



Republic of North Macedonia

Ministry of Finance

International Finance and Public Debt Management Department

2019 Annual Report on Public Debt Management of the Republic of North Macedonia

June 2020

Table of Contents

I. Introduction	4
II. Macroeconomic Trends in the Republic of North Macedonia	4
III. Significant Developments in 2019	6
III.1 International Environment	6
III. 2 Credit Rating of the Republic of North Macedonia	8
III. 3 Trends in the government and public debt of the Republic of North Macedonia	9
III.4. Servicing of government and public debt of the Republic of North Macedonia	12
III.5. Government Securities	12
III.5.1 Continuous Government Securities	12
III.5.1.1 Primary Government Securities Market	12
III.5.1.2 Secondary Government Securities Market	13
III.5.2. Structural Government Securities	14
III.5.2.1 Issuance of the Eighteenth Issue of Denationalization Bonds	14
III.5.2.2 Secondary Market for Denationalization Bonds	14
III.5.3 Eurobonds	14
III.5.3.1 Secondary Market for Eurobonds	14
III.6 Newly Concluded Loans in 2019	14
III.6.1 New Loans Concluded by Central Government	14
III.6.2 New Loans Concluded by Local Government	16
III.6.2.1 Short-term borrowing within the Project under IPA Cross-Border Cooperation Component	16
III.6.3 Guarantees Issued in 2019	16
IV. Public Debt Management Activities - Tables and Charts	17
IV.1 Primary Government Securities Market	17
IV.2.1. Secondary Structural Government Securities Market	20
V. Public Debt Portfolio Features	21
V.1 General Government Debt	22
V.1.1 External General Government Debt	25
V.1.2 Domestic General Government Debt	28
V.2 Guaranteed Public Debt	29

List of Abbreviations

JSC	Joint Stock Company
GDP	Gross Domestic Product
GS	Government Securities
GB	Government Bonds
T-Bills	Treasury Bills
FX Clause	Foreign Exchange Clause
DPL	Public Finance and Competitiveness Development Policy Loan
EU	European Union
ESM	ESM (Power Plants of North Macedonia)
EIB	European Investment Bank
EBRD	European Bank for Reconstruction and Development
RRNM Transport	Railways of the Republic of North Macedonia Transport AD - Skopje
IFAD	International Fund for Agricultural Development
IPA	Instrument For Pre-Accession Assistance
IDA	International Development Association
IBRD	International Bank for Reconstruction and Development
PE	Public Enterprise
PESR	Public Enterprise for State Roads
PE Infrastructure	RRNM Public Enterprise for Railway Infrastructure Railways of the Republic of North Macedonia - Skopje
PTE	Public Transport Enterprise Skopje
KfW	KfW Development Bank (KfW Entwicklungsbank)
MoF	Ministry of Finance
IMF	International Monetary Fund
MEPSO	Electricity Transmission System Operator of the Republic of North Macedonia
NBRNM	National Bank of the Republic of North Macedonia
PBG	Policy-Based Guarantee
p.p.	Percentage Points
DBNM	Development Bank of North Macedonia
RNM	Republic of North Macedonia
FDIs	Foreign Direct Investments
CEB	Council of Europe Development Bank
RMDEN09	Denationalization Bond – 9 th issue
RMDEN10	Denationalization Bond – 10 th issue
RMDEN11	Denationalization Bond – 11 th issue
RMDEN12	Denationalization Bond - 12 th issue
RMDEN13	Denationalization Bond – 13 th issue
RMDEN14	Denationalization Bond – 14 th issue
RMDEN15	Denationalization Bond – 15 th issue
RMDEN16	Denationalization Bond – 16 th issue
RMDEN17	Denationalization Bond – 17 th issue
RMDEN18	Denationalization Bond – 18 th issue

Pursuant to paragraph 1 of Article 27 referred to in the Law on Public Debt ("Official Gazette of the Republic of North Macedonia", nos. 62/2005, 88/2008, 35/11, 139/14 and "Official Gazette of the Republic of North Macedonia", no. 98/19), the Parliament of the Republic of North Macedonia has been informed about the 2019 Annual Report on Public Debt Management in the Republic of North Macedonia.

I. Introduction

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

Objectives of the public debt management of the Republic of North 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 the long run, 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.

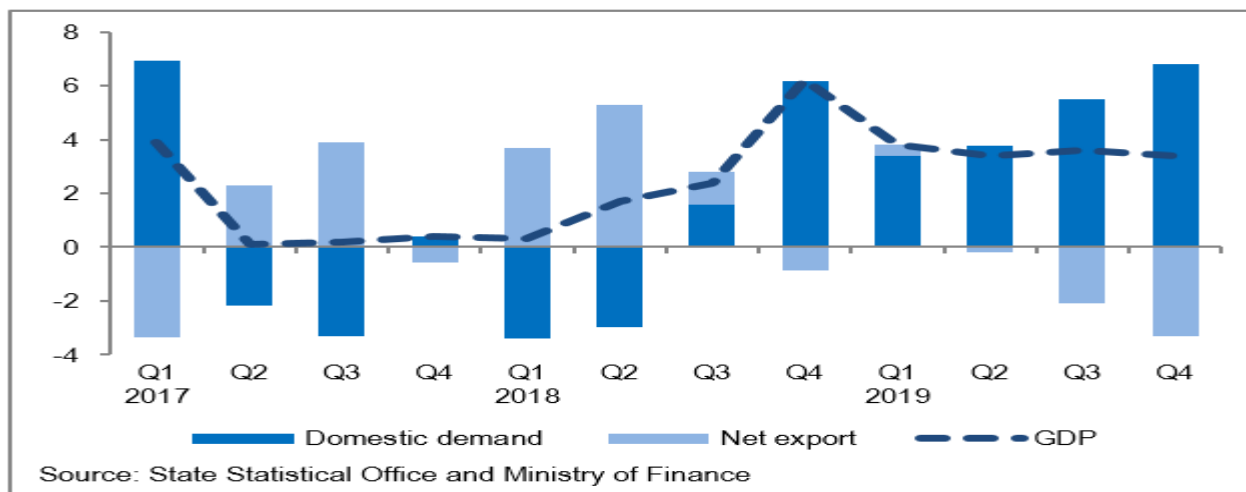
The Report includes definitions on general government and public debt pursuant to the Law on Public Debt ("Official Gazette of the Republic of Macedonia", nos. 62/2005, 88/2008, 35/11, 139/14 and ("Official Gazette of the Republic of Macedonia", no. 98/19). According to the last amendments to the Law on Public Debt, which were adopted in May 2019 (Official Gazette of the Republic of Macedonia", no. 98/19), the definition for the public debt was broadened by including the non-guaranteed debt therein. According to the existing regulations, general government debt comprises financial liabilities incurred on the basis of borrowing by the Republic of North Macedonia, public institutions established by the Republic of North Macedonia and the municipalities, the municipalities within the City of Skopje and the City of Skopje. Furthermore, 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.

II. Macroeconomic Trends in the Republic of North Macedonia in 2019

Economic activity in 2019 experienced 3.6%, according to the estimated data of the State Statistical Office, being growth intensification compared to 2018.

Observed by sectors, construction experienced 5.9% in real terms, which in line with the high-frequency data, was a result of the carried out construction works as regards civil engineering structures, i.e. construction of roads, as well as with respect to buildings. Industrial activity picked up by 3.1% in real terms. In line with the monthly data on industrial production, in 2019, favorable trends were recorded at Manufacturing and Electricity supply. As for Manufacturing, more significant contribution to growth was recorded by Manufacture of motor vehicles, machinery, devices and electrical equipment, i.e. activities wherein the large foreign industrial capacities are operational, accounting for approximately one fourth of the industrial production. Manufacture of textile, beverages and pharmaceutical products and preparations had also solid contribution to growth. Services sector grew by 2.7% in real terms, mostly as result of the intensified activity in the Trade, transport and catering sector, while agriculture increased by 3.8% in real terms.

Chart 1: Real GDP growth (%) and contribution by components (percentage points)



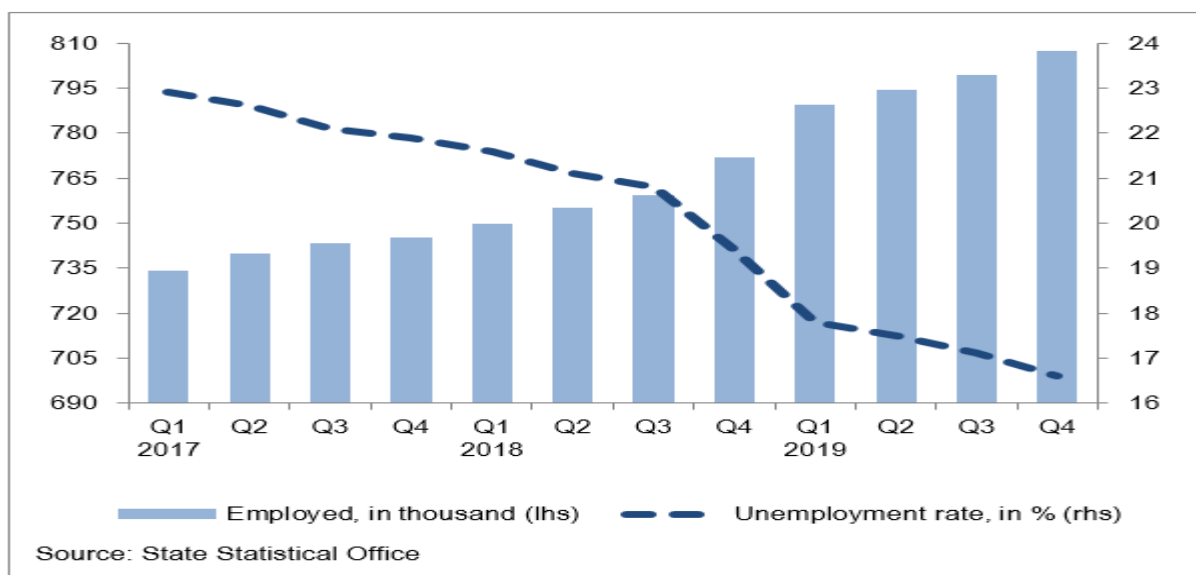
Analyzed according to the GDP expenditure components, economic growth in 2019 was a result of the growth of domestic demand, amid growth of both consumption and gross investments, while export had negative contribution to the growth.

Consumption grew by 3.7% in real terms, thus continuing to underpin the economic activity, amid positive contribution by both private and public consumption. Growth of private consumption accounted for 3.5%, being a result of the disposable income growth, amid favourable trends on the labour market and the increased credit support to households, while public consumption surged by 4.5%. Gross investments increased by 6.6% in real terms, mostly because of the investments in construction works, being to a certain extent, also a result of the investments in machinery and equipment amid growth of import of capital goods.

Export of goods and services grew by 8.3% in real terms in 2019, mainly as a result of the export of the capacities in the free economic zones, i.e. export of machinery, transportation equipment and chemical products, also underpinned by solid performance of the remaining traditional export segments. Import of goods and services experienced 9.0% growth in real terms, driven by the import of intermediary goods, in condition of growth of both investments and export.

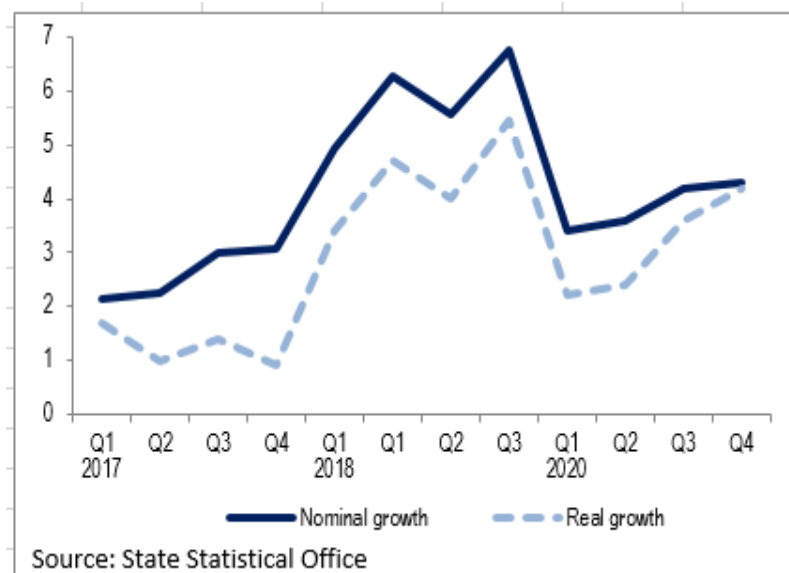
Inflation rate in 2019 accounted for 0.8%, being slowed down growth compared to 2018. Growth of consumer prices was mostly due to the increased prices of food products by 1.9%, as well as the higher prices at tobacco goods. Prices of energy sources dropped, mainly as a result of the reduction of domestic prices of oil derivatives.

Chart 2: Number of Employed and Unemployment Rate



Positive trends on the labour market continued with strong dynamics in 2019 as well. According to the Labour Force Survey, the average number of employed persons in 2019 increased by 5.1%, i.e. by 38.6 thousand persons compared to 2018, whereby employment was highest at Manufacturing i.e. it accounted for 18.2% of the newly created jobs. Employment growth was also seen at service sectors, such as Trade, Transport, Catering, etc. Employment rate reached 47.9% in the fourth quarter of 2019, increasing by 2.0 percentage points compared to the same quarter in 2018. Employment growth was accompanied by the drop of unemployed persons, by which the unemployment rate in the fourth quarter decreased to 16.6%, i.e. by 2.8 percentage points compared to the same quarter in 2018, whereby drop of the unemployment rate was observed at all age groups.

Chart 3: Annual growth rate of the average net wage



Average monthly net wage in 2019 was higher by 3.9% in nominal terms and by 3.15 in real terms, being a result from the increased wages at several sectors. Thus, in nominal terms, wages in Manufacturing increased by 5.3%, 6.3% in construction sector, 8.6% in transportation activity, 9.4% in health and social protection each, etc.

Developments on the balance of payments current accounted in 2019 resulted in a moderate deficit of 2.8% of GDP. The deficit is financed from inflow of foreign direct investments, amounting to EUR 326 million in 2019, accounting for 2.9% of GDP. Gross reserve assets amounted to EUR 3.3 billion at the end of 2019, providing for 4.6-month coverage of import of goods and services in the previous 12-month period, being at an adequate level to manage the possible shocks.

III. Significant Developments in 2019

III.1 International Environment

Global economic activity continued to slow down in 2019 as well, growing by 2.9%, compared to the 3.6% growth in the previous year. Slowed down economic growth was recorded at developed countries, as well as developing countries and growing economies.

Economic growth in developed countries accounted for 1.7% in 2019, following the 2.2% growth in the previous year. As for them, what is noticeable was that the US economy experienced significantly higher growth compared to those in the Eurozone countries (2.3% in relation to 1.2%), being to a great extent a result of the significantly slowed down growth of German economy to 0.6% in 2019 from the 1.5% in the previous year.

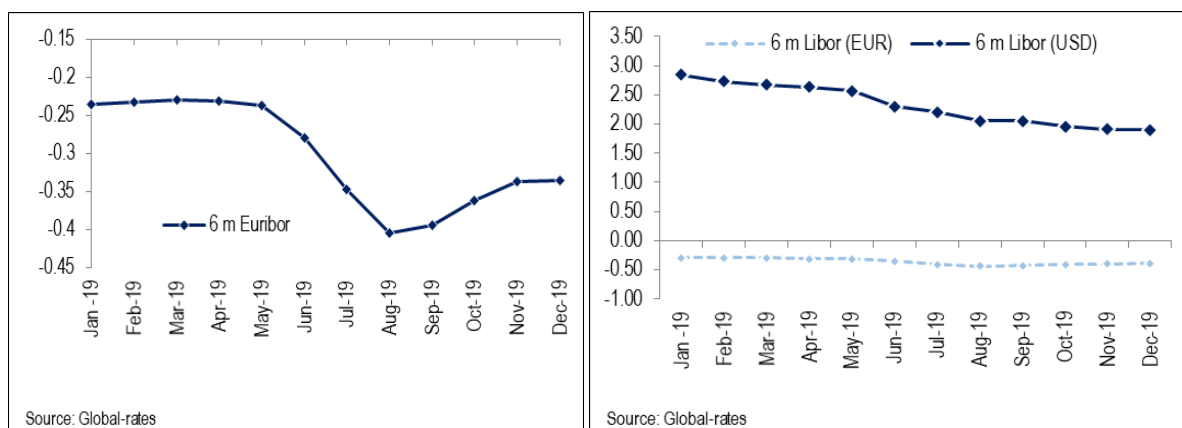
Developing and growing countries experienced total growth of 3.7% in 2019, compared to the 4.5% growth in the previous year. Chinese economy recorded 6.1% growth, thus slowing down compared to the 6.7% growth in the previous year.

As for the regional countries, economic growth also experienced slowed down trend, being mostly evident in Albania, the economic growth of which accounted for 2.2% in 2019, compared to the 4.1% growth in 2018. Similar trends were noticed in Montenegro and Bosnia and Herzegovina, while Serbian economy slowed down insignificantly. Only the economy in Kosovo recorded high growth of 4.0% compared to the 3.9% in the previous year.

During 2019, 6-month Euribor recorded value drop, compared to the slight growth observed in the previous year. During the first quarter of 2019, the slight growth of the 6-month Euribor commenced from the previous year, continued, after which, drop of value has been registered as of August inclusive. During the last quarter of the year, 6-month Euribor observed somewhat growth, however, the level of this interest rate at the end of the year was below the level registered at the beginning of the year. In fact, average value of this rate in January accounted for -0,236%, reducing to -0,336% in December. Similar trend was also noticed at the inter-bank Euro LIBOR interest rate, accounting for -0,296%, while its average value reduced to -0,387% in December.

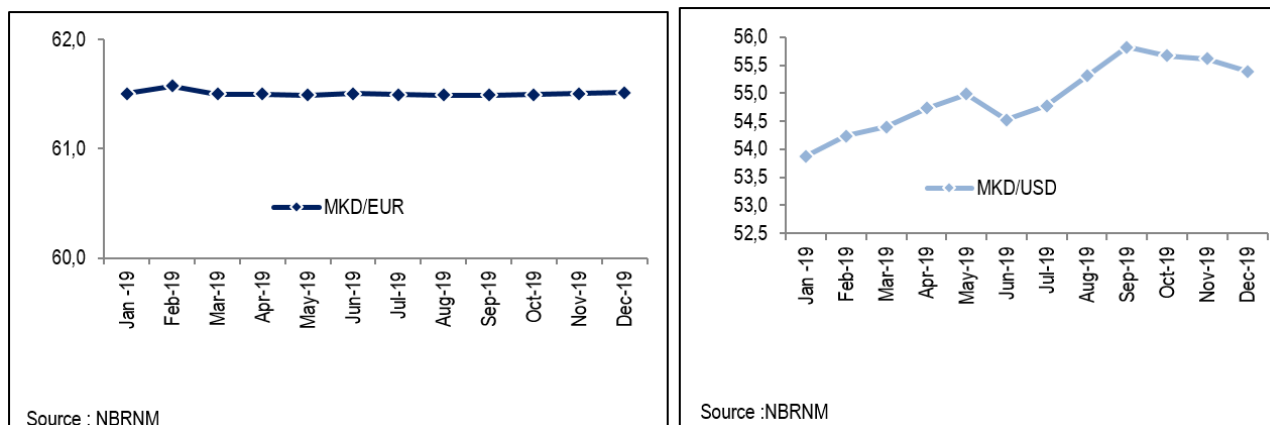
During 2019, 6-month US Dollar LIBOR interest rate experienced downward trend, with an average value of 2,848% in January, decreasing to 1.901% in December.

Chart 4 : Trend of Average Monthly Euribor and Libor Interest Rates in 2019



In the course of 2019, Denar exchange rate in relation to the euro was stable, ranging from Denar 61.4904 to Denar 61.5748 per one euro (average monthly exchange rate). On the other hand, value of US dollar increased in relation to the denar, hence average exchange rate in January was Denar 53.8762 per one US dollar, and Denar 55,3956 per one US dollar in December. The highest value of US dollar to denar was registered in September, when average exchange rate was Denar 55.8289 per one US dollar.

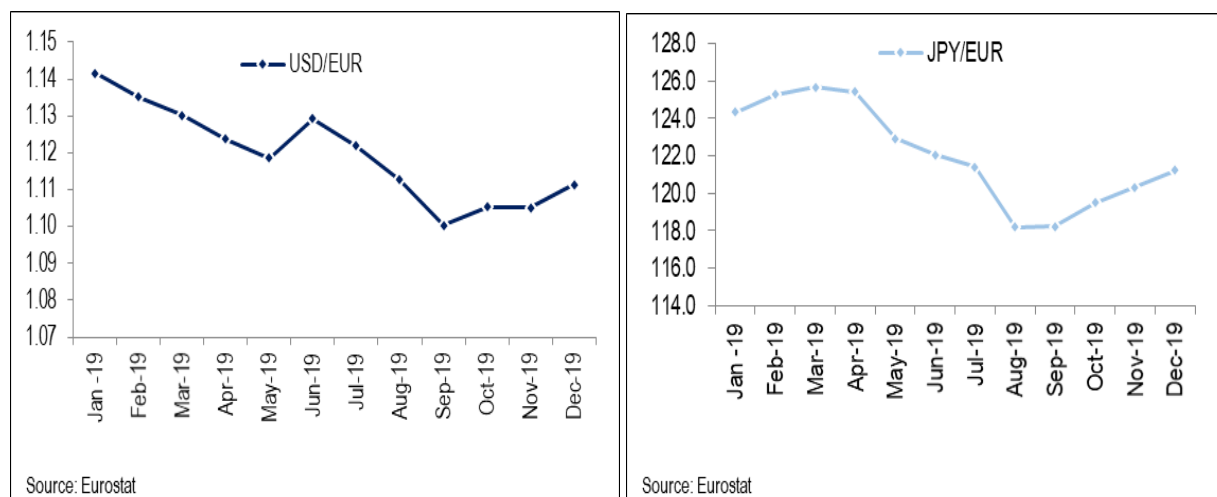
Chart 5 : Average Monthly Denar/EUR and Denar/USD exchange rates in 2019



As regards the international financial market, USD value in relation to the euro continued to appreciate in the course of 2019, reaching its highest value of USD 1.1004 per one euro in September 2019 (monthly average), after which euro

value experienced somewhat strengthening in the last quarter. Value of Japanese Yen in relation to the euro also appreciated, whereby the average exchange rate was Japanese Yen 124.34 per one euro in January, reaching Japanese Yen 121.24 per one euro in December.

Chart 6 : Average Monthly USD/EUR and Japanese Yen/EUR exchange rates in 2019



III. 2 Credit Rating of the Republic of North Macedonia in 2019

Credit Rating Agencies „Standard & Poor's“ and “Fitch Ratings“ carried out the regular semi-annual revision of the credit rating of the Republic of North Macedonia twice in 2019, on 8th March 2019 and 6th September 2019, i.e. on 1st February 2019 and 1st July 2019, respectively.

“Standard & Poor's“ Credit Rating Agency affirmed, in its last report published on 6th September 2019, Republic of North Macedonia's previously awarded credit rating for local and foreign currency at BB-, at the same time affirming the country's stable outlook.

According to the Agency, the ratings could be raised if timely reform implementation strengthened the institutional arrangements and improved its economic prospects. On the other hand, if political tensions returned or reform momentum waned, could lower the ratings.

“Fitch Ratings“ Credit Rating Agency, in its report published on 1st February 2019, affirmed foreign and local currency rating at BB, with positive outlook of the credit ratings of North Macedonia. As for its report published on 1st July 2019, “Fitch Ratings“ Credit Rating Agency improved the rating for foreign and domestic currency from BB to BB+, revising the country's outlook from positive in a stable one.

“Fitch Ratings“ Credit Rating Agency positively assessed the undertaken measures aimed at better public finance management, in particular the higher budget transparency and the introduction of the fiscal rule for the municipalities. What is noted in the report is that the undertaken measures such as the pension reform, the better targeting of the social welfare, as well as the progressive taxation contribute to the deficit reduction. What “Fitch Ratings“ Credit Rating Agency noted in its report is that improved governance standards underpin the implementation of reforms and increase the confidence that the country will not return to the period of political paralysis from 2014 - 2017. Progress in Euroatlantic integration supports investors' confidence, acting as an anchor for reforms and macroeconomic stability.

“Fitch Ratings“ Credit Rating Agency representatives stated that what that could lead to upgrading the rating in future is the following: Improvement in medium-term growth prospects, reduction in the public debt/GDP ratio, further improvement in governance standards and reduction in political risk, as well as progress towards EU accession. On the other hand, what could lead to downgrading the rating in future is the following: Adverse political developments that could cause political instability, as well as fiscal slippage that could lead to higher risk to the sustainability of the public finances.

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

The credit ratings the Republic of North Macedonia was awarded in 2018 and 2019 by the international Credit Rating Agencies „Standard & Poor's“ and “Fitch Ratings” are presented in the table below:

Table 1 : Credit Ratings awarded to the Republic of North Macedonia in 2018 and 2019

Credit rating agency "Standard and Poor's"

	2017	2018
Foreign currency	BB-/Stable	BB-/Stable
Domestic currency	BB-/ Stable	BB-/ Stable

Source: Standard & Poor's

Credit rating agency "Fitch ratings"

	2017	2018
Foreign currency	BB/ Negative	BB/ Positive
Domestic currency	BB/ Negative	BB/ Positive

Source: Fitch Ratings

III. 3 Trends in the government and public debt of the Republic of North Macedonia

Fiscal consolidation implemented in the past period contributed to the stabilization of the debt level of the Republic of North Macedonia. Government debt of the Republic of North Macedonia at the end of 2019 amounted to EUR 4,556.8 million, i.e. 40.2% of GDP (Table 8), being a decrease by 0.4 p.p. compared to the previous year. Given such government debt level, Republic of North Macedonia remains to be moderately indebted country with a government debt lower than the average level of debt of the 27 EU countries, accounting for 77.8%¹ at the end of 2019.

Public debt of the Republic of North Macedonia amounted to EUR 5,540.9 million at the end of 2019, accounting for 48.9% of GDP (Table 7), thus increasing by 0.2 p.p. compared to the end of the previous year. The broadening of the definition about the public debt with the legal amendments as of May 2019, wherein the non-guaranteed debt of public enterprises and joint stock companies established by the state or the municipalities, the municipalities in the City of Skopje and the City of Skopje was included, also contributed to this increase. Non-guaranteed debt contributed with 0.4 p.p. in the total public debt at the end of 2019. Foreign government debt amounted to EUR 3,709.3 million, while internal government debt amounted to EUR 1,831.6 million.

From the point of view of the currency structure of the government debt, at the end of 2019, the euro-denominated debt predominated, participating with 71.3% in the total portfolio, being lower by 1.5 p.p. compared to 2018 (Chart 19). During the same period, Denar - denominated debt grew by 2.2 p.p., i.e. from 21.1% in 2018 to 23.2% at the end of 2019.

Debt with fixed interest rate in the interest structure of the government debt decreased by 0.8 p.p. compared to 2018, amounting to 76.2% at the end of 2019 (Chart 18). Decrease of the share of fixed interest rate debt is mostly a result of the Development Policy Loan, being a loan with floating interest rate. On the other hand, domestic government debt with fixed interest rate increased due to the increased level of government bonds with fixed interest rate on the domestic market.

With respect to the realization of the thresholds determined in the Public Debt Management Policy as an integral part of the 2019-2021 Revised Fiscal Strategy, one can conclude that the public debt is within the set thresholds, i.e. Ministry of Finance manages the public debt of the Republic of North Macedonia in line with the authorizations by the Government of the Republic of North Macedonia (Table 2). In fact, under the 2019-2021 Revised Fiscal Strategy, the maximum level of public debt of 60% of GDP in the medium and long run, was defined, also determining the maximum level of guaranteed public debt of 13% of GDP. At the end of 2019, public and guaranteed debt were within the set

¹ Eurostat (2018), *Eurostat news release euro indicators No. 68/2019*

thresholds, whereby the public debt accounted for 48.9% of GDP, while guaranteed debt accounted for 8.3% of GDP. Furthermore, in line with the government debt interest structure threshold, euro-denominated debt in the foreign currency debt portfolio should account for at least 85%, and as of 31st December 2019 inclusive, the euro-denominated debt accounted for 92.9%, being in line with the set threshold.

In addition, the realization of the interest rate limit is successful. In fact, under the 2019-2021 Revised Fiscal Strategy, the government debt interest structure threshold was determined, according to which fixed interest rate debt should account for at least 60% of the total debt portfolio, while at the end of 2019, fixed interest rate debt accounted for 76.2% of the government debt structure.

In line with the targets on determining both the optimal level and the public debt portfolio structure, short-term thresholds, pertaining only to 2019 are defined under the 2019-2021 Revised Fiscal Strategy. Thus, short-term maximum net borrowing threshold (domestic and foreign one) on the basis of government debt in 2019 amounted to EUR 575 million, while the total net borrowing amounted to EUR 212.4 million in 2019. In order to reduce the risk of contingent liabilities in the public debt portfolio, annual maximum amount of net borrowing on the basis of guaranteed debt of public enterprises of EUR 250 million for 2019 has been defined in the Revised Strategy. Net borrowing of EUR 84.5 million was realized in 2019, according to the project implementation dynamics. Thus, net borrowing in 2019 on the basis of government and guaranteed debt of public enterprises was within the thresholds set under the Revised Fiscal Strategy.

In order to protect central government debt portfolio against the refinancing risk, a threshold is defined, according to which minimum level of the „average time to maturity“ indicator in 2019 should be 3 years. Taking into account that as of 31st December 2019 inclusive, the average time to maturity was 5.36 years, it can be concluded that this indicator is within the set threshold. Furthermore, the threshold for the average time to refixing should protect the central government debt portfolio against the interest rate risk, whereby it is determined for the minimum level of this indicator in 2019 to be 2 years. At the end of 2019, the average time to refixing is also within the threshold, being 4.88 years.

Table 2: Thresholds for the Public Debt Management Policy and realization in 2019

	Thresholds set in 2018-2020 Fiscal Strategy	Realisation at the end of 2019
Short-Term Limits (referring only to 2019)		
Net borrowing on the basis of government debt	Maximum net borrowing on the basis of General Government Debt in 2019 to be up to EUR 575 million	EUR 212,4 million
Net borrowing on the basis of guaranteed debt	Maximum net borrowing on the basis of guaranteed debt in 2019 to be up to EUR 250 million	EUR 84.5 million
"Average time to maturity" indicator in 2018	Minimum threshold for „Average time to maturity“ indicator in 2019 should be 2 years	5,36 years
"Average time to re-fixing" indicator in 2018	Minimum threshold for "Average time to re-fixing" indicator in 2019 to be 2 years	4,88 years
Medium-Term Limits		
Interest rate structure	In the period 2019-2021, minimum threshold of debt with fixed interest rate to be 60%	76,2%
Currency structure	In the period 2019-2021 minimum threshold of euro-denominated debt in foreign currency-denominated debt to be 85%	92,9%
Public debt/GDP	The level of total public debt in the medium and the long run not to exceed 60% of GDP	48,9%
Guaranteed debt/GDP	The level of guaranteed public debt in the period 2019-2021 not to exceed 13% of GDP	8,3%

Source Ministry of Finance

Modifications and Amendments to the 2019 Law on Public Debt

Law on Public Debt shall govern public debt management, purposes of the general government debt, procedure and manner of borrowing, procedure of issuance, servicing and termination of sovereign guarantees, as well as information on public debt. Law shall include competences, measures and limitations of debt management, at the same time ensuring its monitoring, management and timely servicing.

In May 2019, the Parliament of the Republic of North Macedonia adopted the Law on Modifications and Amendments to the Law on Public Debt (published in the "Official Gazette of the Republic of North Macedonia", no. 98/19 dated 21st May 2019).

Legal amendments were aimed at greater transparency, harmonization with the international practice and greater credibility at international institutions and investors.

Main amendments to the Law shall include:

- Broadening of the public debt definition,*
- Preparation of Public Debt Management Strategy,*
- Setting the maximum limit for issuance of debt by the state throughout the fiscal year, and*
- Improvement of the system for issuing borrowing consents*

One of the main amendments to the Law was broadening of the public debt definition by including the non-guaranteed debt of public enterprises. Thus, in line with the most recent legal amendments, public debt shall comprise 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. The broadening of the public debt scope provided for achieving greater insight into the public debt level and increasing the transparency, being also in line with the recommendations of the international institutions.

Under the legal amendments, the public debt management policy shall be turned into a separate Public Debt Management Strategy, to be prepared for a three-year medium-term period and adopted by the Government of the Republic of North Macedonia, upon proposal by the Ministry of Finance, by 31st May in the current year at the latest. Prior to adopting the legal amendments, public debt management policy was part of the Fiscal Strategy.

Amendments also stipulated a borrowing limit, which, when Ministry of Finance makes borrowing, on behalf of the Republic of North Macedonia, must not be exceeded during the fiscal year. Borrowing limit shall be determined as a maximum amount necessary to finance the budget deficit and refinance the general government debt liabilities for the current and the next two fiscal years. The limits shall be measureable and transparent, and it shall be determined on the basis of data to be adopted under the Budget of the Republic of North Macedonia and the Fiscal Strategy.

Legal amendments shall also provide for improving the system for issuance of consents for borrowing. Ministry of Finance shall perform credit analysis and assess the creditworthiness of public debt issuers when issuing sovereign guarantee in line with the prescribed assessment methodology. Such access shall provide for harmonizing with the EU rules and acquis when controlling the issuance of sovereign guarantees.

Table 3: Thresholds for the Public Debt Management Policy and realization in 2019

(in MKD millions)		2019
(1)	Budget balance	13,631
(2)	Initial debt balance	266,310
(3)	Final debt balance	279,475
(4)=(3)- (2)	Change in central government debt (= final minus initial balance)	13,165
(5)=(4)- (1)	(Initial Discrepancy)	-466
	Initial discrepancy of the cash flow as % of GDP	-0.07%
(6)	Net acquisition of financial assets	-112
	Currency and deposits	-1,235
	On-lending of municipalities and public enterprises	1,448
	Other financial assets	-654
	Gross issuance of structural bonds	329
(7)	Issuance and repayment of the securities over and below nominal value	238
(8)=(5)- (6)-(7)	Residual (Foreign exchange differences and other statistical discrepancies)	-591
	Residual (Statistical discrepancy) as % of GDP	-0.08%

Source Ministry of Finance

III.4. Servicing of government and public debt of the Republic of North Macedonia

All liabilities on the basis of general government and public debt that fell due in 2019 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 2019, including the government debt and the guaranteed debt of public enterprises, total of EUR 520.0 million was spent, Denar 374.6 million out of which for repayment of the principal and EUR 145.4 million for repayment of interest.

III.5. Government Securities

III.5.1 Continuous Government Securities

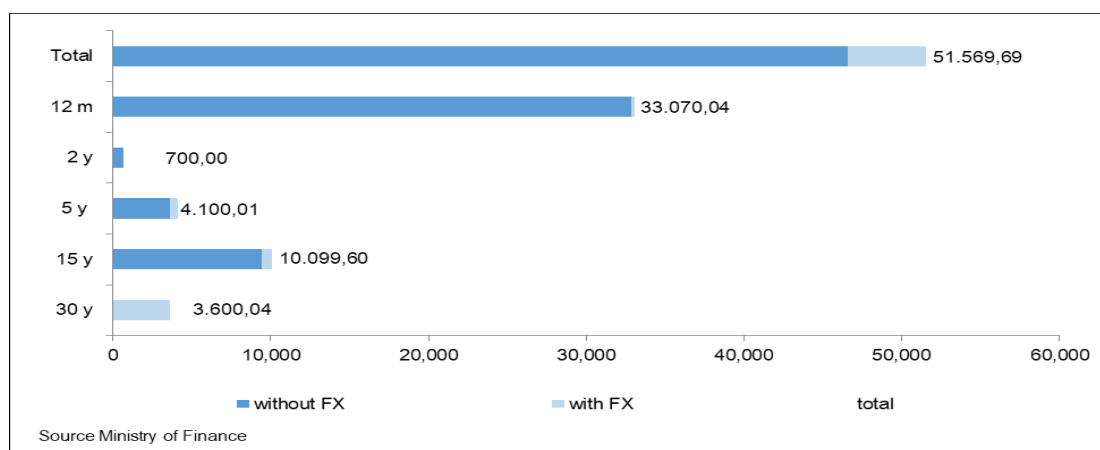
III.5.1.1 Primary Government Securities Market

Borrowing by issuing continuous GS in 2019 – under the Decision on determining the maximum amount of new borrowing by issuing government securities in 2019, adopted by the Government of the Republic of North Macedonia, maximum amount of new borrowing was determined in the amount of Denar 9,225.00 million. Thus, new (net) borrowing on the basis of issued GS in 2019 amounted to Denar 9,145.34 million (Table 4), and the stock of total issued GS, as of 31st December 2019 inclusive, amounted to Denar 106,353.77 million.

GS auctions - in the period January – December 2019, Ministry of Finance regularly issued 12-month treasury bills with and without foreign exchange clause, as well as 2-, 5-, 15- and 30-year government bonds with and without foreign exchange clause. During this period, total of forty GS auctions were held, i.e. twelve auctions of 12-month treasury bills, one auction of 2-year government bonds, five auctions of 5-year government bonds, eleven auctions of 15-year government bonds and four auctions of 30-year government bonds.

Total amount offered on the GS auctions in 2019 amounted to Denar 51,569.57 million, the demand amounted to Denar 131,992.24 million, while total amount realized at the auctions in this period amounted to Denar 51,569.69 million (Chart 8). In line with the Denarization Strategy, which the Government adopted in December 2018, issuance of Denar government securities predominated, amounting to Denar 46,599.65 million in 2019, compared to Denar 4,970.04 million issued as government securities indexed with euro clause. Chart 7 shows allocation of the total amount of issued GS by maturities:

Chart 7: Realized amount of GS by maturities, Denar million



Trends of interest rates at GS auctions – During 2019, volume tender was applied at GS auctions. What was characteristic for the interest rates in 2019 was their significant reduction because of the high demand (2-3 times higher than the offer). Demand was a result of the proper policies and investors' confidence in Macedonian economy. If a year ago, Ministry of Finance issued GS at interest rates ranging between 0.90% for 12-month maturity period to 4.50% for instruments with 30-year maturity period, at the end of 2019, these same instruments were issued at interest rates ranging between 0.60% for 12-month maturity period to 4.10% for 30-year maturity period. Average interest rates in 2019 at the auctions of government securities with and without foreign exchange clause are presented in Table 5 and Table 6.

Maturity structure of outstanding GS - in 2019, portfolio of continuous GS comprised 6-month treasury bills, 12-month TB, 2-year GB, 3-year GB, 5-year GB, 10-year GB, 15-year GB and 30-year GB. As of 31st December 2019 inclusive, percentage share of long-term securities in the maturity structure of government securities accounted for 68.91%, while share of short-term securities accounted for 31.09%. Whereas, compared to 31st December 2018, the ratio between long-term and short-term securities accounted for 66.41% compared to 33.59% respectively, hence, compared to 2019, share of long-term securities in the maturity structure surged by 2.49 p.p.. Increased issuance of long-term securities reduces the debt refinancing risk. Maturity structure of outstanding GS for 2018 and 2019 is shown in Chart 11.

Ownership structure of undue GS – ownership of outstanding government securities portfolio was distributed among the commercial banks in the Republic of North Macedonia, the pension funds, the insurance companies, the saving houses, the natural persons and the legal entities, as well as other institutional investors from the country and abroad. As of 31st December 2019 inclusive, percentage share of banks in the ownership structure of government securities accounted for 32.57%, while the share of the other market entities accounted for 67.43%. Compared to 31st December 2018, when the ratio between the banks and the other market entities was 36.10% against 63.90% respectively, share of banks dropped by 3.53 p.p. compared to the share of the other entities, being respectively increased by the same ratio. Ownership structure of outstanding GS for 2018 and 2019 is shown in Chart 10.

III.5.1.2 Secondary Government Securities Market

During 2018, continuous government securities were traded on the over-the-counter markets and the Macedonian Stock Exchange AD Skopje. Throughout the year, total of forty-four transactions with GS were realized, out of which one transaction with TB and forty-three transactions with GB, shown in Chart 15. Total nominal trading amount amounted to Denar 2,168.35 million. Compared to the trading in 2018, it can be concluded that total nominal amount of trading in 2019 was higher by Denar 789.62 million.

III.5.2. Structural Government Securities

III.5.2.1 Issuance of the Eighteenth Issue of Denationalization Bonds

Pursuant to the Law on Issuance of Denationalization Bonds by the Republic of North Macedonia ("Official Gazette of the Republic of Macedonia", nos. 37/02, 89/08, 161/09, 6/12, 104/13, 33/15 and 161/17), on 17th June 2019, the eighteenth issue of denationalization bonds was issued, amounting to EUR 6.5 million.

Terms and conditions, under which these bonds were issued, were identical as for the first seventeen 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 16th June 2020.

This issue of the denationalization bonds covers all effective decisions on denationalization adopted in the period from 1st January 2018 to 31st December 2018, according to which bonds are given as form of compensation.

III.5.2.2 Secondary Market for Denationalization Bonds

In 2019, total turnover of trading in denationalization bonds realized on the Macedonian Stock Exchange amounted to Denar 348.32 million, decreasing by Denar 203.43 million compared to 2018, when it amounted to Denar 551.74 million. Total trading volume and yields to maturity of denationalization bonds are shown in Charts 13 and 14. What is specific is that upon new issuance of denationalization bonds, it registers large trading volume compared to the other structural bonds, as shown in Chart 13 as well.

III.5.3 Eurobonds

III.5.3.1 Secondary Market for Eurobonds

In the course of 2019, Eurobonds issued by the Republic of North Macedonia, falling due in 2020, 2021, 2023 and 2025, were traded on the international capital market. As of December 2019 inclusive, yield to maturity as regards the Eurobonds falling due in 2020, 2021, 2023 and 2025 accounted for 0.12%, 0.62%, 1.17% and 1.49% respectively, as shown in Chart 12.

III.6 Newly Concluded Loans in 2019

III.6.1 New Loans Concluded by Central Government

On 6th June 2019, Loan Agreement was signed with the World Bank for financing the Western Balkans Trade and Transport Facilitation Project.

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

- amount: EUR 26,200,000;
- interest rate: six-month EURIBOR increased by a fixed spread;
- repayment period: 12 years, including 4-year grace period;
- repayment manner: semi-annually;
- other costs: front-end fee of 0.25% of the loan amount and 0.25% commitment charge on annual basis.

On 18th October 2019, Loan Agreement was signed with the World Bank for Public Finance and Competitiveness Development Policy Loan.

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

- amount: EUR 125,000,000;
- interest rate: six-month EURIBOR plus fixed spread;
- repayment period: 12 years, including 4-year grace period;
- repayment manner: semi-annually;
- other costs: front-end fee of 0.25% of the loan amount and 0.25% commitment charge on annual basis.

On 19th December 2019, Loan Agreement was signed with KfW for financing the Irrigation Program North Macedonia. Terms and conditions, under which this loan was signed, are the following:

- amount: EUR 80,000,000;
- interest rate: it will be determined separately for each tranche of the Loan when disbursed. Upon disbursement of each subsequent tranche, consolidated interest rate will be calculated and it will be applied on the disbursed loan amount.
- repayment period: 15 years, including 5-year grace period;
- repayment manner: semi-annually;
- other costs: management fee of 0.75% of the loan amount and 0.10% commitment fee for the period beginning on the date which falls 6 (six) months until the date which falls 24 months after signing the Loan Agreement, while as regards the subsequent period up to full loan disbursement, 0.25% commitment fee on semi-annual basis.

On 19th December 2019, Loan Agreement was signed with KfW for financing the Energy Efficient Rehabilitation of Student Dormitories in North Macedonia Project.

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

- amount: EUR 20,000,000;
- interest rate: it will be determined separately for each tranche of the Loan when disbursed. Upon disbursement of each subsequent tranche, consolidated interest rate will be calculated and it will be applied on the disbursed loan amount.
- repayment period: 15 years, including 5-year grace period;
- repayment manner: semi-annually;
- other costs: management fee of 1% of the loan amount and 0.25% commitment fee on semi-annual basis.

On 20th December 2019, Loan Agreement was signed with the European Bank for Reconstruction and Development for financing the Wastewater Treatment Plant in Skopje Project.

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

- amount: EUR 58,000,000;
- interest rate: six-month EURIBOR + 1% margin;
- repayment period: 18 years, including 4-year grace period;
- repayment manner: semi-annually;
- other costs: front-end fee of 1% of the loan amount and 0,5% commitment charge on annual basis.

On 20th December 2019, Loan Agreement was signed with the European Investment Bank for financing the Wastewater Treatment Plant in Skopje Project.

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

- amount: EUR 68,000,000;
- interest rate: interest rate will be determined for each credit tranche separately, on the day the Ministry of Finance submits the disbursement request, depending on which interest rate is more favourable for the Republic of North Macedonia (fixed or floating);
- repayment period: as regards each tranche, it may be from at least four years up to 25 years at the most starting from the Scheduled Disbursement Date, including a grace period, which may range from 60 days to seven years from the Scheduled Disbursement Date. Loan repayment period will be determined for each tranche separately on the day of submission of the disbursement request by the Ministry of Finance. the tranche may be repaid in a single installment on a date falling between three and 15 years from the Schedule Disbursement Date.
- other costs: one-off appraisal fee in the amount of EUR 40,000.

On 23rd December 2019, Loan Agreement was signed with the World Bank for financing the Local Roads Connectivity Project.

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

- amount: EUR 70,000,000;
- interest rate: six-month EURIBOR plus fixed spread;
- repayment period: 15 years, including 5-year grace period;
- repayment manner: semi-annually;
- other costs: front-end fee of 0.25% of the loan amount and 0.25% commitment charge on annual basis.

III.6.2 New Loans Concluded by Local Government

III.6.2.1 Short-term borrowing within the Project under IPA Cross-Border Cooperation Component

On 25th December 2019, Probistip Municipality and Development Bank of North Macedonia JSC Skopje signed Short-Term Loan Agreement in the amount of Denar 16,150,000.00 for financing the Project under IPA Cross-Border Cooperation Component, for the purpose of realizing the capital Project "Utilising Pay as You Throw Systems and Autonomous Composting Units for Biowastes or abbreviated BIOWASTES".

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

- amount: Denar 16,150,000.00;
- interest rate: fixed interest rate of 5.75% annually;
- repayment period: one year, including six-month grace period;
- repayment manner: on quarterly basis.

III.6.3 Guarantees Issued in 2019

On 28th January 2019, Loan Agreement and Guarantee Agreement were signed with the European Bank for Reconstruction and Development for financing the purchase of new buses for the City of Skopje.

- amount: EUR 10,000,000;
- interest rate: six-month EURIBOR + 1% margin;
- repayment period: 10 years, including 3-year grace period;
- repayment manner: semi-annually;
- other costs: front-end fee of 1% of the loan amount and 0.5% commitment charge on annual basis.

On 20th September 2019, Loan Agreement and Guarantee Agreement were signed with the European Bank for Reconstruction and Development for financing the Project for Construction and Installation of the Electronic Tolling System along Corridor VIII and the Highway Miladinovci Shtip.

- amount: EUR 13,000,000;
- interest rate: six-month EURIBOR + 1% margin;
- repayment period: 15 years and six months, including 4-year grace period;
- repayment manner: semi-annually;
- other costs: front-end fee of 1% of the loan amount and 0.5% commitment charge on annual basis.

On 12th December 2019, Loan Agreement and Letter of Guarantee were signed with Export-Import Bank from China for additional financing of Construction of Kicevo – Ohrid Motorway Project.

- amount: US \$ 179,694,572.51;
- interest rate: 2% fixed interest rate;
- repayment period: 20 years, including 5-year grace period;
- repayment manner: semi-annually;
- other costs: front-end fee of 0.25% of the loan amount and 0.25% commitment charge on annual basis.

IV. Public Debt Management Activities - Tables and Charts

IV.1 Primary Government Securities Market

Table 4: Net issue of GS and structural bonds

(million denars)		Q1-2019	Q2-2019	Q3-2019	Q4-2019	Total 2019
I	Net issued government securities	520.16	3,160.86	4,356.82	1,107.50	9,145.34
	6-month treasury bills	0.00	-249.52	0.00	0.00	-249.52
	12-month treasury bills	-264.95	1,270.04	-254.98	-79.38	670.73
	2-year treasury bonds	-1,988.01	-960.31	-288.22	-1,626.17	-4,862.71
	5-year treasury bonds	1,132.94	11.25	0.00	-1,256.99	-112.80
	15-year treasury bonds	740.18	2,189.39	4,000.01	3,170.02	10,099.60
	30-year treasury bonds	900.00	900.01	900.01	900.02	3,600.04
II	18th issuance of denationalization bonds	0.00	399.75	0.00	0.00	399.75
I+II	Total	520.16	3,560.61	4,356.82	1,107.50	9,545.09

Source: Ministry of Finance

Chart 8: Demand and realization of GS auctions, January–December 2019

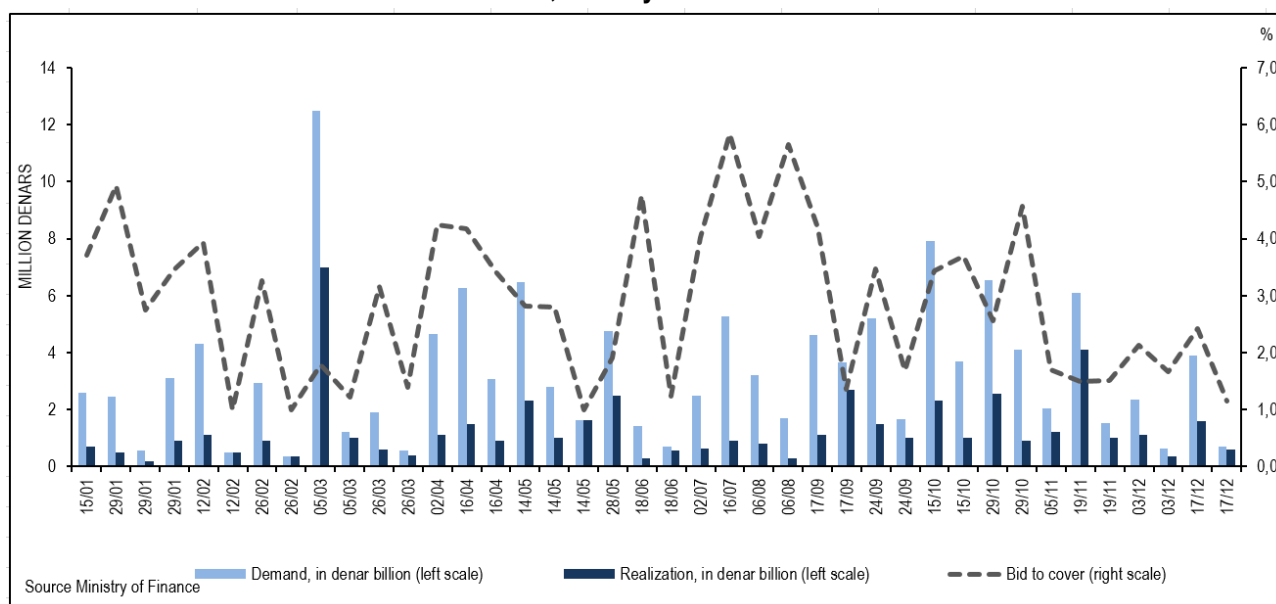


Chart 9: Realized GS January - December 2019

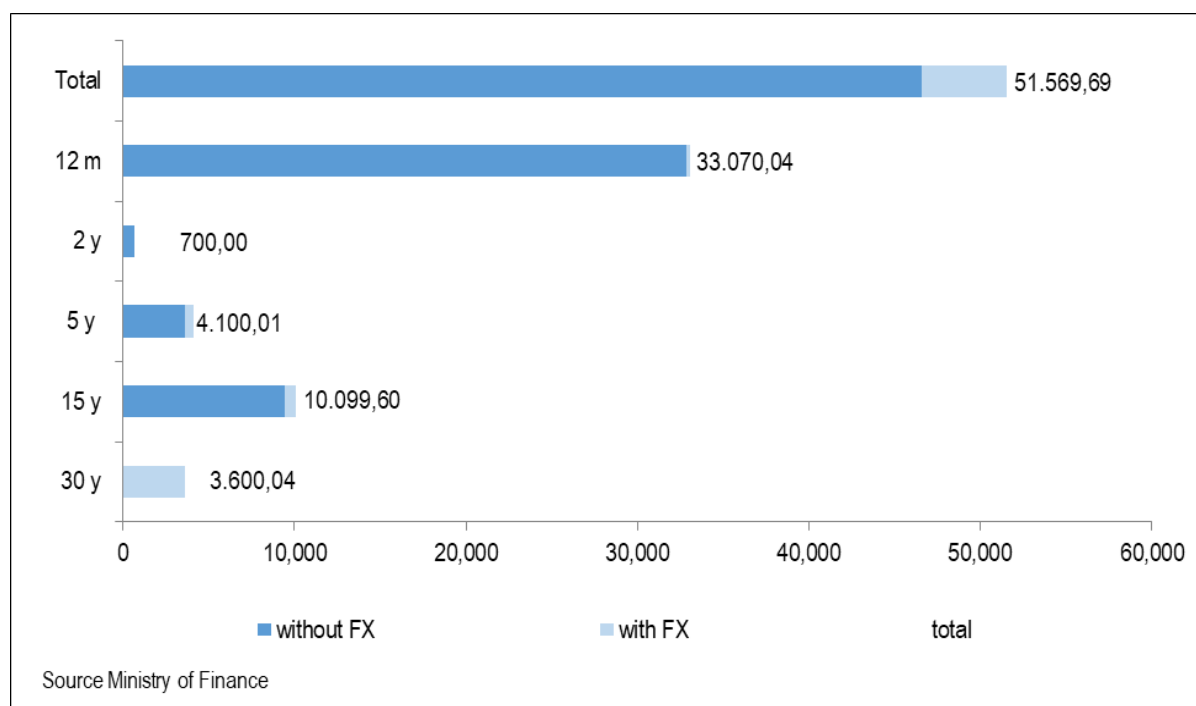


Table 5: Average interest rates on GS without foreign exchange clause in 2019

Auction date	6-month T-bills	12-month T-bills	2-year T-bonds	3-year T-bonds	15-year T-bonds	30-year T-bonds
January	1,45%				3,50%	
February		0,90%			3,20%	
March		0,90%			3,20%	
April	0,60%					4,85%
May						
June					3,00%	
July						4,60%
August					3,00%	
September					2,90%	
October			0,90%	1,10%	2,90%	4,50%
November			0,90%		2,90%	
December	0,30%		0,90%			

Source: Ministry of Finance

Table 6: Average interest rates on GS with foreign exchange clause in 2019

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		0,50%				4,30%
February				1,30%		
March						
April						4,30%
May						
June						
July						4,30%
August					2,55%	
September						
October						4.10%
November						
December					2,45%	
Source Ministry of Finance						

Chart 10: Ownership structure of continuous GS

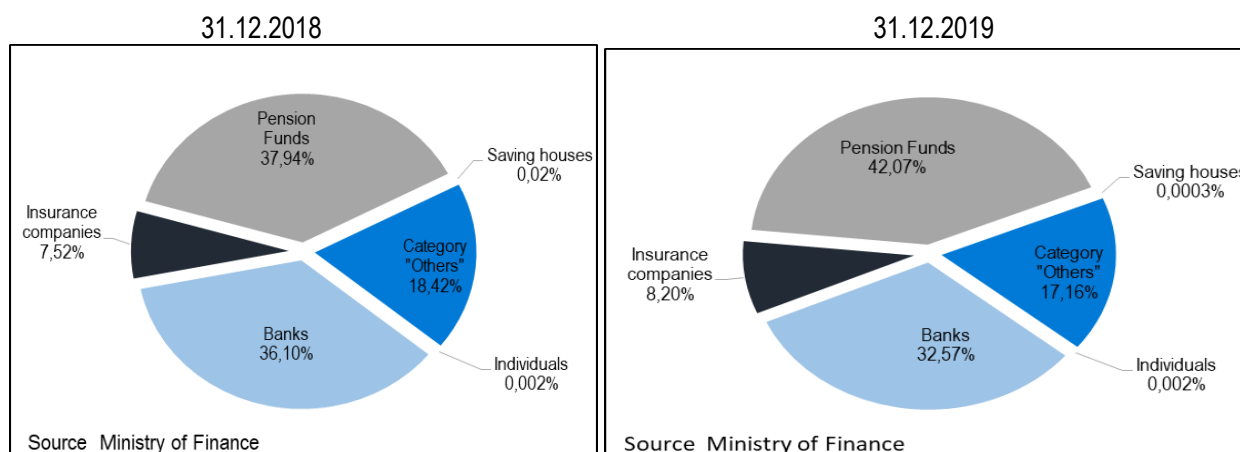


Chart 11: Maturity structure of continuous GS

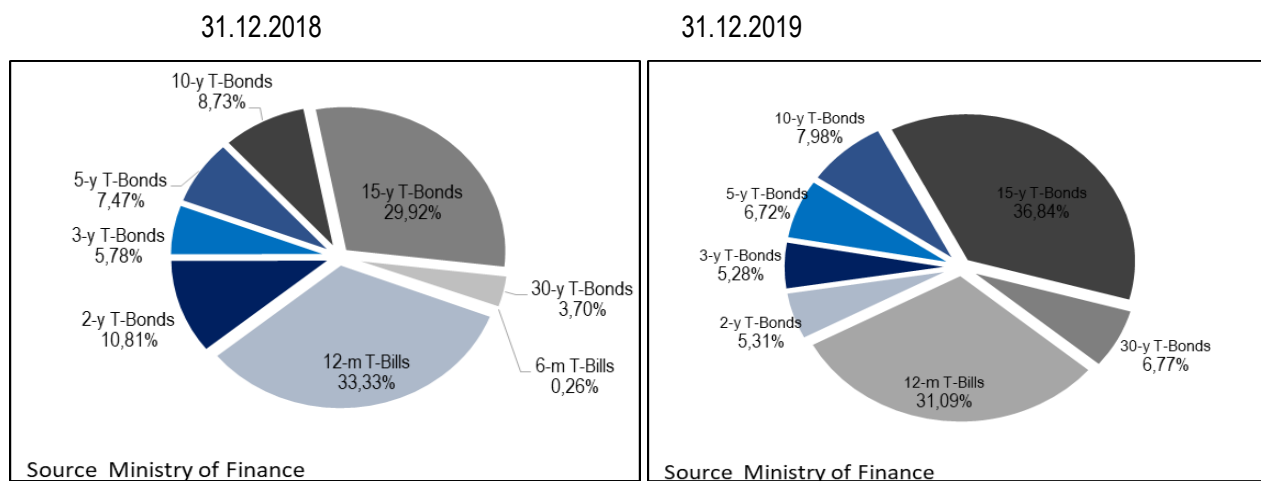
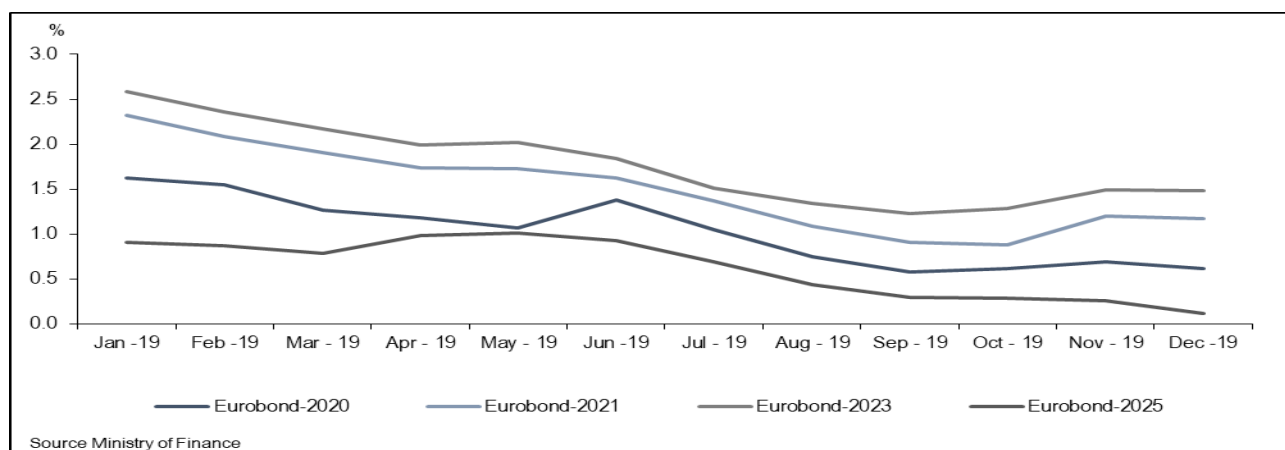


Chart 12: Yield to maturity of Eurobonds falling due in 2020, 2021, 2023 and 2025



IV.2 Secondary Government Securities Market

IV.2.1. Secondary Structural Government Securities Market

Chart 13: Trading volume for structural government bonds January – December 2019, EUR

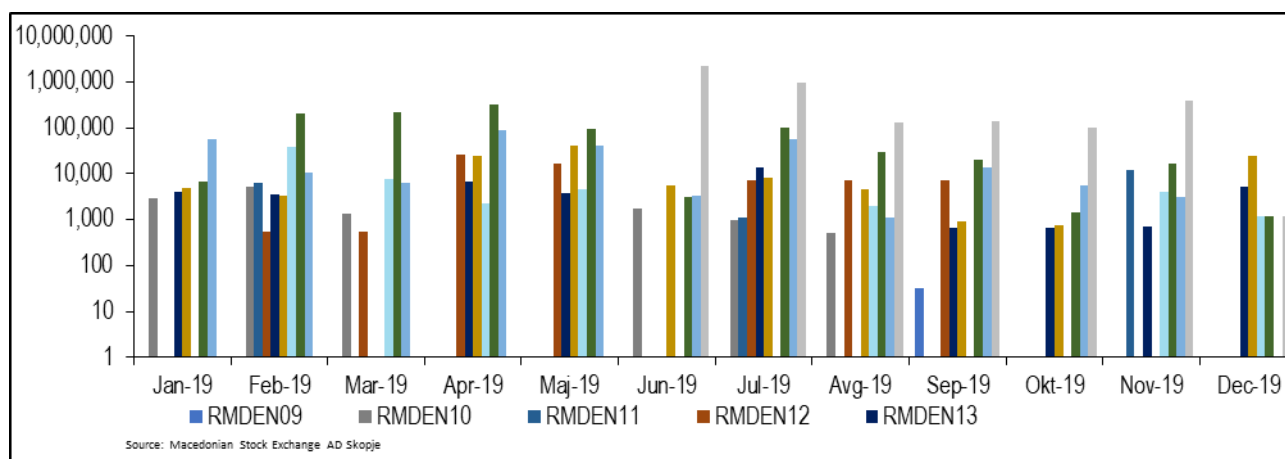
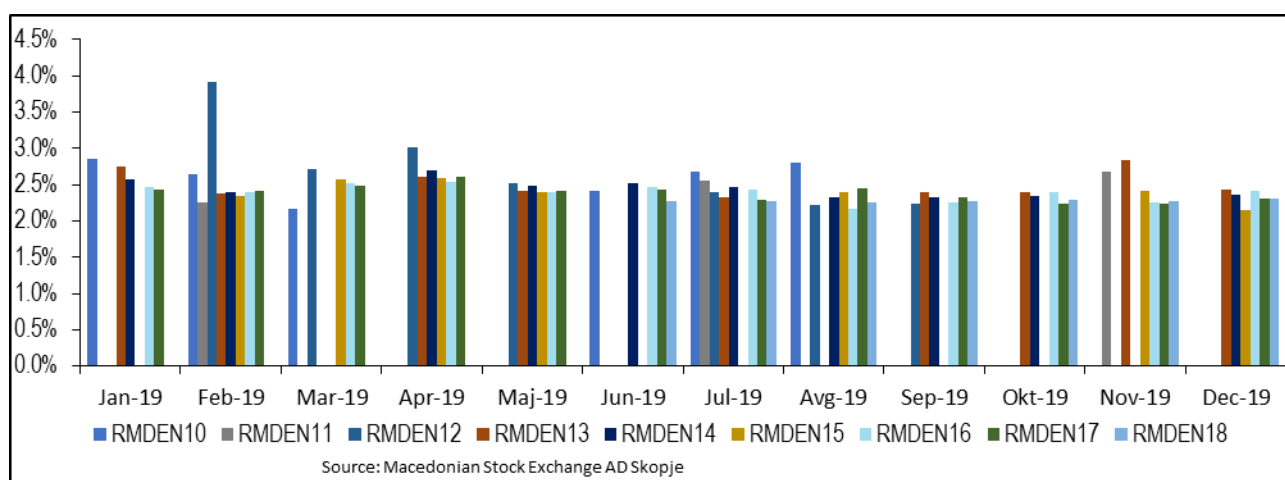
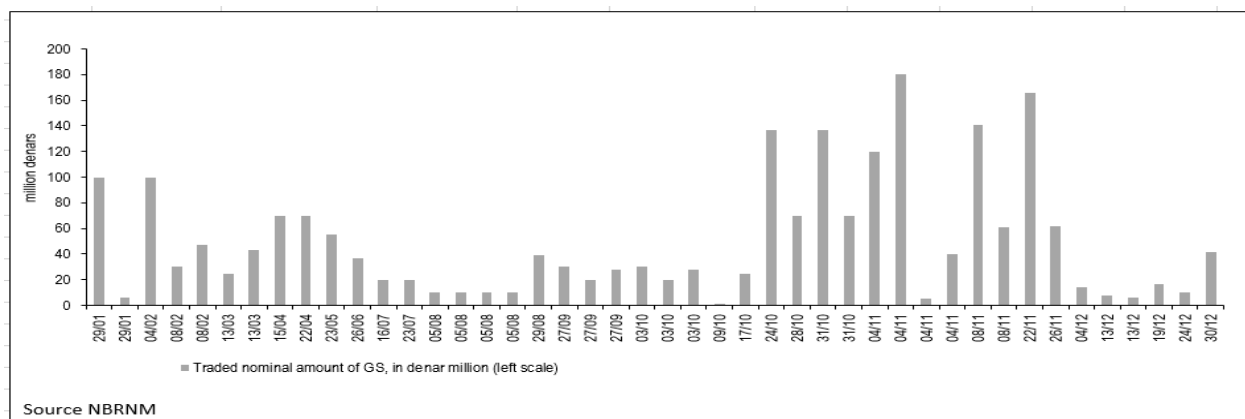


Chart 14: Yield to maturity of structural government bonds January – December 2019



IV.2.2 Secondary Continuous Government Securities Market

Chart 15: Trading volume on secondary continuous government bonds market January – December 2019



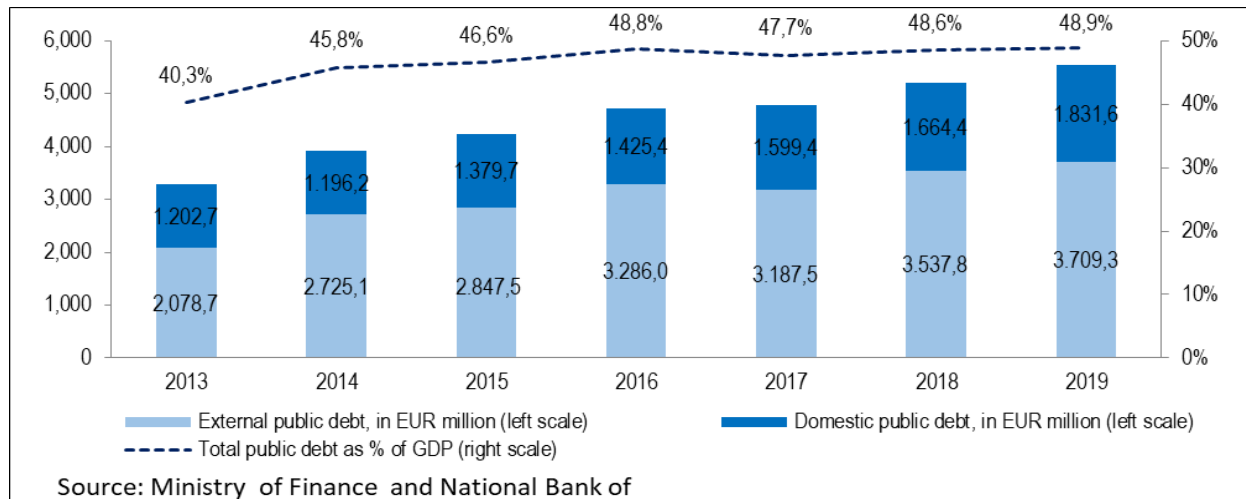
V. Public Debt Portfolio Features

Table 7: Stock of public debt

(EUR million)	2013	2014	2015	2016	2017	2018	2019
General government debt	2.771,6	3.262,5	3.453,3	3.851,5	3.958,5	4.344,4	4.556,8
Guaranteed public debt	509,8	658,9	774,0	859,9	828,4	857,7	942,2
Non Guaranteed public debt	N/A	N/A	N/A	N/A	N/A	N/A	41,9
Total public debt (general government debt + guaranteed debt)	3.281,4	3.921,3	4.227,2	4.771,4	4.786,9	5.202,2	5.540,9
External public debt	2.078,7	2.725,1	2.847,5	3.286,0	3.187,5	3.537,8	3.709,3
Domestic public debt	1.202,7	1.196,2	1.379,7	1.425,4	1.599,4	1.664,4	1.831,6
Total public debt as % of GDP	40,3%	45,8%	46,6%	48,8%	47,7%	48,6%	48,9%

*) As of 2018 inclusive, total public debt is a sum of government and guaranteed debt. In 2019 (starting from Q2), public debt also includes non-guaranteed debt of public enterprises and joint stock companies established by the state or the municipalities. Source : Ministry of Finance and National Bank of RNM

Chart 16: Public debt trends



V.1 General Government Debt

Table 8: Stock of general government debt

(EUR million)	2013	2014	2015	2016	2017	2018	2019
EXTERNAL GENERAL GOVERNMENT DEBT			2.096,7	2.446,6	2.376,8	2.695,0	2.763,5
Central government debt	1.597,5	2.092,2					
Municipal debt	1.591,9	2.086,9	2.091,5	2.442,0	2.373,1	2.692,2	2.761,4
DOMESTIC GENERAL GOVERNMENT DEBT			1.356,6	1.404,9	1.581,7		1.793,3
Central government debt	1.174,1	1.170,3				1.649,4	
Municipal debt	1.165,1	1.159,5	1.344,1	1.393,7	1.571,2	1.638,4	1.784,0
GENERAL GOVERNMENT DEBT	2.771,6	3.262,5	3.453,3	3.851,5	3.958,5	4.344,4	4.556,8
General government debt as % of GDP	34,0%	38,1%	38,1%	39,9%	39,4%	40,6%	40,2%

Chart 17: General government debt trends

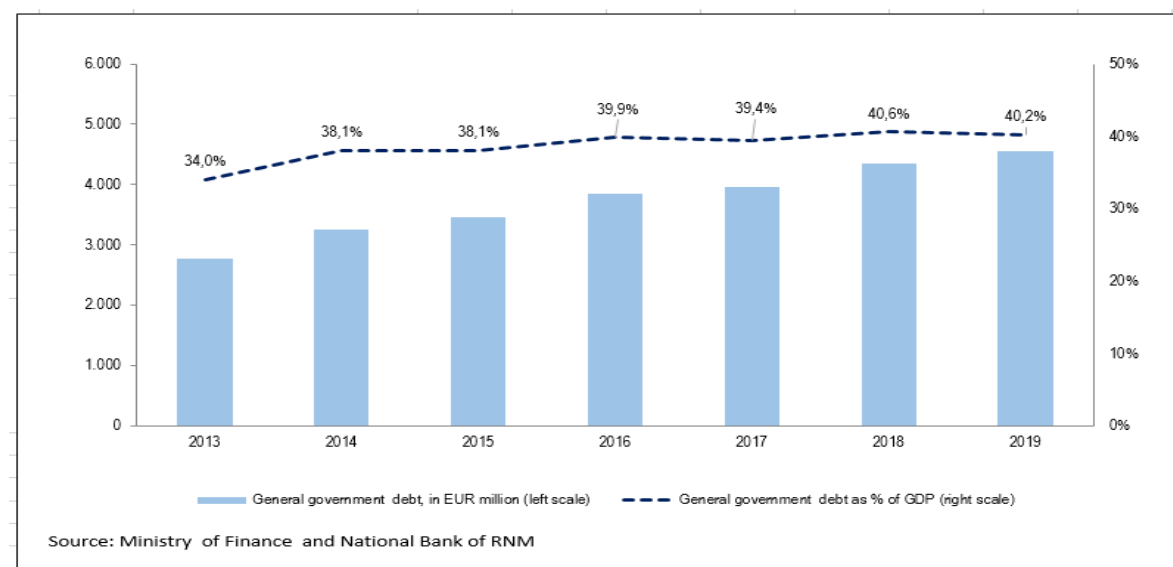


Chart 18: Interest rate structure of general government debt

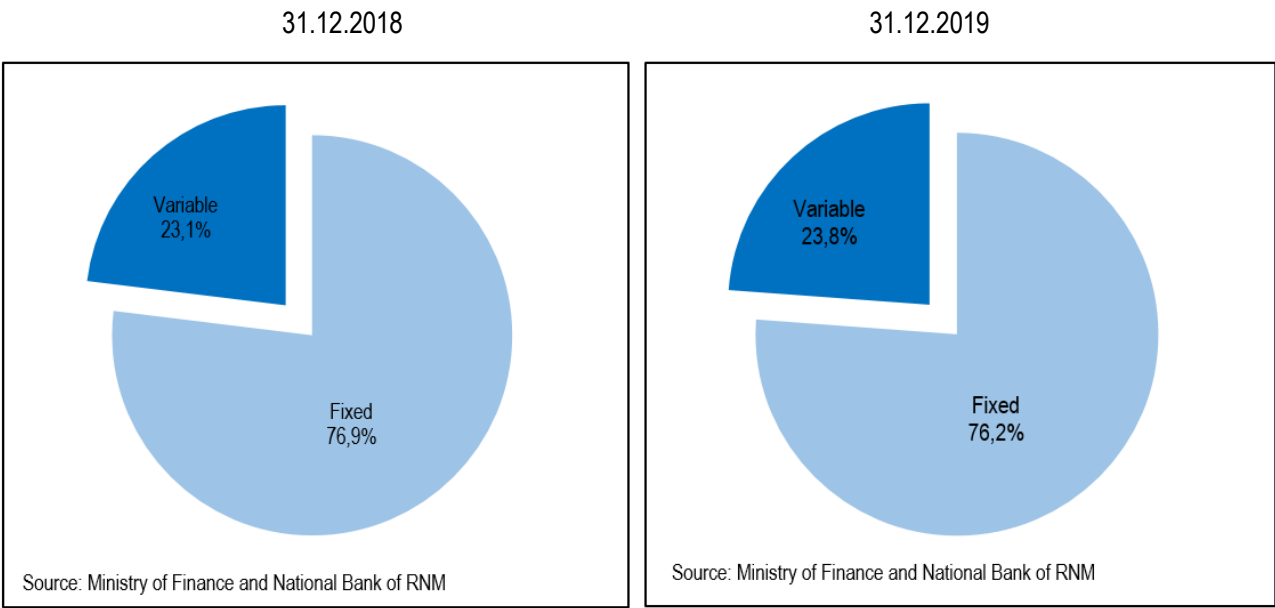


Chart 19: Currency structure of general government debt

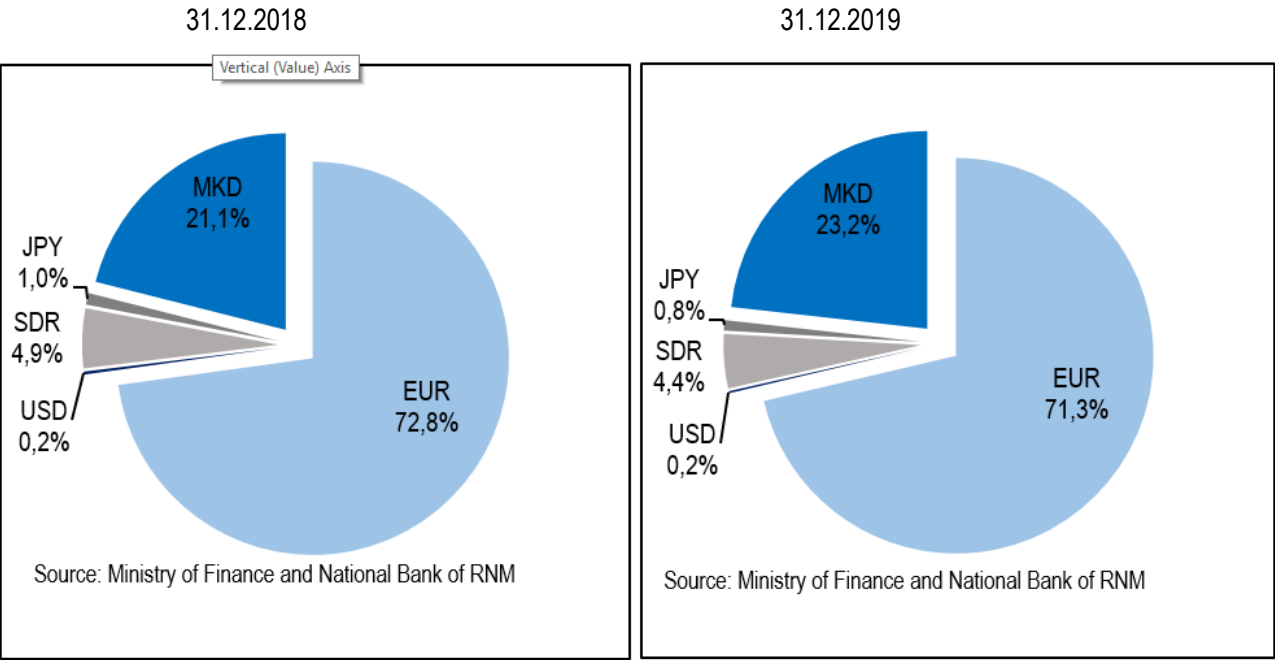


Chart 20: Market/non-market general government debt, EUR million

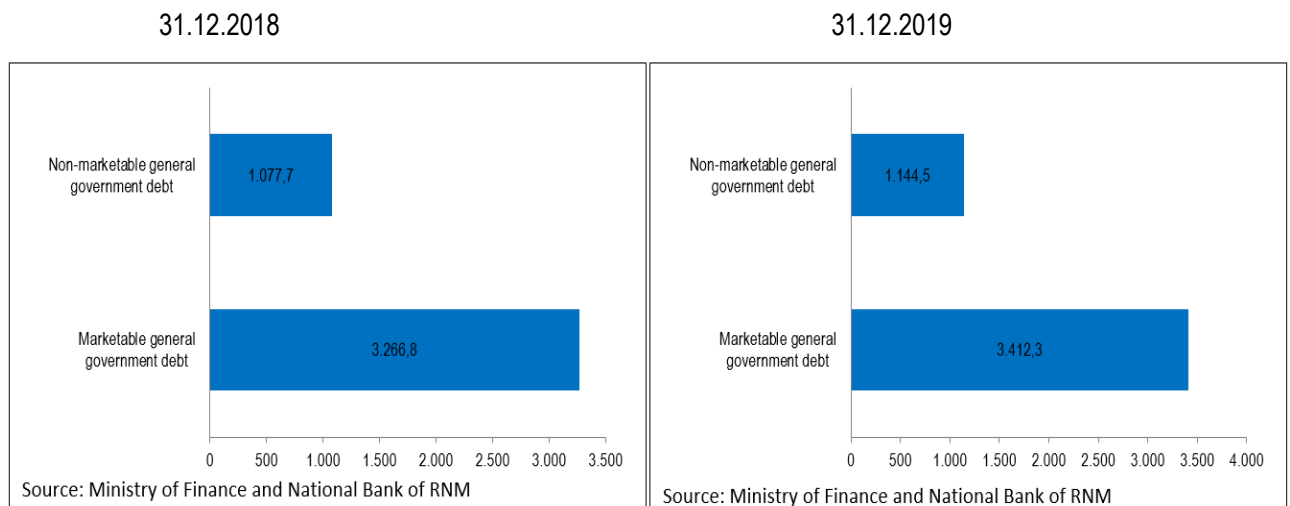


Table 9: Average Time to Maturity - ATM (years)

	2019
Domestic debt	7.51
External debt	3.97
Total general government debt	5.36

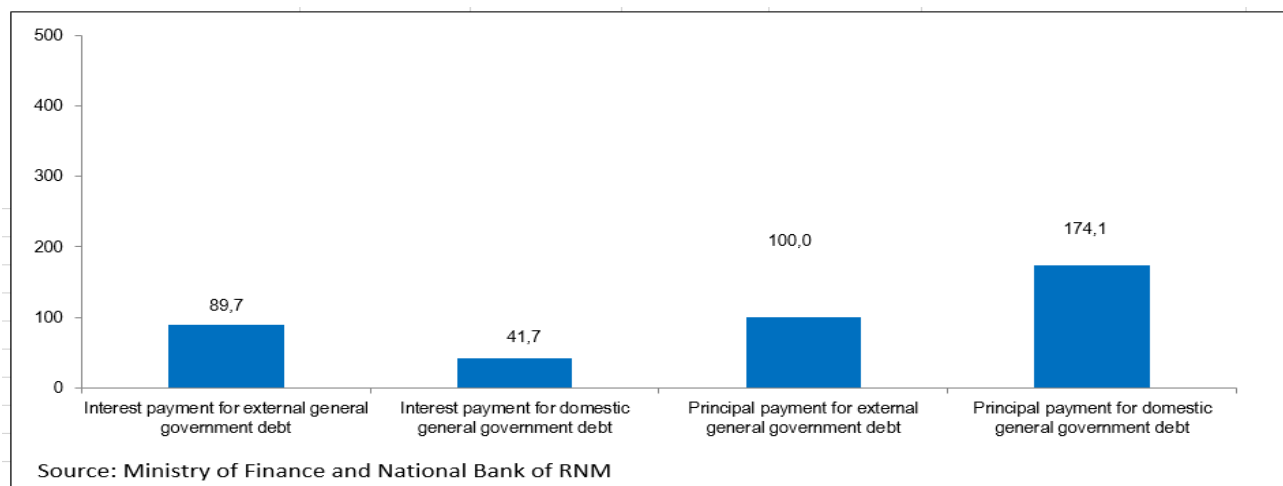
Source: Ministry of Finance

Table 10: Average time to re-fixing - ATR (years)

	2019
Domestic debt	7.45
External debt	3.21
Total general government debt	4.88

Source: Ministry of Finance

Chart 21: Repayment of interest and principal on the basis of general government debt, EUR million



V.1.1 External General Government Debt

Table 11: Stock of external general government debt by creditors

(MKD million)	31.12.2013	31.12.2014	31.12.2015	31.12.2016	31.12.2017	31.12.2018	31.12.2019
External general government debt	1.597,5	2.092,2	2.096,8	2.446,6	2.376,8	2.695,0	2.763,5
Official creditors	981,1	983,2	858,4	863,2	838,9	819,0	914,6
Multilateral creditors	883,1	888,7	764,8	773,8	761,6	745,9	846,1
IBRD	216,3	251,3	246,0	237,5	228,5	215,2	328,4
IDA	242,3	249,3	253,8	240,8	213,4	203,8	192,6
IFAD	10,8	11,1	11,3	10,8	9,7	9,4	9,1
CEB	49,1	53,0	64,1	71,0	88,6	89,1	96,0
EBRD	27,5	67,1	64,6	80,2	100,2	94,8	91,5
EIB	73,7	76,6	101,4	119,7	115,5	133,5	128,4
EU	43,6	33,6	23,6	13,6	5,6	0,0	0,0
IMF	219,7	146,7	0,0	0,0	0,0	0,0	0,0
Bilateral creditors	98,0	94,5	93,6	89,4	77,4	73,2	68,5
Private creditors	616,5	1.109,0	1.238,4	1.583,4	1.537,8	1.876,0	1.848,9
Eurobond	150,0	650,0	770,0	1.220,0	1.220,0	1.628,3	1.628,3
Other private creditors	466,5	459,0	468,4	363,4	317,8	247,6	220,6

Source: Ministry of Finance and National Bank of RNM

Table 12: Disbursements on the basis of conclude undisbursed loans of external general government debt

31.12.2019	
(MKD million)	Повлечени средства јан-дек 2019
Disbursements on the basis of loans within external general government debt	162,9
Central government debt (consolidated)	162,9
Official creditors	162,9
Multilateral creditors	160,4
IBRD	138,9
CEB	11,5
EBRD	10,0
Bilateral creditors	2,5
Private creditors	0,0
Municipal debt	0,0

Source: Ministry of Finance and National Bank of RNM

Chart 22: External general government debt structure by creditors

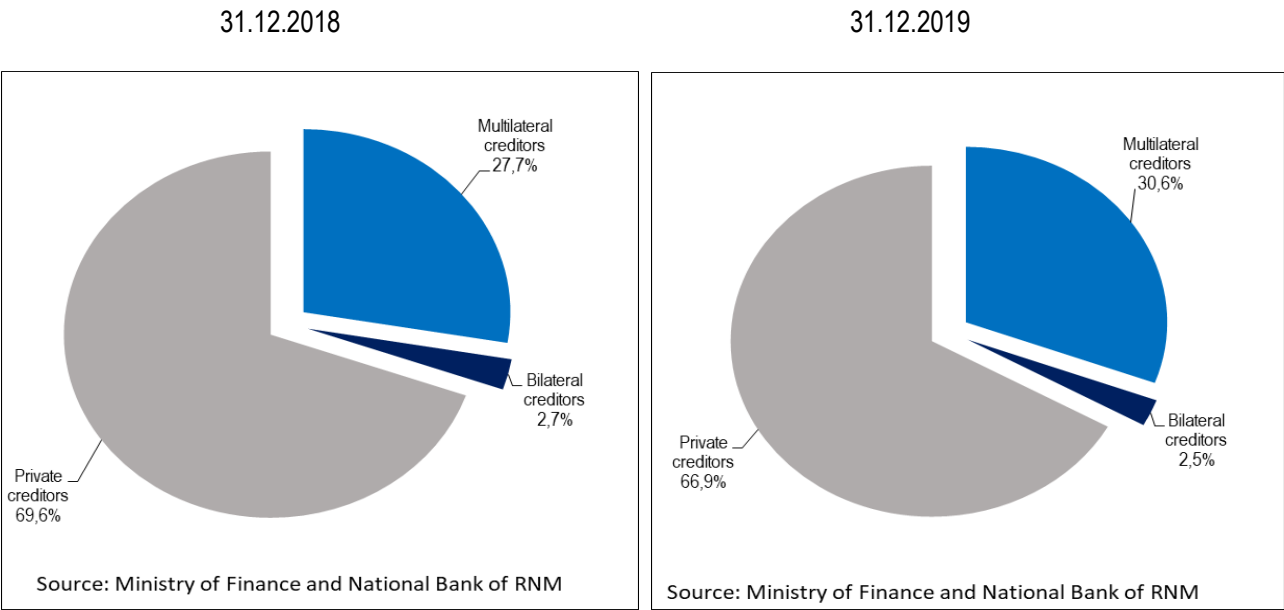


Chart 23: External general government debt structure by multilateral creditors

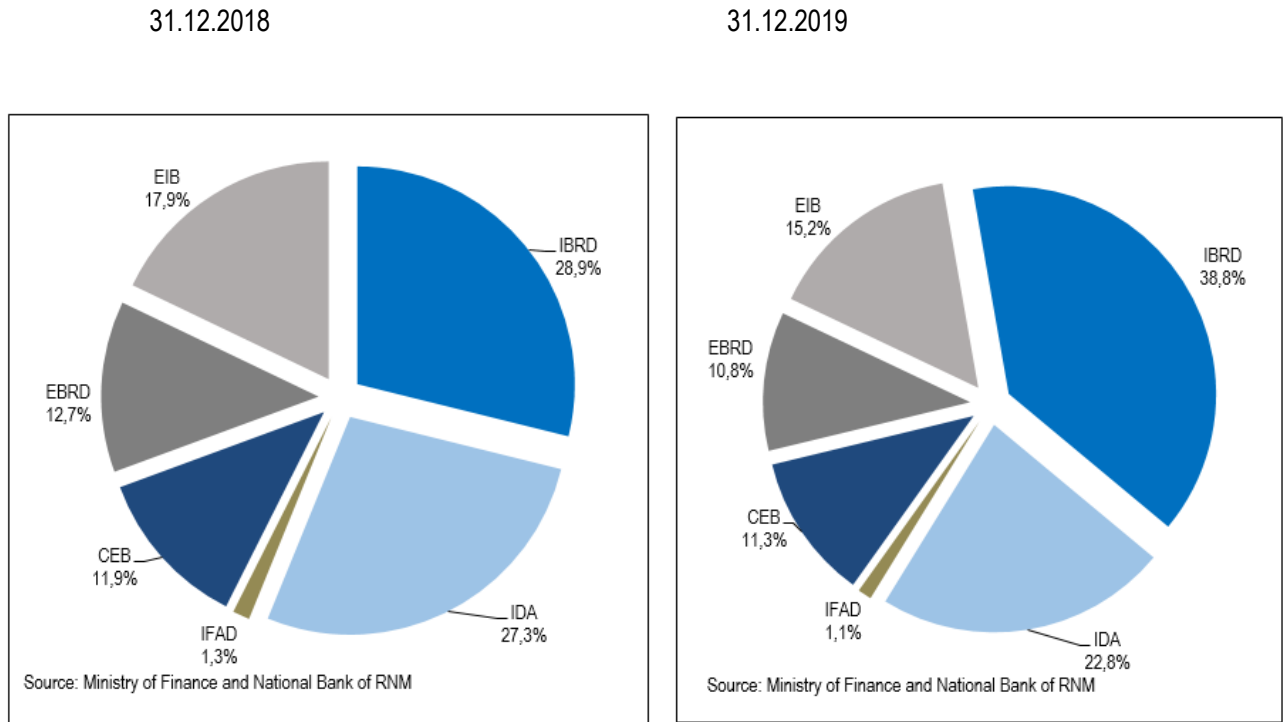


Chart 24 : Currency structure of external general government debt

31.12.2018

31.12.2019

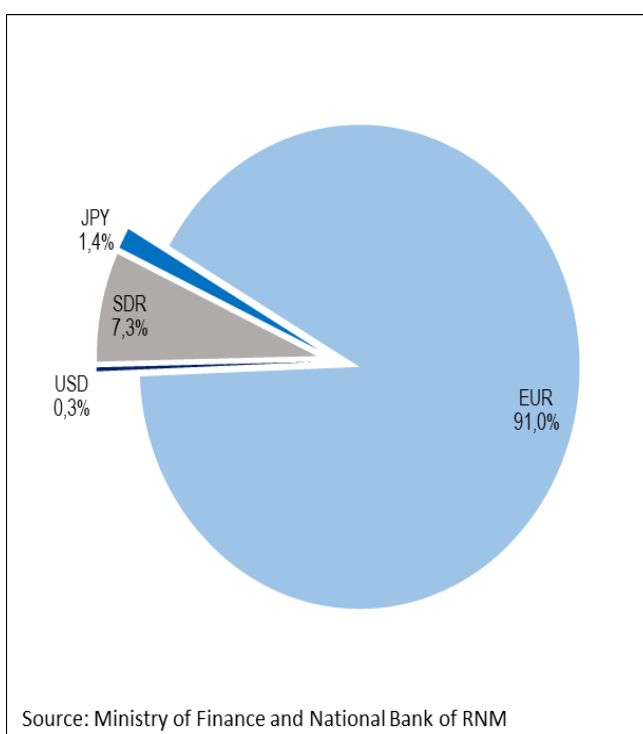
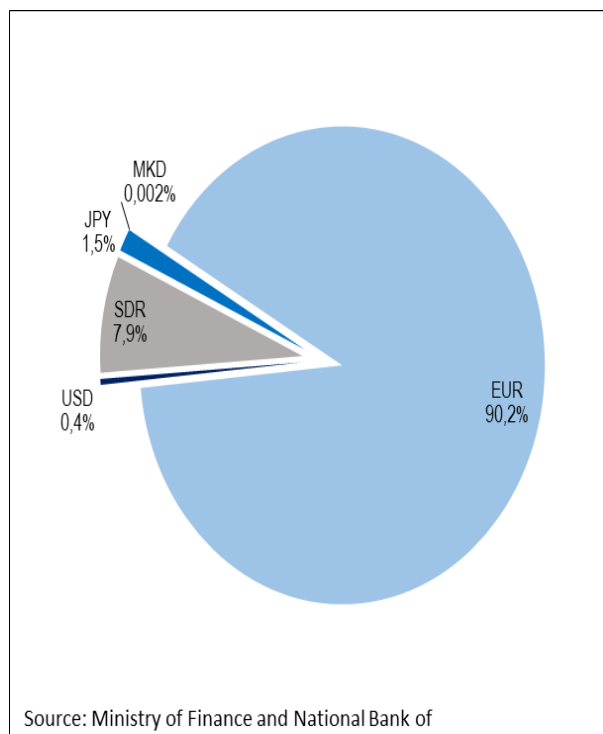
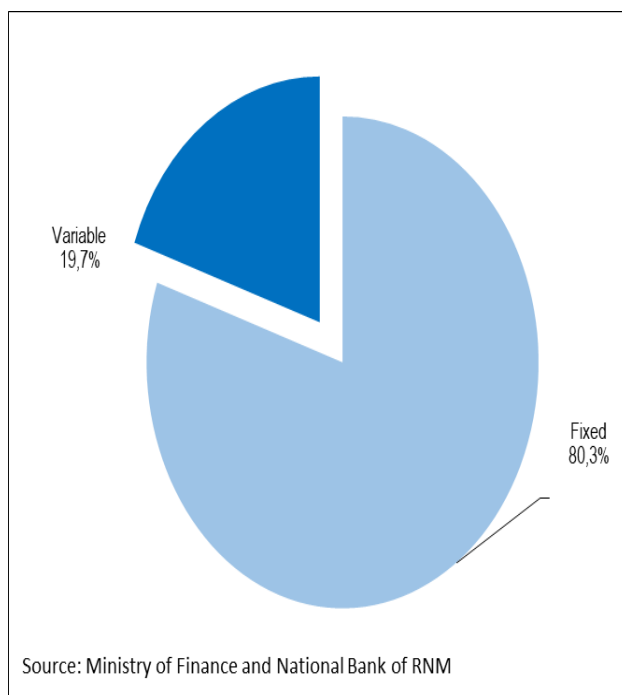
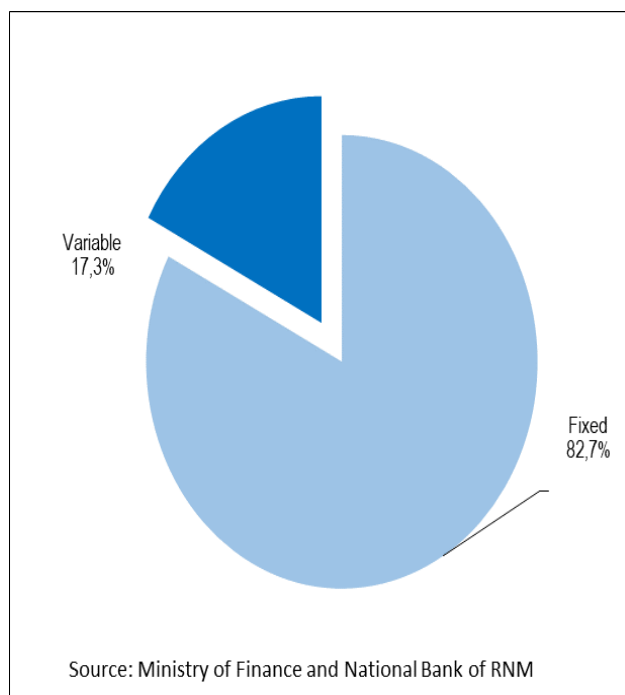


Chart 25: Interest rate structure of external general government debt

31.12.2018

31.12.2019



V.1.2 Domestic General Government Debt

Table 13: Stock of domestic general government debt

(EUR million)	2013	2014	2015	2016	2017	2018	2019
Domestic General Government Debt	1.174,1	1.170,3	1.356,6	1.404,9	1.581,7	1.649,4	1.793,3
Central government debt (consolidated)	1.165,1	1.159,5	1.344,1	1.393,7	1.571,2	1.638,4	1.784,0
Structural bonds	103,2	83,3	72,3	70,2	65,5	57,7	54,3
Bond for selective loans	16,9	16,9	16,9	16,9	16,9	16,9	16,9
Stopanska Banka privatization bond	10,7	2,1	0,0	0,0	0,0	0,0	0,0
Denationalization bond	75,6	64,4	55,4	53,3	48,6	40,8	37,4
Continuous government securities	1.061,9	1.076,1	1.271,8	1.323,5	1.505,7	1.580,8	1.729,7
Municipalities	9,0	10,8	12,5	11,2	10,5	11,0	9,3

Source: Ministry of Finance

Chart 26: Currency structure of domestic general government debt

31.12.2018

31.12.2019

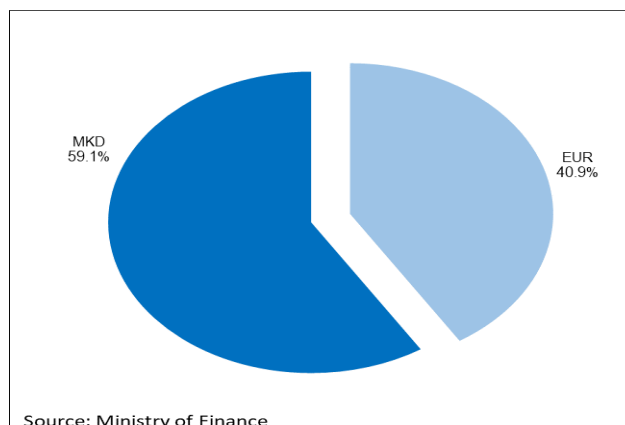
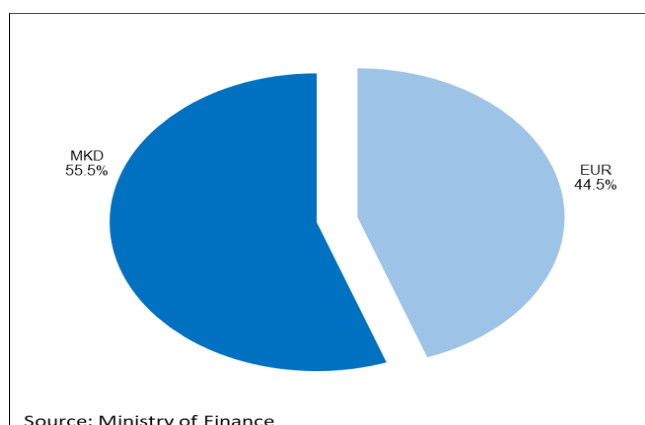
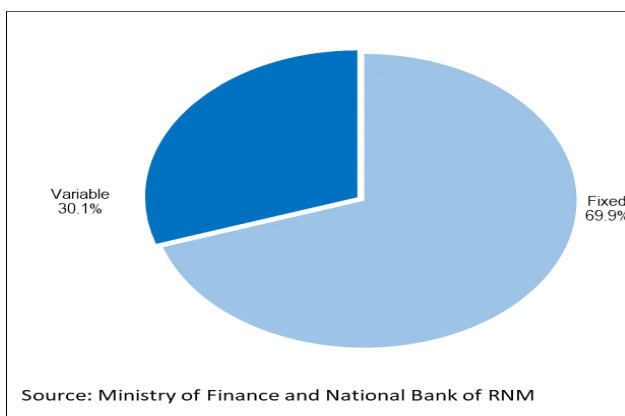
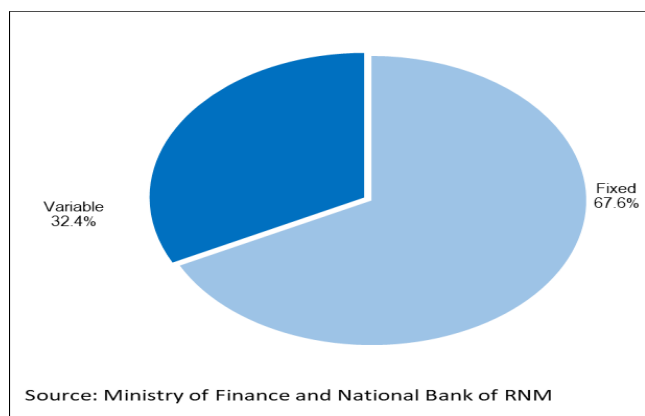


Chart 27: Interest rate structure of domestic general government debt

31.12.2018

31.12.2019



V.2 Guaranteed Public Debt

Chart 28: Stock of guaranteed public debt

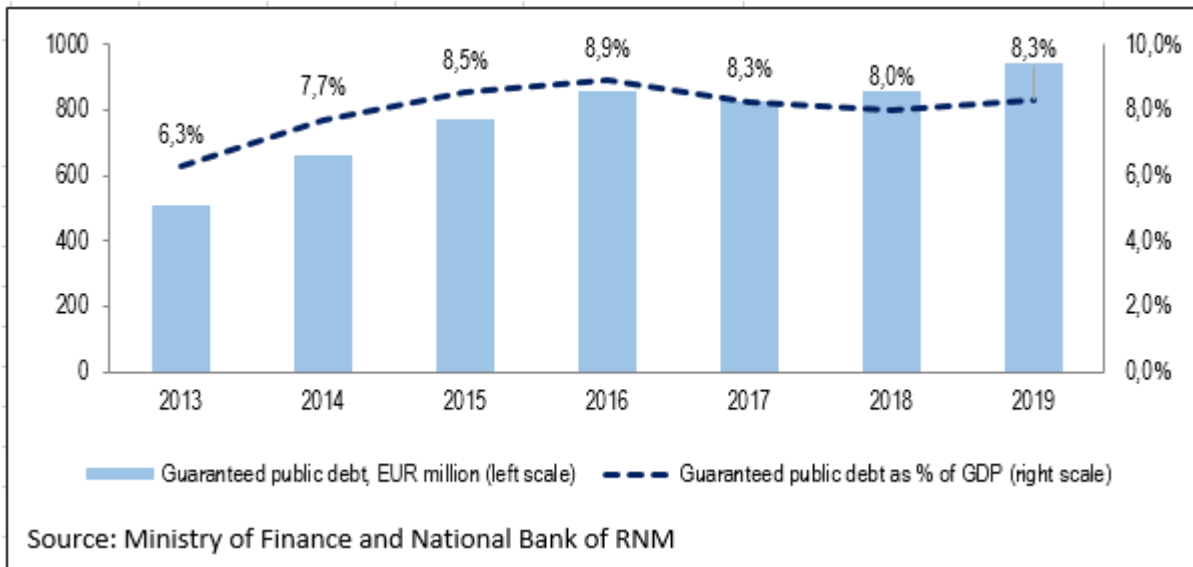


Chart 29: Guaranteed public debt by creditors

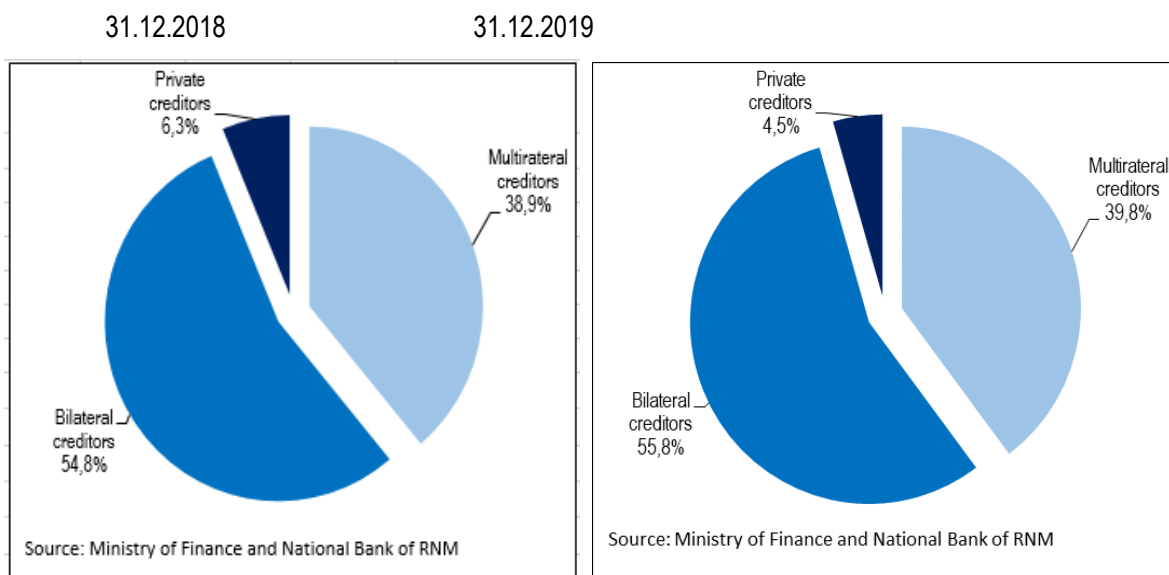


Chart 30: Guaranteed public debt by debtors

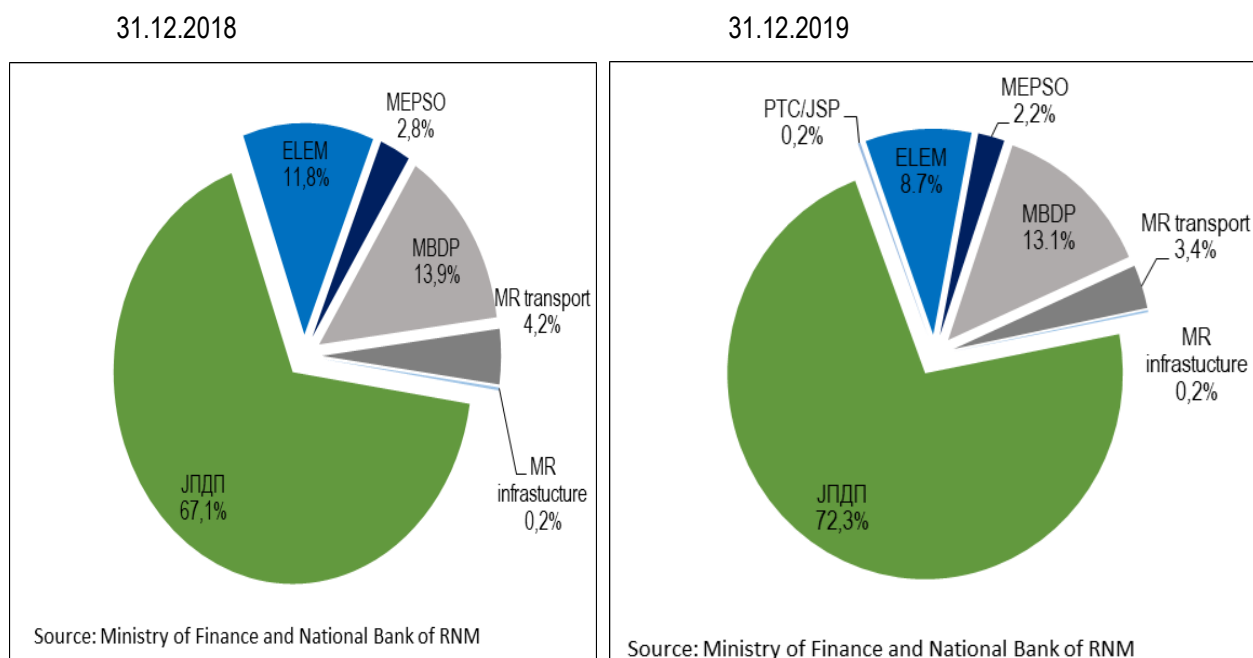


Table 14: Guaranteed public debt by debtors

	Structure of guaranteed public debt by debtors 31.12.2018			Structure of guaranteed public debt by debtors 31.12.2019		
	MKD million	% of GDP	% of guaranteed debt	MKD million	% of GDP	% of guaranteed debt
ELEM	101,4	0,9%	11,8%	81,7	0,7%	8,7%
MEPSO	23,8	0,2%	2,8%	20,5	0,2%	2,2%
MBDP	119,3	1,1%	13,9%	123,4	1,1%	13,1%
MR transport	36,1	0,3%	4,2%	32,2	0,3%	3,4%
MR infrastructure	2,0	0,02%	0,2%	1,5	0,01%	0,2%
PESR	575,2	5,4%	67,1%	681,0	6,0%	72,3%
PTC/JSP				2,0	0,02%	0,2%
TOTAL	857,7	8,0%	100,0%	942,2	8,3%	100,0%

Source: Ministry of Finance and National Bank of RNM