



International Finance and Public Debt Management Department

# 2020 Annual Report on Public Debt Management of the Republic of North Macedonia

June 2021

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## 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 JSC - 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	RRNM	Public Enterprise for Railway Infrastructure - Railways of the Republic of North Macedonia -
Infrastructure		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
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
RMDEN15		Denationalization Bond - 15 <sup>th</sup> issue
RMDEN16		Denationalization Bond - 16 <sup>th</sup> issue
RMDEN17		Denationalization Bond - 17 <sup>th</sup> issue
RMDEN18		Denationalization Bond - 18 <sup>th</sup> issue

Pursuant to paragraph (1), Article 27 of 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 North Macedonia", no. 98/19), Parliament of the Republic of North Macedonia has been informed about the 2020 Annual Report on Public Debt Management in the Republic of Macedonia.

## **I. Introduction**

Annual Report on Public Debt Management is prepared to the end of informing both 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 government 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.

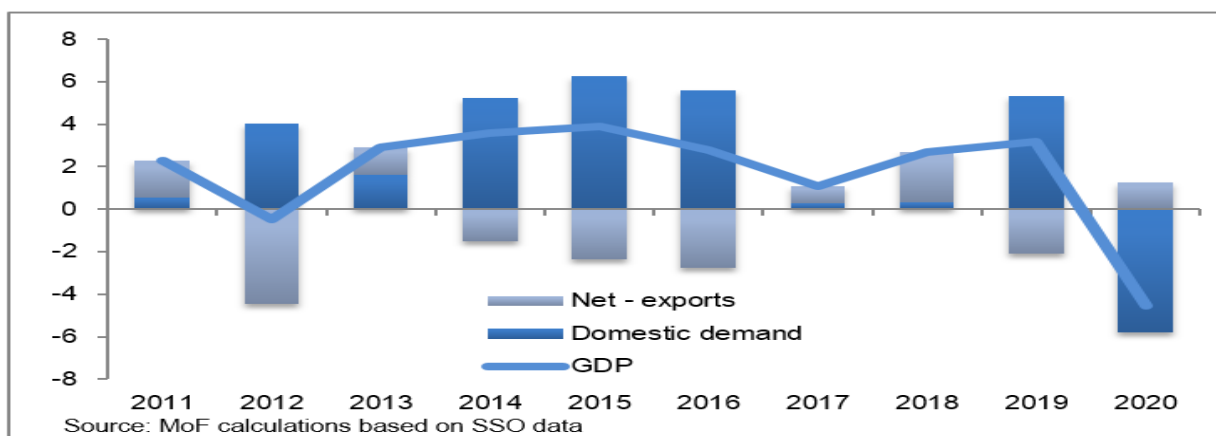
The Report includes definitions on general government and public debt pursuant to the Law on Public Debt ("Official Gazette of the Republic of Macedonia", nos. 62/2005, 88/2008, 35/11, 139/14 and "Official Gazette of the Republic of North Macedonia", no. 98/19). According to the last amendments to the Law on Public Debt, which were adopted in May 2019 ("Official Gazette of the Republic of North Macedonia", no. 98/2019), the definition for the public debt was broadened by including the non-guaranteed debt therein. According to the existing regulations, government debt comprises financial liabilities incurred on the basis of borrowing by the Republic of North Macedonia, the public institutions established by the Republic of North Macedonia and the municipalities, the municipalities within the City of Skopje and the City of Skopje. Moreover, public debt comprises 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 2020**

Economic activity in 2019 experienced 4.5% decline as a result of the unfavourable developments caused by the containment measures in the country and the deteriorated external surrounding..

Observed by sectors, industry experienced the highest decline of 10%, with Manufacturing declining by 10.6%, mainly as a result of the reduced manufacture of machinery, equipment, electrical equipment and motor vehicles, i.e. sectors which are largely integrated in the global value chains. On the other hand, declaim at Manufacturing is mitigated with the increased manufacture of pharmaceutical products and preparations. Services sector experienced 2.6% decline. Within this sector, Trade, transport and food services and accommodation activities experienced the highest drop of 7.9%. Construction activity reduced by 2.1%, while agriculture registered 1.7% increase in real terms.

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

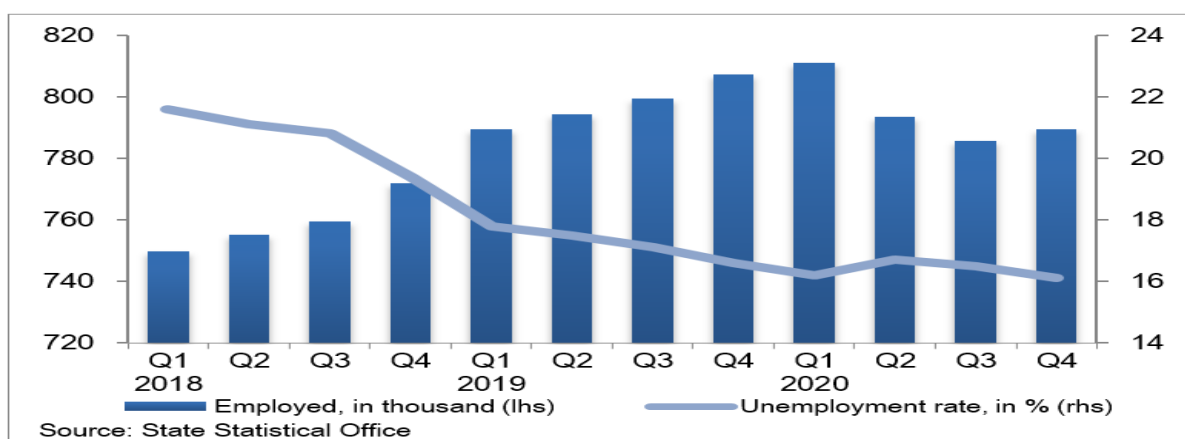


Analyzed by expenditure method, contraction of economic activity in 2020 was a result of the drop of the domestic demand, amid declined consumption and reduced gross investments, while new export had a positive contribution to the decline of both export and import of goods and services.

Private consumption registered 5.6% drop in real terms, amid consumption restraint and significant decline of foreign remittances, which adversely affected the household income and subsequently the consumption. Thereby, more significant drop of consumption was prevented through the measure for financial support of enterprises for wage payment, the payment cards measure for higher spending, as well as credit support by the banks. In addition, declined total consumption is mitigated by the high increase of the public consumption by 10.1%, due to the expenditures related to managing the pandemic and its impact on the citizens and the economy. Gross investments dropped by 10.2% as a result of the declined construction activities. Export of goods and services decreased by 10.9% in real terms, reflecting the temporary disruption of the global value chains and the declined external demand, which resulted, above all, in drop of export of machinery, transportation equipment and chemical products. Import of goods and services decreased by 10.5%, conditioned mostly from the reduced import of intermediary goods.

Headline inflation rate in 2020 accounted for 1.2%. Increase of consumer prices was a result of the increase in prices of food products by 2.6%, as well as the increased core inflation accounting for 0.9%, boosted by the increased price of tobacco, while price of oil derivatives recorded 11.4% drop, in line with the reduced oil price on the global stock markets.

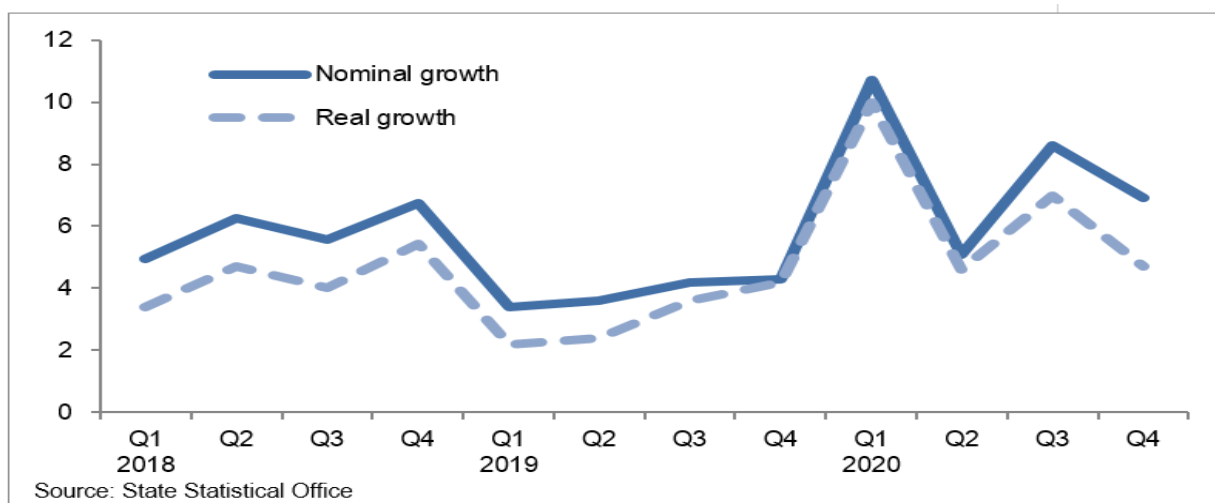
Chart 2: Number of Employed and Unemployment Rate



Positive trends on the labour market continued in Q1 2020, followed by a moderate deterioration in the next quarters induced by the pandemic, which was contained with the government support to the companies aimed at keeping the jobs. Thus, according to the Labour Force Survey, average number of employees in 2020 recorded slight drop of 0.3% compared to 2019. Employment mainly dropped in the agriculture sector and electricity and water supply, while construction sector, food and accommodation services and transportation experienced slighter decline.

On other hand, employment mostly increased at information and communication activity, health sector, social protection and trade. Average employment rate in 2020 accounted for 47.2%, being almost unchanged in relation to 2019, while average unemployment rate accounted for 16.4%, dropping by 0.9 p.p. compared to 2019. Active population in 2020 accounted for 56.4% of the working-age population.

Chart 3: Annual Growth Rate of Average New Wage



Average monthly net wage in 2020 picked up by 7.8% in nominal terms, arising from the measures undertaken before the pandemic outbreak, such as: increased level of minimum wage, government measure for financial support to employers who will increase wages up to a certain amount, increased wages for public sector employees in September 2019, as well as additional increase in wages in education and health sectors in 2020, while the wage financial support measure for employers affected by the health crisis mitigated the downward trend of wage growth throughout the pandemic. Wages were mostly increased in the following activities: information and communications, education, health and social protection, trade, manufacturing and construction. On the other hand, wages in food and accommodation services dropped due to the reduced scope of operations in this activity.

Developments on the balance of payments current accounted in 2020 resulted in a deficit of 3.5% of GDP. Inflow of foreign direct investment amounted to EUR 240 million in 2020, accounting for 2.2% of GDP. Foreign exchange reserves amounted to EUR 3.4 billion at the end of 2020, providing for 5.3-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 2020

#### III.1 International Environment

Global economic activity in 2020 was still under strong influence of the containment measures, contracting by 3.5%. Economic activity decline was registered at both the advanced economies and the developing and the emerging economies.

Advanced economies experienced 4.9% drop in 2020. Thereby, it could be noticed that economies of the European countries have been hit far more by the crisis, with the economic activity in Great Britain contracting by 10%, Eurozone countries experiencing 7.2% decline and the German economy dropping by 5.4, and US economy plunging by 3.4%.

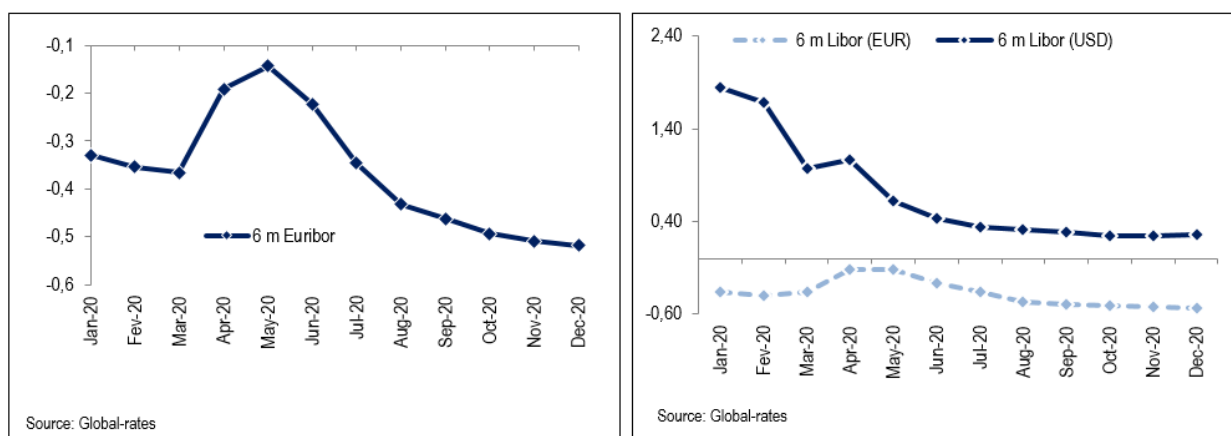
As regards the developing and the emerging economies, it is worth mentioning that Chinese economy grew by 2.3% in 2020.

With respect to the countries in the region, economic activity shrank due to the crisis as well, with the tourism-dependent countries suffering in particular.

During 2020, 6-month Euribor recorded value drop, as opposed to the slight growth observed in the previous year. During the first quarter of 2020, slight growth of the 6-month Euribor registered from the previous year, continued, after which, drop of value was registered as of December inclusive. During the last quarter of the year, 6-month Euribor registered slight 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 -0.330%, reducing to -0.519% in December. Similar trend was also noticed at the inter-bank Euro LIBOR interest rate, accounting for -0.367% in January, while its average value reduced to -0.531% in December.

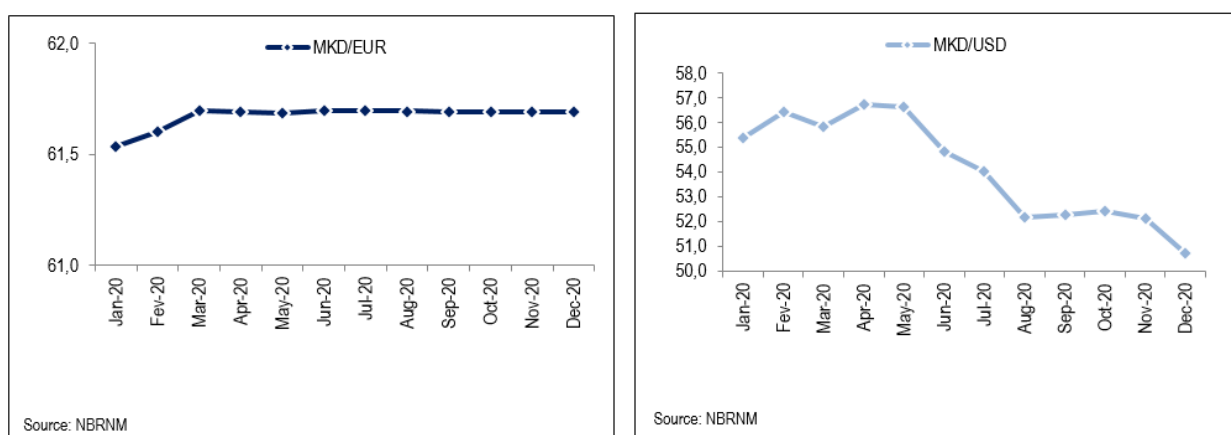
During 2020, 6-month US Dollar LIBOR interest rate experienced downward trend, with an average value of 1.839% in January, decreasing to 0.256% in December.

Chart 4: Trend of Average Monthly Euribor and Libor Interest Rates in 2020



In the course of 2020, Denar exchange rate in relation to the euro was stable, ranging from Denar 61.5375 to Denar 61.6956 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 55.4065 per one US dollar, and Denar 50.7153 per one US dollar in December. The highest value of US dollar to denar was registered in April, when average exchange rate was Denar 56.7633 per one US dollar.

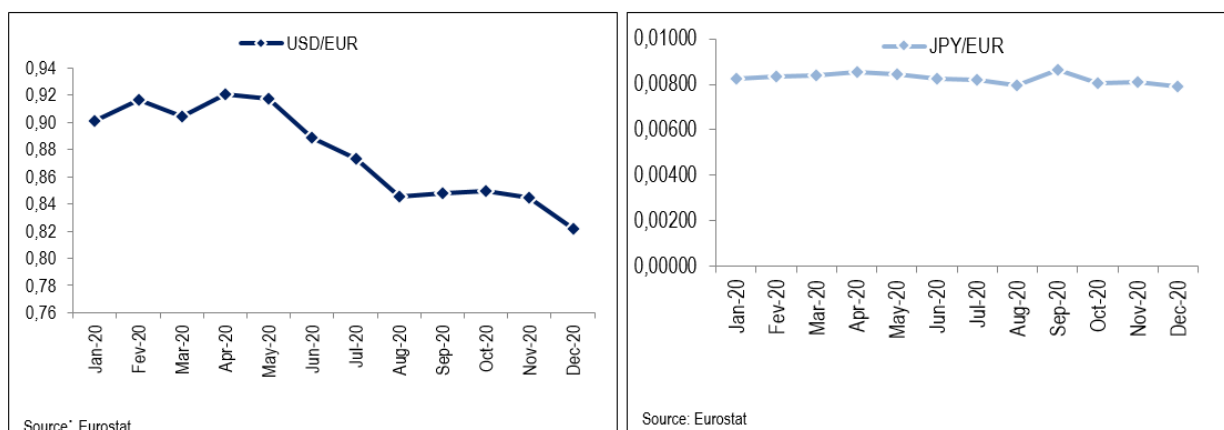
Chart 5: Average Monthly Denar/EUR and Denar/USD exchange rates in 2020



As regards the international financial market, USD value in relation to the euro continued to appreciate in the course of 2020, reaching its highest value of USD 0.9207 per one euro in April 2020 (monthly average), after which euro value experienced slight strengthening in the second quarter. Value of Japanese Yen in relation to the euro also appreciated, whereby the average exchange rate was Japanese Yen 0.008242 per one euro in January, reaching Japanese Yen 0.007919 per one euro in December.



Chart 6: Average Monthly USD/EUR and Japanese Yen/EUR exchange rates in 2020



### III. 2 Credit Rating of the Republic of Macedonia in 2020

Standard&Poor's and Fitch Ratings credit rating agencies carried out revision of the credit rating of the Republic of Macedonia three time in the course of 2020, on 6<sup>th</sup> March 2020, 13<sup>th</sup> May 2020 and 4<sup>th</sup> September 2020, i.e. on 13<sup>th</sup> January 2020, 19<sup>th</sup> June 2020 and 1<sup>st</sup> December 2020, respectively.

Standard&Poor's Credit Rating Agency affirmed, in its reports published in 2020, Macedonia's previously awarded credit rating for local and foreign currency at BB-, at the same time affirming the country's stable outlook.

The affirmation reflects Standard&Poor's view that, despite the sharp economic contraction in 2020, North Macedonia has fiscal policy space to manage public finances. Favorable longer-term growth potential, debt stabilization at moderate levels and access to funding are factors that support the ratings. It is also noted that should the country start the EU accession negotiations, it could bring upside potential in terms of structural reform implementation, as well as development of the country. Overall, notable improvements in political stability in recent years is observed.

"Fitch Ratings" Credit Rating Agency, in its first report published in 2020, affirmed foreign and local currency rating at BB+, with stable outlook of the credit ratings of North Macedonia. As for its second report published in 2020, "Fitch Ratings" Credit Rating Agency affirmed foreign and local currency rating at BB+, revising the country's outlook from stable to negative. In addition, "Fitch Ratings" affirmed the same credit rating of Republic of North Macedonia, BB+ with negative outlook in its last updating of the credit rating in 2020.

In its last report, the credit rating agency noted that the affirmed rating is supported by more favourable governance, human development and ease of doing business indicators, coherent macroeconomic and fiscal policy, as well as the EU accession process. However, negative effect from the COVID crisis on the economy are present.

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 can have confidence in and can be assured of sound economic policies in future as well.

The credit ratings the Republic of North Macedonia awarded in 2019 and 2020 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 2019 and 2020

**Credit rating agency "Standard and Poor's"**

	2019		2020		
	first rate	second rate	first rate	second rate	third rate
Foreign currency	BB-/Stable	BB-/Stable	BB-/Stable	BB-/Stable	BB-/Stable
Domestic currency	BB-/Stable	BB-/Stable	BB-/Stable	BB-/Stable	BB-/Stable

Source: Standard & Poor's

**Credit rating agency "Fitch ratings"**

	2019		2020		
	first rate	second rate	first rate	second rate	third rate
Foreign currency	BB/ Positive	BB+/Stable	BB+/Stable	BB+/ Negative	BB+/ Negative
Domestic currency	BB/ Positive	BB+/Stable	BB+/Stable	BB+/ Negative	BB+/ Negative

Source: Fitch Ratings

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

Fiscal consolidation policy implemented in the past period contributed to stabilization of the debt level of the Republic of North Macedonia. Government debt of the Republic of North Macedonia at the end of 2020 amounted to EUR 5,516.00 million, i.e. 51.2% of GDP (Table 8), being an increase by 10.5 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 90.7% at the end of 2020.

Public debt of the Republic of North Macedonia amounted to EUR 6,483.3 million at the end of 2020, accounting for 60.2% of GDP (Table 7), thus increasing by 10.8 p.p. compared to the end of the previous year. Broadening of the definition about 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 2020. External government debt amounted to EUR 4,323.7 million, while domestic government debt amounted to EUR 2,159.6 million.

External government debt amounted to EUR 3,382.5 million at the end of 2020, increasing by EUR 619.0 million in relation to 2019, while domestic government debt amounted to EUR 2,133.4 million, increasing by EUR 340.1 million in relation to the previous year. From the point of view of the currency structure of the government debt, at the end of 2020, the euro- denominated debt predominated, participating with 68.6% in the total portfolio, being lower by 2.5 p.p. compared to 2019 (Chart 19). Denar - denominated debt grew by 1.1 p.p., i.e. from 23.2% in 2019 to 24.3% at the end of 2020.

Debt with fixed interest rate in the interest structure of the government debt increased by 0.9 p.p. compared to 2019, amounting to 77.1% at the end of 2020 (Chart 18). Increase of the share of fixed interest rate debt is a result of both the increased volume of issued government bonds with fixed interest rate on the domestic market and the increased external government debt with fixed interest rate on annual level.

With respect to the realization of the thresholds determined in the Public Debt Management Policy as an integral part of the 2020-2022 Revised Fiscal Strategy, following can be concluded: under the 2020-2022 Revised Fiscal Strategy, the maximum level of public debt of 60% of GDP in the medium and the long run was defined, and the maximum level of guaranteed public debt of 13% of GDP was determined. Taking into account that at the outset of 2020, the pandemic hit all the countries of the globe, reflecting on the economies worldwide, Ministry of Finance of RNM faced a new and unknown challenge: need arose to secure financial resources for the affected sectors not envisaged in the Fiscal Strategy, without thereby jeopardizing the prudent management of public finances. Subsequently, as a result of the increased amount of previously projected budget deficit, as well as the need for its financing, at the end of 2020, public debt exceeded the previously set threshold, accounting for 60.2% of GDP. On the other hand, guaranteed debt accounted for 8.6% of GDP at the end of 2020, being within the threshold set in the 2020-2022 Revised Fiscal Strategy.

Moreover, in line with the government debt currency structure threshold, euro-denominated debt should

account for at least 85% of the foreign currency denominated debt portfolio. As of 31<sup>st</sup> December 2020 inclusive, share of euro-denominated debt accounted for 90.9%, being in line with the set threshold.

In addition, realization of the interest rate threshold was successful. In fact, under the 2020-2022 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 2020, fixed interest rate debt accounted for 77.1% 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 2020, are defined under the 2020-2022 Revised Fiscal Strategy. Thus, short-term maximum net borrowing threshold (domestic and foreign one) on the basis of government debt in 2020 was set at EUR 400 million. Due to escalation of the COVID-19 induced pandemic at the beginning of 2020, global economic activity contracted, the effects of which were also felt in the Macedonian economy. Hence, during the first semester in 2020, IMF provided assistance under the Rapid Financing Instrument, the World Bank provided additional resources under a loan on the basis of the Emergency COVID-19 Response Project, and the European Union provided funds for macro-financial support to be disbursed in two tranches. Furthermore, during this period, Ministry of Finance, on behalf of the Republic of North Macedonia, issued the seventh Eurobond in the amount of EUR 700 million, as opposed to the initially projected EUR 500 million, with net borrowing in the amount of EUR 349.8 million on the domestic GS market, as opposed to the projected EUR 200 million in the initial 2020 Budget. Taking into account the above mentioned, maximum threshold for net borrowing (domestic and foreign) on the basis of government debt in the amount of EUR 4000 million in 2020 was exceeded to EUR 559.1 million, amounting to EUR 959.1 million at the end of 2020.

In order to protect central government debt portfolio against re-financing risk, a threshold was defined, according to which the minimum level of "average time to maturity" indicator in 2020 should be 3 years. Taking into account that "average time to maturity" was 5.3 years as of 31<sup>st</sup> December 2020 inclusive, it could be concluded that this indicator was within the set threshold. Furthermore, the threshold for "average time to refixing" should protect central government debt portfolio against the interest rate risk, hence it is determined for the minimum level of this indicator in 2020 to be 2 years. At the end of 2020, "average time to refixing" was also within the threshold set, being 4.7 years.

Table 2: Thresholds within the Public Debt Management Policy and realization in 2020

	Thresholds set in 2020-2022 Fiscal Strategy	Realisation at the end of 2020
<b>Short-Term Limits (referring only to 2019)</b>		
Net borrowing on the basis of government debt	Maximum net borrowing on the basis of General Government Debt in 2020 to be up to EUR 400 million	EUR 959,1 million
Net borrowing on the basis of guaranteed debt	Maximum net borrowing on the basis of guaranteed debt in 2020 to be up to EUR 250 million	EUR -12,7 million
"Average time to maturity" indicator in 2018	Minimum threshold for "Average time to maturity" indicator in 2020 should be 3 years	5,3 years
"Average time to re-fixing" indicator in 2018	Minimum threshold for "Average time to re-fixing" indicator in 2020 to be 2 years	4,7 years
<b>Medium-Term Limits</b>		
Interest rate structure	In the period 2020-2022, minimum threshold of debt with fixed interest rate to be 60%	77,1%
Currency structure	In the period 2020-2022 minimum threshold of euro-denominated debt in foreign currency-denominated debt to be 85%	90,9%
Public debt/GDP	The level of total public debt in the medium and the long run not to exceed 60% of GDP	59,9%
Guaranteed debt/GDP	The level of guaranteed public debt in the period 2020-2022 not to exceed 13% of GDP	8,6%

Source: Ministry of Finance

For the purpose of greater transparency of public finances within the 2020 Annual Public Debt Management Policy, stock flow adjustment table is presented, explaining the factors impacting the debt stock (Table 3). The Table shows that the factors impacting the debt stock in 2020 are almost completely identified and quantified and,

accordingly, statistical discrepancy in 2020 (comprising foreign exchange differences and other statistical discrepancies), following the adjustment, accounts for insignificant 0.06% of GDP.

Table 3: Stock Flow Adjustment of Central Government Debt

(in MKD millions)		2020
(1)	Budget balance	53.867
(2)	Initial debt balance	279.475
(3)	Final debt balance	339.320
(4)=(3)-(2)	Change in central government debt (= final minus initial balance)	59.846
(5)=(4)-(1)	(Initial Discrepancy)	5.979
	Initial discrepancy of the cash flow as % of GDP	0,90%
(6)	Net acquisition of financial assets	4.882
	Currency and deposits	6.859
	On-lending of municipalities and public enterprises	-1.017
	Other financial assets	-960
	Gross issuance of structural bonds	
(7)	Issuance and repayment of the securities over and below nominal value	687
(8)=(5)-(6)-(7)	Residual (Foreign exchange differences and other statistical discrepancies)	409
	Residual (Statistical discrepancy) as % of GDP	0,06%

Source Ministry of Finance

**Adoption of “Rulebook on the Manner of Performing Analysis of Data Submitted by the Public Debt Issuer, the Application and the Valuation of Financial Ratios”**

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 “Official Gazette of RNM”, no. 98/19 dated 21<sup>st</sup> May 2019).

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

Legal amendments envisage strengthening of the borrowing consent issuance system, whereby Ministry of Finance will perform credit analysis and assess the creditworthiness of public debt issuers when issuing sovereign guarantee in line with the prescribed assessment methodology. As a result, in August 2020, Republic of North Macedonia adopted the “Rulebook on the Manner of Performing Analysis of Data Submitted by Public Debt Issuer, the Application and the Valuation of Financial Indicators”, ensuring that guarantees are controlled the same way as other budget expenditures. Implementing the Rulebook will result in prudent public finance management, geared towards more comprehensive assessment of the fiscal risk and the contingent liabilities risk.

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

Ministry of Finance, as well as the other public debt issuers, serviced all liabilities on the basis of general government and public debt that fell due in 2020 on regular basis and in a timely manner.

As for the repayment of liabilities on the basis of public debt in 2020, including the government debt and the debt of public enterprises, EUR 957.5 million was spent, EUR 812.4 million out of which for principal repayment and EUR 145.1 million for repayment of interest.

### III.5 Government Securities

#### III.5.1 Continuous Government Securities

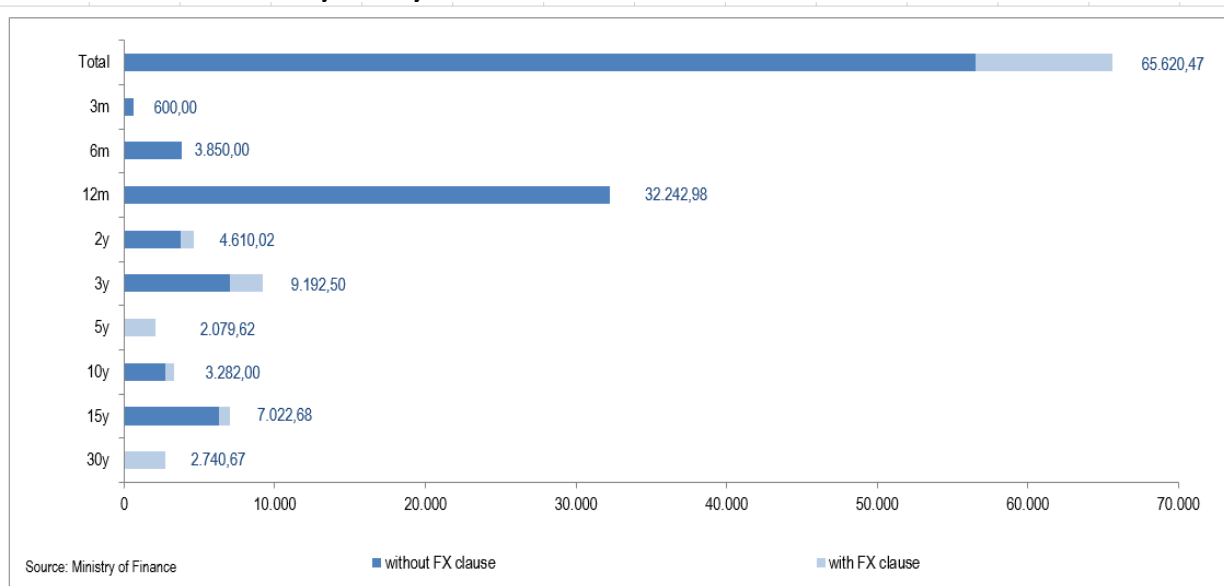
##### III.5.1.1 Primary Market of Continuous Government Securities

Borrowing by issuing continuous GS in 2020 - under the Decision on determining the maximum amount of new borrowing by issuing government securities in 2020, adopted by the Government of the Republic of North Macedonia, maximum amount of new borrowing was determined in the amount of Denar 21,525.00 million. Thus, new (net) borrowing on the basis of issued GS in 2020 amounted to Denar 21,511.09 million (Table 4), and the stock of total issued GS, as of 31<sup>st</sup> December 2020 inclusive, amounted to Denar 127,864.86 million.

GS auctions - In the period January – December 2020, Ministry of Finance regularly issued 3-, 6- and 12-month treasury bills with and without foreign exchange clause, as well as 2-, 3-, 5-, 10-, 15- and 30-year government bonds with and without foreign exchange clause. During this period, total of fifty GS auctions were held, i.e. one auction of 3-month T-bills, two auctions of 6-month T-bills, twelve auctions of 12-month T-bills, seven auctions of 2-year GB, four auctions of 3-year GB, three auctions of 5-year GB, two auctions of 10-year GB, eight auctions of 15-year GB and three auctions of 30-year GB.

Total amount offered on the GS auctions in 2019 amounted to Denar 70,694.39 million, the demand amounted to Denar 90,128.62 million, while total amount realized at the auctions in this period amounted to Denar 65,620.47 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 56,500.75 million in 2020, as opposed to Denar 9,119.72 million issued as government securities indexed with euro clause. Chart 7 shows the allocation of the total amount of issued GS by maturity:

Chart 7: Amount of GS sold, by maturity, Denar million



Trends of interest rates at GS auctions – During 2020, volume tender was applied at the GS auctions. What was characteristic for the interest rates in 2020 was that although they dropped in January 2020, still, due to the Coronavirus crisis, they slightly increased in May 2020, experiencing a more significant reduction in November 2020. If a year ago, Ministry of Finance issued GS at interest rates ranging between 0.60% for 12-month maturity period to 4.10% for instruments with 30-year maturity period, at the end of 2020, these same instruments were issued at interest rates ranging between 0.40% for 12-month maturity period to 4.00%, i.e. 4.10%, for 30-year maturity period. Average interest rates in 2020 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 2020, portfolio of continuous GS comprised 12-month TB, 2-year GB, 3-year GB, 5-year GB, 10-year GB, 15-year GB and 30-year GB. As of 31<sup>st</sup> December 2020 inclusive, percentage share of long-term securities in the maturity structure of government securities accounted for 74.78%, while share of short-term securities accounted for 25.22%. Whereas, compared to 31<sup>st</sup> December 2019, the ratio between long-term and short-term securities accounted for 68.91% as opposed to 31.09% respectively, hence, compared to 2020, share of long-term securities in the maturity structure surged by 5.87 p.p.. Increased issuance of long-term securities reduces the debt refinancing risk. Maturity structure of outstanding GS for 2019 and 2020 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 31<sup>st</sup> December 2020 inclusive, percentage share of banks in the ownership structure of government securities accounted for 39.71%, while the share of the other market entities accounted for 60.29%. Compared to 31<sup>st</sup> December 2019, when the ratio between the banks and the other market entities was 32.67% as opposed to 67.43% respectively, share of banks dropped by 7.14 p.p. compared to the share of the other entities, being respectively increased by the same ratio. Ownership structure of outstanding GS for 2019 and 2020 is shown in Chart 10.

### **III.5.1.2 Secondary Government Securities Market**

During 2020, continuous government securities were traded on the over-the-counter markets and the Macedonian Stock Exchange AD Skopje. Throughout the year, total of twenty-three transactions with GS were realized, out of which eight transactions with TB and fifteen transactions with GB, shown in Chart 15. Total nominal trading amount was Denar 4,089.98 million. Compared to the trading in 2019, it can be concluded that total nominal amount of trading in 2020 was higher by Denar 1,922.65 million.

### **III.5.2 Structural Government Securities**

#### **III.5.2.1 Secondary Market for Denationalization Bonds**

In 2020, total turnover of trading in denationalization bonds realized on the Macedonian Stock Exchange amounted to Denar 39.27 million, decreasing by Denar 309.05 million compared to 2019, when it amounted to Denar 348.32 million. Total trading volume and yields to maturity of denationalization bonds are shown in Charts 13 and 14.

### **III.5.3 Eurobonds**

#### **III.5.3.1 Primary Issue of Eurobond**

In June 2020, Republic of North Macedonia issued the seventh Eurobond on the international capital market, intended for budget support in 2020 and 2021, as well as for refinancing the liabilities falling due on the basis of repayment of the government debt of the Republic of North Macedonia. The Eurobond was issued in the amount

of EUR 700 million, with a coupon interest rate of 3.675% and 6-year maturity, i.e. by 2026, and it is traded on the Irish Stock Exchange. This is the second lowest interest rate, with the one on the Eurobond issued in 2018, and the demand was five times higher than the amount issued. Thus, confidence of investors in the Macedonian economy and policies has been once again endorsed, taking into account that the Eurobond was issued amid COVID-19 induced pandemic, when all economies, including the major economies, were present on the international capital market to secure funds for financing the needs related to managing the crisis.

### **III.5.3.2 Secondary Market for Eurobonds**

In the course of 2020, Eurobonds issued by the Republic of North Macedonia, falling due in 2020, 2021, 2023, 2025 and 2026 were traded on the international capital market. As of December 2020 inclusive, yield to maturity as regards the Eurobonds falling due in 2021, 2023, 2025 and 2026 amounts to 0.44%, 1.03%, 1.33% and 1.40% respectively, as shown in Chart 12.

## **III.6 Newly Concluded Loans in 2020**

### **III.6.1 New Loans Concluded by Central Government**

On 12<sup>th</sup> February 2020, Loan Agreement was signed with the World Bank for financing the Social Insurance Administration Project.

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

- amount: EUR 13,800,000;
- interest rate: six-month EURIBOR increased by a fixed spread;
- repayment period: 12 years, including 3-year grace period;
- repayment manner: semi-annually;
- other costs: front-end fee of 0.25% of the loan amount and 0.25% commitment fee on annual basis.

On 15<sup>th</sup> April 2020, IMF's Rapid Financing Instrument was launched, SDR 140,300,000 disbursement.

Terms and conditions under which the IMF's instrument was launched are the following:

- amount: SDR 140,300,000 (100% of quota);
- interest rate as set according to IMF rules;
- repayment period for the disbursed funds under the Instrument is from three years and three months to five years from the disbursement of the amount under the Instrument;
- repayment manner: semi-annually;
- other costs: 0.5% service charge, 0.15% commitment fee.

On 13<sup>th</sup> July 2020, Loan Facility Agreement was signed with the European Union under the Macro-Financial Assistance Agreement to cope with the consequences from the COVID-19 induced crisis.

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

- amount: EUR 160,000,000;
- the loan to be disbursed in two equal installments. Ministry of Finance submits a request for funds for each installment to the EU. As regards each disbursement, EU will issue a confirmation notice, setting out the final financial terms of the installment, among which the following: disbursement amount, disbursement date, interest rate, maturity date, bank commissions and other disbursement-related costs.

On 19<sup>th</sup> October 2020, Loan Agreement was signed with the World Bank for financing the North Macedonia Emergency COVID-19 Response Project.

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

- amount: EUR 90,000,000;
- interest rate: six-month EURIBOR with variable spread;
- repayment period: 12 years, including 3-year grace period;
- repayment manner: semi-annually;
- other costs: front-end fee of 0.25% of the loan amount and 0.25% commitment fee 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 4<sup>th</sup> November 2020, Konche Municipality and Development Bank of North Macedonia JSC Skopje signed Short-Term Loan Agreement in the amount of Denar 4,500,000.00 for financing the Project under IPA Cross-Border Cooperation Component, for the purpose of realizing the capital Project "Application of Flood Protection Measures in the Municipalities of Konche and Strumjani".

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

- amount: Denar 4,500,000.00;
- interest rate: fixed interest rate of 5.75% annually;
- repayment period: one year, including three-month grace period;
- repayment manner: on quarterly basis.

#### **III.6.2.2 Borrowing by Local Government at Domestic Banks**

On 29<sup>th</sup> May 2020, the City of Skopje and Komercijalna Bank AD Skopje signed Long-Term Loan Agreement in the amount of Denar 766,000,000.00 for financing the "Local Roads Construction and Reconstruction" Project.

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

- amount: Denar 766,000,000.00;
- interest rate: floating interest rate calculated as a sum of the reference interest rate announced and available on the website of the National Bank of the Republic of North Macedonia, titled "interest rate on Denar deposits without foreign exchange clause", and the interest margin of 0.80 p.p. annually;
- repayment period: 84 months, including grace period;
- grace period: 24 months;
- repayment manner: on quarterly basis.

On 13<sup>th</sup> November 2020, Municipality of Kavadarci and Komercijalna Bank AD Skopje signed Long-Term Loan Agreement in the amount of Denar 118,000,000.00 for financing the "Construction of City Green Market with Underground Car Park" Project.

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

- amount: Denar 118,000,000.00;
- interest rate: floating interest rate calculated as a sum of the reference interest rate announced and available on the website of the National Bank of the Republic of North Macedonia, titled "interest rate on Denar deposits without foreign exchange clause", and the interest margin of 0.80 p.p. annually, however not less than 2.50% annually;
- repayment period: 144 months, including grace period;
- grace period: 24 months;
- repayment manner: on quarterly basis.

On 24<sup>th</sup> December 2020, Municipality of Novo Selo and Komercijalna Bank AD Skopje signed Long-Term Loan Agreement in the amount of Denar 11,000,000.00 for financing the "Primary Healthcare Network" Project.

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

- amount: Denar 11,000,000.00;
- interest rate: in the amount of the reference interest rate announced and available on the website of the National Bank of the Republic of North Macedonia, titled "interest rate on Denar deposits without foreign exchange clause", plus the interest margin of 1.97 p.p. annually, decursive, however not less than 3.5% annually;
- repayment period: 24 months from the day of first disbursement, including grace period;
- grace period: 6 months;
- repayment manner: 18 equal monthly installments.



## IV. Public Debt Management Activities - Tables and Charts

### IV.1 Primary Government Securities Market

Table 4: Net Issue of GS and Structural Bonds

in million of denars	Q1-2020	Q2-2020	Q3-2020	Q4-2020	Total 2020
<b>Net issued government securities</b>					
3-month treasury bills	0,00	600,00	-600,00	0,00	0,00
6-month treasury bills	0,00	3.850,00	0,00	-3.850,00	0,00
12-month treasury bills	848,95	1.391,99	-700,00	-2.368,00	-827,06
2-year treasury bonds	0,00	-200,00	0,00	-139,62	-339,62
3-year treasury bonds	0,00	0,00	0,00	7.552,80	7.552,80
5-year treasury bonds	1.100,00	0,00	0,00	979,62	2.079,62
10-year treasury bonds	0,00	0,00	0,00	3.282,00	3.282,00
15-year treasury bonds	1.243,00	300,02	1.300,01	4.179,65	7.022,68
30-year treasury bonds	900,04	940,62	900,01	0,00	2.740,67
<b>Total</b>	<b>4.091,99</b>	<b>6.882,63</b>	<b>900,02</b>	<b>9.636,45</b>	<b>21.511,09</b>

Source : Ministry of Finance

Chart 8: Demand and Amount Sold at GS Auctions, January–December 2020

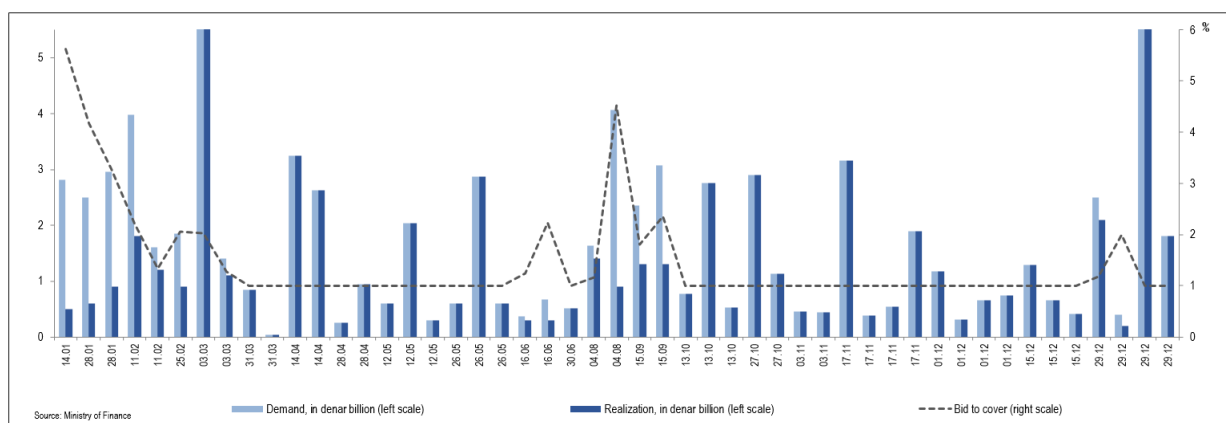


Chart 9: Amount of GS Sold January - December 2020

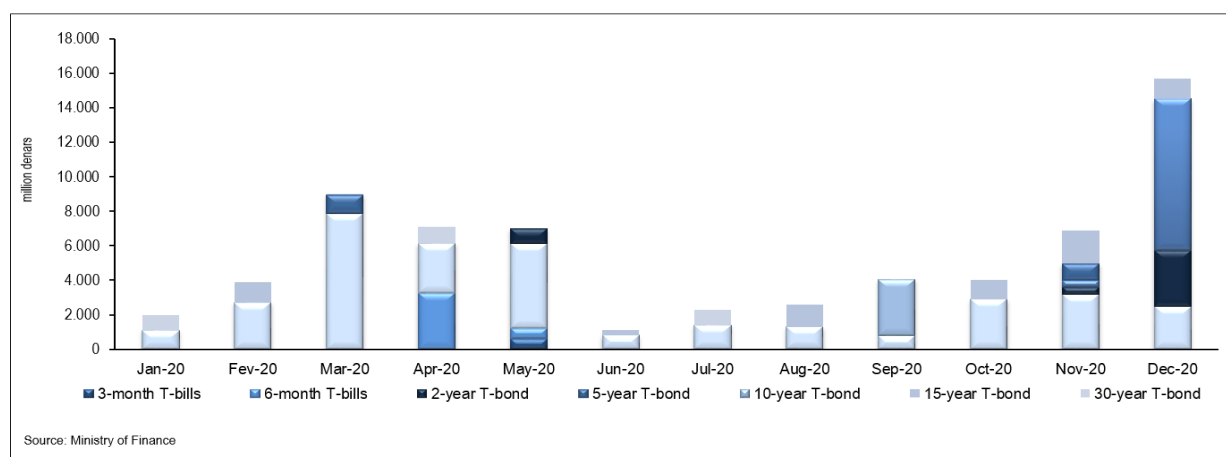


Table 5: Average Interest Rates on GS without FX Clause in 2020

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	15-year T-bonds
January			0,55%	1,10%				
February			0,50%					2,90%
March			0,50%			1,40%		2,90%
April		0,20%	0,50%					
May	0,20%	0,30%	0,60%	0,90%				
June			0,60%					3,00%
July								
August			0,60%					
September			0,60%					3,00%
October			0,40%				2,00%	2,50%
November			0,40%	0,60%		1,20%		2,50%
December			0,40%	0,75%	1,05%			2,50%

Source: Ministry of Finance

Table 6: Average Interest Rates on GS with FX Clause in 2020

Auction date	2-year T-bonds	5-year T-bonds	10-year T-bonds	15-year T-bonds	30-year T-bonds
January					4,00%
February					
March					
April					4,00%
May					
June					
July					
August					4,10%
September					
October			1,50%		
November		0,35%			
December	0,60%	0,68%		2,20%	

Source: Ministry of Finance

Chart 10: Ownership Structure of Continuous GS

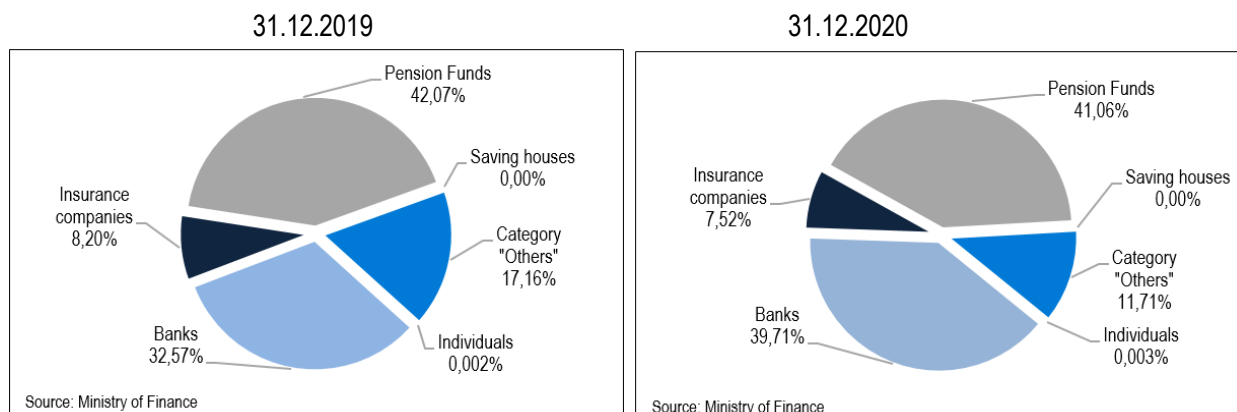


Chart 11: Maturity Structure of Continuous GS

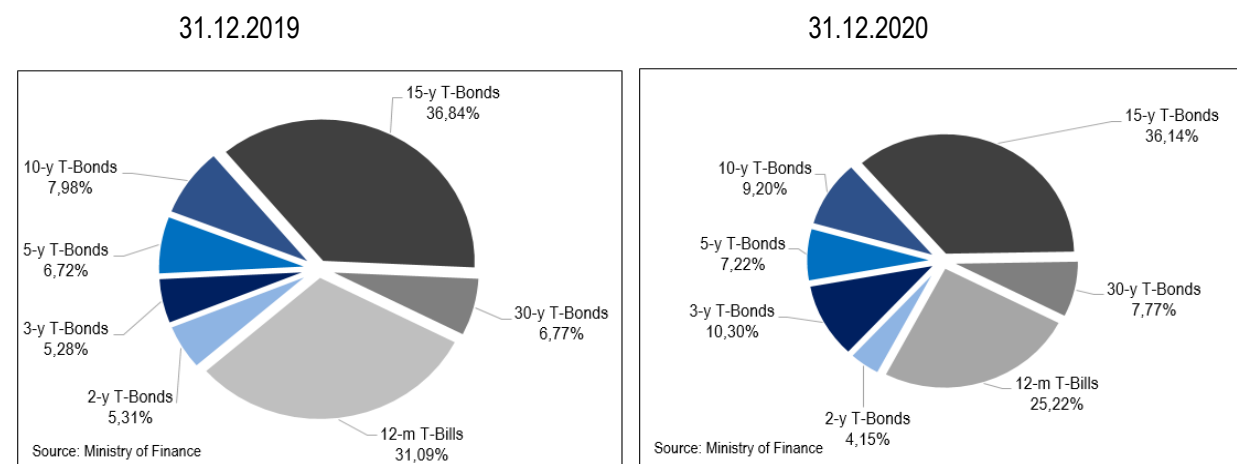
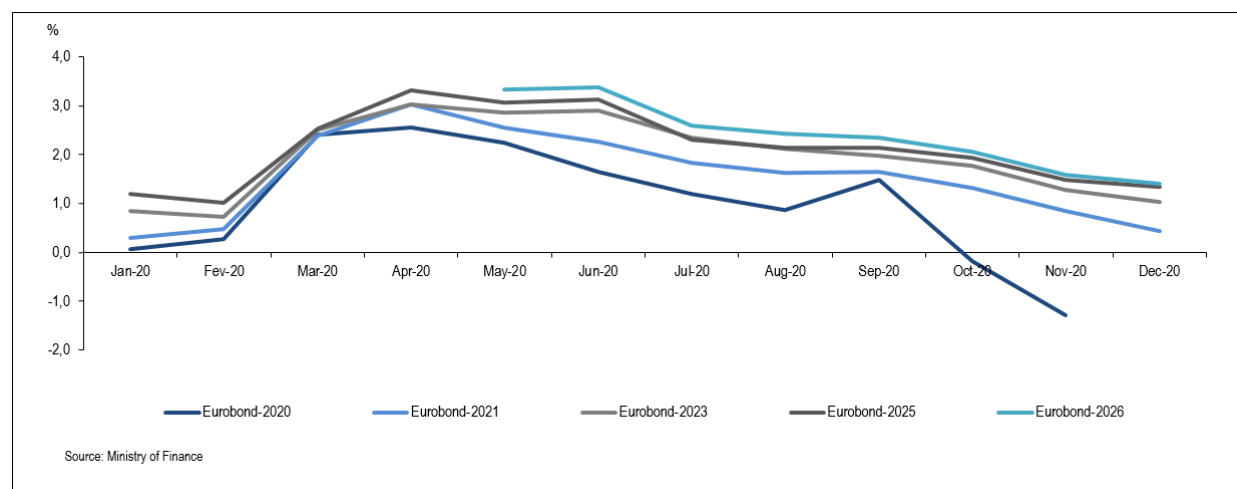


Chart 12: Yield to Maturity of Eurobonds falling due in 2020, 2021, 2023, 2025 and 2026



## IV.2 Secondary Government Securities Market

### IV.2.1 Secondary Structural Government Securities Market

Chart 13: Trading Volume of Structural Government Bonds, January – December 2020, EUR

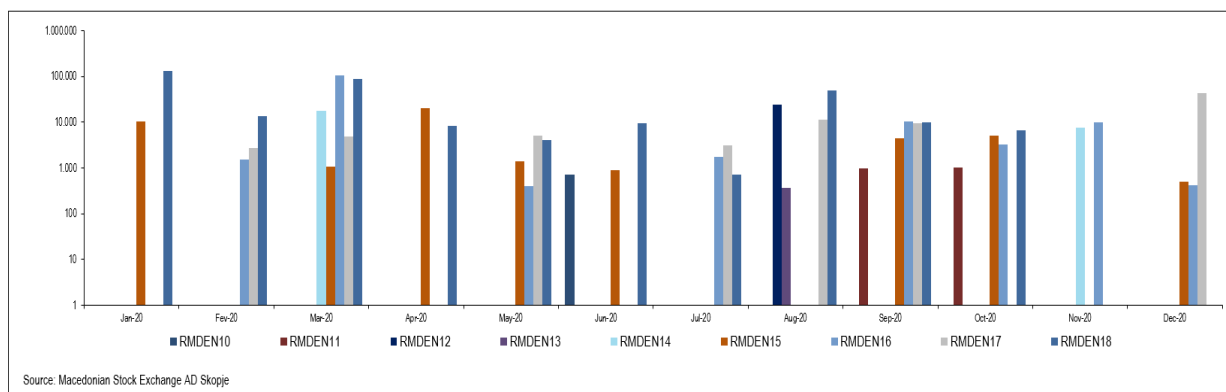
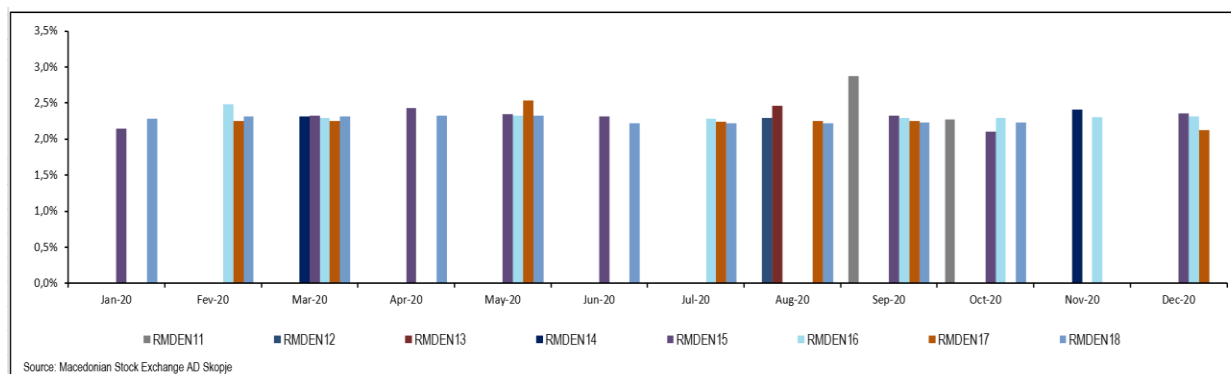
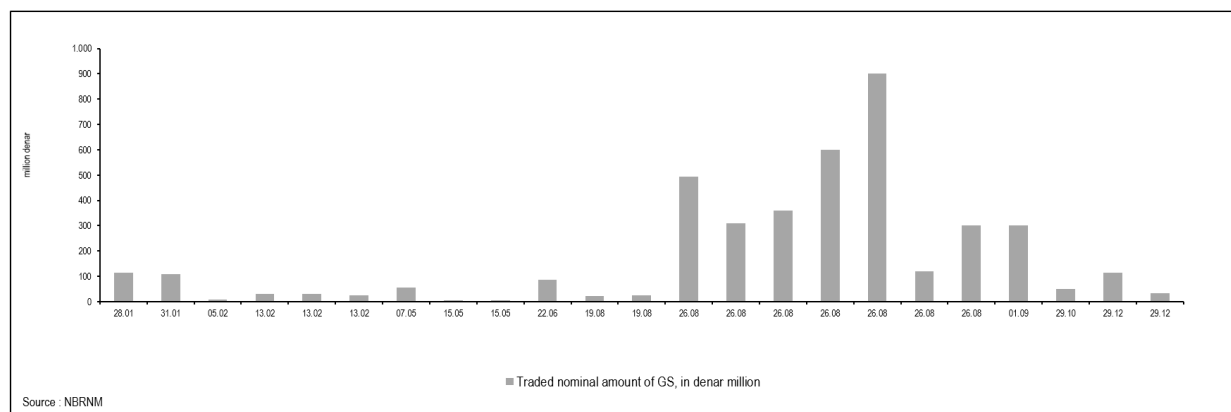


Chart 14: Yield to Maturity of Structural Government Bonds, January – December 2020



### IV.2.2 Secondary Continuous Government Securities Market

Chart 15: Trading Volume on secondary continuous government bonds market, January – December 2020



## V. Public Debt Portfolio Features

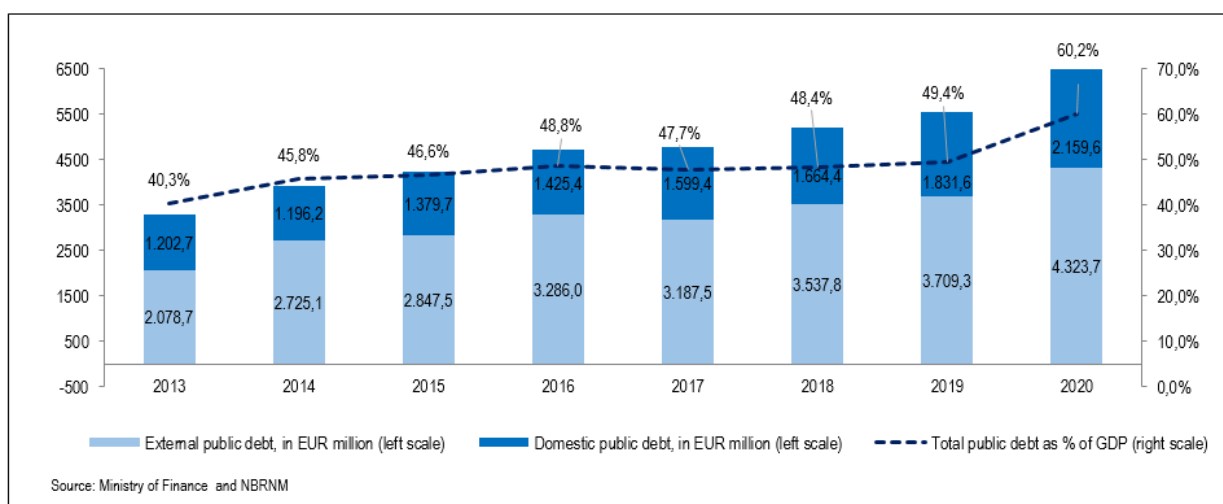
Table 7: Public Debt Stock

(EUR million)	2013	2014	2015	2016	2017	2018	2019	2020
<b>General government debt</b>	<b>2.771,6</b>	<b>3.262,5</b>	<b>3.453,3</b>	<b>3.851,5</b>	<b>3.958,5</b>	<b>4.344,4</b>	<b>4.556,8</b>	<b>5.516,0</b>
Guaranteed public debt	509,8	658,9	774,0	859,9	828,4	857,7	942,2	929,5
Non-guaranteed public debt	N/A	N/A	N/A	N/A	N/A	N/A	41,9	37,8
<b>Total public debt (general)</b>	<b>3.281,4</b>	<b>3.921,3</b>	<b>4.227,2</b>	<b>4.771,4</b>	<b>4.786,9</b>	<b>5.202,2</b>	<b>5.540,9</b>	<b>6.483,3</b>
External public debt	2.078,7	2.725,1	2.847,5	3.286,0	3.187,5	3.537,8	3.709,3	4.323,7
Domestic public debt	1.202,7	1.196,2	1.379,7	1.425,4	1.599,4	1.664,4	1.831,6	2.159,6
<b>Total public debt as % of GDP</b>	<b>40,3%</b>	<b>45,8%</b>	<b>46,6%</b>	<b>48,8%</b>	<b>47,7%</b>	<b>48,4%</b>	<b>49,4%</b>	<b>60,2%</b>

\*) 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 NBRNM

Chart 16: Public Debt Trends



### V.1 Government Debt

Table 8: Stock of Government Debt

(EUR million)	2013	2014	2015	2016	2017	2018	2019	2020
<b>EXTERNAL GENERAL GOVERNMENT DEBT</b>	<b>1.597,5</b>	<b>2.092,2</b>	<b>2.096,7</b>	<b>2.446,6</b>	<b>2.376,8</b>	<b>2.695,0</b>	<b>2.763,5</b>	<b>3.382,5</b>
Central government debt	1.591,9	2.086,9	2.091,5	2.442,0	2.373,1	2.692,2	2.761,4	3.381,0
Municipal debt	5,6	5,3	5,2	4,6	3,7	2,9	2,2	1,6
<b>DOMESTIC GENERAL GOVERNMENT DEBT</b>	<b>1.174,1</b>	<b>1.170,3</b>	<b>1.356,6</b>	<b>1.404,9</b>	<b>1.581,7</b>	<b>1.649,4</b>	<b>1.1793,3</b>	<b>2.133,4</b>
Central government debt	1.165,1	1.159,5	1.344,1	1.393,7	1.571,2	1.638,4	1.784,0	2.119,1
Municipal debt	9,0	10,8	12,5	11,2	10,5	11,0	9,3	14,4
<b>GENERAL GOVERNMENT DEBT</b>	<b>2.771,6</b>	<b>3.262,5</b>	<b>3.453,3</b>	<b>3.851,5</b>	<b>3.958,5</b>	<b>4.344,4</b>	<b>4.556,8</b>	<b>5.516,0</b>
<b>General government debt as % of GDP</b>	<b>34,0%</b>	<b>38,1%</b>	<b>38,1%</b>	<b>39,9%</b>	<b>39,4%</b>	<b>40,4%</b>	<b>40,7%</b>	<b>51,2%</b>

Source: Ministry of Finance and NBRNM

Chart 17: Government Debt Trends

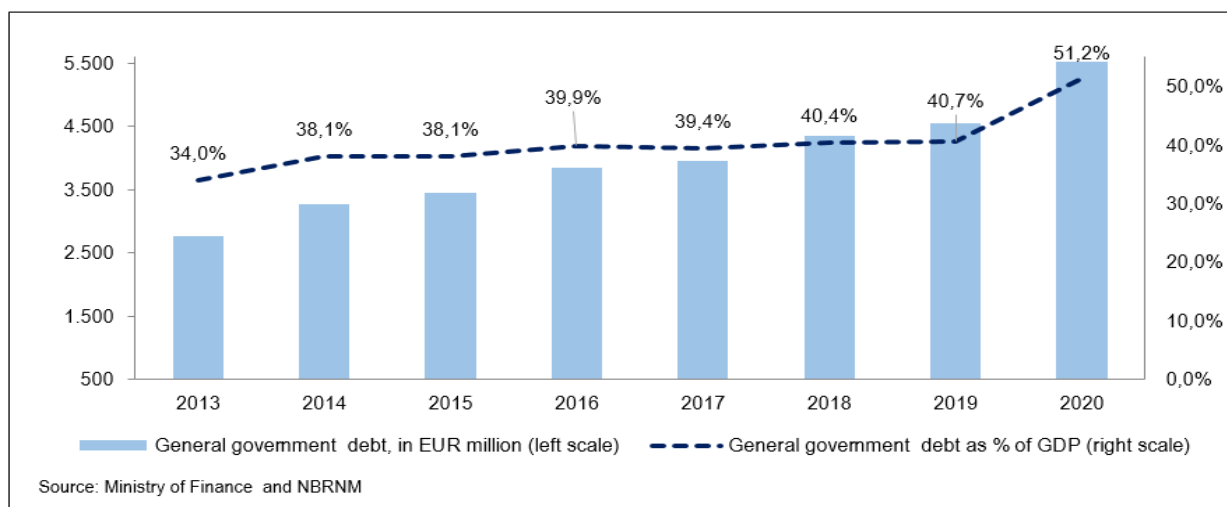


Chart 18: Interest Rate Structure of Government Debt

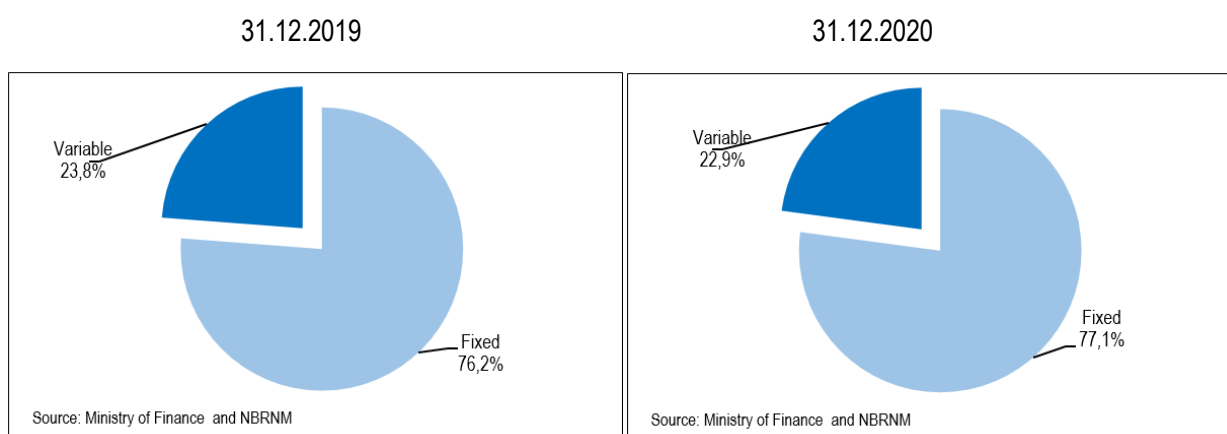


Chart 19: Currency Structure of Government Debt

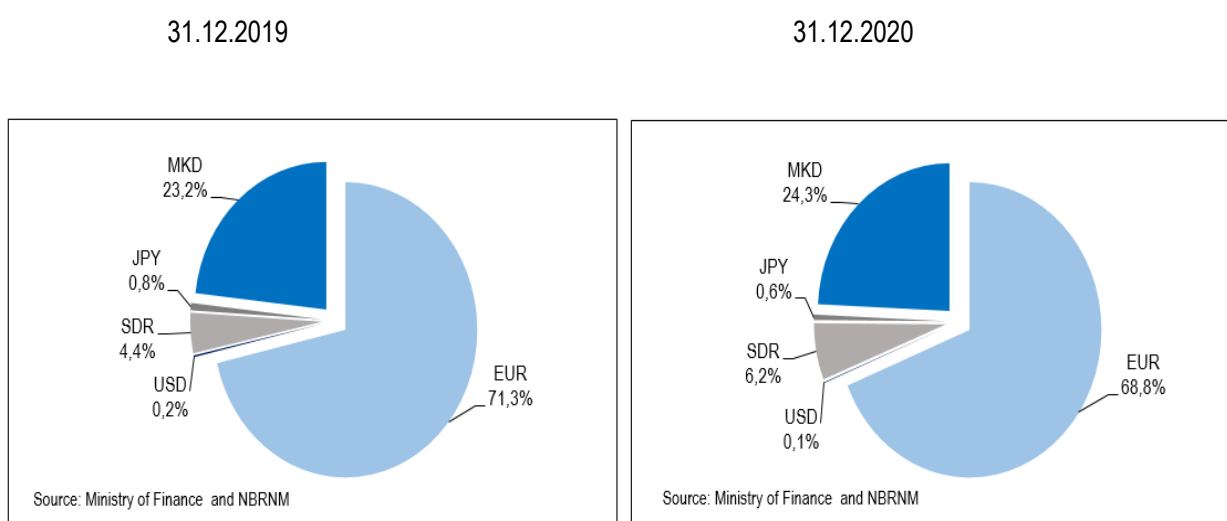


Chart 20: Market/Non-Market Government Debt, EUR million

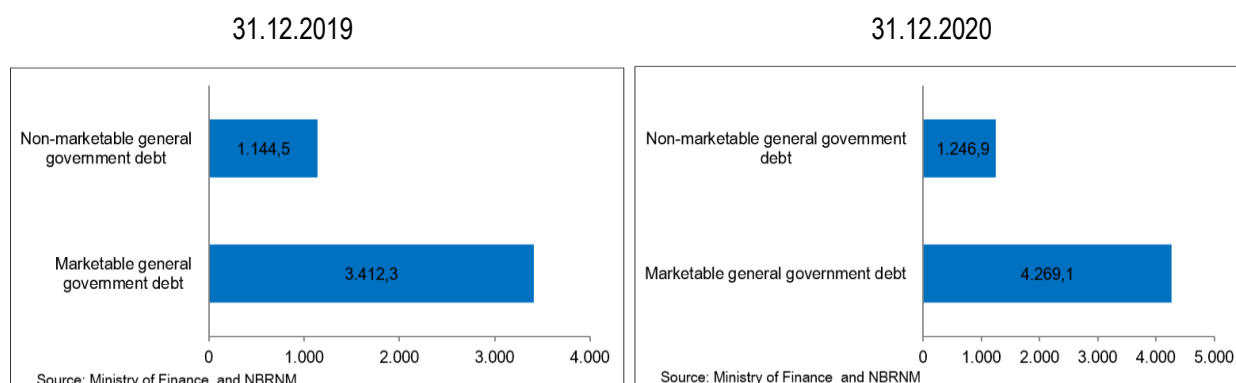


Table 9: Average Time to Maturity – ATM (years)

	2020
Domestic debt	6,8
External debt	4,4
Total general government debt	5,3

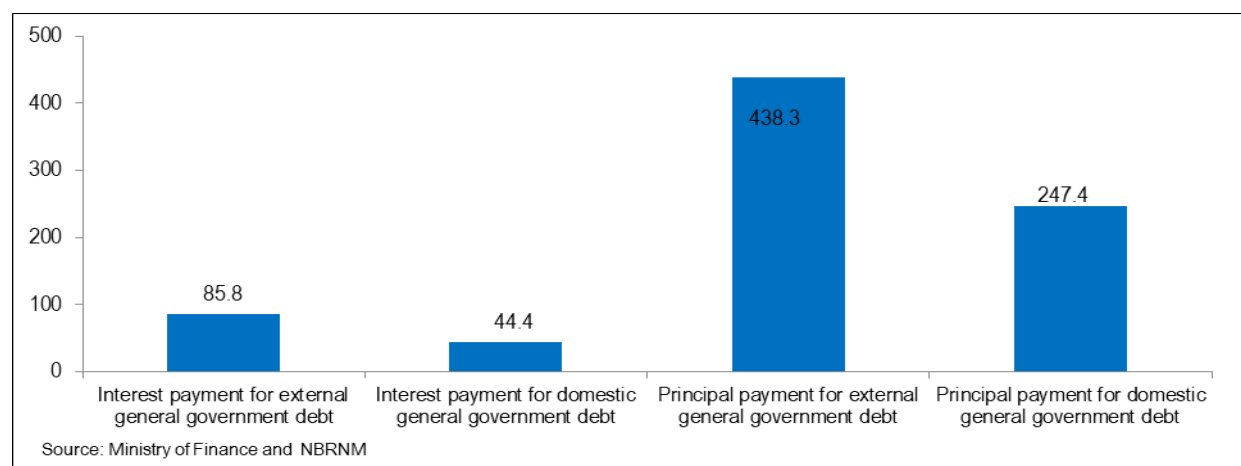
Source: Ministry of Finance

Table 10: Average Time to Re-fixing - ATR (years)

	2020
Domestic debt	6,8
External debt	3,4
Total general government debt	4,7

Source: Ministry of Finance

Chart 21: Repayment of Interest and Principal on the basis of Government Debt, EUR million



## V.1.1 External Government Debt

Table 11: Stock of External 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	31.12.2020
<b>External general government debt</b>	<b>1.597,5</b>	<b>2.092,2</b>	<b>2.096,8</b>	<b>2.446,6</b>	<b>2.376,8</b>	<b>2.695,01</b>	<b>2.763,50</b>	<b>3.382,53</b>
<b>Official creditors</b>	<b>981,1</b>	<b>983,2</b>	<b>858,4</b>	<b>863,2</b>	<b>838,9</b>	<b>819,04</b>	<b>914,60</b>	<b>1.193,94</b>
<b>Multilateral creditors</b>	883,1	888,7	764,8	773,8	761,6	745,87	846,10	1.129,70
IBRD	216,3	251,3	246,0	237,5	228,5	215,20	328,40	400,57
IDA	242,3	249,3	253,8	240,8	213,4	203,84	192,60	168,34
IFAD	10,8	11,1	11,3	10,8	9,7	9,42	9,10	8,23
CEB	49,1	53,0	64,1	71,0	88,6	89,12	96,00	101,74
EBRD	27,5	67,1	64,6	80,2	100,2	94,82	91,50	79,21
EIB	73,7	76,6	101,4	119,7	115,5	133,48	128,40	126,09
EU	43,6	33,6	23,6	13,6	5,6	0,00	0,00	80,00
IMF	219,7	146,7	0,0	0,0	0,0	0,00	0,00	165,51
<b>Bilateral creditors</b>	98,0	94,5	93,6	89,4	77,4	73,17	68,50	64,24
<b>Private creditors</b>	<b>616,5</b>	<b>1.109,0</b>	<b>1.238,4</b>	<b>1.583,4</b>	<b>1.537,8</b>	<b>1.875,97</b>	<b>1.848,90</b>	<b>2.188,58</b>
Eurobond	150,0	650,0	770,0	1.220,0	1.220,0	1.628,33	1.628,30	2.150,00
Other private creditors	466,5	459,0	468,4	363,4	317,8	247,64	220,60	38,58

Source: Ministry of Finance and NBRNM

Table 12: Disbursements on the basis of Concluded Undisbursed Loans of External Government Debt

(EUR million)	Disbursed funds Jan – Dec 2020
Disbursements on the basis of loans within external general government debt	
Central government debt (consolidated)	1078,2
Official creditors	378,2
Multilateral creditors	374,2
IBRD	100,1
CEB	10,6
EBRD	2,0
EIB	5,0
EU	80,0
IMF	176,5
Bilateral creditors	4,0
Private creditors	700,0
Municipal debt	0,0
Private creditors	0,0

Source: Ministry of Finance and NBRNM



Chart 22: External Government Debt Structure by Creditors

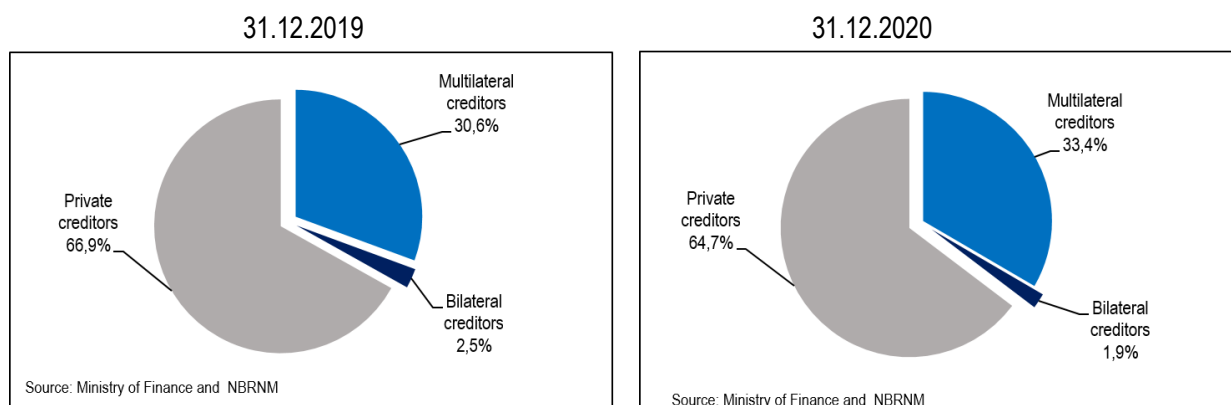


Chart 23: External Government Debt Structure by Multilateral Creditors

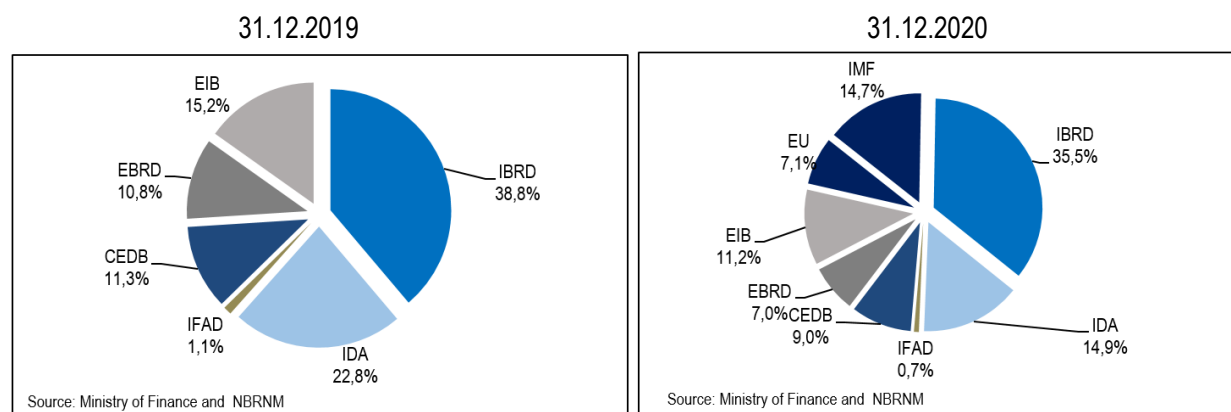


Chart 24: Currency Structure of External Government Debt

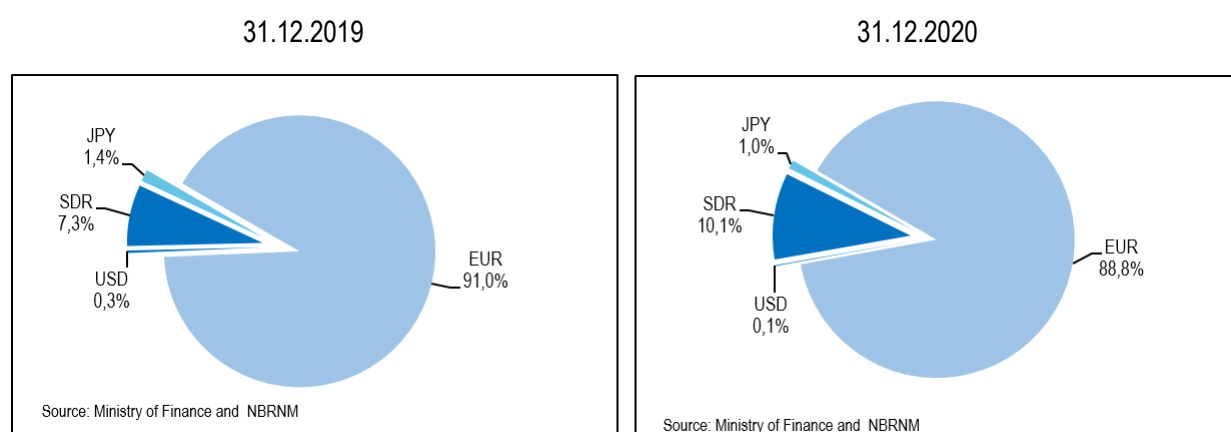
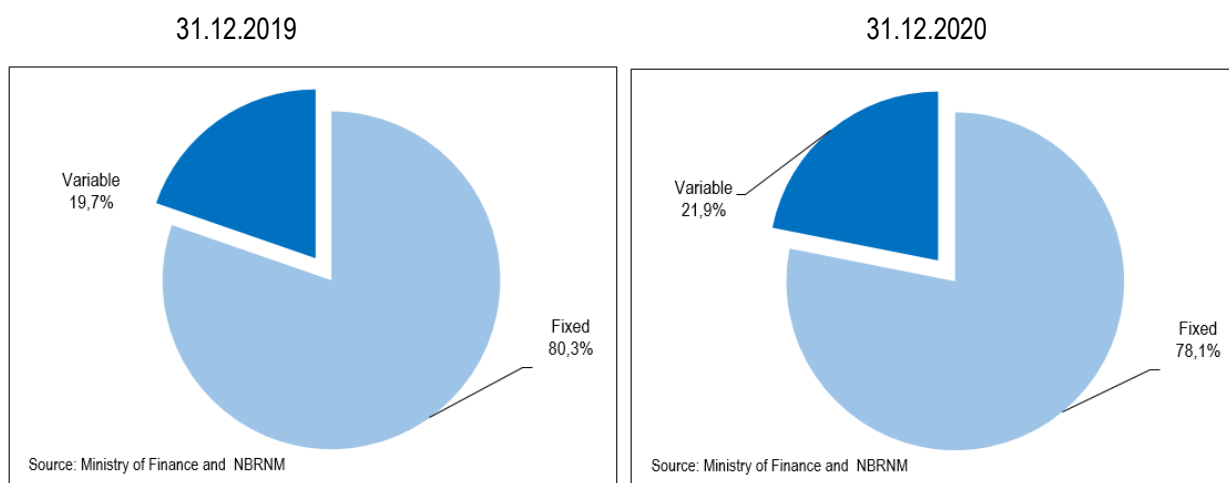


Chart 25: Interest Rate Structure of External Government Debt



## V.1.2 Domestic Government Debt

Table 13: Stock of Domestic Government Debt

(EUR million)	2013	2014	2015	2016	2017	2018	2019	2020
<b>Domestic General Government Debt</b>	<b>1.174,1</b>	<b>1.170,3</b>	<b>1.356,6</b>	<b>1.404,9</b>	<b>1.581,7</b>	<b>1.649,4</b>	<b>1.793,3</b>	<b>2.133,4</b>
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	2.119,1
Structural bonds	103,2	83,3	72,3	70,2	65,5	57,7	54,3	46,5
Bond for selective loans	16,9	16,9	16,9	16,9	16,9	16,9	16,9	16,8
Stopanska Banka privatization bond	10,7	2,1	0,0	0,0	0,0	0,0		
Denationalization bond	75,6	64,4	55,4	53,3	48,6	40,8	37,4	29,7
Continuous government securities	1.061,9	1.076,1	1.271,8	1.323,5	1.505,7	1.580,8	1.729,7	2.072,6
Municipalities	9,0	10,8	12,5	11,2	10,5	11,0	9,3	14,4

Source: Ministry of Finance

Chart 26: Currency Structure of Domestic Government Debt

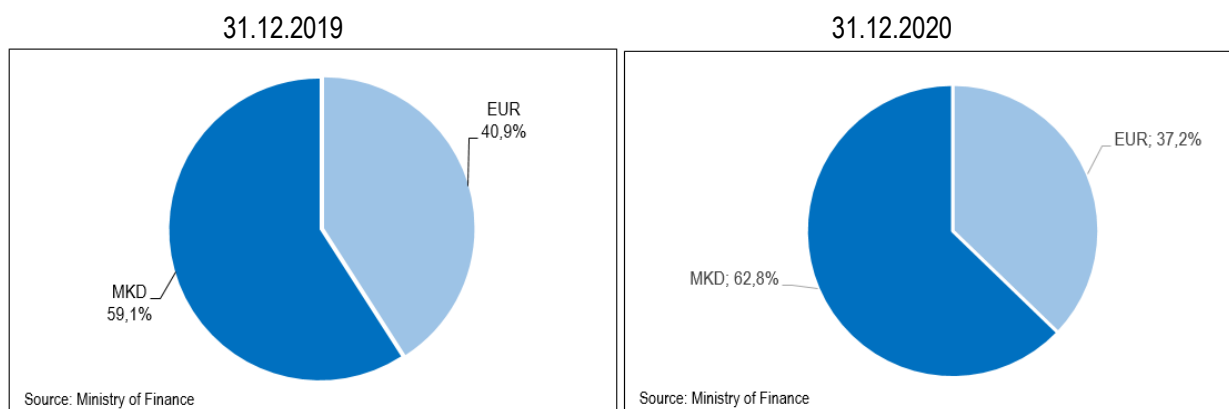
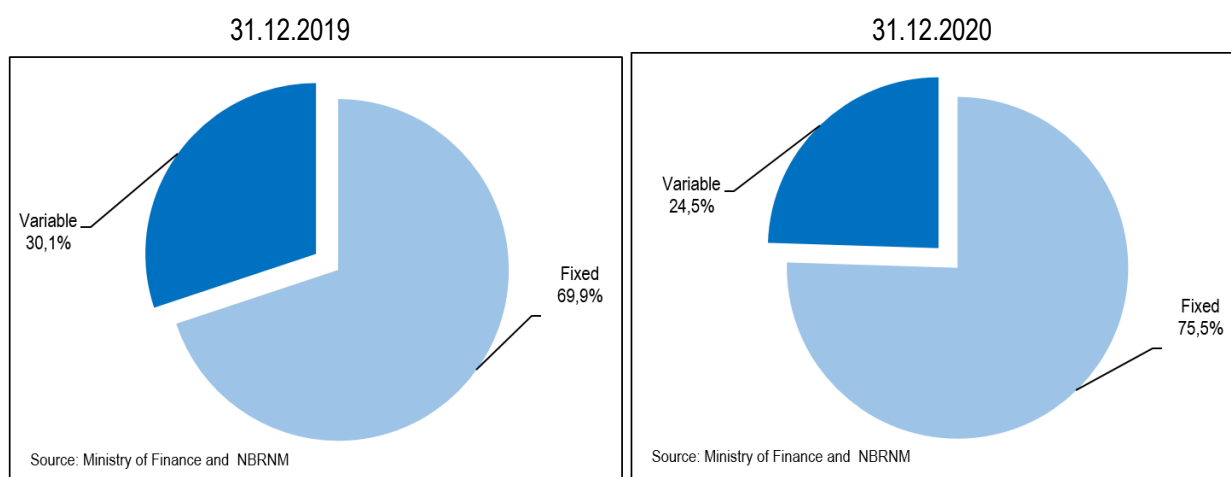


Chart 27: Interest Rate Structure of Domestic Government Debt



## V.2 Guaranteed Public Debt

Chart 28: Stock of Guaranteed Public Debt

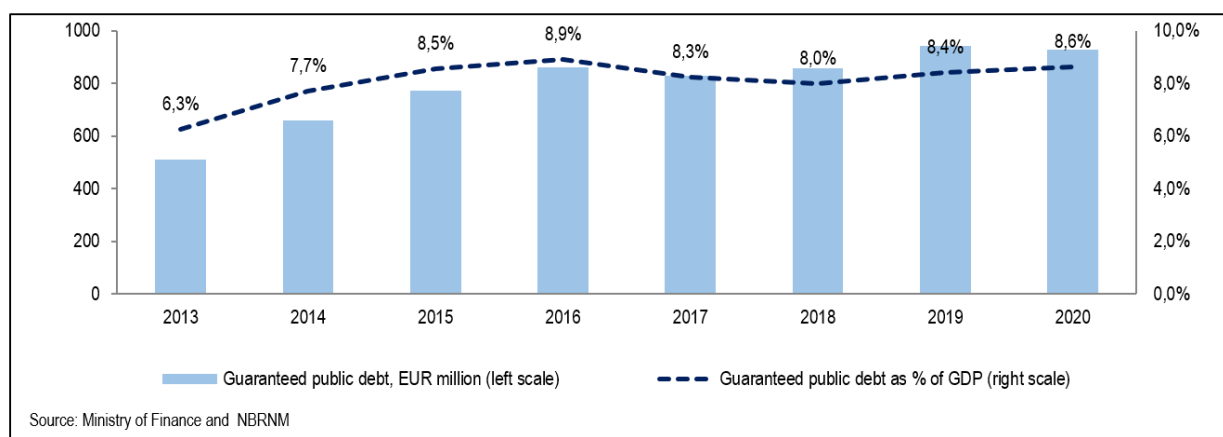


Chart 29: Guaranteed Public Debt by Creditors

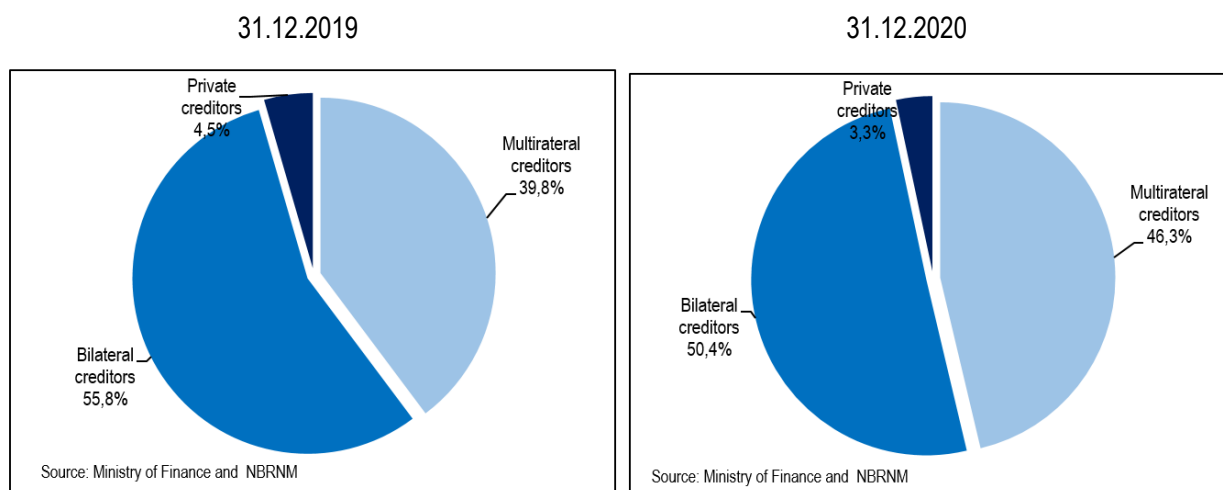
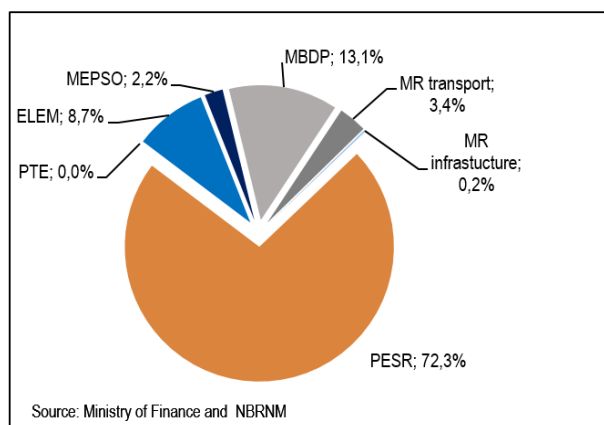


Chart 30: Guaranteed Public Debt by Debtors

31.12.2019



31.12.2020

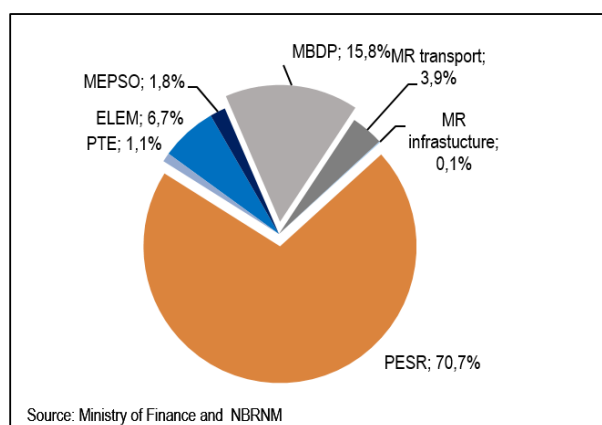


Table 14: Guaranteed Public Debt by Debtors

	The structure of guaranteed debt by debtors 31.12.2019			The structure of guaranteed debt by debtors 31.12.2020		
	EUR million	% of GDP	% of total guaranteed public debt	EUR million	% of GDP	% of total guaranteed public debt
ELEM	81,7	0,7%	8,67%	62,0	0,6%	6,7%
MEPSO	20,5	0,2%	2,18%	17,2	0,2%	1,8%
MBDP	123,4	1,1%	13,10%	146,8	1,4%	15,8%
MR transport	32,2	0,3%	3,42%	36,0	0,3%	3,9%
MR infrastructure	1,2	0,0%	0,13%	1,0	0,01%	0,1%
PESR	681,0	6,1%	72,28%	656,7	6,1%	70,7%
PTE	2,0	0,0%	0,21%	9,8	0,1%	1,1%
<b>Total</b>	<b>942,2</b>	<b>8,4%</b>	<b>100,0%</b>	<b>929,5</b>	<b>8,6%</b>	<b>100,0%</b>

Source: Ministry of Finance and NBRNM