



International Finance and Public Debt Management Department

2021 Annual Report on Public Debt Management of the Republic of North Macedonia

June 2022

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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
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 - Skopje
Infrastructure	
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
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
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), 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”, nos. 98/19 and 151/21), Parliament of the Republic of North Macedonia has been informed about the 2021 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.

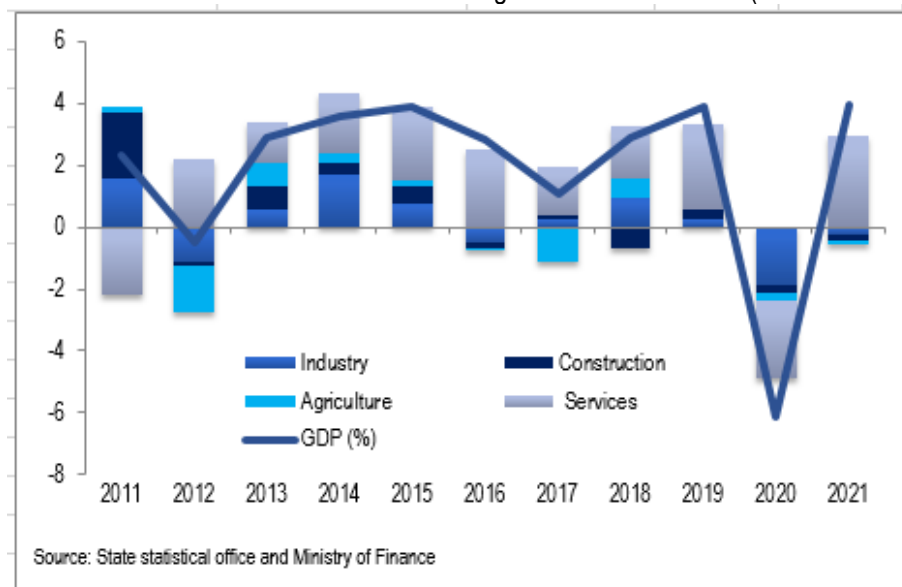
Report includes definitions on the general government and the public debt pursuant to the Law on Public Debt (“Official Gazette of the Republic of Macedonia”, nos. 62/2005, 88/2008, 35/11, 139/14 and “Official Gazette of the Republic of North Macedonia, no.98.1919 and 151/21). As per the regulations in force, the general government debt is a sum of financial liabilities incurred via borrowing by the Republic of North Macedonia, the public institutions established by the Republic of North Macedonia and the municipalities, the municipalities in the City of Skopje and the City of Skopje. Moreover, 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 2021

In 2021, despite the protracted pandemic effects, domestic economy is recovering in line with the expected dynamics. Upon the 1.8% drop in the first quarter, economic activity significantly increased by 13.4% in the second quarter, followed by the 3% and 2.3% growth respectively in the third and fourth quarter, by which economic growth accounted for 4%¹ in 2021. Growth of domestic economy in this period is a result of the more favourable epidemiologic picture, coupled by intensive immunisation, both in the country and abroad, the more favourable international environment, less consumption restraint and the government measures aimed at supporting the economy.

Economic growth in 2021 is mostly a result of the favourable trends in the services sector, where activity picked up by 5.2%. Growth in the services sector is broad based, driven by the activities trade, transport and hospitality industry, surging by 14%, followed by the growth in the information and communication activity of 3.2%.

Chart 1: Economic Growth Structure According to Production Method (contribution to growth, percentage points)



Activity in the industry reduced by 1.3%, amidst stagnation in Manufacturing, within which: electricity and chemical products had more significant positive impact, while Manufacture of motor vehicles, fabricated metal products and wearing apparel and textile had the highest negative contribution. Agriculture sector also recorded similar drop, while construction activity decreased by 3.8% in real terms.

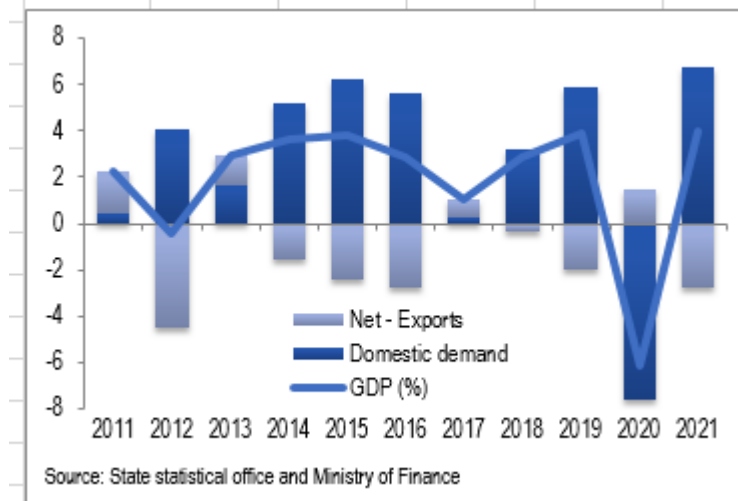
Analyzed by the expenditure side of GDP, economic growth was a result of increased domestic demand amid recovered private consumption and investments, while net export had a negative contribution to growth (Chart 2). Private consumption increased by 5% in real terms, reflecting the favourable trends at remittances from abroad, solid wage increase, state aid and credit support, as well as greater propensity to procuring non-food products. Public consumption surged by 4.1%. Gross investments grew by 9.2% amid increased FDIs, increased import of investment goods and increased budget capital expenditures.

Export of goods and services recovered rapidly throughout the first half of 2021, continuing with a moderate pace in the second half, when it increased by 12.3% in real terms amid increase of external demand, which reflected through

¹ According to SSO assessed data.

stronger export, above all of chemical products. Import of goods and services grew by 13.9% in real terms, driven mostly by the stronger import of intermediary goods.

Chart 2. Economic growth expenditure structure (contribution to growth, percentage points)



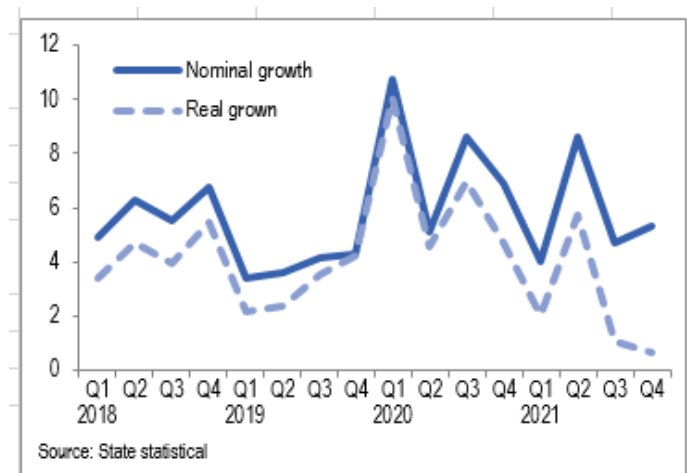
Following the drop in the first quarter of 2021, number of employed persons recorded minimum increase in the second quarter, prior to reaching 1.4% and 0.7% growth in the third and the fourth quarter on annual basis respectively, in line with the Labour Force Survey. In 2021, employment increased in the services sector, mainly in the trade activity, the information and communication activity and the public sector. Employment in the industry sector was kept at the same level, while number of employees decreased in the construction and the agriculture sectors. Average employment rate in 2021 accounted for 47.2%, remaining almost unchanged in relation to 2020. Throughout the year, unemployment rate registered downward trend, reducing to 15.2% in the fourth quarter, thus being lower by 0.9 percentage points compared to the same quarter in the previous year (Chart 3).

Chart 3 Number of Employed and Unemployment Rate



In 2021, average net wage grew by 5.7% in nominal terms and by 2.3% in real terms. Wage growth is broad based, whereby wages in the services sector increased by 6.7%, while surging by 4.6% in nominal terms in the industry sector. Chart 4 shows the wage growth dynamics by quarters.

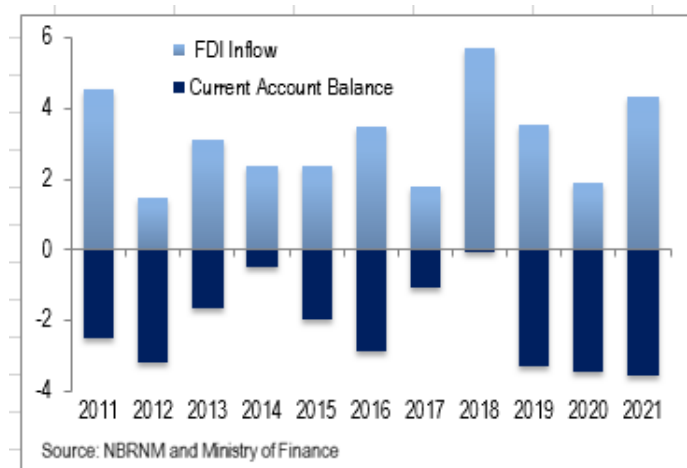
Chart 4 Increase of Average Net Wage (%)



Inflation rate in 2021 recorded an upward trend, reaching 3.2%, thus reflecting the price pressures exerted on the supply, triggered by factors specific for the pandemic-induced crisis, which resulted in an upward trend of prices of commodities on the international market, spilling over to the domestic economy, mostly through the rising prices of food products and oil derivatives.

Developments on the balance of payments current account in 2021 resulted in a deficit of 3.5% of GDP, which slightly widened compared to 2020 (Chart 5), mainly due to the widened trade deficit. Inflow of current transfers from abroad increased by 41.5% following the decline in the previous year both through official channels and on the basis of exchange operations, amid easing the containment measures in the country and abroad and the improved international economic environment, significantly off-setting the increased trade deficit. Inflow of foreign direct investments (FDIs) also experienced a significant increase, reaching 4.4% of GDP in 2021, whereby 61% of the total inflow was in the form of equity and reinvested earnings of companies with foreign capital, remaining in inter-company lending. Reserve assets amounted to EUR 3.6 billion at the end of 2021, providing for 4.5-month coverage of import of goods and services in the previous 12-month period, being at an adequate level to manage the possible shocks.

Chart 5 Current Account Balance and FDI Inflow (% of GDP)



National Bank retained the relaxed monetary policy in the course of 2021. Hence, in March, the policy rate was reduced to 1.25%, remaining at the same level since then, which is the historic low. Credit activity in 2021 increased by 8.3%, in conditions of intensified crediting to enterprises, surging by 8.7%, and growth of credits to households by 7.8%, while total deposit surged by 7.8%.

III. Significant Developments in 2021

III.1 International Environment

Global economic activity surpassed the pre-pandemic level in the course 2021, mainly reflecting the strong economic activity in China, the rapid recovery in the USA and several smaller economies. Thereby, resurgences of the COVID-19 pandemic last autumn and high number of newly infected with the Omicron variant caused for the health system and the economic recovery to again face challenges. Existing bottlenecks in the supply of goods and services hindered the production, which was also under strong negative impact of the energy price increase.

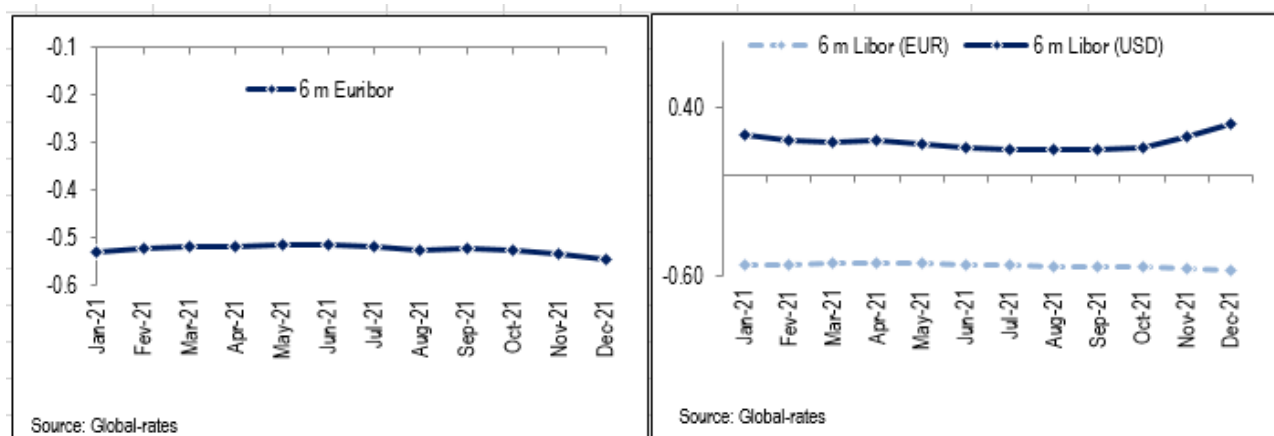
According to IMF projections, global economy in 2021 grew by 5.9%, following the 3.1% decline previous year, while economic activity in the EU grew by 5.3% amid positive contribution of both the domestic and the net export demand. Economy in Germany, following its decline of 4.6% in 2020, grew by 2.9 in 2021, amid recovery of export activity and investments.

Inflation in 2021 rose rapidly, especially in the developed economies, while inflation in the developing economies rose less. Inflation in the EU amounted to 2.9%, driven by the increased energy prices.

During 2021, 6-month Euribor recorded value drop, as opposed to the slight growth observed in the previous year. In fact, average value of this rate in January accounted for -0.534%², reducing to -0.560% in December. Similar trend was also observed at the inter-bank LIBOR (EUR) interest rate, accounting for -0.535%³ in January, while its average value reduced to -0.531% in December.

In the course 2021, 6-month US Dollar LIBOR interest rate gradually increased, with an average value of 0.206%⁴ in January, decreasing to 0.306% in December.

Chart 6 Trend of Average Monthly Euribor and Libor Interest Rates in 2021



Throughout 2021, Denar exchange rate in relation to the euro was stable, ranging from Denar 61.4931 to Denar 61.6948 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 50.5704 per one US dollar, and Denar 54.5599 per one

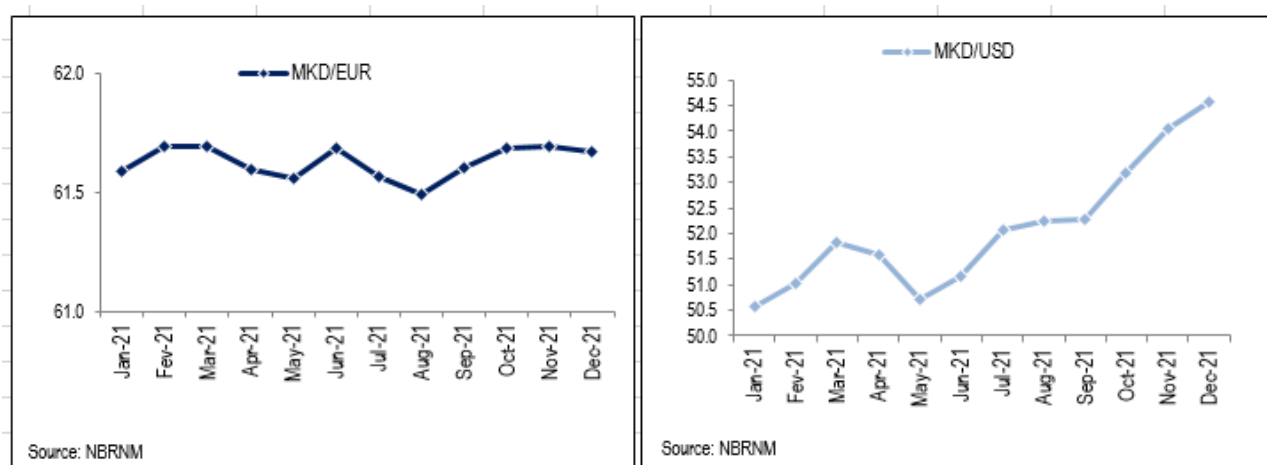
² <https://www.global-rates.com/en/interest-rates/euribor/2021.aspx>

³ <https://www.global-rates.com/en/interest-rates/libor/european-euro/2021.aspx>

⁴ <https://www.global-rates.com/en/interest-rates/libor/american-dollar/2021.aspx>

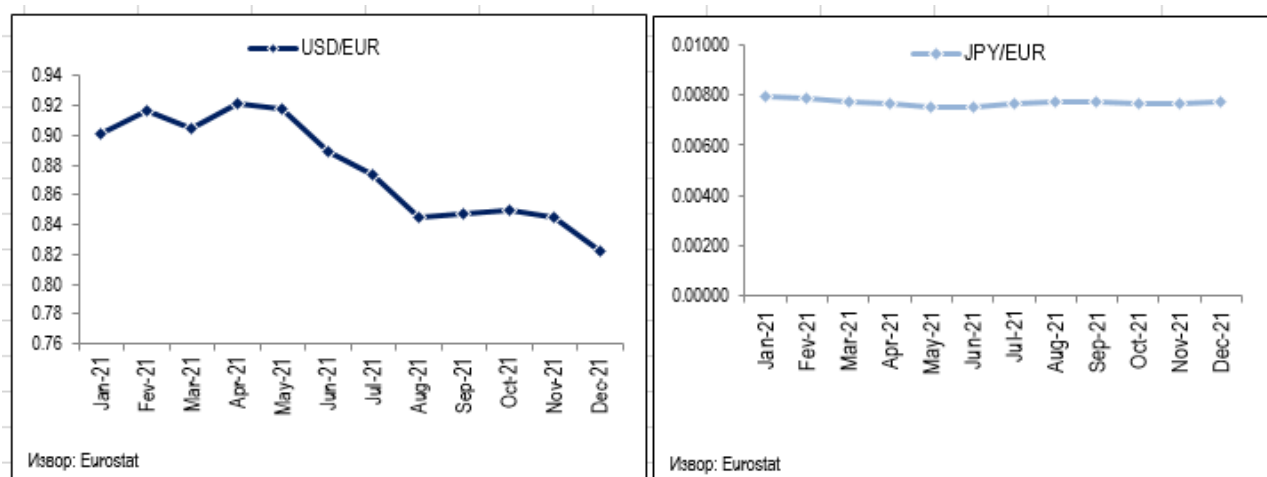
US dollar in December. The highest value of US dollar to denar was registered in December, when average exchange rate was Denar 54.5599 per one US dollar.

Chart 7 Average Monthly Denar/EUR and Denar/USD exchange rates in 2021



As regards the international financial market, USD value in relation to the euro continued to appreciate in the course of 2021, reaching its highest value of USD 0.9207 per one euro in April 2021 (monthly average), after which euro value slight appreciated from the second quarter onwards. Value of Japanese Yen in relation to the euro also appreciated, whereby the average exchange rate was Japanese Yen 0.007917 per one euro in January, reaching Japanese Yen 0.007766 per one euro in December.

Chart 8 Average Monthly USD/EUR and Japanese Yen/EUR exchange rates in 2021



III. 2 Credit Rating of the Republic of North Macedonia in 2021

Standard&Poor's and Fitch Ratings credit rating agencies carried out revision of the credit rating of the Republic of Macedonia two times in the course of 2021, on 19th February 2021 and 23rd August 2021, i.e. on 20th May 2021 and 17th November 2021, respectively.

Standard&Poor's Credit Rating Agency affirmed, in its reports published in 2021, Macedonia's previously awarded credit rating for local and foreign currency at BB-, at the same time affirming the country's stable outlook.

The Agency noted that North Macedonia's economy was recovering from the fallout of the pandemic, with

higher public and private investment, recovering foreign demand, and private consumption, driving the growth in the medium term.

In its report, S&P noted that continued structural reforms and sustainable fiscal policies could raise the ratings in future. It was also concluded that a start of EU accession negotiations could serve as an anchor for structural and institutional improvements and for confidence in the country's longer-term economic perspective.

"Fitch Ratings" Credit Rating Agency, in its reports published in 2021, affirmed foreign and local currency rating at BB+, with a negative outlook.

In its report, "Fitch Ratings" noted that North Macedonia is highly open economy with export-oriented technological and industrial development zones and stable and adequately capitalized banking sector.

The Agency also noted that stabilization of government debt in relation to GDP in the medium term, as well as implementation of structural economic reforms and EU accession progress could be positive for the country's creditworthiness in future, contributing to medium-term growth prospects.

Stable credit rating of the Republic of North Macedonia is a significant signal to foreign investors, and it has positive impact on both the interest rate at which the country borrows on the international capital market and 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 2020 and 2021 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 2020 and 2021

Credit rating agency "Standard and Poor's"					
	2020			2021	
	first rate	second rate	third rate	first rate	second 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"					
	2020			2021	
	first rate	second rate	third rate	first rate	second rate
Foreign currency	BB+/Stable	BB+/ Negative	BB+/ Negative	BB+/ Negative	BB+/ Negative
Domestic currency	BB+/Stable	BB+/ Negative	BB+/ Negative	BB+/ Negative	BB+/ Negative
Source: Fitch Ratings					

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

Government debt of the Republic of North Macedonia at the end of 2021 amounted to EUR 6,080.2 million, i.e. 51.8% of GDP (Table 8), being a decline of 0.1 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 88.1% at the end of 2021.

Public debt of the Republic of North Macedonia at the end of 2021 amounted to EUR 7,135.3 million, i.e. 60.8% of GDP (Table 7), being a decline of 0.2 p.p. compared to the previous year. Starting May 2019, definition of public debt includes 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. Non-guaranteed debt contributed with 0.4 p.p. in the total public debt at the end of 2021. External public debt amounted to EUR 4,668.9 million, while domestic public debt amounted to EUR 2,466.4 million.

External government debt amounted to EUR 3,648.9 million at the end of 2021, increasing by EUR 266.3 million in relation to 2020, while domestic government debt amounted to EUR 2,431.4 million, increasing by EUR 297.9 million in relation to the previous year. From the point of view of the currency structure of the government debt, at the end of 2021, euro- denominated debt predominated, participating with 69.4% in the total portfolio, being higher by 0.5 p.p. compared to 2020 (Chart 19). During the same period, Denar - denominated debt grew by 0.2 p.p., i.e. from 24.3% in 2019 to 24.5% at the end of 2021.

Debt with fixed interest rate in the interest structure of the government debt increased by 4.2 p.p. compared to 2020, amounting to 79.0% at the end of 2021 (Chart 18). Increase of the share of fixed interest rate debt was 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.

As regards the realization of the thresholds determined in the 2021-2013 Public Debt Management Strategy of the Republic of North Macedonia (with 2027 prospects), following can be concluded: under the respective Strategy, maximum level of public debt of 60% of GDP in the medium and the long run and maximum level of guaranteed public debt of 15% of GDP are determined. As a result of the economic crisis induced by COVID-19, most of the European Union countries, as well as the countries in the region, were forced to widen their budget deficits all to the end of ensuring funds for managing the pandemic. At most of the economies, this resulted in increased level of public debt by more than 10 percentage points. Due to the severity of the crisis induced by the pandemic, fiscal rules in the European Union are temporarily suspended by the end of 2022. Analogously, in the course of 2021, Republic of North Macedonia experienced increased level of public debt, exceeding the maximum limit set under this Strategy.

On the other hand, guaranteed debt at the end of 2021 accounted for 8.6% of GDP, being within the limits set under the 2021-2013 Public Debt Management Strategy of the Republic of North Macedonia (with 2027 prospects).

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 31st December 2021 inclusive, share of euro-denominated debt accounted for 91.9%, being in line with the set threshold.

In addition, realization of the interest rate threshold was successful. In fact, under the 2021-2013 Public Debt Management Strategy of the Republic of North Macedonia (with 2027 prospects), 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 2021, fixed interest rate debt accounted for 79.0% of the government debt structure.

In line with the targets on determining public debt optimal level and portfolio structure, short-term thresholds, pertaining only to 2021, were defined under the 2021-2013 Public Debt Management Strategy of the Republic of North Macedonia (with 2027 prospects). Thus, short-term maximum net borrowing threshold (domestic and foreign one) on the basis of government debt in 2021 was set at EUR 650 million. Throughout the year, net borrowing amounted to EUR 564.3 million, i.e. net borrowing in 2021 was below the maximum threshold envisaged in under the 2021-2013 Public Debt Management Strategy of the Republic of North Macedonia (with 2027 prospects).

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. In 2021, Macedonian economy still felt the impact of the pandemic. In order to uninterruptedly finance the budget needs, in March 2021, Republic of North Macedonia issued the eight Eurobond in the amount of EUR 700 million. Maturity of the Eurobond is 7 years, with coupon interest rate of 1.625%, being the lowest interest on the Eurobonds issued so far. On 1st June 2021, second tranche in the amount of EUR 80 million under the macro-financial support from the European Union was disbursed.

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 2021 should be 3 years. Taking into account that "average time to maturity" was 6.0 years as of 31st December 2021 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 was determined for the minimum level of this indicator in 2021 to be 2 years. At the end of 2021, "average time to refixing" was also within the threshold set, being 5.5 years.

Table 2: Thresholds within the Public Debt Management Policy and realization in 2021

	Thresholds set in 2023-2025 Public debt management strategy of the RNM (with 2027 prospects)	Realisation at the end of 2021
Short-Term Limits (referring only to 2021)		
Net borrowing on the basis of government debt	Maximum net borrowing on the basis of General Government Debt in 2021 to be up to EUR 400 million	EUR 564, million
Net borrowing on the basis of guaranteed debt	Maximum net borrowing on the basis of guaranteed debt in 2021 to be up to EUR 200 million	EUR -77,9 million
"Average time to maturity" indicator in 2021	Minimum threshold for "Average time to maturity" indicator in 2021 should be 3 years	6,0 years
"Average time to re-fixing" indicator in 2021	Minimum threshold for "Average time to re-fixing" indicator in 2021 to be 2 years	5,5 years
Medium-Term Limits		
Interest rate structure	In the period 2021-2025, minimum threshold of debt with fixed interest rate to be 60%	79,0%
Currency structure	In the period 2021-2025 minimum threshold of euro-denominated debt in foreign currency-denominated debt to be 85%	91,9%
Public debt/GDP	The level of total public debt in the medium and the long run not to exceed 60% of GDP	60,8%
Guaranteed debt/GDP	The level of guaranteed public debt in the period 2021-2025 not to exceed 15% of GDP	8,6%

Source: Ministry of Finance

For the purpose of greater transparency of public finances within the 2021 Annual Report on Public Debt Management, 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 2021 were almost completely identified and quantified and, accordingly, statistical discrepancy in 2021 (comprising foreign exchange differences and other statistical discrepancies), following the adjustment, accounted for insignificant 0.06% of GDP.

Table 3: Stock Flow Adjustment of Central Government Debt

(in MKD millions)		2021
(1)	Budget balance	38,885
(2)	Initial debt balance	339,320
(3)	Final debt balance	373,571
(4)=(3)-(2)	Change in central government debt (= final minus initial balance)	34,251
(5)=(4)-(1)	(Initial Discrepancy)	-4,634
	Initial discrepancy of the cash flow as % of GDP	-0.64%
(6)	Net acquisition of financial assets	3,972
	Currency and deposits	3,467
	On-lending of municipalities and public enterprises	-487
	Other financial assets	991
	Gross issuance of structural bonds	
(7)	Issuance and repayment of the securities over and below nominal value	963
(8)=(5)-(6)-(7)	Residual (Foreign exchange differences and other statistical discrepancies)	301
	Residual (Statistical discrepancy) as % of GDP	0.04%

Source Ministry of Finance

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 that fell due in 2021 on regular basis and in a timely manner.

As for the repayment of liabilities on the basis of government debt in 2021, EUR 847.8 million was spent, EUR 699.8 million out of which for principal repayment and EUR 148.0 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

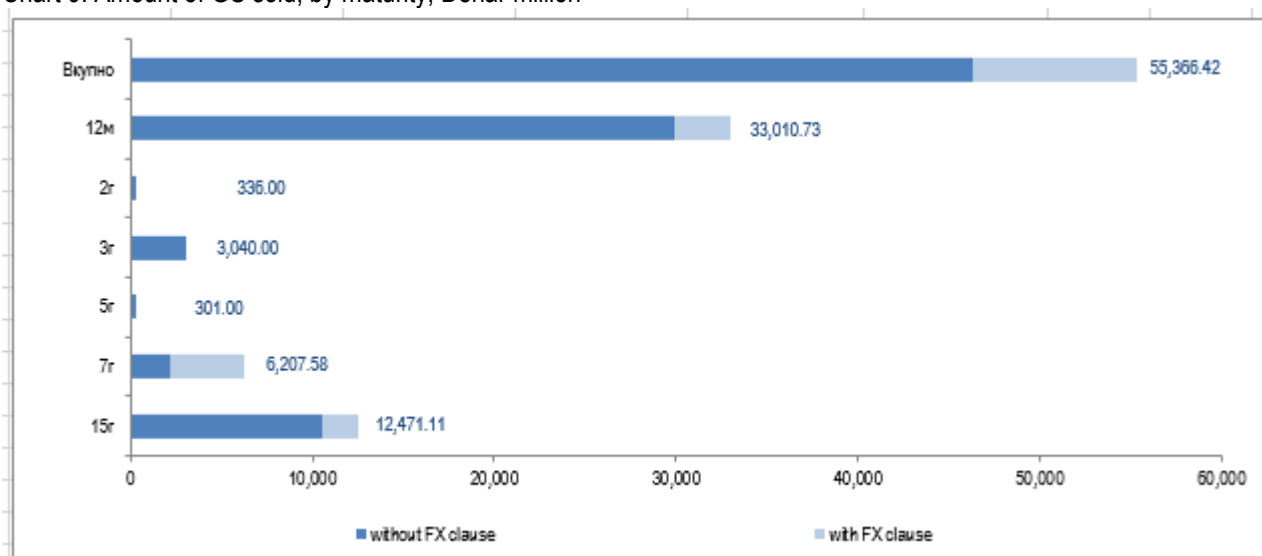
Borrowing by issuing continuous GS in 2021 - under the Decision on determining the maximum amount of new borrowing by issuing government securities in 2021, adopted by the Government of the Republic of North Macedonia,

maximum amount of new borrowing was determined in the amount of Denar 18,448.00 million. Thus, new (net) borrowing on the basis of issued GS in 2021 amounted to Denar 18,444.07 million (Table 4), and the stock of total issued GS, as of 31st December 2021 inclusive, amounted to Denar 146,308.93 million.

GS auctions - In the period January – December 2021, Ministry of Finance regularly issued 12-month treasury bills with and without foreign exchange clause, as well as 2-, 3-, 5-, 7- and 15-year government bonds with and without foreign exchange clause. During this period, total of forty seven GS auctions were held, i.e. twenty three auctions of 12-month T-bills, one auction of 2-year government bond, five auctions of 3-year GB, one auction of 5-year GB, two auctions of 7-year GB and fifteen auctions of 15-year GB.

Total amount offered on the GS auctions in 2021 amounted to Denar 56,384.42 million, the demand amounted to Denar 55,428.92 million, while total amount realized at the auctions in this period amounted to Denar 55,366.42 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 46,363.25 million in 2021, as opposed to Denar 9,003.17 million issued as government securities indexed with euro clause. Chart 9 shows the allocation of the total amount of issued GS by maturity:

Chart 9. Amount of GS sold, by maturity, Denar million



Trends of interest rates at GS auctions – During 2021, volume tender was applied at the GS auctions. What was characteristic for the interest rates in 2021 was that they slightly increased in April 2021, followed by a slight increase in November and December 2021 as well. If a year ago, Ministry of Finance issued GS at interest rates ranging between 0.40% for 12-month maturity period without foreign exchange clause to 2.50% for instruments with 15-year maturity period without foreign exchange clause, at the end of 2021, these same instruments were issued at interest rates ranging between 0.70% for 12-month maturity period without foreign exchange clause to 2.50% for instruments with 15-year maturity period without foreign exchange clause. Average interest rates in 2021 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 2021, portfolio of continuous GS comprised 12-month T-bills, 2-year GB, 3-year GB, 5-year GB, 10-year GB, 15-year GB and 30-year GB. As of 31st December 2021 inclusive, percentage share of long-term securities accounted for 77.44% in the maturity structure of government securities, while share of short-term securities accounted for 22.56%. Whereas, compared to 31st December 2020, the ratio between long-term and short-term securities accounted for 74.78% as opposed to 25.22% respectively, hence, compared to 2021, share of long-term securities in the maturity structure surged by 2.65 p.p.. Increased issuance of long-term securities reduces the debt refinancing risk. Maturity structure of outstanding GS for 2020 and 2021 is shown in Chart 11.

Ownership structure of outstanding 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 2021 inclusive, percentage share of banks in the ownership structure of

government securities accounted for 37.94%, while the share of the other market entities accounted for 62.06%. Compared to 31st December 2021, when the ratio between the banks and the other market entities was 39.71% as opposed to 60.29% respectively, share of banks dropped by 1.77 p.p. compared to the share of the other entities. Ownership structure of outstanding GS for 2020 and 2021 is shown in Chart 10.

III.5.1.2 Secondary Government Securities Market

During 2021, 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 seven transactions with T-bills and sixteen transactions with GB, shown in Chart 15. Total nominal trading amount was Denar 5,061.98 million. Compared to the trading in 2020, it can be concluded that total nominal amount of trading in 2021 was higher by Denar 971.99 million.

III.5.2 Structural Government Securities

III.5.2.1 Secondary Market for Denationalization Bonds

In 2021, total turnover of trading in denationalization bonds realized on the Macedonian Stock Exchange AD Skopje amounted to Denar 910.19 million, increasing by Denar 870.92 million compared to 2020, when it amounted to Denar 39.27 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 March 2021, Republic of North Macedonia issued the eight Eurobond on the international capital market in the amount of EUR 700 million, intended for financing the budget needs in 2021, as well as for refinancing the third Eurobond issued in 2014 in the amount of EUR 500 million, with the net borrowing on the basis of this Eurobond amounting to EUR 200 million.

The Eurobond was issued with the historic low coupon interest rate of 1.625% and 7-year maturity period, i.e. by 2028, and is traded on the London Stock Exchange.

Exceptionally favourable interest rate, despite the COVID-19 induced crisis, was a result of the prudent macroeconomic policies and the stable sovereign credit rating.

III.5.3.2 Secondary Market for Eurobonds

In the course of 2021, Eurobonds issued by the Republic of North Macedonia, falling due in 2021, 2023, 2025, 2026 and 2028, were traded on the international capital market. As of December 2021 inclusive, yield to maturity as regards the Eurobonds falling due in 2023, 2025, 2026 and 2028 amounted to 1.39%, 1.93%, 2.25% and 2.72% respectively, as shown in Chart 12.

III.6 Newly Concluded Loans in 2021

III.6.1 New Loans Concluded by Central Government

On 20th April 2021, Loan Agreement was signed with the World Bank for financing the Primary Education Improvement Project.

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

- amount: EUR 21,500,000;
- interest rate: six-month EURIBOR with variable spread;
- repayment period: 11 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 21st April 2021, Loan Agreement with the European Bank for Reconstruction and Development was signed for financing the Skopje Bus Rapid Transit Project.

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

- amount: EUR 70,000,000, comprising two tranches, the first one in the amount of EUR 47,600,000 and the second one in the amount of EUR 22,400,000;
- Interest rate: variable, six-month EURIBOR plus 1%.
- repayment period: 15 years, including 4-year grace period, whereby repayment of the first tranche starts from the first date following the fourth anniversary of the Loan Agreement, while as regards the second tranches, the repayment starts from the first date following the fourth anniversary from the second trach availability date;
- repayment manner: semi-annually;
- other costs:
 - front-end fee in the amount of 1% of the amount of the first tranche payable within seven days from the effective date of the tranche;
 - front-end fee in the amount of 1% of the amount of the second tranche payable within seven days from the second trach availability date;
 - commitment charge in the amount of 0.5% of the amount of the undisbursed loan funds on annual level. Commitment charge for the first tranche will start to be calculated following 60 days from the day of signing the Loan Agreement, while the commitment charge for the second tranche will start to be calculated after seven days from the second tranche availability date.

On 27th April 2021, Loan Agreement was signed with the World Bank for financing the Public Sector Energy Efficiency Project

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

- amount: EUR 25,000,000;
- interest rate: 6-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 3rd June 2021, Loan Agreement was signed with the World Bank for financing the Agriculture Modernization Project.

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

- amount: EUR 46,000,000;
- interest rate: 6-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 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

III.6.2.2 Borrowing by Local Government at Domestic Banks

III.6.3 Guarantees issued in 2021

On 21st June 2021, Republic of North Macedonia, represented by the Ministry of Finance, signed Guarantee Agreement with the European Investment Bank under the Finance Contract Covid-19 Response North Macedonia - Development Bank of the North Macedonia JSC Skopje For Financing Small - and Medium-Sized Enterprises and Mid-Cap Companies.

- amount: EUR 100,000,000;
- interest rate: to be determined for each tranche separately;
- repayment period: four years up to twelve years starting from the Scheduled Disbursement Date, including a grace period, which may range from 30 days to four years from the Scheduled Disbursement Date;
- repayment period is determined for each tranche separately.

On 22nd December 2021, Republic of North Macedonia, represented by the Ministry of Finance, signed Guarantee Agreement with the European Investment Bank under the Finance Contract approved to the Joint Stock Company for Performing Energy Activities National Energy Resources Skopje for the "Gas Interconnector Greece - North Macedonia, North Macedonia Part" Project.

- amount: EUR 28,900,000;
- interest rate: to be determined for each tranche separately;
- repayment period: 4 years up to 25 years starting from the Scheduled Disbursement Date, including a grace period, which may range from 30 days to 5 years from the Scheduled Disbursement Date;
- repayment period is determined for each tranche separately.

On 21st December 2021, Republic of North Macedonia, represented by the Ministry of Finance, signed Guarantee Agreement with the European Bank for Reconstruction and Development under the Loan Agreement approved to the Public Enterprise for State Roads for financing Road Corridor VIII - Phase I Project.

- amount: EUR 110,000,000;
- interest rate: 6-month EURIBOR variable interest rate increased by 1% margin;
- repayment period: repayment period of the two loan tranches shall be 16 years, including four-year grace period. Two loan tranches will be repaid in 24 equal semi-annual installments on 15th June and 15th December of each year; Repayment period of Tranche 1 commences on the first date falling on the fourth anniversary of signing of the Loan Agreement, while the repayment period of Tranche 2 commences on the first date falling on the fourth anniversary of the date of the Tranche 2 Availability Date.

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	Q1-2021	Q2-2021	Q3-2021	Q4-2021	Total 2021
Net issued government securities					
12-month treasury bills	-2,986.96	-788.01	799.72	3,743.00	767.75
2-year treasury bonds	-364.00	0.00	0.00	0.00	-364.00
3-year treasury bonds	-449.35	0.00	-760.02	270.00	-939.37
5-year treasury bonds	0.00	301.00	0.00	0.00	301.00
7-year treasury bonds	6,207.58	0.00	0.00	0.00	6,207.58
15-year treasury bonds	2,258.60	4,160.79	3,812.06	2,239.66	12,471.11
Total	4,665.87	3,673.78	3,851.76	6,252.66	18,444.07

Source : Ministry of Finance

Chart 10: Demand and Amount Sold at GS Auctions, January–December 2021

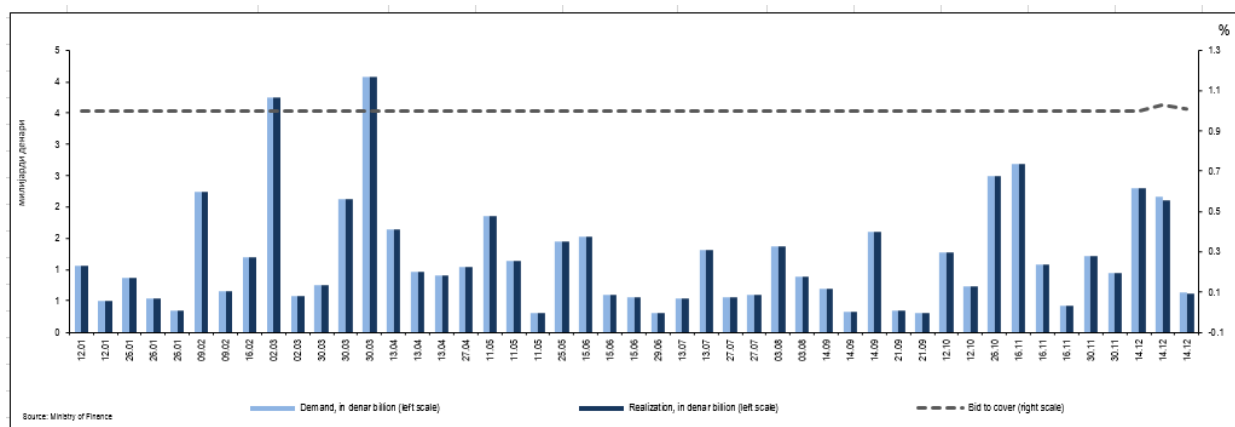


Chart 11: Amount of GS Sold January – December 2021

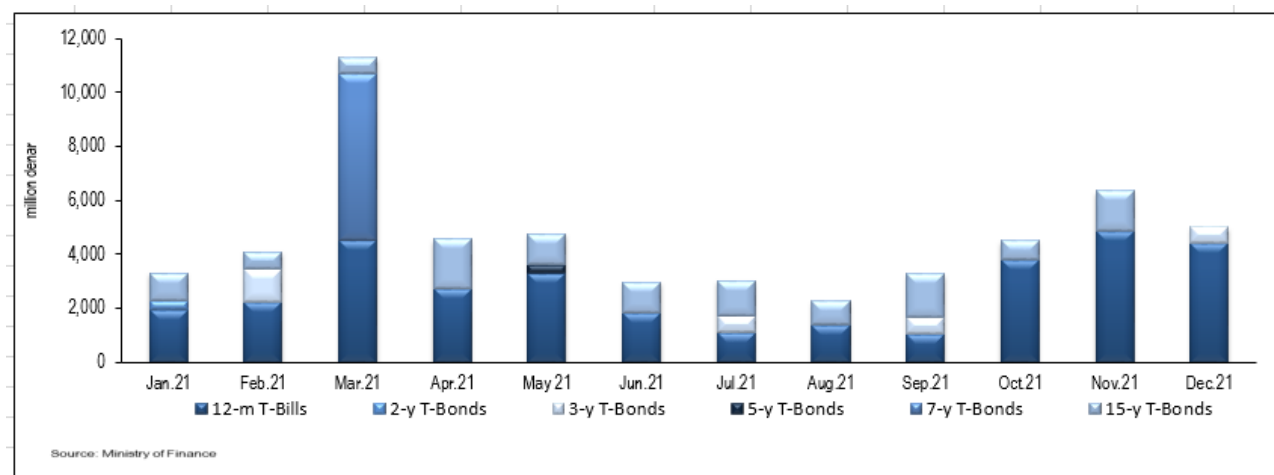


Table 5: Average Interest Rates on GS without FX Clause in 2021

Auction date	12-month T-bills	2-year T-bonds	3-year T-bonds	5-year T-bonds	7-year T-bonds	15-year T-bonds
January	0.40%	0.60%				2.50%
February	0.40%		0.80%			2.50%
March	0.40%					2.50%
April	0.45%				1.625%	2.50%
May	0.50%			1.20%		2.50%
June	0.50%					2.50%
July	0.50%		0.80%			2.50%
August	0.50%					2.50%
September	0.50%		0.80%			2.50%
October	0.50%					2.50%
November	0.50%					2.50%
December	0.70%		1.30%			

Source: Ministry of Finance

Table 6: Average Interest Rates on GS with FX Clause in 2021

Auction date	12-month T-bills	7-year T-bonds	10-year T-bonds
January			
February			
March		1.625%	
April			2.20%
May			
June			2.20%
July			
August			
September			
October			
November	0.40%		2.20%
December	0.50%		

Source: Ministry of Finance

Chart 12: Ownership Structure of Continuous GS

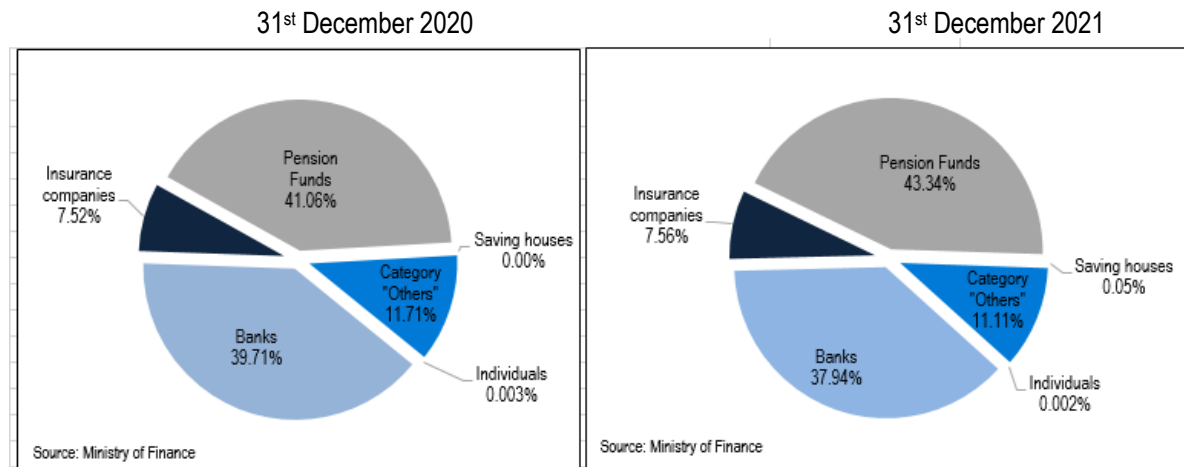


Chart 13: Maturity Structure of Continuous GS

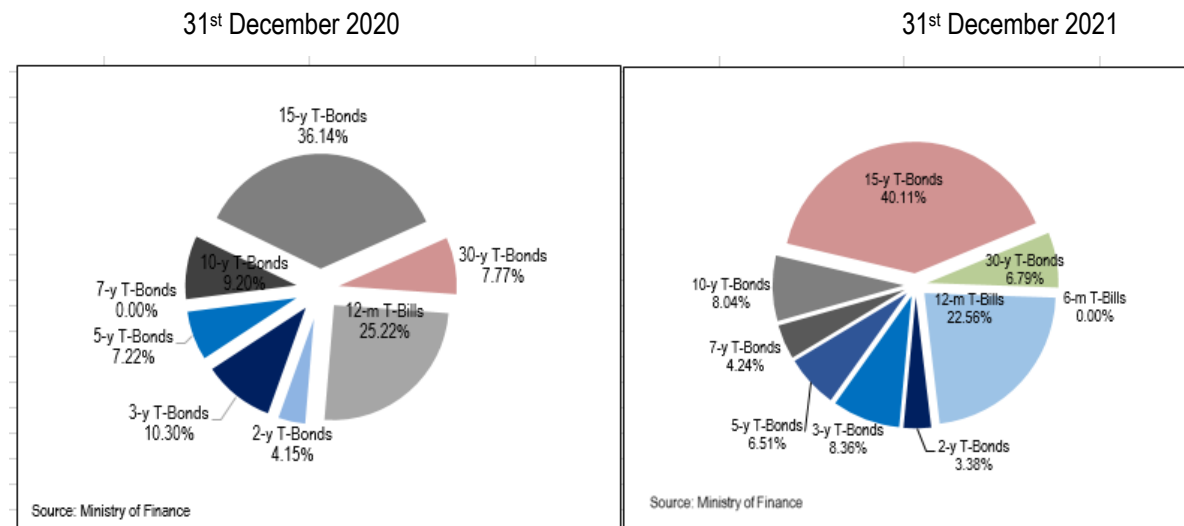
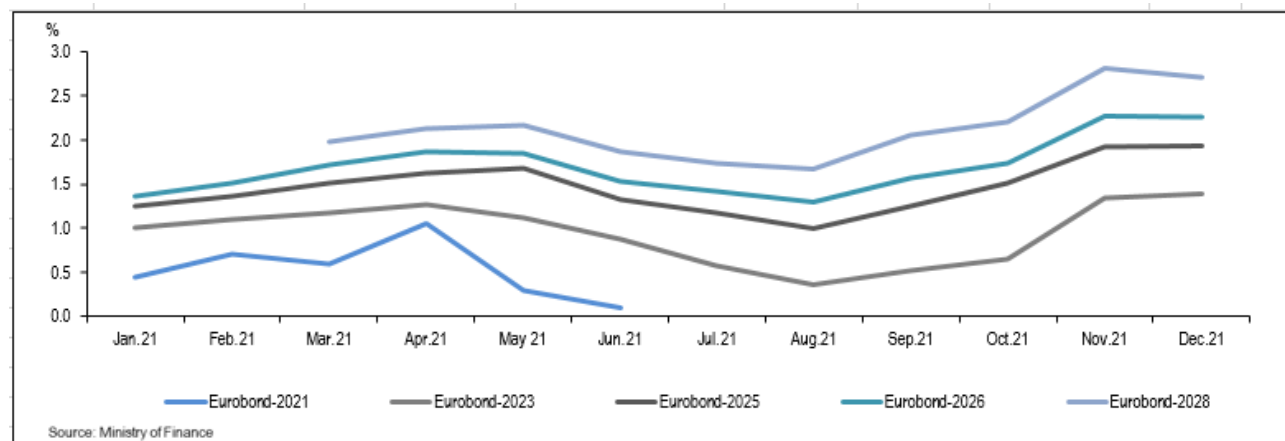


Chart 14: Yield to Maturity of Eurobonds falling due in 2021, 2023, 2025, 2026 and 2028



IV.2 Secondary Government Securities Market

IV.2.1 Secondary Structural Government Securities Market

Chart 15: Trading Volume of Structural Government Bonds, January – December 2021, EUR

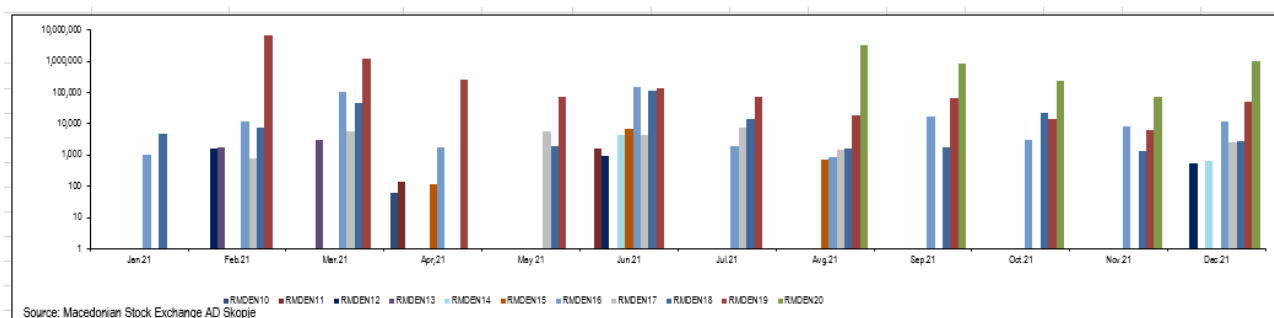
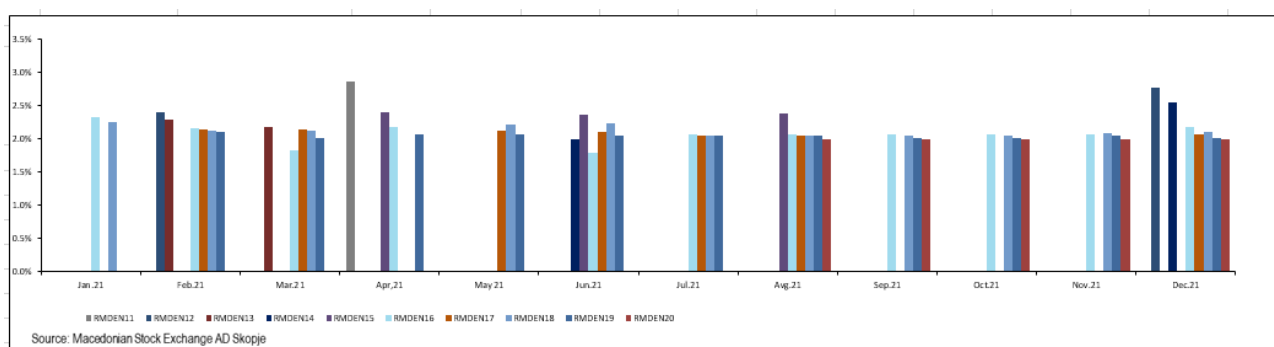
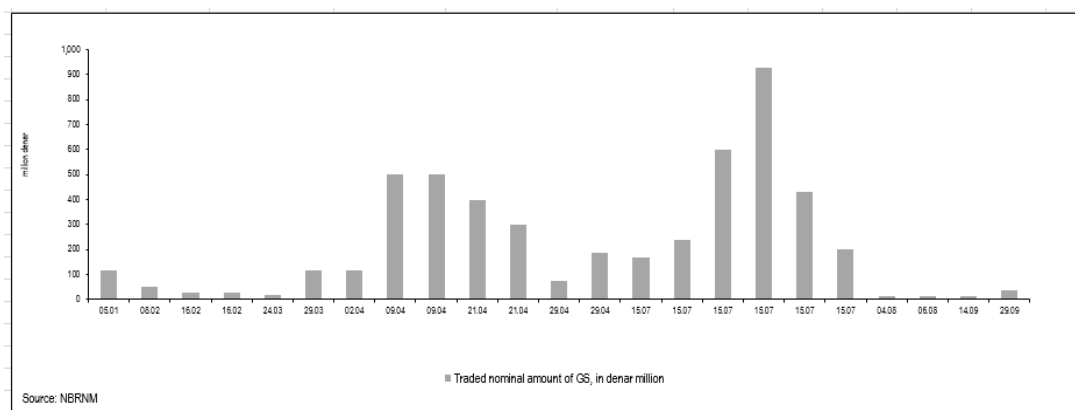


Chart 16: Yield to Maturity of Structural Government Bonds, January – December 2021



IV.2.2 Secondary Continuous Government Securities Market

Chart 17: Trading Volume on Secondary Continuous Government Bonds Market, January – December 2021



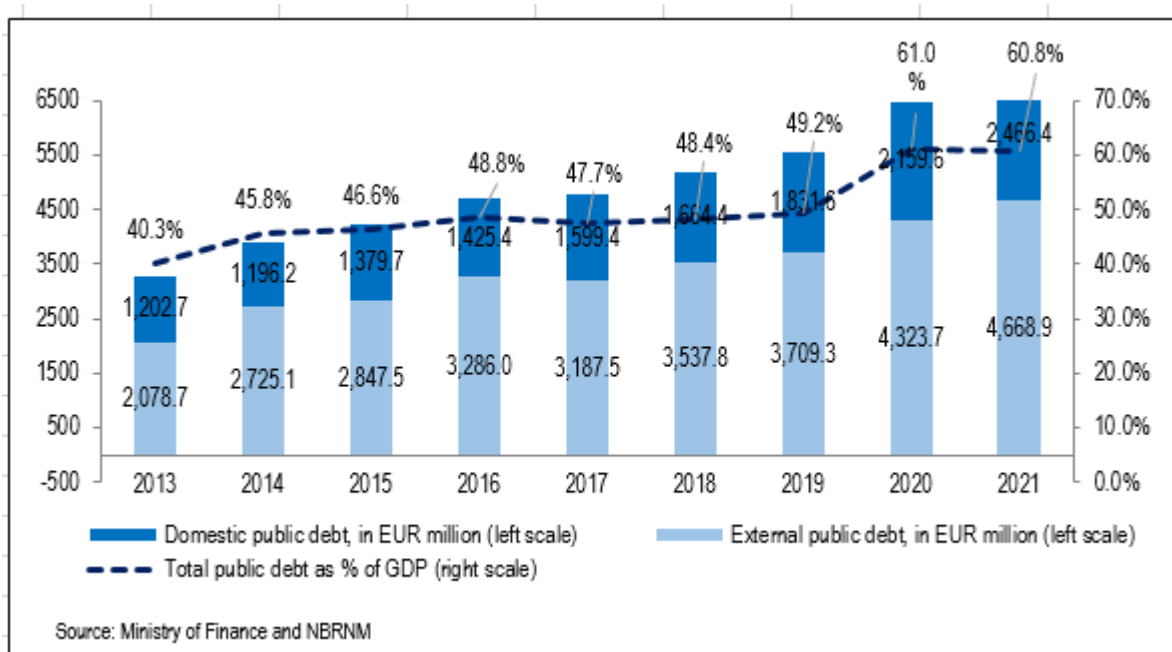
V. Public Debt Portfolio Features

Table 7: Public Debt Stock

(EUR million)	2013	2014	2015	2016	2017	2018	2019	2020	2021
General government debt	2.771,6	3.262,5	3.453,3	3.851,5	3.958,5	4.344,4	4.556,8	5.516,0	6.080,2
Guaranteed public debt	509,8	658,9	774,0	859,9	828,4	857,7	942,2	929,5	1.007,4
Non-guaranteed public debt	N/A	N/A	N/A	N/A	N/A	N/A	41,9	37,8	47,7
Total public debt (general)	3.281,4	3.921,3	4.227,2	4.771,4	4.786,9	5.202,2	5.540,9	6.483,3	7.135,3
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	4.668,9
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	2.466,4
Total public debt as % of GDP	40,3%	45,8%	46,6%	48,8%	47,7%	48,4%	49,2%	61,0%	60,8%

*) 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 18: Public Debt Trends



V.1 Government Debt

Table 8: Stock of Government Debt

(EUR million)	2013	2014	2015	2016	2017	2018	2019	2020	2021
EXTERNAL GENERAL GOVERNMENT DEBT	1.597,5	2.092,2	2.096,7	2.446,6	2.376,8	2.695,0	2.763,5	3.382,5	3.648,9
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	3.647,9
Municipal debt	5,6	5,3	5,2	4,6	3,7	2,9	2,2	1,6	0,9
DOMESTIC GENERAL GOVERNMENT DEBT	1.174,1	1.170,3	1.356,6	1.404,9	1.581,7	1.649,4	1.1793,3	2.133,4	2.431,4
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	2.413,9
Municipal debt	9,0	10,8	12,5	11,2	10,5	11,0	9,3	14,4	17,5
GENERAL GOVERNMENT DEBT	2.771,6	3.262,5	3.453,3	3.851,5	3.958,5	4.344,4	4.556,8	5.516,0	6.080,2
General government debt as % of GDP	34,0%	38,1%	38,1%	39,9%	39,4%	40,4%	40,5%	51,9%	51,8%

Source: Ministry of Finance and NBRNM

Chart 19: Government Debt Trends

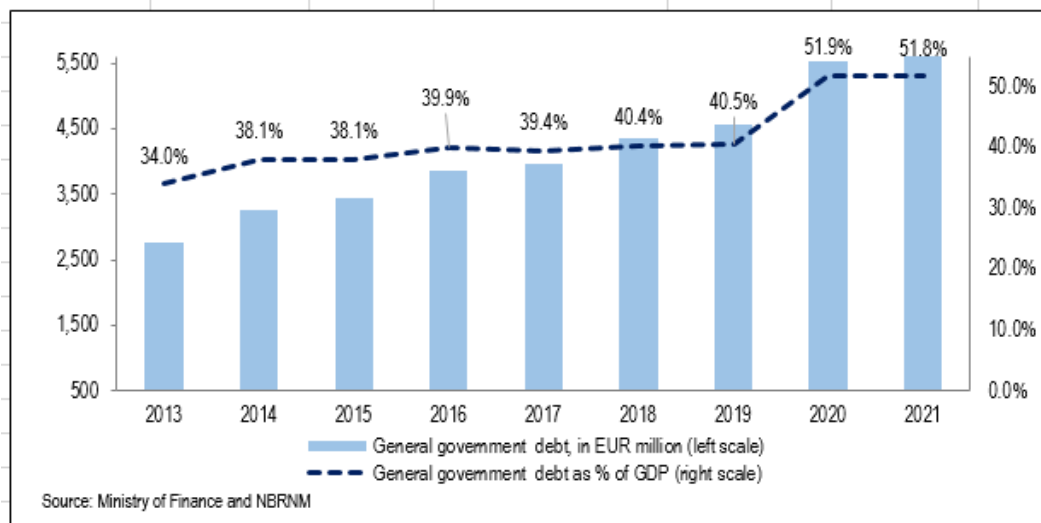
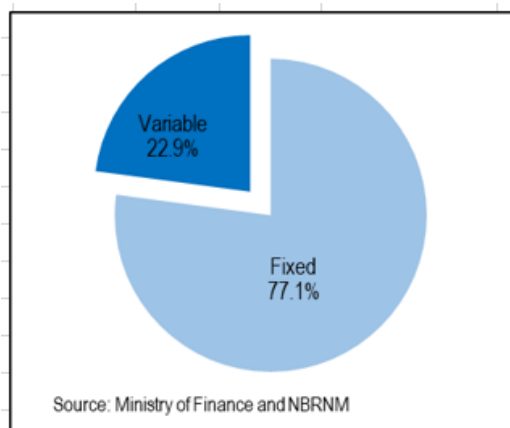


Chart 20: Interest Rate Structure of Government Debt

31st December 2020



31st December 2021

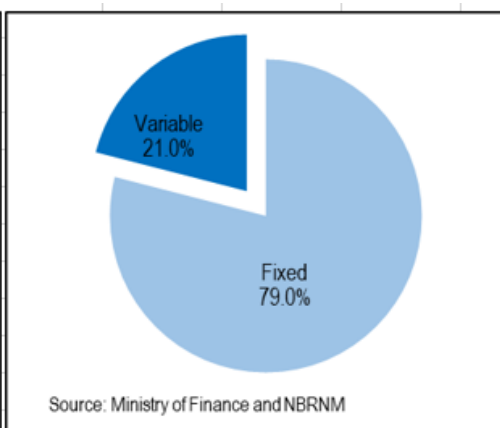
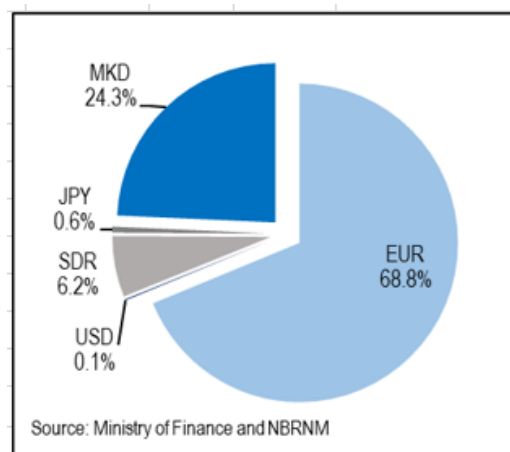


Chart 21: Currency Structure of Government Debt

31st December 2020



31st December 2021

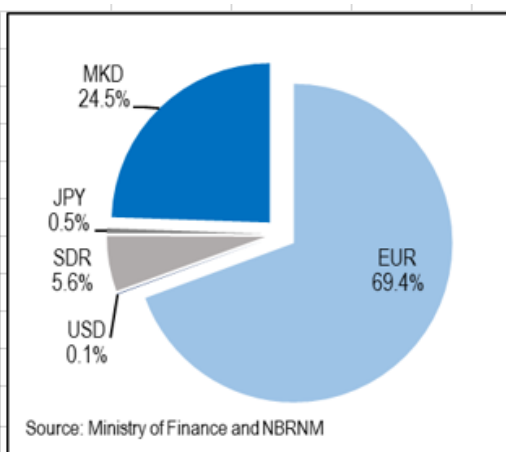


Chart 22: Market/Non-Market Government Debt, EUR million

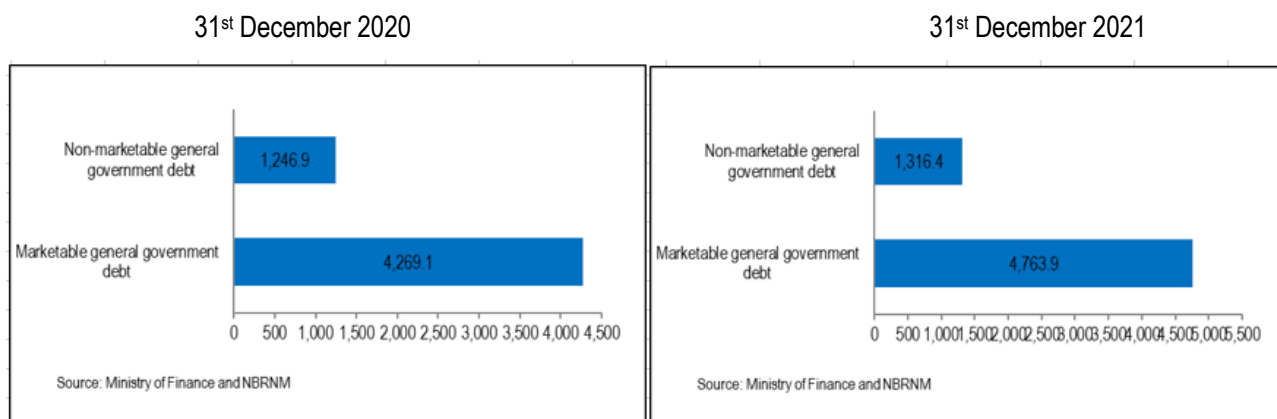


Table 9: Average Time to Maturity – ATM (years)

	2021
Domestic debt	7,7
External debt	4,9
Total general government debt	6,0

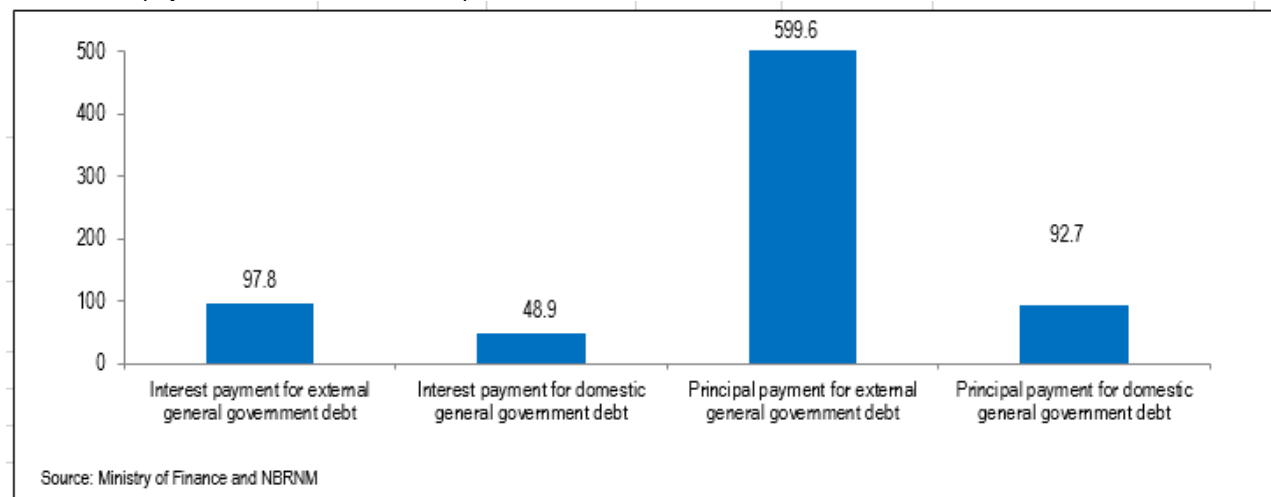
Source: Ministry of Finance and NBRNM

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

	2021
Domestic debt	7,7
External debt	4,0
Total general government debt	5,5

Source: Ministry of Finance and NBRNM

Chart 23: 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

(EUR 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	31.12.2021
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	3.382,5	3648,9
Official creditors	981,1	983,2	858,4	863,2	838,9	819,0	914,6	1193,9	1.278,3
Multilateral creditors	883,1	888,7	764,8	773,8	761,6	745,9	846,1	1129,7	1.215,5
IBRD	216,3	251,3	246,0	237,5	228,5	215,2	328,4	400,6	424,6
IDA	242,3	249,3	253,8	240,8	213,4	203,8	192,6	168,3	159,9
IFAD	10,8	11,1	11,3	10,8	9,7	9,4	9,1	8,2	8,1
CEB	49,1	53,0	64,1	71,0	88,6	89,1	96,0	101,7	103,7
EBRD	27,5	67,1	64,6	80,2	100,2	94,8	91,5	79,2	66,2
EIB	73,7	76,6	101,4	119,7	115,5	133,5	128,4	126,1	119,5
EU	43,6	33,6	23,6	13,6	5,6	0,0	0,0	80,0	160,0
IMF	219,7	146,7	0,0	0,0	0,0	0,0	0,0	165,5	173,4
Bilateral creditors	98,0	94,5	93,6	89,4	77,4	73,2	68,5	64,2	62,8
Private creditors	616,5	1.109,0	1.238,4	1.583,4	1.537,8	1876,0	1848,9	2188,6	2.370,6
Eurobond	150,0	650,0	770,0	1.220,0	1.220,0	1628,3	1628,3	2150,0	2.350,0
Other private creditors	466,5	459,0	468,4	363,4	317,8	247,6	220,6	38,6	20,6
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 2021
Disbursements on the basis of loans within external general government debt	
Central government debt (consolidated)	850,2
Official creditors	150,2
Multilateral creditors	144,2
IBRD	50,5
CEB	8,2
EBRD	1,5
EIB	4,0
EU	80,0
IMF	0,0
Bilateral creditors	6,0
Private creditors	700,0
Municipal debt	0,0
Private creditors	0,0
Source: Ministry of Finance and NBRNM	

Chart 24: External Government Debt Structure by Creditors

31st December 2020

31st December 2021

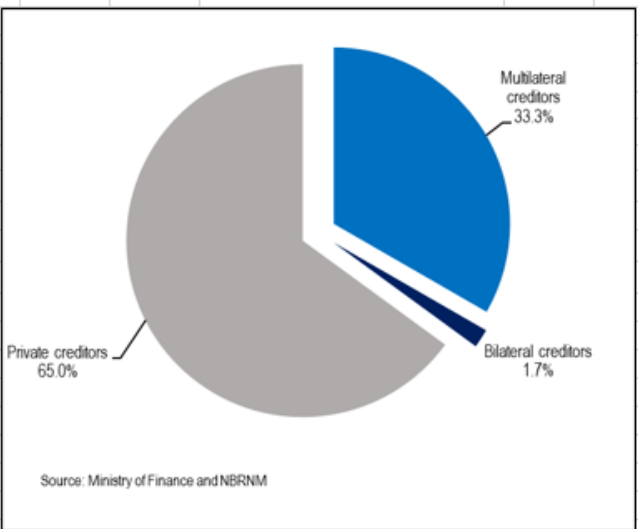
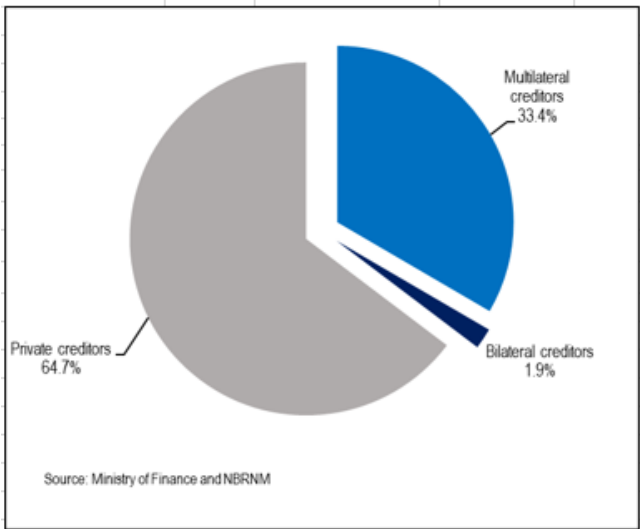


Chart 25: External Government Debt Structure by Multilateral Creditors

31.12.2020

31.12.2021

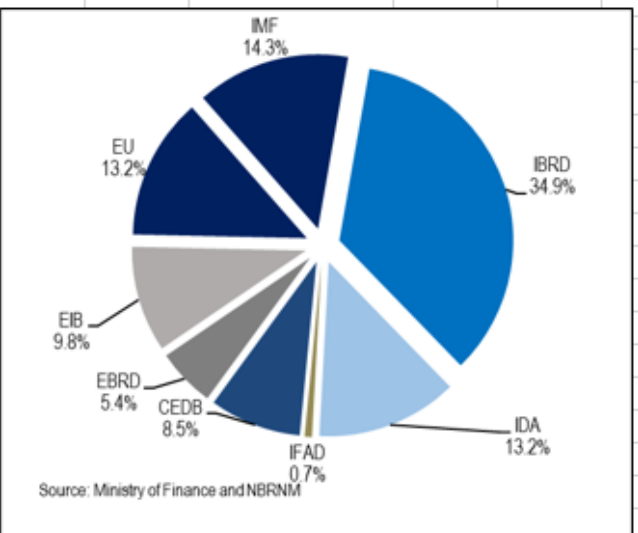
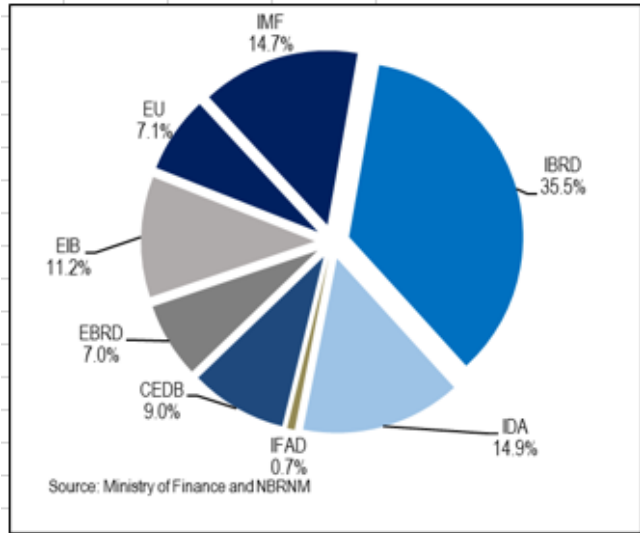


Chart 26: Currency Structure of External Government Debt

31.12.2020

31.12.2021

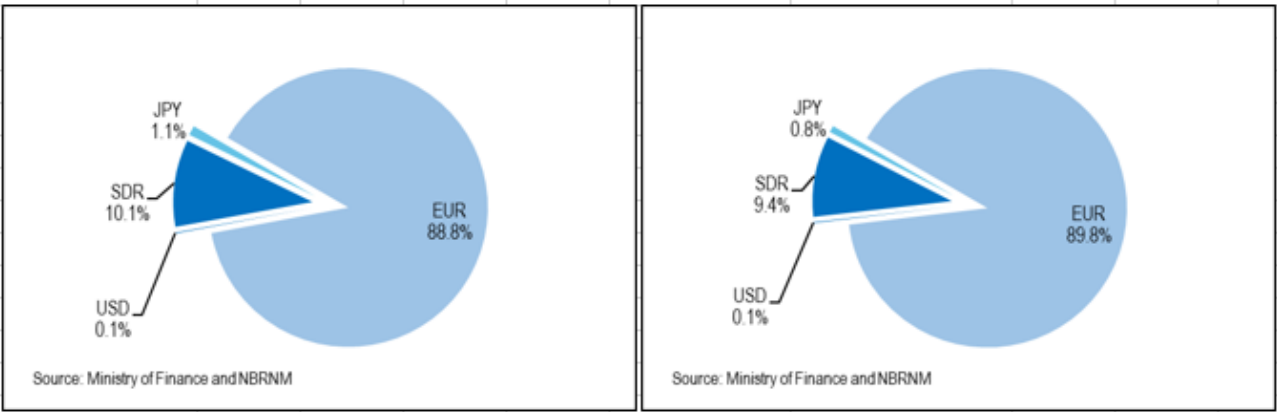
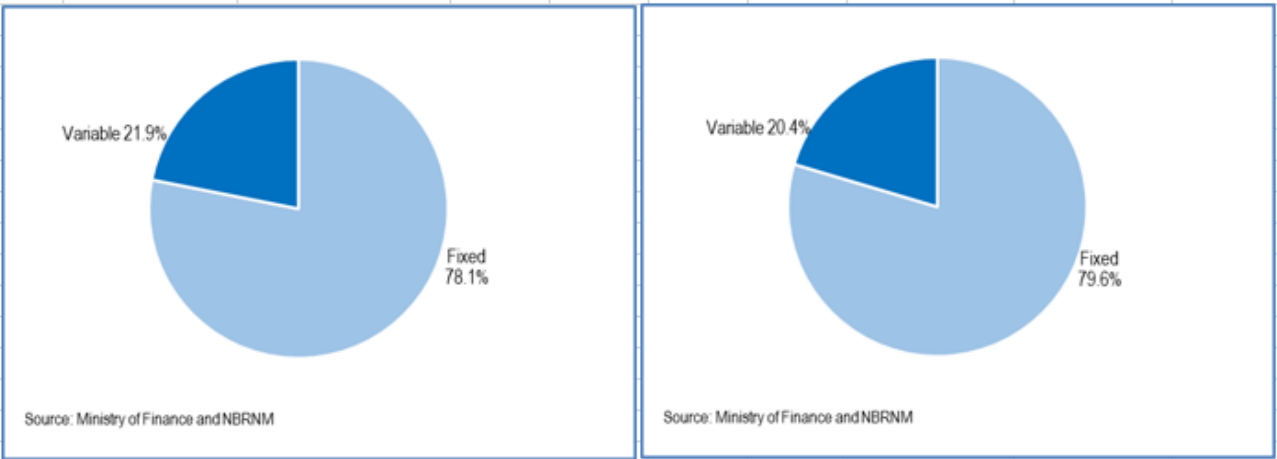


Chart 27: Interest Rate Structure of External Government Debt

31.12.2020

31.12.2021



V.1.2 Domestic Government Debt

Table 13: Stock of Domestic Government Debt

(EUR million)	2013	2014	2015	2016	2017	2018	2019	2020	2021
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	2.133,4	2.431,4
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	2.413,9
Structural bonds	103,2	83,3	72,3	70,2	65,5	57,7	54,3	46,5	39,8
Bond for selective loans	16,9	16,9	16,9	16,9	16,9	16,9	16,9	16,8	0,0
Stopanska Banka privatization bond	10,7	2,1	0,0	0,0	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	29,7	39,8
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	2.374,1
Municipalities	9,0	10,8	12,5	11,2	10,5	11,0	9,3	14,4	17,5

Source: Ministry of Finance

Chart 28: Currency Structure of Domestic Government Debt

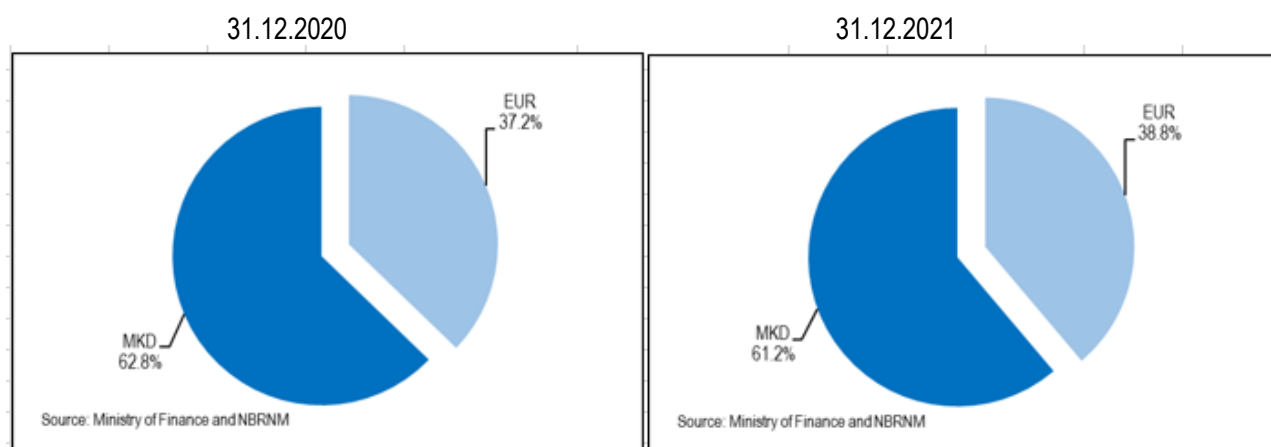
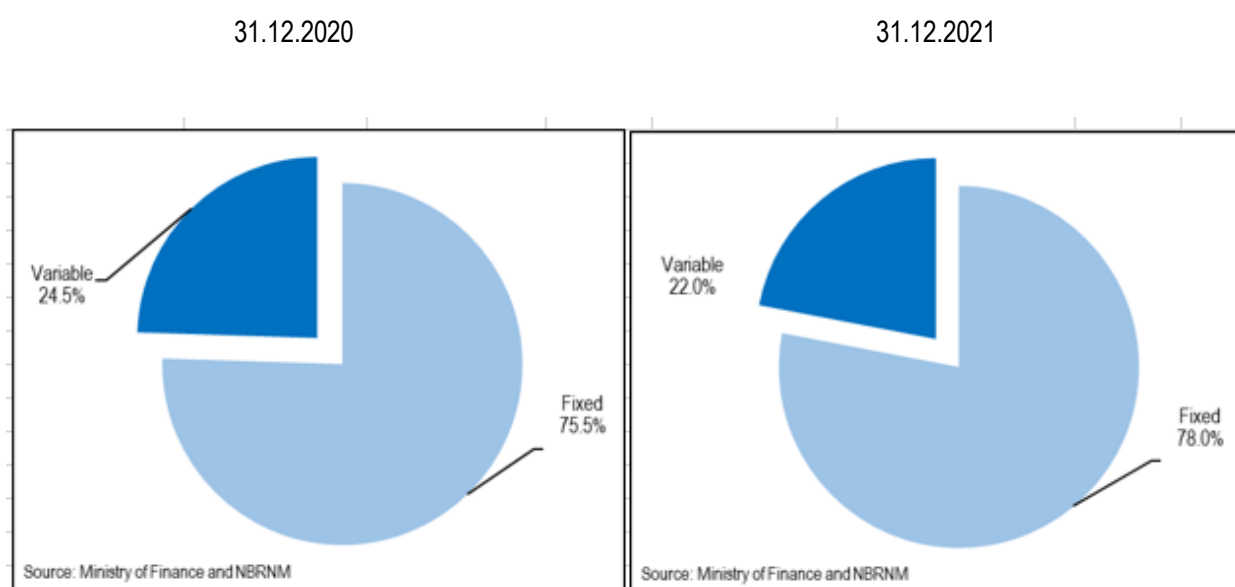


Chart 29: Interest Rate Structure of Domestic Government Debt



V.2 Guaranteed Public Debt

Chart 30: Stock of Guaranteed Public Debt

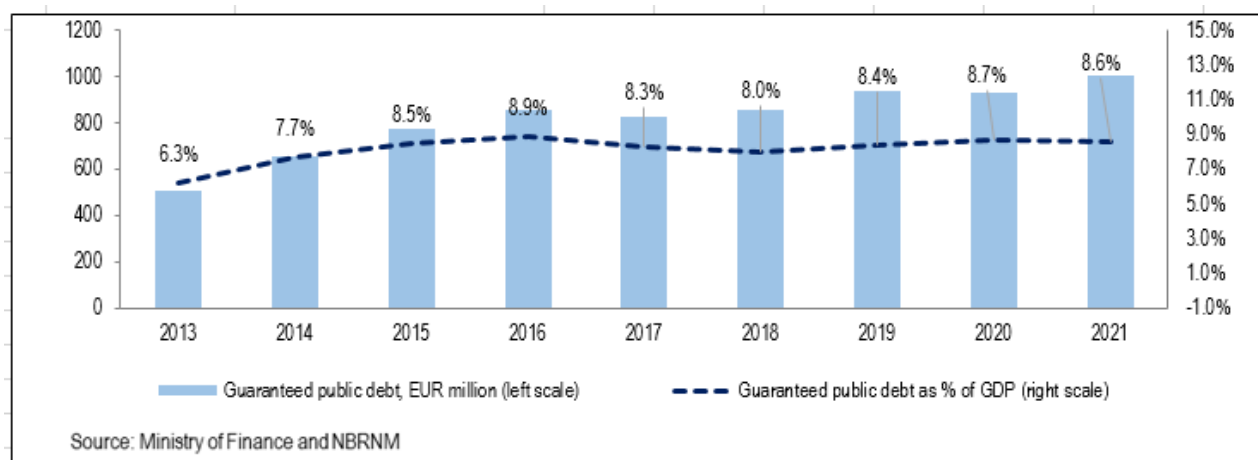
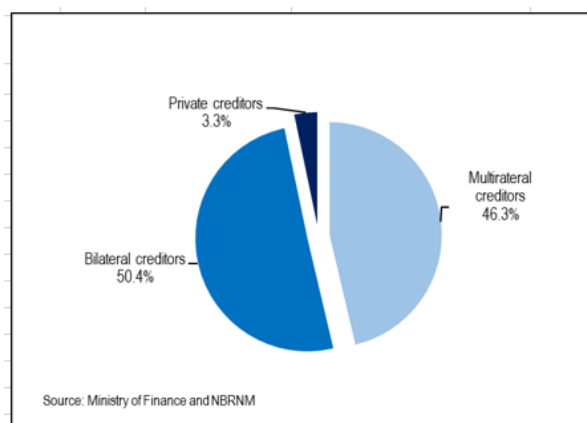


Chart 31: Guaranteed Public Debt by Creditors

31.12.2020



31.12.2021

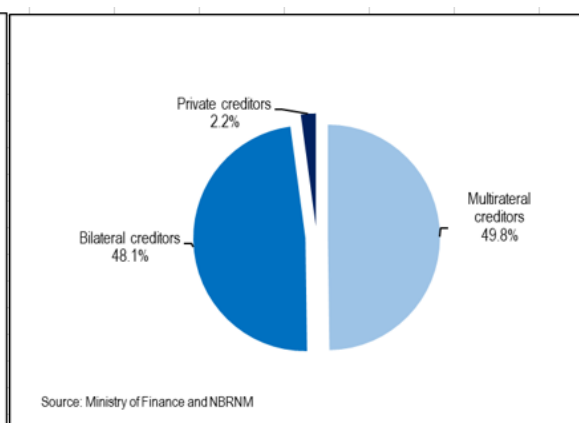
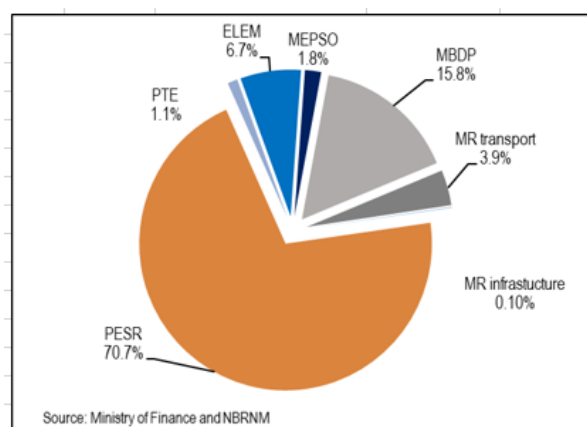


Chart 32: Guaranteed Public Debt by Debtors

31.12.2020



31.12.2021

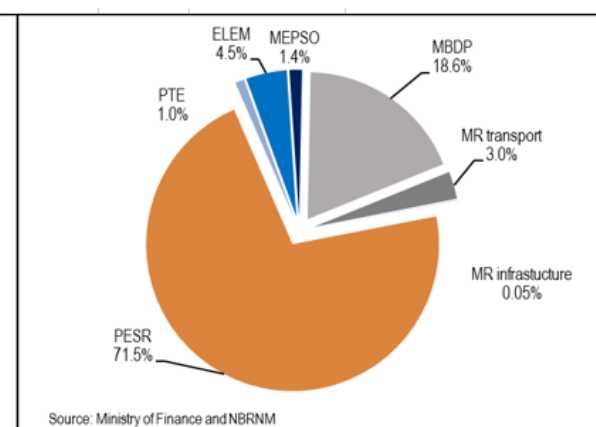


Table 14: Guaranteed Public Debt by Debtors

	The structure of guaranteed debt by debtors 31.12.2020			The structure of guaranteed debt by debtors 31.12.2021		
	EUR million	% of GDP	% of total guaranteed public debt	EUR million	% of GDP	% of total guaranteed public debt
ELEM	62.0	0.6%	6.7%	45.4	0.4%	4.5%
MEPSO	17.2	0.2%	1.8%	13.9	0.1%	1.4%
MBDP	146.8	1.4%	15.8%	187.0	1.6%	18.6%
MR transport	36.0	0.3%	3.9%	30.4	0.3%	3.0%
MR infrastructure	1.0	0.0%	0.1%	0.5	0.0%	0.0%
PESR	656.7	6.2%	70.7%	720.4	6.1%	71.5%
PTE	9.8	0.1%	1.1%	9.9	0.1%	1.0%
Total	929.5	8.7%	100.0%	1007.4	8.6%	100.0%
Source: Ministry of Finance and NBRNM						