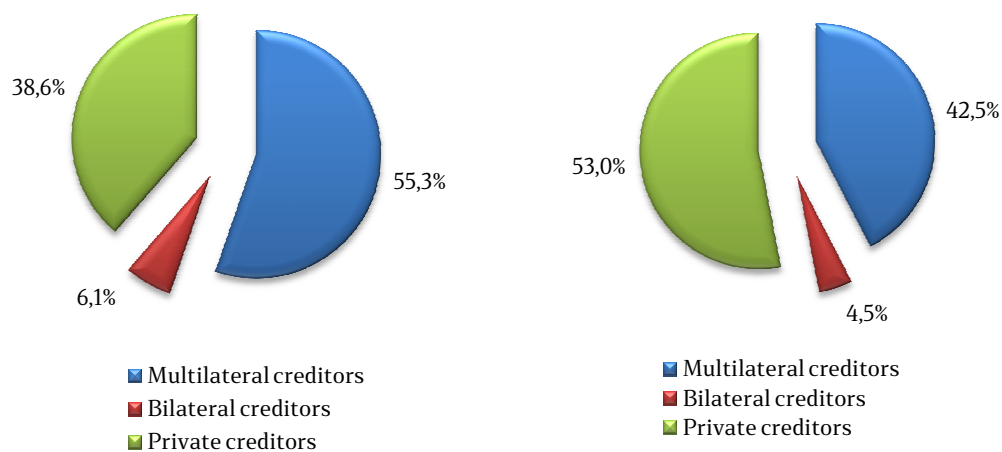
Source: MoF and NBRM

Table 10
Disbursements on the basis of concluded undisbursed loans of external government debt

EUR million	Disbursed funds January-December 2014
Disbursements on the basis of loans of external government debt	616.9
Central government debt (consolidated)	616.9
Official creditors	116.9
Multilateral creditors	114.9
IBRD	50.1
CEDB	5.8
EBRD	45.1
EIB	14.0
Bilateral creditors	1.9
Private creditors	500.0

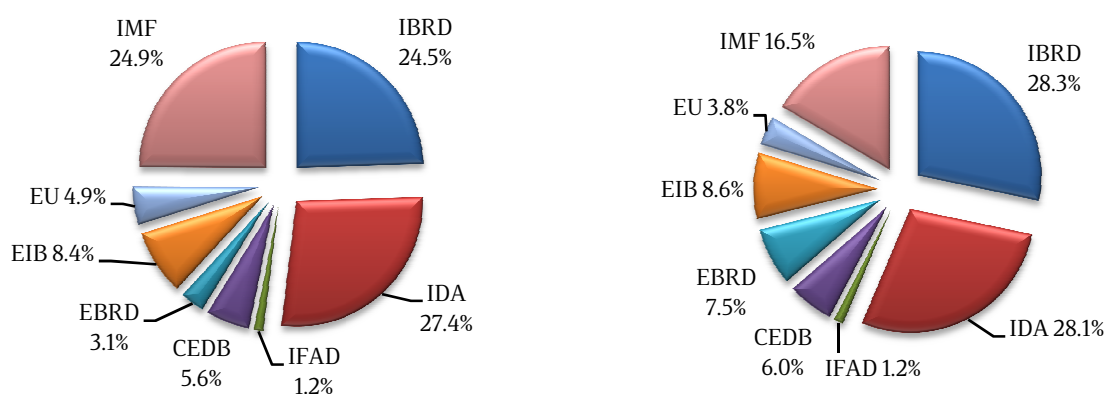
Source: MoF and NBRM

Chart 25
External government debt structure by creditors
31st December 2013 31st December 2014



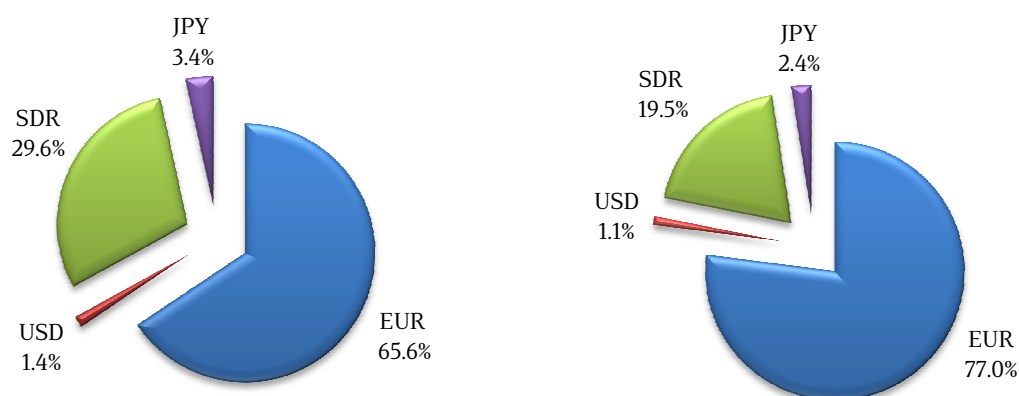
Source: MoF and NBRM

Chart 26
External government debt structure by multilateral creditors
31st December 2013 31st December 2014



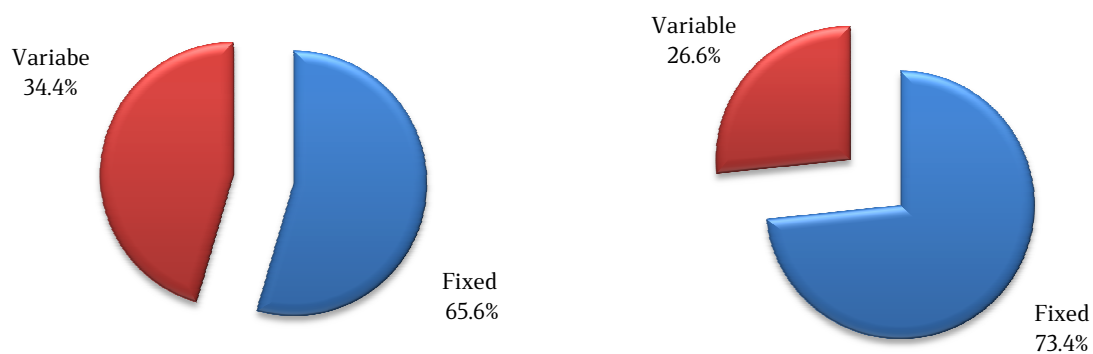
Source: MoF and NBRM

Chart 27
Currency structure of external government debt
31st December 2013 31st December 2014



Source: MoF and NBRM

Chart 28
Interest structure of external government debt
31st December 2013 31st December 2014



Source: MoF and NBRM

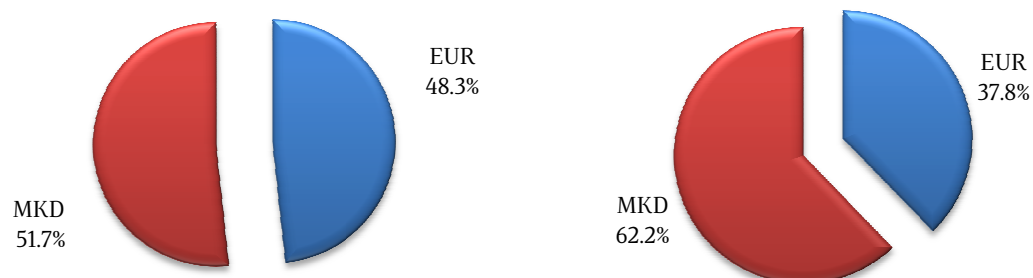
V.1.2 Domestic government debt

Table 11
Stock of domestic government debt

(EUR million)	2012	2013	2014
Government debt	938.6	1,174.1	1,170.3
Central government debt (consolidated)	932.0	1,165.1	1,159.5
Structural bonds	126.8	103.2	83.3
Bond for selective loans	16.9	16.9	16.9
Bond for privatization of Stopanska banka	19.3	10.7	2.1
Bond for old foreign exchange saving	0.0	0.0	0.0
Denationalization bond	90.6	75.6	64.4
Continuous government securities	805.2	1,061.9	1,076.1
Municipalities	6.6	9.0	10.8

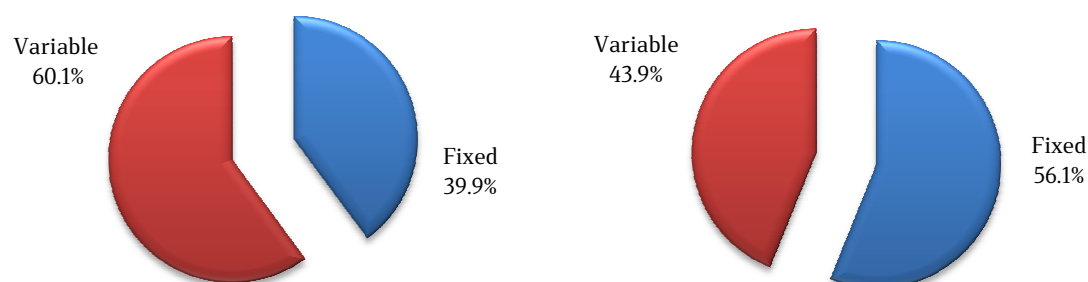
Source: MoF

Chart 29
Interest structure of domestic government debt
31st December 2013 31st December 2014



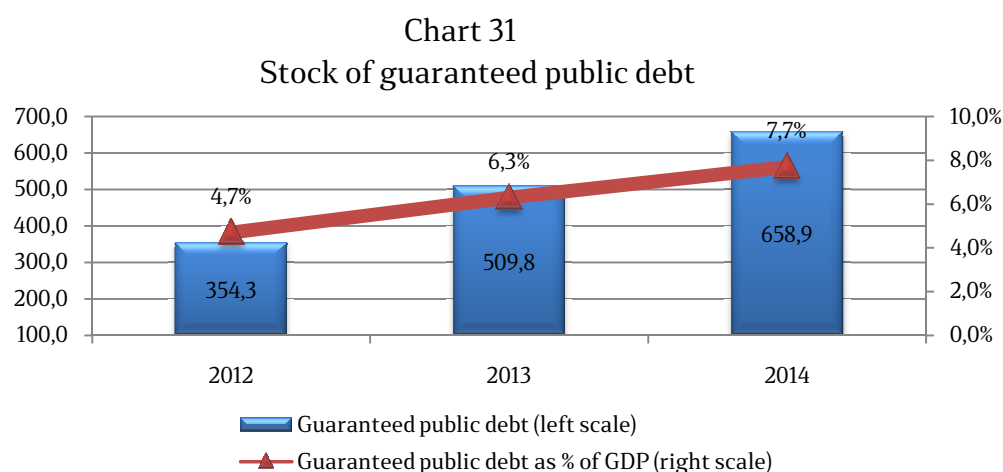
Source: MoF

Chart 30
Currency structure of domestic government debt
31st December 2013 31st December 2014

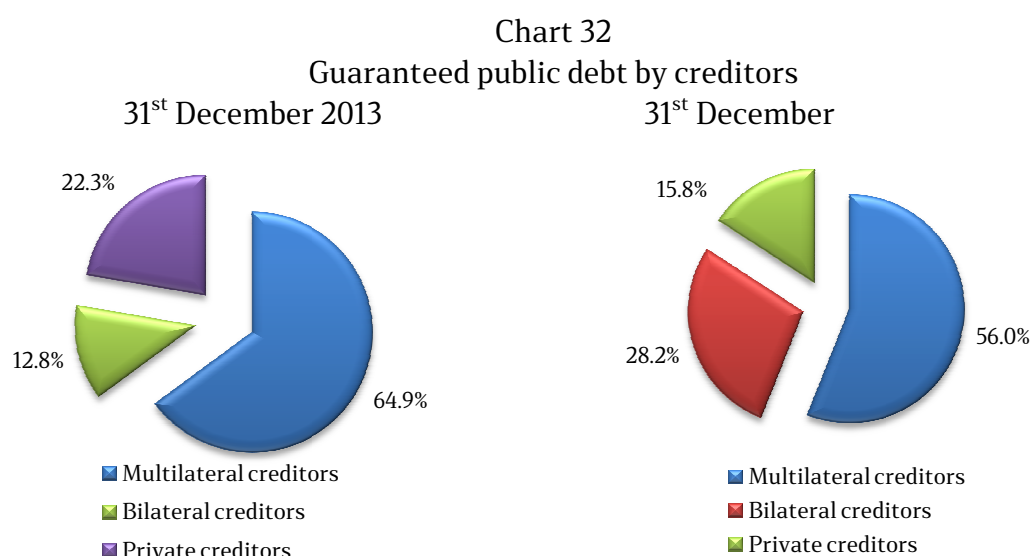


Source: MoF

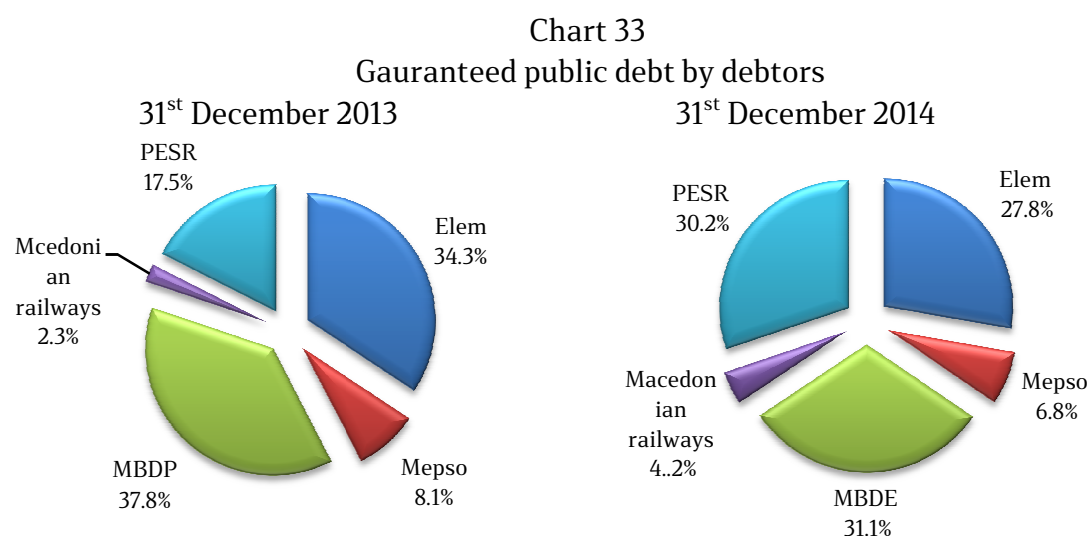
V.2 Guaranteed public debt



Source: MoF and NBRM



Source: MoF and NBRM



Source: MoF and NBRM