



Report on the public debt of the Republic of Macedonia for the first half of 2008

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Skopje, August, 2008

1. More significant activities in the first half of 2008

- **Total public debt reduction** – Total public debt in the Republic of Macedonia declined by EUR 133.3 million in total in the first half of 2008 amounting to EUR 1450.2 million as of the end of July inclusive, amounting to 23.3% compared to the gross domestic product (hereinafter: GDP). External public debt slightly decreased by EUR 7 million, so at end-June 2008 it amounted to EUR 1,020.9 million, while the domestic public debt reduced by EUR 126.3 million, amounting to EUR 429.3 million. Domestic public debt reduction was mainly due to the regular servicing of the structural bonds, but also to the abolishment of issue of treasury bills for monetary purposes during this half.
- In addition, general government debt declined by EUR 137.5 million, amounting to EUR 1,292.4 million as of June 2008. In relation to GDP, general government debt declined by 5.1 percentage points amounting to 20.7%, which is significantly lower than the Maastricht criteria, according to which, the general government debt must not exceed 60% of GDP. Regarding the ratio between domestic and external public debt, domestic public debt participated with 29.6% in the total public debt, and therefore the external public debt participated with 70.4%. In December 2007, this ratio was 35.1% contrary to 64.9% in the total public debt respectively. This change in the ratio of the domestic-external public debt was mainly due to the abolishment of the treasury bills for monetary purposes as well as the constant decrease of net issues of continuous government securities.
From the aspect of **interest structure**, total public debt experienced favourable changes. In fact, in the period January-June 2008, the debt with fixed interest rate increased by around 2 percentage points, while regarding the debt with fixed interest, the ratio of the debt with fixed in relation to the variable interest rate amounted to 65:35. Increase of the debt with fixed interest was also due to the non-issuance of treasury bills for monetary purposes, treated as variable interest rate (due to their 3-month maturity).
Positive changes also occurred in the **currency structure** of public debt in two directions. In fact, in June 2008, the Euro-denominated increased by 1.37 percentage points, amounting to 65.74% compared to December 2007, being aimed at meeting the objectives of the Public Debt Management Strategy, where one of the primary objective is for the euro debt to range between 67 to 70%. Contrary to this, the debt denominated in Denars reduced by 0.08 percentage points, amounting to 6.62%, even though pursuant to the Public Debt Management Strategy, the primary objective was aimed at increasing the debt denominated in Denars and ranging between 9 to 18%.
Gradual reduction of the **maturity structure** of the general government debt in the past years also continued in the first half of 2008, whereby the average time to maturity of the general government debt reduced from 6.87 years in December 2008 to 6.47 years in June 2008.
- **Issue of continuous government securities** – During the first half of 2008, pursuant to the Decision on the type and features of the government securities (hereinafter: GS) in 2008, being issued by the Ministry of Finance on behalf of the Government of the Republic of Macedonia, twelve issues of 3-month treasury bills, six issues of 6-month treasury bills as well as three issues of 12-month treasury bills were made. In addition to the issue of short-term government securities, two issues of 2-year government bonds and two issues of 3-year government bonds were also made in the first half of 2008. In the first half of 2008, total amount of government securities offered at the auctions amounted to Denar 6.6 billion, i.e. separately by maturity periods total amount being offered was distributed in the following manner: Denar 3.4 billion was offered for the 3-month treasury bills, Denar 1.5 billion regarding the 6-month treasury bills and Denar 0.7 billion regarding the 12-month ones, the offered amount of 2-year government bonds was Denar 0.55 billion and Denar 0.45 billion were offered for the 3-year government bonds, while the total realization of the auctions amounted to Denar 4.55 billion for the same period. If a comparative analysis between the total realization amount of Denar 4.55 billion and the

amount of auctions felling due in the first half of 2008 (Denar 4.93 million) is made, one can conclude that the net issue if GS was negative in the first half of 2008, amounting to Denar 380 million. As of 30th June 2008, stock of undue GS (short-term and long-term GS) amounted to Denar 4.57 billion and compared to 31st December 2007, when it amounted to Denar 4.95 million, it reduced by Denar 380 million.

In the first half of 2008, regarding the trends in the interest rates on government securities, continuous increase of the interest rates on all maturities was observed. In fact, interest rates on 3-month GS increased by 2 percentage points, i.e. an interest rate of 5.10% was reached at the first auction in January, while an interest rate on 3-month treasury bills of 7.10% was reached at the last auction. Interest rates on 6-month treasury bills increased by 2.06 percentage points, i.e. the interest rate on 6-month treasury bills reached at the last auction in December amounted to 5.24%, amounting to 7.30% at the last auction of 6-month treasury bills in June. Interest rates on 12-month treasury bills also experienced significant increase, i.e. the interest rates increased by 1.8 percentage points. Weighted interest rate on 12-month treasury bills reached at the last auction amounted to 5.50% in December, while weighted interest rate on 12-month treasury bills of 7.30% was reached at the last auction in June. Trend of continuous increase of the interest rates was also observed at the long-term securities, thus the coupon interest rates on two annual government bonds increased by 0.75% percentage points, while the interest rates on 3-year annual government bonds increased by 1,25 percentage points. Coupon interest rate on 2-year government bond amounted to 6.95% at the last auction held on 30th April 2008, while the coupon interest rate on 3-year government bond was 8% at the last auction held on 26th June 2008. In addition to the increasing trend in the interest rates, the offer was not fully covered with demand. Total percentage of realization amounted to 96.16% at the auctions, while separately by maturity periods the stock was the following: 91,58% regarding the 3-month GS, 72.82% regarding the 6-month ones, while with regard to the GS with longer maturity the realization percentage was at lower level. More precisely, the realization of the 12-month treasury bills was only 12,2%, 29.13 at the 2-year annual bond and 11,19% at the 3-year bond.

During the first half of 2008, insignificant number of transactions in GS was realized on the secondary market for government securities, i.e. on the over-the-counter market. During the analyzed period, total of 3 transactions in treasury bills were realized, whereby total nominal amount of Denar 3,000,000.00 was traded, with an average price of 99.2982 and an average yield to maturity of 5.52%, while no trading in government bonds was observed in the same period, i.e. no transaction was realized.

- **Eurobond**, which, the Republic of Macedonia issued on 8th December 2005 was also traded on the international capital market. Chart 25 shows the trading prices for the eurobond on the secondary market. One can notice that in the period January - June 2008, the declining trend of the trading price for the eurobond remained. In addition, the chart shows increase of spreads of the eurobond price of the Republic of Macedonia compared to the international benchmark (10-year mid-term spread).
- **Structural bonds** – During the first half of 2008, structural bonds (six issues of government bonds for denationalization, bonds for old foreign exchange saving and bonds for selective credits) were traded on the Macedonian Stock Exchange. In the period January -June 2008, total trading volume of structural bonds amounted to EUR 6,683,012.00, and total trading turnover of EUR 5,765,183.00 or Denar 353,463,369.73 was realized. Average yield to maturity of bonds being traded in the first six months of 2008 compared to the first six months of 2007 experienced the following difference: the yield of the bond for old foreign exchange saving reduced by 1.9 percentage points, regarding the denationalization bond first issue, it reduced by 1.75 percentage points, regarding the denationalization bond second issue, it reduced by 0.9 percentage points; regarding the denationalization bond third issue, it declined by 1.42

percentage points; regarding the denationalization bond fourth issue, it reduced by 1.38 percentage points; regarding the denationalization bond fifth issue, it reduced by 1.08 percentage points; with regard to the the denationalization bond sixth issue, it reduced by 5.54 percentage points.

- **Granted new borrowings** - in the first six months of 2008, the Ministry of Finance issued the following positive opinions regarding the borrowing: an amount of Denar 22 million for Joint Stock Company 'Makedonski sumi", an amount of Denar 25,402,091 for the Municipality of Karpos and an amount of EUR 38 million to AD ELEM for the project Brod-Gneotiono, and EUR 27 million for the project HPP II stage. The positive opinion on the borrowing by AD ELEM also included issue of guarantee by the Ministry of Finance. In addition, sovereign guarantee for borrowing by AD MEPSO in the amount of EUR 11 million was issued.
- **Concluded new borrowings** – even though many new borrowings were granted in the first half of 2008, only one new borrowing was concluded such as the one of Joint Stock Company AD Makedonski sumi amounting to Denar 22 million.
- This half was characterized by poor realization of the **disbursements** on the basis of external borrowings of only 55.9% of the planned i.e. out of the planned EUR 55.08 million, only EUR 30.79 million have been disbursed. This low percentage of realization of the projects financed with foreign credits carried additional costs on the basis of commitment fees, burdening the budget of the Republic of Macedonia.
- In the first half of 2008, significant **improvement of the public debt portfolio** features was achieved, and therefore realization of the targets set in the Public Debt Management Strategy (2008-2010) was also achieved.

Table 1

Targets*	Portfolio parameters as of June 2008 inclusive	Targets for the period 2008-2010 in line with the Public Debt Management Strategy
Public debt to GDP ratio	23.3%	not to exceed 40%
General government debt to GDP ratio	20.7%	not to exceed 35%**
Total guaranteed debt to GDP ratio	2.21%	not to exceed 6%
Ratio between domestic currency and foreign currency debt	in foreign currency-93.38% in domestic currency-6.62%	Debt in domestic currency- 9-18% (with deviation of 2 percentage points)
Share of the euro in the external debt	65.74%	67-70%(with deviation of 3 percentage points)

Ministry of Finance
Public Debt Management Department

Targets*	Portfolio parameters as of June 2008 inclusive	Targets for the period 2008-2010 in line with the Public Debt Management Strategy
New borrowing in 2008	EUR 0.359 million	EUR 530 million
Newly issued guarantees for 2008	0	EUR 150 million

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

** In line with the Government Programme of the Republic of Macedonia (2006-2010), the debt of the country must not exceed the level of 35% of GDP.

2. Stock of public debt

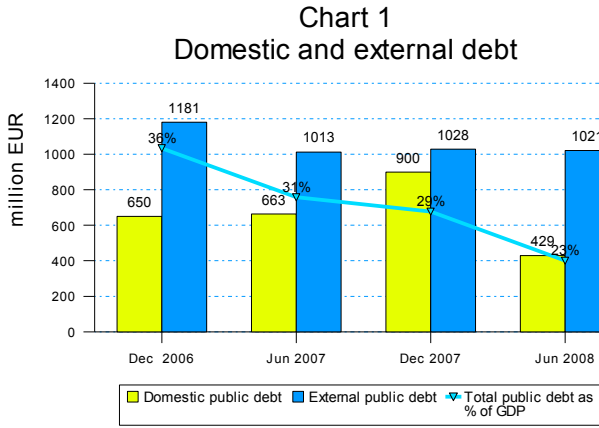
Table 2

In million Euros	Jun 2007	Dec2007	Jun 2008
External public debt	1.012,8	1.027,9	1.020,9
General public debt	857,0	877,2	867,5
Central government debt (consolidated)	857,0	877,2	867,5
Central government debt	823,1	841,8	831,1
Public funds	33,9	35,4	36,4
Municipalities	0,0	0,0	0,0
Central bank	0,0	0,0	0,0
Public enterprises	155,8	150,6	153,5
Domestic public debt	662,9	555,6	429,3
General public debt	660,5	552,8	425,0
Central government debt	660,5	552,8	425,0
Structural bond	430,9	396,3	350,3
Bond for rehabilitation of Stopanska banka	0,0	0,0	0,0
Bond for selective credits	17,0	17,0	17,0
Bond for privatization of Stopanska banka	66,5	60,1	55,8
Bond for old foreign exchange savings	229,4	203,9	178,4
Denationalization bond (I, II, III, IV, V and VI issue)	118,0	115,4	99,1
Continuous government securities	229,6	156,5	74,7
Out of which treasury bills for monetary purpose	134,1	75,5	0,0
Municipalities	0,0	0,0	0,0
Central bank	247,7	344,3	354,5
Public enterprises	2,4	2,8	4,3
TOTAL PUBLIC DEBT -PUBLIC DEBT LAW	1.675,7	1.583,5	1.450,2
GDP	5.462,7	5.544,0	6.230,0
Average export	2.122,4	2.594,5	2.805,0
External public debt as % of total public debt	60,4	64,9	70,4
Domestic public debt as % of total public debt	39,6	35,1	29,6
Total public debt as % of GDP	30,7	28,6	23,3
Total public debt as % of average export	79,0	61,0	51,7
General government debt	1.517,5	1.430,0	1.292,4
External debt of the general government as % of the total general government debt	56,5	61,3	67,1
Domestic debt of the general government as % of the total general government debt	43,5	38,7	32,9
General government debt as % of average GDP	27,8	25,8	20,7
General government debt as % of average export	71,5	55,1	46,1
TOTAL PUBLIC DEBT according to the GFS methodology	1.923,4	1.927,8	1.804,7
External debt as % of total public debt	52,7	53,3	56,6
Domestic debt as % of total public debt	47,3	46,7	43,4
Total public debt as % of GDP	35,2	34,8	29,0
Total public debt as % of average export	90,6	74,3	64,3

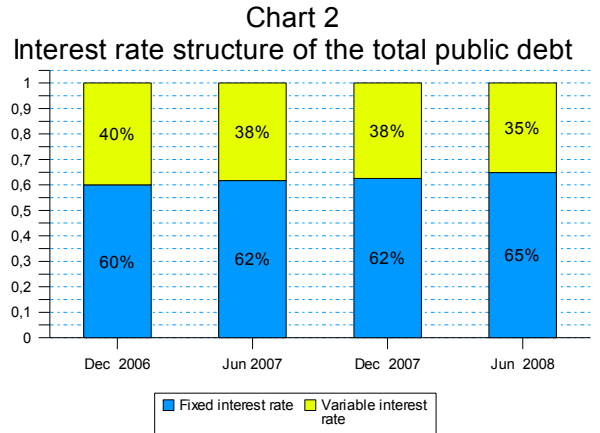
Source: MoF and NBRM

*according to GFS methodology, in addition to the general government debt and the debt of the public enterprises, central bank was included

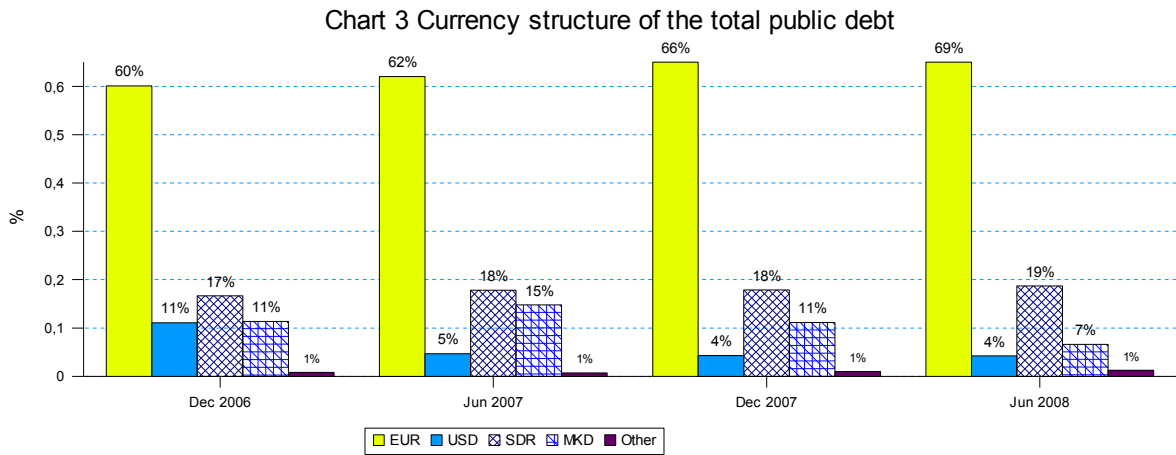
2.1. Public debt structure



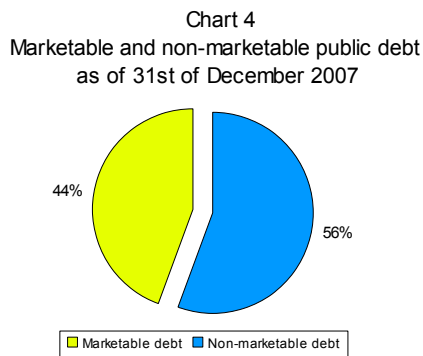
Source: MoF and NBRM



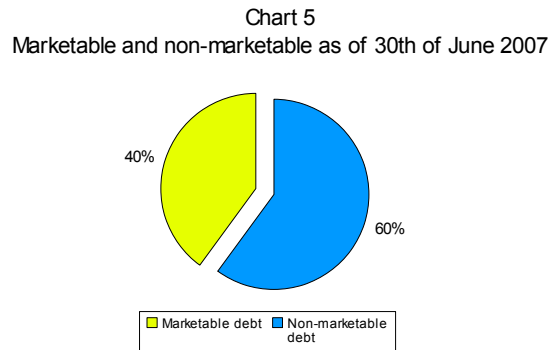
Source: MoF and NBRM



Source: MoF and NBRM

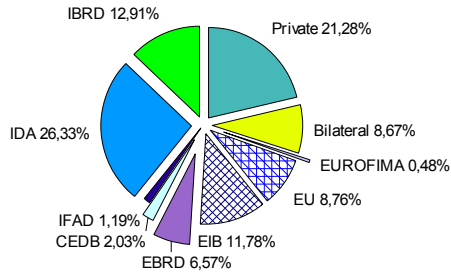


Source: MoF and NBRM



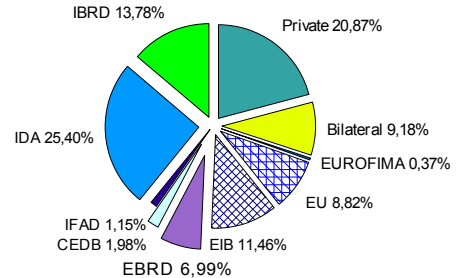
Source: MoF and NBRM

Chart 6
Structure of the external public debt by creditors
as of 31st of December 2007



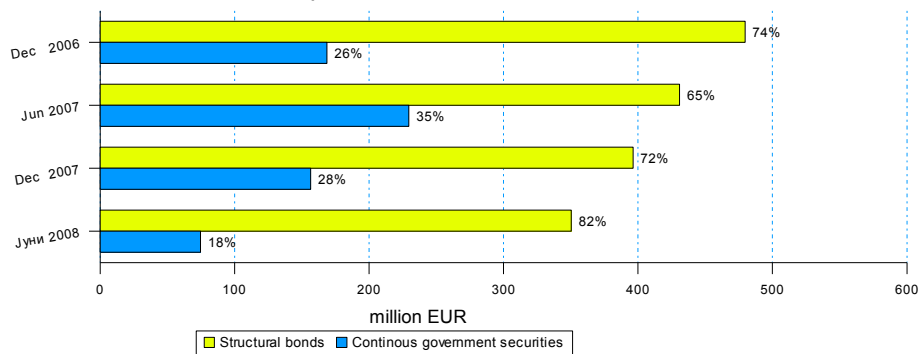
Source: MoF and NBRM

Chart 7
Structure of the external public debt by creditors
as of 30th of June 2008



Source: MoF and NBRM

Chart 8 Domestic public debt structure



Source: MoF

2.2 Risk indicators of the public debt portfolio

Table 3

Average time to maturity – ATM (in years)				
	31.12.2006	30.06.2007	30.12.2007	30.06.2008
Domestic debt	3,03	2,99	2,77	2,65
External debt	8,98	9,6	9,11	8,75
Total debt	6,85	7,11	6,87	6,47

Source: MoF

Table 4

Average time to refixing – ATR (in years)				
	31.12.06	30.06.07	30.12.07	30.06.08
Domestic debt	2,57	2,50	2,37	2,25
External debt	7,12	7,92	7,35	7,04
Total debt	5,46	5,82	5,59	5,46

Source: MoF

Table 5

Duration of domestic debt (in years)				
	31.12.2006	30.06.2007	30.12.2007	30.06.2008
Structural bonds	2,92	2,45	2,24	2,16
Continuous government securities	0,55	0,62	0,64	0,55
Total domestic debt	2,52	2,12	1,95	1,88

Source: MoF

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

Disbursement on the basis of external borrowing

Table 6

	In million Euros	Jul – Dec 2006	Jan – Jun 2007	Jul – Dec 2007	Jan – Jun 2008	Projected disbursements Jan – Jun 2008	Realization of disbursement in % of projected-Jan.-Jun 2007**
Public sector		62,8	34,25	66,07	30,79	55,08	55,90%
General government		29,3	24,1	56,9	15,8	37,5	42,05%
Multilateral creditors		22,4	14,0	50,8	9,7	22,6	42,76%
	IBRD	4,4	2,9	29,1	6,8	22,6	30,23%
	EIB	5,0	5,0	9,0	0,0	0,0	-
	IDA	1,3	0,0	0,0	0,0	0,0	-
	EBRD	10,1	5,5	12,6	2,7	0,0	-
	IFAD	1,6	0,6	0,1	0,1	0,0	-
Bilateral creditors		6,9	8,5	6,1	6,1	14,9	40,98%
Private creditors		0,0	1,6	0,0	0,0	0,0	-
Public enterprises		33,4	10,1	9,1	15,0	17,6	85,35%
Multilateral creditors		12,4	3,3	7,6	9,9	9,4	105,42%
	IBRD	1,2	2,2	3,4	4,4	4,1	107,28%
	EIB	3,5	0,0	0,0	0,0	0,0	-
	CEDB	5,0	0,0	0,0	0,0	0,0	-
	EBRD	2,8	1,0	4,1	5,5	5,3	103,97%
Bilateral creditors		0,0	6,7	1,6	5,1	8,2	62,25%
Private creditors		21,0	0,2	0,0	0,0	0,0	-

Source: MoF and NBRM

**In the period January-June 2008, the percentage of realization of disbursements was 55.9%

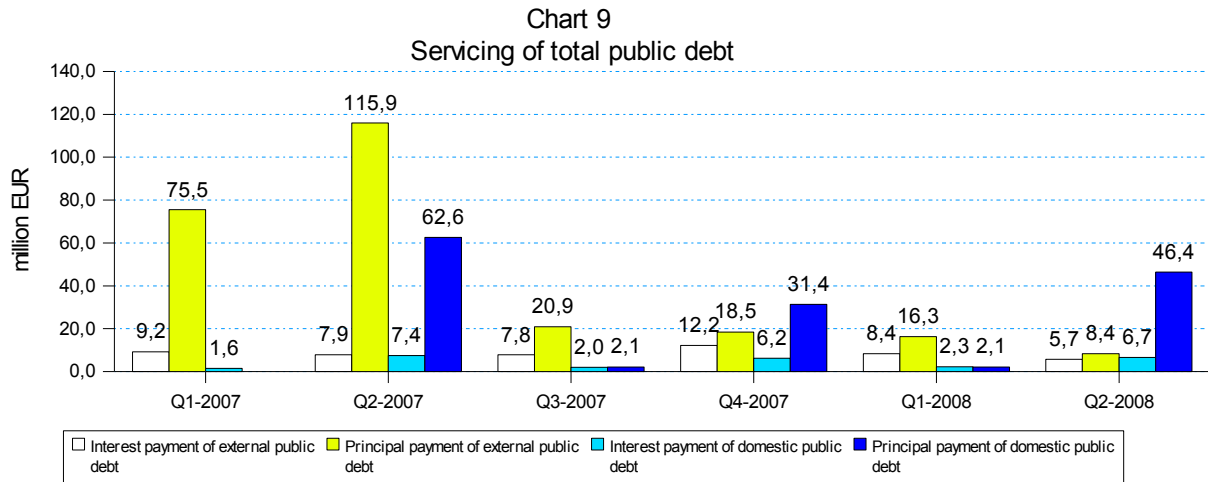
Net issue of continuous government securities and structural bonds

Table 7

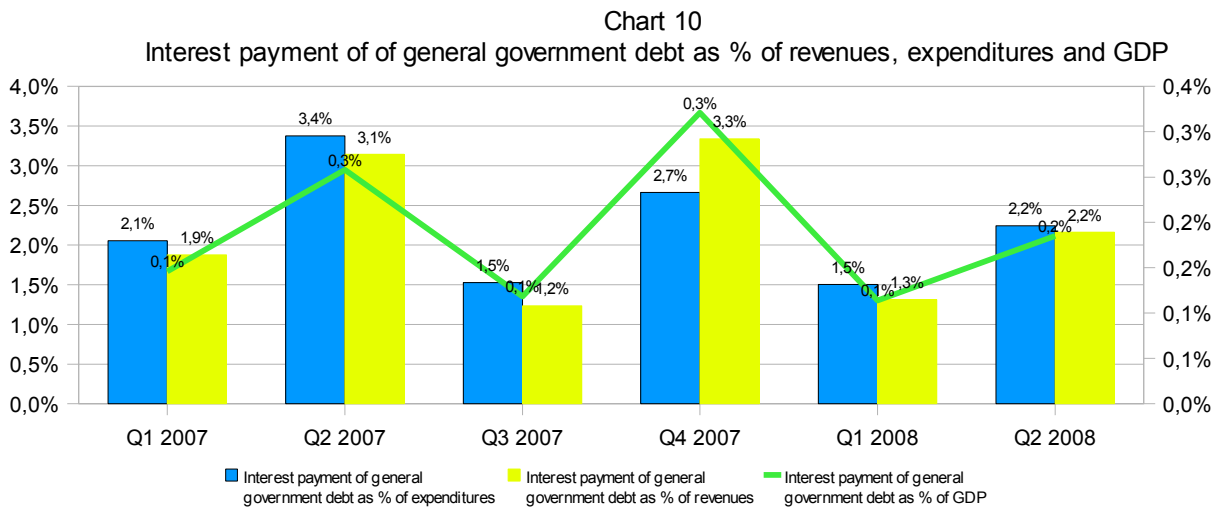
In million EUR		Q1			Q2			Q1 и Q2		
	Net issue of government securities	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Total offer	Total realisation	Percentage of realisation
		1	3-months GS	17,94	3,26	5,11	12,97			
2	6-months GS	4,89	3,13	3,08	3,26	1,83	2,36	24,47	18,55	75,82
3	12-months GS	1,01	0,00	0,21	0,00	0,00	0,17	11,42	1,39	12,20
4	2-year government bond	0,00	0,00	0,00	2,61	0,00	0,00	8,97	2,61	29,13
5	3-year government bond	0,00	0,00	0,01	0,00	0,00	0,82	7,34	0,82	11,19
	Total	23,85	6,39	8,41	18,84	7,54	9,14	107,65	103,51	96,16

Source: MoF

4. Servicing the total public debt

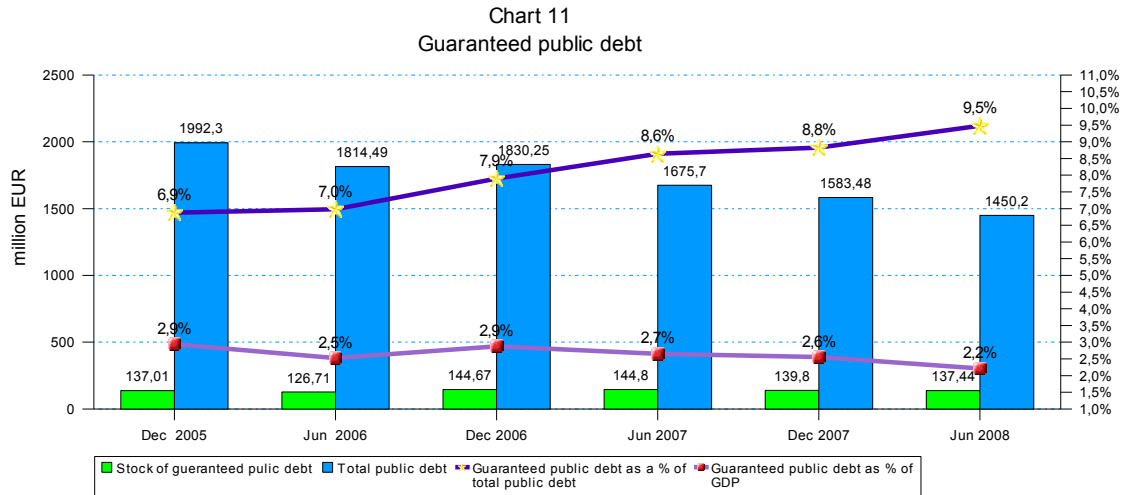


Source: MoF and NBRM

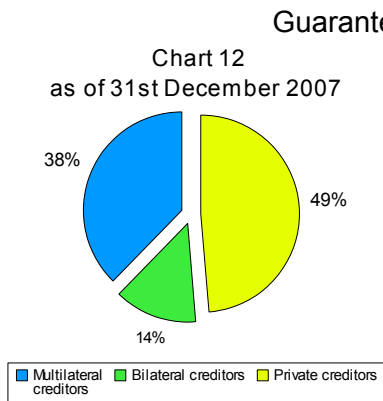


Source: MoF and NBRM

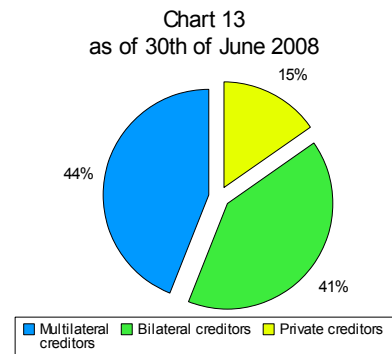
5. Guaranteed public debt



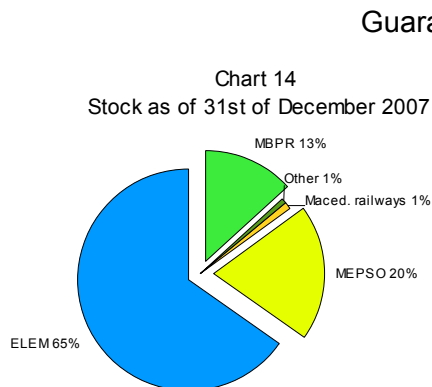
Source: MoF and NBRM



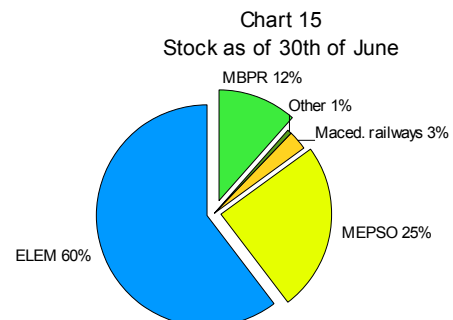
Source: MoF and NBRM



Source: MoF and NBRM



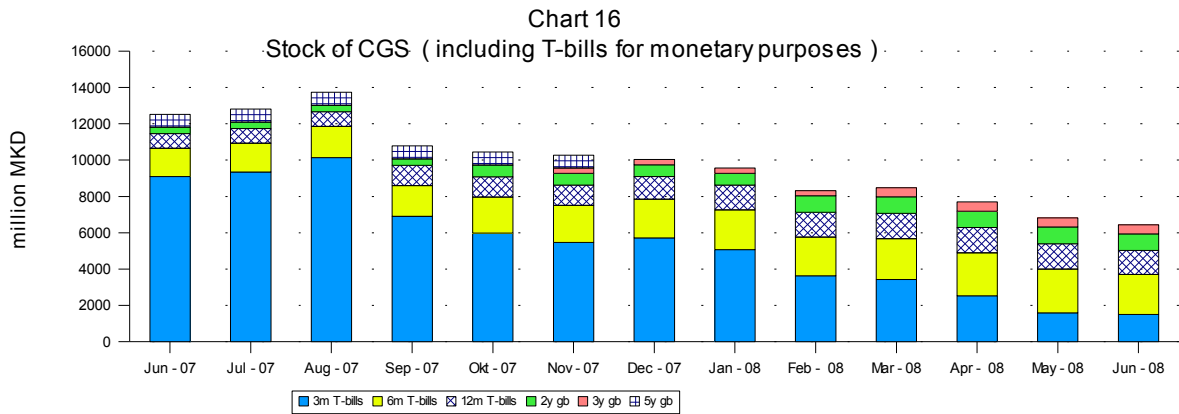
Source: MoF and NBRM



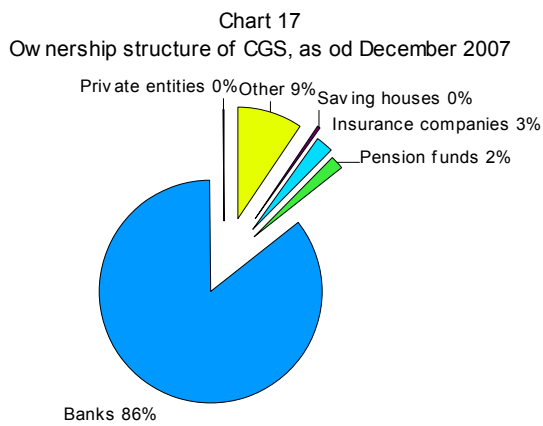
Source: MoF and NBRM

6. Primary government securities market

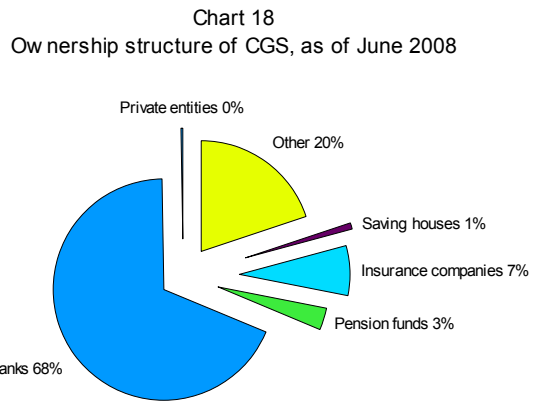
Auctions of government securities in the period June 2007- June 2008



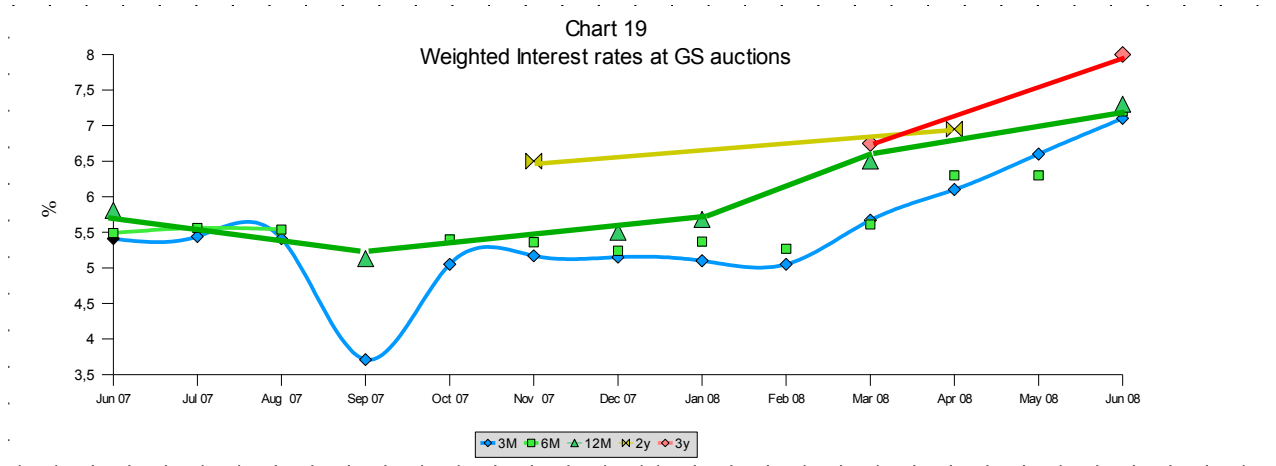
Source: MoF



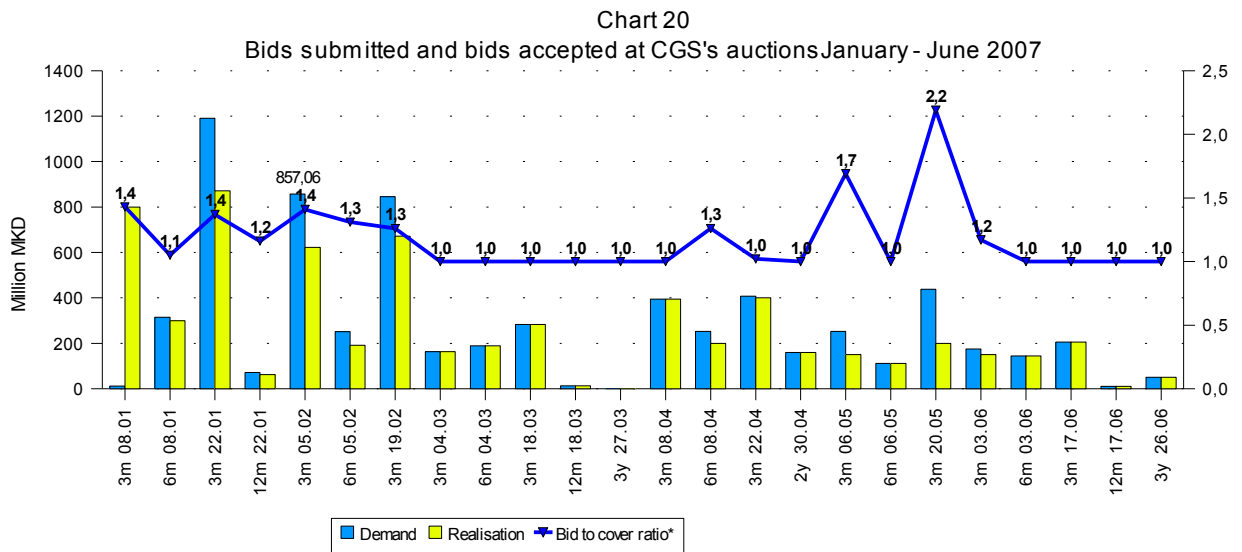
Source: MoF



Source: MoF



Source: MoF

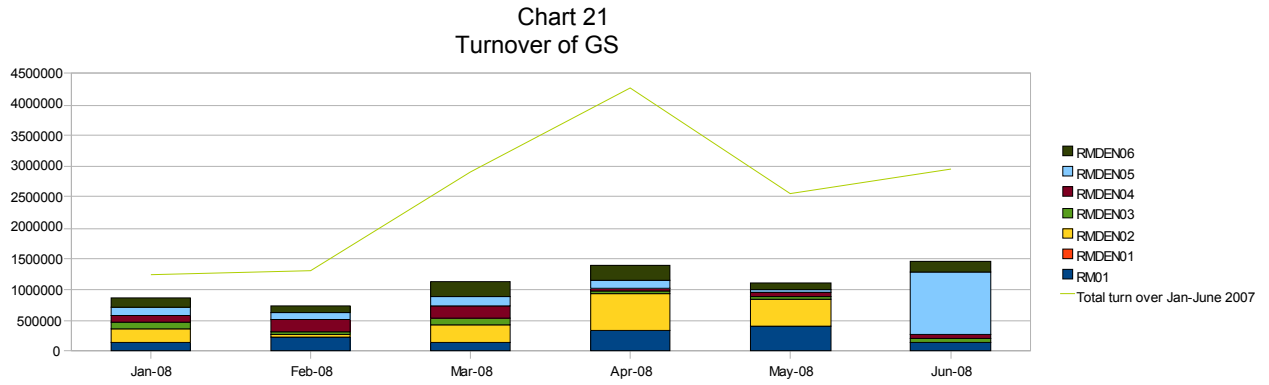


Source: MoF

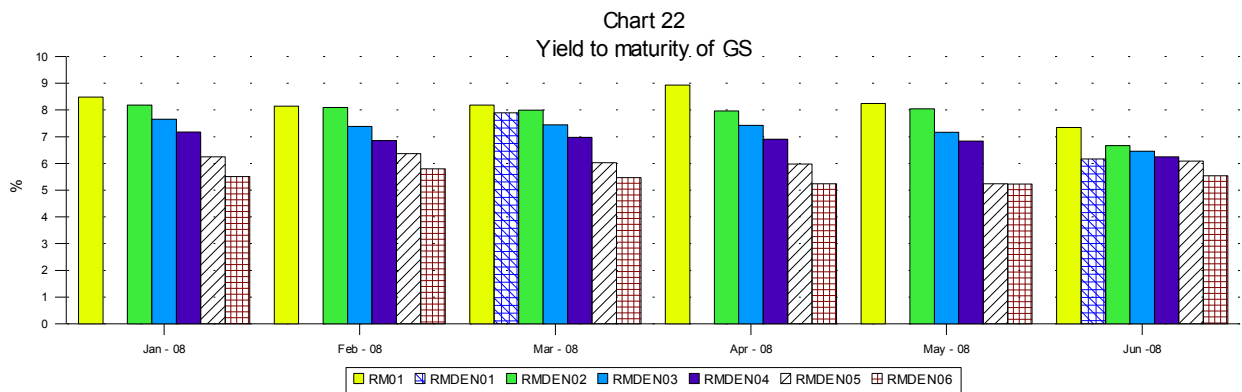
*Bid to cover ratio- coefficient showing the coverage of the realization with demand

7. Secondary government securities market

7.1 Macedonian Stock Exchange

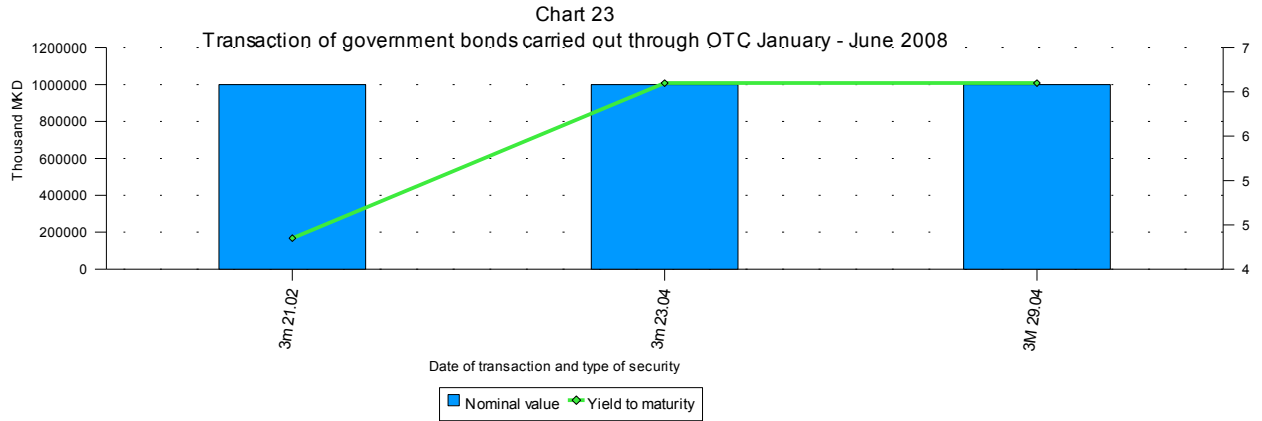


Source: MoF and Macedonian Stock Exchange



Source: MoF

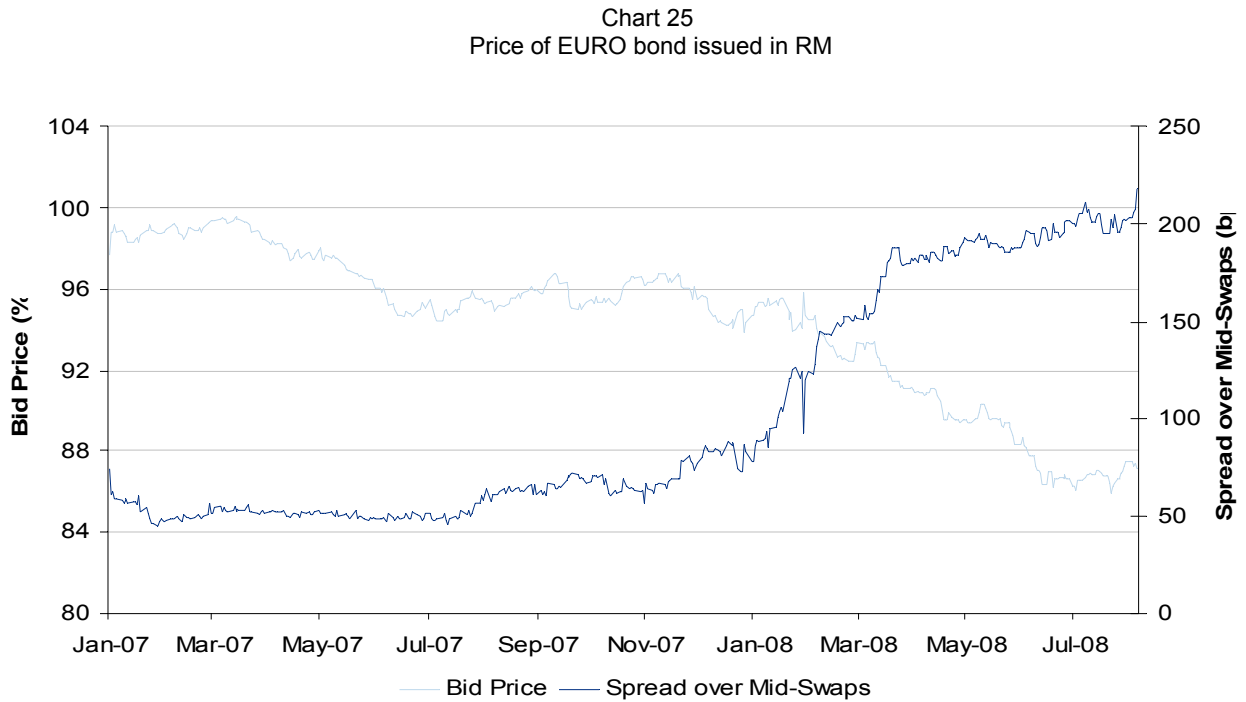
7.1 Over-the-counter market



Source: MoF

In the first six months of 2008 there were not concluded transactions on the over-the-counter-market and government bonds

7.3 International capital market



Source: CityGroup

Prepared by:
Ministry of Finance
Public Debt Management Department

8. Conclusion

Government of the Republic of Macedonia reviewed and adopted the Report on Public Debt of the Republic of Macedonia for the first half of 2008.