



**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 2015**

Skopje, 2016

## CONTENTS

I. Introduction.....	5
II Macroeconomic Trends in the Republic of Macedonia in 2015 .....	6
III. More Significant Activities in the period January – December 2015.....	9
<i>III.1 International Environment .....</i>	<i>9</i>
<i>III. 2 Credit Rating of the Republic of Macedonia in 2015.....</i>	<i>11</i>
<i>III. 3 Trends in General Government and Public Debt of the Republic of Macedonia.....</i>	<i>13</i>
<i>III. 4 Servicing of Government and Public Debt of the Republic of Macedonia.....</i>	<i>14</i>
<i>III. 5 Early Repayment of IMF Debt .....</i>	<i>14</i>
<i>III.7 Issuance of the Fourteenth Issue of Denationalization Bonds.....</i>	<i>15</i>
<i>III.8 Continuous Government Securities .....</i>	<i>15</i>
III.8.1 Primary Government Securities Market (GS).....	15
III.8.2 Secondary Government Securities Market.....	17
<i>III.9 Newly Concluded Loans in 2015.....</i>	<i>17</i>
III.9.1 New Loans Concluded by Central Government.....	17
III.9.2 New Loans Concluded by Local Government.....	18
<i>III.10 Guarantees Issued in 2015 .....</i>	<i>21</i>
IV. Public Debt Management Activities.....	24
<i>IV.1 Primary Government Securities Market .....</i>	<i>24</i>
<i>IV.2 Secondary Government Securities Market.....</i>	<i>28</i>
IV.2.1 Macedonian Stock Exchange AD Skopje .....	28
IV.2.2 Over-The-Counter Markets (OTC Markets).....	29
V. Public Debt Portfolio Features .....	30
<i>V.1 General Government Debt.....</i>	<i>31</i>
V.1.1 External General Government Debt .....	34
V.1.2 Domestic General Government Debt.....	36
<i>V.2 Guaranteed Public Debt .....</i>	<i>38</i>

## Tables:

Table 1: Net issue of government securities and structural bonds .....	25
Table 2: Average interest rates on GS without foreign exchange clause in 2015.....	26
Table 3: Average interest rates on GS with foreign exchange clause in 2015 .....	26
Table 4 Public debt stock .....	31
Table 5: Stock of general government debt .....	32
Table 6: Average time to maturity – ATM (in years).....	34
Table 7: Average time to refixing – ATR (in years).....	34
Table 8: Stock of external general government debt by creditors .....	35
Table 9: Disbursements on the basis of concluded, but undisbursed, loans within external general government debt .....	35
Table 10: Stock of domestic general government debt .....	37

## Charts:

Chart 1: : Real GDP growth and inflation rate (%).....	6
Chart 2. Annual increase of the number of employees and unemployment rate (%).....	7
Chart 3: . Trend of EURIBOR and LIBOR interest rates in 2015 .....	9
Chart 4: Denar/EUR and Denar/USD exchange rates in 2015 .....	9
Chart 5: USD/EUR and Japanese Yen/EUR exchange rates in 2015 .....	10
Chart 6: GS amount distributed by maturity (Denar million) .....	16
Chart 7: Demand and realization of government securities auctions, January – December 2015 .....	24
Chart 8: Realized government securities, January – December 2015 .....	24
Chart 9: 9: Interest rates on GS without foreign exchange clause in 2015 .....	26
Chart 10: Interest rates on GS with foreign exchange clause in 2015.....	26
Chart 11: Ownership structure of continuous GS .....	26
Chart 12: Maturity structure of continuous GS .....	27
Chart 13: Yield to maturity of Eurobonds issued in 2005, 2014 and 2015.....	27
Chart 14: Trading volume for structural treasury bonds.....	28
Chart 15: Yield to maturity of structural treasury bonds.....	28
Chart 16 Concluded transactions on the OTC market: .....	29
Chart 17: Concluded transactions on the T-bonds OTC market .....	29
Chart 18: Public debt trend.....	30
Chart 19: Trend of general government debt .....	31
Chart 20: Interest rate structure of general government debt.....	32
Chart 21: Currency structure of general government debt.....	32
Chart 22 Market/non-market general government debt:.....	32
Chart 23: Repaymnet of interest and principal on the basis of general government debt.....	33
Chart 24: External general government debt structure by creditors.....	35
Chart 25: External general government debt structure by multilateral creditors .....	35
Chart 26: Currency structure of external general government debt .....	36
Chart 27: Interest structure of external general government debt.....	36
Chart 28: Domestic general government debt currency structure .....	37
Chart 29: Domestic general government debt interest structure.....	37
Chart 30: Stock of guaranteed public debt .....	38
Chart 31: Guaranteed public debt by creditors .....	38
Chart 32: Gauranteed public debt by debtors.....	38

## List of Abbreviations

JSC	Joint Stock Company
GDP	Gross Domestic Product
GS	Government Securities
TB	Treasury Bonds
TB	Treasury Bills
EU	European Union
MPP	Macedonian Power Plants
EIB	European Investment Bank
EBRD	European Bank for Reconstruction and Development
IFAD	International Fund for Agricultural Development
IPA	Instrument for Pre-Accession Assistance
IDA	International Development Association
IBRD	International Bank for Reconstruction and Development
PESR	Public Enterprise for State Roads
PE	Public Enterprise
KfW	KfW Development Bank (KfW Entwicklungsbank)
MBDP	Macedonian Bank for Development Promotion
MoF	Ministry of Finance
IMF	International Monetary Fund
MEPSO	Electricity Transmission System Operator of Macedonia
MR	Macedonian Railways
NBRM	National Bank of the Republic of Macedonia
p.p	Percentage Points
RMDEN4	Denationalization Bond – 4 <sup>th</sup> issue
RMDEN5	Denationalization Bond – 5 <sup>th</sup> issue
RMDEN6	Denationalization Bond – 6 <sup>th</sup> issue
RMDEN7	Denationalization Bond – 7 <sup>th</sup> issue
RMDEN8	Denationalization Bond – 8 <sup>th</sup> issue
RMDEN9	Denationalization Bond – 9 <sup>th</sup> issue
RMDEN10	Denationalization Bond – 10 <sup>th</sup> issue
RMDEN11	Denationalization Bond – 11 <sup>th</sup> issue
RMDEN12	Denationalization Bond – 12 <sup>th</sup> issue
RMDEN13	Denationalization Bond – 13 <sup>th</sup> issue
RMDEN14	Denationalization Bond – 14 <sup>th</sup> issue
CEB	Council of Europe Development Bank

Pursuant to paragraph 1, Article 27 of the Law on Public Debt (“Official Gazette of the Republic of Macedonia“, no. 165/2014), 2015 Annual Report on Public Debt Management of the Republic of Macedonia is submitted to the Assembly 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 Assembly 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 aimed at its efficient management.

Pursuant to the Law on Public Debt, objectives of public debt management of the Republic of Macedonia are the following:

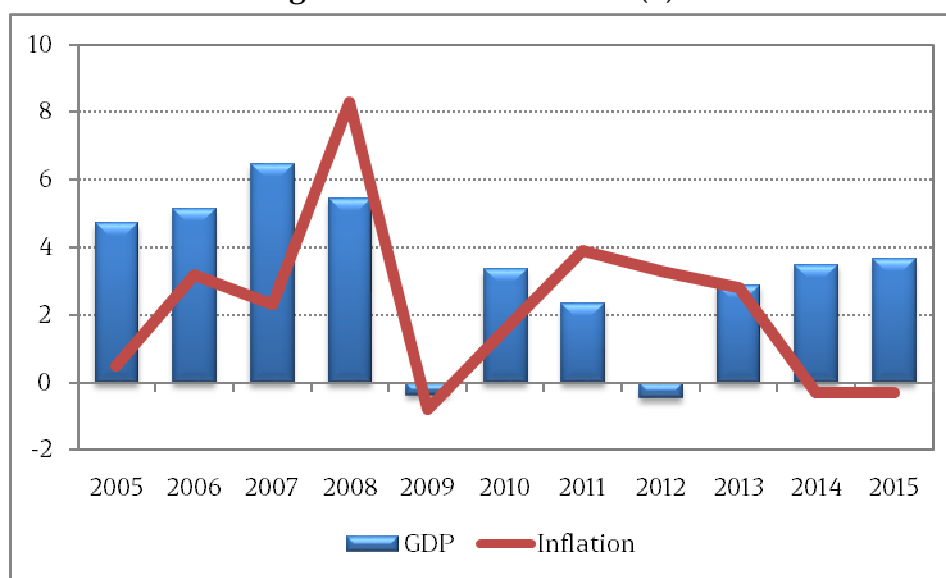
- financing the needs of the state with the lowest cost possible, in the medium and the long run, and with sustainable level of risk;
- identifying, monitoring and managing the risks which public debt portfolio is susceptible to; and
- developing and maintaining efficient domestic financial market.

## II Macroeconomic Trends in the Republic of Macedonia in 2015

### Gross Domestic Product

Pace of economic activity growth continued in 2015 as well, however with a higher intensity, accounting for 3.7% according to the initial data from the State Statistical Office.

Chart 1: Real GDP growth and inflation rate (%)



Source: State Statistical Office

Economic growth in 2015 was driven by the export of goods and services and final consumption. Export grew by 4.6% in real terms, mainly as a result of increased export from the capacities in the free economic zones, in conditions of favourable trends of the external demand. According to monthly data on export of goods, export growth in 2015 was, above all, a result of the increased export of machinery and transport equipment by around 27% and chemical products by 16%. Import of goods and services experienced lower growth compared to export, accounting for 2.4% in real terms, hence net export significantly contributed to the economic growth.

Consumption registered 3.5% growth in real terms, as a result of the growth of both private consumption and public consumption. Private consumption experienced 3.2% growth as a result, above all, of the increase of household disposable income, in conditions of increase of employment and salaries. Private consumption was also supported by increase of credits to households. Public spending increased by 4.6%. Gross investments in 2015 surged by 0.1% in real terms.

Analyzed by activity, the highest growth was observed in the construction sector in 2015, experiencing 16.8% increase, being a reflection, to a certain extent, of the fiscal stimulus through budget expenditures for infrastructure projects. Services sector surged by 3.9%, whereby trade, transport and catering sector, growing by 7.3%, contributed the most to the economic activity growth.

According to monthly data, industrial production grew by 4.9% in 2015, whereby more significant increase was observed at manufacture of motor vehicles (37%) and manufacture of machinery and equipment (21.3%), mainly as a result of the increased activity at the capacities in the free economic zones.

### **Inflation**

Inflation rate in 2015 amounted to -0.3%, the same as in 2014. Decline of consumer prices in 2015 was mostly due to the 16.5% drop of oil derivative prices, reflected in the drop of prices of crude oil on the global stock markets. Prices of food, a category accounting for the most in the consumer basket, experienced slight increase (0.1%).

### **Labour Market**

Positive trends on the labour market continued in 2015, however with a more intensive pace in relation to the previous year. According to the Labour Force Survey, unemployment rate continuously declined in the course of the year, dropping to 24.6% in the fourth quarter, i.e. dropping by 3 percentage points compared to the same quarter in 2014.

Chart 2. Annual increase of the number of employees and unemployment rate (%)



Source: State Statistical Office

Number of employees in 2015 increased by 2.3% compared to 2014, whereby most jobs were opened in Manufacturing and Trade Activity. An increase was also registered in the construction sector, as well as in other service activities, such as catering, financial and insurance activities, etc. Employment increase was mainly due to the investments by the companies in the free economic zones and the active employment measures, above all “Macedonia Employees” Project, as well as the realization of infrastructure projects in the public sector. Average gross salary in 2015 was higher by 2.7% in nominal

terms and by 3% in real terms.

### **External Sector**

Current account deficit remained low, accounting for 1.4% of GDP, in conditions of decreased trade deficit. Inflow of foreign direct investment amounted to EUR 157 million in 2015, accounting for 1.7% of GDP. Gross foreign currency reserves amounted to EUR 2.26 billion at the end of 2015, providing for 4.5-month coverage of import of goods and services, being at an adequate level to conduct the monetary policy.



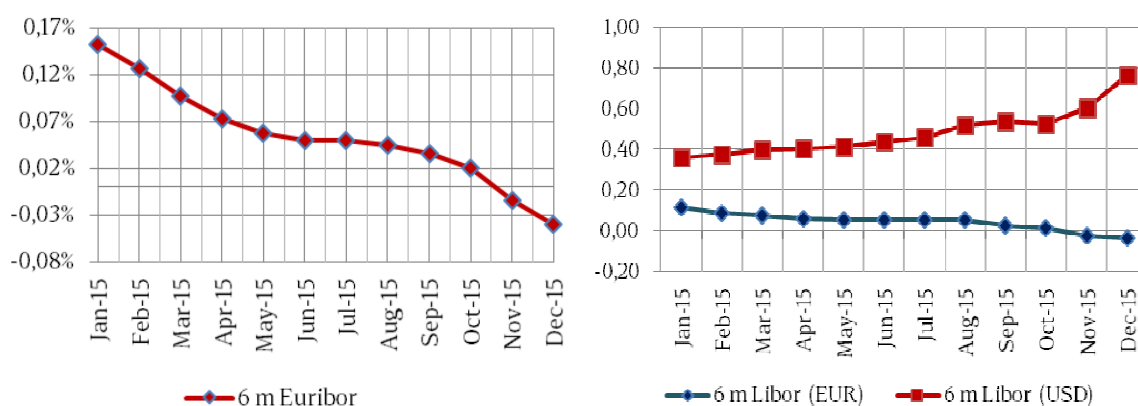
### III. More Significant Activities in the period January – December 2015

#### III.1 International Environment

In the course of 2015, 6-month Euribor dropped by 0.192 percentage points in average, i.e. average interest rate in January was 0,152%, accounting for -0.04% in December 2015. Same trends were observed at the interbank Euro LIBOR interest rate. In fact, average 6-month Euro LIBOR interest rate was 0.114% on the interbank deposit market in January 2015, its average value being 0.094% at the end of the year.

In the course of 2015, 6-month US Dollar LIBOR interest rate experienced an upward trend, its average value being 0.358% in January, surging to 0.764% in December.

Chart 3: Trend of EURIBOR and LIBOR interest rates in 2015

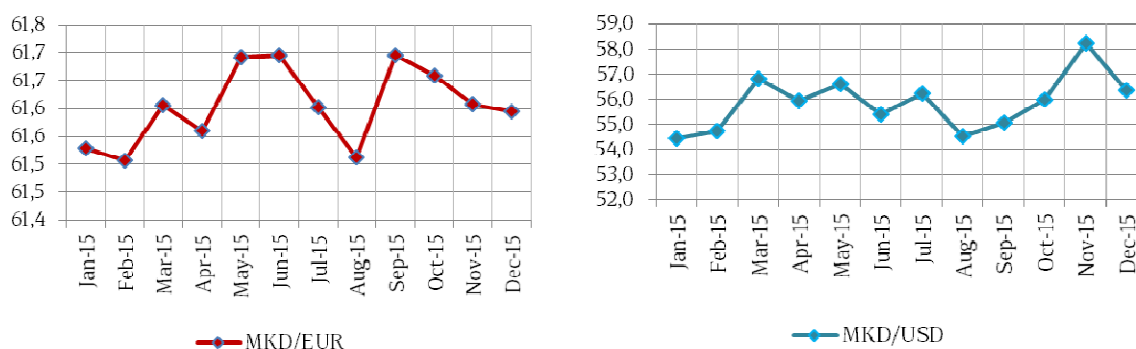


Source: Global-rates.com

Source: Global-rates.com

As for the foreign currency market in the Republic of Macedonia, Denar exchange rate in relation to the euro was stable, ranging from Denar 61.513 to Denar 61.696 per one euro. In the course of 2015, value of US dollar increase in relation to the denar, i.e. USD value ranged from Denar 54.4267 to Denar 58.231 per one USD.

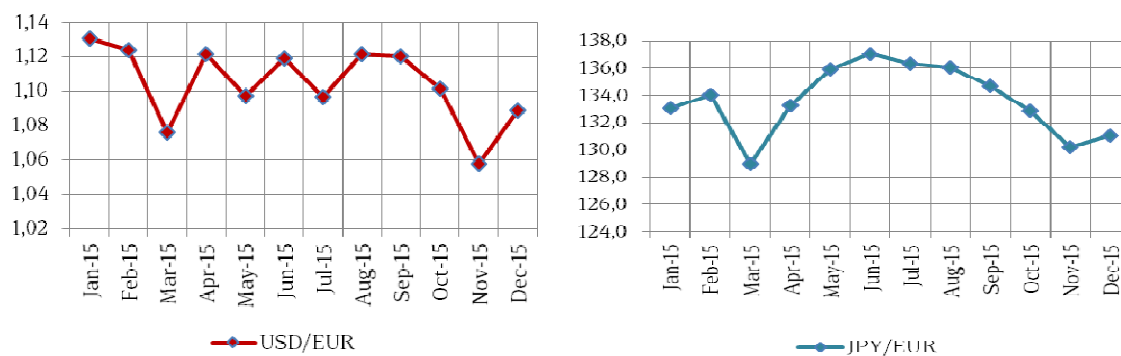
Chart 4: Denar/EUR and Denar/USD exchange rates in 2015



Source: NBRM

As regards the international financial market, USD value in relation to the euro increased in the course of 2015, reaching its highest value of 1.0579 per one euro in November 2015. With respect to Japanese Yen/EUR exchange rate, the highest value was registered in March 2015, while euro value in relation to Japanese Yen increased, reaching 137 Japanese Yen per one euro.

Chart 5: USD/EUR and Japanese Yen/EUR exchange rates in 2015



Source: European Central Bank

### **III. 2 Credit Rating of the Republic of Macedonia in 2015**

In the course of 2015, credit rating agencies Standard&Poor's and Fitch Ratings awarded Republic of Macedonia new revised credit rating.

On 17<sup>th</sup> April 2015 and 16<sup>th</sup> October 2015, Standard&Poor's credit rating agency affirmed Macedonia's previously awarded credit rating for local and foreign currency at BB-, at the same time affirming the country's stable outlook.

Affirmed credit rating was based on moderate level of public and general government debt, low inflation and stable well-capitalized banking sector. According to Standard&Poor's, economic growth in the coming four years is expected to be underpinned by the already commenced capital investments, FDI inflows, as well as continuous export growth.

Stable credit rating of the Republic of Macedonia is a significant 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, affirming the credit rating is yet another strong signal to the foreign investors that Macedonia is a country which they have confidence in and could be assured of sound macroeconomic policies in future as well.

On 27<sup>th</sup> February 2015, Fitch Ratings affirmed Macedonia's previously awarded credit rating for local and foreign currency at BB+, with stable outlook. The rating was again affirmed on 21<sup>st</sup> August 2015, however with a negative outlook as a result of the political shocks Republic of Macedonia faced.

Latest Fitch Ratings 2015 Report indicates the following strengths of the Macedonian economy: macroeconomic stability, low inflation, low interest costs, well-capitalized and liquid banking sector, moderate current account deficit and high investments, which are to support the medium-term growth potential. In addition, according to World Bank research, Republic of Macedonia is highly ranked among the countries worldwide in ease of doing business.

Recent credit ratings the Republic of Macedonia was awarded in 2014 and 2015 by the credit rating agencies Standard&Poor's and Fitch Ratings are shown in the table below:

#### Standard & Poor's credit rating agency

	2014	2015
Foreign currency	BB+/stable	BB+/stable
Local currency	BB-/stable	BB-/stable

*Source: Standard & Poor's*

#### Fitch Ratings

	2014	2015
Foreign currency	BB+/stable	BB+/negative
Local currency	BB+/stable	BB+/negative

*Source: Fitch Ratings*

### III. 3 Trends in General Government and Public Debt of the Republic of Macedonia

Public debt of the Republic of Macedonia<sup>1</sup> amounted to EUR 4,227.2 million at the end of 2015, accounting for 46.5% of GDP. External public debt amounted to EUR 2,847.5 million, while domestic public debt amounted to EUR 1,379.7 million.

General government debt of the Republic of Macedonia<sup>2</sup> amounted to EUR 3,453.3 million, i.e. 38.0% of GDP. Hence, Republic of Macedonia remains to be moderately indebted country as regards the level of general government debt, which is far lower than the average at EU level.

External general government debt amounted to EUR 2,096.7 million at the end of 2015, increasing by EUR 4.5 million in relation to 2014, while domestic general government debt amounted to EUR 1,356.6 million, increasing by EUR 186.3 million in relation to 2014.

From the point of view of currency structure of general government debt, euro - denominated debt predominated in 2015, accounting for 64.6% in the total portfolio and increasing by 1.7 p.p. in relation to 2014. Debt dominated in domestic currency surged by 3.2 percentage points in the same period, i.e. from 22.3% to 25.5%.

As regards interest rate structure of the general government debt, debt with fixed-interest rate increased by 1.1 p.p. compared to 2014, accounting for 68.4% at the end of 2015. Such increase of debt with fixed-interest rate was a result of the increased level of issued long-term treasury bonds on the domestic market. In addition, Ministry of Finance issued the fourth Eurobond, with fixed interest rate, on the international capital market in 2015.

As regards the limits set in the Public Debt Management Policy, as an integral part of 2015 – 2017 Fiscal Strategy, it can be concluded that public debt is within the set limits, i.e. Ministry of Finance manages the public debt of the Republic of Macedonia in line with the authorizations by the Government of the Republic of Macedonia. In fact, 2015 – 2017 Fiscal Strategy defined for the public debt not to exceed 60% of GDP on medium and long term, while public debt in relation to GDP was within the set limits at the end of 2015, accounting for 46.5%. In line with the limit on currency structure of general government debt, euro-denominated debt should account for at least 70% of the foreign currency denominated debt portfolio, and it accounted for 86.6% as of 31<sup>st</sup> December 2015 inclusive.

In addition, interest rate limit was successfully applied and was in line with the limit on interest structure of general government debt, according to which fixed-

---

<sup>1</sup> Public debt comprises general government debt and debt of public enterprises established by the state or the municipalities, the municipalities within the City of Skopje and the City of Skopje, as well as companies, being fully or predominantly owned by the state or the municipalities, the municipalities within the City of Skopje and the City of Skopje, for which the state has issued a sovereign guarantee.

<sup>2</sup> General government debt comprises the financial liabilities incurred on the basis of borrowing by the Republic of Macedonia, the public institutions established by the Republic of Macedonia and the municipalities, the municipalities within the City of Skopje and the City of Skopje.

interest debt should account for at least 50% of the total debt portfolio. In fact, fixed-interest rate debt accounted for 68.4% at the end of 2015.

In order to protect central government debt portfolio against re-financing risk, limit was defined, according to which the minimum level of “average time to maturity” indicator in 2015 should be 3 years. Taking into account that “average time to maturity” was 4.3 years as of 31<sup>st</sup> December 2015 inclusive, it could be concluded that this indicator was within the limit set. Limit on “average time to refixing” should protect central government debt portfolio against the interest rate risk, hence minimum level for this indicator in 2015 was set at 2 years. At the end of 2015, “average time to refixing” was also within the limit set, i.e. 3.6 years.

### **III. 4 Servicing of Government and Public Debt of the Republic of Macedonia**

Ministry of Finance, as well as the other public debt issuers, serviced all liabilities on the basis of government and public debt that fell due in 2015 on regular basis and on time.

As regards repayment of liabilities on the basis of public debt in 2015, which includes the general government debt and the guaranteed debt of public enterprises, EUR 664.8 million was spent, EUR 550.1 million out of which for principal repayment and EUR 114.7 million for interest repayment.

### **III. 5 Early Repayment of IMF Debt**

Ministry of Finance manages the debt on continuous basis, adhering thereby to the basic objectives, i.e. ensuring the lowest costs with acceptable level of risk and developing the domestic securities market. At the beginning of 2015, within the activities aimed at debt management and permanent monitoring of all factors that could lead to reducing the risks to debt portfolio, currency risk was registered, arising as a result of the oscillations at USD values in relation to the euro, which respectively increased the currency risk to the debt portfolio. Currency risk was mostly located at part of the SDR-denominated portfolio (which are directly related to USD appreciation). Taking into account the developments on the international financial markets and their effect on the debt portfolio, Ministry of Finance early repaid the IMF debt in the amount of USD 174 million, contributing to multiple positive effects in generating interest savings, savings related to the exchange rate, at the same time reducing the debt by 1.7 p.p.. Government foreign currency deposits were used for this operation.

### **III.6. Issue of the Fourth Eurobond of the Republic of Macedonia**

In November 2005, Republic of Macedonia issued Eurobond in the amount of EUR 270 million on the international capital market, with 4.875% interest rate, i.e. 5.125% yield rate. Maturity period of the Eurobond is 5 years, i.e. it falls due in 2020.

More than 100 institutional investors, among which renowned investment banks, pension funds, insurance companies and equity funds from Europe and the USA, subscribed for the Eurobond.

Republic of Macedonia realized this transaction in cooperation with Citibank, Deutsche Bank and Erste Bank.

In the course of 2015, Eurobond issued by the Republic of Macedonia in 2014, falling due in 2021, as well as the Eurobond issued in 2005, falling due in December 2015, were also traded on the international capital market, in addition to the newly issued Eurobond. As of December 2015 inclusive, yields to maturity as regards the Eurobonds issued in 2005, 2015 and 2015 amount to 0.63300%, 5.13372% and 5.06119% respectively.

### **III.7 Issuance of the Fourteenth Issue of Denationalization Bonds**

Pursuant to the Law on Issuance of Denationalization Bonds by the Republic of Macedonia ("Official Gazette of the Republic of Macedonia", nos. 37/02, 89/08, 161/09, 6/12, 104/13 and 33/15), fourteenth issue of denationalization bonds was issued, amounting to EUR 9.5 million.

Terms and conditions for this issue of bonds were identical as for the first thirteen issues, i.e. 10-year maturity period and 2% fixed interest rate per annum. First installment for payment of the principal and the interest on this issue falls due on 1<sup>st</sup> July 2016.

This issue of the denationalisation bonds covers all effective decisions on denationalisation adopted in the period from 1<sup>st</sup> February 2014 to 31<sup>st</sup> January 2015, according to which bonds are given as form of compensation.

### **III.8 Continuous Government Securities**

#### **III.8.1 Primary Government Securities Market (GS)**

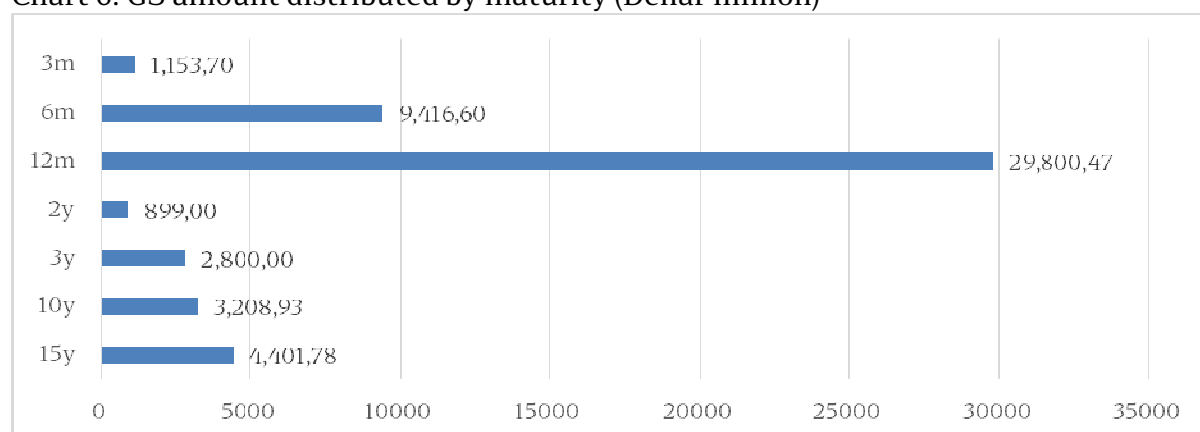
**Borrowing by issuing government securities in 2015** – Under the Decision on determining the maximum amount of new borrowing by issuing government securities in 2015, adopted by the Government of the Republic of Macedonia, maximum amount of new borrowing was determined in the amount of Denar 18,450.00 million. Thus, new (net) borrowing on the basis of issued GS in 2015 amounted to Denar 12,513.71 million, while the stock of total issued GS amounted to Denar 78,333.65 billion as of 31<sup>st</sup> December 2015 inclusive.

**GS auctions** – In the period January – December 2015, Ministry of Finance issued, on regular basis, 3-, 6- and 12-month treasury bills with and without foreign exchange clause, as well as 2-, 3-, 10- and 15-year treasury bonds with and without foreign exchange clause. During this period, total of ninety three (93) GS auctions were held, i.e. four (4) auctions of 3-month treasury bills, eleven (11) auctions of 6-month

treasury bills, twenty five (25) auctions of 12-month treasury bills, three (3) auctions of 2-year treasury bonds, five (5) auctions of 3-year treasury bonds, twenty five (25) auctions of 10-year treasury bonds and twenty (20) auctions of 15-year treasury bonds.

Total amount offered at the GS auctions in 2015 was Denar 53,570.12 million, demand amounted to Denar 51,680.48 million, while total auctions in the period amounted to Denar 51,680.48 million. Chart 6 shows the allocation of the total amount distributed on the basis of the issued GS by maturity:

Chart 6: GS amount distributed by maturity (Denar million)



Source: Ministry of Finance

**Trends of interest rates at GS auctions** – Volume tender was applied at the GS auctions held in the course of 2015. Average interest rates in 2015 at the auctions of government securities with and without foreign exchange clause are presented in Table 3 and Table 4.

**Maturity structure of undue GS** - In 2015, continuous GS portfolio comprised 3-, 6-and 12-month treasury bills, 2-, 3-, 5-, 10- and 15-year treasury bonds.

In line with 2012 IMF Mission recommendations, Ministry of Finance continued implementing measures and activities aimed at strengthening the domestic securities market, paying special attention to extending the maturity of government securities portfolio by introducing longer maturity instrument. Following the successful issue of 10-year treasury bonds in 2014, the first 15-year bond was issued in February 2015. It contributed to strengthening the government securities market and increasing the average time to maturity of the domestic debt portfolio. Thus, risks when managing public debt are reduced, at the same time the debt portfolio is less sensitive to external shocks, all this contributing to boosting of the domestic GS market.



**Ownership structure of undue GS** – Dominant share of banks in ownership structure of undue government securities continued in the course of 2015 as well. As of 31<sup>st</sup> December 2015 inclusive, percentage share of banks in the ownership structure of the government securities accounted for 46.43%, while the share of the other market entities accounted for 53.57%. As of 31<sup>st</sup> December 2015 inclusive, ratio between banks and other market entities was 47.09 against 52.91 respectively. During the analyzed period, share of banks dropped by 0.66 p.p. 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 enables trading in all structural government securities on the Macedonian Securities Stock Exchange AD, as well as trading in continuous government securities on the OTC market.

In 2015, total volume of trading in bonds on the Macedonian Stock Exchange AD Skopje amounted to EUR 684,109,211, increasing by 26.42% compared to 2014, when it amounted to EUR 541,153,799.

During the same period, total of thirty six (36) transactions with government securities were carried out on the over-the-counter market, fifteen (15) out of which were transactions with treasury bills and twenty one (21) transactions with treasury bonds. Total nominal trading amounted to Denar 3,096,860,000. Compared to 2014 trading, it can be concluded that more transaction were carried out in 2015 and total nominal amount of trading was higher by Denar 929,550,000 in relation to 2014.

### **III.9 Newly Concluded Loans in 2015**

#### **III.9.1 New Loans Concluded by Central Government**

##### **• Borrowing by the Republic of Macedonia at the Council of Europe Development Bank under the Loan Agreement for the Project for Construction and Modernization of Clinical Center “Mother Teresa” and the Regional Clinical Hospital in Stip**

On 15<sup>th</sup> July 2015, Ministry of Finance, on behalf of the Government of the Republic of Macedonia, and the Council of Europe Development Bank signed Framework Agreement in the amount of EUR 97 million, intended for implementation of the Project for Construction and Modernization of Clinical Center “Mother Teresa” and the Regional Clinical Hospital in Stip. Realization of this Project will contribute to a great extent to implementing the health sector reforms in the Republic of Macedonia and providing quality tertiary health services in line with the EU Member States. Whole population in the Republic of Macedonia will benefit from this investment.

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

- amount: EUR 97 million;
- interest rate: interest rate will be determined for each loan tranche separately, on the day the loan proceeds are disbursed, depending on which interest rate is more favourable for the Republic of Macedonia (fixed or variable);
- repayment period: 20 years at the most, including 5-year grace period;
- repayment method: repayment schedule will be determined for each loan tranche separately, on the day the loan proceeds are disbursed.

**• Borrowing by the Republic of Macedonia at Deutsche Bank and Erste Bank under the Loan Agreement for financing the Project “Gasification in Republic of Macedonia – Phase 1 – Stip – Negotino Section and Skopje – Tetovo – Gostivar Section”**

On 10<sup>th</sup> December 2015, Ministry of Finance, on behalf of the Government of the Republic of Macedonia, and Deutsche Bank and Erste Bank signed Loan Agreement in the amount of EUR 90 million, intended for financing the Project “Gasification in Republic of Macedonia – Phase 1 – Stip – Negotino Section and Skopje – Tetovo – Gostivar Section”. Realization of this Project will provide for availability of natural gas as a competitive and environment-friendly and clean energy source to the businesses, the industry and the households, connecting several regions in the country with the natural gas transmission system, as well as stability in supply of energy sources, above all to the industry, contributing to higher economic development of all regions in the Republic of Macedonia

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

- amount: EUR 90 million;
- interest rate: six-month EURIBOR + 450 basic points margin;
- repayment period: 7 years;
- grace period: 3 years;
- repayment method: the loan will be repaid in 8 semi-annual installments, starting from the 42<sup>nd</sup> month from the day of signing the Agreement (June 2019), ending on the 84<sup>th</sup> month from the day of signing the Agreement (December 2022). First 4 installments account for 15% each of the total loan amount, while the remaining 4 installments account for 10% each of the total loan amount.

### **III.9.2 New Loans Concluded by Local Government**

**• Project: “Construction of Infrastructure and Infrastructure Facilities of Municipal Public Institutions for Accelerated Sustainable Economic Development”**

On 30<sup>th</sup> January 2015, Karpos Municipality and Komercijalna Banka AD Skopje signed Agreement for Short-Term Loan in the amount of Denar 160,000,000.00 for realization of the Project intended for construction, maintenance, reconstruction and preservation

of side and residential streets and other infrastructure facilities within the competence of the municipality, construction and maintenance of public lighting of residential and side streets, as well as reconstruction and rehabilitation of facilities of municipal primary schools and reconstruction and rehabilitation of public institutions, municipal kindergartens on the territory of the municipality.

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

- amount: Denar 160,000,000.00;
- repayment period: 10 (ten) years, including 1 (one)-year grace period;
- interest rate: interest rate is variable, 6.2% annually;
- fees prior to using the loan: front-end fee in the amount of 0.5% of the approved loan and 0.5% of the amount of the used proceeds, however, not exceeding Denar 150,000;

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

On 12<sup>th</sup> February 2015, Kriva Palanka Municipality and Macedonian Bank for Development Promotion AD Skopje signed Short-Term Loan Agreement in the amount of Denar 1,968,000.00 for financing the Project under IPA Cross-Border Cooperation Component, for the purpose of realization of the capital project “Public Building – Energy Efficient”.

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

- amount: Denar 1,968,000.00;
- interest rate: 5.75%;
- acceptable period for principal repayment: quarterly, on 15<sup>th</sup> July 2015 and 15<sup>th</sup> October 2015.

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

On 16<sup>th</sup> March 2015, Delcevo Municipality and Macedonian Bank for Development Promotion AD Skopje signed Short-Term Loan Agreement in the amount of Denar 1,000,000.00 for financing the Project under IPA Cross-Border Cooperation Component, for the purpose of realization of the capital project “Social Cohesion through Extra-Curricular Activities by Building Centers according to the Interests”.

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

- amount: Denar 1,000,000.00;
- interest rate: 5.75%;
- acceptable repayment period, including grace period: 1 year, including 6-month grace period;
- repayment method: quarterly.

#### **• Short-term borrowing within the Project under IPA Cross-Border Cooperation**

## **Component**

On 8<sup>th</sup> July 2015, Gevgelija Municipality and Macedonian Bank for Development Promotion AD Skopje signed Short-Term Loan Agreement in the amount of Denar 11,380,000.00, Denar 5,800,000.00 of which for the Project “Common Culture, Tradition and History - Bridge to Our European Future” and Denar 5,580,000.00 for the Project “Promotion of Sustainable Tourism and Environment Protection through Partnership”.

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

- amount: Denar 11,380,000.00;
- interest rate: 5.75%;
- acceptable repayment period: quarterly, on 15<sup>th</sup> January 2016 and 15<sup>th</sup> April 2016.

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

On 10<sup>th</sup> November 2015, Probistip Municipality and Macedonian Bank for Development Promotion AD Skopje signed Short-Term Loan Agreement in the amount of Denar 2,706,440.00 for financing the Project under IPA Cross-Border Cooperation Component, for the purpose of realization of the capital project “Improvement of Energy Efficiency in Cross-Border Region – Pro-Energy”.

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

- amount: Denar 2,706,440.00;
- interest rate: 5.75%;
- acceptable repayment period, including grace period: 1 year, including 6-month grace period;
- repayment method: quarterly.

### **• Project: “Construction of Infrastructure and Infrastructure Facilities of Municipal Public Institutions for Accelerated Sustainable Economic Development”**

On 23<sup>rd</sup> December 2015, Ilinden Municipality and Halk Bank AD Skopje signed Short-Term Loan Agreement in the amount of EUR 1,134,500.00 in Denar equivalent determined on the disbursement day according to the middle exchange rate on NBRM indicative exchange rates (however, not exceeding Denar 70,000,000.00), for the purpose of realization of the Project “Construction of Infrastructure and Infrastructure Facilities of Municipal Public Institutions for Accelerated Sustainable Economic Development”.

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

- amount: EUR 1,134,500.00, however, not exceeding Denar 70,000,000.00;
- interest rate: 5.8% annually, variable in line with Halk Bank AD Skopje acts; Interest falls due on six months, commencing on 30<sup>th</sup> June 2017, by 31<sup>st</sup> December 2021 at the latest;

repayment period: loan is repaid in ten equal semi-annual annuities, commencing on 30<sup>th</sup> June 2017, by 31<sup>st</sup> December 2021 at the latest;

- grace period: from the disbursement date by 31<sup>st</sup> December 2016. Intercalary interest rate is calculated during the grace period of 5.8% annually;

front-end fee: 0.5% of the loan amount, one-off and in advance; and

early repayment fee: 3% of the amount of early repaid principal, variable in line with Halk Bank AD Skopje acts.

### III.10 Guarantees Issued in 2015

#### • **Sovereign guarantee of the Republic of Macedonia issued to AD ELEM as regards liabilities under the Loan Agreement with KfW for District Heating Bitola Project**

On 29<sup>th</sup> December 2015, AD ELEM and KfW concluded Loan Agreement for financing the District Heating Bitola Project. Project realization envisages construction of heat energy generation system, primary pumping station and heat exchangers, hot water distribution network in Bitola and heat substations in facilities within the central heating system. At the same time, depending on the interest, connections to future distribution networks for Novaci, Mogila and Logovardi settlements will be built.

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

- amount: EUR 39 million;
- interest rate: 1.5%;
- repayment period: 15 years;
- grace period: 4 years;
- repayment method: the loan will be repaid in equal semi-annual installments, falling due each 30<sup>th</sup> January and 30<sup>th</sup> July, commencing on 30<sup>th</sup> January 2020, ending on 30<sup>th</sup> July 2030.

#### • **Sovereign guarantee of the Republic of Macedonia issued to Public Enterprise for State Roads as regards liabilities under the Loan Agreement with the European Bank for Reconstruction and Development for financing Stip – Radovis Road Section**

On 18<sup>th</sup> November 2015, Guarantee Agreement was signed as regards the sovereign guarantee of the Republic of Macedonia issued to Public Enterprise for State Roads with respect to the liabilities under the Loan Agreement with the European Bank for Reconstruction and Development for financing Stip – Radovis Road Section, in the amount of EUR 64 million. Project realization envisages construction of an express road from Stip (Tri Cesmi intersection) to Radovis (Radovis intersection), 39 km long and 11.4 km wide, by reconstructing and expanding 18 km of the existing Stip – Radovis road section and constructing new 21 km long road. This will contribute to facilitating the transport of people, goods and services in the southeast part of the country.

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

- amount: EUR 64 million;
- interest rate: six-month EURIBOR + 1% margin;
- repayment period: 15 years;
- grace period: 4 years;
- repayment method: the loan will be repaid in equal semi-annual installments, falling due each 20<sup>th</sup> March and 20<sup>th</sup> September, commencing in 2019, ending in 2030.

**• Sovereign guarantee of the Republic of Macedonia issued to Public Enterprise for State Roads as regards liabilities under the Loan Agreement with the European Bank for Reconstruction and Development for additional financing of the National Roads Program**

On 10<sup>th</sup> November 2015, Annex to the Guarantee Agreement was signed as regards the sovereign guarantee of the Republic of Macedonia issued to Public Enterprise for State Roads with respect to settlement of the liabilities under the Loan Agreement with the European Bank for Reconstruction and Development for the “National Roads Program”. Republic of Macedonia guarantees the settlement of liabilities in amount of EUR additional 21,000,000, thus the total loan amount for this Program is EUR 181,000,000. Funds in the amount of EUR 21,000,000 will be used for improving the quality of the road infrastructure on Stip – Kocani section, i.e. harmful influence on the environment will be reduced, and road safety and visibility will be improved.

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

- amount: EUR 21 million;
- interest rate: six-month EURIBOR + 1% margin;
- repayment period: 15 years;
- grace period: 4 years;
- repayment method: the loan will be repaid in equal semi-annual installments, falling due each 20<sup>th</sup> August and 20<sup>th</sup> February, commencing in 2019, ending in 2030.

**• Sovereign guarantee of the Republic of Macedonia issued to Public Enterprise for State Roads as regards liabilities under the Loan Agreement with the World bank for financing the Road Upgrading the Development Project**

On 6<sup>th</sup> October 2015, Guarantee Agreement was signed as regards the sovereign guarantee of the Republic of Macedonia issued to Public Enterprise for State Roads with respect to the liabilities under the Loan Agreement with the World Bank for financing the Road Upgrading and Development Project, in the amount of EUR 83 million.

The Project comprises the following components:

Component 1: Construction along Corridor VIII (EUR 78 million) – express road will be built along the east section of Corridor VIII, between Rankovce and Kriva Palanka.

Component 2: establishment of bridge management system and institutional support (EUR 5 million).

Project objective is improvement of road infrastructure along Corridor 8.

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

- amount: EUR 83 million;
- interest rate: six-month EURIBOR plus variable spread;
- repayment period: 28 years;
- grace period: 8 years;
- repayment method: semi-annual installments, falling due each 15<sup>th</sup> May and 15<sup>th</sup> November, commencing in 2023, ending in 2043.

## IV. Public Debt Management Activities

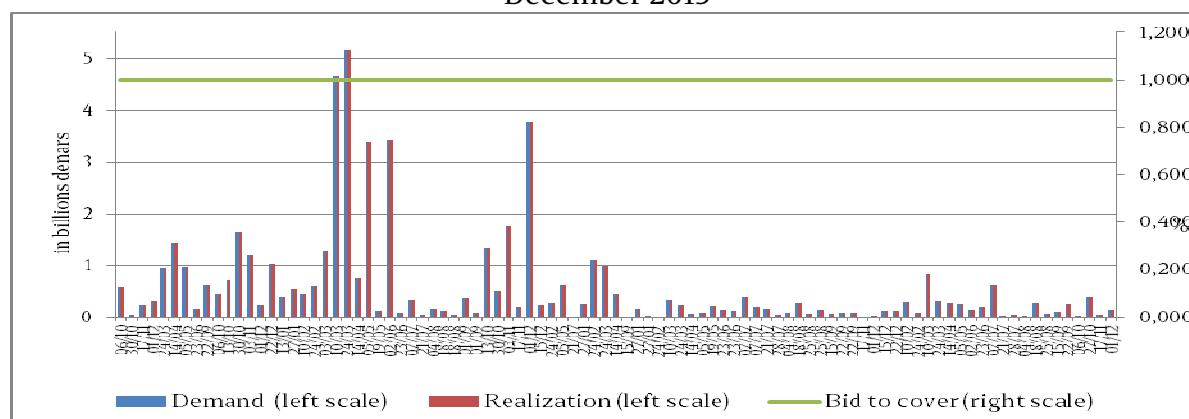
### IV.1 Primary Government Securities Market

Table 1: Net issue of government securities and structural bonds

	Denar million	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Total 2015
<b>I</b>	Net issued government securities	5,762.44	2,355.82	-1,092.87	5,488.31	12,513.71
	3-month treasury bills	0.00	0.00	0.00	1,149.79	1,149.79
	6-month treasury bills	963.91	2,545.91	-343.23	2,662.40	5,828.99
	12-month treasury bills	-104.58	-2,693.41	549.53	1,612.21	-636.25
	2-year treasury bonds	260.00	625.00	-2,532.30	-510.18	-2,157.48
	3-year treasury bonds	2,350.00	430.00	-1,766.05	-297.27	716.68
	5-year treasury bonds	0.00	0.00	0.00	0.00	0.00
	10-year treasury bonds	775.90	599.36	1,564.70	270.24	3,210.20
	15-year treasury bonds	1,517.21	848.96	1,434.49	601.12	4,401.78
<b>II</b>	14 <sup>th</sup> issue of denationalization bonds	0.00	584.25	0.00	0.00	584.25
<b>I+II</b>	Total	5,762.44	2,940.07	-1,092.87	5,488.31	13,097.96

Source: MoF

Chart 7: Demand and realization of government securities auctions, January – December 2015



Source: MoF

Chart 8: Realized government securities, January – December 2015

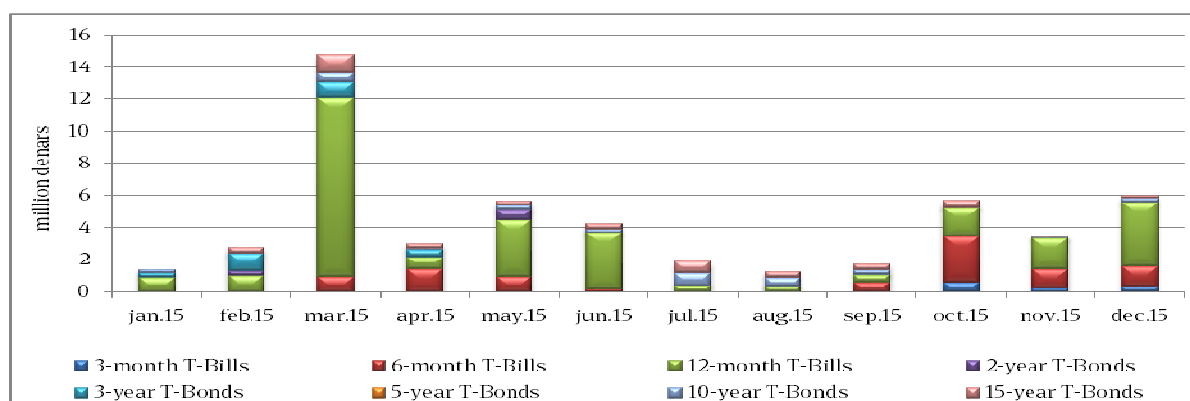




Table 2: Average interest rates on GS without foreign exchange clause in 2015

Auction date	3-month T-bills	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			1.70%		2.65%		3.80%
February			1.70%	2.20%	2.65%		3.80%
March		1.25%	1.70%		2.65%		3.80%
April		1.25%	1.70%		2.65%		3.80%
May		1.25%	1.70%	2.20%			3.80%
June		1.25%	1.70%				3.80%
July			1.70%				3.80%
August			1.70%				3.80%
September		1.25%	1.70%		2.65%		3.80%
October	1.26%	1.83%	2.14%				
November	1.35%	2.10%	2.50%				
December	1.35%	2.10%	2.50%				3.80%

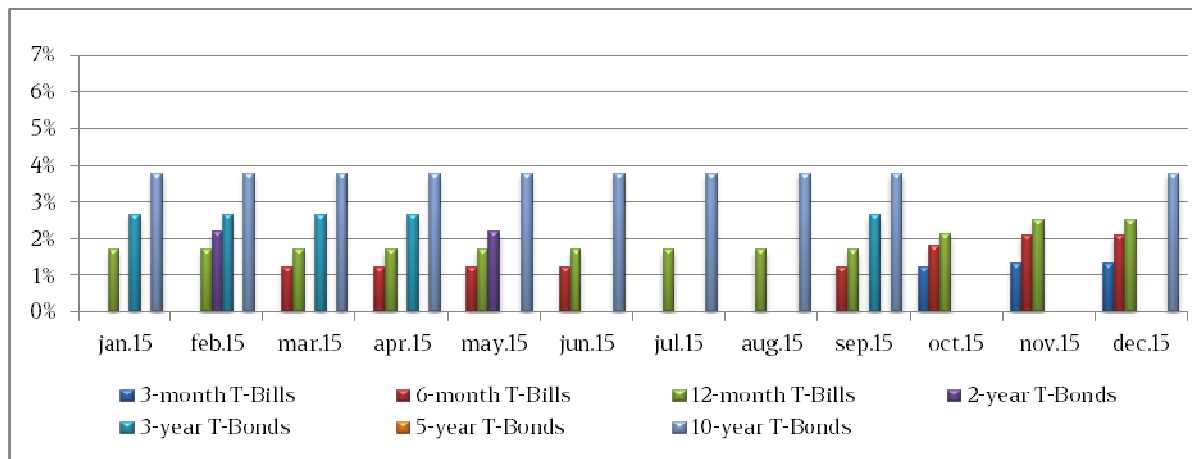
Source: MoF

Table 3: Average interest rates on GS with foreign exchange clause in 2015

Auction date	12-month T-bills	2-year T-bonds	3-year T-bonds	5-year T-bonds	10-year T-bonds	15-year T-bonds
January					3.50%	
February						4.00%
March						4.00%
April						4.00%
May					3.50%	4.00%
June	1.50%				3.50%	4.00%
July	1.50%	2.00%			3.50%	4.00%
August	1.50%				3.50%	4.00%
September	1.50%				3.50%	4.00%
October						4.00%
November					3.50%	4.00%
December					3.50%	4.00%

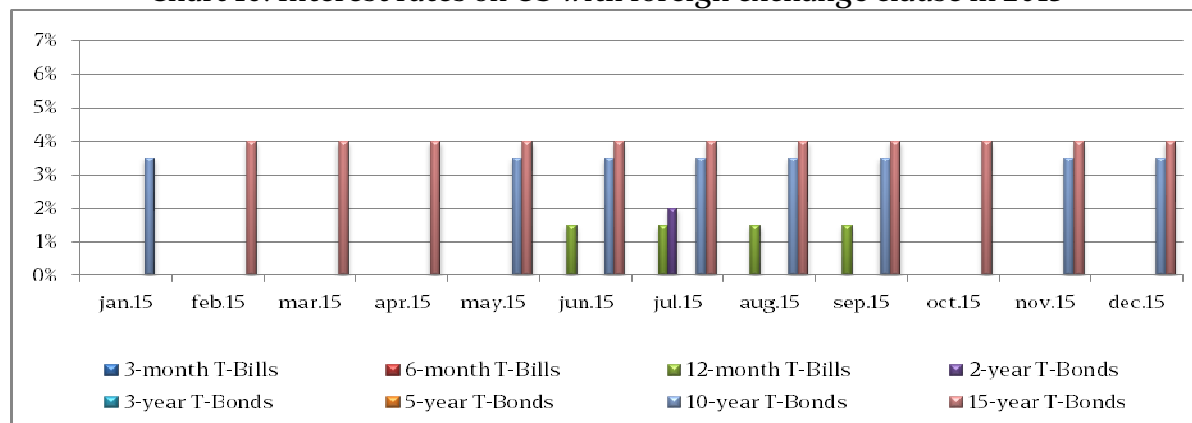
Source: MoF

Chart 9: Interest rates on GS without foreign exchange clause in 2015



Source: MoF

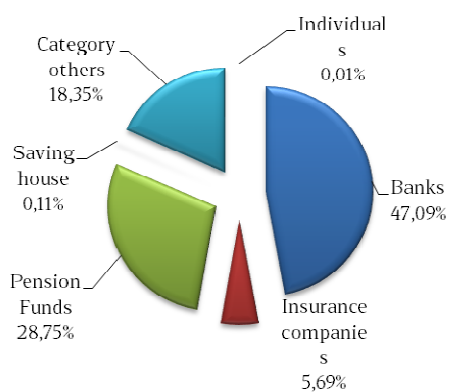
Chart 10: Interest rates on GS with foreign exchange clause in 2015



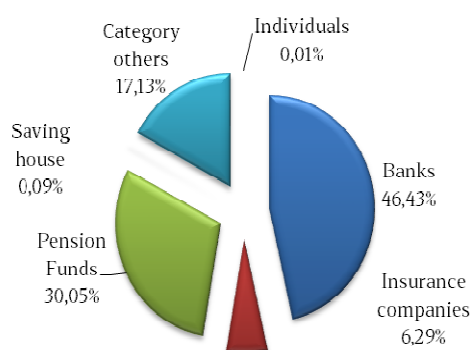
Source: MoF

Chart 11: Ownership structure of continuous GS

31<sup>st</sup> December 2014



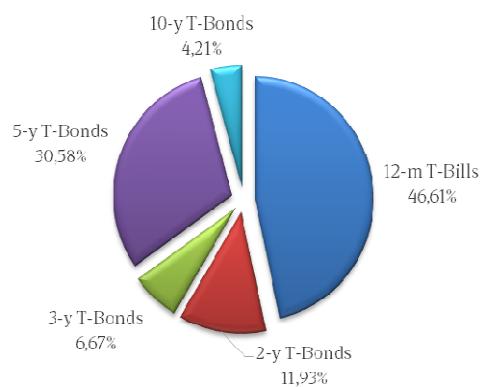
31<sup>st</sup> December 2015



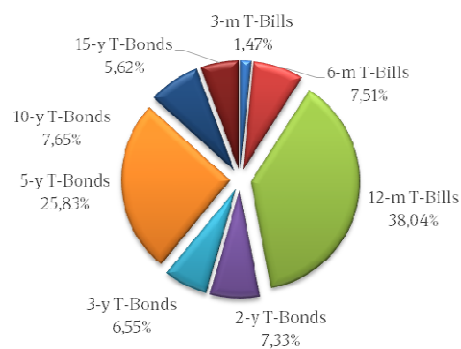
Source: MoF

Chart 12: Maturity structure of continuous GS

31<sup>st</sup> December 2014

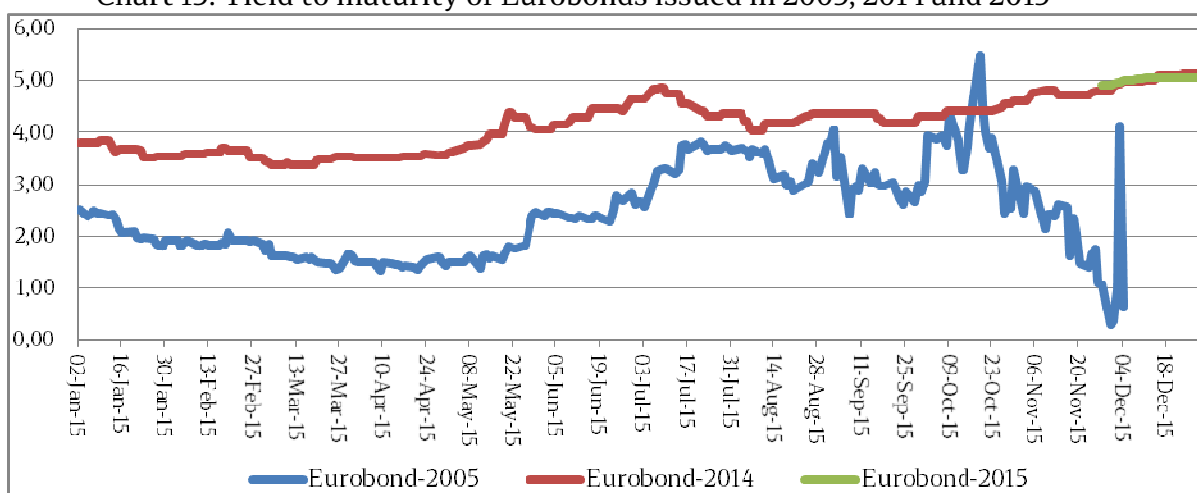


31<sup>st</sup> December 2015



Source: MoF

Chart 13: Yield to maturity of Eurobonds issued in 2005, 2014 and 2015

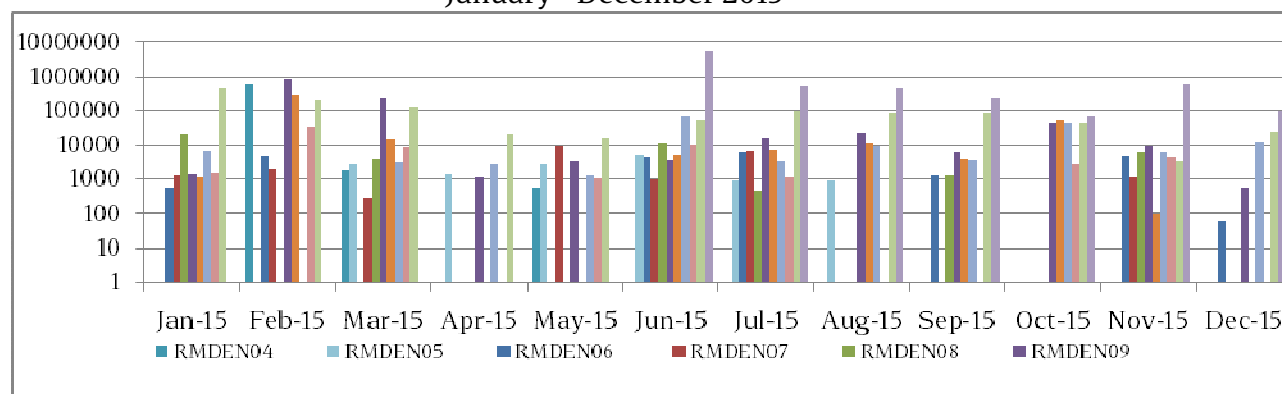


Source: MoF

## IV.2 Secondary Government Securities Market

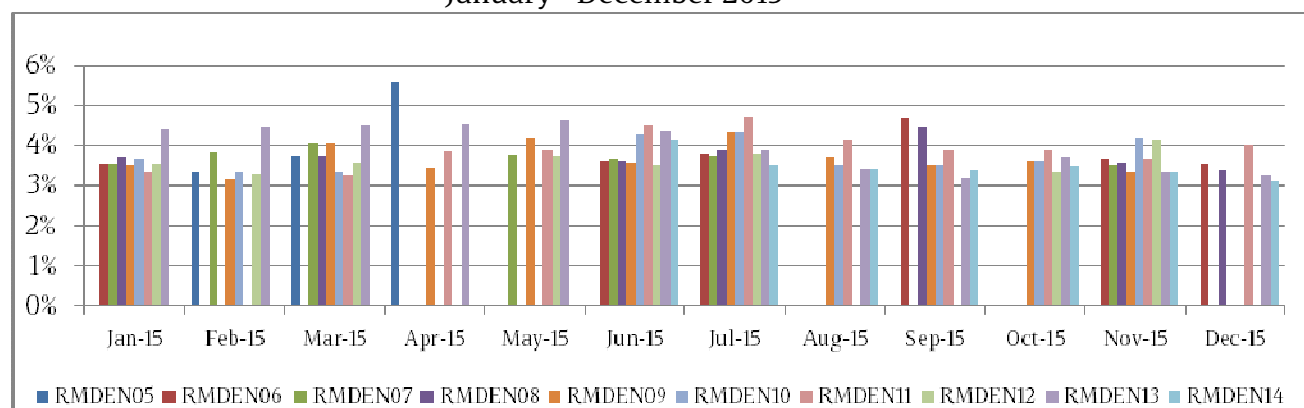
### IV.2.1 Macedonian Stock Exchange AD Skopje

Chart 14: Trading volume for structural treasury bonds  
January - December 2015



Source: Macedonian Stock Exchange AD Skopje

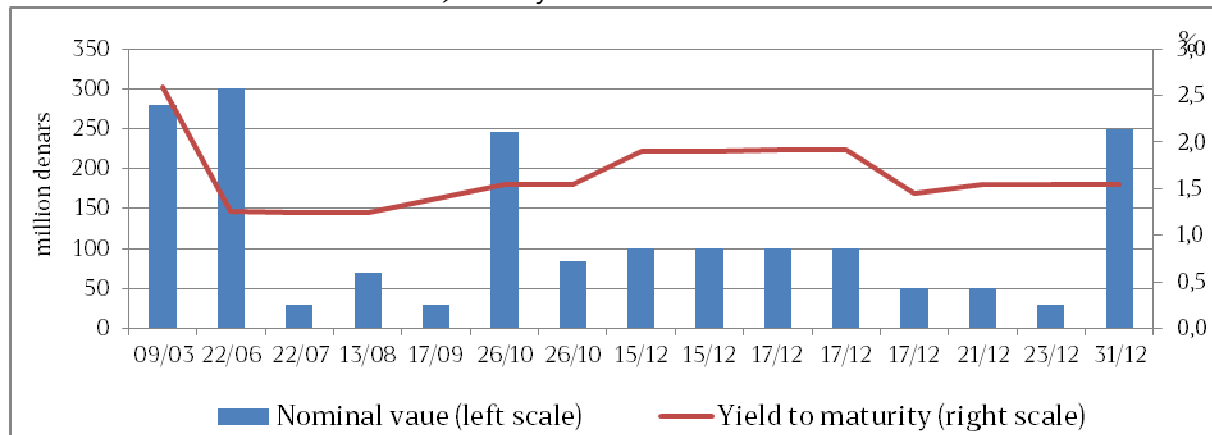
Chart 15: Yield to maturity of structural treasury bonds  
January - December 2015



Source: Macedonian Stock Exchange AD Skopje

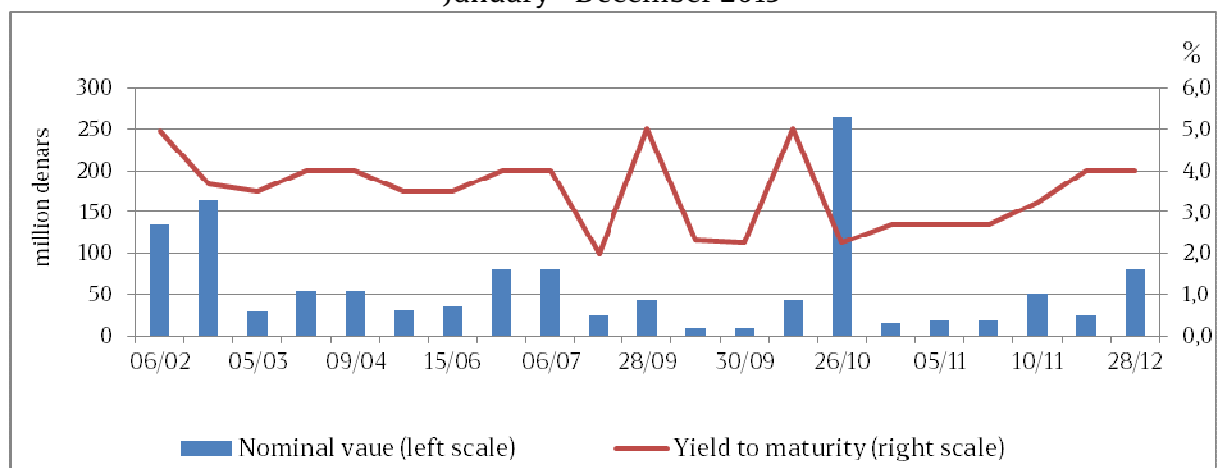
## IV.2.2 Over-The-Counter Markets (OTC Markets)

Chart 16: Concluded transactions on the OTC market  
January - December 2015



Source: NBRM

Chart 17: Concluded transactions on the T-bonds OTC market  
January - December 2015



Source: NBRM

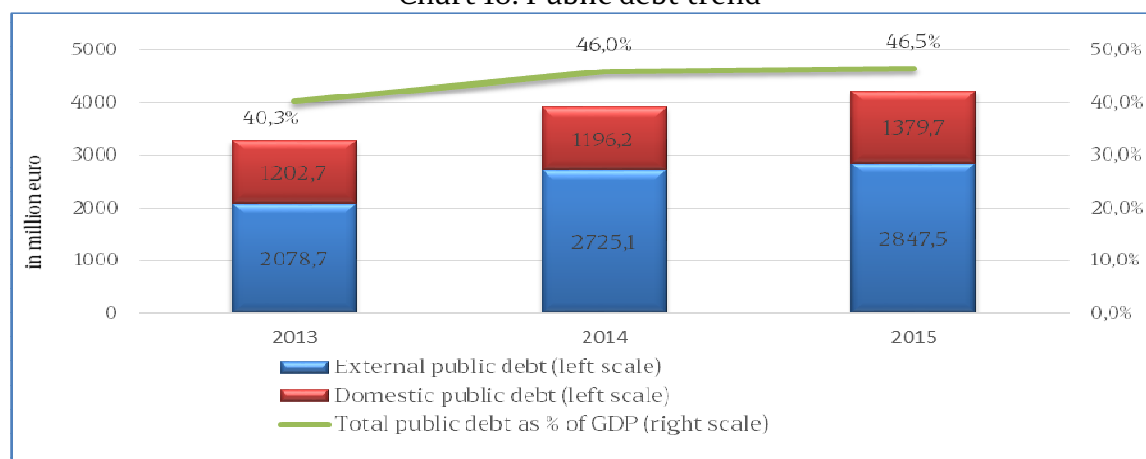
## V. Public Debt Portfolio Features

Table 4 Public debt stock

(EUR million)	2013	2014	2015
General government debt	2,771.6	3,262.5	3,453.3
Guaranteed public debt	509.8	658.9	774.0
<b>Total public debt (general government debt + guaranteed debt)</b>	<b>3,281.4</b>	<b>3,921.3</b>	<b>4,227.2</b>
External public debt	2,078.7	2,725.1	2,847.5
Domestic public debt	1,202.7	1,196.2	1,379.7
<b>Total public debt as % of GDP</b>	<b>40.3%</b>	<b>46.0%</b>	<b>46.5%</b>

Source: MoF and NBRM

Chart 18: Public debt trend



Source: MoF and NBRM

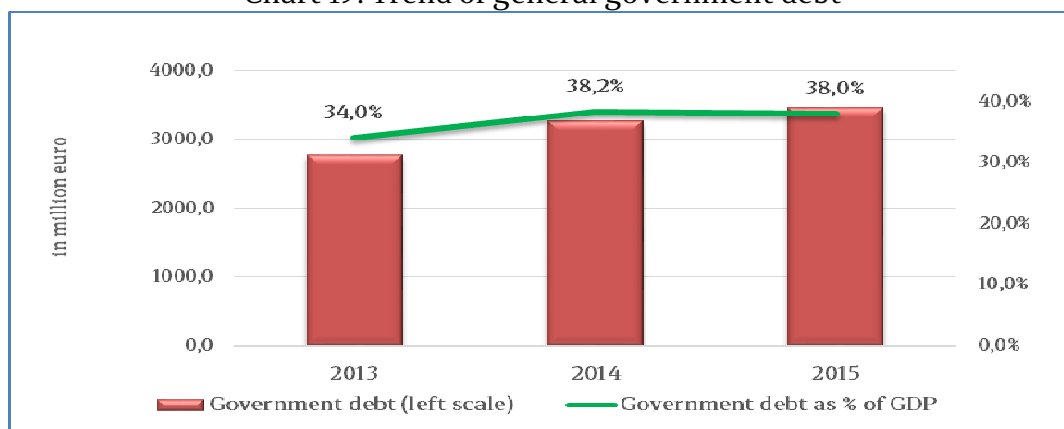
## V.1 General Government Debt

Table 5: Stock of general government debt

(EUR million)	2013	2014	2015
<b>EXTERNAL GENERAL GOVERNMENT DEBT</b>	<b>1,597.5</b>	<b>2,092.2</b>	<b>2,096.7</b>
Central government debt	1,591.9	2,086.9	2,091.5
Municipal debt	5.6	5.3	5.2
<b>DOMESTIC GENERAL GOVERNMENT DEBT</b>	<b>1,174.1</b>	<b>1,170.3</b>	<b>1,356.6</b>
Central government debt	1,165.1	1,159.5	1,344.1
Municipal debt	9.0	10.8	12.5
<b>GENERAL GOVERNMENT DEBT</b>	<b>2,771.6</b>	<b>3,262.5</b>	<b>3,453.3</b>
General government debt as % of GDP	34.0	38.2	38.0

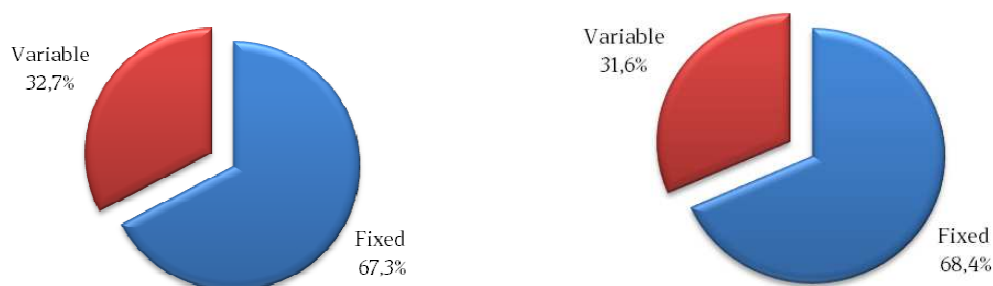
Source: MoF and NBRM

Chart 19: Trend of general government debt



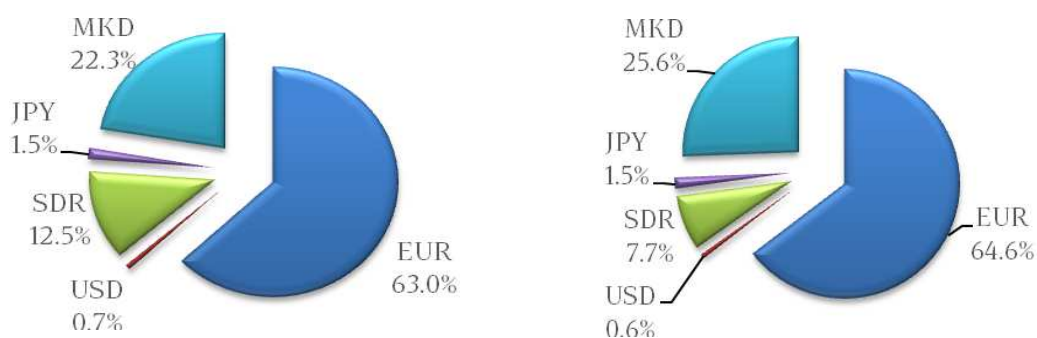
Source: MoF and NBRM

Chart 20: Interest rate structure of general government debt  
31<sup>st</sup> December 2014 31<sup>st</sup> December 2015



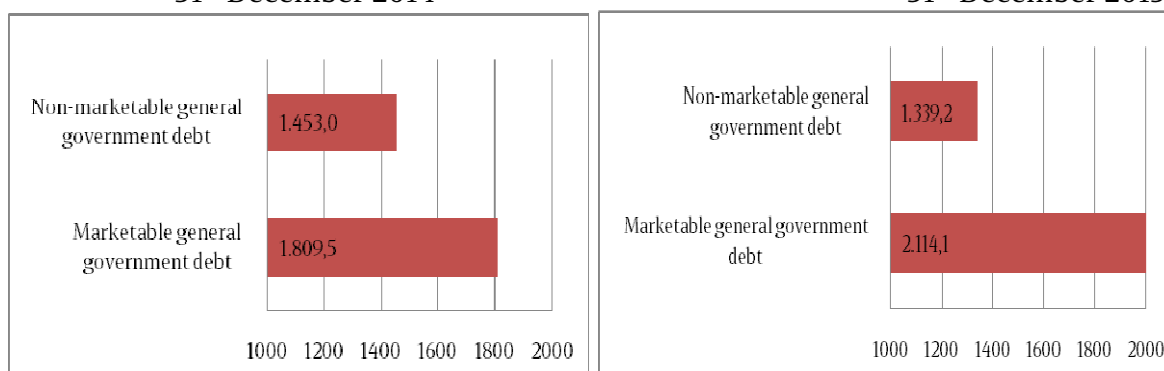
Source: MoF and NBRM

Chart 21: Currency structure of general government debt  
31<sup>st</sup> December 2014 31<sup>st</sup> December 2015



Source: MoF and NBRM

Chart 22: Market/non-market general government debt  
31<sup>st</sup> December 2014 31<sup>st</sup> December 2015



Source: MoF and NBRM



## Indicators for general government debt portfolio risk

Table 6: Average time to maturity – ATM (in years)

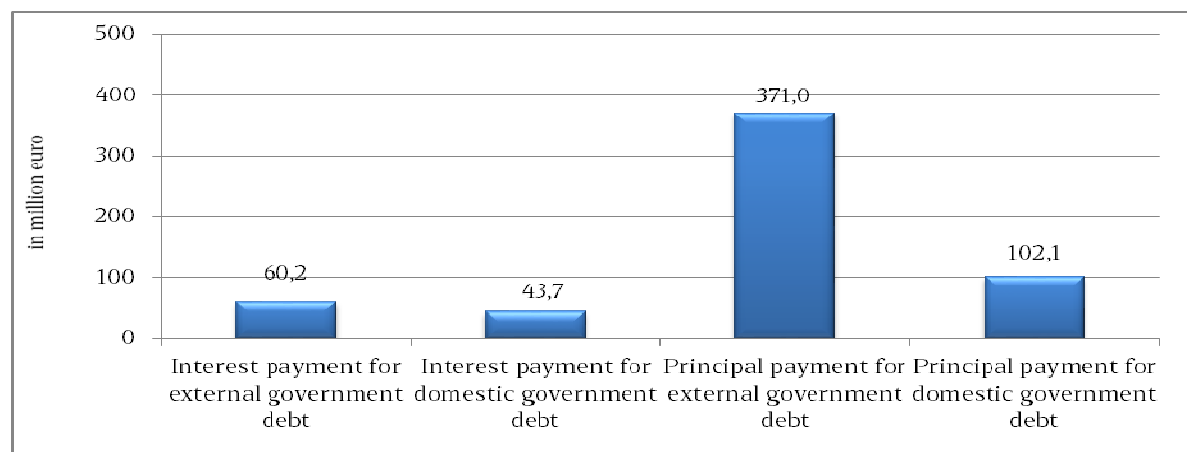
	2015
Domestic debt	2.5
External debt	5.5
Total general government debt	4.3

Table 7: Average time to refixing – ATR (in years)

	2015
Domestic debt	2.5
External debt	4.4
Total general government debt	3.6

Source: MoF

Chart 23: Repayment of interest and principal on the basis of general government debt



Source: MoF and NBRM

## V.1.1 External General Government Debt

Table 8: Stock of external general government debt by creditors

(EUR million)	31.12.2013	31.12.2014	31.12.2015
<b>External general government debt</b>	<b>1,597.5</b>	<b>2,092.2</b>	<b>2,096.8</b>
<b>Official creditors</b>	<b>981.1</b>	<b>983.2</b>	<b>858.4</b>
Multilateral creditors	883.1	888.7	764.8
IBRD	216.3	251.3	246.0
IDA	242.3	249.3	253.8
IFAD	10.8	11.1	11.3
CEB	49.1	53.0	64.1
EBRD	27.5	67.1	64.6
EIB	73.7	76.6	101.4
EU	43.6	33.6	23.6
IMF	219.7	146.7	0.0
Bilateral creditors	98.0	94.5	93.6
<b>Private creditors</b>	<b>616.5</b>	<b>1,109.0</b>	<b>1,238.4</b>
Eurobond	150.0	650.0	770.0
Other private creditors	466.5	459.0	468.4

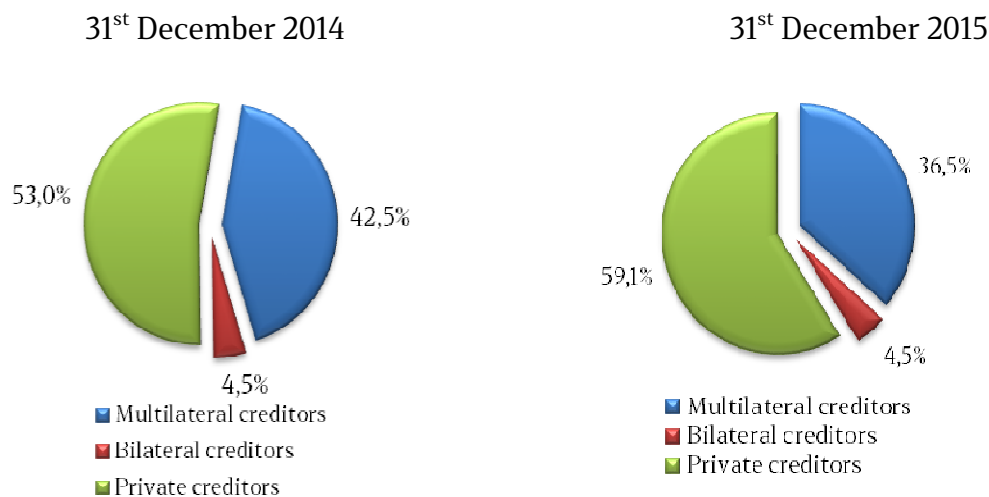
Source: MoF and NBRM

Table 9: Disbursements on the basis of concluded, but undisbursed, loans within external general government debt

(EUR million)	Disbursed funds Jan – Dec 2015
<b>Disbursements on the basis of loans within external general government debt</b>	<b>345.0</b>
Central government debt (consolidated)	344.4
Official creditors	64.4
Multilateral creditors	64.4
IBRD	11.4
CEB	13.4
EBRD	4.6
EIB	35.0
Bilateral creditors	0.1
Private creditors	280.0
Municipal debt	0.6
Private creditors	0.6

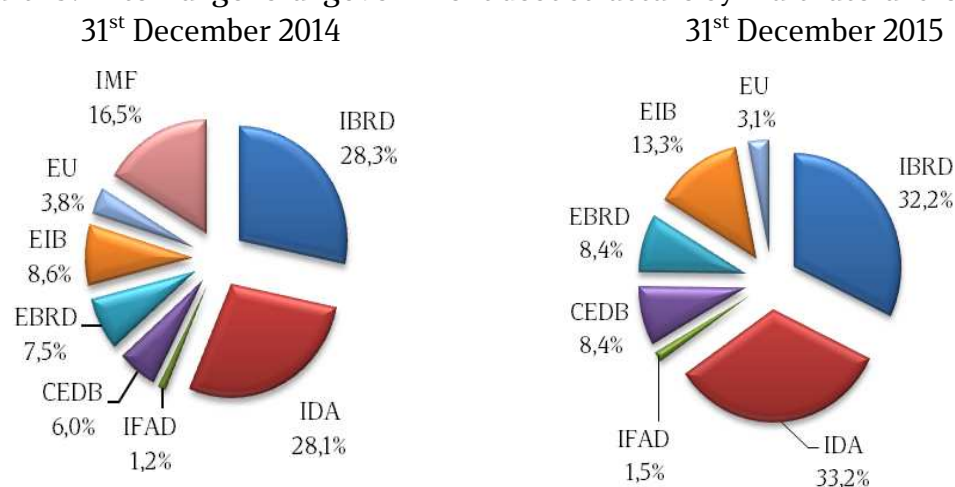
Source: MoF and NBRM

Chart 24: External general government debt structure by creditors



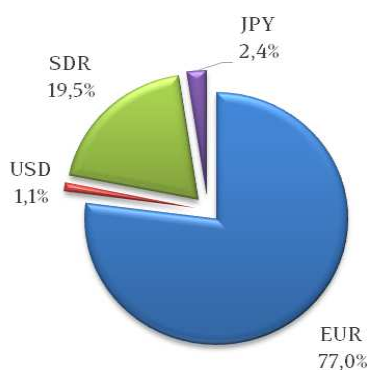
Source: MoF and NBRM

Chart 25: External general government debt structure by multilateral creditors

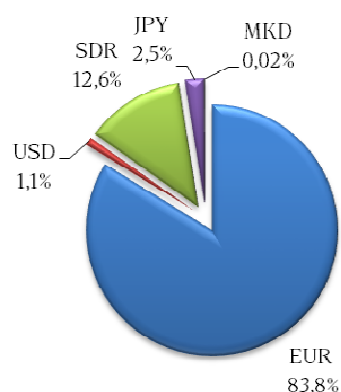


Source: MoF and NBRM

Chart 26: Currency structure of external general government debt  
31<sup>st</sup> December 2014



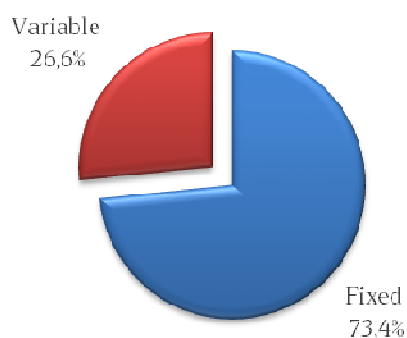
31<sup>st</sup> December 2015



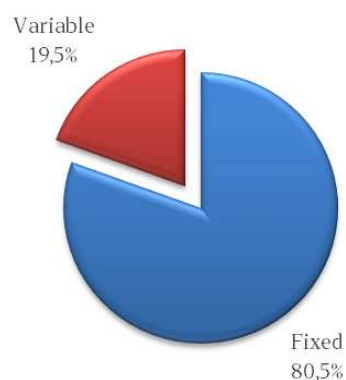
Source: MoF and NBRM

Chart 27: Interest structure of external general government debt

31<sup>st</sup> December 2014



31<sup>st</sup> December 2015



Source: MoF and NBRM

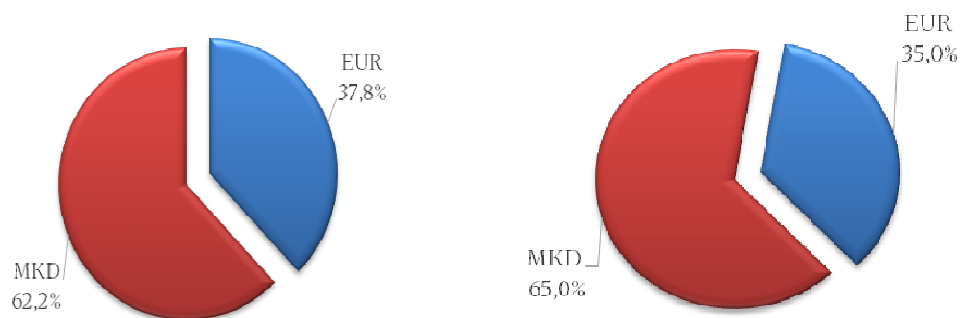
## V.1.2 Domestic General Government Debt

Table 10: Stock of domestic general government debt

(EUR million)	2013	2014	2015
<b>General Government Debt</b>	<b>1,174.1</b>	<b>1,170.3</b>	<b>1,356.6</b>
Central government debt (consolidated)	1,165.1	1,159.5	1,344.1
Structural bonds	103.2	83.3	72.3
Bond for selective loans	16.9	16.9	16.9
Stopanska Banka privatization bond	10.7	2.1	0.0
Old foreign exchange saving bond	0.0	0.0	0.0
Denationalization bond	75.6	64.4	55.4
Continuous government securities	1,061.9	1,076.1	1,271.8
Municipalities	9.0	10.8	12.5

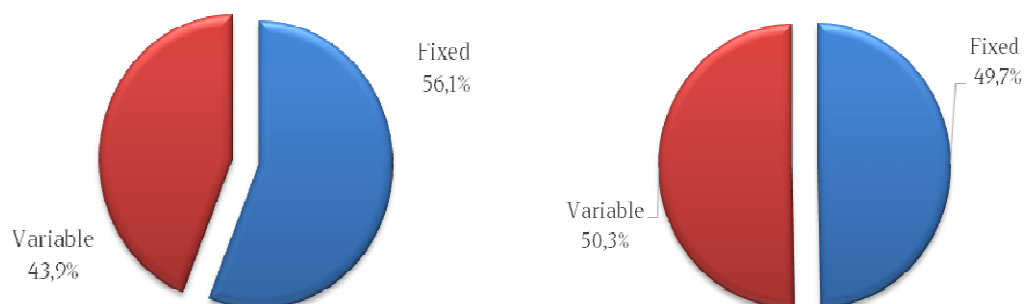
Source: MoF

Chart 28: Domestic general government debt currency structure  
31<sup>st</sup> December 2014 31<sup>st</sup> December 2015



Source: MoF

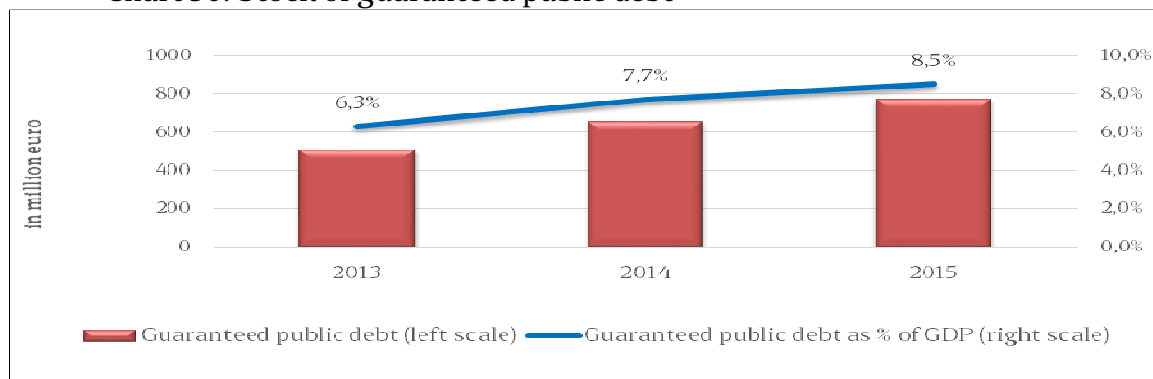
Chart 29: Domestic general government debt interest structure  
31<sup>st</sup> December 2014 31<sup>st</sup> December 2015



Source: MoF

## V.2 Guaranteed Public Debt

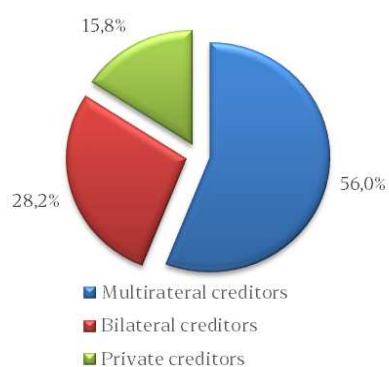
Chart 30: Stock of guaranteed public debt



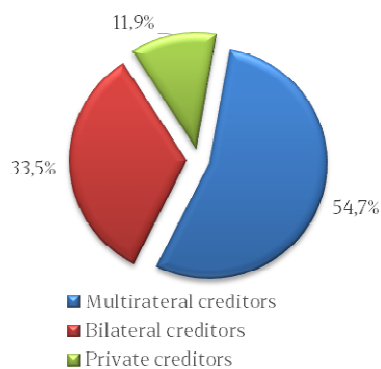
Source: MoF and NBRM

Chart 31: Guaranteed public debt by creditors

31<sup>st</sup> December 2014



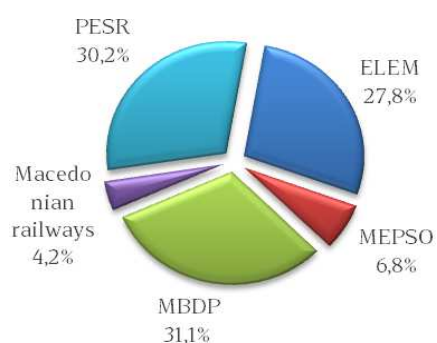
31<sup>st</sup> December 2015



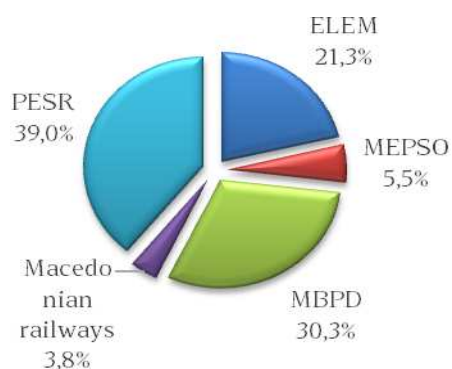
Source: MoF and NBRM

Chart 32: Guaranteed public debt by debtors

31<sup>st</sup> December 2014



31<sup>st</sup> December 2015



Source: MoF and NBRM